Naugatuck Regional Wastewater System Study

Public Presentation of Findings

January 26, 2022
Overview of the Collins Center for Public Management

Mission Statement

The Collins Center is dedicated to improving the efficiency, effectiveness, governance, responsiveness, and accountability of public sector organizations, with a particular focus on local and state governments.

Our Expertise

• Cross-disciplinary team of practitioner-consultants with decades of experience working in municipal, regional, and state governments
• Consult on all aspects of public governance and management
• As a member of the NVCOG team, we bring expertise in:
  • Financial analysis
  • Governance and organizational structures
  • Legal underpinnings of regional wastewater districts
  • Facilitation of organizational change, from legal to political aspects
  • Sensitivity to local history and control and issues of representation and equity
Our Role in this Study

1. **Recommend ownership and governance models** for the recommended regional alternative, including drafting regional WPCA ordinance and bylaws

2. **Complete a financial analysis** of the recommended regional alternative that shows capital and operating and maintenance (O&M) costs in the regional model compared with the base case costs for each participating municipality

Our Process

- interviews with WPCA officials & staff
- data collection & research
- 3 stakeholder workshops
- review & editing process
- final public presentation of findings
Presentation Agenda

• Ownership model recommendation
• Financial analysis
• Governance model recommendation
Ownership Model Recommendation

FULL REGIONAL OWNERSHIP MODEL

Locally-owned wastewater systems are transferred, *in their entirety*, to a newly-created regional WPCA that:

• collects, transports, treats, and disposes of all wastewater generated by the member communities;
• develops rates and charges, rules and regulations, and billing systems; and
• provides customer service directly to the end users of the system
How Full Ownership Works

- Responsible for setting:
  - rules & regulations
  - rates – retail or wholesale
Benefits of Full Ownership

- More efficient
  - Eliminates the need for coordination with multiple local WPCAs
  - Produces economies of scale in purchasing and labor
  - Eliminates a layer of bureaucracy between WPCA and customer
- Consolidates regulatory compliance effort
- Greater opportunity for grant funding
- Preferred by regulatory agencies because of greater accountability for the entire system
Regionalization Saves $66.5M over 20 Years

- We agree with B&V’s finding that the recommended alternative saves money
- Our analysis builds on B&V’s cost comparison
Model Inputs and Assumptions

- **Base case:** FY21 WPCA operating budgets
- **Regional alternative:** B&V’s projected figures, annualized and adjusted upward 9%
- **2% annual inflation**
- Included as reported by WPCAs

### O&M

- **Existing Debt**
  - B&V’s projections, amortized to project annual debt service
  - Clean Water Fund for a 20-year term at 2% interest with level debt repayment
  - No borrowing costs or short-term debt were modeled at this stage
  - Base case: 20% DEEP reimbursement grant; Regional alternative: 25%

- **New Debt**
  - Phase II collection system investments are treated as pay-as-you-go
  - Added non-infrastructure capital at an annual rate of 3% of the O&M budget
Additional Assumptions

**Timeline:**
- Regional WPCA will be formed in FY22
- Phase I collection system investment will begin FY23 with debt repayment starting in FY24
- Pumping station, treatment, and conveyance capital: engineering in FY23, construction in FY24-25, and debt repayment starting in FY26

**Funds held in reserve** – Any reserves or stabilization funds will remain with the municipality and may be used to stabilize user fees during or after the transition to regionalization, or for any other legal purpose
Cost Allocation Methodology

While regionalization saves money overall, to determine the effect on each municipality, costs have to be allocated. There are many ways to do this.

Examples:
1. Mattabassett District: O&M costs allocated based on five-year average flow. Capital costs allocated based on each member’s reserved plant capacity.
2. Mass Water Resources Authority: O&M costs allocated based on three-year average flow with adjustments for strength of flow. Capital costs allocated based on combination of:
   • Three-year average peak month flow and average concentration of TSS and BOD
   • Proportion of population of the community that is served
   • Proportion of the community’s Census population to the total Census population of the system
3. Mansfield-Foxboro-Norton District: O&M costs are coded as either flow-variable or semi-fixed. Flow-variable costs are allocated based on average flow. Semi-fixed O&M and capital costs are allocated based on reserved plant capacity.
Who decides how costs are allocated?

- Member municipalities have the right and responsibility to make this decision
- They should actively negotiate to design a cost allocation methodology that is acceptable to all
- The agreed-upon methodology should be defined in a formal agreement
Cost Allocation Model Development

The Collins Center developed a model to use as a starting point which includes:

Allocated based on proportion of B&V’s total estimated annual flow:
- O&M costs
- Treatment & Conveyance capital (existing and new)
- Pay-As-You-Go capital

Allocated based on municipal borders:
- Collection & Pumping capital (existing and new)
## Cost Comparison by Municipality

<table>
<thead>
<tr>
<th>Ansonia, Derby, &amp; Seymour</th>
<th>Total $ FY24-FY43</th>
<th>Total $ Savings (Cost)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Cases - Total</td>
<td>328,776,576</td>
<td></td>
</tr>
<tr>
<td>Regional Alternative</td>
<td>262,273,867</td>
<td>66,502,709</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ansonia</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>102,810,149</td>
<td></td>
</tr>
<tr>
<td>Regional Alternative</td>
<td>97,051,738</td>
<td>5,758,410</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Derby</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>143,054,654</td>
<td></td>
</tr>
<tr>
<td>Regional Alternative</td>
<td>100,787,344</td>
<td>42,267,310</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Seymour</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>82,911,773</td>
<td></td>
</tr>
<tr>
<td>Regional Alternative</td>
<td>64,434,785</td>
<td>18,476,989</td>
</tr>
</tbody>
</table>
Cost Allocation Model – Next Steps

We recommend our model be used as the starting point for ongoing negotiations because:

• All municipalities save money versus the base case
• Each municipality continues to bear financial responsibility for existing and future capital costs associated with its collection system
  • This is important since we do not have a detailed assessment of the condition of the collection systems or the future capital needs

What are the next steps?
• Consider having existing treatment assets valued by an asset valuation expert
  • We believe this would improve the financial model and allow the municipalities to consider a financial buy-in arrangement that could enhance equity of projected savings
Governance Models – Overview

We reviewed the governance models of a dozen regional wastewater systems across southern New England.

Enabling legislation options

• Connecticut Model Legislation (Chapter 446K Sections 22a-501 to 519) or
• Special Legislation

Governance structure documents

• Ordinances, Bylaws, and Intergovernmental Agreements are commonly used to establish structure and operating procedures
• Collins Center has provided drafts of both an Ordinance and Bylaws
Enabling Legislation Recommendation – Connecticut Model WPCA Statute

- **Established Track Record.** The model statute has been used, most notably by the New Haven Region.

- **It is Timely.** Creating Special Legislation would delay creation of the district.

- **Meets Established Criteria.** It meets the criteria set forth by the State which will aid in obtaining necessary approvals.

- **Grant Funding.** The statute contains language providing for increased grant funding to support regionalization.

- **Comprehensive.** The statute contains all the necessary language enabling district formation, financing, land acquisition, project planning and construction, and staff selection.
How to Establish the Regional WPCA

- **Concurrent Action.** Each municipality’s legislative body must concurrently adopt an ordinance that establishes the regional WPCA.

- **Approval Required.** The ordinance and a “preliminary plan of operation” must be approved by the DEEP Commissioner and State Treasurer.

- **Board of Directors.** The ordinance establishes a Board of Directors that then adopts sewer rules and regulations and hires officers.

- **Bylaws Required.** The powers and duties of the Board and officers are spelled out in the ordinance, and initial bylaws are also adopted by the constituent municipalities.
Recommended Design of the Board of Directors

• **Recommended Representation.** Three members from each municipality, three-year staggered terms, and the appointing authorities remain the same as for the existing local WPCAs

• **Recommended Eligibility Requirements.** Directors must reside in the district and have relevant environmental, engineering, or financial knowledge or experience

• **Super Majorities Recommended.** Six votes are required to adopt budgets, determine user fees, and issue debt and at least one voting member from each community must be among the super-majority
Key Ordinance and Bylaw Provisions

- **Officers.** Board appoints an Executive Director (CEO), Treasurer, and Secretary

- **Budgeting.** Executive Director prepares operating and capital budgets for Board approval

- **Cost-of-Service Study.** Annual requirement for a study prior to rate setting

- **Annual Audit.** An external and independent audit is required annually

- **Rules and Regulations.** Board must adopt sewer user rules and regulations
Next Steps

Step 1: Finalize cost allocation methodology
- Consider hiring an asset valuation consultant to assess existing value of infrastructure
- Negotiate the specifics of cost allocation methodology
- Incorporate into a legal agreement

Step 2: Finalize all legal foundational documents
- Vet the cost allocation agreement, ordinance, and bylaws with legal counsel, DEEP, and other stakeholders
- Develop the preliminary plan of operation (PPO)
- Legislative bodies adopt cost allocation agreement, ordinance, and bylaws after public engagement process
- Receive approval of the ordinance and PPO from DEEP Commissioner and State Treasurer

Step 3: Implement the regional WPCA
- Appoint Directors to regional WPCA Board of Directors
Thank you!