



The Town of Barnstable

Comprehensive Financial Advisory Committee (CFAC)

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CFAC CIP Sub-Committee:

Members:

Hector Guenther
Neil Kleinfeld
James Sproul

Staff Liaison:

Mark Milne

Councilor Liaison:

Craig Tamash

MEETING MINUTES

01.30.2024

5:00 PM

Roll Call:

Hector Guenther called the CIP Sub-committee Zoom meeting to order at 5:00pm

- CFAC Members Present: James Sproul, Neil Kleinfeld, Hector Guenther, Lillian Woo
- Councilors Present: Craig Tamash
- Staff Present: Mark Milne, Director of Finance

Public Comment

None

Correspondence

None

Quick recap

The Comprehensive Financial Advisory Committee, Capital Improvement Plan Subcommittee meeting revolved around the decision-making process for capital projects. The team discussed the Town Manager's proposal for fiscal year 2025 and planned to meet with several departments to discuss proposed projects. The meeting highlighted the importance of understanding funding sources for capital projects. Neil Kleinfeld expressed concerns over discrepancies in the numbers and the impact of certain projects on the debt load. The team also explored various options for funding new projects and the importance of maintaining strong financial practices. Mark Milne presented the CWMP totaling \$432 million over a five-year period and discussed financing options. The team also discussed the Barnstable Water Resources Website and its financial implications. Towards the end of the meeting, the team discussed potential revenue sources for the CWMP and the financial implications of the Plan.

Summary

Capital Project Decision-Making Process

The Barnstable's Comprehensive Financial Advisory Committee, Capital Improvement Plan Subcommittee held a meeting on January 30, 2024. The discussion revolved around the decision-making process for capital projects, with Mark Milne tasked with providing the committee with the Town Manager's proposal for fiscal year 2025. The committee also planned to meet with several departments to discuss proposed projects for fiscal year 2025. The meeting clarified that the Town Manager proposes the capital budget in accordance with the Town Charter, with department heads playing a significant role in advocating for and evaluating various project submissions using a two-step evaluation tool. The importance of understanding funding sources for these projects was also highlighted.

Trends, Numbers, and Sewer Projects

Neil Kleinfeld expressed concerns over discrepancies between the history of related trends and comparisons, specifically regarding the sources of certain numbers. He highlighted that the CIP submission had moved two major sewer projects beyond the five-year timeframe, which had implications for the number of sewers connected and the extent of nitrogen removal. Neil also noted that assumptions had been modified over time, leading to confusion. He proposed reviewing the numbers at a future meeting. Hector Guenther emphasized the need for clarity on the figures. Neil proposed submitting a pro forma explanation of changes to the DPW for review and correction at their next meeting.

CIP Meeting Planning and Data Presentation

The team scheduled the next full CFAC meeting for February 12th with DPW attending to present their enterprise fund capital submissions. The next CIP Sub-committee meeting is scheduled for the 13th. Mark said that he would have answers ready for the 13th regarding the appendix 3 assumptions. Neil presented the consolidated CIP levels from 2017 to 2024, noting a flat trend with an expected increase in 2025 due to the implementation of the CWMP projects. The group discussed the importance of preparing for the potential increase in the capital program and the need to confirm the accuracy of the numbers.

Debt Load and Project Funding Concerns

Neil Kleinfeld raised concerns about the potential doubling or tripling of the town's debt load due to the approval of several projects. Mark Milne agreed that the debt load would more than double if everything was approved but assured they could afford the current 25 projects. They discussed the need to match resources to offset the debt and ensure no reduction in budget flexibility. Neil suggested giving the Town Council perspective on the situation. They also discussed the importance of considering the debt service as the debt load increases, which could affect the amount going to the general fund and schools. The team also explored various options for funding a new project, which included issuing more debt, raising taxes, reallocating resources, or finding new revenue sources.

Mass School Building Funding and Budgeting Concerns

Mark Milne discussed the Mass School Building Authority program and its competitive selection process, which provides funding based on property value and other factors. Neil Kleinfeld inquired about the likelihood of receiving funding and the potential impact on the timeline and decision-making process. Mark confirmed that they would need to submit a statement of interest to the authority and consider local funding options if they don't receive funding. Neil Kleinfeld and Mark Milne also discussed the financial capacity for new loans over the next five years for the general fund, estimated at 10 to 15 million dollars a year, and the potential for 200 million new loans for CWMP. They also discussed the adaptability of the Department of Public Works (DPW) to external changes. Neil raised concerns about financial constraints and the need for a Capital Improvement Program (CIP) review. He proposed that their suggestions for CIP improvements should be included in the CIP report. The group also discussed the importance of credibility, transparency, and an independent body reviewing and making recommendations in the budgeting process. They also emphasized the need to prepare new councilors and resume meetings with the Town Manager to discuss reports.

Capital Improvement Plan and Financing Options Discussed

Mark Milne presented a financing update for the CWMP, which included projects totaling \$432 million over a five-year period. The projects were divided into those funded with cash (\$11 million) and those requiring borrowing (\$421 million). Hector Guenther inquired about the nitrogen removal project for \$109 million, which pertained to improvements at their wastewater facility. Mark also discussed financing options, mentioning the Massachusetts Clean Water Trust's annual financing cap of \$50 million per year for clean water projects. He noted that if projects exceeded this cap, they would have to be financed through a general obligation bond issue at a higher interest rate. Mark also discussed the town's financial strategy, particularly its borrowing plans and the potential impact of these plans on the town's bond rating. Neil Kleinfeld and Hector Guenther participated in the discussion, emphasizing the importance of maintaining strong financial practices and reserves to maintain the town's AAA bond rating. Mark Milne discussed the estimated borrowing cost of just over \$23 million for the Centerville Sewer Expansion project, which is lower than the \$31 million project costs due to anticipated principal subsidies applied to the loan. He explained that the loan would start impacting the operating budget in fiscal year 2027, with an estimated \$1 million yearly installment. The project, yet to be authorized, will be covered by an initial short-term loan at 0% until about 50 to 60% of the total cost is paid. The loan is expected to be converted to a long-term loan in 2026, with the first payment due in 2027. Mark also mentioned that they have a \$50 million cap, hence they will have three separate loans for the \$109 million sewer plant project financed through the Mass Clean Water Trust. The loans will be staggered over multiple years due to borrowing limitations. Mark clarified that the projects reflected on the page have not been approved yet and that the total cost, subsidies, and annual operating budget were under consideration. The conversation concluded with Mark outlining the annual commitments for the program, which would grow from \$6.2 million to over \$17 million by fiscal year 30. The team also discussed the funding sources for their program, which include short-term rental taxes, traditional lodging taxes, meals taxes, a general fund contribution, and sewer assessments from property added to the public sewer system. Neil inquired about the general fund item, which Mark clarified is a new contribution starting in 2023, with an expected growth to \$5.75 million by 2027. Mark Milne and Lillian Woo discussed the timeline for system implementation and its impact on revenue projections. They highlighted the significance of speed in connecting people to the system and the completion of the Centerville Sewer expansion. The option for property owners to amortize their sewer assessments over future tax bills was also discussed, which could affect immediate revenue collection. Neil Kleinfeld and Hector Guenther sought clarification on this option's impact on the town's revenue. Hector suggested sharing the Excel spreadsheet they were using for better understanding. Mark agreed to add a slide showing their outstanding anticipated debt on an annual basis. Mark Milne discussed the financial implications of the town's capital plan for 2025 and 2026. He highlighted that the current resources can cover the projects listed for these years, but additional resources would be needed for projects listed in year 2027 through 2029. These additional resources could come from increases in local taxes, a ballot question for a Water Infrastructure investment Fund, or a debt exclusion override. However, these options would result in increased tax rates and monthly tax bill impacts. The possibility of reducing services and redirecting funding from the operating budget to the debt service line was also discussed. The team agreed that a slide showing the projected increase in outstanding debt would be helpful for clarification.

Revenue Sources and Legal Challenges for Clean Water Plan

Lillian Woo, Mark, Hector, Neil, and Craig discussed potential revenue sources for the Water Investment Infrastructure Fund which includes a 3% surcharge, a transfer tax on real estate, and a flush tax. They also discussed the financial implications of the CWMP for the town of Barnstable, with Mark adding that a cap of \$50 million per year in loans could result in the town borrowing \$1.25 billion over the next 25 years through the Massachusetts Clean Water Trust. The team also discussed potential legal challenges if the plan's implementation is delayed. Towards the end of the meeting, Hector requested Mark to add a slide showing total debt by year in his presentation. The meeting was then closed by Neil.

Next steps

- Neil will send the updated appendix 3 to the team.
- Schedule a future meeting to review appendix 3 after Mark and his team have had a chance to go through it.
- Neil will ask Mark to review and correct the CIP numbers before the next meeting on February 12th.

- Mark will provide answers about the appendix 3 assumptions at the CIP meeting on February 13th.
- Neil and Mark will discuss how to project future debt levels and how to illustrate the gap between requested projects and debt limitations.
- Mark will look at the CIP improvements suggestions and get back to Neil.
- Hector, Jim, and Neil will consider presenting their report to the Town Council and soliciting questions and feedback.
- Mark will send the Excel spreadsheet to Hector.
- Mark will add a slide showing total debt by year to his presentation.

Attachments: <T:\TOWN COUNCIL PRESENTATIONS\ARCHIVES\2024\2024-02-01\CWMP Financing Update 2024.02.pdf>

APPROVED