

Sewer Enterprise Fund

Evaluating the Use of Retained Earning

Board of Selectman Meeting

April 6, 2021

Current Status

- The overall FY22 SEF budget increased \$208k or 16.7% from FY21
- Largest contributor is the estimated/anticipated costs to pay for and operate/maintain the new WWTF
- NO new users being added to the system-costs increases fall to current users
- Factors are many-the pandemic, slowed economic growth, building cost increases
- Original FY22 SEF budget presented on 1/5/21 to the Board of Selectmen
- Our budgets should be structurally balanced-one time revenue use isn't sound fiscal management
- TA, Finance Team and BOS/BOSC constantly monitor the fiscal position of the SEF and make adjustments when solid information presents itself

Current Status

- March 23, 2021 - the Board of Sewer Commissioners (BoSC) finalized and voted the SEF budget to be presented at Town meeting for approval
- The voted budget includes a budget increase of approximately \$158K or 11.7% over the prior year
- Retained earnings in the amount of \$50K will be used to supplement the budget (to offset the reserve fund)
- March 29, 2021 – the Finance Committee requested the BoSC consider using additional retained earnings (\$135K) to supplement the budget with the intent to reduce the cost to users

Meeting Votes and Project Approval

- ATM 5/1/2017 Article #9-24 (\$335,000)
- STM 10/30/2017 Article #2 (\$6,558,000)
- STM 5/6/2019 Article #5 (\$2,800,000)

Total Project Cost
Voted by Town Meeting

\$9,693,000

<u>Source</u>	<u>Amount</u>	<u>% of Total Project</u>
GF SRF Loan	\$ 2,260,409.75	
GF Borrow	<u>896,740.25</u>	
Subtotal GF	3,157,150.00	32.57%
Sewer Enterprise SRF	<u>2,400,000.00</u>	24.76%
Subtotal Town	5,557,150.00	
State Grant - Mass Works	1,800,000.00	
Federal Grant - EDA	<u>2,335,850.00</u>	
Subtotal Grants	<u>4,135,850.00</u>	42.67%
Total	<u><u>\$ 9,693,000.00</u></u>	

What Are Retained Earnings?

Per the Municipal Finance Glossary issued by the MA Department of Revenue, retained earnings are an equity accounting reflecting the accumulated earnings of an enterprise fund that may be used to fund capital improvements, to reimburse the general fund for prior year subsidies, to reduce user charges and to provide for enterprise revenue deficits (operating loss).

Retained earnings are similar to General Fund Free Cash.

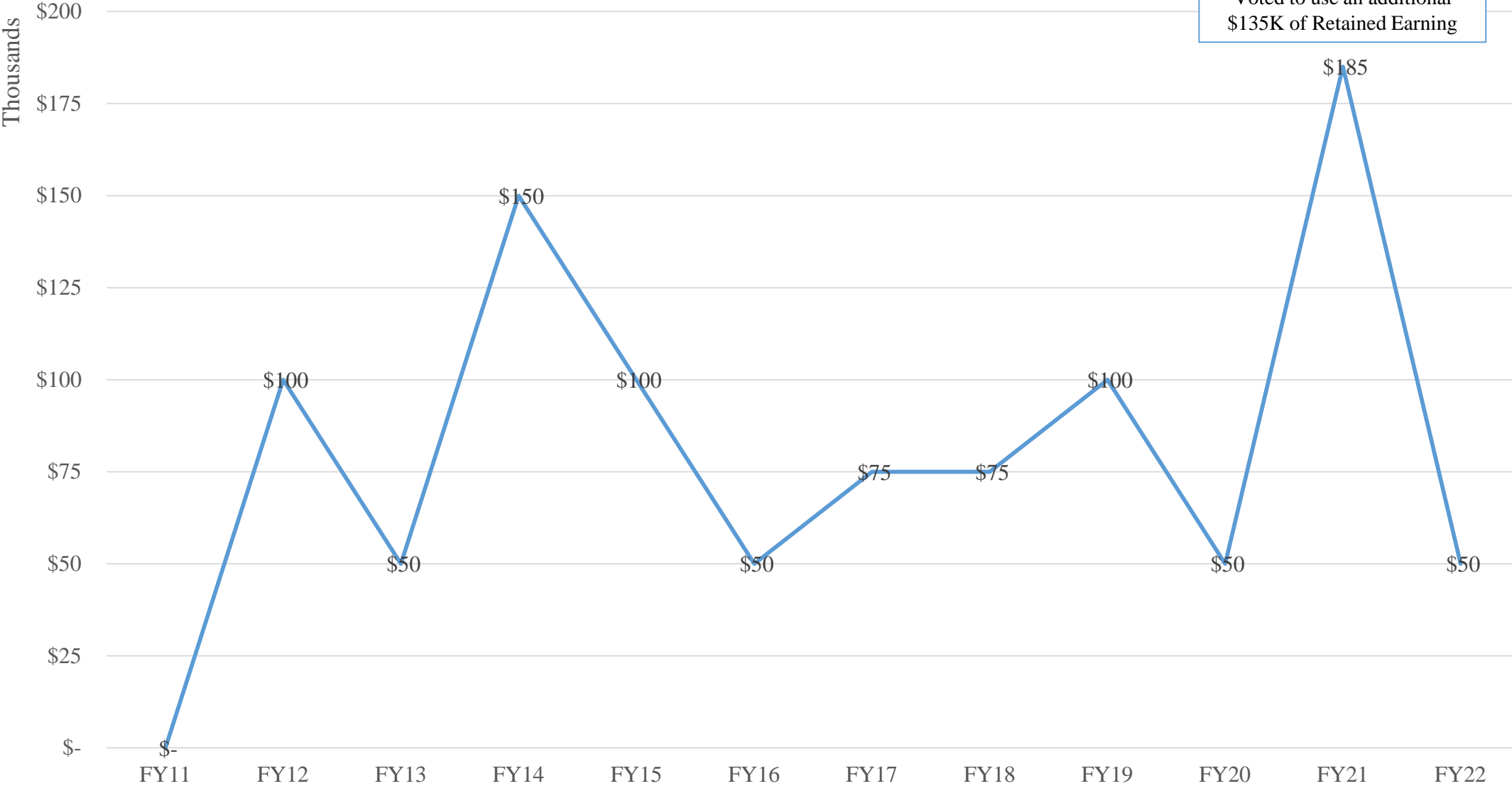
Budget Use of Retained Earnings History

- RE have been used to supplement the operating budget and to discount the rates for many years
- These amounts have varied between \$50,000 and \$185,000 and represent significant portions of the budget
- The goal should be to eliminate the use of retained earnings to structurally balance the budget
- Reserves need to be maintained for future infrastructure improvements, and other one-time expenses

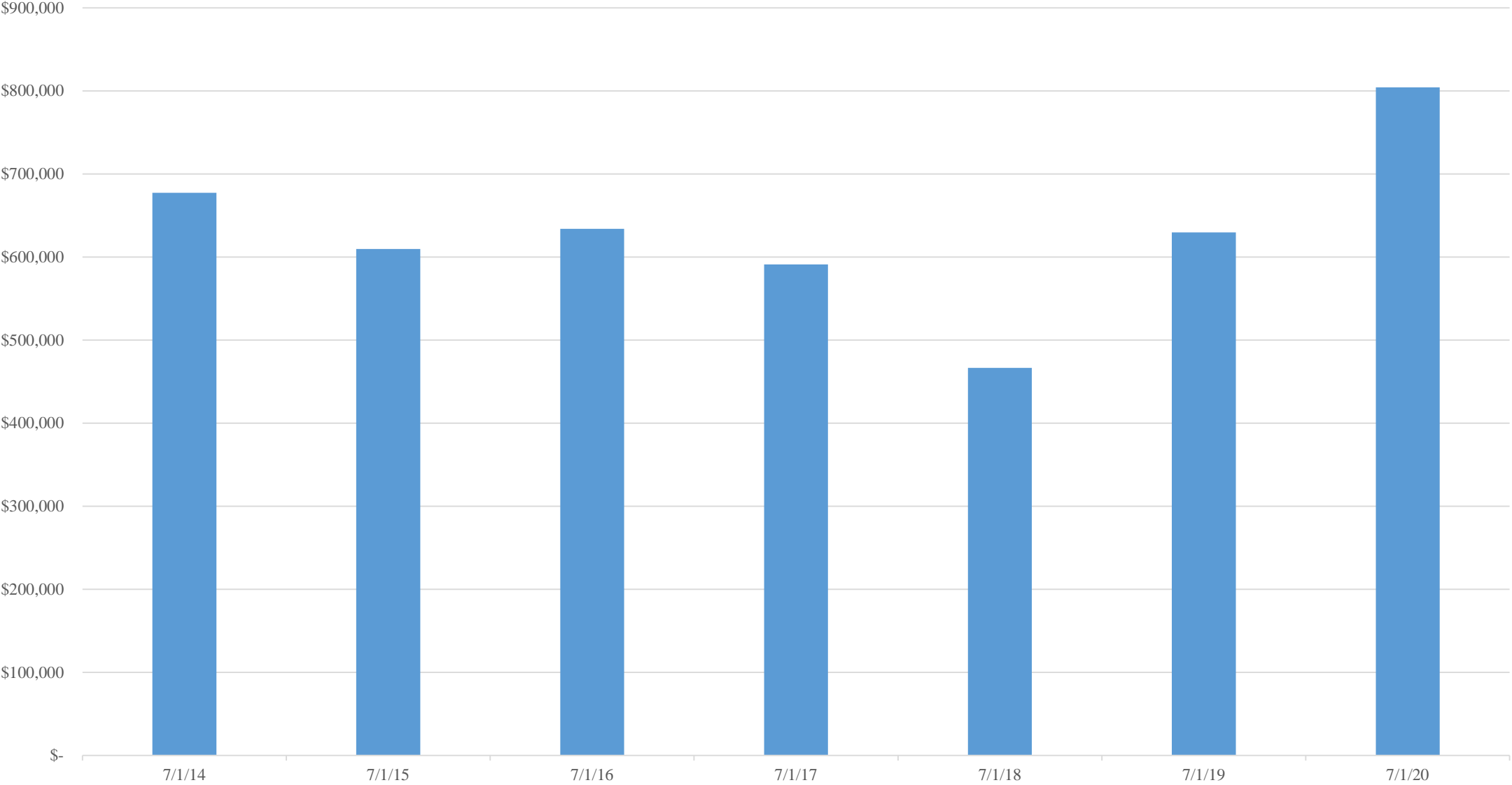
Fiscal Year	Use of Retained Earnings	% of Budget
FY22	\$ 50,000	3.32%
FY21	\$ 185,000	13.73%
FY20	\$ 50,000	3.94%
FY19	\$ 100,000	8.32%
FY18	\$ 75,000	6.78%
FY17	\$ 75,000	7.14%
FY16	\$ 50,000	4.89%
FY15	\$ 100,000	10.20%
FY14	\$ 150,000	14.97%
FY13	\$ 50,000	5.39%
FY12	\$ 100,000	10.27%
FY11	\$ -	-
	<u>\$ 985,000</u>	

Budget Use of Retained Earnings

FTM 11/16/2020
Voted to use an additional
\$135K of Retained Earning



Certified Retained Earnings



Current Fiscal Health

- Expenditures will continue to increase – plant operations plus debt service for project costs, Wareham plant improvements, etc.
- New committed overage will not generate enough revenue to cover the additional costs
- Significant revenue from system development fees is not expected (FY20 influx of \$140k+ was a one-time event)
- 35 Users left the system FY18-21 – new users are uncertain
- The fund is incurring costs for additional capacity without utilization

Expense & Rate History

Fiscal Year	Budgeted Expenses	Increase (Decrease) from PY	Annual User Rate	Increase (Decrease) from PY
FY11	\$ 921,757		734.00	
FY12	\$ 973,543	5.62%	734.00	0.00%
FY13	\$ 927,233	-4.76%	734.00	0.00%
FY14	\$ 1,002,086	8.07%	734.00	0.00%
FY15	\$ 980,681	-2.14%	734.00	0.00%
FY16	\$ 1,021,660	4.18%	749.00	2.04%
FY17	\$ 1,050,101	2.78%	752.00	0.40%
FY18	\$ 1,106,279	5.35%	776.00	3.19%
FY19	\$ 1,202,255	8.68%	826.00	6.44%
FY20	\$ 1,269,079	5.56%	879.00	6.42%
FY21	\$ 1,347,355	6.17%	924.00	5.12%

Equal Rates from
FY11 – FY15

Historically, expenses continue to increase more than the rate increase

Transparent & Accurate Information is Essential in Making Sound Financial Decisions

- Finance Committee cautioned the use of RE at the FTM on 11/16/2020 – what has changed?
- Information presented to all committees needs to be the most accurate and up-to-date data available – revenue amounts and users were incorrectly stated in the Finance Committee's analysis
- It's not **common** practice for retained earnings to subsidize the operating budget – it's **allowable**
- Regional School District are governed by different laws & regulations – they are not really comparable to an enterprise fund – districts *must* use any E&D in excess of 5% of its operating budget for the succeeding fiscal years as a revenue source
- In most years, the increase in expenses has exceeded the increase in rates – rates were level from FY11-FY15
- Certified retained earnings have been greater than \$600K in most of the recent years-what's right number?
- C&I Water Protection Funds – Bourne's allotment has not been determined
- FY21 still has a quarter to go, we cannot assume the reserve fund or unspent budget lines will be available at 6/30
- Administration and DPW are tracking a number of forthcoming projects to address a neglected sys.
- Regardless of the amount of flow to Wareham – the fee is fixed, and increases 2.5%/Year

What Happens if We Increase the Use of Retained Earnings to \$135K?

- The budget will continue the years long trend of structural imbalanced
- Rates will be artificially reduced by \$39.50/Bill (\$79 annually) vs. the current proposed budget – “If the BoSC considers this when adjusting the rates”
- Creates a dependency on retained earnings; eventually running out and the increase to the rates will spike
- \$135,000 is equal to 9% of the SEF FY22 Budget – this is significant
- It will take time to build this back

Points to Consider Before Utilizing Retained Earnings to Supplement the Budget

- This is a one-time, non-recurring revenue source – future year rate increases will be drastic
- Expenses will continue to increase with the addition of debt authorized at town meeting (SRF will add approx. \$143K/year beginning in FY23)
- Current balances do not support future system improvements – our infrastructure is old; per the FY2020 audited financial statements, 75% of our assets are fully depreciated.
- There is no reserve policy in place - this needs to be established to avoid depletion
- How will the new plant affect the current system? Will costly fixes be needed?
- Sustainability of the fund – a deficit in retained earnings will put a burden on the general fund and effect other services – the general fund is already picking up a substantial portion of the cost of the new plant.
- Counting on General Fund Subsidies to the Sewer Enterprise Fund has real consequences for all of Bourne

A Plan for the Future is Needed

- More time is needed to analyze actual and current information
- The Town should adopt a policy to govern the SEF. The policy should address the following:
 - Funding methodology (self-sufficient vs. requiring GF subsidy)
 - Retained earnings (desired levels, allowable uses)
 - Indirect Costs (defined and calculated according to indirect cost policy; reimbursed to GF)
- Utilization of retained earnings to reduce the rates is a short-term “feel-good” fix – it is not sustainable for rates to be offered at a perpetual discount

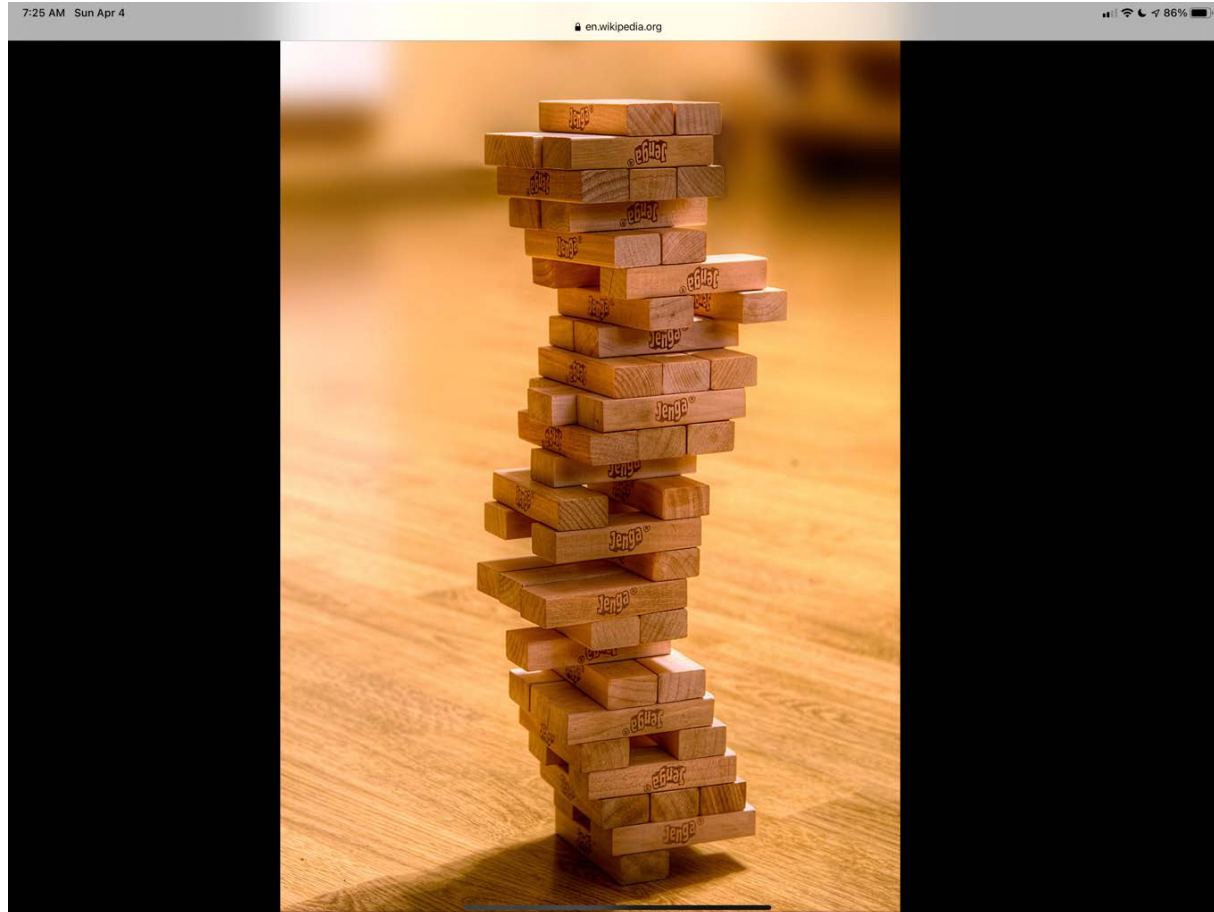
Discounted Rates

Meeting	Rate	Discount From	
		Inc from PY	Retained Earnings
2021 Initial Rates (\$879/\$50K)	\$ 1,051	\$ 172	\$ 47
2021 Adjusted Rates (\$879/\$185K)	\$ 924	\$ 45	\$ 173
1/5/2021 TA Recommended Budget (\$924/\$50K)	\$ 1,423	\$ 499	\$ 47
3/23/2021 TA Revised Budget (\$924/\$50K)	\$ 1,207	\$ 283	\$ 47
3/29/2021 Finance Committee Budget Request (\$924/\$135K)	\$ 1,128	\$ 204	\$ 126

Bottom Line

- Warning flags are front and center – ignoring them at our own peril is not a prudent course of action any longer
- Any plan built on speculation of outcomes, counting resources we don't have yet, maybes and HOPE that something may happen is a slippery slope

Are we playing a game of Jenga with the Sewer Enterprise Fund?



Recommendation

- The Board of Selectmen and Sewer Commissioners should adopt the Town Administrator's revised 3/23/21 revised Sewer Budget as the most prudent approach
- Continue to work on developing a long-term plan that will best serve not only the BB sewer district but the Town of Bourne

Questions?

ARTICLE 2: To see if the Town will vote to appropriate, transfer, or borrow a sum of money to continue the **future wastewater and treatment options** for the protection of human and environmental health and to enhance the economic development in Bourne, said funds to be used for administrative tasks, grant writing, environmental assistance, planning, constructing, originally equipping and furnishing of a Waste Water Facility and ancillary space on town-owned land, including the payments of all costs incidental and related thereto, or to take any action in relation thereto.

Sponsor -Board of Sewer Commissioners

MOTION: That the sum of Six Million Five Hundred Fifty-Eight Thousand Dollars (\$6,558,000.00) is appropriated to make various wastewater system and wastewater treatment improvements for the protection of human and environmental health and to enhance the economic development in Bourne, such funds to be used-for planning, constructing, originally equipping and furnishing a wastewater treatment facility and ancillary space on town-owned land, including the payment of all costs incidental and related thereto, and that to meet this appropriation, the Treasurer, with the approval of the Selectmen, is authorized to borrow said amount under and pursuant to Chapter 44, Section 8(14) of the General Laws, or pursuant to any other enabling authority, and to issue bonds or notes of the Town therefor; provided, however, that no sums shall be borrowed or expended pursuant to this motion unless and until the Selectmen shall have determined that sewer rates and charges have been established to pay all costs of operating and maintaining the Town's sewer enterprise, including the cost of any existing debt service currently payable from the sewer enterprise, and that sewer rates have been so established as to provide for the full payment in each year of debt service on Two Million Four Hundred Thousand Dollars (\$2,400,000) of bonds or notes issued pursuant to this vote. The amount authorized to be borrowed by this vote shall be reduced to the extent of any grants received by the Town on account of this project. Any premium received upon the sale of any bonds or notes approved by this vote, less any such premium applied to the payment of the costs of issuance of such bonds or notes, may be applied to the payment of costs approved by this vote in accordance with Chapter 44, Section 20 of the General Laws, thereby reducing the amount authorized to be borrowed to pay such costs by a like amount.

VOTED: AYES 132; NAYS 24; declared a 2/3rds vote.