

FINANCIAL MEMO

The Hanover Water Works Company has been operated by Town of Hanover employees through a management contract since 1998. This collaboration has afforded certain 'in-the-field' efficiencies in coordinating labor and construction work, but there are many other opportunities to streamline the administration and financing of the water utility by restructuring it as a municipal department. Chief among these are: (1) a reduction in administrative overhead costs; (2) cost savings and efficiencies in quarterly billing and responses to customer inquiries; (3) a less costly process to set water rates; and (4) more flexibility and lower cost capital financing options. Specific components of these improvements are detailed below.

Reduction in Annual Administrative Overhead Costs

- Public Utilities Taxes and NH Business Profits Taxes no longer applicable – up to \$45,000 (per year) in savings as the higher state utility taxes are phased in
- \$25,000 savings by combining water utility property and liability insurance coverage with the Town
- \$10,000 savings by combining audit services with single municipal audit
- \$9,000 savings by no longer being required to pay NH Public Utility Assessment Fees and NH Corporate Business Taxes
- \$3,000 savings by eliminating separate computer software support fees

Cost Savings and Efficiencies in Quarterly Billing and Customer Service

- A combined quarterly water and sewer bill will be possible, saving postage, materials and labor
- A single point of contact for water and sewer billing questions will provide an enhanced level of service for customers with questions and service requests
- A single software program to track water and sewer connections and related maintenance, saving licensing costs and labor

Less Costly Process to Establish Water Rates

- As a private utility, Hanover Water Works Company is governed by the New Hampshire Public Utilities Commission (NH PUC) which prescribes a protracted and restrictive process to establish user rates. This process requires the hiring of a consultant for anywhere between \$25,000 - \$50,000 to create each rate case and the required supplementary schedules to submit to the NH PUC - this expense would be eliminated
- As a frame of reference, over \$41,000 was spent within the last 4 years for rate case development.

- As a municipal utility, the public has input into the rate setting which is done by the Board of Selectmen through a public hearing process. As a municipal utility, there is more latitude in building capital reserves into the user rates which allows for fewer significant spikes in the user rates over time.

Enhanced Flexibility and Lower Cost Capital Financing Options

- The Town has access to more advantageous debt financing through the municipal bond market and through possible federal and state funded programs for municipal utilities.
- As a private utility, the Hanover Water Works must now finance all capital improvement costs up-front, as the PUC does not allow for any capital costs to be factored into the user rates until the project has been completed. This delayed recovery through the user rates results in additional financing costs.
- As a municipal utility, the Town will have the latitude to reserve for wholesale capital improvements or recover debt service costs through the user rates at the optimal time to reduce overall project costs.

In summary, by dissolving the separate private utility and incorporating it into Town operations as a separate enterprise fund, there will be operational efficiencies and cost savings realized. As with the Town's current enterprise funds (such as the Water Reclamation Facility, Parking Operations, etc.), all water expenditures will be tracked in a separate accounting fund. These expenditures will be funded in their entirety by users of the water system through user rates and other fees and charges.

TRANSITION COSTS

There are legal, accounting and other expenses currently being incurred to develop the necessary documents and to work through the more complex issues related to the proposed municipalization. These expenses are being shared equally between the College and the Town, and the Town's expenditures are being aggregated in a separate account in the Town's financial records. If municipalization passes at the upcoming special Town Meeting, these "start-up" costs will be borne by the newly created municipal water fund by reducing any starting fund balance of the new enterprise fund which will be funded entirely by users of the water utility. If municipalization is not approved by the special Town Meeting, the Town's share of these costs will be borne by the General Fund which is supported by all taxpayers.