

Sewer Enterprise Fund (4000)

Interview with DPW Director Tom Daley on February 10, 2023
Finance Committee: Tim Counihan, Ed Mahoney and Lynn Bruneau

Status of Operations: The first phase of the Town of Orleans wastewater system, serving the Downtown area, is nearing completion, with “substantial completion” of the Wastewater Treatment Facility and the wick wells signaled by Daniel O’Connell & Sons (“DOC”), the construction contractors, and officially approved by MassDEP. Official notification of “substantial completion” of the collection system, constructed by Robert B. Our (“RBO”), is expected with MassDEP sign-off to follow. The Board of Water & Sewer Commissioners approved the indication of “substantial completion” of the WWTF at their meeting on February 15, 2023, sending notice to the Board of Health (“BOH”) to trigger the letter to property owners in the Downtown sewer area that they will have one year from the date of the letter (approximately March 9) to connect to the sewer.

Meanwhile, the WWTF is gearing up to accept the delivery of septage from local septage haulers for processing at the plant. Veolia, the plant operations contractors working for the Town, have been working with a dozen+ septage haulers to familiarize them w/ the new plant and its operations. The first property owners to be connected to the sewer system may include the Library and Stop & Shop.

Update (3/28/23): for the first few weeks in March, when the WWTF was initially opened, septage haulers were not charged; however, billing began in mid-March. The first 4 sewer connections were officially approved for connection the week of 3/27/23 - thus the “first flush”.

Budget Overview: The attached spreadsheet includes a summary of Sewer Enterprise Fund Budget information from FY22, FY23 and the proposed data for FY24. The data also includes the FY22 “results” from the 8/31/22 presentation made by Finance Director Cathy Doane to the Select Board and the 1/31/23 year-to-date results. There is also a column that shows a revised budget for FY23, sourced from the FY24 budget material that compared the FY24 budget line items to the FY23 budget line items; however, a number of the FY23 line totals differ from those in the original FY23 budget information - and the FY23 Total Expense

number differs from what was actually approved at the May 2022 Town Meeting (Warrant Article 11). We will follow up.

As noted previously, Warrant Article 11 from last year's Annual Town Meeting (May 2022) included the FY23 Budget for the operation of the new Sewer system (Enterprise) as well as authorization for the Town Administrator to execute an agreement which provided, at the Town's option, for a term up to 20 years, for the operation, maintenance and management services for the Town's collection system, pumping stations, WWTF and aquifer recharge. The Article also authorized the Select Board to set sewer user fees, license fees and permit fees for the Sewer Enterprise as detailed in the Warrant Article, effective July 1, 2022. TBD whether the Warrant Article for this year's Annual Town Meeting (May 2023) will need to be as "complicated", or if it will simply refer to setting fees.

Budget Fundamentals:

Salaries: there are no Salaries included in the Sewer EF budget. Salaries for the Sewer Operations contractor (Veolia) are included in that Contract and are thus booked as Contract Expenses. In FY22, the budget had included \$15k for a Board secretary; however, none of that money was spent and none is proposed for FY24. The secretary works for the Contractor.

Direct Expenses for FY24 are \$2.315M, approximately \$570k more than for FY23, with the expectation that the system will begin operations (with customers) in March 2023, with more customers added through year-end FY23 and throughout FY24. The biggest percentage and dollar increases include Electricity (up 11% to \$28.4k), heating fuel (up 25% to \$14k) and MIIA Pool Insurance (up dramatically from \$2.3k to \$59k) - but all of these reflect a soon-to-be-fully-operational plant. Other budget notes: - the Short-Life Tools budget has dropped from \$30k in FY23 to \$10k in FY24. Office Supplies deleted from the Budget for FY24 - but year-to-date in FY23, over \$5k has been spent (follow-up TBD). Chemicals budget cut from \$89k to \$64k - maybe some of this is included in the Operations Contractor budget (follow-up TBD). "Other Professional/Technical Services" was changed to \$425k during FY23 (up from an approved budget of \$71,125) with the \$425k number continuing for FY24 (follow-up TBD).

Revenue and Funding:

Sewer user fees and quarterly billing commence with a property owner's connection to the sewer system. The Select Board previously voted to adopt the

following sewer user fees, based in part on a recommendation from the Board of Water & Sewer Commissioners:

Fixed fee per quarter:	\$50.00
Retail rate per thousand gallons (kgal)	\$8.00
<u>Septage</u> rate per thousand gallons (kgal)	\$100.00 (fees paid by septage haulers)

The FY24 Budget includes one proposed new fee - adding a \$250 fee for an "Allocated Wastewater Flow Application" (previously no fee named).

Funding: Per MA Department of Revenue guidelines, because user fees and consumption rates are unpredictable in the first year of operation, the user fee revenue cannot be relied upon as a funding source for the FY23 Budget. Thus 100% of the FY23 Sewer EF Budget will be funded by a transfer from the Special Purpose Wastewater Stabilization Fund which was established by Article 18 at the May 13, 208 Annual Town Meeting to accept 100% of the local option rooms excise tax (short-term rental tax) for use in funding the implementation of the Amended Water Quality Management Plan and associated Adaptive Management Plan for the Town.

Thus for FY23, the total apparently revised budget of \$2.3M in Direct and Indirect Expenses will be funded from the Wastewater Stabilization Fund. There will be no additional funding from the General Fund (primarily supported by property taxes).

Balancing the Budget: In the "Revenue" column - the FY24 budget includes a "revenue" line with \$445k pulled from the Sewer Operations Fund Balance. As of 8/31/22, this "Fund Balance" was \$518,214 per the 8/31/22 Cathy Doane presentation to the Select Board. So to balance the FY24 budget - use \$445k from this "Fund Balance" to help "balance" the budget. Then the total FY24 Estimated Revenue w/be \$1.23M. Matched against \$2.6M in expenses, there w/ still be a short-fall of \$1.37M - which w/be come from a transfer from the Wastewater Stabilization Fund. The theory is that, conservatively speaking, there's about \$1.5M available in this Stabilization Fund each year - thus the need to moderate transfers from this fund from year-to-year. Thus the use of the \$445k from the Sewer Operation Fund Balance - the Enterprise Fund's own "savings bank" - where turn-backs go instead of sending them back to the Stabilization Fund or to the General Fund.

With sewer system operations starting slowly in FY23 for the downtown area (plus septage hauling), the FY24 Budget can include estimated revenues. The primary Revenue Components for FY24 include septic charges (estimated at \$556.6k), “basic charges” (billed quarterly w/ water bills to those connected to the sewer) (estimated at \$82.9k) and “flow revenue” (based on water flow, billed quarterly w/ water bills to those connected to the sewer) (estimated at \$136k). Estimated total revenue is approx. \$775.3k (not including interest income and drainlayer license fees, connection fees and other similar system-related fees). Add to that \$455k from “Retained Earnings” to get Total Revenues for FY24.

Other Considerations

In prior discussions with DPW Director Tom Daley, the Finance Committee has recommended that each of the Enterprise Funds should develop an asset management plan similar to that developed and maintained by the Water Department - long-term capital plans, reviewed annually, with a 5-to-15 year horizon. It is our understanding that Veolia, the Contract Operator for the Town’s Sewer Operations, had developed an inventory of sewer system assets (including the wastewater treatment facility, the wick wells, the pump stations and the collection system components) and will be maintaining an asset management plan for the system.

The build-out of the Town’s sewer system over the next 20 years is loosely defined in the Town’s Capital Improvements Plan (CIP) with year-by-year plans changing as priorities and funding strategies change. The Wastewater Management Advisory Committee, organized in August 2022, is working with the Town’s sewer system consultants (eg, AECOM and Wright-Pierce) and with Town Planner George Meservey to plan the next phase(s) of the Town’s wastewater management approach.

The Finance Committee will follow up with the Finance Director to understand the theory behind the allocation of significant indirect costs (\$254k - including \$201k of “Town Hall” costs) to the Sewer Operations EF when \$1.3M of the total expense budget is attributable to Contract Operator costs (\$970k) and Engineering Services (\$400k). The “math” is understood - but the “rationale”, less so.