



The Town of Barnstable

Comprehensive Financial Advisory Committee (CFAC)

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CFAC Committee:

Chair:

Lillian Woo

Members:

Vice Chair, Ralph Krau
Clerk, Hector Guenther
John Schoenherr
Melanie Powers
Tracey Brochu
Wendy Solomon

Staff Liaison:

Mark Milne
Nathan Empey

Councilor Liaison:

Paula Schnepf

MEETING MINUTES

11.09.20

6:00 PM

Zoom Meeting : <https://zoom.us/j/98857257521>

Meeting ID: 988 5725 7521

Roll Call:

Lillian W. called the CFAC Zoom meeting to order at 6:00 PM. Hector G. called the roll call.

- CFAC Members Present: Lillian Woo, Hector Guenther, John Schoenherr, Wendy Solomon, and Tracey Brochu
- CFAC Members Absent: Ralph Krau and Melanie Powers
- Councilors Present: Paula Schnepf
- Staff Present: Mark Milne; Finance Director, Nathan Empey; Finance/Budget Analyst
- Other Present: None

Act on Minutes:

The following minutes were approved by unanimous vote:

10.26.2020

Public Comments:

None

Correspondence:

Lillian W. congratulated Mark Milne for recently having been elected President of the New England States Government Finance Officers Association.

Staff Report:

None

Old Business:

Committee reviewed the drafted FY 2021 Financial Overview Report. Hector G. suggested inserting on page 1 to include “from” before July 2020 to June 2021”. Tracey B. suggested under the CWMP section to change the coloration to make the section more prominent from the rest of the document. John S. noted the document looks nice, but is there any way to simplify the URL on the bottom of page 10? Hector G. noted in the Get Involved section, we should insert the language “if you are interested in financial matters and want to make a difference”. Lillian W. suggested we should use experienced instead of interest.

Committee voted unanimously to approve the FY 2021 Financial Overview Report.

New Business:

Mark M. reviewed his’ presentation with the committee, which was presented to Town Council at their last meeting. Hector G. asked how engaged was Town Council over the presentation? Mark M. responded we did receive a few questions from the councilors, but it is a lot of information at once. Mark M. noted he thinks it is going to take council some time for the information to sink in and ask questions that dig deeper into these issues. Mark M. noted there wasn’t any formal vote taken on these financial policy decisions. Mark M. noted he anticipated we would have more meetings on these financial policy decisions.

Mark M. noted the need for this plan is to reduce the Total Maximum Daily Loads of Nitrogen into our coastal embayment. Mark M. noted this plan is meant to protect our drinking water resources as well as offer targeted economic opportunities.

Mark M. noted in Phase 1 of the plan, which is the first ten years; a joint Vineyard Wind project is taking place. Mark M. noted the project is already approved and that we’re underway designing and working with Vineyard Wind. Mark M. noted by doing the sewer project simultaneously with the Vineyard Wind project, it is estimated the Town will save roughly \$3 million. Mark M. noted the next phase would start building out the sewer on route 28. These are the two main appropriations so far. Mark M. noted we have already appropriated over \$30 million in projects for this plan.

Mark M. noted because of the major costs we are going to have to finance this plan with loans, but we are going to submit all of our projects to the Massachusetts Clean Water Trust (MCWT), which offers zero percent loans on nutrient reduction projects. Mark M. noted MCWT has a limited amount of funds available on an annual basis, which Massachusetts has over three-hundred and fifty-one cities and towns that are all eligible to apply and compete for those limited funds. Hector G. asked what maturities on loans are available through the trust; can you get a thirty-year loan? Mark M. responded yes, loans are all eligible for thirty-years if the construction of the assets has a useful life of at least thirty years. Mark M. noted some sewer infrastructure could last fifty to seventy-five years before they need to be

replaced. Mark M. noted the capital market rates the town has experienced over the last few years has averaged around 2.50%, so we're pretty competitive with the standard loan rate of the MCWT. Mark M. noted the markets today are very competitive, but the longer the loan maturity the more expensive it gets. Mark M. noted we've never issued a bond for more than twenty years. Mark M. noted the CWMP financing plan assumes loans are amortized over thirty years with a level payment method and average rate of 2%. Mark M. noted these assumptions would have to be reviewed on a periodic basis with market conditions.

Mark M. noted there are limitations on how much we can borrow based on state law, which the town's borrowing capacity is subject to its equalized valuation (EQV). The town's EQV is just over \$16 billion, which we can have outstanding debt up to 5% of that value at any point in time, or \$802 million. Mark M. noted we are well under this level throughout the CWMP. Mark M. also noted that as we're issuing new bonds we're paying down bonds.

Mark M. noted to date we've created funding mechanisms for the CWMP. The first thing was to create the Sewer Construction & Private Way Maintenance & Improvement Fund, which is funded by hundred percent of the meals tax and one-third of the rooms tax on traditional lodging. This fund generates about \$2.6 million annually before COVID, which did have some impact on this. Mark M. noted the hotel and restaurant industry has been hit hard by COVID-19. Mark M. noted we have also dedicated a hundred-percent of the new short-rental tax to a new stabilization fund for the CWMP. This new revenue source has not been around long enough to get any sense on how its revenue will trend. Mark M. noted special legislation was adopted to create the Cape Cod & Island Water Protection Fund (CCIWPF), which is funded by a brand new 2.75% tax applied to traditional lodging and short-term rentals. Mark M. noted the CCIWPF is estimated to generate \$15 million a year. The fund would be managed through the State Revolving Loan Program and provides principal subsidies on loans. Mark M. noted the Massachusetts Clean Water Trust (MCWT) would be the custodian of the funds, and funds would be distributed based on the CCIWPF governing board decisions.

Mark M. noted with all the current funding sources created and estimated project costs to date, we are estimating a funding gap of \$596 million.

Category	Estimated Amount (in millions)
Collection System	\$ 657.00
Treatment & Disposal	\$ 146.00
Inflation	\$ 246.00
Project Management	\$ 100.00
Financing Charge	\$ 313.00
Project Subsidies	\$ (126.00)
Meals & Rooms Taxes	\$ (463.00)
User Rate Revenue	\$ (222.00)
System Development Charge	\$ (19.00)
Investment Earnings	\$ (36.00)
Funding Gap	\$ 596.00

Mark M. noted this is a \$1.4 billion program and we have identified about \$800 million, of which we need \$600 million more to close the gap. Hector G. asked is the largest single item for revenue meals and rooms taxes? Mark M. responded yes, noting we've been averaging just over 4% a year in growth, but scaled back the estimate to 2% annually to be conservative. Hector G. asked are the meals and rooms tax estimates for thirty-years? Mark M. responded no, it's actually a sixty-year estimate given all the financing costs that we have to pay over sixty years. Mark M. noted this program takes thirty years to construct, but the final loan is issued within year thirty with a thirty-year maturity, total program is over sixty years. Hector G. responded so that funding gap is over a sixty-year period and not a thirty-year period. Mark M. responded yes. Hector G. asked what is the inflation rate used in the estimates? Mark M. responded 2.5%.

Mark M. noted there are several options to fill the funding gap. The first option is sewer assessments. Mark M. noted what are we going to levy on the property owners that are involved in this plan in the form of sewer assessments? Mark M. noted there are over 11,000 of them. Decisions are going to have to be made on what the percentage, dollar amount, and if there is going to be caps. Mark M. noted another option is a property tax contribution based on the willingness to spread project costs across town in the form of a property tax override. Mark M. noted a property tax contribution could happen several different ways. Mark M. noted we could take a portion of existing tax levy and dedicate it to this program by reducing services in other areas or seek a property tax override and create a stabilization fund, or debt exclusion override. Tracey B. asked if the sewer assessment is going to be revolving as people are being put into the project, so that assessments follow the phases of the projects, or is everybody going to be assessed at the start of the plan? Mark M. responded sewer assessments are levied at the time the property is hooked up to the sewer. Mark M. noted sewer assessments would be levied as the projects are built out. Properties aren't assessed at the beginning of the program, we have to cost out each project. Hector G. asked is the \$15,000 sewer assessment from the financial model to be paid over the twenty or thirty years? Mark M. responded the property owner has the option to make a full payment at the time the assessment is levied or make a partial payment and apportion the remaining balance over the thirty years, or apportion the entire assessment over the thirty years.

John S. asked is there anything in our existing policy statements about how if greater than expected increase in overall assessed property values may be used specifically for this plan? John S. noted that compared to last September median home price values have increased from \$365,000 to \$465,000. John S. asked is there anything from the increase in property values used towards this plan? Mark M. responded we currently have a policy where the first \$1 million in new property tax growth from new building construction gets dedicated to the operating budget; anything above that million gets dedicated to the capital program. Mark M. noted the value above the million is not significant, but we could reallocate this portion from the capital program to the CWMP. Mark M. noted changes in assessed values for existing properties do not generate additional tax revenue, what it does is reduce the tax rate. Proposition 2 ½ is what governs the amount of taxes that we can raise from year-over-year.

Mark M. noted a decision needs to be made on what assessment methodology will be used, fixed uniform rate or uniform unit method? The fixed uniform rate based on existing and potential properties converts sewer units based on residential equivalents. The uniform unit method assesses the average cost regardless of intensity of use. Mark M. noted under the uniform rate a residential property would pay more because the intensity of sewer used by commercial properties would be much greater, so we're probably looking at the fixed uniform rate. Mark M. noted if we were to implement a dollar cap the assessment could be anywhere from \$13,000 to \$20,000. Mark M. noted we could adjust these assessments annually for inflation as construction cost increase. Mark M. noted some of the assessment might calculate out to be less than the maximum for properties that abut sewer force mains; these properties could realize some savings. Lillian W. asked is the assumption that property owners would hook up at the time sewer line is available. Mark M. responded that is a policy decision that rests with the Board of Health. They are the authorizing body as to when a property owner must hookup, not Town Council or Town Manager.

Hector G. asked do you know if a homeowner has a connection built in for the sewer, would that constitute a capital improvement on their property? Mark M. responded yes. Tracey B. is there a grace period for people to hook up? Mark M. responded it is to be determine, but resides with the Board of Health. Hector G. noted it might make sense to hook up when the road is opened. Hector G. noted when you're marketing the project to mention property owners to hookup at the time the road is open because it may be a lower cost as well as financed over thirty years. Tracey B. asked what about the abandonment of their existing septic system? Mark M. responded he doesn't know what would be considered appropriate abandonment verses what needs to be removed, but something under the Board of Health.

Hector G. commented that the committee agreed we want everyone to have some contribution to the overall cost of the plan. Mark M. noted the property tax override would include every property taxpayer contributes. Mark M. noted everyone benefits from this program because it preserves our drinking water and protects property values. Mark M,

noted if we don't do this program, what happens to our property owners and the environment, we could lose that. Hector G. noted if the property tax override in the CWMP financial model includes \$4.7 million each year? Mark M. responded yes. Wendy S. asked if any of the villages are resisting the program because they may not benefit? Mark M. responded he anticipates it, but nothing in a public forum as of yet. Mark M. noted that if we don't approve an override, we may have to cut in the operating budget to cover the funding gap. Mark M. noted with a Municipal Purpose Stabilization Fund, the property tax override amount would depend on how much the initial sewer assessment is, if we set a sewer assessment of \$18,000, we would need a \$6.75 million property tax override every year. Mark M. noted property tax override requires the annual Town Council appropriation. Mark M. noted the benefits from the property tax override solidifies upfront funding for the program, preserves existing services, and requires annual appropriation. Mark M. noted the debt exclusion works very similar and that the additional tax levy last as long as the loan is amortized. Lillian W. commented that the municipal stabilization fund is more flexibility because Town Council can end it at any time? Mark M. responded both the debt exclusion override and property tax override provide flexibility, but the debt exclusion override is going to have to be revisited in the future unless you set it at a high number initially. Mark M. noted that the debt exclusion override provides a more gradual increase to the tax levy. Lillian W. asked would the debt exclusion be tied to a specific purpose? Mark M, respond yes, specific to the CWMP. Mark M. noted the third option is a property tax contribution from existing levy, which may be viewed negatively from bond agencies because we'd be tying up more of an annual property dollars in fixed cost and reduces your budget flexibility.

Mark M. noted no upfront out of pocket payment required by the property owner, they can add the sewer assessment, systems development charge, and connection costs. Mark M. noted it kind of like the property owner borrowing from the town, which the town does not do a credit check because they add a lien on the property. Mark M. noted some property owners might not even be eligible to use a home equity loan due to poor credit. Tracey B. asked if there is a lien on the property, when the property is sold those cost are required to be paid off? Mark M. responded yes, and noted that it is also required when a property owner refinances their home. Mark M. noted what is going to happen is many of these assessments, even those apportioned to future tax bills, will probably get paid off within a fifteen year period because a majority either sell their homes or refinance within that period of time. Hector G. noted if a property owner already has an assessment for having their private road paved, it is required to have the assessment paid off before the house is sold because the town would place a lien on the property. Wendy S. asked based on the different ways of financing is there subsequent voting or just vote once, can we simplify it for the voters? Mark M. responded yes, the property tax override or set the debt exclusion to a higher level would only require going to the voters once.

Mark M. noted those already tied in to the existing system would not contribute anything unless a property tax contribution is approved. Mark M. noted there are issues of fairness and equity that need to be ironed out when implementing this plan. Mark M. noted we also need to create the general ordinance for the sewers by defining general and specific benefit facilities, method used to allocate assessments, and any caps.

Mark M. noted the maximum allowable levy in FY 2021 is \$132,346,211 compared to a tax levy of \$ 132,026,068 used to balance the budget, and thus providing us excess taxing capacity of \$ 320,153. Mark M. noted the next decision to make is how we are going to allocate the \$132 million tax levy between and within property taxpayers. This is a property revaluation year for the town; it has been five years since the town had its last comprehensive revaluation. Mark M noted we are required by the state to have this done every five years. Mark M. noted this process is much more in-depth than the annual adjustments. Mark M. noted property valuations were almost \$900 million more than that last years assessed values. Mark M. noted with the current tax levy and assessed valuations, the current tax rate is \$ 8.26 compared to \$ 8.51 last year. Mark M. noted there are two policies to review, which are residential exemption and split tax rate. Fifteen communities in Massachusetts have adopted the residential exemption. The residential exemption only shifts taxes within residential taxpayers. Mark M. noted the residential exemption shifts a certain dollar value onto secondary homeowners as well as homeowners with a certain property value. The breakeven point to a primary resident with a property value of \$1,186,125 would pay the same amount of tax regardless of the residential exemption. Mark M. noted the second option is to split the tax rate, which the town had only implemented it once in 2006. This policy is geared more towards a community with a higher commercial property value than residential.

Lillian W. asked would Town Council vote on this at the next meeting? Mark M. responded November 19th is the next council meeting. Mark M. noted it is all based on the certification on these values from the Bureau of Local Assessments at the Department of Revenue. If we receive certification before the next council meeting, council can act. Lillian W. noted that puts a lot of pressure because you have to get the tax bills out. Mark M. noted he anticipates no changes from council with the same as prior years.

Matters not reasonably anticipated by the chair:

Adjournment:

Meeting adjourned at 8:00 p.m.

List of documents handed out

1. 10.26.20 draft minutes
2. CFAC's FY 2021 Financial Overview Report
3. FY21 Tax Classification 2020
4. CWMP Financial Policy Review