City of Biddeford
City Council - Special Meeting
March 05, 2020 6:00 PM Council Chambers

1. **Roll Call**
2. **Pledge of Allegiance**
3. **Adjustment(s) to Agenda**
4. **Presentation**
   4.1. FY21 Budget Presentation
   Preliminary Review Materials - Bond Recommendations
5. **Orders of the Day**
6. **Adjourn**

City of Biddeford, Maine

The Office of
City Manager
James A. Bennett
Email: jbennett@biddefordmaine.org

MEMORANDUM

TO:	**Honorable Mayor Casavant** **Honorable City Council**
FROM:	James A. Bennett, City Manager
DATE:	February 28, 2020
RE:	**Capital Funding; Borrowing Request**

On Thursday, March 5, 2020 as part of the budget presentation, staff will be providing you a recommended bond package that we suggest you ask the voters to support. The goal that evening is for the meeting to be informational. You are not being asked to make any decision that evening. As part of the educational process, staff is providing this package of information for your advanced review that evening. This memo is intended to serve as the overview.

WWTP Issue

Returning members will recall that a major part of last year's budget process was focused on the internal loan between the wastewater treatment plant (WWTP) fund and the general fund. The FY15 audit showed a $4,642,948 "internal loan" from the general fund to the WWTP fund. This so-called internal loan was not a direct and deliberative policy decision of the elected officials.

In January of 2017, Moody's (credit agency) noted in their review that the amount owed was a "credit challenge". In 2018, Moody's issued a downgrade to the City's credit rating primarily because of the internal loan. During FY19, city staff, led by the Finance Director, made it a priority to understand the cause(s) of this liability on the books.

Staff presented their findings during the year. The quick version is that the city had been for many years establishing the sewer rates incorrectly. Instead of deducting any credits for water use[1] that the two water companies issued, the city had been manually adding the credits. The impact was to overstate the amount of billable units. This reduced the actual revenues that the City was receiving for nearly a decade.

Unfortunately, the economic shortfall of approximately $400,000 per year was masked because of the difference between the budgeting process for WWTP and the actual requirements that the auditors had to use to report the results of the audit. Wastewater is considered an 'enterprise' account for the purposes of governmental accounting standards. Unlike the general fund, an enterprise account is reported (and treated from an accounting standpoint) more like a business.

One of the largest issue is the treatment of capital investment. In the general fund, all capital expenditures are treated as a cash transaction. Regardless of the useful life of the capital item, the entire expenditure is recognized at the time of the purchase.

[1] City uses water usage as the basis for WWTP bill (as provided to the city by the water companies)

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However, for an enterprise account, only the depreciation is recognized as an expenditure. Here within lies the source of the masking of the revenue shortfall. Generally, the deprecation expense adjustment by the auditors would be about $400,000 in most years. The two numbers, by their similarity easy became confused as one in the same. Without a reason to seek a more in-depth understanding, no one was the wiser.

During this time of growing internal loan liability, the City was normally appropriating about $750,000 for capital funds annually. As an enterprise account, unused funds would be held as a reserve for future large capital projects. At the time of the FY20 budget process, the City was showing that the WWTP fund had $3.6 million in dedicated capital funds to address needs. The City had reduced the internal loan over a three-year period by $1,365,332 (leaving a liability of $3,277,616 as of FY18 audit).

Unfortunately, the recent enterprise accounting does not recognize the $3.6 million of available funds for capital. In fact, for every dollar it would have spent on capital, it would have increased the internal loan by the same amount. As the Council faced the FY20 budget, not only did it have to deal with the 'double count of credits' and corresponding shortfall in operating revenues but it also was faced with the reality that there was no capital reserve.

City staff presented a plan to resolve the reality that faced the Council. It recommended that the Council endorse a plan that:

- Increased the sewer user fees by 10% in FY20 and by another 5% in FY21
- The City would borrow $4,000,000 as a revenue bond in the spring of 2020 to replace the capital funds.
- The WWTP operating budget would reduce the appropriation to capital by $200,000 to accommodate the new debt payments.
- Over a period of 7 to 10 years, the internal loan would be eliminated.
- The operating budget in FY21 with these recommendations would be sustainable moving forward.

In addition to the other borrowing recommendations that are being made for CSO funds and road funds, the actual process of borrowing the revenue bonds in the amount of $4,000,000 still needs to occur. The revenue bond priority list is attached as Table 1.

Road and Sidewalk Funds

As part of the CIP appropriation for FY2020 the city was able to utilize a service, StreetScan by Streetlogix, to assisted in evaluating and rating all roads and sidewalks to better prioritize and plan road maintenance. An interactive report is available to for review that illustrates the value of the assessment and ranking program compared to historical methods. The report summary is available at https://storymaps.arcgis.com/stories/71dca459cfd2465e8afbd8486539a8e6. The current inventory is showing that it would take approximately $27 million to update all of the roads today. The StreetScan program also calculates the breakpoint for steady state maintenance as $1.75 million annually. To ensure positive progress StreetScan recommends an annual appropriation of $2.0 million annually for roads.

Staff is recommending the Council ask the voters in June to authorize $4.5 million in borrowing for roads and sidewalk improvements. If approved, the City would actually draw down on the authorized funds as follows:

- 2021 $1.5 million
- 2023 $1.5 million
- 2025 $1.5 million

An implementation plan for the first couple of years is based on the StreetScan report considering road prioritization, planned sewer work, and community factors. The sidewalk priority list is attached as Table 2. The road paving priority list is attached Table 3.

CSO (Combined Sewer Overflow) Funds

The projected long-term liability for CSO work in the City remains over $100 million. The rate of investment that the City is required to spend is governed by a court order consent decree that the City entered into in 1992. Every five years, the City works with DEP to determine the next five-year investment plan. The latest submittal to DEP was made earlier this month.

The City is expecting between a $5 million to $10 million implementation price for work that will be required in the next phase of the consent decree. Hence, we are recommending that we ask the voters for authorization to borrow $5 million in June. The plan would be as follows for implementation:

- 2021 $2 million
- 2023 $1.5 million
- 2025 $1.5 million

These are staff's best guess at this point and will be subject to change once the final order is received by DEP.

In addition to the request above, we are also suggesting that the Council ask the voters to give us borrowing authority of up to another $2 million that could only be borrowed based on the City receiving some sort of matching funds that would be added to the borrowed funds. As the veterans of the Council know, city staff has been very good about finding additional matching funds to deal with the CSO issue. We believe that success will continue. The CSO priority list is attached as Table 4.

One might be wondering why the City would seek authorization for a higher borrowing amount and yet not plan to borrow the funds in the entirety. Returning members might recall that the City had some potential compliance issues with federal tax-exempt borrowing requirements for the 2000 borrowings. Under those rules, a community must spend borrowed funds over a short period of time. For a number of reasons, including the fact that staff was able to get matching funds after the borrowing occurred, compliance became an issue. The plan as outlined will ensure that this issue will not repeat itself.

Closing Comments

The projected borrowing/repayment schedule prepared by Cheryl is provided for the general fund bonds (road/CSO) and the revenue bond as Table 5 and Table 6, respectively.

This borrowing recommendation is part of a suggested overall plan to address the capital funding shortfall the City has faced for a number of years. As you know, the Council over the last few years has greatly accelerated the amount of annual appropriations from taxation to capital. I will be recommending you once again take another step in that direction.

Table 1 - Wastewater Revenue Bond Priorities

Project	**Cost**
Replacement of Grit Removal System	$ 310,000.00
WWTF Roof Replacement	$ 71,886.00
Clarifier #2 replacement	$ 400,000.00
Paint Aeration Basins	$ 45,000.00
Meachanics Park CSO pumps replacement	$ 110,000.00
WWTF Return Sludge Pump replacements	$ 165,000.00
Update 2 remaining PLCs	$ 20,000.00
INF Pumps	$ 240,000.00
Process Water Strainer	$ 50,000.00
RBC Replace Media	$ 80,000.00
Heating upgrade in chem bld	$ 15,000.00
Process water line to CSO	$ 75,000.00
Grit Pad at PW	$ 25,000.00
Bioreactor Diffuser Replacement	$ 20,000.00
Replace BOD incubator	$ 10,000.00
Clarifier #1 replacement	$ 500,000.00
New INF gates	$ 100,000.00
RBC Ugrade Disinfection Process	$ 30,000.00
Modify bioreactor for N removal	$ 225,000.00
Bio Tower Media Replacement	$ 1,050,000.00
Effluent Pumping Station	$ 950,000.00
Pave Yard	$ 10,000.00
Dewatering Equipment Replacement	$ 520,000.00
Upgrade Disinfection Process	$ 1,000,000.00
Total	**$ 6,021,886.00**

Table 2 - Sidewalk Priority List

Road	Length	Total Sqft	Total Cost
Mason St	833	4,165	$ 55,050.19
Bald	577	2,885	$ 38,132.01
Paquin Ave	1,721	8,605	$ 79,315.15
Pearl	570	2,850	$ 37,669.40
High St	1,035	5,175	$ 68,399.70
Georgetown Dr	951	4,755	$ 43,828.42
Luke Ln	345	1,725	$ 15,899.90
Folsom Ln	1,155	5,775	$ 53,230.10
Grason St	1,953	9,765	$ 90,007.26
Penny Ave	634	3,170	$ 29,218.95
Emery St	578	2,890	$ 38,198.09
Foss St	420	2,100	$ 27,756.40
Center St	734	3,670	$ 48,507.61
Debbie Ave	561	2,805	$ 25,854.62
Tibbets St	514	2,570	$ 23,688.55
Bacon St (Alfred to Hill Cl	550	2,625	$ 34,695.00
Calixte ln	871	4,355	$ 40,141.49
Westfield St	1,205	6,025	$ 55,534.43
Victory Ave	626	3,130	$ 28,850.25
Haley Cir	682	3,410	$ 31,431.11
Meadow View	239	1,195	$ 11,014.71
Brackette St	542	2,710	$ 35,818.97
Parkview Ct	1,022	5,110	$ 47,100.57
Piersons Ln	741	3,705	$ 48,970.22
FOAV Ct	214	1,070	$ 9,862.55
			$ 1,018,176.16

Table 3 - Street Paving Priority List

Street Name	Length	Grand total
Mason Street/Bradbury/Elm	833	$ 56,848.99
Bald Ave	577	$ 39,376.93
Paquin Avenue	1,721	$ 117,449.91
Pearl Street/Elm/Lincoln	512	$ 34,940.99
Pearl Street	570	$ 38,899.84
Buzzel Rd/River Rd/Dayton Lin	6,294	$ 465,330.49
Gove Street	716	$ 48,863.35
High Street	1,035	$ 70,633.92
Georgetown Drive	951	$ 64,901.00
Dearborne Ave	1,000	$ 68,245.33
Luke Lane	345	$ 23,544.64
Folsom Lane	1,155	$ 78,823.36
Grayson Street	1,953	$ 133,283.76
Pearl Street	790	$ 53,913.81
Little Creek Drive	782	$ 53,367.23
Penny Avenue	634	$ 43,267.85
Emery Street	578	$ 39,446.43
Foss Street	420	$ 26,274.45
Center Street	734	$ 45,918.15
Kossuth Street	361	$ 22,583.10
Valerie Circle	181	$ 12,352.09
Debbie Avenue	561	$ 38,285.32
Tibbets Street	514	$ 35,078.41
Bacon Street	1,230	$ 83,941.76
Calixte Lane	871	$ 54,487.80
Rathier Street	496	$ 31,028.46
Wesfield Street	1,205	$ 82,235.63
Victory Avenue	626	$ 42,721.27
Haley Circle	682	$ 46,542.69
Lavoie Street	336	$ 21,020.19
Meadow View Drive	239	$ 16,310.95
Valley Circle	181	$ 11,322.62
Cottage Street	401	$ 27,366.07
Brackett Street	542	$ 36,988.35
Parkview Court	1,022	$ 69,746.11
Piersons Lane	741	$ 50,569.48
Foav Court	214	$ 13,387.36
Proctor Road	4,987	$ 311,978.06
Myrtle Street	971	$ 66,265.91
Fogg Ave	427	$ 29,140.13
Perreault street	230	$ 15,696.43
Stone Street	639	$ 43,609.08
Judge Street	414	$ 28,253.88
Fourth Street	1,283	$ 87,559.39
Cornish Street	263	$ 17,949.15
Deer Run	970	$ 66,197.97
West loop Romeo Ln	1,477	$ 100,797.73
Maddox Pond Road	2,175	$ 400,000.00
Alexander Drive	1,575	$ 107,486.40
Harmon Street	404	$ 27,571.43
Ivy Street	202	$ 13,784.93
Abby Ln	292	$ 19,927.01
Valerie Circle	181	$ 12,352.09
Oakwood Circle	432	$ 29,481.36
Hubert Street	658	$ 44,906.05
Crestwood	1,342	$ 91,584.61
Wentworth Court	241	$ 16,446.81
Sunset Circle	199	$ 13,581.13
Jay Drive	560	$ 38,217.39
Wendell Circle	1,008	$ 68,791.92
Glaude Ave	1,220	$ 83,259.31
Cathedral Thatcher brook ln	1,350	$ 92,131.20
Cathedral end to Thatcher	625	$ 42,653.33
Wadlin road	4,710	$ 321,435.52
		$4,479,484.40

Table 4 - CSO Priority List

Project	Cost
Horigans PS	$ 3,500,000.00
Private I-I Removal removal	$ 750,000.00
Sewer mapping	$ 250,000.00
SSES back of South Street	$ 1,000,000.00
Elm Street St PS/Tank	$ 2,430,000.00
Main Street to King Street seperation	$ 750,000.00
Alfred Street (Main to Pool) Separation	$ 1,250,000.00
Pipe lining	$ 200,000.00
Elm st separation	$ 340,000.00
Flow metering	$ 120,000.00
CSO phase 3	$ 120,000.00
Pearl/Elm Sewer improvement	$ 1,425,000.00
Total	**$ 12,135,000.00**

Table 5 - Road and CSO Bond Schedule

	Roads & Sidewalks Bond (Current)			Roads & Sidewalks (New)			CSO Bond (Current)			CSO Bond (New)			
FY	Principal	Interest	Subtotal	Principal	Interest	Subtotal	Principal	Interest	Subtotal	Principal	Interest	Subtotal	Cumulative Total
FY 2020	1,571,619.26	653,069.46	2,224,688.72	-	-	-	559,000.00	135,115.90	694,115.90	-	-	-	2,918,804.62
FY 2021	1,568,611.76	578,941.46	2,147,553.22	-	-	-	554,000.00	113,731.24	667,731.24	-	-	-	2,815,284.46
FY 2022	1,565,785.30	536,512.55	2,102,297.85	150,000.00	60,000.00	210,000.00	549,000.00	100,496.58	649,496.58	100,000.00	80,000.00	180,000.00	3,141,794.43
FY 2023	1,548,144.58	496,384.28	2,044,528.86	150,000.00	54,000.00	204,000.00	319,000.00	89,637.00	408,637.00	100,000.00	76,000.00	176,000.00	2,833,165.86
FY 2024	1,550,694.47	453,595.49	2,004,289.96	300,000.00	108,000.00	408,000.00	319,000.00	78,052.50	397,052.50	175,000.00	132,000.00	307,000.00	3,116,342.46
FY 2025	1,553,439.95	408,361.10	1,961,801.05	300,000.00	96,000.00	396,000.00	319,000.00	66,468.00	385,468.00	175,000.00	125,000.00	300,000.00	3,043,269.05
FY 2026	1,561,386.14	363,051.01	1,924,437.15	450,000.00	144,000.00	594,000.00	314,000.00	55,008.50	369,008.50	250,000.00	178,000.00	428,000.00	3,315,445.65
FY 2027	1,574,538.27	310,609.97	1,885,148.24	450,000.00	126,000.00	576,000.00	319,000.00	39,736.50	358,736.50	250,000.00	168,000.00	418,000.00	3,237,884.74
FY 2028	1,382,901.74	262,038.84	1,644,940.58	450,000.00	108,000.00	558,000.00	319,000.00	24,339.50	343,339.50	250,000.00	158,000.00	408,000.00	2,954,280.08
FY 2029	1,391,481.58	215,560.21	1,607,041.79	450,000.00	90,000.00	540,000.00	324,000.00	8,817.50	332,817.50	250,000.00	148,000.00	398,000.00	2,877,859.29
FY 2030	1,404,066.62	171,785.00	1,575,851.62	450,000.00	72,000.00	522,000.00	14,000.00	920.50	14,920.50	250,000.00	138,000.00	388,000.00	2,500,772.12
FY 2031	924,905.19	138,520.37	1,063,425.56	450,000.00	54,000.00	504,000.00	14,000.00	773.50	14,773.50	250,000.00	128,000.00	378,000.00	1,960,199.06
FY 2032	933,030.44	113,046.85	1,046,077.29	300,000.00	36,000.00	336,000.00	-	-	-	250,000.00	118,000.00	368,000.00	1,750,077.29
FY 2033	941,358.82	86,751.45	1,028,110.27	300,000.00	24,000.00	324,000.00	-	-	-	250,000.00	108,000.00	358,000.00	1,710,110.27
FY 2034	627,161.71	60,231.54	687,393.25	150,000.00	12,000.00	162,000.00	-	-	-	250,000.00	98,000.00	348,000.00	1,197,393.25
FY 2035	510,495.40	43,671.96	554,167.36	150,000.00	6,000.00	156,000.00	-	-	-	250,000.00	88,000.00	338,000.00	1,048,167.36
FY 2036	510,495.40	26,493.62	536,989.02	-	-	-	-	-	-	250,000.00	78,000.00	328,000.00	864,989.02
FY 2037	485,000.00	8,487.50	493,487.50	-	-	-	-	-	-	250,000.00	68,000.00	318,000.00	811,487.50
FY 2038	-	-	-	-	-	-	-	-	-	250,000.00	58,000.00	308,000.00	308,000.00
FY 2039	-	-	-	-	-	-	-	-	-	250,000.00	48,000.00	298,000.00	298,000.00
FY 2040	-	-	-	-	-	-	-	-	-	250,000.00	38,000.00	288,000.00	288,000.00
FY 2041	-	-	-	-	-	-	-	-	-	250,000.00	28,000.00	278,000.00	278,000.00
FY 2042	-	-	-	-	-	-	-	-	-	150,000.00	18,000.00	168,000.00	168,000.00
FY 2043	-	-	-	-	-	-	-	-	-	150,000.00	12,000.00	162,000.00	162,000.00
FY 2044	-	-	-	-	-	-	-	-	-	75,000.00	6,000.00	81,000.00	81,000.00
FY 2045	-	-	-	-	-	-	-	-	-	75,000.00	3,000.00	78,000.00	78,000.00
Total	**21,605,116.63**	**4,927,112.66**	**26,532,229.29**	**4,500,000.00**	**990,000.00**	**5,490,000.00**	**3,923,000.00**	**713,097.22**	**4,636,097.22**	**5,000,000.00**	**2,100,000.00**	**7,100,000.00**	

Table 6 - Wastewater Revenue Bond Schedule

	Wastewater Revenue Bond (New)		
FY	Principal	Interest	Subtotal
FY 2020	-	-	-
FY 2021	-	-	-
FY 2022	75,000.00	160,000.00	235,000.00
FY 2023	175,000.00	157,000.00	332,000.00
FY 2024	175,000.00	150,000.00	325,000.00
FY 2025	175,000.00	143,000.00	318,000.00
FY 2026	175,000.00	136,000.00	311,000.00
FY 2027	175,000.00	129,000.00	304,000.00
FY 2028	175,000.00	122,000.00	297,000.00
FY 2029	175,000.00	115,000.00	290,000.00
FY 2030	225,000.00	108,000.00	333,000.00
FY 2031	225,000.00	99,000.00	324,000.00
FY 2032	225,000.00	90,000.00	315,000.00
FY 2033	225,000.00	81,000.00	306,000.00
FY 2034	225,000.00	72,000.00	297,000.00
FY 2035	225,000.00	63,000.00	288,000.00
FY 2036	225,000.00	54,000.00	279,000.00
FY 2037	225,000.00	45,000.00	270,000.00
FY 2038	225,000.00	36,000.00	261,000.00
FY 2039	225,000.00	27,000.00	252,000.00
FY 2040	225,000.00	18,000.00	243,000.00
FY 2041	225,000.00	9,000.00	234,000.00
FY 2042	-	-	-
FY 2043	-	-	-
FY 2044	-	-	-
FY 2045	-	-	-
Total	**4,000,000.00**	**1,814,000.00**	**5,814,000.00**