

June 21, 2023

Mr. Greg St. Louis, PE
Superintendent of Public Works
124 Orchard Street
Watertown, MA 02472

Re: **Review of FY 24 Water/Sewer Rate Tables**

Dear Greg:

As requested, enclosed please find the review of the FY'24 water/sewer rate tables, and rate recommendations completed by The Abrahams Group.

The Abrahams Group reviewed the data for the FY24 water and sewer rate analysis provided by the City and offered detailed comments for both the water and sewer City's proposed rate increases. The Abrahams Group evaluated the direct impact ARPA funds have on the proposed water and sewer rate increases and supports the City's rate increase recommendations. Weston & Sampson recommend continuing to monitor the retained earnings for future rate needs.

We appreciate the opportunity to serve the City. If you have any questions, please reach out to Darwin Cevallos or me.

Sincerely,
WESTON & SAMPSON ENGINEERS, INC.



Margaret McCarthy, P.E.
Vice President

June 20, 2023

Ms. Margaret McCarthy, PE
Team Leader
Weston & Sampson
55 Walkers Brook Drive
Suite 100
Reading, MA 01867

Dear Ms. McCarthy:

The following write-up is from The Abrahams Group's review of the City of Watertown's FY24 water and sewer analysis and the FY24 rate recommendation.

Water

From the review, we consider the following noteworthy:

- The recommended rate increase is 5.5% for FY24 in the City's memo dated June 15, 2023. Last year at this time, projections showed a need to increase rates 6.25% for FY24. That the last retained earnings certification came in well above projections last year at this time is a large reason why the City can consider a lower rate increase in FY24 than anticipated last year at this time.
- Last year, assuming ARPA funding covered some planned water capital projects, the analysis included additional funding of \$1 million in water capital projects per year FY25 to FY27. The assumption was that funds would be borrowed for these capital projects. In the City's analysis for FY24's rate-setting, the City is including funding of water capital projects not already in the City's five-year CIP as \$1.25 million annually in FY25, FY26, FY27, and FY28. The City plans to borrow for these capital projects. For the no ARPA scenario, an additional \$1.25 million annually in FY24 and FY25 is assumed. A borrowing is not assumed for the additional \$1.25 million annually in FY24 and FY25, meaning the assumption is that these projects would be funded as capital outlay in those years and would presumably be funded by retained earnings. Whether the City intended to fund \$1.25 million in FY24, \$2.5 million total in FY25, \$1.25 million in FY26, \$1.25 million in FY27, and \$1.25 million in FY28 in water capital projects for the no ARPA scenario is unclear but that is what seems to be included in the analysis.

Overall statement on the FY24 water rate recommendation:

If no ARPA funding is available:

The City is recommending a 5.5% water rate increase across all tiers and to the service charges as well. The rest of the projected rate increases in the five-year rate plan are 5.0% in FY25, 4.0% in FY26, 2.5% in FY27, and 2.5% in FY28. This rate plan is based on the assumption that available ARPA funds would not be used to fund upcoming capital projects, which means the City plans to spend \$1.25 million in FY24, \$2.5 million in FY25, \$1.25 million in FY26, \$1.25 million in FY27, and \$1.25 million in FY28 on upcoming water capital projects, based on what is found in the City's

analysis. If this plan is not representative of what the City plans to fund for upcoming water capital projects, then the proposed rate plan is higher than it needs to be. If this plan is representative of what the City plans to fund for upcoming water capital projects, then we support a 5.5% rate increase in FY24.

If ARPA funding is available:

The City is recommending a 3.0% water rate increase across all tiers and to the service charges as well. The rest of the projected rate increases in the five-year rate plan are 3.0% in FY25, 3.0% in FY26, 3.0% in FY27, and 3.0% in FY28. This rate plan is based on the assumption that available ARPA funds would be used to fund upcoming water capital projects, which means the City plans to spend \$1.25 million annually in FY25 to FY28 on upcoming water capital projects, based on what is found in the City's analysis. We support a 3.0% rate increase in FY24.

Sewer

From the review, we consider the following noteworthy:

- The recommended rate increase is 6.0% for FY24 in the City's memo dated June 15, 2023. Last year at this time, projections showed a need to increase rates 5.0% for FY24. That certified retained earnings came in a little below projections at this time last year is a contributing factor to this increased rate increase, as well as the plan to fund additional capital projects not part of last year's analysis.
- The City's workbook showed the last certified retained earnings balance as \$1,226,934. The actual certification was \$2,760,992, a \$1,534,058 difference. This difference seems to represent the amount that the City reserved for encumbrances. Since the FY23 expenses included in the City's analysis seem to include the encumbrances, this \$1,534,058 should be added back in as a funding source to offset the encumbrances included in the FY23 column. Thinking long-term, if targeting a certain retained earnings balance by the end of FY28, this means that \$1,534,058 less revenue would need to be generated to accomplish that goal than what is showing in the City's FY24 analysis files.
- Last year, assuming ARPA funding covered some planned sewer capital projects, the analysis included additional funding of \$1 million in sewer capital projects per year FY25 to FY27. The assumption was that funds would be borrowed for these capital projects. In the City's analysis for FY24's rate-setting, the City is including funding of sewer capital projects not already in the City's five-year CIP as \$1.25 million annually in FY25, FY26, FY27, and FY28. The City plans to borrow for these capital projects. For the no ARPA scenario, a borrowing of an additional \$1.25 million in FY24 is assumed, as well as an additional annual amount of capital outlay funding ranging from \$717,000 to \$918,000, presumably to be funded by retained earnings. Whether the City intended to fund \$2.17 million total in FY24, \$2.12 million total in FY25, \$2.07 million total in FY26, \$2.02 million total in FY27, and \$1.97 million total in FY28 in sewer capital projects for the no ARPA scenario is unclear but that is what seems to be included in the analysis.
- The City has two "5-Year Summary-Baseline" tabs in the workbook used for the no ARPA scenario. They are named "5-Year Summary-Baseline" and "5-Year Summary-Baseline

Ms. Margaret McCarthy, PE
Team Leader
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w. ARPA". The "5-Year Summary-Baseline" tab is the one that appears to be used in the billing file to set rates for the no ARPA scenario. My sense is that the City intended to use the "5-Year Summary-Baseline w. ARPA" instead, as that tab's layout mirrors the one used for the no ARPA scenario for water. (The main difference there being the inclusion of \$1.25 million in FY24 and FY25 on the Transfer to Capital Projects line instead of additional funding on the Capital Outlay line.) The "5-Year Summary-Baseline" tab contains additional total expenses for FY24 to FY28 of almost \$2.6 million when compared to the "5-Year Summary-Baseline w. ARPA" tab.

Overall statement on the FY24 sewer rate recommendation:

If no ARPA funding is available:

The City is recommending a 6.0% sewer rate increase across all tiers. The rest of the projected rate increases in the five-year rate plan are 5.25% in FY25, 4.5% in FY26, 4.0% in FY27, and 4.0% in FY28. This rate plan is based on the assumption that available ARPA funds would not be used to fund upcoming sewer capital projects, which means the City plans to spend \$2.17 million total in FY24, \$2.12 million total in FY25, \$2.07 million in FY26, \$2.02 million in FY27, and \$1.97 million total in FY28 on upcoming sewer capital projects, based on what is found in the City's analysis. If this plan is not representative of what the City plans to fund for upcoming sewer capital projects, then the proposed rate plan is higher than it needs to be. If this plan is representative of what the City plans to fund for upcoming capital projects, then we support a 6.0% rate increase in FY24. The \$1,534,058 identified difference in the latest certified retained earnings balance can be used to lower a subsequent year's rate increase.

If ARPA funding is available:

The City is recommending a 3.0% water rate increase across all tiers. The rest of the projected rate increases in the five-year rate plan are 3.0% in FY25, 3.0% in FY26, 2.75% in FY27, and 2.5% in FY28. This rate plan is based on the assumption that available ARPA funds would be used to fund upcoming capital projects, which means the City plans to spend \$1.25 million annually in FY25 to FY28 on upcoming capital projects, based on what is found in the City's analysis. We support a 3.0% rate increase in FY24. The \$1,534,058 identified difference in the latest certified retained earnings balance can be used to lower a subsequent year's rate increase.

Sincerely yours,



Mark D. Abrahams, CPA
President