



The Town of Barnstable

Comprehensive Financial Advisory Committee (CFAC)

367 Main Street, Village of Hyannis, MA 02601

v. 508.862.4654 • f. 508.862.4717

www.town.barnstable.ma.us

Email: cfac@town.barnstable.ma.us

CFAC Committee:

Chairman:

Bill Brower

Members:

Robert Ciolek

Laura Cronin

Stanley Hodkinson

Ralph Krau

Tom Michael

Staff Liaison:

Mark Milne

Councilor Liaison:

Richard Barry

James Munafo Jr.

February 23rd, 2010

Mr. William Brower, Chair
Comprehensive Financial Advisory Committee
Barnstable Town Hall
367 Main Street
Hyannis, MA 02601

Mr. Fred Chirigotis
President, Town Council
Barnstable Town Hall
367 Main Street
Hyannis, MA 02601

Dear Chairman Brower and Council President Chirigotis:

On August 13th, 2009, Chairman Brower received a letter from the President of the Barnstable Town Council, Fred Chirigotis, which requested the Town's Comprehensive Financial Advisory Committee (CFAC) to review and make suggestions with respect to possible funding methodologies for certain proposed Town clean water protection capital projects. Specifically, the letter stated:

"I am writing to request the enlistment of your committee in studying and recommending financing options for the sewerage of the Town of Barnstable... What we are looking for is your advice for the best financing plan for Barnstable."

CFAC responded by creating a sub-committee with the responsibility to perform the requested task. Attached is a copy of that promised report.

This is an expensive capital project by any measure, and the sub-committee is concerned that expectations have been raised that somehow the committee's recommendations will substantially reduce its costs. That is largely not the case. If the Town moves forward with its stated intentions the total capital expenditures will be no less than \$675 million and become the largest single capital program in the Town's history. Our recommendations deal with funding methodologies that may make the cost of the program more equitable and perhaps somewhat less burdensome, but absent a change of direction or a fundamental reengineering of the project the huge cost will largely be borne by Barnstable property owners. Our approach had to assume that the Town will do what it asserts it is legally obligated to do.

We should quickly note that the Town leadership has given itself the opportunity to rethink, in part, its stated intentions. The recent creation of a Citizens Advisory Committee (CAC) is timely in that much of the analytical work leading to the Town's plan was done many years ago. Our report advises that the CAC ask the Town to formally reopen the Comprehensive Wastewater Facilities Plan at least for the purpose of re-investigating the feasibility of incorporating innovative and alternative treatment (I/A) technology. While we would be the first to point out that adoption of newer I/A systems may reduce the cost of the program, we have been advised it may still be very expensive and burdensome for everyone, with perhaps no savings at all. In addition, pragmatic operational and regulatory issues will need to be addressed to the extent that Barnstable incorporates any new technology into its plan. There are many practical business, legal and science-based reasons for a centralized wastewater treatment system

and the Town should not be stampeded into adopting a new, “flavor-of-the-month” technology. Still, some savings is better than no savings and we believe there is much merit in seriously reinvestigating advances in treatment technology now available to Town planners, where appropriate.

So, what is the “best” financial model? The “best” model is one which might be calibrated to the nature and scope of the problem, the economics of the town and its residents and businesses, and real consideration as to the type of organizational entity required to manage the project and execute the financing plan. Pragmatically, the “best” plan is also one that helps our community to develop a political consensus with respect to the fairest way to address these funding issues. To that end, the sub-committee strongly believes that there should be clear identification of the linkage of those who should pay for the program with those who benefit from the program.

It is our unanimous judgment that the worst possible means for paying for the project is by means of requiring property owners to pay 100% betterment assessments. The report addresses the reasons for our conclusion and we believe the arguments are persuasive. Simply stated, it is fundamentally unfair to force one-third of our fellow citizens to pay for an environmental remediation effort caused by everyone. Everyone benefits from efforts to protect our water resources and everyone should be asked to pay.

There will likely be a vigorous debate on whether costs should be paid by less than half of the property owners of the Town or by everyone. We concluded that the arguments for a town-wide system of payments were overwhelming. What are the community-wide benefits of the Town’s clean water protection program? They are:

- Protection of the Town’s clean drinking water resources
- Protection of public health and sanitation
- Permits responsible growth and economic development
- Renewal and protection of saltwater and freshwater resources
- Achieves compliance with federal and state laws and regulations
- Recognizes that civilized communities do not foul their own nest

How to accomplish that goal is, of course, the issue.

It needs to be remembered that in the Commonwealth of Massachusetts the ability to impose taxes and fees is greatly circumscribed by law, the state constitution and certain court decisions over the years. It is a truism that no city or town can raise revenue except in ways specifically authorized by the state legislature. With that as background, our analysis involved four means of revenue raising: (1). betterment assessments, (2). the real estate tax, (3). the imposition of fees, rates and charges and, (4). the inherent right and ability of any community to seek federal or state grants plus ask the legislature for the authority to impose new taxes upon itself.

We concluded that given the huge cost of the program the Town of Barnstable should devise a layered package of funding options using all of these means. Specifically, we concluded that two options best accomplished our goal of achieving equity and a measure of affordability. The *first option* would have 50% of the costs met by rates and charges, 25% by an override of Proposition 2½ or by a special debt exclusion and 25% by a concerted effort to obtain grant funding and/or the authority to levy a new excise tax. A *second option* would impose a capped betterment assessment of \$10,000, indexed to inflation, and fund the remaining need by an override of Proposition 2½ or through a debt exclusion vote. The details of our reasoning are found in the report. Suffice it to say the first option is the fairest, but more complex and would require legislative assistance; the second option is acceptable in terms of fairness and can be accomplished without legislative involvement. Both, however, are based upon the idea of spreading the cost over the widest possible base and over those who clearly benefit from the clean water protection program. To succeed, both also require the support of the public, town leaders and the town business community. Further, the committee believes that if there ever was a time for close cooperation among the communities on Cape Cod, this is it. Most communities on the Cape are in the same boat and looking at similar solutions. While concerted action may not be successful, failing to try would be incomprehensible.

That close community cooperation should also include joint action to aggressively seek federal and state grant funding. While no law requires it, it is inherently unfair for both levels of government to mandate local spending to meet federal and state requirements. Indeed, the obligation to spend even more money will continue to increase at the same time that the federal and state governments continue to cut back financial support for local government and local taxpayers.

One common element of both recommended options is to insure local control over the execution of the program. Controlling the program by local officials (as opposed to courts, regulators and outside lawyers, none of whom will pay for the program) will permit the program to proceed at a pace that will insure some measure of affordability. Losing control of the program would be a serious strategic mistake.

Finally, the sub-committee believes that the Town should consider the needs of those of us who will not be able to afford to pay for this extraordinarily expensive effort. In our report we recommend that the Town review all available options for generating additional revenue through various excise taxes or fee to be dedicated to assist those who truly need our help.

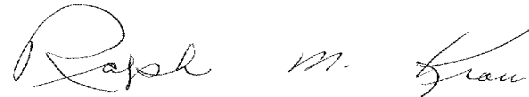
We are sending this report to both of you with copies to the Town Manager and other town administrators, and we look forward to answering your questions.

Sincerely,

Laura Cronin



Ralph Krau



Robert J. Ciolek



cc: Members, CFAC
John Klimm, Town Manager
Mark Milne, Town Finance Director
Ruth Weil, Town Counsel

FUNDING CLEAN WATER PROTECTION COSTS IN THE TOWN OF BARNSTABLE

February 23, 2010

**Report of the Comprehensive
Financial Advisory Committee**

Subcommittee on Clean Water Protection Funding

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Disclaimer and Disclosure: The sub-committee on funding the Town of Barnstable's Clean Water Protection program is part of the Town's Comprehensive Financial Advisory Committee (CFAC). The sub-committee was created at the request of the President of the Town Council in August, 2009, for the purpose of reviewing the efficacy of 100% betterment assessments as the funding vehicle for sewer projects and, if warranted, for the sub-committee to recommend a better methodology. The sub-committee has met on many occasions, including meetings with various Town officials, others knowledgeable with respect to the clean water protection planning and funding, and held a public hearing on January 11th, 2010. This report was subsequently sent to the full CFAC committee on February 23rd, 2010, with copies to the President of the Town Council and senior Town officials. A summary of the number of meetings, hours spent on producing the report and a brief biography of the members can be found in Appendix D.

It is important to disclose to anyone reading this document the likely economic impact of the wastewater plan on the members of the sub-committee. One member lives in a home that is already connected to the Town sewer system and two members live in homes that are scheduled to be connected to the wastewater system.

Finally, the comments and recommendations contained in this document are the sole responsibility of the authors. The views expressed in the report should not be interpreted as representing the views of any official or governing body of the Town of Barnstable. Notwithstanding the fact that we believe our work is finished and feel comfortable with the conclusions contained herein, in a very real sense it is also a work in progress. By this we mean that the issues are complex and additional analyses relating to the cost of treating wastewater should be further honed. In addition and importantly, we were only asked to study and report upon funding issues and methodologies. The Town is also beginning a process of reviewing important issues of science and technology which may have a significant impact on final capital costs as well as future operating costs. Finally, while we felt obligated to touch upon certain legal, legislative and organizational issues, more analysis is needed.

We look forward to the discussion which will follow the issuance of this report.

Editor's Note: At the end of the presentation are several slides with additional notes and comments which are helpful in understanding the information contained in the principal slides.

Key Questions

1. What is the likely scope of work associated with the Town's Clean Water Protection capital program and what is the probable total capital cost of protecting our health and our water resources?
2. What does the cost of the capital program mean to individual property owners?
3. Is the 100% betterment assessment method the correct vehicle to fund the sewer portion of the proposed Clean Water Protection capital program?
4. If not, what is the preferred method to fund these capital projects?
5. What are the organizational and legal implications associated with selecting and administering another funding methodology?
6. Is the proposed Town of Barnstable wastewater capital program beyond the financial capacity of property owners to pay and, if so, what implications flow from that conclusion? How can we implement the program, control costs, make the program more affordable and prevent it from becoming a "sewer too far"?

What is the Scope of Work for the Program?

The extent of future wastewater capital projects in the Town needs to be deduced.

Improvements to the existing wastewater treatment plant (WWTP) are planned as well as major increases in town sewerage, pumping and system upgrades. Routine capital replacements and repairs to the existing WWTP for the next few years are known. Not known is the precise scope of work and associated costs for other clean water protection projects some of which are currently in the planning stage.

Extensive capital projects associated with the Three Bays Embayment and the Hyannis Harbor Bays areas are certain and can be deduced from published reports. There are substantial capital requirements embedded in the Three Bays reports which will drive significant costs only partially included in the Town's published Capital Improvement Plan. In addition, likely regulatory requirements for new wastewater treatment obligations are probable, leading to new capital and operating costs.

The scope of additional capital projects in other areas cannot yet be determined:

- West Barnstable and Barnstable Harbor
- Further likely improvements to the WWTP beyond 2014

It should be noted that the original, 20-year Comprehensive Wastewater Facilities Plan (WWFP) has a remaining planning horizon of only 5 years.

What are the Capital Cost Elements of the Program?

The current WWFP clearly identifies approximately \$183.9 million in proposed capital spending: \$169.2 million for various sewer and treatment-related projects and another \$14.7 million for the existing WWTP. Amounts are stated in 2006 dollars which will inflate costs over time. Some increases in capital costs are already evident, as are recession-caused savings. Routine repair and replacement (R/R) capital projects should be added to the total and probable R/R expenditures over the next five years are included in our estimates. Amounts needed beyond that period are unknown, though certain.

Significant additional capital costs for other, highly probable capital projects need to be included, however. Projects associated with the Three Bays Embayment area are estimated and incorporated in our cost projections even though the Town has not yet performed design and engineering work. In addition to additional sewer projects, there is a possible need for a second WWTP or, in the alternative, a major expansion to the existing Hyannis treatment facility. *Conservative* cost estimates for capital projects associated with the Three Bays estuaries are approximately \$253 million.

As noted on the next slide, likely interest costs are included in our estimates, though actual future interest rates are dependent upon several variables unknown at this time. See the slide notes, p. 30, for additional discussion on interest rate estimates. See also Table 1 in Appendix B for a helpful “flow of funds” diagram.

What is the Total Capital Cost of Program?

Cost Estimates:

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

Final 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, needed storm water system capital costs and likely substantial transaction costs. Some of these costs will be paid by property owners and some by a governmental entity (and indirectly by some or all property owners). While these costs are impossible to accurately estimate they are no less real.

See Appendix C which sources the documents used in determining program capital costs as well as a projected schedule of debt financings.

Extent of Impact

How many property owners, known or estimated, have been or will be financially impacted by the Town of Barnstable clean water protection capital projects?

Estimate of Affected Properties:

Existing properties served by WWTP:	2,800 [based on 4,210 accounts]
No. of properties to be sewerred, WWFP:	5,468
No. of properties, Three Bays projects:	<u>3,500</u> [est.]
TOTAL	11,768

Total Properties in Town of Barnstable:

Residential properties:	25,495
Commercial, industrial, multi-purpose:	<u>2,163</u>
TOTAL	27,658

Percentage Property Directly Affected: 43%

[The actual percentage of just betterment assessed properties impacted by the program is **32.4%**. Existing properties already served by the WWTP will not be assessed a second time. However, significant capital improvements to the plant and other system assets will be paid by all ratepayers through the current system of rates and charges. Absent any funding changes, about 46% of all capital costs will be paid by means of rates and charges, and 54% through betterment assessments. See Table 2, Appendix B.]

Comparative Analysis

Comparisons have been made between Barnstable's program and capital costs associated with the cleanup of Boston Harbor (MWRA). The MWRA project capital costs were \$4.2 billion, from 1985 until 2000. A set of court-ordered wastewater capital projects were developed to meet the needs of 43 communities containing 2 million residents.

On a per capita basis, the cost of the project was:

$\$4,200,000,000 / 2,000,000 = \$2,100$ per person

Family of 2.3 people = \$4,893 per family

If our project is \$675,000,000 and is to be paid by every resident (47,000 people):

$\$675,000,000 / 47,000 = \$14,362$ per person

Family of 2.3 people = \$33,033 per family

or 6.8X cost of the Boston Harbor cleanup

BUT, if the town chooses to use 100% betterments to pay for about 54% of the project's cost, the amount will widely differ for each property examined. On a *per person* basis the betterment amount will *average* about \$27,308. On a *per property* basis, the amount will *average* about \$30,993. That amount represents the total average betterment assessment (\$26,655) plus interest (\$4,338). The amount, however, does not reflect the fact that the assessed property owner will also become a ratepayer and will pay a portion of the capital cost of the program through rates and charges, nor does it reflect any of the unknown costs listed on the prior page.

Comparative Analysis - Caveats

Comparisons with the MWRA and its capital program with that of the Town of Barnstable can be misleading and may be tweaked, if deemed necessary, for additional precision. The purpose of the comparison is *only* to highlight and roughly benchmark the large cost of Barnstable's program when viewed on a per capita basis. A few additional factors that could be considered, for example, are:

- The federal and state governments paid for about 10% of the capital costs of the MWRA effort
- Significant additional MWRA capital expenditures continue to this day
- MWRA capital costs do not include local government wastewater capital expenditures
- Differences in per capita community wealth should be factored into the comparison
- The nature and scope of the two capital programs have many differences

Looked at as a whole, our wastewater capital program is the most expensive capital spending program in the Town's history. By any measure, it is very expensive and a range of thoughtful and perhaps extraordinary actions are necessary to successfully and fairly implement the program. Beyond issues of funding, the Town should assure itself that critical issues of science and technology have been thoroughly analyzed and that the program be implemented over a reasonable but extended period of time.

It is important to remember that this is a program that will occur either voluntarily because we chose to maintain our control over it, or involuntarily because we failed to act.

Moving Forward: Benefits Analysis – [1]

Question 1: Should roughly 1/3 of Town property owners who currently are earmarked marked to pay for the program by means of 100% betterment assessment pay for over half of the capital program? Should less than half of Town property owners pay all of the cost of the program by betterment assessments or rates and charges or both?

To fairly answer Question 1, Question 2 needs to be first resolved: [Who benefits?](#)

Question 2: Looked at dispassionately, does the Town of Barnstable wastewater capital plan result in an inordinate grant of benefits to some individuals or do the benefits generally and equally flow to all individuals within the Town of Barnstable?

What are the possible tangible benefits of the program to individual homeowners?

- A few property owners may uniquely benefit: those with failed or inadequate Title V septic systems, and homes atop high groundwater levels; and,
- Property connected to sewers *may* receive some marginal but debatable increase in property value. The increased “value” of being connected to a sewer are not included in the Town’s property assessment model, however.

Moving Forward: Benefits Analysis – [2]

What are the community-wide benefits of the Town's clean water protection program?

They are:

- Protection of the Town's clean drinking water resources
- Protection of public health and sanitation
- Permits responsible growth and economic development
- Renewal and protection of saltwater and freshwater resources
- Achieves compliance with federal and state laws and regulations
- Recognizes that civilized communities do not foul their own nest

So, do the two individual property owner benefits outweigh the community-wide benefits listed above?

The committee concluded that the town-wide benefits to everyone significantly outweigh any possible benefits to a few property owners.

If, however, one reaches the opposite conclusion (that roughly one-third of the community inordinately benefits from the Town's wastewater capital plan and thus should be obligated to pay about half of the cost of the program), it does not follow that capital costs necessarily have to be paid by means of 100% betterment assessments.

Moving Forward: Betterments or General Charges – [1]

Whenever an individual receives a benefit from a public improvement, the cost of that public improvement *may* be required to be paid for by the individual property owner by means of a betterment charge or assessment:

as contrasted with...

Benefits of general applicability, which are usually paid for by the entire community by means of tax revenue or some other generally applied general charge or fee.

- As best as can be determined, past property owner sewer-related betterments were about 25% of the cost of sewerage; some betterments, mostly commercial, were 100% of the capital cost. Also, while consistent with law, the specific betterment methodology varied from time to time
- Assuming that the Town of Barnstable chooses to pay for its Clean Water Protection program by some charge of general application, some property owners will, at a minimum, continue to pay more as property connected to the wastewater system will be faced with additional significant costs, such as the cost of connecting to a sewer line and the cost of removing or capping existing Title V systems
- It is possible to bifurcate payment obligations. All property owners could pay for capital costs with those connected to the treatment system paying operating costs

Moving Forward: Betterments or General Charges – [2]

Question: What are the key arguments against 100% betterment assessments?

- It is neither fair nor reasonable to have one-third of the population pay for an expensive capital program that is of substantial direct benefit to everyone
- Betterment assessments will not be paid by two-thirds of the population that help to generate the costs associated with the proposed wastewater capital program
- It is inherently unfair to have one-third of the town population pay for a program that is involuntarily imposed upon them
- A few contributors to the problem may defer having to pay betterment assessments such as agriculturally zoned properties and individuals over the age of 65
- Most imposed past betterments for residential sewers in the Town of Barnstable were substantially less costly due to federal and state grant contributions to the project
- The formula for determining betterment assessments may be unfair, illogical and betterment assessments may be more costly than other funding methodologies

The committee concluded that the cost of the wastewater capital program should be borne by all property owners and not by means of a 100% betterment assessment.

Moving Forward: Evaluating Funding Options

Question: If not 100% betterment assessments, what other methods of paying for the program should be considered by the Town?

We concluded that there are four alternative funding choices requiring evaluation:

- Funding from existing Town of Barnstable funding sources
- Funding from a Proposition 2 ½ override, debt exclusion or special debt exclusion
- Funding from legislative approval of a new regional or local tax
- Funding by the imposition of system-wide rates and charges

In evaluating the four alternatives we made several core presumptions. They were:

1. That it was not our role to evaluate questions of science and technology; thus, the scope and cost the program would generally be as described in previous slides.
2. That there would **not** be substantive court or regulatory involvement.
3. That the long term revenue and expenditure forecasts for the Town would be accurate.
4. That there would be little direct federal or state *grant* assistance absent an extraordinary effort by Barnstable and other Cape communities.
5. That low-interest loans from the Statewide Revolving Loan Fund (SRF) at 2% interest rate would generally be available and utilized for much, though not all, of the program
6. That a combination of funding methods may be possible, even likely.

Financial Facts and Assumptions

Additional assumptions were made with respect to the execution of the program and the future financial condition of the Town of Barnstable:

- The Town will be free to direct its capital programs and that the execution of the Clean Water Protection capital program will roughly occur over a 20-year time period
- Borrowings will be by the Town or another entity with debt issuance authority.
- Debt issuance will generally ramp up over the first 8 years, sharply peak near the program's mid-point and then be followed by a gradual flattening in the out years
- Non-debt service operating costs will steadily ramp up
- The Town of Barnstable will be at Proposition 2½ taxing limits over the next 20 years and the Town will be willing, if necessary, to attempt an override or debt exclusion; in addition, the Town will desire a situation with as few override votes as needed
- Expanding Town of Barnstable wastewater treatment services to other communities is too speculative and thus *not* factored into any financial assumptions; in addition, opportunities for unique revenue enhancements are *not* factored into assumptions
- Some type of financial assistance or deferred payment arrangement will be needed for low-income households

Use of Existing Town of Barnstable Revenue

All or most debt service costs paid by property tax *within* Proposition 2 ½ levy limits. Town may continue to pass through some capital and operating costs to customers by rates and charges or other funding methodology.

Advantages:

- No immediate financial impact on property owners
- Spreads cost over much wider base than betterments
- Town will maintain control over scope, pace and cost of project
- Town Administration and Town Council directly accountable for program
- No legislation needed

Disadvantages:

- Town is at Proposition 2 ½ levy limit
- Major reductions in important Town-funded services will be required
- Available, non-tax revenues are minimal compared to total cost of program
- Town's bonding capacity would be severely stretched
- Town bond rating may decline
- Solely using Town funds would make regionalizing services more difficult
- Would create significant pressure to limit scope of wastewater capital program

Revenue from Proposition 2½ Override or Debt Exclusion

Substantial debt service costs paid by property tax *after* successful 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:

- Town will continue to control scope, pace and cost of project
- Spreads cost of program much wider base than betterment assessments
- Town Administration and Town Council remain directly accountable for program
- Creation of “Municipal Stabilization Fund” provides for control over expenditures
- Special debt exclusion can lower *rate* requirements but not betterment assessments
- No legislation needed

Disadvantages:

- For override, will require a large, capital-related override ballot question(s) and campaign(s); for special debt exclusion under C.59, §21(n) only vote of Council needed
- Significant real estate tax impact to Town property owners
- Town’s bonding capacity severely stretched
- Solely using locally generated funds would make regionalizing services more difficult
- Tax-exempt entities would realize program benefits but do not pay real estate taxes

Legislative Approval of New Revenue Source

Paying for the cost of the capital program can be achieved in part by obtaining third party financial support, such as the imposition of a new tax or receiving federal or state grant funding.

Advantages:

- A new tax (or set of taxes) could pay for part of capital costs
- Depending upon the type of tax, cost of the program might be spread over a larger population base than either betterments or real estate tax
- Tax revenue or new grant funding might be made available to all Cape Cod communities for similar capital programs
- Could possibly encourage regional approach to problem solving

Disadvantages:

- Would require a major campaign effort and approval by the Legislature and Governor
- Significant grant funding highly unlikely
- Negative financial impact on whomever is obligated to pay any new tax
- Some payers of the tax may not be responsible for or benefit from the Town's clean water protection program
- Could result in unforeseen new Town obligations or restrictions imposed by State
- Role of Town in managing program may be circumscribed

Creation of System-wide Fees, Rates and Charges

Funding could occur by expanding current Town-wide system of rates and charges, to be managed by the Town or a new entity, which could consolidate all or some capital and operating expenses, *paid by both beneficiaries and users* of the service.

Advantages:

- Most flexible and efficient funding system
- Wide base for spreading costs and billing system already exists
- 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 the issuance of monthly billing, making household budgeting easier
- Enhances impact of adopting special debt exclusion
- Could encourage regional approach to problem solving

Disadvantages:

- Over time, will grow to become a significant utility bill
- Not tax-deductible
- Zero-sum funding mechanism; absent some new revenue source, reductions for some ratepayers means increases in charges to other ratepayers
- Will likely require legislation to permit charging a fee to all program beneficiaries and, if deemed needed, a new entity to manage program; potential for litigation

Summary of Funding Options

There are four basic sources of funds that could raise substantial revenue:

- Betterment Assessments
- Real Estate Taxes [Within Proposition 2 ½ limits or from an override, debt exclusion or special debt exclusion]
- Third Party Funding [Federal or State grants or new tax revenue]
- Rates and Charges

The funding sources are largely interchangeable (“fungible”). Town decision makers may choose a funding combination that meets the desired policy and funding goals of the program. In any formulation, though, one funding source (other than “third party funding”) will serve as the “core” source and failure to add other funding components will cause the funding formula to default to the “core” revenue source, thus causing it to increase. See Table 2 in Appendix B.

To accomplish its selected funding program, the Town must insure that it has the authority to assess, levy, exact or impose, as appropriate. Charging a fee to non-system property owners for the benefits they receive requires careful legal analysis. See discussion on Slide 37. To achieve widespread support, the Town must take all steps to insure effective and efficient execution of the clean water protection program as well as strict accountability for the expenditure of the funds.

Assisting Low Income Households

Paying for the proposed clean water protection program will become a significant financial burden for low-income individuals and families. We believe that whatever preferred funding alternative is selected, the Town should include a provision that addresses this concern. How might this be accomplished?

- While the sub-committee unanimously believes this to be an important issue, it has divergent views on the means to accomplish this goal
- The committee believes that the Town should earmark sufficient funds to create an assistance program which provides meaningful aid to low-income homeowners. The program should be funded in a manner that would not increase the program costs for other ratepayers; thus, any funding needs to be added to the rate base so as to prevent cross-subsidies
- The Town could look to available fees or selected fee increases, available free cash or the adoption of one or both excise tax measures recently enacted by the state legislature, though the sub-committee could not reach unanimous agreement as to the specific form of funding
- Also for consideration, the betterment assessment obligations of low-income property owners could, in whole or in part, be contractually deferred by the Town with the Town recouping its payment, with interest, upon the eventual sale or title transfer of the property. However, such a measure would require special legislation
- Adoption of C.59, §21(n) provides some very limited help for low-income property owners who are 65 years or older

Preferred Funding Alternatives – [1]

1. There need not be 100% betterment assessments to pay for the Town's clean water protection capital program for the reasons stated in this document. In the alternative, if *some* betterments are deemed desirable, a modest and capped betterment, indexed to inflation, could be one building block to pay for a portion of the capital cost. Homeowners should be given up to 2 years to connect to system.
2. In the context of methodologies that are feasible the most efficient and effective funding mechanism is to create a broad based utility fee – in the nature of a “benefits assessment” – that blends all capital and operating costs into a monthly bill for the beneficiaries of the program, all Town property owners. As an alternative, the funding methodology could be fashioned in a manner that assesses all property owners a utility fee for *capital costs* with those property owners connected to the system assessed for *operating costs*. See Table 3, Appendix B for monthly estimates.
3. The Town Administration and Town Council should consider a Proposition 2½ capital override, debt exclusion or special debt exclusion to cause a significant portion of the capital cost to be paid by an increase in the real estate tax, thus allowing a portion of the cost to be tax deductible for those individuals who itemize their federal and state tax obligations, plus reducing system rates and charges to property owners.

Preferred Funding Alternatives - [2]

4. The Town Administration and Town Council, in conjunction with the leadership of other Cape Cod towns, should make a sustained and concerted effort to secure state or federal funding (grant funding or new excise measures) to pay for part of the capital cost of a program which is a requirement of state and federal law. See Appendix A which sets forth capital cost estimates for other Cape Cod communities.
5. The Town Administration and Town Council should include some form of financial relief for low-income households as recommended in this document; one concept is to dedicate the recent grant of authority to increase the meals and room occupancy excise taxes for this purpose or to seek authority to defer betterment assessments.
6. Finally, it is important to never lose sight of the fact that one significant way to manage cost and affordability is for the Town to maintain control over the scope and pace of the Clean Water Protection capital program and not allow control to default to federal and state regulators or federal and state courts.

The sub-committee believes that the “best” funding methodology is one that utilizes a blend of funding options: A system of rates and charges, new federal or state grant funding or taxes plus exceeding the limits of Proposition 2 ½ for the purpose of partially funding the Town’s capital program. If the Town desires to continue to use betterment assessments, a limited and capped program could be adopted.

Funding Methodologies: Two Suggested Options

Two possible funding methodologies, replacing 100% betterment assessments, follow. When considering, remember that the funding sources are largely fungible and the first one listed serves as the “core” funding methodology. Thus, if the Town does not succeed in adding other funding sources the methodology defaults to the initial revenue source.

Option 1:

50% core funding by fees, rates and charges

25% funding from override, debt exclusion or special debt exclusion of Proposition 2½

25% funding from new funding sources

Comments: Would eliminate assessments altogether; would create utility billing system with monthly bills; wide rate base; flexible and efficient system; significant untaxed real estate value; dependent upon override vote and, if all property owners are to be included in rate base, would likely require legislation. A rough projection of monthly fees to property owners for *capital-related* costs can be found on Table 3 in Appendix B.

Option 2:

A betterment assessment of \$10,000, indexed to inflation (about 15% of total capital costs)

Balance of funding from override, debt exclusion or special debt exclusion of Proposition 2½

Comments: Would significantly limit betterment assessments; requires large override or debt exclusion; significant untaxed real estate value; dependent upon override or debt exclusion decision; would not require legislation; would inhibit any effort to regionalize services. Table 4 in Appendix B shows 20 year costs for a \$10,000 capped betterment, at 4% interest, and Table 5 reflecting an assumed 2½ % inflation index.

Organizational and Legal Implications – [1]

Question: Implicit in executing this program is the fact that the Town will construct a large utility. What is the best organizational model to accomplish the funding effort and administer this complex program?

The quick answer is the organization which can most effectively, efficiently and inexpensively accomplish financing a huge capital program as well as, more broadly, insuring that the Town of Barnstable meets federal and state clean water standards.

No *existing* organization has full authority to conduct the recommended “Option 1” funding program. Legislation likely will be needed to permit the Town to impose a “benefits” charge on property owners who are not direct customers of the WPCD, *even though they are the clear beneficiaries of the program*. In addition, if the Town wishes to create a new, utility-type entity to carry out this major program, legislation will also be needed. Finally, any serious effort to carry out this program requires an effective solution to the inconvenient fact that many properties are located on private ways. A way to efficiently resolve those and other complex issues is through remedial legislation.

The committee also observes that should the Town choose to file legislation to create a new wastewater utility entity, an opportunity presents itself to rationalize the existence and operation of several independent water utility entities located in the Town.

Organizational and Legal Implications – [2]

The Town Administration and Town Council should insure that any entity tasked with carrying out this ambitious and expensive effort should possess the following characteristics:

- Is a *public* entity subject to public records and open meeting laws
- Have the technical expertise to analyze the best way to continually meet clean water standards at the lowest possible cost
- Have the authority to issue debt (and accept low interest loans from the SRF)
- Have the authority to fund its operations by means of a system of rates and charges, annually adjusted to reflect actual costs
- Have the ability to efficiently manage major construction projects
- Operate pursuant to an enabling act which resolves a range of issues and obstructions to efficiency and cost control
- Be transparent and accountable to ratepayers
- Be able to effectively resolve a range of complex legal and operational issues

Should the Town elect to create a new entity, or should a regional entity be created and the Town decide to join or lead, the Town should be prepared to transfer its wastewater-related assets and liabilities to the new organization.

Organizational and Legal Implications – [3]

Question: What other issues should be addressed by any new organization?

Issues of science, technology and funding have been raised and need resolution:

- Insure that a consolidated Wastewater Facilities Plan plans for system capital needs for the next 20 years and develop plans to deal with anticipated and possibly expensive regulatory changes in wastewater treatment requirements
- Continually evaluate the appropriate role for I/A treatment technologies
- Develop through rate structure a plan to dissolve any unpaid sewer betterments
- Resolve impediments to the program caused by private ways and need for easements
- Issue utility bills on a monthly basis, thus allowing better household budgeting

Revenue opportunities and other enhancements should be aggressively explored:

- Work to insure that the Town deals with street resurfacing and stormwater issues
- Investigate opportunities to regionalize services where it makes financial sense to do so, including possibly providing fee-based services to other Cape communities
- Consider other ways to add revenue or reduce expenses so as to defray the cost of operations and thus reduce rates; i.e., encourage entrepreneurial behavior

SLIDE NOTES, COMMENTS AND MONOGRAPHS

Several pages follow with extensive notes relating to the principle slides found in the presentations. The sub-committee felt that certain points or recommendations need further explanation or elucidation and we used the notes section to do so, and they can be found on slides 30 through 34

Two slides follow. The slides, 35 and 36, list suggestions or assertions made to the sub-committee during its deliberations or at the public hearing held in January, 2010. Our responses are included.

The notes are followed by three monographs, slides 37 through 39. These slides are somewhat more detailed discussions of issues of importance that deserved further comment or analysis.

Slide Notes - 1

Slide 3: It needs to be reiterated that the scope of our charge was limited to a review of funding alternatives. Other issues involving science and technology need to further analyzed. The recent creation of a new Citizens Advisory Committee is a good step in that direction, assuming their task is to re-review relevant issues of science and technology. We encourage the new CAC to re-review improvements in innovative and alternative (I/A) treatment systems and their applicability to the Barnstable clean water protection program.

Slides 5: We think it is important for the Town to consolidate its various wastewater/clean water analytical reports into one planning document so that the complete scope and cost of the work is clear. It also needs to be periodically updated. With only 5 years remaining with respect to the current Comprehensive Wastewater Facilities Plan, it is fast becoming less a planning document and more a historic document. The consolidation effort should also include a meaningful extension of the planning period. Finally, the Town needs to significantly ramp up its efforts to educate Town residents with respect the scope, cost and the key benefits of the program.

Slides 6 and 7: Precise costs of the Three Bays watershed capital program are unknown. The amount stated is an estimate based upon document reviews. We believe the numbers are conservative and will greatly depend upon a future detailed design and engineering analysis of the remediation effort. In support of our estimates, see also, p. 19 of the Guidance Document for Understanding Nitrogen Pollution and Wastewater Management at Three Bays and Cape Cod states that *annual* costs for households will range from \$2,000 to \$4,500.

To accurately estimate interest costs it is important to know if the capital cost is to be paid by property owners by means of betterment assessments which would result in a probable interest rate of 4%. If paid directly by the Town and where the funding source was largely based on SRF loans the effective interest rate would be about 2%. Limits to available SRF loan funds also suggests the probable use of traditional G.O. or revenue bonds for a portion of the program which will increase average interest rates. We projected an average interest rate of 3%. A yet to be determined portion of the proposed program may qualify for 0% SRF loans. But see Slide 38 which discusses 50-year vs. 20-year funding. Last, there could be substantial roadwork improvements and resurfacing costs associated with this program, possibly in the hundreds of millions of dollars.

Slide Notes - 2

Slide 8: A breakdown in housing types, as of January 1, 2009, was supplied to us by the Town Assessor. There are 25,495 single family, duplex, triplex, multi-family and condominium properties; 1,957 commercial and industrial properties; 206 multi-purpose properties. The grand total of properties used for the calculation was 27,658, which excludes personal property classification.

Slides 9 and 10: This and the following slide make an effort to compare the probable capital cost of the project with capital costs associated with the cleanup of Boston Harbor, the second largest capital program in the history of the Commonwealth of Massachusetts. The comparison merely reduces the costs of both programs to a per person basis. Caution is needed in terms of any comparison as there are many differences between the two wastewater programs. The **ONLY** conclusion one should draw from the comparison is that extraordinary costs require extraordinary actions by Town leaders in order to make the program affordable and to comply with federal and state law. We observe that the Town of Barnstable is but one of many Cape Cod communities faced with huge capital costs for wastewater collection and treatment. The need for common and concerted action is called for, particularly in any effort to obtain needed federal or state assistance or changes in law or regulation.

The actual calculation of per person and per capita costs is complicated given the range of expected assessments and the fact that betterment assessments constitute about 54% of the source of funds with 46% raised by means of rates and charges. This is a very expensive program regardless of how one measures costs.

Slide 11: The sub-committee heard the comment “why should I pay for someone else’s sewers; after all, they will see a big increase in the value of their home”. We researched whether that was true but could find no hard evidence to support the contention. We asked the Town Assessor if the Town factored sewer availability into the home valuation model. He responded: “There are no objective studies indicating an increase in valuation...no impact is seen on property values for tax purposes and we do not factor betterments in.” He did comment that “sewering stabilizes the value of these properties.” It may more be the case that homes without sewers *lose* value relative to properties which are sewerred.

Slide Notes - 3

Slide 12: Franklin Roosevelt stated that “every man holds his property subject to the general right of the community to regulate its use to whatever degree the public welfare may require it.” We would more gently add that while we acknowledge and enjoy the idea that we are a community of neighborhoods and seven distinct villages, of most importance is the fact that we are but one Town. This is a Town problem, largely caused by Town residents and its tourism industry, and the Town needs to commit itself to sharing in its resolution.

Slide 13: One point of this slide is to simply acknowledge that while it appears to be the case that past sewer-related betterments comported with state law, the specific betterment practices have been noticeably inconsistent. The Town of Barnstable does not have a Town By-law which would insure a measure of policy consistency going forward. Should the Town Council decide to proceed with betterment assessments as the funding option of choice, we strongly recommend the adoption of an appropriate Betterments By-Law to govern that practice. In the course of our meetings, the sub-committee offered a “model” sewer betterments By-Law to Town Counsel for her review.

Slide 14: The slide speaks for itself. One article on betterments stated that “the (betterments) procedure sounds simple and fair on the face of it, but the reality poses many complexities and opportunities to debate. A well thought-out betterment policy is crucial for minimizing problems.” The article also states that “the betterment program is inherently unfair in a number of ways stemming from complexities in implementation.” We would add, how is possible to defend the current plan which purports to assess betterments ranging from a low of about \$18,000 to some property owners to a high of \$51,000 for others (as stated in the WWFP)?

Slide 15: Some individuals have stated that the Town should impose a “tax” to pay for this expensive program. It should always be remembered that the 351 cities and towns in the Commonwealth of Massachusetts are creatures of the state. The State Constitution places all taxing power in the hands of the Commonwealth *except* those taxing powers the legislature specifically delegated to cities and towns. The Town of Barnstable has no intrinsic authority to levy any new tax though we recommend, as an option, that the Town seek authority to impose a new excise measure(s) to pay for a portion of the capital costs. Legislation will, of course, be needed.

Slide Notes - 4

Slide 16: Two of the bullets on the slide need additional explanation. First, we presume that the Town will continue to have the freedom to control the timing, scope and cost of the program. That freedom is jeopardized in a situation where the federal or state courts take control of Barnstable's program and mandate compliance with federal and/or state laws and regulations. In that event the timing, scope and cost of the program will be a function of court supervision and executed in accordance with the judgment of federal and state regulators. Second, there would have to be major changes or a repeal of Proposition 2 ½ for the Town to ever have the ability to use its principal source of revenue – real estate taxes – for this project, other than by means of an override, debt exclusion or special debt exclusion. *If* efforts were made to pay for capital costs *within* Proposition 2 ½ levy limits and depending upon assumed interest rates, the Town would have reduce funding from current program services on the order of \$12 million to \$22.5 million for most of many years to come.

Slide 17, 18, 19 and 20: A key way to lower the cost of the project for any one property owner is to spread the cost of the project over a larger base. Fortunately, as the benefits of the program are realized by many individuals, a larger base within the Town of Barnstable is both desirable and justifiable. It is also a desirable goal of any funding system to enhance the prospect of a regional approach to addressing and then developing a multi-community approach to resolving common wastewater problems. Barnstable may wish to work with other Cape Cod communities when it makes financial sense to do so. It is less likely that Barnstable, or any other community, would be inclined to regionalize either operations or funding if the cost of the program was simply paid by local real estate taxation. Alternatively, a system based upon a rough equivalency between benefits and rates and charges is more adaptable to a regional approach. Last, while tax-deductibility is somewhat helpful, it is only helpful to property owners who itemize their taxes, about 35% of all taxpayers; note, state excise taxes are generally not deductible.

Slide 21: It has been boldly asserted that federal law requires federal funding for federal mandates. See 2 U.S.C., Section 1541. Not so. Federal law merely requires “consideration” of federal funding. In light of the federal governments affirmative steps to terminate grant funding, future funding is unlikely.

Slide Notes - 5

Slide 23 and 24: The system of rates and charges is flexible enough to account for both success or failure in increasing Proposition 2½ levy limits or in any effort to acquire grant funding, as rates can be adjusted up or down after public notice, hearings and an annual final rate determination. Such a system can also be adapted to deal with existing and unpaid betterments by cancelling the outstanding betterment amount and adjusting the homeowner rate to accommodate the unamortized portion of the betterment. **Finally, the best way for the Town to maintain control over the scope and pace of the program is take all necessary steps to comply with federal and state clean water requirements so as to avoid costly and unnecessary litigation.**

Slide 26: The Water Pollution Control Division of the Town of Barnstable does have the authority to charge its customers for its services; it likely does not have the authority to charge property owners *not* connected to the sewer system even when such property owners clearly benefit from the Town's Clean Water Protection program. A "beneficial" assessment, based upon an unbiased evaluation of who are the true beneficiaries of the program, appears to the sub-committee the correct approach and the goal of any legislation. See report entitled "Enhancing Wastewater Management on Cape Cod", issued by Barnstable County, 2004, pp 5-21 through 5-23 which generally supports the funding concept. See also the discussion on Slide 37.

Slide 27: For the Town of Barnstable, regionalizing services for the sake of accomplishing the vague goal of "regionalization" does not always make sense. Such a decision should principally be based on financial considerations, namely, does it save the ratepayers money. Including towns with large capital projects and small rate bases (population) will shift costs to Barnstable; if the capital project costs are smaller with larger rate bases it might make sense. The observation does not preclude working together to accomplish joint funding or regulatory relief. Regionalization might make sense for the Town if it can provide fee based services for other communities, such as customer billing or septage treatment, as examples. Bringing in new sources of revenue above the cost of providing such services will subsidize the cost of operations. For example, consideration to *increasing* alternative energy production at the WWTP should be explored as a potential source of new revenue.

General Notes – [1]

At various times during our review members of the Barnstable community offered (or asserted) a number of suggestions some of which the committee reviewed. The suggestion and our comments, in brief, follow:

1. **Assertion:** A federal mandate obligates the federal government to pay for the cost of meeting the mandate. **Response:** We wish that was accurate and certainly fairness would obligate the federal government (or the state) to pay for that which it mandates. Unfortunately, it is not true. Federal law states that Congress must “consider” funding, but does not require it.
2. **Assertion:** There is insufficient state loan funding (SRF) for the project. **Response:** Likely true. We believe that the longer the construction time line and the more that borrowing is spread out over time, the more low interest funding will be available.
3. **Assertion:** The state’s tax credit for Title V projects could be made available for the Town’s capital program. **Response:** Absent a change in law or the existence of a court decree requiring the work to be done, may not be true. In the case of a judicial mandate (i.e., a court ordered program), however, it is possible for some limited assistance to homeowners (\$6,000 over 4 years) payable as a tax credit against state taxes.
4. **Suggestion:** Barnstable should impose a “toilet tax”. **Response:** Such a “tax” does exist in some jurisdictions, but would require legislation. The committee does recommend that the Town (acting in concert with other Cape communities) consider asking the State Legislature for a new local option excise measure to raise funds for the state required clean water protection program.
5. **Suggestion:** Barnstable should create an independent public utility district. **Response:** We think that there is merit in the suggestion and concur that the Town Administration and Town Council should seriously consider the idea. Note, DEP has the unilateral authority to create an independent wastewater district.
6. **Suggestion:** Funds for the project should be maintained in a “sewer trust fund”. **Response:** In different terms, we concur with the suggestion. See Slide 18 with respect to “Municipal Stabilization Fund”.
7. **Suggestion:** There should be a Proposition 2 ½ override; others simply stated that everyone benefits and everyone should be obligated to pay. **Response:** we agree and it is one of the core principles of our report.

General Notes – [2]

At various times during our review members of the Barnstable community offered (or asserted) a number of suggestions some of which the committee reviewed. The suggestion and our comments continue:

8. **Assertion:** Should not determine funding methodology without consideration of technology questions. **Response:** We disagree with the assertion. The capital project is of such magnitude that no known and approved technology would reduce the overall cost to such an extent that the same level of analysis and recommended funding methodologies would change. Indeed, some science or technology suggestions, as well as probable new regulatory requirements, will tend to increase the cost of the program.
9. **Suggestion:** The Town should not commence sewer construction until a funding program is in place. **Response:** That is an issue beyond the scope of review of the committee. The committee does believe, however, that the town should insure that whatever funding mechanism is ultimately adopted it should be applied in the same manner to all those property owners who are expected to contribute to the program. There should not be either the perception or reality of funding “winners” and “losers”.
10. **Suggestion:** The “Town” should pay for “all” or a “portion” of the project cost. **Response:** See Slide 17 for a discussion as to what it means of the Town to “pay” by reducing funding for existing services and redirecting the money to pay for the capital program; significant reductions in services would ensue.
11. **Suggestion:** There should be a number of funding solutions and not rely on just one funding source. **Response:** We agree and we have recommended a “layering” of funding packages.
12. **Suggestion:** The committee should recommend a funding source that is tax deductible. **Response:** The committee does recommend an increase in the tax levy; real estate taxes are tax deductible.
13. **Suggestion:** The Town should draft its contracts for sewer construction in a manner that competitively obtains fair pricing and would allow homeowners to use the same contractor to connect the house to the sewer line at the same time the street is opened. **Response:** A good idea and the town should review.
14. **Suggestion:** Investigate Barnstable County’s loan program for sewer connections. **Response:** The County does offer a 5% loan for sewer connection costs, payable over 20 years.

Note on Fees, Rates and Charges

The committee believes that everyone benefits from this program and everyone should be asked to contribute. We suggested that one equitable method would be, in essence, to treat everyone as ratepayers, whether they were directly served by the wastewater treatment plant or not. We recognize that charging property owners not directly connected to the system raises issues of law (statutory and Constitutional) and strongly encourage the Town Administration to pursue these questions in order to fully consider this option.

The central question is whether the monetary exaction from a property owner, a clear beneficiary of the program but one not directly connected to the sewer system or the wastewater treatment plant, constitutes a tax (general or excise) or a fee of some kind. This is a question best answered by Town counsel. We believe that the exaction does have the characteristics of both. It is a payment for a service, the property owner does benefit, but the payment is not voluntary. Indeed, the system is being built to benefit everyone. Further, it is not a stretch to consider the fee as a payment to “reserve” system capacity for non-connected property owner. Our recommendation anticipates a fee that is uniform, proportional and reasonable. The purpose of a fee is not to raise revenue but to compensate the governmental entity providing clean water protection services for its expenses directly associated with that program. However, fees generally are charged for services voluntarily requested. Taxes are enforced contributions to provide for the support of government, though excise taxes generally are based on the voluntary act of the person being taxed in enjoying the privilege which is the subject of the excise. The committee believes that this “beneficial assessment” is warranted and is a fair and equitable approach to funding the program.

There are many issues in our report that, if adopted by the Town of Barnstable, will result in the filing of legislation. One way to ultimately address the question of what constitutes a “beneficial assessment” is to both define and authorize it in the context of creating a new, independent wastewater district with rate-making powers. While the sub-committee could not find a precise analog in the Commonwealth, we have found similar exactions in other jurisdictions. The concept exists and deserves further detailed review.

Note on 50-Year Funding versus 20-Year Funding

During our deliberations, the committee looked at various issues related to the duration of the program and the length of the funding options. As a general (and critical) rule, we believe that it is essential for the Town to maintain control over the program, as the Town will be able to spread out the financial impact and, as a result, make it more affordable for those who are asked to pay.

We presumed a construction and financing schedule lasting about 20 years, with a debt service schedule extending out to 40 years; as the program proceeds town administrators are free to adjust the schedule as needed, taking into consideration need, evolving issues of science and technology, the regulatory environment, the financing environment and, most important, affordability. Aggressively and proactively managing the program's timeline is very important.

The committee also reviewed the availability of a relatively new funding option, a 50-year, 0% SRF loan for nutrient reduction projects. See C. 312 of the Acts of 2008 which permits SRF borrowing over that extended period of time. The legislation "sunsets" in 2019. We hesitate to recommend this option and note that to our knowledge it has not been utilized by any city or town. If the Town considers this option it should realize that its provisions are vague, it requires a majority vote, and it appears to require a growth neutral policy with respect to wastewater. It also mandates hookups by abutters to sewer lines, other than properties with enhanced treatment systems. However, the town should monitor this provision and analyze its application once one or more communities adopts it (presuming that ever occurs). Note also, as with all SRF programs the amount of loan funds is always subject to availability and community funding priorities as determined by the DEP.

Finally, it should not be forgotten that the balance between 20-year and 50-year schedules is the tradeoff between affordability and the total cost of the program. The longer the payment period the easier it is for property owners to make payments, but the increased pay period results in significantly higher, capital-related interest costs of the program.

Note on Legislative Issues

In various sections of the report the sub-committee touched upon the need for the Town Administration and Council to consider legislation or changes in the Town By-Laws in order to carry out the report's recommendations. A check list of those legislative matters follows:

1. Authority to include all program beneficiaries in funding effort
2. Allow Town to defer betterment assessments, with interest, until sale of property for low-income homeowners
3. After further analysis and if deemed necessary, creation of a public wastewater utility and the possible consolidation of water entities; or, should it be determined to be in the Town's interest, work with other communities to create a regional wastewater entity; further, investigate the Town regionalizing and offering its services to adjoining towns
4. Address and expedite resolution of issues raised by private ways and the need for wastewater easements
5. Seek additional excise measures in order to fund a portion of the program
6. Adopt "model" By-Law with respect to betterment assessment practices
7. Adopt By-Law with respect to length of period to connect to sewer system
8. Working with other Cape Cod communities, access federal and state grant program in order to fund a portion of the program; existing program's may need to be legislatively funded; new programs could be created

Appendix A

Explanation: The following table sets forth probable wastewater-related capital needs for various communities on Cape Cod.

Clean Water Protection Capital Costs By Community

<u>Town</u>	<u>Capital Cost (In millions)</u>
Barnstable	\$600
Bourne	25
Chatham	210 – 340
Dennis	26 – 90
Eastham	73 – 148
Falmouth	600
Mashpee	300 – 500
Orleans	135 – 190
Provincetown	10
Yarmouth	<u>300</u>
TOTALS	\$2,279 – 2,803

Notes: Information obtained from the Barnstable County Clean Water Protection Collaborative and news reports from the communities listed above. Other communities are either unknown or in various stages of capital planning.

Appendix B

Explanation: The following tables sets forth several financial projections and the basis for calculations used in the report.

Table 1 sets forth a somewhat simplified “flow of funds” with the numbers representing the base case (i.e., no changes to current funding methodology). The bottom set of boxes demonstrate how decision-makers can change the base case.

Table 2 estimates the percentage and dollar amounts associated with the base case and each option.

Table 3 sets forth a chart showing monthly utility bills, assuming 50% or 75% of the capital costs are passed through to ratepayers.

Table 4 shows the cost of a 20-year \$10,000 betterment assessment.

Table 5 shows the impact of a 2½% inflation factor with respect to future betterment assessments.

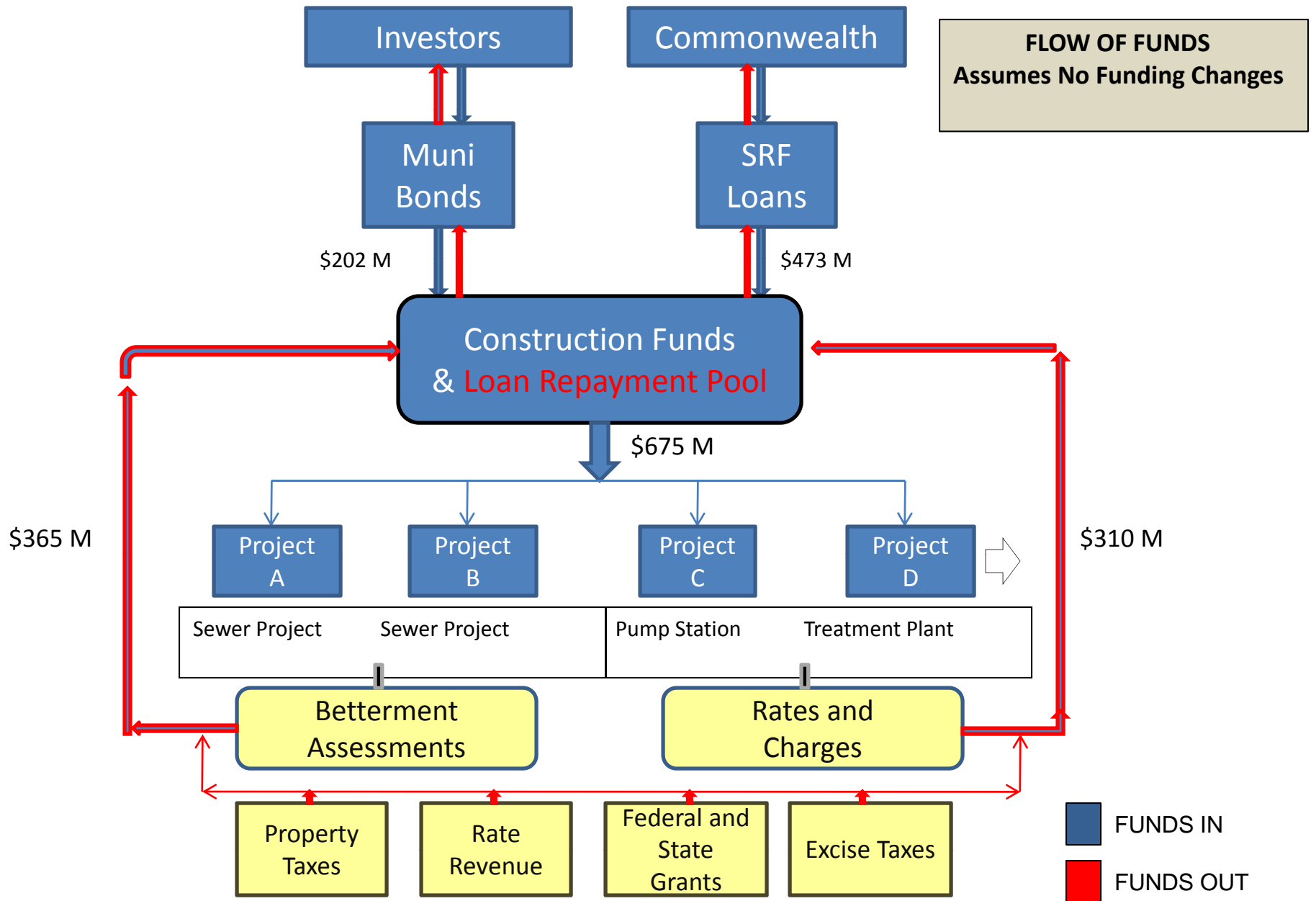


Table 1

Capital Costs and Percentage Distribution, Base Case and Options

<u>Source of Funding</u>	<u>Percentage</u>	<u>Estimated Amount</u>
<u>Base Case – Current Funding Methodology</u>		
100% Betterment Assessments	54%	\$365 M
Rates and Charges	46%	\$310 M
<u>Option 1</u>		
Rates and Charges	50%	\$337 M [default “core” funding]
Real Estate Tax	25%	\$169 M
Grants, Excise Taxes	25%	\$169 M
<u>Option 2</u>		
Betterment Assessments	\$10,000 (about 15%)	\$101 M [default “core” funding] *
Real Estate Tax	85%	\$574 M
<p>* The likely “default” case for Option 2 will be a reversion to the Base Case percentages and dollar amounts given the fact that 46% of the funding requirements is already earmarked for projects that will be paid for by rates and charges and not by means of betterment assessments (WWTP improvements, pump stations, etc.).</p>		
NOTES:		
<ol style="list-style-type: none"> 1. Amounts include principle and a simplified interest calculation. The calculation assumes each impacted property will pay an average of about \$19,715 in interest charges which is then apportioned for each funding source. In reality the interest cost for each property is much more complicated and will depend upon the type of funding sources and the nature of the financing. 2. Properties owners who are assessed betterments subsequently become ratepayers. Thus, the average amount that will actually be paid by any property owner will be the sum total of the actual betterment assessment plus whatever capital costs are recovered by the system of rates and charges. 3. Numbers calculated above are based on flat, \$10,000 assessment. As betterment assessments are indexed, actual amounts and percentage will increase somewhat over time. 		

Table 2

FEE BASED: 50% v. 75% Debt Service; No. Properties Affected

If Fee Based

\$675,000,000	if 27,658 Properties
\$337,500,000	if 50% DS
\$16,875,000	Annual Revenue
\$1,406,250	Monthly Revenue
\$50.84	Monthly Bill
\$675,000,000	if 11,768 Properties
\$337,500,000	if 50% DS
\$16,875,000	Annual Revenue
\$1,406,250	Monthly Revenue
\$119.50	Monthly Bill
\$675,000,000	if 27,658 Properties
\$506,250,000	if 75% DS
\$25,312,500	Annual Revenue
\$2,109,375	Monthly Revenue
\$76.27	Monthly Bill
\$675,000,000	if 11,768 Properties
\$506,250,000	if 75% DS
\$25,312,500	Annual Revenue
\$2,109,375	Monthly Revenue
\$179.25	Monthly Bill

- Does not include rate charges for any operating expenses; capital costs only
- Assumes a flat “average” rate. Charges may also be calculated using water usage data which will, for any one property, change the monthly utility bill dollar amount listed in the table

Amortization Schedule

Estimated Betterment Payments for Sewer Construction [Capped at \$10,000]

Amount assessed **\$10,000**
 Amortization method level principal
 Estimated Interest Rate **4.00%**
 Years Amortized 20

	Principal	Interest	Total	Remaining
Year	Payments	Payments	Payments	Principal
1	\$500	\$400	\$900	\$9,500
2	\$500	\$380	\$880	\$9,000
3	\$500	\$360	\$860	\$8,500
4	\$500	\$340	\$840	\$8,000
5	\$500	\$320	\$820	\$7,500
6	\$500	\$300	\$800	\$7,000
7	\$500	\$280	\$780	\$6,500
8	\$500	\$260	\$760	\$6,000
9	\$500	\$240	\$740	\$5,500
10	\$500	\$220	\$720	\$5,000
11	\$500	\$200	\$700	\$4,500
12	\$500	\$180	\$680	\$4,000
13	\$500	\$160	\$660	\$3,500
14	\$500	\$140	\$640	\$3,000
15	\$500	\$120	\$620	\$2,500
16	\$500	\$100	\$600	\$2,000
17	\$500	\$80	\$580	\$1,500
18	\$500	\$60	\$560	\$1,000
19	\$500	\$40	\$540	\$500
20	\$500	\$20	\$520	\$0
	\$10,000	\$4,200	\$14,200	

Table 4

Betterment Assessments, FY12 until FY29; 2½% Inflation Factor

Calculation of Betterment Assessment	Amount Factor	New Amount
FY12 - Base Year \$10,000	1.000	\$10,000
FY13 \$10,000	1.025	\$10,250
FY14 \$10,250	1.025	\$10,506
FY15 \$10,506	1.025	\$10,769
FY16 \$10,769	1.025	\$11,038
FY17 \$11,038	1.025	\$11,314
FY18 \$11,314	1.025	\$11,597
FY19 \$11,597	1.025	\$11,887
FY20 \$11,887	1.025	\$12,184
FY21 \$12,184	1.025	\$12,489
FY22 \$12,489	1.025	\$12,801
FY23 \$12,801	1.025	\$13,121
FY24 \$13,121	1.025	\$13,449
FY25 \$13,449	1.025	\$13,785
FY26 \$13,785	1.025	\$14,130
FY27 \$14,130	1.025	\$14,483
FY28 \$14,483	1.025	\$14,845
FY29 \$14,845	1.025	\$15,216

Note: Assumes inflation rate of 2½%.

Table 5

Appendix C

Explanation: The following Table sets forth a possible funding schedule for debt issuances covering roughly 20 years.

The Table also sets forth the source document which was used to determine the capital costs of the program.

Finally and presuming no methodological change in funding, the Table also analyzes the source of debt repayment, either through 100% betterment assessments or through a schedule of rates and charges. The Table does not include any interest cost calculation.

Assumes 20-Year Funding Schedule

YEAR	CAPITAL PROJECT	AMOUNT	REFERENCE	FUNDING SOURCE	NOTES
2010	Stewart's Creek	7,200,000	WWFP	A	
	Main Street Pump Station	3,500,000	WWFP	A	
	Main Street PS Modification	2,900,000	WWFP	A	
	3 Bays Nutrient Planning	700,000	CIP	B	PW11
	CIP Projects	2,800,000	CIP/Other	B	Septage, Odor Control, Filters, Sludge [50%]
	TOTAL	\$17,100,000			
2012	Lake Wequaquet	46,890,000	WWFP/CIP	A	WWFP: \$44,100,000; CIP change
	Old Colony Pump Station	750,000	WWFP/CIP	B	WWFP: \$500,000 for "improvements";
	CIP Projects	2,800,000	CIP/Other	B	but CIP \$750,000 for "design" [PW/PWC 11]
	TOTAL	\$50,440,000			
2013	South Street	1,500,000	WWFP	B	
	West Main Street	3,400,000	WWFP	B	
	WWTP Upgrade [2 Projects]	14,700,000	WWFP	B	Recharge: \$9,500,000; Sludge: \$5,200,000
	WWTP Project in CIP	5,000,000	CIP	B	Old Colony Pump Station Upgrade in CIP
	TOTAL	\$24,600,000			Septage, Odor Control, Filters, Sludge [50%]
2015	CO7	15,600,000	WWFP	A	
	BWST1A	19,200,000	WWFP	A	
	TOTAL	\$34,800,000			

2017	BWST1B	17,800,000	WWFP	A	
	BWST1C	6,500,000	WWFP	A	
	New WWTP Planning	15,750,000	WWFP/CIP	B	PW11
	TOTAL	\$40,050,000			
2019	New WWTP	157,750,000	WWFP/CIP	A	PW11
	BWMEL1A	7,400,000	WWFP	A	
	BWMEL1B	1,600,000	WWFP	A	
	TOTAL	\$166,750,000			
2021	CE1	6,050,000	WWFP/CIP	A	WWFP: Original cost \$5,500,000
	CE2	5,900,000	WWFP	A	
	Five Bays Sewering A	20,000,000	3 Bays Reports	A	Sub-Committee Estimate
	TOTAL	\$31,950,000			
2023	H3	7,300,000	WWFP	A	
	Bearse's Way	11,200,000	WWFP	A	
	Five Bays Sewering B	20,000,000	3 Bays Reports	A	Sub-Committee Estimate
	TOTAL	\$38,500,000			
2025	Five Bays Sewering C	20,000,000	3 Bays Reports	A	Sub-Committee Estimate
	TOTAL	\$20,000,000			
2027	Five Bays Sewering D	20,000,000	3 Bays Reports	A	Sub-Committee Estimate
	TOTAL	\$20,000,000			

Payment Code:

A. Specific Property Owner Charge

B. General Rates and Charges

Payment codes designate how various component costs would be paid if there was **no** changes made to current funding methods.

Totals From Source Document	WWFP	3 Bays Reports	CIP/Other
2010	13,600,000		3,500,000
2012	46,890,000		3,550,000
2013	24,600,000		
2015	34,800,000		
2017	24,300,000	15,750,000	
2019	9,250,000	157,500,000	
2021	11,950,000	20,000,000	
2023	18,500,000	20,000,000	
2025		20,000,000	
2027		20,000,000	
SUBTOTALS	\$183,890,000	\$253,250,000	\$7,050,000
TOTAL			\$444,190,000

Totals From Payment Codes	Pay Code A	Pay Code B	Total
2010	13,600,000	3,500,000	
2012	46,890,000	3,550,000	
2013	0	24,600,000	
2015	34,800,000	0	
2017	24,300,000	15,750,000	
2019	9,000,000	157,750,000	
2021	31,950,000	0	
2023	38,500,000	0	
2025	20,000,000	0	
2027	20,000,000	0	
TOTAL	\$239,040,000	\$205,150,000	\$444,190,000

Appendix D

Explanation: The appendix summarizes the work of the CFAC sub-committee and contains brief biographies of the members.

Number of Posted Meetings: 14 [Through February 16th, 2010]

Project Person Hours: 458 hours

Biographies of Members of the Sub-Committee:

Laura Cronin: Resident of Hyannis, Laura has over 20 years of senior-level business experience and currently serves as Controller of Cape Cod Potato Chip Company, where she has been employed since 2005. Previously she served as Executive Vice-President and General Manager of Robmar Corporation and has a Masters in Business Administration and BS degrees in Business. Laura is on the Board of Directors of the Greater Hyannis Civic Association. She has been active in community and charitable affairs plus serves on several Town-related committees.

Ralph Krau: A resident of West Hyannisport, Ralph is retired after a long career in business development, banking, interstate trucking and sales. He has served as a Member of the Board of Selectmen in Billerica, MA, as well as two different town Finance Committees as well as Economic Development committees. Ralph is very active in various Town of Barnstable committees and is the Executive Secretary for the Greater Hyannis Civic Association. He is an active member of several local non-profit organizations and with his church. He has a BS in Business Management

Robert Ciolek: A resident of West Hyannisport, Bob is semi-retired after a long career with various governmental and non-profit organizations. He has served as Chief Operating Officer for the City of Boston, as Boston's Budget Director and as Executive Director of the Boston Water and Sewer Commission. He also served for 10 years on the Board of Directors of the MWRA, and chaired its Finance Committee. He is Chair of the New Bedford Oceanarium and is active with several local non-profit organizations. He is a lawyer and has a BA in Political Science.