



Finance

BREAKOUT SESSION

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Funding Wastewater Programs –
An Overview of Options and Policy Issues

***What are the benefits of the
Wastewater program for your Town?***

What are the Benefits of the Wastewater Program?

Any discussion of funding strategies starts with the development of a community consensus on the benefits of the wastewater program. For all residents there are seven probable and significant benefits:

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

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

Suggested (though Debatable) Funding Principles

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

Wastewater Program - Equitable Cost Allocation Model

Based on the consensus of benefits, Town decision-makers will need to then determine the fairest way to allocate program capital and operating costs.

There

may be differing allocation answers for each type of cost.

Potential questions for Town decision-makers are:

1. Who are the community beneficiaries of the wastewater program?
2. Should all beneficiaries be obligated to contribute? If yes, to what extent?
3. To what extent should your Town formally obligate itself to contribute?
4. Should there be a difference in policy treatment between capital and operating costs?
5. What are possible equity issues and how can they be addressed?
 - Low Income Households
 - Recovering past capital expenditures from new "customers"
 - Leveling of neighborhood sewerage costs
6. Should Title 5 system replacement or repairs be a part of the policy mix?

What realistic funding options are available to your Town?

Funding Options Currently Available to Your Town

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

There are **four** meaningful funding choices currently available to your town:

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

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

Betterment Assessments

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

Advantages:

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

Disadvantages:

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

Use of Existing Town Revenue

Debt service costs paid by property taxes within Proposition 2½ levy limits. Some excise tax revenue may be available (if not used for other purposes).

Advantages:

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

Disadvantages:

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

Proposition 2½ Override or Debt Exclusion

Substantial debt service costs paid by property tax after successful override campaign(s).

Advantages:

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

Disadvantages:

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

System-wide Fees, Rates and Charges

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

Advantages:

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

Disadvantages:

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

Other (though remote) Funding Options

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

- USDA Rural Development Loan and/or Grant

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

- District Improvement Financing/Tax Increment Financing

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

- Community Development Block Grant

Very limited funds available and must meet grant requirements

So, is there anything new?

Upon a vote of the Town Council and the Electorate, towns could adopt this provision, which would add a property tax surcharge of up to 3%, to be assessed on each parcel of taxable real estate.

Advantages:

- Broadens base of financial support
- Would be an indicator of community support for wastewater program
- Would pay for a modest portion of the wastewater program
- Could be pooled with funds from other communities to build a shared facility

Disadvantages:

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

(Maybe) House 4236?

Long discussed and increasingly possible, legislation expanding Room Occupancy Excise Tax to private vacation rentals is increasingly a possibility.

Advantages:

- A largely exportable tax
- New “Local Option” excise tax
- Requires vote of Town Council for some Towns; Town meeting needed for others
- Source of meaningful recurring revenue

Disadvantages:

- Still in legislative process – need to monitor progress and any amendments
- Oversold? Dollar estimates may be less than predicted
- Competing Town budget requirements
- Impact on tourism?

What are the next steps for your Town?

Recommended Next Steps

1. Advocate that your Town should, in concert with other willing communities on the Cape plus other interested Cape organizations, create a meaningful and sustained lobbying effort for federal and state financial assistance
2. Develop meaningful, contractually committed relationships with adjoining communities to share wastewater expenses and assets. However, also closely monitor and understand the financial ramifications of any draft IMA's with adjoining communities
3. Educate Town residents with respect to wastewater issues, costs and the plan
4. Directly address, debate and publish your preferred funding plan. Unanimity will not be possible, so do not let the perfect get in the way of the good
5. Know that failure to act is an invitation to lose control over your wastewater program and, most important, the pace (and thus affordability) of its implementation

For a copy of the presentation, E- Mail:

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