

January 28, 2010

To: Chatham Finance Committee  
From: Elaine B. Gibbs  
Re: Wastewater

I happened to view the January 21, 2010 Finance Committee Meeting where Mr. Hinchey referred to my 4 page letter challenging his numbers regarding the Wastewater project. It was actually 8 pages and is now about 15 pages. Knowing full well this is a time-sensitive matter and the largest expense and most invasive project ever to be perpetrated on Chatham, the BOS finally “granted” my request to have Wastewater placed on the agenda 6 weeks from the date of my request. It is scheduled for Feb 23. This is particularly disturbing because contracts are being signed as we speak, contractor meetings are taking place on Feb 11, and digging will begin on Feb 17.

I am sending this letter to you to explain each and every challenge I have made. If I am wrong I will be happy to be taken to the public square. Mr. Hinchey has already proven me right regarding the fact the numbers they are using are 3 years old. I am not an obstructionist. I am not anti-tax. I am not anti-environment. But I am pragmatic. And I do expect town officials to use due diligence and be honest with the taxpayer.

I have found this process extremely cumbersome. I have been ruled out of order and threatened by Mr. Bergstrom with the police during public forum. It is particularly irksome when town officials can get up and discredit those who disagree, in meetings and the newspaper, and we cannot respond without spending a fortune on ads.

The fact that officials saw fit to move the start date up by a full year, with hundreds of decisions yet to be made, no implementation plan in place, with no information sent to homeowners on what to expect or the true costs and impact on our community, is irresponsible, and I am beginning to question why.

In the last 3 weeks I have spent 300+ hours reading every report, all the minutes of the CAC, watching meeting videos well into the night, calling distributors and sewer experts to make sure I have my facts straight. I have learned quite a bit despite the lack of information provided by town officials. I will be more than happy to debate any one of them including the BOS on any point I have made. I think Mr. Hinchey confirmed that no one ever challenged the projections or even noticed that the figures used were from 2007. No one asked where the figures came from on the bars and graphs presented at the town meeting.

What has really shocked me is with all the money and time spent over the last 12 years on this project apparently no one outside the inner circle has gone through the exercise that I have. And I frankly resent the fact that I have had too. I am not elected or paid. But there are many people in this community who are barely surviving, and their very real problems have been dismissed. Not once since the “crash” in September of 2008 did one official question the wisdom of going forward with such a massive project that will be obsolete before it is finished, and could bankrupt the town- especially since we will not see one drop in nitrogen levels for 23 years at the

completion of Phase I. It will take that long to get the sewers into the hot spot areas. Mr. Hinchey's remark that Phase II probably won't get done is confounding when we are over building the main facility assuming the entire town will be sewerred. Following is my analysis of the numbers with supporting documents to illustrate my concerns.

## **ANALYSIS**

Mr. Hinchey stated to you quite clearly in your last meeting that Phase I is \$210 million and Phase II is \$90 million, for a total town-wide sewer program of \$300,000,000. The more he explained his calculations to you the more amazed I was.

He confirmed the numbers were 3 years old. To suggest that if costs go up due to inflation he anticipates the "standard of living will go up so it is a wash," is unacceptable. In other words, if the costs go up it is ok, because the town can take more from the taxpayers to offset it. I would strongly disagree in this economic environment that anyone's standard of living is going to go up any time soon. Nor were voters ever told that would be a solution, or any standard accounting method I have ever heard of.

The documents I have attached came from the Stearns & Wheler's *Final Comprehensive Wastewater Management Plan* presented to the BOS, and are the basis of my challenges. I will also address those documents presented at the Town meeting resulting in the \$59,000,000 bond approval.

### **TABLE 11-1(Phase I & Phase II)**

As you can see at the bottom of the page Phase I costs in 2007 (see note) were \$240,000,000-not \$210,000,000. (This was the cost if we completed the entire system in 2007) Stearns and Wheler made it quite clear throughout their report that ENR indexes must be applied to get current costs. Because this project will be done in phases over a 20 year period (Phase I), and 30 years (Phase I and Phase II) construction costs must be adjusted as the work goes forward. I think Mr. Hinchey took the Operating and Maintenance of \$30,000,000 out of the Phase I. I will explain later why that is not appropriate.

### **TABLE 9-1 (Phase I & II of Collection System)-sewers**

This table illustrates the substantial impact of ENR indexing. You can see that the town-wide sewer system costs (excluding main facility) were \$240,000,000 in 2006 and \$250,000,000 in 2007- a 4% increase in one year. Mr. Hinchey's explanation that he does not need to include cost increases over time, because he can save it with competitive bids, is sloppy.

Whether some of this money has already been allocated or it is later determined that some will be retrieved through annual sewer charges, homeowners paying for grinders etc, \$240,000,000 plus ENR indexing plus financing is the true cost and should be presented to us as such.

The USDA \$40,000,000 grant/loan is not as great as it has been presented and it is not recurring. I am attaching the Resolution for your review. It is my understanding it is applied to the main facility construction which is only Part I of Phase I. 45% is a grant not to exceed \$17,777,880. The balance is a loan with current interest rate of 3.5%-4%. I don't consider that a bargain when

loan money is available from the state at 2%. Both those numbers will be reduced based on the fact that the “bids” came in \$7.8 million lower reducing the total cost of that portion of the project. The value of the grant is likely to be less than \$15,000,000.

While Mr. Hinchey may be optimistic, I have never known a contractor who did not bid low and then experience cost over runs.-so I do not view the \$7.8 million as a given, and that should never be **assumed** when pricing a project of this magnitude. We could be heading into a massive inflationary period in the next 10 years. I think we can all agree that “stimulus money”-which is not free- is a fad that will necessarily soon come to a screeching halt.

What was not disclosed to voters at the town meeting is that every 2 years beginning probably in 2013 and for the next 28 years the town will come back to the taxpayer for \$20,000,000 in 2007 dollars to sewer the town. There is no question that as we move forward that number is going to be far higher due to escalation in construction costs and higher interest rates which are already coming. Segmentation, having voters asked to approve incremental pieces without being presented with the full scope of the project first, is not an acceptable practice. The DEP frowns on it. They want guarantees that the project can be completed. Mr. Hinchey implied that the \$20,000,000 fundings were actually projections and would be lower in today’s dollars. Nowhere does Stearns & Wheler say that. In fact they make it clear they are 2007 dollars.

#### **FIVE YEAR COMPARISON-\$600,000 VALUE HOME**

This is perhaps one of the most misleading illustrations of all. It was used at the town meeting to get voters to approve the bond in order to get “stimulus” money. The purpose was to show the impact of the “stimulus” money- that did not end up happening. It was the reason given for moving up the start date by a full year and getting a \$59,000,000, without ever seeking approval from the town on the entire project. Voters were told this was the total impact of the entire wastewater system with and without stimulus money. Voters were told the entire cost of the project was going to be in the tax rate and this is what it was going to cost them.

- 1- To even use the \$600,000 value is inappropriate. The Ma. Dept of Revenue official records (DOR) state the assessment for the average single family Chatham home for 2010 is \$861,926. Over the last 10 years assessments have increased 250 %. (10-11% a year on average). This year many homes experienced a 30% increase.
- 2- This chart doesn’t even begin until 2013. In 2013 the average single family average home assessment at 10% per year will be \$1,147,331. Based on how assessments are calculated in a poor sales market we will be lucky if it stays at 10%. So right from the start these numbers should have reflected that fact. The number would have been almost 3 times larger and may not have been as palatable to voters.
- 3- More importantly, this chart leads taxpayers to believe their assessments will remain flat. On the contrary. By FY17, that very same house will be assessed at \$1,679,807 assuming a 10% annual increase. While some homes may remain flat others will be hit very hard because of the assessor’s formula. The result is voters were misled concerning the impact on the tax rate. Compounding this with the fact that the original cost of the project

doesn't include inflation and financing, I cannot even calculate what the impact actually will be on the tax rate.

- 4- The worst offense is that for some reason officials chose not to extend this illustration beyond 2017. They clearly stated that this was the impact of the wastewater system. That is just not true. This does not show the impact of the \$20,000,000 for the collection system plus interest plus inflation every 2 years for the next 30 years.
- 5- Finally, the ANNUAL operation and maintenance costs in 2007 dollars is \$1,900,000. S&W has included that number in the total estimate for 15 years. The theory is when enough sewers are hooked up and homeowners are paying \$400 per year in sewer costs this ongoing cost will be covered. I believe that is why Mr. Hinchey took \$30,000,000 out of the total cost of Phase I. In 10 years at 3% inflation that O&M number grows to \$3,021,350 in annual operating costs. That is not a number that can be financed. It is a recurring expense to the bottom line of our annual budget that will continue to grow. It does not include major repairs to the system. If all 3000 homes were "hooked up" within 10 years which is not even a possibility, at \$400 per household in sewer charges, only \$1,200,000 is generated in revenue. So for Mr. Hinchey to say "revenue will offset capital" does not make sense.
- 6- Which brings me to the final point: the projected cost to homeowners presented at the town meeting is abysmally low. When you add in the cost to "hook-up" which is another whole problem, (and not yours except as taxpayers) you can see that the taxpayer is in deep trouble. 1200 homes will have grinder pumps that retail for \$4,000 with \$3,000 to install and have a life span of 10 years. It is immaterial if those numbers are in this projection or diverted to the homeowner as a personal expense. That is in addition to trenching and septic crushing /or removal. If you happen to be at the low point of the gravity sewer, you will be required to pay for trenching 20' deep to reach the sewer hub. Estimates of \$3-\$10,000 are just not realistic. Regardless of which pocket you remove the money from, they are all out of the taxpayer's pocket.

### **BAR GRAPHS-WASTEWATER EXPANSION FULL COST**

These graphs were presented to the BOS and the voters and in my view are totally meaningless. It is showing the relationship of the wastewater project relative to our existing debt. Unless I am missing something this chart assumes we will never have one more capital project in the next 44 years. It is also totally inaccurate because it doesn't show the ongoing and ever increasing cost to operate and maintain the facility, a line item which cannot be financed. If that number is \$3,000,000 in 10 years, it will be \$6,000,000 in 15 years and likely \$10,000,000+ in 20 years, clearly not reflected in the bar graph. If I can't figure it after hours of study, surely voters couldn't in 20 minutes at the town meeting.

## **COSTS SPECIFICALLY EXCLUDED FROM THESE ESTIMATES**

While \$28,000,000 in contingencies (unforeseen expenses) has been allocated, over a 20 year period, based on the enormity of this project that number would appear to be low.

Stearns & Wheler stated quite clearly that:

- removal of hazardous material is not included in estimates. Construction will stop and DEP must be notified. The cost of removal of the hazard and construction delays cannot be calculated and could be significant.
- does not include utility relocation, storm water drains and “other.”
- does not include costs associated in the taking of land by easement or eminent domain for 88 pump stations and pipe laying on private property..
- “Pump station cost is based on basic architectural design. Custom modification to architectural appearance will increase costs.” Since pump stations will be located within 50 feet of many homes in neighborhoods, I assume that upgrade will be required.
- Odor control at pump stations was excluded in the report.
- It is unclear if legal expenses are included from lawsuits brought by landowners for damages to “structures” and personal property which has been identified as a potential due to narrowness of streets, and/or the unwanted taking of land. The 1200 home owners, with grinder pumps which will be mandated by the town, may have a case if sewage “backs up into their structure” during a power outage.
- The grinder pump estimates were based on a 2007 model which has been phased out. Whether the town purchases a new model requiring all taxpayers to contribute, or purchases them and sells them to homeowners at cost, it is still an expense to the taxpayer.

## **FINANCIAL MODELS**

Under the FOIA I requested all financial models that were used in cost projections, graphs and the “home value” table. I am enclosing them for your review. I asked the BOS on January 12 if an independent accountant specializing in massive, long term municipal projects was hired to do the projections and they refused to answer. . One member did say “Your suggesting we didn’t have an accountant take a look at it is just absurd.” I find that response absurd.

Having worked in the private sector for many years, I would have been booted out the door if this was the sum and substance of financials I produced to justify costs on a project of this magnitude. With all the money we have freely authorized over the years for “studies” on this project, the fact that \$10,000 wasn’t allocated to get it right, again is irresponsible.

I am attaching a copy of my letter to the BOS to which Mr. Hinchey referred. Someone asked Mr. Hinchey why the Board won’t answer my questions. Mr Hinchey apparently replied that he was providing the financial spread sheets, but in order to answer all my other questions he would have to be given money by the Board to research them. To think that none of these questions were ever addressed is –I am running out of adjectives.

I predict that not one member of the BOS or town official that has championed this project will be around to be held accountable when all the financial chickens come home to roost in 5 years. Chatham will be left with this financial albatross for 2 ½ generations, and I do not believe I am overstating it when I say it could bankrupt our community. This is one time where I do not

believe that Chatham should be “out in front” or be known for having “the most Comprehensive Wastewater Plan in the Commonwealth.” There may just be a reason everyone else is watching to see what happens to us.

This project needs to be put on hold until we can get to the bottom of these discrepancies. To proceed now could be a financial disaster in the making.

I thank you for your time. If you have a need to meet with me to answer questions I am more than willing to do so.

Elaine B. Gibbs  
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Enclosures (not attached to copies)