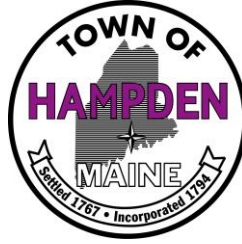


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TO: Infrastructure Committee
FROM: Angus Jennings, Town Manager
DATE: March 12, 2018
RE: Financing sewer capital projects

The Town Council opened its public hearing on the proposed sewer borrowing ordinance, and will continue the hearing next Monday, March 19. A special meeting of the Infrastructure Committee was scheduled for this Wednesday to allow further discussion of potential financing options for the four proposed sewer capital projects.¹

The Sewer Fund paid off one bond this year, so the FY19 Sewer debt service budget would be about \$100k below current, allowing for the addition of the same amount of annual debt service without impacting the overall sewer budget. (Current debt service obligations, sewer and general fund, are attached for reference).

If the borrowing ordinance is approved as proposed, and approved by voters, and if the entire \$2.7M in debt authorization is borrowed at once, I estimate annual debt service payments between \$165-200,000 for 20 years. I hope to further refine this estimate prior to the continued public hearing next week.

At the public hearing, several options for paying the debt service were presented:

1. \$101,000 of new debt service would replace the 1997 SRF loan payment included in the FY18 sewer budget.
2. The General Fund could, if so budgeted by the Town Council, absorb a portion of the debt service, for one or more projects deemed beneficial to the Town as a whole (as opposed to just sewer customers). A 2006 memo from the former Town Manager referred to a 2/3 (Sewer Fund) to 1/3 (General Fund) formula that had been used for sewer debt service prior to her tenure, which began in 2001. When I spoke with Manager Lessard earlier in my tenure, she advised that she was not aware that this cost split had ever been memorialized in formal policy, but that her understanding was that this was how sewer infrastructure had been financed in the 1990s.
3. The amount of repayment of interfund transfers from the General Fund could be reduced from the \$100,000 budgeted in FY17 and FY18. (The FY18 year-end interfund deficit owed by Sewer to General is projected at \$451,000).
4. The annual amount of \$60,000 paid from Sewer to General Fund, as an offset of Town employee time and resources to operate the sewer, could be reduced or eliminated.

¹ The four projects proposed in the borrowing ordinance are described in detail in the enclosed materials.

5. Sewer rates could be increased.
6. Once the Coldbrook Corners TIF District is approved, and development moves forward, a portion of debt service may be eligible for payment from TIF funds.

As we get closer to the end of the fiscal year, we may find that we can reduce budgeted expenses in the wastewater treatment sewer expense line item.

Over the weekend, we received invoices from the City of Bangor for wastewater treatment and pump station maintenance costs incurred since September and, 2/3 of the way through FY18, it appears that our budget for wastewater treatment costs – which was based on the monthly cost average from 2014-2017 – will exceed our actual costs. The budget covers \$163,010 in FY18 treatment costs; our spending year-to-date (for 8 out of 12 months) is \$57,419. If billing for March, April, May and June equals last year's total for the same period, this would bring annual costs to about \$117,000, which would leave about \$46,000 of budgeted but underspent funds in this expense line.

A more conservative approach would be to hold the same wastewater treatment budget in FY19 then, if actual spending is considerably less than budgeted, to use the excess revenue to make an extra payment toward reducing the interfund deficit to the General Fund.

Wednesday's special meeting of the Infrastructure Committee will be entirely devoted toward consideration of these questions.