



NORTH READING WATER AGREEMENT

**Mid-Year Review
November 21, 2017**

BACKGROUND



- Andover is currently a water supplier for North Reading, supplying water through an Inter-Municipal Agreement through June 30, 2019 (FY19)
- North Reading has been a customer for over 20 years, and is currently Andover's largest water customer
- North Reading's Town Meeting authorized the Town to seek membership with the MWRA to fully supply their water
- At the Town Manager's request, the Andover Board of Selectmen authorized the Town Manager to enter in negotiations with North Reading to be primary supplier of water

PROCESS



- Andover and North Reading negotiation teams met more than 15 times over the course of 18 months to discuss potential contract to supply water
- Negotiation team came to an agreement on the Summary of Terms for a potential long-term agreement
- North Reading Board of Selectmen voted unanimously to place an article on their Town Meeting warrant to move forward with entering into a long-term Inter-Municipal Agreement with Andover



- On October 2, 2017, North Reading Town Meeting voted to suspend construction related to an agreement with the MWRA
- Special Town Meeting scheduled in Andover for January 29, 2018 for the purposes of authorization to seek special legislation to enter into a 99 year agreement.

PROCESS



- Both North Reading and Andover will be required to seek new inter-basin transfer permits in order to potentially supply North Reading with a larger amount of water (up to 2.6 MGD) – well within the capacity of both our Water Treatment Plant and the Merrimack River watershed.
- North Reading and Andover will pursue an agreement related to sewer, which has the potential to generate a wheeling fee for Andover serving as a pass through to the Greater Lawrence Sanitary District.

SUMMARY OF CURRENT PROPOSAL



- Contract term: 99 years
- Water rate: 95% of Andover's Tier I rate
- Rate increase capped at 2.5% for 10 years
- Andover reimburses North Reading costs incurred up to \$953,000 as a billing credit

WATER RATE STUDY WITH NORTH READING AS CUSTOMER



- The water rate study performed in 2016 recommended 2.5% rate increases with North Reading as a Tier 1 customer
- Despite receiving a 5% discount at Tier 1 under the proposed agreement, the volume of service will offset a discount (wholesale rate)

Andover Water Rates with North Reading as a customer				
	2018	2019	2020	2021
Tier 1	\$2.97	\$3.05	\$3.12	\$3.20
Tier 2	\$3.27	\$3.35	\$3.44	\$3.52
Tier 3	\$3.57	\$3.66	\$3.75	\$3.84



- Sustaining current rates without North Reading as a customer would lead to large operating deficits in both 2020 and 2021. These losses would be expected to fully deplete Water Enterprise Fund reserves by the end of FY2021 without either new revenues or significant rate increases.

WATER RATE STUDY WITHOUT NORTH READING AS CUSTOMER



- Without North Reading as customer, in order to sustain the enterprise, water rates would need to increase 22% in 2020 and 4% in 2021

Andover Water Rates without North Reading as a customer				
	2018	2019	2020	2021
Tier 1	\$2.97	\$3.05	\$3.90 (+22%)	\$4.05 (+4%)
Tier 2	\$3.27	\$3.35	\$4.29 (+22%)	\$4.46 (+4%)
Tier 3	\$3.57	\$3.66	\$4.68 (+22%)	\$4.86 (+4%)

FINANCIAL SUMMARY



- Assumptions: revenue and expenses increase 2.5% per year

Year	Revenue	Expenses	Total Net
1	\$1,500,000	\$250,000	\$1,154,700
10	\$1,873,294	\$312,215	\$13,051,227
20	\$2,397,975	\$399,662	\$30,977,822
30	\$3,069,611	\$511,601	\$53,925,378
99	\$16,866,697	\$2,811,116	\$525,325,846