

Town of Barnstable, MA

**Financial Policy Review for the Comprehensive
Wastewater Management Plan**

October 29, 2020

Mission Statement

“To protect the town of Barnstable’s quality of life and unique character, engage our citizens, and enact policies that respond to and anticipate the needs of our community.”

The Need

- * Reduce nutrients and address TMDL's in embayment's
- * Address water quality in fresh water ponds
- * Drinking water source protection
- * Targeted economic development
- * Create more opportunity for housing

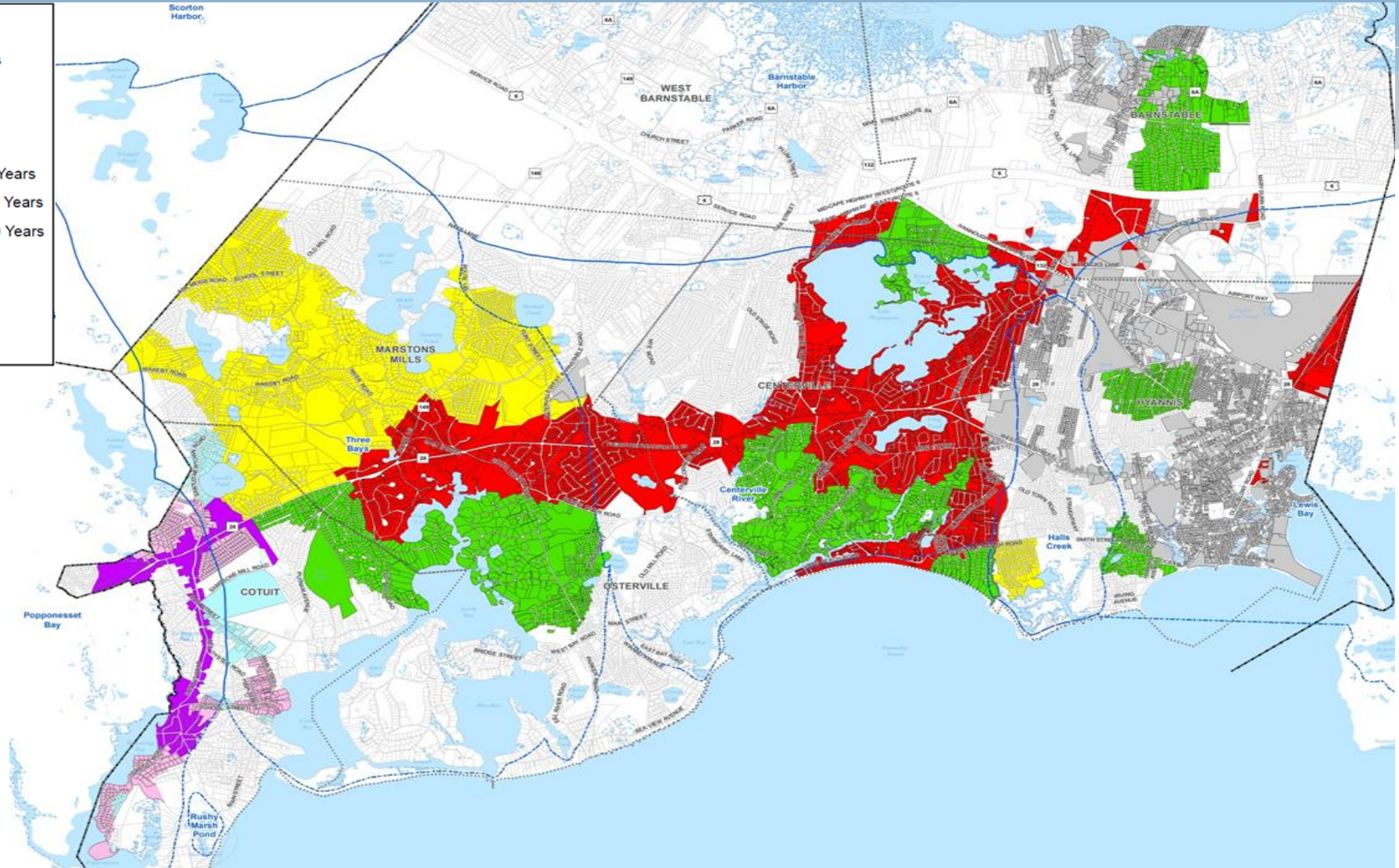
CWMP Sewer Phasing

Legend

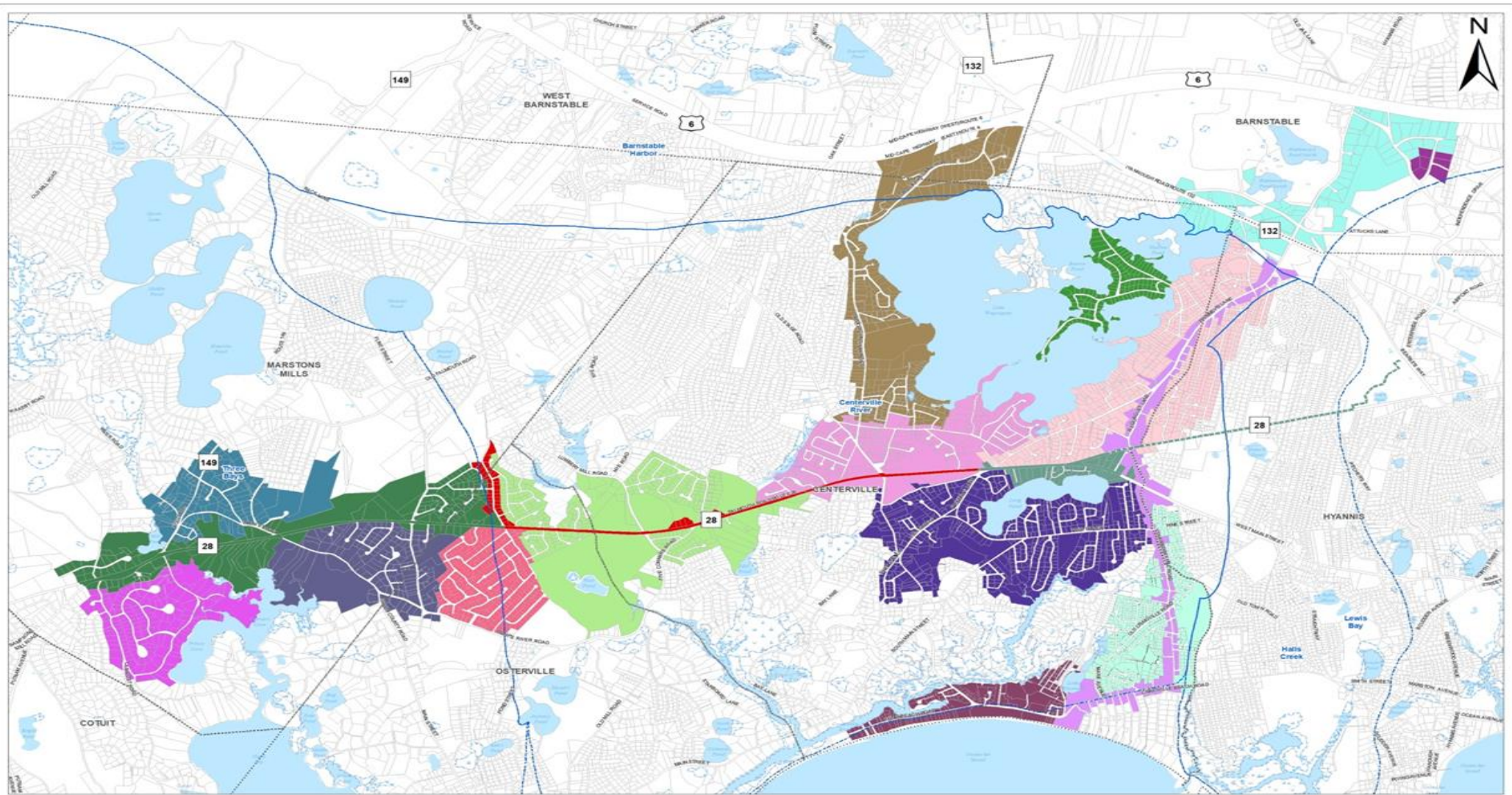
- District Villages
- Watersheds
- Parcels

Sewer Phasing

- Phase 1: 0-10 Years
- Phase 2: 11-20 Years
- Phase 3: 21-30 Years
- Stage 1
- Stage 2
- Stage 3
- Existing Sewer



Phase I Draft Project Segregation



Project Appropriations To Date In Excess of \$30 Million

- * Pleasant St. sewer line upgrade
- * Attucks Lane pump station
- * Long Pond & Phinney's Lane sewer expansion design
- * JBCC feasibility study
- * Design utility work along Vineyard Wind route
- * Conceptual planning & design of Cotuit sewer expansion
- * Preliminary design of MM pump station
- * Long Pond & Phinney's Lane sewer expansion design
- * MM River treatment system design
- * Sewer construction on Phinney's, Wequaquet, Strawberry Hill, Craigville Beach Rd
- * Sewer infrastructure Rt. 28 & Yarmouth Rd intersection
- * Land acquisitions for pump stations
- * Pump station Rt. 28
- * Solids Handling project at WPCF
- * Pump station rehab & construction – multiple locations

Financing Construction Costs

- * Issue loans over a 30 year implementation period
- * Loans to be issued through the Massachusetts Clean Water Trust pending available funding
 - * Nutrient Enrichment Reduction Loan Rate = 0%
 - * Housing Choice Community rate = 1.5%
 - * Standard loan rate = 2%
- * Capital market rates have averaged 2.5%
- * CWMP Financing Plan assumes loans are amortized over 30 years using level payment method with an average 2% rate

Borrowing Capacity

- * The Town is subject to a primary debt limitation of 5% of the community's equalized valuation (EQV).
 - * Current EQV is \$16,031,008,100 resulting in \$802 million capacity
 - * \$71 million currently outstanding; \$731 million available
- * Could go as high as 10% with Municipal Finance Oversight Board approval
- * At no point during the execution of this program is the Town's outstanding debt subject to this limit expected to exceed this level.

Funding Accomplished to Date

- * Special legislation creating the Sewer Construction & Private Way Maintenance & Improvement Fund
 - * Dedicated one-third (33%) of local rooms tax on traditional lodging and 100% of local meals tax to the fund
 - * Annual revenue generated has averaged \$2.6 million (pre COVID)

Funding Accomplished to Date - Continued

- * Dedicated 100% of local rooms tax on short-term rentals to new Stabilization Fund for the comprehensive management of water and wastewater
 - * FY 2020 revenue generate was \$534,000
 - * FY 2021 first quarter payment of \$987,000

Funding Accomplished to Date - Continued

- * Special legislation adopted to create the Cape Cod & Islands Water Protection Fund
 - * Funded with a new tax of 2.75% applied to traditional lodging and short-term rentals
 - * Estimated annual revenue generated = \$15 million
 - * Will be distributed as principal subsidies on loans through the State's Revolving Loan Program managed by the MA Clean Water Trust

Funding Gap

Category	Estimated Amount (in millions)
Collection system	\$657
Treatment & disposal	\$146
Inflation	\$246
Project management	\$100
Financing charge	\$313
Project subsidies (SRF & CCIWPF)	\$(126)
Meals & rooms taxes	\$(463)
User Rate revenue	\$(222)
System Development Charge (SDC)	\$(19)
Investment earnings	\$(36)
Funding Gap	\$596

Funding Options to Close Gap

- * Sewer assessments
- * Property taxes
 - * Redirect existing levy
 - * Override for new Stabilization Fund
 - * Debt exclusion override
- * Other excise taxes
 - * Marijuana excise
- * Redirect Community Preservation Funds

Policy Decision – Will Sewer Assessments Be Integrated To Close Funding Gap?

Betterments

- * Look at increase in value in to the land within the area being improved
- * 20 year amortization
- * Cannot issue estimates for cash flow

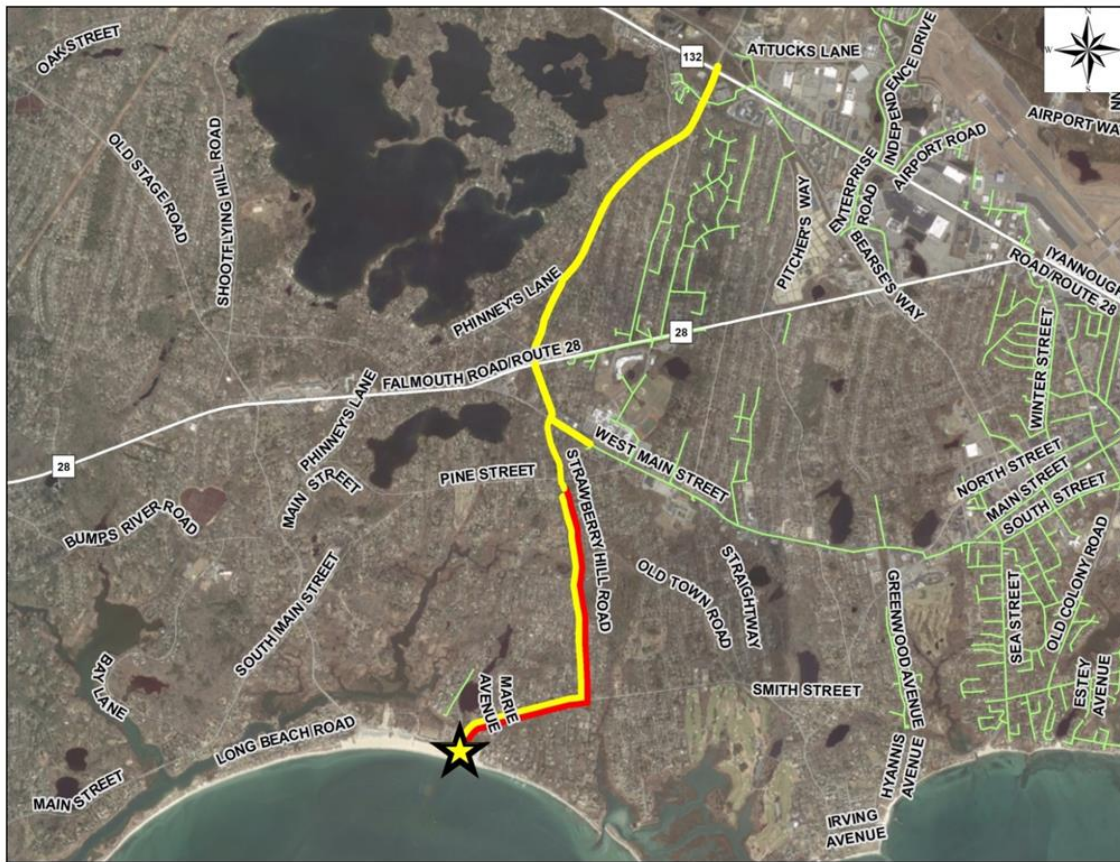
Assessments

- * Based on cost for general and specific benefit facilities
- * 30 year amortization
- * Estimated assessments can be issued for cash flow (50% of project costs)

2 Components To Sewer Assessments

- * Specific Benefit Facilities (SBF) and General Benefit Facilities (GBF)
 - * SBF – include but not limited to, sewer mains to which a lateral line from an individual abutting property can be connected; easements and pumping stations that are required to service a specific project area
 - * GBF – include but not limited to, pumping stations, trunk and force mains, lands, rights-of-way, and easements which will provide a benefit or advantage to an area exceeding that served by the specific benefit facilities. Ordinarily general benefit facilities will serve a major part of a pumping district.

Example of What Could Be Considered GBF Costs - Proposed Infrastructure Along Vineyard Wind Route



19,000 LF of Gravity
Sewer

9,300 LF of Sewer
Force Main

1 New Sewer Pump
Station (Covell's
Beach)

Pumping Area Served By Vineyard Wind Route



Future Sewering Utilizing Proposed Infrastructure Statistics			
Sewershed	Number of Parcels	Wastewater Flow [gpd]	Nitrogen [kg/day]
	675	97,019	9.5
	48	3,728	0.4
	110	25,750	2.6
	685	111,818	10.9
	75	10,963	1.1
	48	11,429	1.1
Total	1,640	260,700	25.5

Policy Decision - What Sewer Assessment Methodology Will Be Used?

Fixed Uniform Rate

- * Existing and potential multifamily, commercial, industrial, and semipublic uses are converted into sewer units based on residential equivalents

Uniform Unit Method

- * Assesses the average cost of installing sewers in the area, regardless of intensity of use
- * Residential units may pay a bit more than they would under the uniform unit method

Policy Decision - Will a Dollar Cap Be Placed on Sewer Assessments?

Sewer Assessment	Quarterly Payment Added To Tax Bill
\$13,000	\$119
\$14,000	\$128
\$15,000	\$137
\$16,000	\$147
\$17,000	\$156
\$18,000	\$165
\$19,000	\$174
\$20,000	\$183

- Example uses 30 year amortization with a 2.5% interest rate.
- This could be a maximum assessment adjusted annually for inflation.
- Some assessment may calculate out to be less than the maximum after allocation of GBF and SBF costs.

Policy Decision – Interest Rate to Apply on Sewer Assessments

- * For sewer assessments that are apportioned over future tax bills the Town may apply a 5% rate or up to 2% more than the rate the town incurs on the borrowing to fund the construction.
- * As the Town’s borrowing rates will vary over time a minimum on the interest rate for all assessments could be considered.

Town Borrowing Rate	Interest Rate on Assessment
0%	5% or 0% - 2%
2%	5% or 2% - 4%
4%	5% or 4% - 6%
5%	5% - 7%

Policy Decision – Will the Town Offer a Connection Program?

- * Construction contract could include connection for homeowner
 - * Bids solicited would have to identify the cost of connection for each property as this is the responsibility of property owner
- * Would need homeowner consent
- * Homeowner may want to contract for themselves
- * If included in the Town's contract the cost could be added to the sewer assessment

Policy Decision - Will a Systems Development Charge be Implemented?

- * A fee in the utility industry that is charged to new customers of a utility system to pay for the investments made into the “backbone” of a system for the capacity consumed by the new user
- * Paid at the time of connection to the sewer system
- * Can offset a portion of the investment already made to create existing capacity and the expanded capacity in the future
- * Can be added to the sewer assessment

Policy Decision - Will There be a Property Tax Contribution for the Program?

- * 3 Approaches to implement a property tax component
 - * Seek authorization from the community to create a Municipal Purpose Stabilization Fund financed with a property tax override
 - * Seek authorization from the community to exclude debt service on borrowings conducted to fund the program
 - * Allocate from the existing tax levy by reducing existing capital program and program services

Property Tax Contribution – Option 1

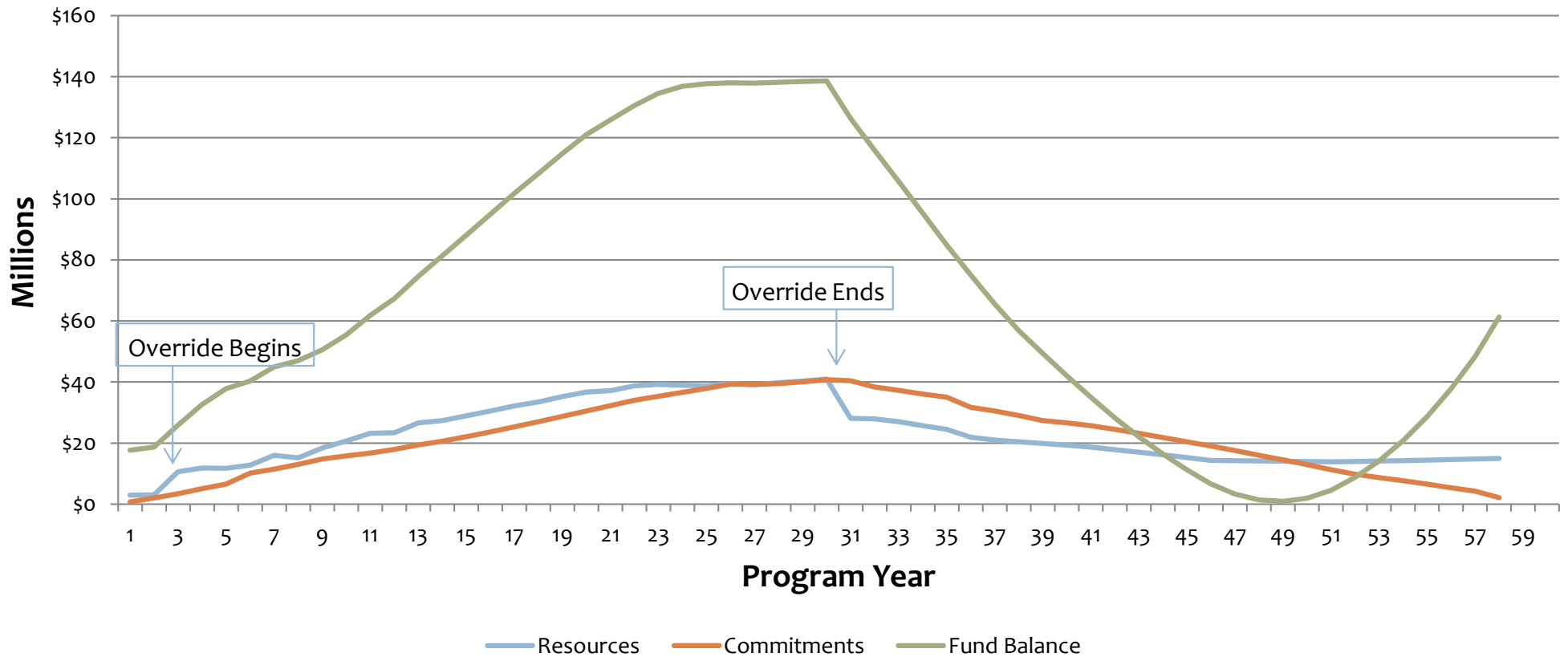
- * Create Municipal Purpose Stabilization Fund (MPSF) dedicated for this purpose funded with a property tax override
 - * Requires a vote of the community to create
 - * Annual appropriation to fund required by Town Council
 - * Approved tax levy override can increase by 2.5% a year
 - * Town Council can reduce appropriation in any year
 - * Would function as a debt service fund to repay loans issued to fund construction projects
 - * Use of approved override can't be changed

Municipal Purpose Stabilization Fund

- * Amount to raise would depend upon sewer assessment charge
- * Initial sewer assessment of \$18,000 would result in a funding requirement of \$6.75 million
- * Impact on tax rate - \$0.45
- * Tax bill impact on median assessed value - \$168
- * Additional tax levy ends after 30 years

Property Tax Contribution – Option 1

CWMP Cash Flow



Property Tax Contribution – Option 1

- * Benefits of this approach
 - * Solidifies up front the funding for the program
 - * Additional taxes raised can't be redirected to another program without Town Council and voter approval
 - * Preserves existing services
 - * Preserves budget flexibility
 - * Annual appropriation required by the Town Council
 - * Support of the community to fund program viewed favorably by bond rating agencies
 - * Expires at the end of the program similar to debt exclusion

Property Tax Contribution – Option 2

- * Debt Exclusion Override
 - * Requires vote of the community authorizing loan payments on borrowings to be added to the tax levy
 - * Additional tax levy last as long as the loan is amortized (30 years)
 - * No annual action required by the Town Council subsequent to the vote of the community

Property Tax Contribution – Option 2

- * Benefits of this approach
 - * Solidifies funding for the program for the first several years depending upon amount requested
 - * Preserves existing services and budget flexibility
 - * Support of the community to fund program viewed favorably by bond rating agencies
 - * More gradual increase in the tax levy as new loans are issued

Property Tax Contribution – Option 3

- * Property tax contribution funded from existing levy
 - * No increase in the tax rate
 - * Would require reductions to existing service levels
 - * Reduces budget flexibility
 - * Viewed as negative action by bond rating agencies
 - * Lack of support to fund essential programs
 - * Reduction in services to the community

Examples of Funding to Close Gap

Sewer Assessment (Adjusted Annually for Inflation)	Initial Property Tax Contribution for 30 years (millions)	Estimated Assessment Revenue (millions)	Property Tax Contribution (millions)	Total Estimated Funding Gap (millions)
\$13,000	\$9.00	\$241	\$355	\$596
\$14,000	\$8.50	\$260	\$336	\$596
\$15,000	\$8.25	\$279	\$317	\$596
\$16,000	\$7.75	\$297	\$299	\$596
\$17,000	\$7.25	\$316	\$280	\$596
\$18,000	\$6.75	\$334	\$262	\$596
\$19,000	\$6.50	\$353	\$243	\$596
\$20,000	\$6.00	\$371	\$225	\$596

Example Impact on Property Owner

(*Based on Median Assessed Value of \$376,000)

(† Using a 2.5% Interest Rate)

One Time Costs				Annual Costs			
Sewer Assessment	Example Connection	SDC	Total	†Annual Assessment Payment	Utility Bill	*Tax Bill Increase	Daily Investment
\$13,000	\$5,000	\$1,600	\$19,600	\$720	\$400	\$224	\$3.68
\$14,000	\$5,000	\$1,600	\$20,600	\$756	\$400	\$212	\$3.75
\$15,000	\$5,000	\$1,600	\$21,600	\$792	\$400	\$208	\$3.84
\$16,000	\$5,000	\$1,600	\$22,600	\$828	\$400	\$192	\$3.89
\$17,000	\$5,000	\$1,600	\$23,600	\$864	\$400	\$180	\$3.96
\$18,000	\$5,000	\$1,600	\$24,600	\$900	\$400	\$168	\$4.02
\$19,000	\$5,000	\$1,600	\$25,600	\$940	\$400	\$164	\$4.12
\$20,000	\$5,000	\$1,600	\$26,600	\$976	\$400	\$148	\$4.18

Financial Assistance for Property Owners

- * No upfront out-of-pocket payment required from property owner
 - * Town could include connection cost and system development charge in sewer assessment
- * No credit check on homeowner if assessment is apportioned over future tax bills
- * Sewer assessment can be apportioned over 30 years
- * Annual assessments can be spread out over 4 quarterly tax bills

Financial Assistance - Continued

- * Property owner can benefit from Town's favorable borrowing rates
 - * Town's borrowing rate can be passed on to property owner who elects to apportion sewer assessment
- * Town could increase the residential exemption currently set at 20%
 - * This could offset any property tax contribution for a majority of primary residencies

Residential Exemption Impact

Exemption %	Additional Annual Tax Savings for Median Assessed Value Home	Exemption %	Additional Annual Tax Savings for Median Assessed Value Home
21	\$42.89	29	\$402.34
22	\$86.22	30	\$449.42
23	\$129.99	31	\$497.00
24	\$174.21	32	\$545.09
25	\$218.89	33	\$593.71
26	\$264.04	34	\$642.85
27	\$309.66	35	\$695.53
28	\$355.75		

Residential Exemption Offset

(Using Median Assessed Value of \$376,000)

Fully Loaded Assessment	Annual Assessment Payment	Utility Bill	Tax Bill Increase	Total Annual Impact	35% Residential Exemption Offset	Net Annual Impact	Net Daily Investment
\$19,600	\$720	\$400	\$224	\$1,344	\$(696)	\$648	\$1.78
\$20,600	\$756	\$400	\$212	\$1,368	\$(696)	\$672	\$1.84
\$21,600	\$792	\$400	\$208	\$1,400	\$(696)	\$704	\$1.93
\$22,600	\$828	\$400	\$192	\$1,420	\$(696)	\$724	\$1.98
\$23,600	\$864	\$400	\$180	\$1,444	\$(696)	\$748	\$2.05
\$24,600	\$900	\$400	\$168	\$1,468	\$(696)	\$772	\$2.12
\$25,600	\$940	\$400	\$164	\$1,504	\$(696)	\$808	\$2.21
\$26,600	\$976	\$400	\$148	\$1,524	\$(696)	\$828	\$2.27

Debt Exclusion Option Impact on Tax Rate

Year	Estimated Loan Amount	Annual Loan Payment	*Tax Rate Impact	*Tax Bill Impact
1	\$13,500,000	\$597,000	\$.04	\$15
2	\$36,900,000	\$1,231,000	\$.08	\$30
3	\$18,100,000	\$807,000	\$.05	\$19
4	\$43,900,000	\$1,958,000	\$.15	\$56
5	\$61,487,000	\$2,745,000	\$.18	\$69
Totals	\$173,887,000	\$7,338,000	\$.50	\$189

*Based on median assessed value of \$376,000

Impact on Existing Sewer Utility Customers From CWMP

- * Properties currently tied into the existing sewer system will not contribute to funding the CWMP unless a property tax contribution is approved
- * If a property tax contribution is approved, no matter what form, all taxpayers will contribute including existing sewer utility customers, future utility customers as well as properties that will never be part of the system
- * Increasing the residential exemption can provide an offset to a property tax contribution for primary residents

Next Steps

- * Determine if a property tax contribution will be provided for the program, if so
 - * Determine amount of contribution and in what form
 - * Override creating Municipal Purpose Stabilization Fund
 - * Debt exclusion override
 - * From existing tax levy
- * Adopt MGL CH83 §15 authorizing 30 year amortization on sewer assessments
- * Determine if the Town will administer a connection program
- * Determine if there are any circumstances that would allow for a property to delay connecting at the time of construction
- * Change Administrative Code allowing for 30 year bond amortization

Next Steps

- * Create a General Ordinance for Sewers that includes:
 - * Definition of General Benefit Facilities and Specific Benefit Facilities
 - * Application of sewer assessments to undeveloped land
 - * Method used to allocate assessments (uniform rate vs. uniform unit)
 - * Could be defined on project by project basis
 - * Any cap on the amount of the assessment and will it be adjusted for inflation
 - * System Development Charge if included
 - * If estimated assessments will be incorporated
 - * Interest rate to apply to sewer assessments

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