



The Town of Barnstable

Comprehensive Financial Advisory Committee (CFAC)

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CFAC Committee:

Chair:

Lillian Woo

Members:

Vice Chair, Hector Guenther
Clerk, Chuck McKenzie
John Schoenherr
Melanie Powers
Tracey Brochu
Wendy Solomon

Staff Liaison:

Mark Milne
Nathan Empey

Councilor Liaison:

Paula Schnepf

MEETING MINUTES

8.16.21

6:00 PM

Zoom Meeting : <https://zoom.us/j/96931351988>

Meeting ID: 969 3135 1988

Roll Call:

Lillian W. called the CFAC Zoom meeting to order at 6:00 PM. Chuck M. called the roll.

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

Act on Minutes:

The following minutes were approved by unanimous vote:

07.19.2021

Public Comments:

None

Correspondence:

Councilor Paul N. noted we're inching our way closer to establishing a payment method for the CWMP. Councilor Paul N. noted he was happy to see a CFAC suggestion for a source of funding by establishing a fund from real-estate transactions. Councilor Paul N. noted anything we can do to broaden our funding capabilities; we really need to look at all options available. Councilor Paula S. echoed these comments and that it is so vital the analysis CFAC brings, and that the more CFAC continues to contribute, the more we will benefit from it.

Chair Lillian W. noted Ronald Fone has applied to become a member of CFAC and will officially join us in September.

Chair Lillian W. noted that Town Council Administrator has asked for all of our conflict of interest certificates to be sent to her.

Chair Lillian W. noted she has been asked by the West Hyannis Beach Association to provide an overview on the CWMP. Chair Lillian W. noted this association is along the Craigville Beach Road and that they are very supportive of the CWMP.

Old Business:

None

New Business:

Finance Director Mark M. provided an overview of the fiscal policy presentation that was given to Town Council at their last meeting. Director Mark M. noted we have settled on a sewer assessment ordinance, which has been approved by Town Council. Director Mark M. noted the remaining piece is what form the General Fund contribution will be for the remaining funding gap. Director Mark M. noted the town has established some revenue sources over the last decade by dedicating one-hundred percent of our meals tax as well as increased the local rooms tax to this program. We have also created the Cape Cod & Islands Water Protection Fund that applies a new tax on traditional and short-term rental properties. Director Mark M. noted one-hundred percent of the new short-term rental tax in Barnstable has been dedicated to this program. Director Mark M. noted we've been trying to accumulate resources over the last decade for the largest Public Works project the town will ever see.

Director Mark M. noted we're trying to ensure that we have an adaptive plan in place from a regulatory, technical, and financial perspective and incorporating it into our planning. Director Mark M. noted there are a lot of assumptions in the 30 year financial plan that can change. This really will be an adoptive plan by having financial decisions broken down into five year increments. Clerk Chuck M. asked every year you look five years out or you'll look out every five years, because year two you have a big change in the model? Clerk Chuck M. noted he couldn't imagine you'd wait three more years because technology changes. Director Mark M. noted we're going to be looking at the financial plan on an annual basis, but project out over five years. Director Mark M. noted one of the biggest components will be what we reasonably expect from a project cost standpoint. What can Public Works get done within the next five years on a reasonable basis and how will that impact the financials.

Director Mark M. noted looking at resources that currently exist and resources that have been created through a ten year projection. Director Mark M. noted he wanted to provide a ten year projection because there is not a lot of new sewer assessments revenue coming in over the next five years. Director Mark M. noted we can't issue the sewer assessment until the project is completed and they go live, and then depending on the time of year that takes place, it

could be another year before the assessments are actually added to a property owners tax bills. Director Mark M. noted we're looking at \$5-\$6 million in projected resources over the next five years until FY 2027, which we will have a number of projects completed and be able to add assessments. Director Mark M. noted we have been awarded Cape Cod & Island Protection Fund (CCPF) subsidies over the next four years on several existing projects in the amount of \$2.5 million a year. The CCPF subsidies will all depend on what other Cape Cod communities are doing. Director Mark M. noted if Barnstable is the only community doing anything, we may see much larger subsidies than this. Director Mark M. noted we project our meals tax revenue to come back to pre-pandemic levels and same thing with rooms tax. Chair Lillian W. asked what are the projected dollar amounts for the meals and rooms tax? Director Mark M. noted about \$1.3 million meals tax and \$1.2 million rooms tax, and short-term rental \$1 million. Director Mark M. noted by the tenth year we really start seeing some assessment revenue because at the point in time we have a few thousand sewer connections.

Director Mark M. noted the five year projected commitments includes the project management costs, which FY 2022 was the first year Town Council approved an operating budget for Public Works. Director Mark M. noted that Public Works is eventually looking at over twenty positions to manage the design and implementation of the various projects. We also have existing and projected authorized & unissued debt, which the unissued debt is mostly the two new projects for Strawberry Hill Road and Route 28 East Road sewer expansion. These two projects collectively exceed \$30 million. The projected new debts as new projects come forward starts to ramp up in FY 2026-31. Tracey B. noted the existing debt service payments are the same amount, but wouldn't they get bigger as your new debt service gets bigger? Director Mark M. responded the existing debt service are loans currently outstanding and fixed, the new debt service represents new projects that are authorized, which every year a new loan is issued, so the projection on new debt grows every single year. Vice Chair Hector G. asked what is the interest rate projection? Director Mark M. using 2.5%, but it is one of many factors that can impact the finances. Melanie P. asked did you do any scenarios? Director Mark M. noted we have a tool that can adjust for changes, but we have to pick assumptions for planning purposes. Melanie P. noted it might be interesting to pick key eliminates for real variability to give people a sense of why we have to stay on top of it. Director Mark M. noted that could be a topic for our next meeting. Councilor Paula S. noted we have to be clear that when we talk about the debt service that it is about the payments and not the principal. Vice Chair Hector G. noted the new debt service title should be changed to new debt service payments. John S. noted it should be noted that the debt service payments are a cumulative amount. Chair Lillian W. noted every year there are additional payments. Vice Chair Hector G. noted it is the payment based on the previous fiscal year debt outstanding. Tracey B. asked is there a cumulative for all of the cost of the CWMP? Councilor Paula S. noted it is the billion dollar number. Director Mark M. noted we really don't know what it is; we put that number out there for planning purpose because we had to file a report with regulators. Director Mark M. noted we really need to focus on what are we going to do for the next five years, we're not trying to come up with a funding gap for the next sixty years, and we can't reasonably do that. Wendy S. noted she liked the chart and the way it is labeled. Melanie P. noted this is why she was suggesting the scenarios, because people will default to what they read, and we need to get people used to the notion that the financial plan does change. Melanie P. noted that by adding the various scenarios indicate that we expect that it will change. Melanie P. noted just by picking a few variables will help people understand that it is a moving target. Director Mark M. noted we presented early on to Town Council a sensitivity analysis, we showed them five different contribution requirements that would be needed based on a change in assumptions. We can do that again, but my only worry is will that help us get to a decision to provide funding for the funding gap over the next five years? Wendy S. responded she thinks the scenario analysis will make people aware of what the issues will be going forward and to make future decisions, maybe consider more factors for the Town Council. Wendy S. noted she thinks it would be good for Town Council to understand if interest rates go up, we're going to have to pay more. Vice Chair Hector G. asked who the main audience is for this presentation, and what is the best information needed to get an approval based on a group of certain measures? Vice Chair Hector G. noted if he was a counselor, he would just want a hard number that he can vote on. Melanie P. noted she thinks it strengthens the financial plan by guiding the decision makers and constantly inspiring their confidence with finances understanding of the scenarios that are behind these numbers. Melanie P. thinks it strengthens it by managing it closely, and that the five year plan is not an arbitrary thing. Chair Lillian W. noted Town Council is very aware of the scenario they have to present to the public, and if we go through this, it might be helpful to close this gap very shortly. Councilor Paula S. responded that ultimately council needs to feel comfortable with a political decision, but we're going

to have to get a commitment of General Fund sooner than later. Councilor Paula S. noted the one concern is if we go out for a debt exclusion, we have to be able to communicate that this is not a onetime deal. Councilor Paula S. noted that when asking for debt exclusion for a school project, it is a one and done. Councilor Paula S. noted this General Fund contribution is different, and we're going to have to communicate to the voters that this debt exclusion isn't the end of it. Tracey B. responded that is where I was trying to go with arming Town Council with as much information needed as you'll be asking for an override through the plan. Councilor Paul N. noted there are conversations about total cost, but from a payment perspective would be curious what the committee thinks. Councilor Paul N. noted is there merit in indicating to the public what that debt service represents in terms of total dollars of the total program for the first ten years as well as annual asks for additional funding? Councilor Paul N. it may shine some light on how we're working our way down this program, it may provide some clarity on where we are in the process and that we are not really done. Chair Lillian W. noted that is an excellent point, and that a debt payment that represents x number of dollars of the total projects makes more sense to town property owners, because the debt exclusion that they have to vote for will be for a length of time. John S. noted that connecting all of these numbers to the benefit helps reason why we are going with this project, and that there is some level of clean water we are being held accountable for. John S. noted that with each of these phases we expect to meet overarching goals, what is the benefit to our waterways? John S. noted it seems we need to connect this to why are we doing this. John S. noted it would be helpful to celebrate as we meet some of those milestones. Melanie P. agreed with that two tier approach and reminding the public constantly. Director Mark M. responded that the goal of this program is to reduce the nitrogen, which DPW has identified we need to sewer approximately 12,000 parcels to get to that level. Director Mark M. noted throughout the first phase it is anticipated we'll sewer approximately 4,500 parcels. John S. responded it is really tied to the amount of nitrogen that has been removed and not the number of parcels as the goal is to get the nitrogen to whatever that level is. Chair Lillian W. noted the regulatory standard called Total Daily Maximum Load (TDML), which is the maximum load you can have in a water system. Chair Lillian W. noted what is really interesting is that the Town Manager announced there is an initiation on ponds and lakes management plan in the second phase of the CWMP. Chair Lillian W. noted this would add to the cost of the CWMP, so it gets more complicated as we move down the road.

Director Mark M. noted in the phase one implementation we currently have two major projects approved. The two major projects is the Strawberry Hill Road through Phinney's Lane and Route 28 East sewer expansions. These projects have been funded by over \$30 million in appropriations. Within the ten year phase we're looking at sewer expansion collection construction costs of \$244 million, but these numbers are stated in 2018 numbers, so we have to build in an inflation factor that could significantly impact the results. Director Mark M. noted we used a 4.5% inflationary factor, however, with the environment out there and the stimulus packages; there is no lack of work for contractors. Director Mark M. noted with the 4.5% inflationary cost the total exceeds \$300 million. Director Mark M. noted with the sewer expansion related upgrades for Water Pollution Control when you factor in inflationary cost totals is closer to \$100 million.

Director Mark M. noted based on the projected funding gap between fiscal years 2022 to 2024 we're ok. However, in fiscal year 2025 we start seeing our commitments exceed our resources resulting in about a \$2.5 million funding gap, \$5 million in FY 2026, \$7 to \$8 million in FY 2027, and so forth. Director Mark M. noted we can approach this in one or two ways, we can wait until FY 2025 to begin providing support, but we could be facing a \$5 million deficit in FY 2026 and requiring significant budget cuts. Director Mark M. noted by waiting we could preserve our current services levels and see what happens, interest rates, meals and rooms tax trend, and CCPF trends. Director Mark M. noted the other option would be begin General Fund support sooner to smooth that investment need and impact service levels to a lesser degree. Director Mark M. noted the longer we delay, the more significant the impact could be. Tracey B. asked based on the funding gap chart are we estimating a cumulative funding gap of \$56 million? Director Mark M. yes, cumulative. Tracey B. asked so we would be trying to smooth out this estimated funding gap over ten years. Director Mark M. yes.

Director Mark M. noted the options to close the gap could be redirecting existing property tax levy from other areas of the budget to the CWMP. Director Mark M. noted we could seek a debt exclusion override, however, this would require multiple requests over the 30 year plan. Director Mark M. noted we could create what the committee suggested and

create a Water Infrastructure Investment Fund (WIIF), which also requires voter approval. A WIIF is very similar to the Community Preservation program by authorizing up to 3% surtax on real-estate tax bills, and once it is maintained, it has to remain in place for at least 3 years. You would have to go back to the voters to eliminate the WIIF. Director Mark M. noted another option recommended by the committee is to seek special legislation by authorizing a real-estate transfer tax; however, that revenue source would only be provided by the seller or buyer, and not spreading the cost out amongst all property owners in town.

Vice Chair Hector G. asked when listing specific projects for the debt exclusion, would those drawn from the list? Director Mark M. responded Town Council will have to vote on the exact language that is going on the ballot. Director Mark M. noted the debt exclusion language has to describe the particular project being funded. Director Mark M. noted it would just have to say projects associated with the CWMP, and not specific, such as Strawberry Hill Road. Director Mark M. noted you are seeking the amount of the borrowing authorized and not the amount of debt service. Director Mark M. noted you are seeking the community's authorization to exclude the amount of borrowing only because we don't know what the debt service will be until we issue the bond. Melanie P. asked are you aware of any data about how these types of votes are received by special elections or side by side elections. Director Mark M. noted you can't put something like this on a presidential election ballot. Director Mark M. noted a lot of our snow birds may be gone in November, so if you want to target all our eligible votes in town you may want to target a vote in September. Vice Chair Hector G. noted there is no minimum voter turnout required? Director Mark M. no, you just need a majority rule. Director Mark M. noted by FY 2026, we're looking at adding \$5 million in a debt exclusion override to the tax levy in order to fund the projects annual payments we're anticipating over the next five years. Director Mark M. noted we wouldn't issue it all at once; we would only issue it as projects come forward. Director Mark M. noted keeping the debt exclusion to five year increments is consistent with the projection. Clerk Chuck M. asked is there a chance that the 12,000 parcels anticipated to be sewer change? Director Mark M. noted it is possible, what if regulations change or technology improves over the next five years to remove nitrogen onsite? Vice Chair Hector G. asked if the voters approved \$110 million debt exclusion, what is the impact on the funding gap? Director Mark M. responded that eliminates the funding gap up to FY 2026, but then we are back again to the community in FY 2027 -2031, how much, we don't know yet because of the changing factors.

Director Mark M. noted by FY 2026 for a median homeowner, the annual tax bill impact with a residential exemption would be \$87. Vice Chair Hector G. noted these increases are not a lot, and what do other people think? Clerk Chuck M. noted we need to communicate in marketing terms the value proposition. Clerk Chuck M. noted what are the benefits to hitting the nitrogen level? Clerk Chuck M. noted a property owner needs to be part of the dialogue and not just what the dollars are? Melanie P. responded the downside is so enormous and it is important for us to convey to others through this process. Melanie P. noted it would be nice to have scenarios that look at interest rates, inflation, climate change, and technology and what the impacts would be, and then a barometer that looks at individuals' values. Wendy S. responded we get all different types of people, and this committee isn't really reflective of the taxpayers. Wendy S. noted there is a huge cross section on the different perspectives on how much they have to pay and benefit from it. John S. noted there are going to be two different perspectives between those who are going to be sewerred and those who are not, but those not being sewerred are looking at the general increase in their tax bills. Melanie P. noted it is a broad economic swath that is being affected. Councilor Paul N. noted some people may be in a position to financially handle this, but we have to keep in mind that homeowners who have to hook up will have a bill. Councilor Paul N. noted this is a reoccurring charge that goes into perpetuity, and this is a topic being discussed in the communities. Councilor Paul N. noted the things that make this place enjoyable to live is our access to water. Councilor Paul N. noted if we can prove from a town standpoint that we have done everything that we can do to squeeze every nickel out of our operating budget, then we can go to the public and say this is the remaining balance that we have to pay. Councilor Paul N. noted this is really going to be a sales value. Chair Lillian W. responded it is not a one plan that fits everybody, we have the voting data, we can begin what percentage of people who vote, and tailor our explanation based on demographic. Chair Lillian W. noted that we need to go into the data by targeting. Director Mark M. noted we're not at that point yet.

Chair Lillian W. and Wendy S. noted it was a great presentation.

Director Mark M. noted we'll have several meetings with the council to talk about it and what the preferred option is. Director Mark M. noted it will be some time, maybe by the end of this calendar year we'll have a better sense of where we want to take this. Director Mark M. noted one of the big problems we're going to have is project implementation. Director Mark M. noted it all depends on what DPW can manage. Melanie P. asked is DPW having a hard time to fill jobs and drive up cost as well? Director Mark M. noted yes, it is very difficult to fill professional positions on Cape for a lot of different reasons.

Matters not reasonably anticipated by the chair:

None

Adjournment:

Meeting adjourned

List of documents handed out

1. 07.19.21 draft minutes
2. Fiscal Policy Workshop – Comprehensive Water Management Planning