

Financing Plymouth's Sewer Debacle - revised (5/4/18)

Introduction:

In 2004 after years of debate and consent decrees (focused on the issue of harbor pollution) and procrastination by the Board of Selectman (who appoint themselves to serve as the Sewer Commissioners) Plymouth constructed a new \$45 million sewer system. This system added 4.5 mi of 30" ductile iron forcemain, a new treatment plant located at 131 Camelot Dr. and a new outfall pipe into Plymouth harbor for treated wastewater. The system is under the jurisdiction of the Plymouth Department of Public Works, Sewer Division. Veolia North America is under contract to operate and maintain the system.

In December 2015, after only 12 full years of operation, the system suffered a catastrophic failure, followed shortly by two more in January 2016. In consultation with the Massachusetts Department of Environmental Affairs (DEP) and with funding from the Massachusetts Clean Water Trust (a state agency that provides low interest loans to municipalities to improve water quality) (MCWT) emergency repairs were made creating an emergency bypass system (the temporary large black surface pipes). This was followed with a permanent fix made by sliplining the failed forcemain (by inserting a 24" lining into the failed iron 30" mains), construction of a second parallel permanent 24" sewer forcemain and then removal of the temporary piping.

What caused the failure is the subject of ongoing litigation with multiple parties involved (State, Veolia, Town.) With litigation and discovery in process no one is speaking on the record. However we do know that the failures were caused by excess acid formation that ate through the iron pipe. The system was designed for a flow of 3-million gal/day average usage. At the time of failure usage was less than half that amount.

Of additional concern is the issue of mandatory system hookups. A bylaw amendment was passed at Fall Town Meeting in 2004 requiring mandatory system hookups. This bylaw provision however has never been enforced. Town officials need to address why this occurred?

Sewer Enterprise Fund (SEF)

Plymouth has established a separate set of accounts for its sewer system operations. This is standard for revenue producing activities as it allows for the income, expenses and reserves of those activities to be viewed together and evaluated for just that activity. Plymouth maintains four such funds, Sewer, Water, Solid Waste and Airport. The SEF is funded by sewer fees, betterment assessments, interest earnings on fund assets and the use of capital reserves in the fund.

Sewer Debt:

As of June 30, 2015 (just before the system failures commencing in December 2015) the principal balance for all outstanding sewer system bonds totaled \$18,062,000. The remaining debt service payments (principal & interest) on this existing debt is \$2,900,000/year for 2016 to 2021; \$900,000/year for 2022 and 2023; then diminishing amounts from \$233,000/year to \$77,000/year from 2024 until 2035.

With catastrophic failures requiring emergency repairs, Plymouth approached the DEP and MCWT to arrange emergency financing. Borrowing through the MCWT allowed Plymouth to borrow without waiting for Town Meeting approval, which is normally required for all direct town debt. MCWT made short term funding available for plan development and emergency repairs at 0% interest. The repair and replacement plan estimated the total cost of repair and replacement installation to be \$48,200,000. To date \$42,900,000 has been borrowed on short-term notes at 0% interest. MCWT has agreed to let Plymouth convert the short-term notes into 4 long-term notes of \$12,050,000 to be borrowed over each of the next 4 fiscal years beginning in 2018. Each note is to be repaid over 30 years with level principal payments at an interest rate of 2.4%. The first principal and interest payment is due on the 1st note in FY19.

The budget submitted by the Selectmen to the Advisory and Finance Committee for FY2019 requests funding in the Sewer Enterprise Fund (SEF) of \$738,265 for the first payment on the first MCWT note. The total SEF budget for FY19 shows a budgeted increase in expenses of \$1,192,000 (32%) to \$6,328,000. The administration is not requesting any subsidy for FY19 from the general fund. FY19 SEF expenses including debt service will be borne by the SEF.

At the 12/19/17 budget presentation for FY19 to the Board of Selectmen, the Finance Director presented a graph on the Sewer Debt. * It showed that in FY's 2020, 21, 22 and 23 she is recommending that the SEF be subsidized by payments from the general fund. The total over the 4-year subsidy period is approx. \$4.3 million.

Policy issues to be addressed:

1. Should an enforceable plan be put in place to require mandatory sewer hookups for all properties that can be served by the system currently in place?
2. Will the Town enforce such a plan?
3. Should sewer rates and betterment fees be raised to compensate for the projected SEF shortfalls projected in FY 20, 21, 22 and 23 instead of relying on the general fund?
4. Should a commitment be made by the Town that, to the extent the SEF is subsidized by transfers from the general fund, and to the extent that revenues are received from

current litigation or settlements, such amounts are first used to “repay” the general fund before such funds are used to reduce future SEF debt or reduce SEF rates or fees?

* This presentation can be found at <https://www.plymouth-ma.gov/finance-department/pages/fy-2019-budget-info> and clicking on Budget Presentation 12-19-17.

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