



Town of Acton

472 Main Street
Acton, MA 01720

(978) 264-9617 Telephone
(978) 264-9630 Fax

Finance Department
Stephen G. Barrett, CPA, Director

July 11, 2003

TO: Sewer Commissioners
FROM: Stephen G. Barrett, CPA
RE: FY '04 Sewer O&M Rate Setting

SGB

Last week, staff provided the Commissioners with spreadsheets that characterized the effect of certain variables acting in isolation. Expressed differently, each variable represented a strategic tool that could be employed by the Commissioners in determining sewer rates for FY '04. Subsequent to that issuance, staff has worked on an integrated financial plan, which I would now like to recommend to the Commissioners for their consideration.

The Plan was constructed to achieve the following goals:

1. Continue the subsidy throughout FY '04 (i.e., to June 30, 2004).
2. Provide a fairly stable monthly cost to the average single family residence.

To achieve the goals listed above, staff utilized the following combination of strategic tools (variables):

1. Changed the billing cycle from a daily basis (31 days in Jan, 28 days in Feb, etc.) to a monthly basis of 30.5 days, or each month being equal to $1/12^{\text{th}}$ of the year (i.e., 366 divided by 12).
2. Commercial rate was set at 1.66 cents per gallon and fixed for FY '04. Utilization of this variable allowed the residential customers to receive the entire benefit of all future hook-ups.
3. Phasing out the subsidy over time. As the Commissioners are aware, if the subsidy were to continue in its present form, it would expire in approximately 90 days. However, by allowing the residential customers to gain the full benefit of the additional hook-ups, as forecasted by the Health Department, the subsidy can be phased out throughout the entire year, while maintaining a constant monthly cost.
4. Indexing the average annual residential cost to inflation. The setting of the average annual single-family cost at \$650 occurred in November 1999. Since that time, the Consumer Price Index has risen nearly 9 percent (8.76%). Implementing the entire CPI increase, effective immediately, clearly had the greatest effect on extending the length of time the Town could offer the subsidy. However, staff believes that such implementation would create residential "sticker shock" and have a negative impact upon future hook-ups and rates. Therefore, staff recommends implementation of less than 1/2 of the actual CPI increase – specifically, a 3.846% percent increase. In addition, staff's model recommends that FY '05's average annual single-family cost be increased by 5%. Clearly, such a forecast this at this time is highly volatile and subject to change.

A word of caution – the success of the recommended model is overly dependent upon the predicted additional hook-up data provided by the Health Department. To protect against the downside risk of this over-dependency, staff's model recommends that phasing out the subsidy not begin until September, giving the residential community a two month notice, and that an unutilized subsidy amount of approximately \$5,000 be held in reserve.

Staff will be able to address this Plan, any concerns the Commissioners may have, and implement any change(s) the Commissioners request at the Monday, July 14 meeting.

In the past, staff has implemented a rate calculation based upon new hook-up cut off dates as of the Friday before the Sewer Commissioners were to vote on the respective monthly rate. Due to the Commissioners summer schedule and the expected adoption of a long-range rate plan, staff asks that the Commissioners allow staff to determine a cut-off date later in the month.

