

Town of Coventry - Sewer Program

Limited Review Report

March 2019



Dennis E. Hoyle, CPA, Auditor General

Office of the Auditor General

General Assembly

State of Rhode Island and Providence Plantations



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March 29, 2019

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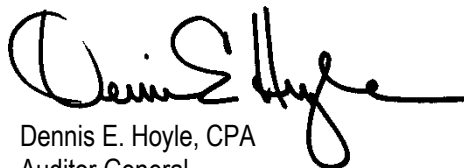
We were requested by the Joint Committee on Legislative Services to perform a limited review of the Town of Coventry – Sewer Program.

The objectives of our review were to provide recommendations to stabilize the program in the near-term and outline considerations and recommendations to build a longer-term sustainability plan for the Coventry Sewer Program.

We obtained and considered the views of the Town's management in preparing our report. Implementation of many of the recommendations included herein requires the consideration and action of the Town Council. Accordingly, the Town's planned corrective actions have not been included in this report.

We have completed our review and our report is contained herein as outlined in the Table of Contents.

Sincerely,



Dennis E. Hoyle, CPA
Auditor General

Town of Coventry – Sewer Program

Limited Review Report

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Executive Summary – Limited Review – Town of Coventry - Sewer Program

The challenges facing the sewer program in Coventry threaten the sustainability of an important and needed Town service and negatively impact the Town's overall financial health. Our limited scope review is intended to provide an objective view of the status of the program and offer recommendations to stabilize the program in the near-term and provide intermediate and longer-term recommendations for future sustainability.

The Coventry sewer program's challenges include building a sewer network in established neighborhoods and supporting it financially through assessments and user charges from a relatively small group of homeowners and businesses. The disparity in population density and property use between the eastern and western sections of the Town results in differing perspectives on the benefits of the program, how it should proceed, and how it should be financed.

The "fiscal health" of the sewer program has a direct impact on the finances of the town of Coventry and cannot be viewed as separate and distinct from the fiscal operations of the Town. As such, the sewer program must be stabilized in the near-term and supported by a reasonable long-term sustainability plan.

Moody's Investors Service (Credit Opinion – October 4, 2018) revised the outlook for the Town of Coventry to negative citing: "Coventry's financial position is sufficient but is challenged by support of its sewer system, which continues to require general fund support and is increasingly burdening the town's general government operations."

A more current update (*Moody's Investors Service - Credit Opinion – February 26, 2019*) reiterated the same concerns: *"The negative outlook reflects our expectations that the town's finances will continue to be pressured by the need to subsidize its sewer operations"*.

Since sewer program revenues have been insufficient to fund operations and pay debt service, advances totaling \$2.7 million have been required from the Town's general fund. Based on current cash flow projections, additional advances will be required in fiscal 2019 and future years absent changes in billing rates and/or operations. Operating deficits are also projected to continue.

Sewer rates have not been supported by an appropriate rate setting process. A viable financial plan does not exist to guide the program and to ensure that

amounts borrowed, and other operating costs can be supported by sewer fees and connection assessments.

Coventry has entered into an inter-municipal agreement with the West Warwick Regional Sewer Authority which treats sewer flow from Coventry. Costs paid by Coventry to West Warwick include amounts based on both actual sewer flow and a "reserve capacity" percentage applied to West Warwick's debt service for facility upgrades. The reserved capacity percentage is in excess of Coventry's actual proportionate use of the treatment plant, which adds to the burdensome costs assessed to Coventry's sewer system users.

The lack of public support for the program and demands that it be suspended, result principally from the high sewer assessments and sewer connection charges for affected homeowners and businesses. A realistic and comprehensive sustainability plan must ensure that sewer program costs are equitably shared and affordable. Ultimately, "customer charges" in the form of connection assessments or user fees are the source to repay amounts borrowed by the Town for the program.

Inter-municipal Agreement: Given the fiscal challenges related to the Coventry sewer program and the related impact on the Town's overall financial condition, the inter-municipal agreement needs to be revisited. The Town of Coventry must consider anticipated increases in usage relative to the negotiated reserve capacity and how that timeline coincides with the remaining term of the West Warwick facility debt for which Coventry is paying a share of debt service.

Reassess the sewer program's town-wide benefits: While supporting the sewer program solely from user assessments and user fees is appropriate, viewing the sewer program's services in a broader context of enabling and benefitting economic development and growth in the tax base, as well as mitigating and preventing health and safety issues, may allow a broader recognition of the importance of the program to the Town's overall growth and fiscal sustainability. That recognition may support more flexibility and expanded options to support the program.

Seek options to reduce the cost of sewer assessments: Addressing the high cost of sewer assessments and costs of connection is a necessary component of developing a realistic comprehensive sustainability plan.

Executive Summary – Limited Review – Town of Coventry - Sewer Program

Ensuring that sewer program costs are equitably shared and affordable is necessary for the program to continue. This will allow the Town to repay amounts borrowed for the program. Continuation of the program resulting in an increased number of users to share in the costs of the program is dependent upon effectively managing homeowner opposition to the total costs of connecting to Town sewers. The following options can be explored to manage and reduce the high cost of sewer assessments on homeowners:

- *Review the components included in the total project construction costs allocated to the homeowners adjacent to the sewer line extension. Consider eliminating street paving costs, police details and any extraordinary, unanticipated construction costs.*
- *Subsidize the sewer assessment by recovering a portion of those costs from sewer use charges or a direct subsidy for a portion of the costs from the Town's general fund or another non-sewer fund source.*
- *Reduce the interest rate charged on sewer assessment to approximate the Town's actual costs to borrow.*
- *Increase the availability and awareness of lower cost financing options for homeowners.*
- *Adopt a maximum sewer assessment amount to ensure that sewer assessments to homeowners are equitable and consistent in the various phases (contracts) of the program.*

Sewer Rate Setting: Sewer rates have not been supported by an appropriate rate setting process. A viable financial plan has not been in place to guide the program and to ensure that amounts borrowed and other operating costs can be supported by sewer fees and connection charges. In the past, the rates proposed and supported by the rate-setting process were not implemented, and instead significantly lower rates were adopted based on rates deemed to be consistent with homeowners' expectations. This practice led to the operating and cash flow deficits in the sewer enterprise fund.

External, independent expertise is needed on a recurring basis to help the Town adopt sewer rates that ensure recovery of costs, avoid deficits, and ensure sufficient cash flow to meet obligations as they come due. Additionally, policies for rate setting need to be established and formally adopted to provide the underpinnings of how rates should be developed and what costs they are intended to cover.

Development of annual sewer rates should be performed in concert with the development of the annual financial plan with multi-year projections for adoption by the Town Council.

The multitude of sewer use rates charged to customers is unduly complex. The complexity and variety of rates adds to the overall administrative burden and further supports a move towards fully regionalizing the West Warwick Regional Wastewater Treatment Facility. In the interim, external rate-setting assistance can help simplify the variety of rate combinations and ensure all users are paying the appropriate proportionate share of program costs.

Additional resources in the finance, rate setting, administrative, and engineering areas are likely needed to adequately meet current operational needs and to develop and execute a longer-term sustainability plan.

Governance and Administration: An annual operating plan (budget) should be developed for the sewer fund and adopted by the Town Council. Enhanced transparency and educational outreach are needed for Town residents regarding the importance of the program and planned expansions of the sewer system.

Additional finance and administrative staff are needed to operate and effectively manage the Town's sewer program. The separate bank account established for the fund should be utilized, and enhanced computer system functionality is needed to facilitate tracking and billing of sewer assessments. Additionally, controls can be improved to ensure that the development of the sewer use charges include and consider all the various components of costs.

Explore full regionalization: As part of a longer-term view for the Coventry sewer program, Coventry and the other communities served by the facility should explore having the West Warwick Regional Wastewater Treatment Facility act more independently (possibly more like the Narragansett Bay Commission or Kent County Water Authority model) with representation of the benefitting communities on their governing board. A regional commission would assume all responsibility for the program eliminating a large part of the functionality which is, to some extent, duplicated in Coventry. This follows a shared-services model often proposed as a partial solution to the perennial challenges local governments face in providing services within the property tax limitations and increasing commitments for education and public safety expenditures.

Executive Summary – Limited Review – Town of Coventry - Sewer Program

Summary of Recommendations

1. Explore if any sewer program costs can or should be supported through the Town's General Fund.
2. Consider offsetting the Town's sewer assessment liability for connecting Town buildings to the sewer system against the General Fund advances that are not likely reimbursable in the near term. If such offsets are not applied, charge interest to the Town's sewer assessment payable to the sewer fund.
3. Bill sewer assessments for recently completed sewer work to provide cash flow to meet required debt service payments.
4. Utilize remaining unspent bond proceeds to reduce the sewer program's outstanding debt thereby lessening the cash flow deficit in the near term.
5. Enact a minimum base sewer use charge to be applied one year after the initial sewer assessment when actual connection and use has not commenced (and no waiver or deferment sought).
6. Revisit the negotiated reserve capacity component of the inter-municipal agreement between the Town of Coventry and the Town of West Warwick. Renegotiate that component to more closely reflect actual usage and intended usage reflecting current estimates of commercial, industrial and housing expansion in the Town of Coventry.
7. Reassess the importance of the sewer program to the Town's overall growth, economic development and health and safety objectives. Utilize that updated assessment to guide various near-term and longer-term decisions regarding the sewer program.
8. Implement an information program to educate taxpayers on how the sewer program is integral to the long-term growth and viability of the Town.
9. Increase the number of system users/customers strategically by targeting expansion of the system where there is the strongest environmental need, homeowner interest, and a reasonable balance of construction costs to the number of connections/users gained.
10. Ensure near-term and longer-term sewer expansion plans are incorporated into the Town's overall planning efforts. Enhance transparency and communication of any sewer system expansion by requiring notification to affected homeowners at least two years in advance of the actual construction schedule to allow that information to be considered by homeowners contemplating installation of a new individual sewage disposal system.
11. Explore options to manage and reduce the high cost of sewer assessments on homeowners to include:
 - Review the components included in the total project construction costs allocated to homeowners. Consider eliminating street paving costs, police details and any extraordinary, unanticipated construction costs.
 - Subsidize the sewer assessment by recovering a portion of those costs from sewer use charges or a direct subsidy for a portion of the costs from the Town's General Fund or another non-sewer fund source.
 - Reduce the interest rate charged on sewer assessment to approximate the Town's actual costs to borrow.
 - Increase the availability and awareness of lower-cost financing options for homeowners.
 - Adopt a maximum sewer assessment amount.
12. Engage a firm to perform a formal sewer use rate study and to provide expert support to the Town in establishing and adopting sewer use rates. Re-establish and commit to which costs are being recovered through sewer use fees.
13. Develop an annual operating plan (budget) for the sewer fund which includes cash flow and capital budgets as well. The annual sewer operating plan should be adopted formally by the Town Council as part of the Town's overall annual budget preparation process.
14. Evaluate the need for additional finance and administrative staff for the operations of the Town's sewer program.
15. Utilize the separate bank account established for the Town's sewer enterprise fund.
16. Acquire an enhanced computer application to facilitate tracking and billing of sewer assessments.
17. Enhance controls to ensure that the development of the sewer use charges include and consider all the various components of costs.
18. Create a study group to explore and assess the feasibility of fully regionalizing the West Warwick Regional Wastewater Treatment Facility including representation from all municipalities using the treatment plant.

SCOPE AND OBJECTIVES

We performed a limited review of the Town of Coventry's sewer program. Our objectives included:

- assessing the operating challenges of the Town's sewer program;
- providing recommendations in the near-term to stabilize the program; and
- developing intermediate and longer-term recommendations for Town leaders to consider as options to sustain future program operations.

We did not perform an audit of the Town of Coventry or its sewer program.

Our review included information gathered from the Town of Coventry and its advisors, the West Warwick Regional Wastewater Treatment Facility, and other municipal sewer programs in Rhode Island.

BACKGROUND***Overview of Recent Challenges***

Strong taxpayer opposition to the amount of sewer assessments and the Town's overall administration of the sewer program has resulted in suspension of the program, including new sewer assessments, and inquiries from both local and State elected leaders into the program's operation. The controversy centers on the high costs of sewer assessments for those in newly sewerred areas, the mandatory nature of the assessments, needed cash advances from the General Fund to support operations of the Sewer fund, and the perceived negative impact of the sewer program on funds available for other budgetary objectives. Adoption of the Town's annual budget through a Financial Town Meeting was nearly thwarted due to taxpayer opposition largely fueled by concerns over the operation of the Town sewer program.

These challenges have coincided with instability in the Town's executive leadership. The Town manager position has been filled on an acting basis for nearly a year and the Finance Director position was only recently filled.

The sewer program's fiscal challenges have diminished the view of the Town's finances overall. Moody's Investor's Service revised the outlook for the Town to negative in October 2018 citing the unstable operations of the sewer fund and the need for continued General Fund subsidy as the primary reason.

The Town's split profile, which includes a densely populated eastern section and a rural western section, complicates the dynamics of building support town-wide for the sewer program. A small percentage of homes are connected to the sewer system and, therefore, the costs of the program are borne by a small number of users. The sewer system is key to the Town's economic development initiatives which center on industrial expansion and expanded commercial and housing offerings at the Centre of New England complex.

The Coventry Town Council engaged Citrin Cooperman in January 2018 to review the operations of its sewer system to assist them in gaining an understanding and evaluation of the financial history of the Coventry Sewer Program and to provide recommendations to enhance the financial stability and proposed expansion.

In a report to the Town dated June 25, 2018, Citrin Cooperman found operating cash flow related to the Sewer Enterprise Fund does not appear sufficient to cover operating expenses, anticipated assessment revenue does not appear sufficient to cover debt service costs, a \$10,000,000 shortfall in receivables to debt (on the 6/30/16 financial statements), and total outstanding debt of approximately \$26,500,000. Net book value of assets is approximately \$26,900,000 as of June 30, 2016.

Based on the findings above and discussions with management, Citrin Cooperman recommended:

- the establishment of a financial oversight committee,
- refinancing the Sewer Program debt,
- identifying options for payment of anticipated shortfall in revenue over operating expenses and debt service,
- consideration of the impact of a default on debt service payments,
- working with the town of West Warwick to review provisions of the inter-municipal agreement,
- evaluation of exiting the inter-municipal agreement and sewer business, and
- long-term, consideration of the establishment of a regional wastewater treatment facility.

History of the Sewer Program in Coventry

In the early 1980s, the RI Port Authority constructed the New London Turnpike Sewer to provide service to the West Greenwich Industrial Park development. In 1984, the Town of Coventry executed an inter-municipal agreement (IMA) with West Warwick reserving an average daily flow of 2.25 million gallons per day (MGD) of wastewater capacity into their regional wastewater treatment facility. This was done to initially provide service to much of the densely populated eastern portion of Town and to provide for future capacity.

Preceding these actions, a town-wide referendum to authorize borrowing up to \$7 million for the construction of a municipal sewer system was defeated in 1971. In 1983, a referendum failed to approve borrowing of up to \$6.9 million for sewer construction. In 1987, a referendum passed authorizing \$750,000 for construction of a dry sewer line on Hopkins Hill Road. In 1994, a town-wide referendum to authorize borrowing up to \$8.5 million for construction of a municipal sewer system was also defeated.

From the 1980s through 2017, sewer projects were undertaken that included construction of pumping stations, force mains and sewer lines.

In January 1997, The Town Council adopted an ordinance governing the use of public and private sewers and drains. It outlined laws regarding connections to the public sewer system, use of the sewer system and established sewer assessments.

In July 2003, the Town Council ratified a sewer infrastructure construction agreement with Amgen. Amgen contributed approximately \$6 million for Coventry's infrastructure upgrades and the Town was to cover the balance through sewer assessments with the Town retaining ownership of the system.

In January 2004, the Town Council established the Coventry Sewer Subcommittee. In April 2004, along with increasing sewer assessments, the Town Council established an annual use charge for operation, maintenance and capital replacement of the sewer system.

In October 2006, the Town Council created the Sewer Assessment Board of Review.

In March 2010, the Town's Facilities Plan Update was approved by RI Department of Environmental Management. This plan allocated capacity to the industrial parcel owned by Clariant Corporation and Rhodes Technologies and re-allocated capacity for recent development and future sewer expansion.

In 2015, sewer assessments were now based on the actual cost of construction allocated among the benefitting homeowners.

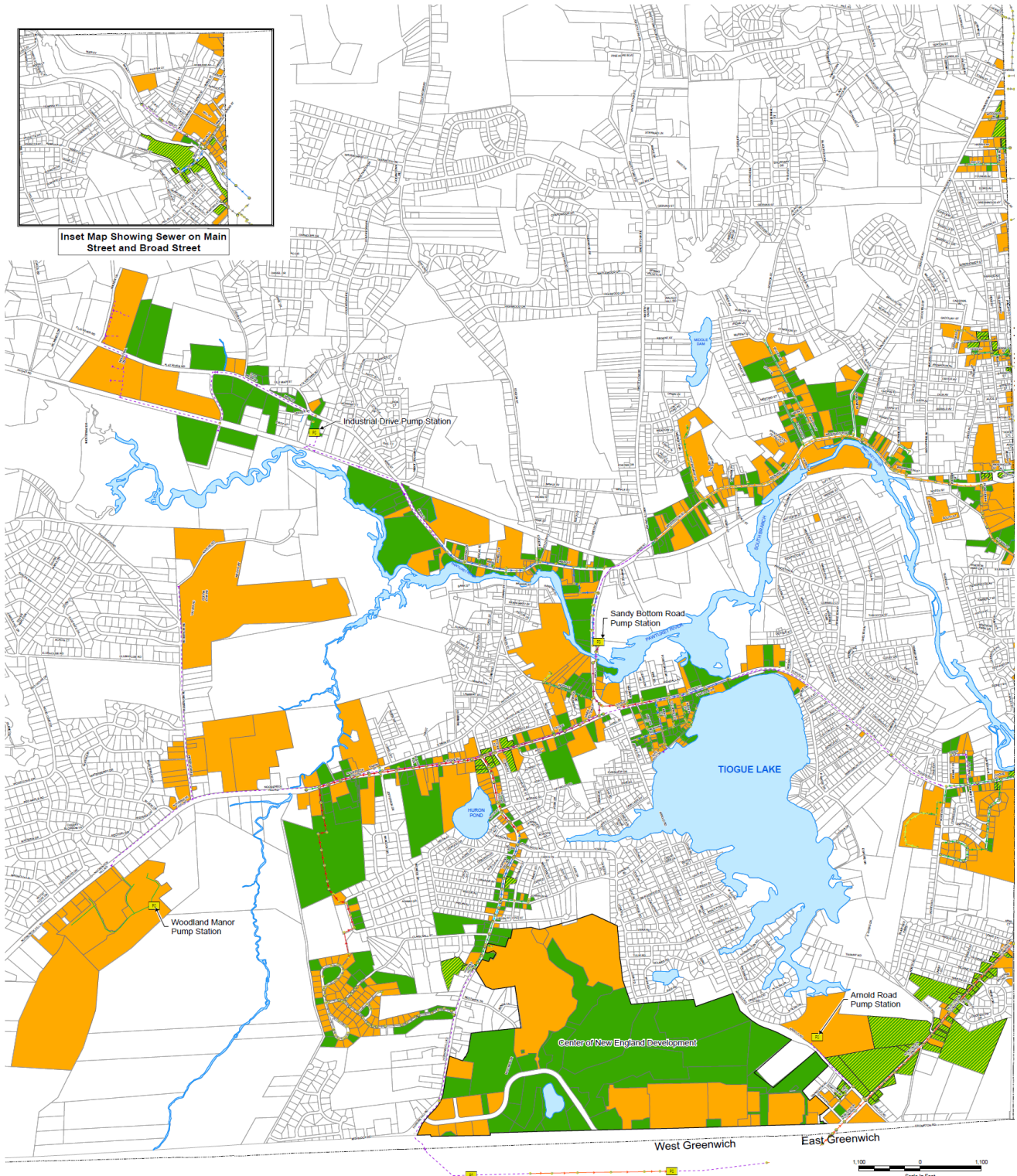
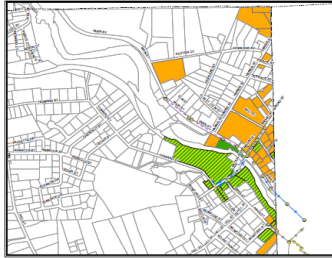
Environmental Impetus

Development and expansion of the Town's sewer system has been successful in providing needed infrastructure contributing to the Town's economic growth. The sewer system has provided safer and environmentally compliant service to both commercial and residential properties. In particular, properties in the more densely populated eastern part of the town have benefited. Certain residences with aging on-site waste water disposal systems have been replaced with environmentally friendly systems and with enhanced property values.

The Town's Facilities Plan Update, published in October 2016, stated that approximately 97 percent of Coventry residences still relied on on-site wastewater treatments systems (OWTS) for the treatment and disposal of wastewater.

The report identified many OWTS problems in several areas of eastern Coventry. The conclusion reached was that the existing system of OWTS was not an acceptable long-term solution in some areas of eastern Coventry and that several areas of eastern Coventry were experiencing significant OWTS problems that could not be resolved through conventional OWTS solutions, such as system rehabilitation or reconstruction due to site specific limitations. The report further stated that continued operation of OWTS may increase pollutant loads to ground and surface water resources, limit property values, negatively impact quality of life for residents and introduce potential public health concerns.

The report recommended that the existing sewer system be expanded to serve portions of eastern Coventry that can no longer rely on OWTS for long term wastewater management. The report further recommended that the sewer plan provide flow allocations in areas where future development would require additional wastewater management capacity. This plan would still meet the need for providing sewers to the more densely populated areas within eastern Coventry while also allowing the Town to provide sewer capacity for proposed developments.



Legend	
Pump Station	Unknown Diameter
Manhole	6"
Air Release Valve	8"
EndCap	12"
Clear Valve	18"
	24"
	30"
	Gravelly Sand
	Force Main
Access to Sewer	Center of New England Development
Access to Sewer, No Service	Hydrologic Connection
Sewerage Plant	Open Under
Pond	Thru Roadway

FIGURE 1
TOWN OF COVENTRY, RHODE ISLAND
SEWER SYSTEM MAP
 JANUARY, 2017 SCALE: NOTED
Weston & Sampson

Key facts about the program

The Town of Coventry utilizes the West Warwick Regional Wastewater Treatment Facility for sewage treatment. The various rights and responsibilities of that arrangement are outlined in an Inter-municipal agreement between the Towns of Coventry and West Warwick. The other communities with inter-municipal agreements that use the West Warwick Regional Wastewater Treatment Facility include West Greenwich, Warwick, Cranston and Scituate.

Coventry has financed and constructed the sewer lines in the Town which connect to the West Warwick Regional Wastewater Treatment Facility. Coventry is billed by West Warwick for use of the facility – Coventry directly bills its users. A portion of the charge by West Warwick is based on actual flow and the remainder is based on proportionate debt service for facility upgrades. The debt service portion is based on negotiated reserve capacity of the facility rather than actual pro-rata flow.



West Warwick Regional Wastewater Treatment Facility

Town of Coventry	
Total land parcels	14,638
Total population	35,000
Fiscal 2019 Tax Levy	\$ 69,626,227
Sewer Users by Category:	
<i>Industrial</i>	3
<i>Commercial</i>	113
<i>Government</i>	6
<i>Residential</i>	489 (a)
(a) Equivalent Residential Dwelling Units	1,849

FINANCIAL STATUS OF THE PROGRAM

The current financial status of the sewer program:

- The sewer enterprise fund has not generated sufficient cash flows to meet all sewer related obligations – this has led to advances from the Town’s General Fund which cannot be repaid in the near term. Such advances totaled \$2.7 million at June 30, 2018. Based on current cash flow projections, additional cash flow advances will be required in FY 2019 and future years absent changes in billing rates and/or operations.

These advances have been reflected as interfund borrowings and not as direct appropriations from the General Fund to support the sewer program. The ability of the sewer fund to repay these advances to the Town’s General Fund, particularly in the near term, is very unlikely. For financial reporting purposes, the Town’s General Fund does not reflect these advances as current available resources.

One proposal offered by the Town is to offset the advances made from the General Fund against amounts owed by the Town for sewer assessments. The Town had “financed” its sewer connections for Town buildings over 20 years in the same manner as most other home or business owners. This appears to be a practical response to resolve these advances.

- One of the first critical steps for the Town is stabilizing the sewer fund to ensure the timely repayment of debt service without continued cash flow subsidy from the Town. The Town has taken steps to restructure and refinance certain sewer program debt obligations to provide additional cash flow flexibility by avoiding principal repayments in the next three fiscal years. Even with the debt restructuring, the sewer enterprise fund is projected to require continued cash advances to meet its obligations. This restructuring and refinancing provide temporary relief and time for the Town to develop more comprehensive and permanent solutions. That temporary relief and time does result in higher interest costs over the life of the obligations.
- The “fiscal health” of the sewer program cannot be viewed as separate and distinct from the Town of Coventry overall and consequently must be stabilized in the near-term and supported by a reasonable sustainability plan long-term. Meeting required debt service payments for sewer related debt cannot be viewed separately from meeting any of the Town’s overall debt service or other financial obligations. Any threatened or actual default would impact the Town’s bond rating, future borrowing costs and could also have an impact on borrowing costs for participants in the RI Infrastructure Bank program.

Moody’s Investors Service (Credit Opinion – October 4, 2018) revised the outlook for the Town of Coventry to negative citing: “Coventry’s financial position is sufficient but is challenged by support of its sewer system, which continues to require general fund support and is increasingly burdening the town’s general government operations.”

“The negative outlook reflects the town’s general government financial support of its sewer operations that has resulted in a decline in available reserves. The outlook also incorporates our expectation that this subsidy will continue absent meaningful revenue enhancements.”

“The town’s sewer system generates revenue through user rates and assessments. Coventry has encountered several challenges in effectively implementing timely revenue enhancements to support the system’s operational and capital needs. As a result, the system’s unrestricted net position has declined, and the amount borrowed from the General Fund has grown. Positively, the town reports it is in the process of commissioning a rate study that it aspires to implement in fiscal 2019. The town’s ability to effectively implement rate or assessment increases and to reduce reliance on the town’s general government operations will be a core consideration of future reviews.”

Moody’s Investors Service (Credit Opinion – February 26, 2019) reiterated similar concerns: “Coventry’s reserves remain sound, but the need to support the sewer enterprise is increasingly burdening the town’s General Fund.” “...Coventry’s sewer system will remain a pressure to the town’s general operations absent meaningful revenue reforms to the enterprise system.”

- There is an insufficiency between sewer assessments to be collected in the future and the sewer program's outstanding long-term obligations. This deficiency will need to be supported through sewer use charges or other sources as these obligations come due. The financing plan, as designed, provides that the annual cash collections on sewer connection assessments (over a 20-year period) would closely match the annual debt service requirements for amounts borrowed to finance the installation of sewer lines and other connection costs. To address the noted imbalance, other sources of revenue or other transfers will be required to meet future debt service requirements.
- A comprehensive review of the inter-municipal agreement with the West Warwick Regional Wastewater Treatment Facility Plan is needed. The Town of Coventry currently pays a disproportionate share of the debt service costs for upgrades to the West Warwick plant. Coventry's share is significantly more than its proportionate share of actual sewer flows. Coventry's sewer users are subsidizing other users of the West Warwick sewer treatment plant.
- The process for establishing sewer rates needs to be comprehensively reviewed to ensure rates are sufficient to ensure the sewer fund is self-supporting. Policies should be established regarding the cost reimbursement strategy supporting the rate development process. An independent rate-study should be performed by a firm with expertise in sewer rate-setting. The Town is in the process of obtaining an updated rate study for the sewer program which should have as one of its key objectives ensuring that enough revenue is generated to support debt service obligations as they come due and all the current operating expenses of the program.
- The multitude of sewer use rates charged to customers is unduly complex. Some users are billed by Coventry at a composite rate which is intended to be inclusive of West Warwick treatment costs and Coventry's add on for its operating and administrative costs plus its proportionate share of the West Warwick's debt service for facility upgrades. Others, depending on location, are charged various combinations of those components, and in some instances, are billed directly for usage by West Warwick. Additionally, for some users, legal settlements govern the actual rates charged independent of any rate setting process.

The complexity and variety of rates adds to the overall administrative burden and further supports a move towards fully regionalizing the West Warwick Regional Wastewater Treatment Facility. In the interim, external rate-setting assistance can help simplify the variety of rate combinations and ensure all users are paying the appropriate proportionate share of program costs.

- Deferral of sewer assessment billings for recently completed line expansions worsens the financial status of the sewer fund. Any moratorium on further connections to the sewer system limits the revenue stream intended to repay the sewer fund borrowings and would be viewed as credit negative. Additional revenues are needed to support the program. Delays in assessing homeowners for work completed further exacerbate the cash flow problem. These costs must be billed timely to provide the needed cash flow to meet required debt service.
- Insufficient resources have been allocated to the administration of the sewer program which has contributed to the lack of timely information on the financial status of the program to be used in decision-making.

The following tables summarize financial operating activity for the last five fiscal years. The first table demonstrates that the fund has operating losses in four of five years after depreciation expense and decreasing net position. Fiscal 2016 shows a positive change in net position due to the transfer of certain capital assets to the sewer enterprise fund.

Town of Coventry - Sewer Fund - Statement s of Revenues, Expenses and Changes in Net Position					
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	2014	2015	2016	2017	2018
Operating Revenues					
Assessments and User Fees	\$ 2,190,423	\$ 2,387,564	\$ 2,406,091	\$ 2,773,467	\$ 2,593,434
Grant Revenues	-	-	-	-	-
Other Revenues	25,047	28,973	30,517	14,880	27,193
Total Operating Revenues	2,215,470	2,416,537	2,436,608	2,788,347	2,620,627
Operating Expenses					
Contract Services	116,011	49,075	31,311	22,498	60,894
Operations & Maintenance	1,491,993	1,552,641	1,460,026	1,537,683	1,615,095
Total Operating Expenses	1,608,004	1,601,716	1,491,337	1,560,181	1,675,989
Operating Income Before Depreciation and Interest Expense	607,466	814,821	945,271	1,228,166	944,638
Interest Expense	(469,909)	(585,809)	(532,286)	(542,927)	(534,517)
Operating Income Before Depreciation	137,557	229,012	412,985	685,239	410,121
Depreciation and Amortization	567,603	549,586	549,586	549,585	648,665
Operating Income (Loss)	(430,046)	(320,574)	(136,601)	135,654	(238,544)
Non-Operating Revenues (Expenses)					
Interest and Dividend Income	1,593	1,490	1,508	2,053	5,581
Grant Proceeds	-	-	-	209,333	-
Total Non-Operating Revenues (Expenses)	1,593	1,490	1,508	211,386	5,581
Transfers in (out)	-	-	2,805,068	(436,457)	-
Change in Net Position	(428,453)	(319,084)	2,669,975	(89,417)	(232,963)
Net Position - Beginning	9,805,902	9,310,841	8,709,749	11,379,724	11,290,307
Prior Period Adjustment	(66,608)	(282,008)	-	-	-
Net Position - Ending	\$ 9,310,841	\$ 8,709,749	\$ 11,379,724	\$ 11,290,307	\$ 11,057,344

Source: Town of Coventry – Annual Audited Financial Statements for fiscal years indicated

While net position is positive – as demonstrated below the fund's net position is derived from the investment in capital assets net of related debt.

Net Position

Invested in Capital Assets, Net of Related Debt	\$ 5,020,366	\$ 4,788,201	\$ 9,896,915	\$ 11,141,342	\$ 11,100,041
Unrestricted	4,290,475	3,921,548	1,482,809	148,965	(42,697)
Net Position	\$ 9,310,841	\$ 8,709,749	\$ 11,379,724	\$ 11,290,307	\$ 11,057,344

The cash flow statements for the last five fiscal years detail the consistent cash flow deficiency in each year and the resulting advances required from the Town's General Fund to provide sufficient operating cash flow to support operations and meet debt service on sewer related debt.

Town of Coventry - Sewer Fund - Statements of Cash Flows					
	2014	2015	2016	2017	2018
Cash Flows From Operating Activities					
Cash Received From Customers	\$ 1,888,205	\$ 2,145,546	\$ 2,389,073	\$ 2,726,238	\$ 2,751,670
Cash Payments to Suppliers for Goods and Services	(1,001,753)	(2,170,357)	(1,479,485)	(1,178,297)	(2,009,358)
Other Operating Receipts	25,047	28,973	30,517	14,880	27,193
Net Cash Provided by (used for) Operating Activities	911,499	4,162	940,105	1,562,821	769,505
Cash Flows From Capital and Related Financing Activities					
Additions to Capital Assets	(1,159,256)	(575,386)	(437,340)	(1,663,964)	(573,986)
Principal Paid on Bonds, Notes, and Loans	(7,623,153)	(892,806)	(1,120,463)	(1,153,121)	(1,280,218)
Note Proceeds	8,719,531	575,386	437,340	1,023,073	1,246,840
Capitalized Bond Cost	(731,741)	(1,486)	(1,515)	(2,051)	(3,818)
Transfers to Other Funds	-	-	-	(436,457)	-
Interest Paid on Notes	(456,075)	(581,173)	(532,286)	(542,927)	(534,517)
Net Cash Provided (used for) Capital and Related Financing Activities	(1,250,694)	(1,475,465)	(1,654,264)	(2,775,447)	(1,145,699)
Cash Flows From Investing Activities					
Interest and Dividends on Investments	1,593	1,490	1,508	2,053	5,581
Net Increase (Decrease) in Cash and Cash Equivalents before Interfund Loans	(337,602)	(1,469,813)	(712,651)	(1,210,573)	(370,613)
Interfund Loans	(6,725)	1,469,816	712,644	1,210,569	370,614
Cash and Cash Equivalents at Beginning of Year	361,721	17,394	17,397	17,397	17,393
Cash and Cash Equivalents at End of Year	\$ 17,394	\$ 17,397	\$ 17,390	\$ 17,393	\$ 17,394

Source: Town of Coventry – Annual Audited Financial Statements for fiscal years indicated

Town of Coventry - Sewer Fund - Statement of Net Position

	2018	
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 17,394	
Accounts Receivable, Net:		
Water and Sewer Usage Fees	1,066,963	
Due From Borrowing Sources	1,349,327	
Due From Other Funds	-	
Other Current Assets	-	
Total Current Assets	\$ 2,433,684	
Non-Current Assets:		
Capital Assets		
Construction in Progress	2,259,136	
Depreciable Assets - Net	25,694,087	
Sewer Assessments	7,738,436	
Other Assets, Net	1,759,832	
Total Noncurrent Assets	37,451,491	
Total Assets	\$ 39,885,175	
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Expenses	307,915	
Due to Other Funds	2,656,700	
Current Portion of Long-Term Debt	1,318,121	
Total Current Liabilities	\$ 4,282,736	
Non-Current Liabilities:		
Deferred Revenue	-	
Bonds and Loans Payable	16,884,388	
Total Noncurrent Liabilities	16,884,388	
Total Liabilities	\$ 21,167,124	
Deferred Inflows		
Deferred Sewer Assessment Fees	7,442,657	
Other Deferred Revenue	218,050	
Total Deferred Inflows of Resources	\$ 7,660,707	
Net Position		
Invested in Capital Assets, Net of Related Debt	11,100,041	
Unrestricted	(42,697)	
Total Net Position	\$ 11,057,344	

Liquidity ratio:

Current Assets	\$2.4 million
Current Liabilities	\$4.3 million

Adjust for Advance from General fund:

Current Assets	\$2.4 million
Current Liabilities less advances	(2.6) million
Adjusted current liabilities	\$1.7 million

Long-term sewer assessment receivable to support repayment of long-term debt:

Sewer assessments receivable	\$7.7 million
Bonds payable current	\$ 1.3 million
non-current	16.9 million
subtotal	\$18.2 million
less unspent bond proceeds	(1.3) million
less debt service reserved funds	(1.8) million
Net debt	\$ 15.1 million
Shortfall	\$ 7.4 million

Source: Town of Coventry – FY 2018 Annual Audited Financial Statements

We have prepared pro forma operating statements for the next three fiscal years assuming no significant changes other than the revised debt service schedules due to the recent debt restructuring.

Town of Coventry - Sewer Fund				
Statement of Revenues, Expenses, and Changes in Fund Net Position - Pro Forma				
	Actual Audited	Pro Forma		
	2018	2019	2020	2021
Operating Revenues				
Sewer Assessments	\$ 1,299,420	\$ 1,140,738	\$ 1,097,294	\$ 1,061,630
Sewer User Fees	1,294,014	1,294,014	1,294,014	1,294,014
Other Revenues	27,193	27,193	27,193	27,193
Total Operating Revenues	<u>2,620,627</u>	<u>2,461,945</u>	<u>2,418,501</u>	<u>2,382,837</u>
Operating Expenses				
Contract Services	60,894	262,721	270,603	278,721
Operations & Maintenance				
West Warwick proportionate Debt	683,388	682,301	677,815	672,320
Coventry (includes WW Use fees pass-thru)	931,707	959,658	988,448	1,018,101
Depreciation and Amortization	648,665	648,665	648,665	648,665
Total Operating Expenses	<u>2,324,654</u>	<u>2,553,345</u>	<u>2,585,532</u>	<u>2,617,808</u>
Operating Income (Loss)	<u>295,973</u>	<u>(91,400)</u>	<u>(167,030)</u>	<u>(234,971)</u>
Non-Operating Revenues (Expenses)				
Interest and Dividend Income	5,581	5,581	5,581	5,581
Interest Expense	(534,517)	(400,730)	(528,083)	(509,991)
Total Non-Operating Revenues (Expenses)	<u>(528,936)</u>	<u>(395,149)</u>	<u>(522,502)</u>	<u>(504,410)</u>
Change in Net Position	<u>(232,963)</u>	<u>(486,549)</u>	<u>(689,532)</u>	<u>(739,381)</u>
Total Net Position - Beginning	11,290,307	11,057,344	10,570,795	9,881,262
Total Net Position - Ending	<u>\$ 11,057,344</u>	<u>\$ 10,570,795</u>	<u>\$ 9,881,262</u>	<u>\$ 9,141,882</u>

Source: Actual Audited 2018 - Town of Coventry – Audited Financial Statements for fiscal year ended June 30, 2018

Pro Forma operating statement assumptions

General assumptions – No new sewer users, no additional assessments, no change in sewer use rates.

- Sewer Assessments based on projected payment activity assuming no new assessments and 1/20th per year standard payment terms.
- Use fees based on assumption of no new users and no rate changes (assumes FY18 rates).
- Contract services increased by \$200K in 2019 to account for new expenditures based on report recommendations (new personnel, rate study, system improvements). 3% increase thereafter.
- West Warwick debt based on actual debt schedules for West Warwick plant debt of which Coventry pays a proportionate share.
- Coventry operating expenses assumed 3% annual inflation increase.
- Interest expense based on actual Coventry debt schedules.

Town of Coventry - Sewer Fund
Statement of Cash Flows - Pro Forma

	Actual Audited	Pro Forma		
	2018	2019	2020	2021
Cash Flows From Operating Activities				
Cash Received From Customers	\$ 2,751,670	\$ 2,751,670	\$ 2,751,670	\$ 2,751,670
Cash Payments to Suppliers for Goods and Services	(2,009,358)	(2,000,000)	(2,000,000)	(2,000,000)
Other Operating Receipts	27,193	27,193	27,193	27,193
Net Cash Provided by (used for) Operating Activities	769,505	778,863	778,863	778,863
Cash Flows From Non-Capital Financing Activities				
Interfund Loans	370,614	459,407	606,852	607,934
Net Cash Provided by (used for) Non-Capital Financing Activities	370,614	459,407	606,852	607,934
Cash Flows From Capital and Related Financing Activities				
Additions to Capital Assets	(573,986)	-	-	-
Principal Paid on Bonds, Notes, and Loans	(1,280,218)	(843,121)	(863,213)	(882,387)
Bond Proceeds	-	-	-	-
Note Proceeds	1,246,840	-	-	-
Capitalized Bond Cost	(3,818)	-	-	-
Interest Paid on Notes	(534,517)	(400,730)	(528,083)	(509,991)
Net Cash Provided (used for) Capital and Related Financing Activities	(1,145,699)	(1,243,851)	(1,391,296)	(1,392,378)
Cash Flows From Investing Activities				
Interest and Dividends on Investments	5,581	5,581	5,581	5,581
Net Cash Provided by (used for) Investing Activities	5,581	5,581	5,581	5,581
Net Increase (Decrease) in Cash and Cash Equivalents	1	-	-	-
Cash and Cash Equivalents at Beginning of Year	17,393	17,394	17,394	17,394
Cash and Cash Equivalents at End of Year	\$ 17,394	\$ 17,394	\$ 17,394	\$ 17,394

Source: Actual Audited 2018 - Town of Coventry – Audited Financial Statements for fiscal year ended June 30, 2018

Pro Forma cash flow assumptions:

- Same general assumptions as the operating statement on previous page, plus
- Cash Payments to Suppliers assumed to be consistent with fiscal 2018 amounts in prior years.
- Principal and interest paid on bonds and notes and Loans is based on actual debt service schedules.

As both pro forma statements demonstrate – operating deficits are likely to continue and additional advances will be required from the Town’s General Fund without changes in the process for processing sewer assessments, increasing sewer rates or making other changes in operation.

The following sections provide a more detailed discussion of the specific sewer fund revenue sources and the amounts borrowed directly or indirectly (proportionate West Warwick debt service for sewer upgrades) to support the system.

Sewer Fund Revenue

Coventry's Sewer Fund has two primary sources of revenue – (1) assessments and (2) use Fees. Assessments are charged to the property owners upon completion of a sewer construction project. The Use Fees are charged annually to customers already connected to the Coventry sewer system and are based on water consumption.

The Sewer Fund is reported as an Enterprise Fund within the Town of Coventry's financial statements. Enterprise Funds are meant to be self-sustaining – i.e., adequate revenue is required to cover expenses of the fund. A review of the Sewer Fund's financial statements for recent years indicates that revenue has fallen short and it was necessary for the Town's General Fund to loan the resources to the Sewer Fund to meet its obligations. As of June 30, 2018, audited financial statements, the Sewer Fund is reporting an interfund payable to the Town's General Fund of \$2,656,700.

The Sewer Fund's enabling legislation does allow for the use of General Fund resources to meet certain Sewer Fund expenses. Initially, the Sewer Fund's enabling legislation (Section 1 of Chapter 330 of the RI Public Laws of 1997, entitled "An Act to Create A Sewer Authority For The Town Of Coventry And To Authorize Said Town, To Plan, Construct, Finance, Operate And Maintain Sewage Works") allowed for any deficiency of receipts from annual charges and sewer assessments in any year for purposes of the payment of the charges and expenses incident to sewage works shall be met by appropriation by the Town Council and assessment in the regular town tax. The enabling legislation was amended in 2006. Section 1 of Chapters 119 and 140 of RI Public Laws of 2006 states:

"Nothing in this act shall limit or affect the rights or obligations of the town of Coventry, including obligations of the town acting by and through its financial town meeting or its town council, to appropriate monies from its regular town tax to fund its obligations under the intermunicipal agreement in wastewater services between the town of West Warwick and the town of Coventry, as amended and restated from time to time, and the Loan and Trust Agreement among the Rhode Island Economic Development Corporation (EDC), the town of Coventry and J.P. Morgan Trust Company, National Association dated as of December 1, 2003, as amended from time to time."

Currently, sewer assessments are intended to match debt service on the Town's borrowings to build and expand the sewer distribution network. Sewer use fees are intended to cover all other operating costs of the sewer program including sewer use fees to the West Warwick Regional Wastewater Treatment Facility, Coventry's share of West Warwick's debt service for certain plant upgrades, and any of Coventry's specific operating costs for the sewer program.

A more detailed discussion follows for each category.

Sewer Assessments

Sewer assessments represent the charges to property owners for the capability to connect to the Town's public sewer system. A property owner is also separately responsible for the costs to install a line from their property to the Town's sewer system. The assessments charged to new customers may be paid in full, up to a year from the time of assessment, or financed with the Town over 20 years. If a property owner has recently installed a new septic system and has a certificate of conformance from the RI Department of Environmental Management, the property owner can defer connection for up to ten years from the date of installation (i.e., date of DEM conformance) of the new septic system.

The cost methodology used by the Town to calculate the assessments has varied throughout the years. The Town provided us with the following information on the history of assessment charges to customers to connect to the sewer system:

Ordinance Adopted	Sewer Assessments		
	House	Mobile Home	Commercial
1/13/1997	\$3,500 per housing unit	\$1,750 per mobile home	\$30 per \$1,000 property valuation
3/24/2003	\$4,200 per housing unit	\$2,100 per mobile home	\$35 per \$1,000 property valuation
4/26/2004	\$6,600 per housing unit	\$3,300 per mobile home	\$55 per \$1,000 property valuation
7/6/2009	\$12,900 per housing unit	\$6,600 per mobile home	\$60 per \$1,000 property valuation plus CPI
1/14/2013	Interest rate charged on 20-year assessment loans was decreased from 8% to 6%		
9/10/2015	<p><u>Total Cost of Construction / Total Design Flow of Sewer line = Rate per GPD</u></p> <p><i>for example:</i></p> <p>\$60.86 * 3 bedrooms * 115 GPD (per bedroom) = a sewer assessment of \$20,996.70</p> <p>\$80 * Actual (or DEM) Design Flow * GPD (100 GPD min)</p>		

Under the current Sewer Ordinance adopted in 2015, assessments are meant to cover the cost of construction of the sewer projects. Previously, the costs of the sewer program, including construction, were meant to be shared between the property owner and the Town:

- Pursuant to Section 9 of Chapter 330 of the RI Public Laws of 1997, the Council determined the proportion of the cost of constructing, operating and maintaining the sewage works that the Town shall pay by general taxation and what portions shall be paid by assessments and annual charges against individual parcels of property. The Town was to pay at least one fourth and not more than two-thirds of the cost.
- With Chapters 119 and 140 of the RI Public Laws of 2006, Section 9 was amended. The shared cost with the Town was removed. Sewer assessments shall be levied at a uniform rate against property owners based upon the estimated cost of constructing all sewers, sewer service connections and other sewage works belonging to the town.

Contracts 7 and 7A – Flat River Road/Industrial Drive sewer project is the most recent sewer project for which assessments have been billed under the existing Sewer Ordinance. With Contracts 7 and 7A, the actual cost of construction (net of federal grants) was the basis for determining the assessments charged to the users that would benefit directly from the sewer project.

The sewer construction project on Arnold Road North was completed in fiscal 2017 and further sewer construction on Hazard Street was terminated. As of June 30, 2018, the construction costs related to the two projects (net of federal grants) is about \$1.2 million, but assessments have not yet been billed. The sewer construction project on Arnold Road South was completed as of June 30, 2018 at an approximate cost of \$840,000. Arnold Road South is a dry line and will not be operational without further sewer construction on other abutting roads that will connect to the dry line. The cost of construction for Arnold Road South will not be recouped in assessments until customers are able to connect to the sewer line.

The Town has financed the sewer construction with a combination of long-term borrowing and federal grants. By basing the assessment charges on the net cost of construction, the Sewer Fund should recover the principal portion on its long-term borrowing. Interest charged on the assessments and collected in installments is intended to cover the Town's cost of borrowing.

About 25% of total assessments were paid by property owners up-front, while other property owners are paying on a twenty-year installment plan. Others have deferred payment on the assessment for up to a maximum of 10 years if they recently installed a new septic system. As of June 30, 2018, the assessment receivable balance fell short of the Sewer Fund's outstanding debt by approximately \$7.4 million.

Sewer Fund financial statements as of June 30, 2018:

Long-term Sewer Assessments Receivable	\$ 7,738,436
Other Assets - debt service reserve funds	1,759,832
Due from borrowing sources -- unspent bond proceeds	1,349,327
Bonds and Loans Payable (Current & Noncurrent) - principal only	<u>(18,202,509)</u>
Assessments receivable shortfall compared to sewer long-term debt at June 30, 2018	(7,354,914)

Other potential sources of funds to meet debt service on sewer debt:

Deferred assessments (approximate) - per Tax Collector's reporting system as of December 31, 2018	300,000
Pending sewer assessments (approximate) - Arnold Road North project (cost of construction net of federal grant and as of December 31, 2018)	830,000
Pending sewer assessments (approximate) - Hazard Street project (cost of construction as of December 31, 2018)	<u>330,000</u>
Adjusted current assessments receivable shortfall compared to sewer long term debt	\$ (5,894,914)

After considering the deferred assessments and the assessments for the recent construction projects that have not been billed, the most current estimate of the shortfall between sewer assessments and remaining debt principal is \$5.9 million as detailed above. This is due in part to previous operating practices where sewer assessments were a flat dollar amount rather than being tied to the actual construction costs for installing the sewer line. Additionally, abatements of sewer assessments create differences. As of December 31, 2018, about \$2.8 million of assessments and another \$226,000 of interest on assessments have been abated since the 1997 sewer assessments.

As more fully described in the rate setting section of the report, this shortfall between sewer assessments and debt service on Coventry issued debt for the sewer program will need to be recovered through user fees over the remaining life of the debt.

On an annual basis, the assessment revenue reported in fiscal years 2015 through 2018 did not cover the annual debt service payments due on the sewer construction financing.

	2014	2015	2016	2017	2018
Assessment revenue	\$ 1,364,377	\$ 1,231,399	\$ 1,273,689	\$ 1,512,686	\$ 1,299,420
Debt Service payments on bonds and loans:					
Principal	203,153	892,806	1,120,463	1,153,121	1,280,218
Interest	456,075	581,173	532,286	542,927	534,517
Total debt service payments	659,228	1,473,979	1,652,749	1,696,048	1,814,735
Assessment revenue less debt service	\$ 705,149	\$ (242,580)	\$ (379,060)	\$ (183,362)	\$ (515,315)
Coverage percentage	207%	84%	77%	89%	72%

Source: Town of Coventry and audited financial statements for the applicable fiscal year.

The sewer construction has been financed partly with federal grants and mostly with bonds and loans. The bonds and loans have twenty-year and ten-year maturities, respectively. The interest charges on the bonds and loans vary from a low of .082% to a high of 5.25%. The assessments charged to new customers for the capability to access the sewer system can be paid all at once or financed with the Town over 20 years. Interest charges accrue with the second year assessment billings. The Town initially was charging 8% on the 20-year finance of the assessment loans, but reduced the interest rate to 6% for all customers in 2013. The Town also refinanced debt in fiscal 2014 which may have resulted in debt service savings.

Several Town buildings became eligible to connect to the sewer system with Contract 7 and 7A (Flat River Road and Industrial Drive projects). The Town buildings were assessed \$785,595. The Town General Fund is paying the assessments to the Sewer Fund over a 20-year installment plan. However, the Town is not paying interest on the outstanding assessment balances. The assessment balances for Contracts 7 and 7A were determined as of 2015 with the first billing in fiscal 2016. Using the same 6% interest rate charged to other customers one year after the first billing, we estimate the loss of interest revenue to the Sewer Fund through the most recent billing on September 11, 2018 to be about \$127,000. Over the 20-year repayment period, we estimate an interest revenue loss of about \$448,000 to the Sewer Fund. We also note that the Coventry Housing Authority is paying its sewer assessments over 20 years without interest.

Given that the General Fund has advanced \$2,656,700 to the Sewer Fund to cover its daily operations and obligations, the Town is considering offsetting the balance due for its sewer assessments against the General Fund advances to the Sewer Fund. This action appears to be beneficial for both Funds in that the Sewer Fund would be relieved of repaying its debt to the General Fund and the General Fund would not have to pay interest costs on the assessments. At June 30, 2019, the remaining assessment balance on these buildings would be \$628,476. Additionally, the Town is researching the sewer assessments on other Town buildings.

As the Sewer Assessments do not cover the cost of borrowing, the shortfall will need to be made up from Sewer Use fees and/or General Fund appropriation.

Sewer Use Fees

Pursuant to Section 191-15 (Use charge) of the Coventry Sewer Ordinance, the cost of operation and maintenance of the complete sewer system shall be financed solely from sewer customer charges. A sewer charge shall be levied to each user upon connection to the public sewage system. The usage rates, charges and fees are established by Town Council resolution. Coventry's Sewer Use fee is based upon 80% of the water meter reading as determined by the Kent County Water Authority (KCWA) for properties supplied with water service from the KCWA. Property without service from KCWA is subject to an alternative estimated usage charge based on a percentage of the design flow (gallons per day or GPD) unless a Town-approved meter is installed.

KCWA will provide both West Warwick Regional Wastewater Treatment Facility (WWRWTF) and the Town of Coventry with the water usage information on the properties connected to the sewer system. The two Towns will compare the information on water usage for each Coventry property connected to the sewer system. Once in agreement, the WWRWTF bills the Town of Coventry the sewer use fees for the Coventry properties. The Coventry Sewer Fund will pay the sewer usage fees in four quarterly payments to the WWRWTF. The Coventry Sewer Fund, in turn, will bill the Coventry property owner who may also make quarterly payments.

The billing of the sewer use fees to Coventry property owners is not a transparent and straightforward process. Coventry property owners will see two use fees on their bills – (1) for usage of the WWRWTF and (2) for usage of the Coventry sewer system. At one time, the two Towns billed the users separately. However in 2010, due to complaints of double billing, the Town of Coventry took over billing the Coventry property owners for both the WWRWTF and Coventry use fees.

In addition to two use fees on each sewer use bill, there are also two types of Coventry sewer use bills: (1) to Coventry property owners counted towards the Coventry reserve capacity in the WWRWTF and (2) to Coventry property owners counted towards the WWRWTF reserve capacity.

Coventry Reserve Capacity

Customers on the Coventry reserve capacity will receive a sewer use bill which shows a Coventry use fee and a WWRWTF use fee. The WWRWTF portion of the bill includes a small surcharge over the amount Coventry is billed by WWRWTF. The surcharge is meant to cover Coventry's share of debt service that the Coventry Sewer Fund pays directly to the WWRWTF. However, the surcharge does not cover the total amount of Coventry's portion of the WWRWTF debt, and as the WWRWTF use rate has increased or decreased, the Coventry surcharge was not adjusted simultaneously. The Town provided us with the following information on the history of sewer use fees charged to customers on the Coventry reserve capacity:

BILLING YEAR	Coventry Use Fee - per HCF	WW REGIONAL Use Fee Per HCF			Total Fee to Coventry Residential Users
		Pass-thru	Coventry add-on	Total WW	
2010	\$ 1.55	\$ 3.15	\$ 0.85	\$ 4.00	\$ 5.55
2011	\$ 1.55	\$ 3.15	\$ 0.85	\$ 4.00	\$ 5.55
2012	\$ 1.55	\$ 3.82	\$ 0.18	\$ 4.00	\$ 5.55
2013	\$ 2.83	\$ 3.86	\$ 0.14	\$ 4.00	\$ 6.83
2014	\$ 3.40	\$ 3.99	\$ 0.16	\$ 4.15	\$ 7.55
2015	\$ 3.40	\$ 4.39	\$ 0.11	\$ 4.50	\$ 7.90
2016	\$ 3.40	\$ 4.39	\$ 0.11	\$ 4.50	\$ 7.90
2017	\$ 3.40	\$ 4.39	\$ 0.11	\$ 4.50	\$ 7.90
2018	\$ 3.40	\$ 3.55	\$ 0.95	\$ 4.50	\$ 7.90

HCF = Hundred Cubic Feet

Woodland Manor – WWRWTF Reserve Capacity

In December 2013, the Town purchased a private sewer line located in the Town of Coventry – known as the Woodland Manor line. The property owners that connect to the sewer system on the Woodland Manor line have remained part of the WWRWTF reserve capacity and, as such, are billed by the Town of Coventry but are billed similar to other West Warwick users. The use fees charged to the Woodland Manor line customers include a \$4 Coventry use fee and the actual WWRWTF use fee without the Coventry surcharge because the user is charged the WWRWTF debt service fixed fee.

The Coventry portion of the use fee was set at \$4 based on a Court Order – Real Estate Purchase and Sale Agreement. The rate is fixed at \$4 for ten years unless the Coventry use rate charged to other Coventry users (i.e., those on the Coventry reserve capacity) exceeds \$4. Currently, the other Coventry users are charged \$3.40. If Coventry were to increase its use fee in excess of \$4, the Town would be permitted to charge the same fee to the users on the Woodland Manor line. The following table is a history of sewer use fees charged to customers on the Woodland Manor line which are part of the WWRWTF reserve capacity:

BILLING YEAR	Coventry Fee - per HCF	WW FEE	
		Per HCF	Fixed Fee - Debt
2014	\$ 4.00	\$ 3.15	\$100/year
2015	\$ 4.00	\$ 3.55	\$135/year
2016	\$ 4.00	\$ 3.55	\$135/year
2017	\$ 4.00	\$ 3.55	\$135/year
2018	\$ 4.00	\$ 3.55	\$135/year

(1) Per Court Order - Purchase & Sale Agreement

HCF = Hundred Cubic Feet

Beginning with billing year 2017, West Warwick instituted a minimum sewer use charge based on 4,000 cubic feet per the number of equivalent dwelling units (EDU). Coventry does not bill a minimum use charge to its customers except for the portion of the fee that relates to WWRWTF. For Coventry reserve capacity users, the minimum WWRWTF billed on one EDU is \$180 (4,000 CF * \$0.0450). For the Woodland Manor users, the minimum billed on one EDU is \$142 (4,000 CF * \$0.0355), the same amount that Coventry paid to the WWRWTF.

There are also exceptions to the two sets of user fees, for example:

- Two industrial users located in Coventry are billed separately by Coventry and West Warwick for sewer use fees. Coventry charges the industrial users a sewer use rate of \$3.40 per cubic foot, the same rate charged to other Coventry users. However, these two industrial users are not charged the “Coventry add-on” to the West Warwick fee which is meant to cover a portion of Coventry’s debt service payments to West Warwick as these users are considered part of the West Warwick reserve capacity and are billed a portion of debt service through West Warwick.
- Coventry also charges its sewer use fee of \$3.40 per cubic foot to six commercial users located outside of Coventry whose wastewater flows through the Coventry sewer system.
- One industrial user is located outside of Coventry, but its wastewater flows through the Coventry sewer system. The user disputed whether they should pay any use fees to Coventry as the user funded a portion of the sewer construction costs in accordance with the Infrastructure Agreement between the user and Towns of Coventry and West Warwick. Subsequent to the agreement, Coventry amended its sewer ordinance to

initiate an annual sewer charge to the users of the sewer system. Under a settlement agreement the user agreed to pay the sewer use fee but at a reduced rate. The Town agreed to an abatement of about \$850,000 of the \$1.2 million that had been billed to this user. This one abatement accounts for most of the \$1 million in sewer use abatements since 2004 when Coventry first started billing sewer use fees.

We compared the revenue from sewer use fees to the operating expenses of the sewer system from fiscal years 2014 through 2018. It appears the sewer use revenue was insufficient to meet the operating expenses of the Sewer Fund in each year.

Comparison of Use Fees to Operating Expenses	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Use Fees	\$ 826,046	\$ 1,156,164	\$ 1,132,403	\$ 1,252,831	\$ 1,294,014
Operating Expenses:					
Contract Services	116,011	49,075	31,311	22,498	60,894
Operations & Maintenance:					
Sewer Use paid in advance to West Warwick	396,466	545,695	517,830	606,298	583,522
Weston & Sampson Engineering consultant	105,572	131,400	134,400	137,400	140,400
Other	257,959	369,474	177,861	105,519	207,785
Debt Service Payments to West Warwick	731,996	506,073	629,935	688,466	683,388
Total Operations & Maintenance	1,491,993	1,552,641	1,460,026	1,537,683	1,615,095
Operating Expenses Exceed Use Fees	\$ (781,958)	\$ (445,552)	\$ (358,934)	\$ (307,350)	\$ (381,975)

Source: Town of Coventry

In the prior section of our report, we discussed how sewer assessment revenue was not covering the Sewer Fund's annual debt service payments and the long-term assessment receivable was inadequate to cover the outstanding debt balance. These additional shortfalls will also need to be covered by the sewer use fees.

As the use rates are insufficient to meet the daily operations of the Sewer Fund, any long-term needs of the sewer infrastructure have not been considered. The use rate should also have a component which begins to build a reserve fund to address future repairs, upgrades or replacement of the sewage works.

The Town of Coventry has not prepared annual operating and capital budgets for the Sewer Fund. Without these budgets, it is difficult to develop use rates that will adequately cover the needs of the Fund. The last independent rate study commissioned by the Town was in 2012. The Town should hire an independent expert in performing sewer use rate studies to assist the Town in developing sewer use rates that address the financial stability of the Sewer Fund. Refer to a separate section of our report on the discussion of rate studies.

In the September 17, 2014 Sewer Sub-committee meeting minutes, it was recorded that the Town administration requested to increase the Sewer Use fee from \$2.83 to \$4.15. The committee approved an increase to \$3.40 instead. The change was not based on a discussion of the financial situation of the Fund. The sewer use rate increase to \$3.40 was also passed by the Town Council. The use fee has not increased since.

We inquired about the sewer rate setting practices of three other municipalities that do not operate a sewer treatment plant. Each has an inter-municipal agreement with another Town for the treatment of their sewage - Barrington uses the East Providence plant; North Smithfield uses the Woonsocket plant; and Middletown uses the Newport plant. In all three towns, a budget is prepared for the sewer enterprise fund and the sewer use rate is based

on what is needed to cover the budget. The sewer use rate billed to the users is a composite rate which incorporates the payment to the treatment plants for the actual wastewater flow and the other operating expenses of the Sewer funds. Some also have a fixed rate to cover debt service or capital costs.

Barrington has a policy that the Wastewater Fund must maintain a net position of at least one year's worth of sewer use charges. North Smithfield requires that, at a minimum, the Fund maintain three months of operating expenses plus 25% of the accumulated depreciation of the capital assets.

In addition to an insufficient sewer use rate, we noted that property owners are not readily connecting to the sewer system and consequently, are not paying any sewer use fees. Property owners can defer payment on sewer assessments if they recently installed a new septic system. The sewer construction project on Flat River Road and Industrial Drive (Contracts 7 and 7A) was completed in 2015 and sewer assessments were billed in September 2015. A total of 48 properties were eligible to connect to the sewer lines under Contracts 7 and 7A:

Contract 7 - properties	Contract 7A - properties
28 residential	
15 commercial	
1 Town building	4 Town buildings

Twenty of the residential properties qualified for deferral until 2020. All the commercial property owners have either paid the sewer assessments in full or are paying them over 20 years; however, ten of the commercial properties have not yet connected to the sewer system and therefore, no sewer use fees are collected from those properties. The Town's General Fund is paying sewer assessments to the Sewer Fund for the five Town buildings. Four of the five Town buildings are connected to the sewer system, but sewer use charges consist of only the West Warwick portion of the use fees (\$4.50 per HCF); the Town's General Fund is not paying into the Sewer Fund the additional \$3.40 per HCF charged to other Coventry users.

In the minutes of the Town Council and Sewer Sub-Committee meetings, it was discussed that the impetus for the sewer construction completed on Flat River Road and Industrial Drive was to encourage economic development and provide sewers for businesses that had been asking for sewers. The Town also received federal grants from the U.S. Economic Development Agency to cover a portion of the sewer construction. However, two-thirds of the commercial properties have still not connected to the sewer system more than three years after the project was completed.

Pursuant to Section 191-2 of the Sewer Ordinance adopted on September 10, 2015, the owner of a property that abuts a public sewer of the Town is required to connect to the sewer within one year of receipt of official notice from the Town unless a waiver is granted by the Town Council. We were informed the revised Ordinance was adopted after the sewer assessments were issued; however, Section 21 of Chapter 330 of RI Public Laws of 1997 does allow for the Town to assess connect capable charges:

“Connect capable charges may be levied upon every property owner or institution whose property is abutting on that portion of any highway in which a common sewer is laid while said property is not connected to said sewerage system but is capable of doing so. The charge will be established at a level determined by the council to recover an equitable portion of bonds and notes issued for sewage works.”

We recommend the Town review its records to determine which properties can connect to the sewers and have not been approved for a deferral. The Town should require they connect if it is over one year. The Town should also consider implementing a “connect capable fee”.

Sewer Fund Long-term Debt

Since December 2006, The Sewer Fund has issued almost \$25 million in debt for the construction of the Town's sewer system. Of this amount, about \$18 million remained outstanding at June 30, 2018, with an additional \$4 million to be paid in interest and fees.

Terms of Sewer Bonds/Loans				Balance Owed at 6/30/2018			
Date of Issuance	Date of Maturity	Interest Rate	Original Bond Issue or Loan Amount	Principal	Interest	Net Fees	Total Debt Service
<u>RI Infrastructure Bank (RIIB)</u>							
12/06/2006	09/01/2027	1.33%	\$ 3,205,000	\$ 1,747,000	\$ 124,575	\$ 45,018	\$ 1,916,593
12/12/2007	09/01/2028	3.75% - 5.08%	5,000,000	2,991,000	281,507	85,323	3,357,830
¹ 10/06/2009	09/01/2029	.7% - 2.64%	2,564,519	1,686,950	269,977	53,449	2,010,376
06/28/2012	09/01/2032	.47% - 2.99%	2,400,000	2,070,000	453,764	83,285	2,607,049
06/06/2013	09/01/2034	.082% - 3.23%	2,400,000	2,101,000	497,255	96,222	2,694,477
09/03/2013	09/01/2028 (refinanced in 2019)	4.25%	8,225,000	6,505,000	1,659,643	52,143	8,216,786
<u>All American Investment Group</u>							
05/01/2017	05/15/2027	3.79%	750,000	686,921	136,616		823,537
05/01/2017	05/15/2027	5.25%	450,000	414,638	116,242		530,880
\$24,994,519				\$18,202,509	\$ 3,539,579	\$415,440	\$22,157,528

¹The amount is net of the bond issue amount of \$2,896,000 and the federal ARRA funds of \$331,481 for principal forgiveness.

The debt issued by RI Infrastructure Bank (formerly, RI Clean Water Finance Agency) on behalf of the Town of Coventry for its Sewer Fund are Revenue Bonds. The revenue bonds are supported by the revenue generated by the sewer project being financed by the bond issue. The proceeds from the bond offering directly finances the project, and the project, once complete, generates the revenue to pay back the interest and principal on the bonds to investors. Revenue bonds differ from general obligation (GO) bonds which are backed by the "full faith and credit" of the Town, with no specific project identified as the source of funds to repay the bond obligation. The GO bonds require voter approval before the Town can issue the debt, but the revenue bonds do not require voter approval, as these bonds are backed by a specific revenue source – sewer assessments. The Sewer Fund's enabling legislation was amended with Section 23 of the Chapters 119 and 140 of the RI Public Laws of 2006. This amendment allows for the issuance of revenue bonds through the Rhode Island Infrastructure Bank for capital improvement to the sewer program and exempts the revenue bonds from Sections 8.18 and 8.19 of the Coventry Home Rule Charter regarding the adoption of the operating and capital improvement budgets.

With the issuance of the RI Infrastructure Bank (RIIB) revenue bonds, the Town makes certain covenants to establish and maintain rates and charges at sufficient levels so that Net Revenues in each fiscal year (during which bonds are outstanding) shall equal 125% of the Debt Service Requirement for that fiscal year. We compared the reported Net Revenues (i.e., operating revenue less operating expenses, excluding depreciation) to the Debt Service Requirement (excluding TANS and refunded debt) for each year from fiscal 2014 to 2018. Based on our review of the

Town's audited financial statements, the Coventry Sewer Fund did not meet the 125% requirement in fiscal years 2014 through 2018:

<u>Fiscal Year</u>	<u>Net Revenue/Debt Service</u>
2014	92%
2015	55%
2016	57%
2017	72%
2018	52%

According to the bond indentures, the Town will not be considered in default if it does not meet the percentage, as long as, the Town complies or is diligently proceeding to comply with the following:

- By April 1 of each year, the Town reviews the adequacy of its rates and charges to satisfy the requirements for the next succeeding fiscal year and if necessary, shall take prompt action to return to compliance.
- Within 180 days of the close of the fiscal year while bonds are outstanding, the Town shall certify to the Trustee that they have complied with the 125% requirement or detail the corrective steps taken to be in compliance in the next fiscal year. If the certification is based on unaudited financial statements, the Town is required to submit a second certification within 270 days based on audited financial statements.

On August 30, 2018, to relieve some of the Sewer Fund's immediate cash flow pressure and to allow the Town some time to work on a solution for the future financial viability of the Sewer program, the Town refinanced one of the Sewer Fund's outstanding bond issues with RIIB.

The refinancing was structured to provide savings in the annual debt service payments in the first four years of the debt and to extend the maturity for an additional five years. The Sewer Fund will continue to make semi-annual payments to cover the interest costs in the first four years, but the principal payments are nominal amounts:

	<u>Principal Payments</u>		<u>Cash Flow</u>
	<u>Old Debt</u>	<u>New Debt</u>	<u>Savings</u>
9/1/2018	\$475,000	\$ -	\$475,000
9/1/2019	495,000	1,000	494,000
9/1/2020	520,000	1,000	519,000
9/1/2021	540,000	3,000	537,000

Although the new debt was obtained at a slightly lower interest rate, the refinancing of the debt did come with added costs. Because of the slower pay down of the principal balance and the extended maturity of the debt, the refinancing will cost the Sewer Fund an additional \$235,000 in principal payments and an additional \$1.2 million in interest costs.

	<u>Date Issued</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Fees</u>	<u>Total Debt Service</u>
New	8/30/2018	09/01/2033	4.19%	\$ 6,740,000	\$ 2,865,302	\$ 84,226	\$ 9,689,528
Old	9/3/2013	09/01/2028	4.25%	(6,505,000)	(1,659,643)	(52,144)	(8,216,786)
		Additional Costs		<u>\$ 235,000</u>	<u>\$ 1,205,659</u>	<u>\$ 32,085</u>	<u>\$ 1,472,741</u>

After the initial cash flow savings in the first four years of the refinanced debt, the annual debt service payments return to the previous level, with an increase of over \$400,000. By fiscal 2023, the Town should have a plan in place for the financial viability of the Sewer program.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>
2019	\$ 843,121	\$ 400,730	\$ 55,365	\$ 1,299,216
2020	863,213	528,083	55,814	1,447,110
2021	882,387	509,991	52,001	1,444,379
2022	906,766	491,566	48,107	1,446,439
2023	1,368,361	462,835	43,845	1,875,041
2024	1,410,180	423,866	39,208	1,873,254
2025-2034	12,163,481	1,928,167	153,183	14,244,831

As an additional measure to relieve cash flow pressure, RIIB permitted the Town to use unspent bond proceeds from the June 2013 Sewer bond issue to meet the debt service payment of \$125,498 (includes principal and interest) on that bond due September 1, 2018. RIIB will also allow the Town to return the remainder of the unspent bond proceeds. The balance of the unspent proceeds will be almost \$950,000 after deducting the debt service payment and additional draws for expenditure reimbursements. If the unspent proceeds are returned, the outstanding loan balance would be reduced to about \$1,050,000. A preliminary amortization schedule was prepared using an estimated outstanding loan balance of \$1.1 million while keeping the same terms. If the unspent proceeds were returned, the Sewer Fund would save \$200,000 in interest expense and annual principal payments would range from \$40,000 to \$70,000 less than current principal payments.

The All American Investment Group loans are not revenue bonds, but debt secured with the Town Hall Annex building used as collateral. These loans were authorized by Town Council resolution No. 34-17-4849 on April 10, 2017. The proceeds from the loans were used for specific Sewer projects:

- (1) \$750,000 for the construction of the sewer dry line on Arnold Road South. RIIB will not issue revenue bonds for a “dry line” since there is not an immediate source of revenue from the project after its completion. Additional sewer projects will need to be constructed in the Briar Point area before the dry line will be put in use.
- (2) \$450,000 to fund the deficit related to the overspending of the federal EDA grant used for the Flat River Road/Industrial Drive sewer construction project.

We question whether it is appropriate for the Town to use Town property as collateral for a loan. We recommend that the Town seek bond counsel advice before considering this type of financing arrangement in the future.

Regardless of whether the Town decides to expand the Sewer program or stop future construction, debt has already been issued to pay for the existing sewer construction and the Town/Sewer Fund has an obligation to repay the debt. The Town’s credit rating would be adversely impacted if the Town were to default on the Sewer Fund bonds. Credit rating agencies consider the Town and its Sewer Fund as one entity. The Town’s credit rating has an impact on whether the Town can secure future financing and at which interest rates; not only for Sewer projects, but any type of borrowings, such as for School bonds.

On October 4, 2018, Moody's affirmed Coventry's A1 credit rating, but assigned a negative outlook. The following excerpts from the Moody's report show that the financial health of the Sewer Fund was a significant factor in their credit rating analysis:

- *“Coventry's financial position is sufficient, but is challenged by support of its sewer system, which continues to require general fund support and is increasingly burdening the town's general government operations.”*
- *“The negative outlook reflects the town's general government financial support of its sewer operations that has resulted in a decline in available reserves. The outlook also incorporates our expectation that this subsidy will continue absent meaningful revenue enhancements from the sewer enterprise.”*
- *“Factors that could lead to a downgrade » Continued material or significant support to the sewer fund past fiscal year 2018.”*
- *“The town's ability to effectively implement rate or assessment increases and to reduce reliance on the town's general government operations will be a core consideration of future reviews.”*

On February 26, 2019, Moody's reiterated similar concerns: “Coventry's reserves remain sound, but the need to support the sewer enterprise is increasingly burdening the town's General Fund.” “...Coventry's sewer system will remain a pressure to the town's general operations absent meaningful revenue reforms to the enterprise system.”

The recent refinancing of debt has provided some near-term cash flow relief. As explored by the Town, the sewer assessment for Town buildings that are similarly being financed over a 20-year period could be offset against the amounts advanced by the General Fund. While not a benefit to the General Fund, the effect of such advances not being collectible in the near term has already been recognized on the General Fund financial statements.

Clearly, sewer user fees need to be increased and the methodologies supporting the sewer rate development process needs to be fully assessed and affirmed with external experts skilled in sewer operations and rate-setting. Additional system users are also necessary to support the program and allow costs to be spread equitably among a larger group of customers. Whether any costs can or should be supported through the Town's General Fund should also be explored.

We also observed that in some cases, assessments have been made to businesses and homeowners without actual connection to the system. Effective September 10, 2015, the Sewer Ordinance requires connection within one year of the installation of the sewer unless conditions allowing deferment exist. The Town should consider enacting a minimum sewer use charge to be applied one year after the initial sewer assessment when actual connection and use has not commenced, and a waiver or deferment has not been sought. This would increase the number of customers that are supporting the sewer program through user charges.

Recommendations

1. Explore if any sewer program costs can or should be supported through the Town's General Fund.
2. Consider offsetting the Town's sewer assessment liability for connecting Town buildings to the sewer system against the General Fund advances that are not likely reimbursable in the near term. If such offsets are not applied, charge interest to the Town's sewer assessment payable to the sewer fund.
3. Bill sewer assessments for recently completed work to provide cash flow to meet required debt service payments.

4. Utilize remaining unspent bond proceeds to reduce the sewer program's outstanding debt thereby lessening the cash flow deficit in the near term.

5. Enact a minimum base sewer use charge to be applied one year after the initial sewer assessment when actual connection and use has not commenced (and no waiver or deferment sought).

The following sections of this report that follow include specific recommendations to address the overall financial challenges of the Coventry sewer program described herein:

- **Inter-municipal Agreement with West Warwick** *page 30*

- **Reassess the Need for And Benefits Derived from the Sewer Program from an Economic Development, Health and Safety, and Water Quality Perspective** *page 33*

- **Seek Options to Reduce the Financial Impact of Sewer Assessments on Homeowners** *page 36*

- **Sewer Rate Setting** *page 39*

- **Governance and Administration** *page 43*

- **Study Fully Regionalizing the Operations of the West Warwick Regional Wastewater Treatment Facility** *page 46*

INTER-MUNICIPAL AGREEMENT WITH WEST WARWICK

In addition to the debt issued by the Town of Coventry for sewer construction, the Town (Sewer Fund) also participates in the debt service for certain debt issued by the West Warwick Regional Wastewater Treatment Facility:

Project Name	Issue Date	Maturity Date	WW Regional Wastewater		# of Cities & Towns	Coventry's Share	
			Bond Issue Amount	Principal & Interest		% of Total Debt	Principal & Interest
2015A Phosphorus Removal Upgrade Project	07/30/2015	9/1/2034	\$ 7,000,000	\$ 9,731,769	6	21.38%	\$ 2,080,652
2015 Phosphorus Removal Upgrade Project	07/24/2014	9/1/2034	5,500,000	7,341,111	6	21.38%	1,569,530
Clyde Interceptor Upgrade Project	12/12/2007	9/1/2028	1,675,000	2,061,388	3	44.20%	911,133
Upper Maisie Quinn Pump Station – Additional	12/30/2006	9/1/2026	500,000	597,352	3	27.39%	163,615
Lower Maisie Quinn Pump Station & Force Main Project	12/12/2005	9/1/2025	7,719,000	9,356,530	3	27.39%	2,562,754
Upper Maisie Quinn Pump Station – Original	12/30/2004	9/1/2025	3,000,000	3,644,407	3	27.39%	998,203
Advanced Wastewater Treatment Project	06/05/2003	9/1/2023	20,923,000	22,695,818	4	24.36%	5,528,121
Coventry's total share of Debt Service of the West Warwick Regional Wastewater Treatment Facility							\$ 13,814,008

The Towns of Coventry and West Warwick have an inter-municipal agreement that outlines how the debt service on the obligations shall be shared. The basis for the amount of proportionate debt service paid by Coventry for certain West Warwick Regional Wastewater Treatment Facility debt reflects negotiated reserve capacity instead of actual usage (flow). Annual debt service payments to West Warwick in future years (as reported in the Town's fiscal 2018 audit report) for Coventry's proportionate share of remaining debt service pursuant to the inter-municipal agreement is as follows:

<u>Fiscal Year</u>	<u>Principal and Interest</u>
2019	\$ 682,301
2020	677,796
2021	672,319
2022	667,772
2023 – 2034	<u>3,965,737</u>
	\$6,665,925

The proportionate share borne by Coventry of the West Warwick Regional Wastewater Treatment Facility is based on a negotiated reserve capacity included in the inter-municipal agreement which is well more than actual proportionate flow from the Town of Coventry to the West Warwick Regional Wastewater Treatment Facility. Arguably, Coventry sewer customers are subsidizing other customers of the West Warwick Regional Wastewater Treatment Facility.

West Warwick Regional Wastewater Treatment Facility		
Designed facility capacity flow (MGD)	10.5	
Coventry reserve capacity flow (MGD)	2.25	
Total Facility - Actual average daily flow (MGD)		
	2018	6.71
	2017	5.27
	2016	4.94
Annual Flow by Community - 2018 - based on Kent County Water Authority Usage Data		
Authority Usage Data	Actual CF flow	%
West Warwick	175,309,723	82.6%
Coventry	24,435,921	11.5%
Woodland Manor (1)	3,016,430	1.4%
Warwick	6,197,243	2.9%
Cranston	1,479,988	0.7%
West Greenwich	1,790,495	0.8%
Total	212,229,800	100%
MGD - million gallons per day		
CF - cubic feet		
Sewer use is billed on 80% of Kent County Water Authority Usage		
(1) - Woodland Manor is in Coventry but is considered part of the West Warwick Reserve Capacity		
source: West Warwick Regional Wastewater Treatment Facility		

Town officials explained that the negotiated reserve capacity basis reflected the intended increase for a significant amount of housing units intended within the Centre of New England complex. For various reasons (economic, developer bankruptcy and other litigation), the development of the housing units has not proceeded as expected.

Given the fiscal challenges related to the Coventry sewer program and the related impact on the Town's overall financial condition, the inter-municipal agreement needs to be revisited and potentially renegotiated. One of the Town of Coventry's considerations needs to be the expected increased usage relative to the negotiated reserve capacity and how that timeline coincides with the remaining term of the outstanding debt for which Coventry is paying a share of debt service.

Community	Negotiated Reserve capacity
West Warwick	73.15%
Coventry	21.38%
Warwick	2.40%
West Greenwich	1.27%
Cranston	1.06%
Scituate	0.74%
	100.0%
Source: WWRWTF 2012 Facilities Plan	

Other communities that use the West Warwick Regional Wastewater Treatment Facility also pay a proportionate share of debt service based on a negotiated reserve capacity as shown in the table below:

Project Name	WWRWTF ¹ Debt (Original Issue principal and interest amounts)	Each Member Municipality's Share of the WWRWTF ¹ Debt						Total
		West Warwick	Coventry	Warwick	West Greenwich	Cranston	Scituate	
2015A Phosphorus Removal Upgrade Project	\$ 9,731,769	73.15%	21.38%	2.40%	1.27%	1.06%	0.74%	100.00%
2015 Phosphorus Removal Upgrade Project	7,341,111	73.15%	21.38%	2.40%	1.27%	1.06%	0.74%	100.00%
Clyde Interceptor Upgrade Project	2,061,388	39.30%	44.20%				16.50%	100.00%
Upper Maisie Quinn Pump Station - Additional	597,352	64.74%	27.39%		7.86%			99.99%
Lower Maisie Quinn Pump Station & Force Main Project	9,356,530	64.74%	27.39%		7.86%			99.99%
Upper Maisie Quinn Pump Station - Original	3,644,407	64.74%	27.39%		7.86%			99.99%
Advanced Wastewater Treatment Project	22,695,818	73.52%	24.36%		1.35%		0.77%	100.00%

¹WWRWTF - West Warwick Regional Wastewater Treatment Facility

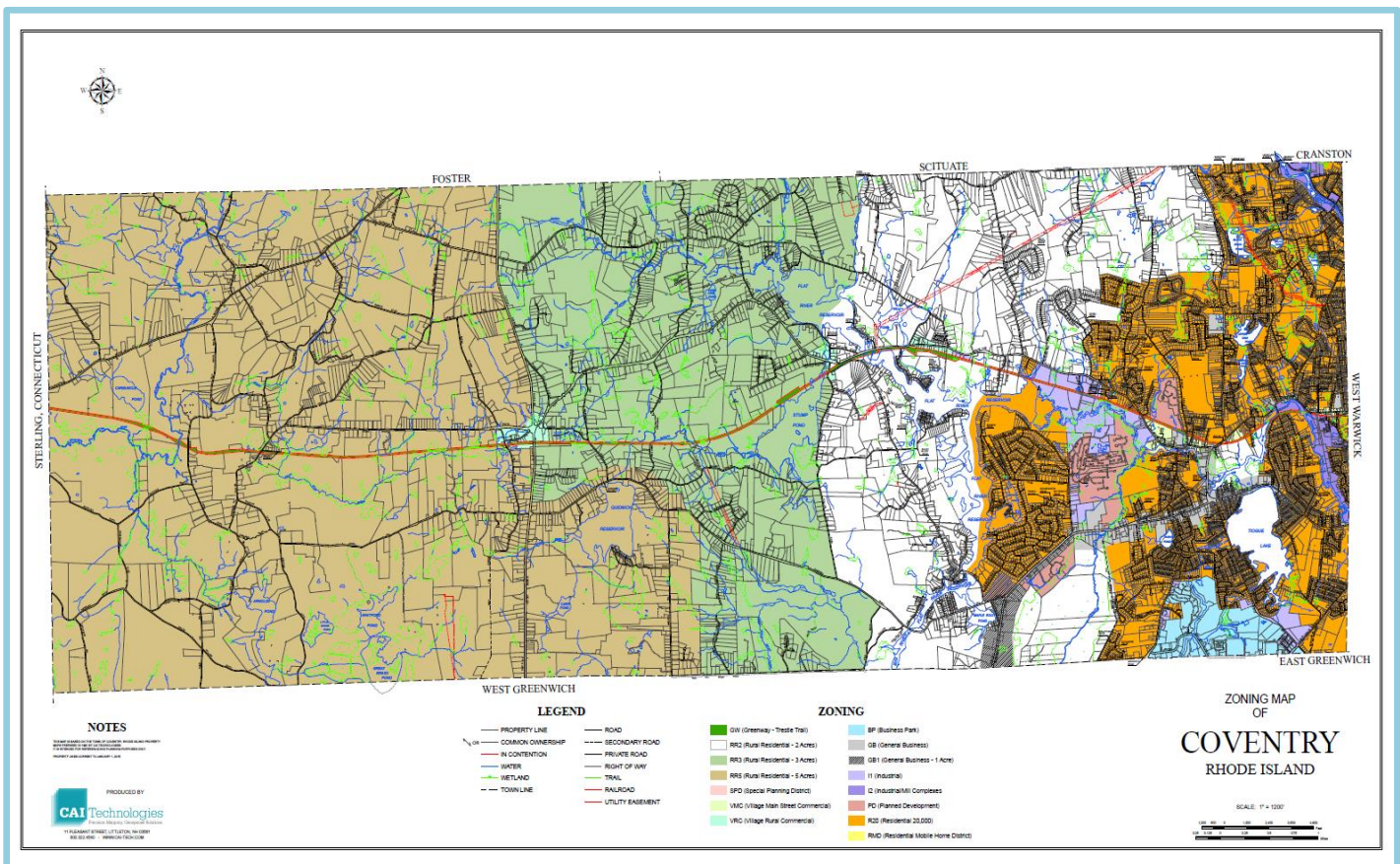
Recommendation

6. Revisit the negotiated reserve capacity component of the inter-municipal agreement between the Town of Coventry and the Town of West Warwick. Renegotiate that component to more closely reflect actual usage and intended usage reflecting current estimates of commercial, industrial and housing expansion in the Town of Coventry.

REASSESS THE NEED FOR AND BENEFITS DERIVED FROM THE SEWER PROGRAM FROM AN ECONOMIC DEVELOPMENT, HEALTH AND SAFETY, AND WATER QUALITY PERSPECTIVE

The operation of the sewer program in Coventry is unique and challenging in that only a small portion (approximately 3%) of the Town’s homeowners and businesses are connected to the System. Due to the overall size of the Town, the impact of sewers will likely continue to vary widely depending on whether residents live in densely developed sections or rural sections in the western part of Town.

This results in differing perspectives based on whether the resident is in a sewerred area and is being assessed for the costs of connection and use charges thereafter or in a remote rural area unlikely to ever be sewerred. In both cases, resident opposition has been strong. For those in sewerred areas the requirement to connect coupled with the significant assessment for the costs to connect have fueled frustration. For those in unsewerred areas, any support of the sewer program with general tax revenues has been met with opposition.



In either case, the sewer program lacks broad support and is not widely or appropriately viewed as being a necessary component of the Town’s overall economic development and growth of the tax base strategy as well as a necessary solution to addressing failed septic systems and ground and lake contamination. For example, the large-scale development project known as Centre of New England, multi-family housing, and other commercial development projects could not proceed without access to sewers.

The case for why sewers are necessary and important to the Town’s future both from a fiscal, economic development and health and safety perspective, can and should be articulated to bring a more balanced perspective to the collective view toward the sewer program. The idea should be advanced that having a viable sewer program is not unlike funding education, police and fire, economic development initiatives, and road construction, etc., where the

direct benefit to an individual taxpayer is not exactly correlated to their share of the costs borne through taxes or assessments.

Recognizing the disparity of residents in sewerred or non-sewerred areas of the Town, the Town has chosen to fund the program almost entirely by sewer assessment and usage fees on the limited number of users actually connected. Federal or state grants to support the program are largely non-existent so the program, as now operated, is sustained on a very small number of users. This creates unique financial stressors due to the high level of capital needs in a newer or expanding program supported by borrowing which must be repaid from a very limited number of users. A broader recognition of the importance of the program to the Town's overall growth and fiscal sustainability may allow more flexibility and expanded options to fund the program thereby lessening the large financial impact on a small group of homeowners and businesses.

Discontinuing the program is not a viable option – in fact, discontinuing the program now will ensure that the costs will continue to be borne disproportionately – more users are necessary to generate revenue to support the program. Additionally, a longer-term view needs to be part of the overall assessment of the program as there will be a future need in Coventry to expand the sewer program for either health and safety, water contamination, or economic development reasons.

The Town has borrowed to fund the capital needs of the program and these obligations must be repaid. Resources from assessments and user fees have been insufficient to meet debt service requirements which has necessitated cash flow borrowing from the Town's General Fund. Although the amounts borrowed for the sewer program are supported by dedicated sewer program revenues, the Town must ensure timely repayment of amounts borrowed to protect the Town's overall credit rating and to ensure continued access to capital for other infrastructure, education, transportation and economic development needs. Not honoring the amounts borrowed for the sewer program would be deleterious to the Town's credit rating overall. In fact, a rating agency recently downgraded the Town's outlook to negative in recognition of the fiscal challenges of the Town's sewer program.

Supporting the sewer program solely from user assessments and user fees is appropriate. However, viewing the sewer program's services in a broader context of enabling and benefitting economic development and growth in the tax base, as well as, mitigating and preventing health and safety issues may allow increased recognition of the importance of the program to the Town's overall growth and fiscal sustainability. That recognition may support more flexibility and expanded options to support the program with some funding from the General Fund.

The Town is required to prepare and update various comprehensive planning initiatives – the importance of the sewer program to future growth and development should be incorporated in such plans. The Town's leaders need to reassess the continued importance of the sewer program and then lead a town-wide initiative to educate residents on the importance and need for the program for the Town's continued health and safety objectives as well as economic development and growth of the tax base perspectives.

From a financial and strategic perspective, more users/customers are needed to support the program. Currently, there are too few customers to sufficiently spread construction and operating costs over a larger group of sewer users and to offer options in strategic rate setting to lessen the impact of sewer assessments on homeowners. In the near term, the Briar Point/Tiogou Lake neighborhood is a likely area for expansion due to (1) investment already made in a "dry line" to service the area, (2) a reported interest in service from area residents, and (3) an environmental need to avoid contamination of the lake through failed septic systems. This would potentially bring a fair number of households/customers online and is an example of the strategic planning that should guide decision making.

Some of the opposition to the sewer program has centered on the timing of expansion of the sewer system and homeowner upgrades to their individual sewage disposal systems. The costs of installing a new DEM compliant

individual sewage disposal system are significant. When individual systems have been recently upgraded and those costs are borne by the homeowner, sewer assessments following soon after are obviously met with frustration. While the homeowner can defer such costs for a period, this is less than optimal for the sewer program since such amounts are not available to the Town to repay amounts borrowed for the sewer construction. From the homeowners' perspective, the combination of both costs is onerous at best.

Some of these concerns could be lessened by enhanced transparency into the process and decision-making for expanding the system. Further, significant advance communication and education of planned expansion is necessary to allow homeowners to factor that information into their decisions to install a new compliant individual sewage disposal system.

Any further expansion of sewers in Coventry should be transparent with communication of near-term and longer-term expansion plans made available to all Town residents. For those residents directly affected, specific notice should be made at least two years in advance of the construction schedule (absent emergency situations) to avoid homeowners installing new individual sewage disposal systems prior to construction of new sewer lines.

Recommendations

7. Reassess the importance of the sewer program to the Town's overall growth, economic development and health and safety objectives. Utilize that updated assessment to guide various near-term and longer-term decisions regarding the sewer program.
8. Implement an information program to educate taxpayers on how the sewer program is integral to the long-term growth and viability of the Town.
9. Increase the number of system users/customers strategically by targeting expansion of the system where there is the strongest environmental need, homeowner interest, and a reasonable balance of construction costs to the number of connections/users gained.
10. Ensure near-term and longer-term sewer expansion plans are incorporated into the Town's overall planning efforts. Enhance transparency and communication of any sewer system expansion by requiring notification to affected homeowners at least two years in advance of the actual construction schedule to allow that information to be considered by homeowners contemplating installation of a new individual sewage disposal system.

SEEK OPTIONS TO REDUCE THE FINANCIAL IMPACT OF SEWER ASSESSMENTS ON HOMEOWNERS

Addressing the high cost of sewer assessments and costs of connection is a necessary component of developing a realistic comprehensive sustainability plan for the sewer program. Ensuring that sewer program costs are equitably shared and affordable is necessary for the program to continue which ultimately allows the Town to repay amounts borrowed for the program. Continuation of the program resulting in an increased number of users to share in the costs of the program is dependent upon effectively managing homeowner opposition to the total costs of connecting to Town sewers.

The Coventry Sewer Program is currently assessing homeowners and businesses, adjacent to the newly installed sewer line, for their proportionate share of the specific construction costs for installing that line. These assessments are payable immediately or in annual installments over 20 years with interest. Homeowners and businesses are also responsible for (1) the cost of connecting the home or business to the sewer line and (2) decommissioning the existing individual sewage disposal system. User fees commence once the connection is actually made.

Sewer assessments have recently approximated \$18,000 - \$22,000 per household unit. Current assessment methodologies divide the estimated flow from the project into total project costs to determine individual assessments. The estimated flow for commercial, multi-unit and mixed-use properties is based on design flow (GPD).

In cases where sewers are installed and assessed, and the property owner had a DEM-approved septic system installed within the past ten years, the property owner is allowed up to a ten-year deferment to commence paying their sewer assessment. Example: If a property owner installed a DEM-approved septic system five years prior to sewer installation, they will have a 5-year deferment to begin paying their assessment.

The total costs of connecting to Town sewers is significant and has fueled opposition to the program.

We note that at an earlier point, assessments were a flat amount of \$6,600, which bore no relationship to the actual costs of extending the sewer line in a specific area. The Town has now opted to distribute all the costs of extending the line to those specific homeowners and businesses adjacent to the line. Under the current model, the sewer assessments are intended to support the debt service for amounts borrowed to extend the sewer collection system. The sewer assessments are typically financed over 20 years and the debt service on the bonds is typically 20 years as well.

Options to reduce the cost to an individual homeowner include:

Review the components included in the total project construction costs allocated to the homeowners adjacent to the sewer line extension.

Total project costs allocated to the homeowners adjacent to the sewer line extension can include street repaving costs, police details, and, at times, extraordinary costs, which increase the actual construction costs due to unanticipated construction complications (e.g., when ledge is encountered). These costs could be excluded from the calculation to reduce the cost of sewer assessments. Extraordinary construction costs should be excluded to make sewer assessment more uniform and equitable among all homeowners and businesses. Street paving costs are not typically assessed to individual homeowners but are considered part of the overall capital and operating costs of the government. Accordingly, street paving costs should be removed from the construction cost component of the sewer assessment.

Subsidize the sewer assessment by recovering a portion of those costs from sewer use charges or a direct subsidy for a portion of the costs from the Town's General Fund or another non-sewer fund source.

It was not unusual for municipal general funds to subsidize sewer expansion as municipal-wide benefits are realized that promote economic development. In addition, sewer usage fees have also been used until systems gain financial stability. Currently, costs for the sewer program in Coventry are shared by a small number of "customers" which adds to the challenge of supporting the program solely through user charges.

As outlined in the previous section, there is rationale to view the expansion of sewers in the Town as an economic development expenditure aimed at expanding the tax base by attracting businesses or increasing the number of housing units. Additionally, sewer expansion is often necessary to address chronic sewage disposal problems that threaten health and safety, water quality, property values, etc. This expanded view of the sewer program may support some subsidy of the costs of connection assessed to individual homeowners and businesses through other sources including the town's General fund.

Reduce the interest rate charged on sewer assessment to approximate the Town's actual costs to borrow.

The interest rate charged to homeowners has been higher at 6% than the Town's actual borrowing costs which approximates 3% to 4%. Legislation has been introduced in the Rhode Island General Assembly to limit the interest rate charged to homeowners on sewer assessments. Aligning the Town's costs of borrowing with the interest charged on the assessments is both appropriate and necessary to lessen the cost of sewer assessments on homeowners and businesses.

We estimate the revenue impact of lowering the interest rate charged on sewer assessments to more closely align with the Coventry Sewer Program's actual borrowing costs to be as follows:

Analysis of annual interest revenue impact of change in interest rate charged on sewer assessments					
Fiscal Year	Current interest revenue at 6%	Interest revenue at 4%	Difference - 6% vs 4%	Interest revenue at 3%	Difference - 6% vs 3%
2019	\$ 413,880	\$ 276,612	\$ 137,268	\$ 207,979	\$ 205,901
2020	\$ 376,020	\$ 251,412	\$ 124,608	\$ 188,360	\$ 187,660
2021	\$ 351,408	\$ 238,921	\$ 112,487	\$ 182,677	\$ 168,731
2022 and thereafter	\$ 1,705,079	\$ 1,136,719	\$ 568,360	\$ 852,539	\$ 852,540
total	\$ 2,846,387	\$ 1,903,664	\$ 942,723	\$ 1,431,555	\$ 1,414,832

Reflects interest based on sewer assessments receivable at June 30, 2018 (excluding Town buildings)

As shown in the table, the fiscal 2019 impact of lowering the interest rate to 4% on sewer assessments decreases sewer fund revenues by approximately \$137,000. That interest revenue decrease would need to be factored into the development of the Coventry component of the sewer use rates to not increase the anticipated operating deficit for fiscal 2019.

A homeowner with an \$18,000 sewer assessment would save \$3,420 in interest charges over the 20-year term if the interest rate were lowered to 4% and \$5,130 in interest charges if lowered to 3%.

Increase the availability and awareness of lower cost financing options for homeowners

Sewer Tie-In Loan Program: The Town of Coventry has secured funding with Rhode Island Infrastructure Bank to offer homeowners low interest financing for the cost of sewer tie-in connections. Rhode Island Housing serves as the loan administrator for underwriting, billing and collection. The Town has approximately \$141,000 available for existing one, two and three family owner-occupied residences for borrowing up to \$10,000 to finance the cost of sewer tie-ins. As of this date, only one household has taken advantage of this program with a loan originating in 2013 in the amount of approximately \$9,000.

These 2% interest / 1, 3 or 5-year loans are not income restrictive and are available to homeowners with at least 20% home equity and a debt-to-income ratio of no more than 45%. Homeowners must have resided at the dwelling for at least 1 year and must certify that they intend to continue owner-occupied status for at least 5 years after receiving the financial assistance. Other terms apply.

HUD CDBG Funding for Sewer Tie-Ins, New Septic Systems, Roofs and Windows: The Town has approximately \$61,000 in grant money available for assisting existing home owners for the cost of sewer tie-ins, new septic systems, roofs and windows. For sewer tie-ins, up to \$10,000 is offered to qualified single family owner-occupied homes. HUD income eligibility guidelines and other terms apply.

Under this program, with home equity greater than 20% but less than \$100,000, grants are given, and respective liens are dissolved after 5 years of owner-occupied residency after receipt of the funding. For owner-occupied residences with greater than \$100,000 home equity, grants are awarded but must be paid back upon change in title of the home.

Sewer assessments also need to be viewed in the appropriate context. The costs to install a compliant individual sewage disposal system is not insignificant and depending on the circumstances can approximate current sewer assessments. Further, an individual sewage disposal system has a defined life and will require future upgrade or replacement whereas the sewer assessment is a one-time charge.

Consider implementing a sewer assessment maximum amount (“not to exceed amount”) to ensure that sewer assessments to homeowners are equitable and consistent in the various phases (contracts) of the program.

As described herein, actual construction costs are the basis for calculating the assessment to homeowners affected by a sewer construction project. As a measure to provide a limit to those assessments, a maximum sewer assessment could be adopted for a typical single-family home. Actual assessment would be the lesser of prorata construction costs or the maximum assessment amount. The amount of sewer construction costs not covered through assessments could be either subsidized through the Town’s operating budget or recovered through sewer user fees.

Some combination of the actions outlined above should be implemented to make the assessment amount more reasonable and affordable to homeowners.

Recommendation

11. Explore options to manage and reduce the high cost of sewer assessments on homeowners to include:
 - Review the components included in the total project construction costs allocated to the homeowners adjacent to the sewer line extension. Consider eliminating street paving costs, police details and any extraordinary, unanticipated construction costs.
 - Subsidize the sewer assessment by recovering a portion of those costs from sewer use charges or a direct subsidy for a portion of the costs from the Town's General Fund or another non-sewer fund source.
 - Reduce the interest rate charged on sewer assessments to approximate the Town's actual costs to borrow.
 - Increase the availability and awareness of lower-cost financing options for homeowners.
 - Adopt a maximum sewer assessment amount ("not to exceed amount") to ensure that sewer assessments to homeowners are equitable and consistent in the various phases (contracts) of the program.

SEWER RATE SETTING

Sewer rates have not been supported by an appropriate rate setting process. A viable financial plan has not been in place to guide the program and to ensure that amounts borrowed, and other operating costs can be supported by sewer fees and connection charges. In the past, the rates proposed and supported by the rate-setting process were not implemented, and instead significantly lower rates were adopted based on rates deemed to be consistent with homeowners' expectations. This practice led to the operating and cash flow deficits in the sewer enterprise fund.

The sewer rate setting process is complex in Coventry because it is a mix of passed-through costs from the West Warwick Regional Wastewater Treatment Facility (some based on usage and others on "reserve capacity") and Coventry's own costs to cover its sewer program operating costs, including debt service on its own borrowings to develop the sewer system, and related depreciation of the network.

The last formal independent rate setting report prepared by a consultant was in 2012. The recommendations from the consultant were not consistently followed in adopting rates by the Council. Annual rate development subsequent to the independent rate study has been more driven by the perceived ability of homeowners to pay rather than the actual amounts needed to maintain the system on a self-supporting basis.

COVENTRY SEWER USE BILLING RATES 2009 THRU 2018		
YEAR	Fee per HCF	Minimum Charge
2009	\$1.55	
2010	\$5.55*	
2011	\$5.55	
2012	\$5.55	
2013	\$6.83	
2014	\$7.55	
2015	\$7.90	
2016	\$7.90	
2017	\$7.90	\$180/EDU
2018	\$7.90	\$180/EDU

EDU = Equivalent Dwelling Unit - minimum charge applies only to West Warwick component of overall billing rate

* - began billing West Warwick fee

Components of \$7.90 per HCF rate:		
West Warwick pass through use charge	\$	3.55
Coventry Add-on to West Warwick rate	\$	0.95
Coventry Rate for Coventry operations and proportionate West Warwick Debt Service based on reserve capacity	\$	3.40
total rate	\$	7.90
<hr/>		
typical annual charge for single-family, three-bedroom home -- 4,000 CF * \$7.90	\$	316.00

Coventry's Sewer Fund has two primary sources of revenue – (1) use Fees and (2) assessments. The Sewer Use Fees are charged to customers connected to the sewer system and are based on water consumption. Assessments are charged to customers to connect to the Sewer system.

The Sewer Use fees are intended to cover the operations and maintenance of the Sewer System. The usage rates, charges and fees are established by Town Council resolution. Coventry's Sewer Use fee is based upon 80% of the water meter reading as determined by the Kent County Water Authority (KCWA) for properties supplied with water service from the KCWA. Property without service from KCWA is subject to an alternative estimated usage charge based on a percentage of the design flow (gallons per day or GPD) unless a Town-approved meter is installed.

Current Sewer use fees can be paid in four equal installments. Late payments are charged interest of 18% per annum or 1.5% per month on the unpaid balance.

External, independent expertise is needed on a recurring basis to help the Town adopt sewer rates that ensure recovery of costs, avoid deficits, and ensure sufficient cash flow to meet obligations as they come due. Additionally, policies for rate setting need to be established and formally adopted to provide the underpinnings of how rates should be developed and what costs they are intended to cover. For example, do rates cover depreciation or build a capital reserve model, are they developed on a cash or full accrual accounting basis? In addition, periodic rate studies and professional expertise in rate development is needed to resolve the anticipated shortfall between sewer assessments receivable and remaining debt service on sewer-related debt. This shortfall will need to be included within the sewer user fees rate development process or through a shift of certain costs to another funding source.

Development of annual sewer rates should be performed in concert with the development of the annual financial plan with a multi-year projection for adoption by the Town Council.

The multitude of sewer use rates charged to customers is unduly complex. Some users are billed by Coventry at a rate which is intended to be inclusive of West Warwick treatment costs and Coventry's add on for its operating and administrative costs plus its proportionate share of West Warwick's debt service for facility upgrades. Others, depending on location, are charged various combinations of those components, and in some instances, are billed directly for usage by West Warwick. Additionally, for some users, legal settlements govern the actual rates charged independent of any rate setting process.

The complexity and variety of rates adds to the overall administrative burden and further supports a move towards fully regionalizing the West Warwick Regional Wastewater Treatment Facility (as discussed in a separate


section). In the interim, external rate-setting assistance can help simplify the variety of rate combinations and ensure all users are paying the appropriate proportionate share of program costs.

Additional resources (e.g., finance, rate setting, administrative, and engineering) are likely needed in the near term to meet current operational needs and to develop and execute a longer-term sustainability plan. These additional costs will ultimately put more stress on the limited revenues to support the program.

Rate development goals and objectives to be considered:

- a) Engage a firm to perform a formal sewer use rate study and to provide expert support to the Town in establishing and adopting sewer use rates.
- b) Re-establish and commit to which costs are being recovered through sewer use fees:
 - Operations only or some cost of building the network
 - Cash flow basis or accrual accounting basis
 - Depreciation basis vs replacement reserve
- c) Establish an appropriate baseline sewer rate that adequately covers all elements of program cost.
- d) Adjust the baseline rate for:
 - the results of revisiting the inter-municipal agreement which allocates certain West Warwick debt service based on “reserve capacity” percentage rather than actual usage;
 - add to the baseline rate – the amount needed to fund the known shortfalls between sewer assessments and long-term debt;
 - determine if there is an amount that can be added to the annual usage charge to lessen the amount assessed on individual homeowners; and
 - costs that can be subsidized by the General fund or another non-sewer revenue source.
- e) Assess how Coventry’s user rates compare to the annual usage charge for other neighboring communities.

The following chart details the comparable annual sewer use fees charged by other communities to an average homeowner (single-family, three-bedroom home):



Town	User Charge Component	Annual Sewer User Charge - single family home - based on 4000 cubic feet
West Warwick	Sewer Use	\$ 142.00
	Facility Debt	135.00
	Total	\$ 277.00
Coventry	Sewer Use	\$ 136.00
	West Warwick user fee & other	180.00
	Total	\$ 316.00
Warwick	Sewer Use	\$ 191.20
	Renewal and Replacement	14.00
	Customer Charge	126.88
	Total	\$ 332.08
Narragansett Bay	Sewer Use	\$ 145.44
	Additional	225.32
	Total	\$ 370.76
East Providence	Sewer Use	\$ 398.24
	Annual Fixed Fee	60.00
	Total	\$ 458.24
Cranston	Sewer Use	\$ 458.94
North Smithfield	Sewer Use	\$ 508.53
Barrington	Sewer Use	\$ 330.50
	Sewer Improvement	203.00
	Total	\$ 533.50

Recommendation

- Engage a firm to perform a formal sewer use rate study and to provide expert support to the Town in establishing and adopting sewer use rates. Re-establish and commit to which costs are being recovered through sewer use fees.

GOVERNANCE AND ADMINISTRATION

Enhance transparency – develop annual operating and capital budgets for the sewer enterprise fund for council approval

Consistent with the need for significant enhancements to the sewer rate setting process, there is also a need to enact an annual budget plan for the sewer enterprise fund including a cash flow projection and a separate capital budget. Developing and adopting such a plan for the sewer fund would ensure appropriate consideration of:

- Are sewer rates sufficient to provide adequate cash flow to meet the sewer fund's operational needs including debt service?
- How capital outlay and depreciation expense of the system impact the operating results of the sewer program?
- What are the sources of funding to meet the capital needs of the program?
- How does the long-term collection of sewer assessments impact operating results and cash flow?
- How do the amounts paid to the West Warwick Regional Wastewater Treatment Facility for usage and proportionate debt service impact the development of Coventry sewer rates and the overall operations of the program?
- What internal costs of operating the program need to be charged to and recovered from sewer user rates added on to the costs derived from the West Warwick Regional Wastewater Treatment Facility operations?

The operating and capital budget for the sewer program should be developed as part of the Town's overall budget process and should be adopted annually by the Town Council.

A longer-term financial forecast (e.g., 5 year) should also be prepared and updated annually to better guide the rate-setting and capital budget process but also to ensure that sufficient resources are available to service the sewer program's long-term obligations.

Dedicate additional accounting, administrative, and engineering resources to the sewer program

Coventry should improve its sewer operations with the addition of dedicated personnel and the enhancement of the computer systems responsible for the recording of sewer fund activity. Currently, a single town employee is responsible for inputting assessment and use information into a tax collection system, as well as updating the balances as a result of any kind of adjustments resulting from payments, abatements, etc. While general procedures exist to mitigate the risk of inaccurate recording and or reporting of assessments or usage, additional personnel would serve to further alleviate the risk of incorrect maintenance of the sewer program arising from a lack of checks and balances and segregation of duties. These critical components of any program are next to impossible to achieve with the limited amount of personnel that are currently employed.

Due to the scarcity of resources devoted to the administration of the sewer program, information about the financial status of the program, its cash position and ability to meet required debt service, etc., was typically not known during the fiscal year and was only available six months after the fiscal year as part of the annual audit of the Town financial statements when sewer fund financial statements were prepared.

As discussed, adoption of an annual budget plan, coupled with "real time" accounting of activity with periodic (no less than quarterly) comparison of budget and actual activity would allow assessment of the actual financial condition of the sewer program.

Additional finance, rate setting, administrative, and engineering resources are likely needed in the near term to meet current operational needs and to develop and execute a longer-term sustainability plan. These additional costs will ultimately put more stress on the limited revenues to support the program.

Sewer program accounting changes are needed; utilize the separate bank account established for the fund and record all activity directly in the sewer enterprise fund

The Town utilizes a pooled cash account for most of its funds including the sewer enterprise fund. This blurs and delays recognition of cash advances required to meet obligations of the sewer fund as such advances are implicit rather than explicit. Disbursements of the sewer fund are processed and funded through the Town's pooled cash account without explicit recognition that the fund's resources were insufficient to cover that disbursement thereby requiring an implicit advance.

Within the sewer enterprise fund, no transactions are posted to cash. Cash receipts are posted with a monthly journal entry as a debit to the Due to/from General Fund account. Disbursements are similarly posted to the Due to/from General Fund account. Creating and maintaining a separate bank account for the sewer fund is required by Section 45-59-17 of the RI General Laws which states, "money collected by a district management authority shall not be commingled with other funds of the municipality". Utilizing the separate bank account would highlight the actual cash position of the sewer enterprise fund and would more readily indicate the availability (or lack thereof) of funds available to meet upcoming debt service and other operating costs. Further, advances would need explicit approval rather than result automatically from the Town's overall cash management for all funds.

Obtain an enhanced computer application to assist in the controls over billing for sewer assessments

The system used to track and bill sewer assessments is the annual property tax billing system. This was not designed for the long-term (more like loans receivable) functionality needed for sewer assessments. Consequently, much retrofitting and work-arounds are done to produce the sewer assessment billings. This complicates the processing of those billings and results in weakened controls over their administration.

Specific software, or a module to work with the Town's existing accounting system, should be acquired to improve this process.

Enhance controls over the sewer billing process to ensure all costs are recovered through billings (usage and assessments) to customers

Due to the complexity and number of components to the rate development and billing processes for sewer assessment and usage billings, strong controls should be operational to ensure that all cost elements have been accumulated, billed and collected. Currently, those controls need to be enhanced. There is little or no segregation of duties - most if not all billing is processed by one individual who performs this task in addition to a myriad of other duties. The lack of timely accounting and inadequate accounting applications to manage all the components of sewer billings and assessments contributes to the weakness in controls over the process.

Recommendations

13. Develop an annual operating plan (budget) for the sewer fund which includes cash flow and capital budgets as well. The annual sewer operating plan should be adopted formally by the Town Council as part of the Town's overall annual budget preparation process.
14. Evaluate the need for additional finance and administrative staff for the operations of the Town's sewer program.
15. Utilize the separate bank account established for the Town's sewer enterprise fund.
16. Acquire an enhanced computer application to facilitate tracking and billing of sewer assessments.
17. Enhance controls to ensure that the development of the sewer use charges include and consider all the various components of cost.

STUDY FULLY REGIONALIZING THE OPERATIONS OF THE WEST WARWICK REGIONAL WASTEWATER TREATMENT FACILITY

The West Warwick Regional Wastewater Treatment Facility operates as a department of the Town of West Warwick and is included as sewer enterprise fund in the Town of West Warwick's financial statements. It operates the wastewater treatment facility which serves multiple communities including West Warwick and Coventry but does not operate independently of the Town of West Warwick – the governing body for the wastewater treatment facility is the West Warwick Town Council. There is a West Warwick sewer advisory board which includes representation from the communities served by the facility (Coventry has one seat on the sewer advisory board).

As part of a longer-term view for the Coventry sewer program, Coventry and the other communities served by the facility should explore having the West Warwick regional sewer district act more independently – more like the Narragansett Bay Commission or Kent County Water Authority model, with representation of the benefitting communities on their governing board and assuming full responsibility for operations of the sewer program in each of the benefitting communities.

Currently, there is a split administrative responsibility for rate-setting, billing, accounting and operations that results in duplicated effort and additional costs. As previously outlined, Coventry's program is struggling to meet its current commitments and likely will need to incur additional administrative costs for accounting, administration, legal, engineering and finance in the near term to stabilize its operations. The regional authority would assume all responsibility for the program eliminating a large part of the functionality that is duplicated, to an extent, in Coventry.

This is consistent with a shared-services model that many advocate as a partial solution to the perennial challenges local governments face in providing services within the limitations of property tax caps and increasing commitments for education and public safety expenditures. Further, the total administrative costs of the regional system can be spread over a larger group of users. Additionally, one of the inherent challenges of the Coventry sewer program is recovering the program's costs from a relatively small group of users – while growth is expected, only a small percentage of the Coventry homeowners will be served by sewers in the near term. The Town of Coventry would be freed from the burdens of operating the program without all the attendant resources to manage a program of this complexity.

Full regionalization would also alleviate and simplify some of the complex billing arrangements that now exist. A large industrial user and six other commercial users in West Greenwich are billed by both West Warwick and Coventry due to the flow through the Coventry sewer lines. Some Coventry users are billed a different billing rate depending on which sewer line they are connected to (Woodland Manor). In some instances, the location of the user differs from the allocation of facility reserve capacity among the various municipalities which complicates the billing process. Some of these distinctions would become irrelevant under a fully regionalized model.

Lastly, Coventry will likely be challenged to authorize additional borrowing for expansion of the sewer program in the future and may also be challenged in obtaining the required financing. Undoubtedly, there will be a future need in Coventry to expand the sewer program for either health and safety, water contamination, or economic development reasons. A fully-regionalized sewer authority would likely allow and facilitate such future expansion.

Recommendation

18. Create a study group to explore and assess the feasibility of fully regionalizing the West Warwick Regional Wastewater Treatment Facility including representation from all municipalities using the treatment plant.