

October 9, 2018

Mr. Peter Boria  
Water Sewer Superintendent  
Water and Sewer Commission  
37 Main Street  
Charlton, MA 01507

Dear Mr. Boria:

I am pleased to submit this report that shows the results of our analysis of the financial outlook for the next few fiscal years for the Town of Charlton (“Town”) if the Town were to become a Consecutive Water Supply. Currently, the Town owns the water infrastructure in Charlton and the Town of Southbridge supplies and operates the water system. The Town has sought an analysis on whether becoming a Consecutive Water Supply is financially viable.

The financial analysis shows that, if the Town were to become a Consecutive Water Supply, projected revenues would not match or exceed projected expenditures until FY 2022, as shown in the following table.

	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
	<b>PROJECTED</b>	<b>PROJECTED</b>	<b>PROJECTED</b>	<b>PROJECTED</b>	<b>PROJECTED</b>	<b>PROJECTED</b>
<b>Total Revenues</b>	\$ 379,920	\$ 440,190	\$ 595,055	\$ 678,577	\$ 678,577	\$ 678,577
<b>Total Expenditures</b>	\$ 379,920	\$ 510,329	\$ 601,693	\$ 652,760	\$ 658,875	\$ 663,646
<b>Surplus/(Deficit)</b>	\$ -	\$ (70,139)	\$ (6,638)	\$ 25,817	\$ 19,702	\$ 14,932

The following list contains some assumptions that were used for the financial analysis:

- FY 2019 reflects the current situation with the water system.
- FY 2020 to FY 2024 reflects the Town as a Consecutive Water Supply.
- In FY 2020 to FY 2024, the only revenue line items included in the analysis are for user charges and funds from the Water Capital and Debt Fund, which would fund any capital expenditures the Town undertakes. No capital expenditures are included in the analysis besides \$100,000 per year for capital outlay for emergencies.
- Projected revenue from user charges is based on actual accounts’ meter sizes and usage on their four bills from FY 2018 and Southbridge’s FY 2019 water tiers, rates, and base charges. The accounts used are ones that would be billed by Charlton if it becomes a Consecutive Water Supply.
- Included in the projected revenue from user charges is projected revenue from fire service charges and cross connection charges.
- In FY 2021, 80 homes from the Berry Corner Road extension will connect at 150 gallons of water usage per day using 3/4-inch meters and Overlook will connect at 35,000 gallons of water usage per day using a six-inch meter.
- In FY 2022, 100 homes from the Exxon School Loop will connect at 150 gallons of water usage per day using 3/4-inch meters, Charlton Middle School will connect at 2,731

gallons per day using a one-inch meter, Heritage School will connect at 2,816 gallons per day using a one-inch meter, and Bay Path School will connect at 5,308 gallons per day using a one-inch meter.

- The Town would start paying Southbridge for flow through a master meter at a new pump station three miles up Route 169 at Southbridge’s lowest tier's rate, which is \$3.30 per 100 cubic feet in FY 2019, and the quarterly base charge for an 8-inch meter, which is \$1,927.04 in FY 2019. To account for the Town’s water system’s unaccounted-for water, the total usage of all the accounts included in the analysis was increased by 5%. Before the additional connections, the total flow from Southbridge, including the 5% increase, is 102,026 gallons per day. After the additional connections planned for FY 2021, the total flow from Southbridge projects to be 151,376 gallons per day. After the additional connections planned for FY 2022, the total flow from Southbridge projects to be 178,524 gallons per day.
- The Town anticipates that \$90,000 per year would be added to the water budget for operating the water system.
- The Town will not pay debt during the years analyzed.
- Water salaries, which consists of solely the superintendent’s salary, increases by 2.5% yearly.
- Insurance-related expenses increase 5% yearly.
- Other expenses, not including indirect costs, increase 3% yearly.
- Indirect costs are based on Town employees’ salaries and benefits and the prior year’s Town and Water Enterprise Fund budgets. Employees’ salaries and benefits increase 2.5% yearly and the Town’s budget increases 4% yearly. With FY 2019’s Water Enterprise Fund’s budget about 50% of FY 2020’s due to debt service coming off the books, the amount for indirect costs decreases by about 50% in FY 2020 and then increases from there. Projections show that FY 2019’s amount for indirect costs is not reached again until FY 2023.
- Not included in the analysis is the potential for between \$4,000 to \$8,000 in additional revenue from other fees and penalties and interest.
- Not included in the analysis is revenue related to connection fees.

Using the assumptions laid out in the above list, the following table shows projections for user charges revenue, user charges expenditures to Southbridge, and the difference between the two, if the Town becomes a Consecutive Water Supply in FY 2020.

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED	PROJECTED
<b>User Charges Revenue</b>		\$ 340,190	\$ 495,055	\$ 578,577	\$ 578,577	\$ 578,577
<b>Southbridge Water Charges</b>		\$ 171,988	\$ 251,451	\$ 295,164	\$ 295,164	\$ 295,164
<b>Surplus/(Deficit)</b>	\$ -	\$ 168,201	\$ 243,604	\$ 283,414	\$ 283,414	\$ 283,414

Financial projections show that the Town’s Water Enterprise Fund’s revenue exceed its expenditures starting in FY 2022 if the Town becomes a Consecutive Water Supply. To help

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ensure it is financially viable, the Town should ensure it is comfortable with the projected water system operational expenses and should consider working with Southbridge on agreeing on a water flow rate lower than the lowest tier's rate. The Town should consider working with DEP to start the process to become a Consecutive Water Supply and monitor results as assumptions may change.

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We are pleased to assist the Town of Charlton on this important and challenging project. I will be pleased to discuss this letter with you at your earliest convenience.

Sincerely yours,

Mark D. Abrahams, CPA  
President