

TOWN OF PROVINCETOWN - BOARD OF SELECTMEN
SPECIAL MEETING – MONDAY – NOVEMBER 22, 2010 5 PM
JUDGE WELSH ROOM

Chairman Michele Couture convened the meeting at 5:00 PM noting the following Board of Selectmen attending: Michele Couture, David Bedard, Austin Knight, Elaine Anderson, and John Santos

Other attendees: Town Manager Sharon Lynn, Assistant Town Manager David Gardner

Recorder: David Gardner

The following are meeting minutes, in brief:

1. WATER & WASTEWATER UPDATE AND FINANCIAL REVIEW

DPW Director David Guertin, Facilitator John Goodrich, and Mark White of Environmental Partners; Mark Abrahams of Abrahams Company, and Rob Adams of AECOM

David Guertin – gave a brief overview and introduced John Goodrich for his report.

Facilitator John Goodrich

A. WATER UPDATE

1. Peak flows and Leak Management Program
2. USDA Grant Reprogramming and MCDBG Grant Update
3. Water Enterprise Fund Financial Review by Mark Abrahams
4. Environmental Partners Group Contract Amendment

B. WASTEWATER UPDATE

1. Peak flows and Existing Plant Capacity
2. Phase 3 Approvals and Construction Update
3. Phase 3 Interest and Areas that Can Be Served
4. Recommendations for Plant Expansion
5. Wastewater Enterprise Fund Financial Review by Mark Abrahams

Tonight is the long-awaited financial review for both the Water and Wastewater Enterprise Funds. We have good news to report for both enterprises in terms of where the finances stand now, and the financial trends for the future. In both cases, this provides the Town with a firm foundation for the grant-funded infrastructure improvements that we are now investing in. In addition, we have a substantial amount of water and wastewater project planning and updates to report on this month.

First, a brief summary of the Water Report.

The 2010 peak six months billing period showed an 8% increase in water revenues over the same period for 2009. This provides the Water Enterprise Fund with an excellent revenue base for projecting future years.

The financial review conducted by Mark Abrahams shows that the Water Enterprise Fund 5-year financial projections look very good. Since the expected decreases in debt service over time will exceed the projected increases in operating costs, the long-term trend for this good financial picture is positive as well.

Mark Abrahams will continue to work with the Department of Public Works, and Finance Director Dan Hoort, to refine these financial projections during the FY2012 budgeting process. Although the 5-year Pro-Forma projections are very encouraging right now, it is important to recognize that any changes in the key variables can have a big effect. These variations can easily occur because of how the debt accounts are viewed by the MA Department of Revenue, or they can occur when a year has very different summer weather and visitation, which affects the water usage and user revenues.

At this time, it is projected that no rate increase will be needed to cover the debt for the costs associated with USDA and MCDBG grant funds with the updated revenue and expenditure forecasts show that the Water System can implement these critical programs without a rate increase.

The benefits of the leak inspection program are already showing up in a reduction of unaccounted for water. The Water Department expects that over time, unaccounted for water will drop from the nearly 30% amount seen in 2009, to closer to 20% by the end of 2011 due to this important management program. The Department will be preparing a leak management enforcement and education program to ensure that there will be on-going and long-term results from this effort, and will provide the Board with an update on this activity with the January update.

The Town expects to receive formal written approval from USDA momentarily for the reprogramming of the grant funds so that the Water Team can proceed immediately with both the North Union Field water supply and the Knowles Crossing water treatment programs. Town Counsel is proceeding with the documentation required for the North Union Field private land purchase and lease agreement with the Town of Truro. The required survey for the private parcel purchase has now been completed.

Negotiations have been initiated with Siemens Corporation for the membrane filtration equipment procurement, which will be funded primarily from a MCDBG grant. We had hoped that contract negotiations between Town Counsel and Siemens' attorney would be completed by tonight, but they are not.

Our agenda item tonight included two Motions tied to the grant funding and reprogramming approval. The membrane filtration equipment procurement and a Contract Amendment for Environmental Partners Group for continued engineering assistance for both the North Union Field and water treatment system programs. We cannot go forward with the membrane procurement motion until the lawyers complete their work on the agreement, but we can answer your questions tonight so that the Board can schedule a vote as soon as an agreement is reached on the contract.

Secondly, a brief summary of the more extensive Wastewater Report.

As is the case with water, we have good news to report for the Wastewater Enterprise Fund. Financial consultant Mark Abrahams' review of the actual and projected finances for the Wastewater Enterprise Fund shows that the Fund is in substantially better shape than in

previous years. Although the debt service numbers have not been finalized, the debt picture is becoming clearer.

Certain accounts that show a deficit are misleading due to the preferred accounting procedure that the MA Department of Revenue uses: deficits are shown solely because of the timing of borrowing, and not because of any overspending, and the Enterprise Fund has a substantial amount of money in its reserve accounts. And, as already mentioned for the water system summary, it is important to recognize that any changes in key variables such as how the debt accounts are viewed by the MA Department of Revenue can have a big effect on the Enterprise Fund and the 5-year financial projections. Mark Abrahams will continue to work with the Department of Public Works and Finance Director Dan Hoort to refine these financial projections during the FY2012 budgeting process.

Because the Town's unique wastewater system is funded only by users, while we incur debt in large amounts and only every several years, we have a wide range of different revenue streams including regular betterment payments as well as pre-paid ACO escrowed funds and situations where we have incurred debt to provide capacity but the property is not yet paying their share of the cost because they have not connected. It is a "timing issue" that we have no control over.

Because of the particular way that the Town's sewer system is financed, we need to rely upon the Enterprise Fund to even out these often large cost and revenue variations by drawing on pre-paid funds in the "Reserve for Debt" account to cover the payments on the debt that has already been incurred - particularly when major sewer extension construction projects incur costs and debt payments - in anticipation that future income payments from new users and delayed hook ups will allow us to rebuild this reserve account. The sewer systems in other communities have a steady stream of betterment payments from all the properties located along a sewer line, but Provincetown does not. Hence, the need to use the Reserve for Debt account to provide the steady stream of income to cover the capital projects related variations in expenses.

This time lag for receipt of revenues for each new Phase does have a cost, which we are only now finally getting a clear handle on and planning for in the future. The Wastewater Enterprise Fund does not have a structural deficit, but there are timing issues. The updated Pro-Forma prepared by Mr. Abrahams shows that over the next 5-year period, these timing issues can be evened out, and that the Fund shows a positive trend in 2015 going forward.

Turning to the update for the Phase 3 planning and on-going construction work, now that the summer peak season is over, the Sewer Team has completed its review of seasonal sewer use, the identified interest in a connection for Phase 3, the plant capacity and expansion options, and an update on the cost to complete the USDA-approved construction program. In addition, construction on the remaining Phase 3A work that was recently approved by the Board has begun, and there will be a lot of construction and disruption during the upcoming winter.

The improved weather and local economy this summer resulted in more than a 12% increase in peak period sewer billings over the same period last year, and during Carnival Week, the treatment plant recorded its highest maximum daily flow to date. The town's success in drawing more people to big events means that more of the plant capacity needs to be kept in reserve for those very brief event periods, and that no more than 75,000 gallons per day of the Phase 3 interest should be added to the plant without expanding the plant to provide for

greater flows. The identified Phase 3 interest far exceeds the available plant capacity.

Expansion of the treatment plant to its planned permitted capacity would not only serve the Phase 3 interest, but it will also provide a very large amount of unused capacity that can be reserved for important future town gallons per day of Title 5 flow for the future, or approximately 20% of the total capacity that the expanded plant would provide. However, if the treatment plant is not expanded now, then only a portion of the Phase 3 interest can be served and there will be no unused capacity available for important future town priorities.

While the identified interest for Phase 3 is greater than the plant currently can handle, the interest may not be great enough to cover the cost to expand the plant including providing all of this large reserve for future uses. And, there is no feasible smaller plant expansion approach that could both meet the current needs and provide any capacity at all for the future. The Sewer Team will be reviewing all of the requests for a connection in detail over the next month to determine whether or not there are any additional properties and areas that can be served because their betterment revenues can cover the cost to serve them. AECOM will also be updating the cost estimates for the plant expansion and preparing a more detailed presentation of the costs and revenues.

Other than identifying more interest that can cover the costs, the other only option for moving forward in 2011 would be to request a General Fund subsidy for some of the plant capacity that will be reserved for future town priorities. The betterment revenue from the future use of this reserved capacity could then be used to repay the General Fund over time.

Now that the Town needs to expand the treatment plant to provide not only for currently identified needs and interest, but also to have a reserve for important future town priorities, it is neither feasible nor fair to the users to expect that they can cover all of the costs of providing capacity for the town's future needs. There is little question that this could be a good investment, financially as well as providing for future town priorities: as the 200,000 gallons per day of reserve that the plant expansion would provide is used in the future, the revenues generated from user fees will be greater than the increased operating costs, contributing to the financial health of the Wastewater Enterprise Fund and to the repayment of any subsidies to the General Fund.

Finally, for the currently authorized and funded wastewater project work,

AECOM's recently completed review projects that the total costs to undertake all of the USDA-approved project elements will be greater than the original estimate primarily because pump stations need to be deeper, requiring more dewatering and sheeting. The Conway pump station service area, which does not have a lot of interest in a connection, and lower priority water main work needs to be removed from the USDA grant-funded program so that the other more important project elements can be completed within the remaining funding.

For the recently approved Change Order, AECOM and Robert B. Our will be doing a large volume of construction work in town during the off-season, and they expect to have as many as five crews working at any one time. DPW Director David Guertin, the Sewer Team, and the contractor will be working with the Police Department, other town departments, the business community, and the public to ensure good communication and response to questions or concerns during this period when more disruptions will occur.

Tonight, Mark Abrahams, Mark White, and Rob Adams are here to explain the financial

review and project updates to you in greater detail, and to address your questions.

Open discussion ensued between the Board of Selectmen and the Water & Wastewater Sewer Team.

MOTION: *Move that the Board of Selectmen vote to approve a Change Order to Environmental Partners Group for \$325,800. for engineering services for the USDA-funded North Union Field and water quality improvement programs conditioned upon formal written approval of the Town's reprogramming request by USDA.*

Motion by: Austin Knight **Seconded by:** John Santos Yes 5 Nay 0

2. **U.S. DEPARTMENT OF AGRICULTURE (USDA) SEWER BOND**

\$3,000,000 Borrowed at 2.25% for 40 Years

MOTION: *Move that the Board of Selectmen vote to accept the terms and conditions as contained in the United States Department of Agriculture (USDA) Sewer Bond Loan Resolution documents amounting to \$3,000,000 dated December 15, 2010 at 2.25% - payable to the United States Department of Agriculture (USDA).*

Motion by: David Bedard **Seconded by:** Elaine Anderson Yes 5 Nay 0

Motion to adjourn by David Bedard at 6:10 PM.

Minutes transcribed by: Vernon G. Porter, Secretary to Board of Selectmen
December 14, 2010