

FUNDING THE BARNSTABLE WASTEWATER PROGRAM – AN OVERVIEW OF OPTIONS AND POLICY ISSUES

**Town of Barnstable Wastewater Resources
Advisory Committee**

Presented by the Barnstable Comprehensive
Financial Advisory Committee (CFAC)

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***What are the benefits of the
Barnstable Wastewater program?***

What are the Benefits of the Wastewater Program?

For residents of Barnstable there are seven significant benefits from the wastewater capital program:

- Protects the Town's drinking water resources
- Protects public health and meets sensible sanitation standards
- Permits responsible growth and targeted economic development
- Renews and protects our saltwater and freshwater resources
- Maintains residential and commercial property values
- Insures Town compliance with federal and state laws and regulations
- Recognizes that civilized communities do not foul their own nest

What are the core principles or policies underlying an affordable funding strategy?

Suggested (and Debatable) Guiding Policies and Principles

1. Execute the desired capital program over two generations – **30 to 50 years**.
2. Everyone in Barnstable will directly benefit from the program and everyone should contribute.
3. As a policy decision, 50% of the capital cost and 100% of the operating costs should be paid by town residents and businesses.
4. A significant portion of the *capital* costs (approximately 25%) should derive from one or more new sources of state-wide or regional revenue spread over a larger population base, in addition to reducing interest on project debt to 0%.
5. Another significant portion of the *capital* costs (approximately 25%) should derive from construction grant funding from the federal government.
6. Financial relief for low-income households is needed, though not as a result of shifting the cost of the relief to other rate or tax-payers.

Wastewater Program – Equitable Cost Allocation Model

Town decision-makers will need to determine the fairest way to allocate program capital and operating costs. There may be differing allocation answers for each type of cost.

Potential questions for Town decision-makers are:

1. Who are the beneficiaries of the wastewater program?
2. Should all beneficiaries be obligated to contribute? If yes, to what extent?
3. Should there be a difference in policy treatment between capital and operating costs?
4. What are possible equity issues and how can they be addressed?
 - Low Income Households
 - Recovering past capital expenditures from new “customers”
 - Leveling of neighborhood sewerage costs
5. Title 5 systems?

What is the Total Capital Cost of Program (*From FY10*) ?

[Excerpt from FY10 CFAC analysis of then projected wastewater costs]

“FY10 Cost Estimates of **Previous** Wastewater Plan:

Planned sewer projects	\$169.2 million
WWTP projects	\$ 14.7 million
R/R WWTP projects	\$ 5.6 million
Three Bays projects (est.)	\$253.0 million
Interest Expense on debt	<u>\$232.2</u> million
TOTAL	\$674.7 million

Capital cost estimate: \$675+ million

Not Included in Estimates: Certain costs are **not** included in the above amount, such as the impact of inflation on construction estimates, property owner hook-up costs, homeowner septic removal/landscaping expenses, land/easement takings, necessary roadway reconstruction capital costs, stormwater system capital costs and substantial transaction costs. Some of these costs will be paid by property owners and some by a governmental entity (thus, indirectly by some or all property owners). While these costs are impossible to accurately estimate they are no less real.”

What realistic funding options are available to the Town?

Funding Options Currently Available to Barnstable

There are two categories of expenses for any Town's wastewater project: annual *operating expenses* for system operations and maintenance and multi-year *capital expenses* associated with constructing the system. Some funding options are available for one or the other type of expense; a couple are available for both types of expenses.

There are **four** meaningful funding choices currently available to Barnstable:

- Funding from existing Town funding sources for capital and/or operating expenses
- Funding from betterment assessments for capital expenses
- Funding from a Proposition 2½ override or debt exclusion vote for capital expenses
- Funding from a system of rates and charges for operating and/or capital expenses

Absent major legislative financial help, much of any Town's wastewater system will be financed by low-interest or zero-interest loans from the Commonwealth "Statewide Revolving Loan Fund" (SRF) or through Town-issued general obligation (GO) bonds, with the principal and interest (debt service) repaid by one or more of the four funding alternatives. Some principal forgiveness is possible under recent change in state law.

Betterment Assessments

Barnstable has the statutory authority to levy involuntarily betterment assessments in order to defray the capital costs of sewer infrastructure improvements.

Advantages:

- Town may lien property and place charges on tax bills, thus reasonably insuring it will be paid by property owners including non-profit owners of property
- Appearance of fairness as is believed to be for the receipt of a property benefit
- Relatively low interest rate: Up to 2% over underlying debt interest rate and up to 30 years repayment schedule
- Town Council approved 50% betterment assessments for sewer projects in 2010

Disadvantages:

- Narrowest base of funding for wastewater capital program
- Possible mismatch between benefits of program and those obligated to pay betterments as many system beneficiaries will pay nothing
- Sewer betterment assessments may be inequitable as assessment based on cost of each neighborhood sewer projects – assessment may vary significantly
- Not tax deductible
- If EDU formula used, commercial betterments on Cape Cod could be confiscatory
- Not easily usable for cost of non-sewer wastewater capital facilities.

Use of Existing Town Revenue

Debt service costs paid by property taxes within Proposition 2½ levy limits. A Town may continue to pass through some capital and, most likely, all operating costs to customer base through rates and charges or other funding methodology. Some excise tax revenue may be available (if not used for other purposes).

Advantages:

- No immediate financial impact on Barnstable property owners
- Spreads cost over a wider base than other funding choices
- Town will maintain control over scope, pace and cost of project
- Town government will remain directly accountable for program
- No legislation needed

Disadvantages:

- Barnstable is at property tax levy limit
- Major reductions in important Town-funded services would be required
- Available other revenues are minimal compared to total cost of program
- May negatively impact Town credit rating
- Tax-exempt entities would realize program benefits but do not pay real estate taxes
- Solely using Town funds would make coordinated, Cape-wide effort more difficult
- Would create significant pressure to limit scope of wastewater capital program

Proposition 2½ Override or Debt Exclusion

Substantial debt service costs paid by property tax after successful override campaign(s). Town may continue to pass through some capital and operating costs to customers by system of rates and charges or other funding methodology.

Advantages:

- Minimal impact on existing Town services
- Town will continue to control scope, pace and cost of project
- Spreads cost of program over wider base than other funding options
- Tax deductible for those who itemize
- Town government will remain directly accountable for program
- No legislation needed

Disadvantages:

- Override will require capital-related override ballot campaign (possibly, campaigns)
- Significant real estate tax impact for town property owners
- Could create conflict between those connected to sewers and those not connected
- Using locally generated funds would make coordinated Cape-wide effort difficult
- Tax-exempt entities would realize program benefits but do not pay real estate taxes

System-wide Fees, Rates and Charges

As system becomes more robust, funding could occur by adopting a system of rates and charges, to be managed by the Town (or town created entity), which could pay for some or all capital costs plus operating expenses, paid by the users of the service.

Advantages:

- Flexible and efficient funding system
- Eventually, creates a wide base for spreading costs (would include tax-exempt and government users)
- Can more easily create a funding system which best matches relationship of treatment costs with contributions of effluent requiring treatment
- System can be designed to permit some subsidy for low-income households and would enable monthly billing making household budgeting easier

Disadvantages:

- Over time, will grow to become a significant utility bill
- Not easily used in a start-up situation with minimal customer base
- Not tax-deductible
- Zero-sum funding mechanism: absent new revenue source(s), reductions for some ratepayers results in an increase in charges to other ratepayers

Other Financial Options for Barnstable

Very limited funding is available from other sources or financing methodologies. Such funding will be constrained in amount or by statutory requirements.

- USDA Rural Development Loan and/or Grant

Limited by size of community/district and amounts available; community income test

- District Improvement Financing/Tax Increment Financing

Funding methodology typically for commercial development purposes; likely requires interim financing and a financial backstop (i.e., Town financial pledge)

- Community Development Block Grant

Very limited funds available and must meet grant requirements

Use of MGL C.40, Section 39M

Upon a vote of the Town Council and the Electorate, Barnstable could adopt this provision, which would add a property tax surcharge of up to 3%, to be assessed on each parcel of taxable real estate. Would raise approximately enough money (\$3.3 million per year, increasing slightly each year) which could pay debt service for one bond issue of approximately \$65 million.

Advantages:

- Broadens base of financial support
- Would be an indicator of community support for wastewater program
- Would pay for a modest portion of the wastewater program

Disadvantages:

- While statutorily permissible, would be controversial – not easily understood
- Insufficient funding for program
- Only one bite of the apple: Requires community vote; a second, Proposition 2½ debt exclusion vote unlikely anytime soon thereafter

Use of MGL C.59, Section 21C(n)

Barnstable may replace rate revenue with property tax revenue by a vote of town Board of Selectmen or Town Council. “Special debt exclusion” is not a new funding source, but a legislative grant of authority to shift costs from ratepayers to taxpayers.

Advantages:

- “Dollar for dollar” replacement of debt service costs
[\$1 dollar of rate revenue with \$1 tax revenue]
- Broadens financial base
- Avoids Proposition 2½ override requirements
- Decreases rate revenue which is paid by system users with property taxes which are paid by both system users and non-users
- Special debt exclusion will lower *rate* revenue requirements (but not betterment assessments)
- Replaces non-deductible payments with deductible payments

Disadvantages:

- Funding method may pit property owners against system customer base
- While statutorily permissible, would be controversial – not easily understood
- Avoids Proposition 2½ override requirements
- *Future option only*; Will become available when there is a robust rate base

Can we determine the cost of any proposed Barnstable wastewater capital program?

Estimating the Cost of the Wastewater Program

Is it currently possible to accurately estimate the long term project cost of the Town's to-be-developed wastewater program?

The answer is both "Yes" and "No"

If the Town develops a conventional wastewater treatment plan, the answer is "yes", with the usual caveats for inflation, unexpected delays, etc.

If the Town develops a wastewater plan relying on unconventional technology or natural systems, the answer is "no", at least not for a while. The results of I/A systems, PRB's aquaculture, etc. will need to be assessed prior to the longer term use of, and reliance upon, those technologies.

Regulatory entities will require periodic and meaningful analyses of the results of using new technologies or biologic processes.

Probable that the final plan will provide estimated capital and operating costs of the program should the alternative technologies not work as designed.

Recommended Next Steps

1. Create a standing subcommittee (perhaps beyond the life of WRAC) to work with the Town CFO, DPW and any retained engineering firm to monitor and comment upon funding elements and proposals of the wastewater program as they develop.
2. Advocate that the Town should, in concert with other willing communities on the Cape, as well as other Cape organizations, create a meaningful and sustained lobbying effort for federal and state financial assistance.
3. Educate Town residents with respect to wastewater issues, costs and the plan.
4. Discuss and debate the financial policy issues set forth in the presentation. When WRAC committee work is complete, advocate your recommendations to the Town leadership. Do not presume there will be unanimity amongst the WRAC committee members or Town leaders.
5. Monitor and understand the financial ramifications of any draft IMA's with adjoining communities.
6. Remember, time is short.