

BACKGROUND REPORT:

Do the increased water use fees pay for the town's portion of financing the proposed water line?

Submitted by Heather Williams, Nov. 30, 2004

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FINANCING ANALYSES:

http://www.newshare.com/williamstown/state_loan.pdf

http://www.newshare.com/williamstown/municipal_bond.pdf

QUESTION PRESENTED:

Do the increased water-use fees which town officials say will result from a proposed 16-inch water main extension along Cold Spring Road pay for the town's portion of financing the line?

To address this question, we can compare the increase in revenues the new water line generates to the increase in expenses that result from building and maintaining the new water line. Town officials have generated information about projected expenses and revenue and posted it at their website ("Operating Expenses and Debt Repayment Analysis, can be found at <http://www.williamstown.net/csrlwl.htm>). Using the town's figures, the projected net cost (expenses minus revenues) of the water line can be calculated for its first 10 years existence, or when it is completely paid for after 20 years for two different options: 1) a 2% loan from the state revolving fund, and 2) a municipal bond at 5%, which is projected in the town's document and is the option that is on the warrant for the town meeting.

Net cost to the Town of Williamstown of the new Cold Spring Road water line

Type of financing	Net cost, first ten years	Net cost after 20 years
5% municipal bond	\$379,925	\$869,130
2% loan from state revolving fund	\$274,650	\$469,956

SUMMARY CONCLUSION

Not surprisingly, the net cost to the town varies, depending upon the type of financing that can be obtained. However, the expense of financing the water line is not counterbalanced by the projected increase in revenues due to fees from new water usage generated by the water line. The net cost to the town could be saved by not constructing the line. Should the Mount Greylock Regional High School eventually need renovations or rebuilding at its current site, the savings generated by not building the water line could be applied to providing water storage for fire

suppression. For example, the school projects that a water tank would cost at most \$1,000,000. If school renovations are undertaken that require such a water tank, the tank would be funded as part of the renovation package, an undertaking that could not proceed without state assistance, which would likely cover 50% or more of the entire project. Thus the cost to the school district of the water tank would be \$500,000. One third of this cost would be paid by Lanesborough, leaving \$333,333 as Williamstown's assessment – an amount that would be covered by the savings generated by not building the Cold Spring Road water main.

ANALYSIS

Expenses

There are two main categories of expenses that the new water line creates: 1) debt service (paying the principal and interest owed on any loan or bond used to raise the \$875,000 the town will contribute towards the water line), and 2) maintaining and servicing the water line (which includes pipes and the pumping station).

Debt Service.

The cost of servicing the debt will depend on how the money is raised. The two main options are, first, a municipal bond at approximately 5% (as is assumed by the analysis posted on the town's web site), and second, a loan from the state's revolving fund at 2%.

If the town is able to obtain a loan from the state's revolving fund, the town would pay 1/20th of the principal (\$43,750) each year, plus a yearly interest payment of 2% on the principal that remains at the beginning of the year. Thus the first year's payment for this option would be \$61,250, and the size of the payment would decrease from year to year, with the final payment in the 20th year being \$43,750.

If the town is not able to obtain the low-interest loan from the state, it will fall back on a 5% municipal bond. The town's payment schedule for this option, as explained by Peter Fohlin, projects payments of \$57,000 for the first four years and \$75,000 for the remaining 16 years.

The town has estimated maintenance and services costs for the new water line to be \$17,614 in the first year of operation, and has further suggested that the labor costs will increase by 2.5% and the service costs by 0.5% each year (these projected increases seem low, but will be used for this analysis).

Thus the expenses for the first year of the waterline if it is funded by a state loan would be \$78,864. The yearly increase in maintenance and servicing would partly counterbalance the yearly reduction in debt service, and the 20th year's expenses would be \$69,502. The total expenses for the first ten years would be \$764,049, and the expenses over the 20-year life of the loan would be \$1,478,680.

If the water line is financed with a municipal bond with the payment schedule used by the town in generating in its "Operating expenses and debt repayment analysis" document, the first year's expenses would be \$74,614, jumping to \$93,843 in the fifth year and rising gradually thereafter. The expenses for the first ten years would be \$868,924, and the total expenses over the 20-year life of the bond would be \$1,847,930.

Revenues

The increase in revenues from the new water line would be generated by water fees charged to the new users along Cold Spring Road and Rte. 7. The important new users would be the Mount Greylock Regional High School, the new Clark conservation center, and the Northern Berkshire Health Systems' properties (Sweetwood, Sweetbrook, and any new expansions), and estimated water use for these entities is provided in the document "Cold Spring water line extension – End user estimated flows" on the town web site; the town projects revenues of \$56,000 per year from the new water line in this document. However, the Clark conservation center's water use from the new line would be offset by a decrease of water use on South Street, where the facility is currently located (and where the new center would be built if there is no new water line). Removing the "double-counted" 10,000 gallons per day attributed to the Clark from the town's estimates yields an estimate of \$44,000 per year in new revenues from the new water line. In its analysis of debt repayment, the town has estimated that there would be a total of 19,948 hundred cubic of new usage, and new revenues of \$49,000. Although this figure is higher than the total of MGRHS' and NBHS's projected usage, it is possible that other users along Cold Spring Road would make up the difference, and the higher figure has been used in this analysis. This is \$29,864 less than the first year's expenses if the water line is funded by a state loan, and \$25,614 less than the first year's expenses if the water line is funded by the municipal bond payments in the town's projection.

Applying the same reasoning and simple calculations to each of the 20 years during which the town must pay back any loan or bond gives the total figures that are supplied in the table presented in the first page.

Future outlook

It could be argued that simply increasing the water fees over the course of several years would eliminate the difference between expenses and revenues. Some increase in fees is likely to be necessary to cover inflation of the expenses for running the entire water system, including the new water line. Further increases could be used to offset the expense of financing the new water line. However, town officials have expressly stated that increases in water fees would not be necessary to pay for the new water line. Thus the money will have to come from elsewhere – perhaps from other parts of the town budget, perhaps from reducing contributions to the water enterprise fund (a rainy day fund used to pay for upgrades to and major repairs of the existing water system). In any case, the shortfall represents a real loss of funds that would otherwise be available to the town, and which will have to be made up by taxpayers at some point and in some fashion.

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