

ATTACHMENT A

ACTS, 1981. - Chaps. 120, 121.

and "part" includes "parts".

Approved May 1, 1981.
EMERGENCY LETTER - May 5, 1981 @ 11:59 A.M.

Chap. 120. AN ACT AUTHORIZING THE CITY OF GLOUCESTER TO BUILD AND DISCHARGE FROM A PRIMARY WASTEWATER TREATMENT FACILITY.

Be it enacted, etc., as follows:

SECTION 1. Notwithstanding the provisions of sections fourteen, fifteen, sixteen and eighteen of chapter one hundred and thirty-two A of the General Laws, the city of Gloucester may build and discharge from a primary wastewater treatment facility with an extended outfall as described in the application submitted to the administrator of the Environmental Protection Agency of the United States for a waiver of the secondary wastewater treatment requirement as provided by 33 USC 1343.

SECTION 2. This act shall take effect upon its acceptance by the city of Gloucester by vote of the city council and approval of the mayor of said city.

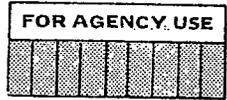
Approved May 1, 1981.

Chap. 121. AN ACT MAKING APPROPRIATIONS FOR THE FISCAL YEAR ENDING JUNE THIRTIETH, NINETEEN HUNDRED AND EIGHTY-ONE TO PROVIDE FOR SUPPLEMENTING CERTAIN EXISTING APPROPRIATIONS AND FOR CERTAIN NEW ACTIVITIES AND PROJECTS.

Be it enacted, etc., as follows:

SECTION 1. To provide for supplementing certain items in the general appropriation act and for certain new activities and projects the sums set forth in section two for the purpose and subject to the conditions specified therein are hereby appropriated from the Local Aid Fund, subject to the provisions of law regulating the disbursement of public funds and the conditions pertaining to appropriations in chapter three hundred and twenty-nine of the acts of nineteen hundred and eighty, for the fiscal year ending June thirtieth, nineteen hundred and eighty-one or for such period as may be specified, the sums so appropriated to be in addition to any amounts available for the purpose.

NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM
APPLICATION FOR PERMIT TO DISCHARGE WASTEWATER



STANDARD FORM A - MUNICIPAL

SECTION I. APPLICANT AND FACILITY DESCRIPTION

Unless otherwise specified on this form all items are to be completed. If an item is not applicable indicate 'NA.'

ADDITIONAL INSTRUCTIONS FOR SELECTED ITEMS APPEAR IN SEPARATE INSTRUCTION BOOKLET AS INDICATED. REFER TO BOOKLET BEFORE FILLING OUT THESE ITEMS.

Please Print or Type

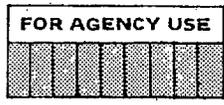
<p>1. Legal Name of Applicant (see instructions)</p>	101	City of Gloucester
<p>2. Mailing Address of Applicant (see instructions) Number & Street</p>	102a	City Hall
<p>City</p>	102b	Gloucester
<p>State</p>	102c	Massachusetts
<p>Zip Code</p>	102d	01930
<p>3. Applicant's Authorized Agent (see instructions) Name and Title</p>	103a	Norman C. Ross
<p>City Solicitor</p>	103b	City Hall
<p>Number & Street</p>	103c	Gloucester
<p>City</p>	103d	Massachusetts
<p>State</p>	103e	01930
<p>Zip Code</p>	103f	617 283-0043
<p>Telephone</p>	103g	Area Number
<p>4. Previous Application If a previous application for a permit under the National Pollutant Discharge Elimination System has been made, give the date of application.</p>	104	73 9 15 YR MO DAY

I certify that I am familiar with the information contained in this application and that to the best of my knowledge and belief such information is true, complete, and accurate.

Norman C. Ross	102a	City Solicitor
Printed Name of Person Signing		Title
	102f	
Signature of Applicant or Authorized Agent		YR MO DAY Date Application Signed

18 U.S.C. Section 1001 provides that:
Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and wilfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statement or representation, or makes or uses any false writing or document knowing same to contain any false, fictitious or fraudulent statement or entry, shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

FOR AGENCY USE	OFFICE: _____ EPA Region Number _____ State
Received _____ YR MO DAY	



5. Facility (see instructions)
Give the name, ownership, and physical location of the plant or other operating facility where discharge(s) presently occur(s) or will occur.
Name

105a

City of Gloucester Primary Wastewater Treatment Plant. Location - Route 133 near Kent

Ownership (Public, Private or Both Public and Private).

105b

Circle with 15000 foot outfall into ocean with diffuser located at lat. 42°34.2' and long 70°40.6'

PUB PRV BPP

Check block if a Federal facility

105c

FED

and give GSA Inventory Control Number

105d

Location:
Number & Street

105e

Primary Treatment Plant - Route 133

City

105f

Gloucester

County

105g

Essex

State

105h

Massachusetts

6. Discharge to Another Municipal Facility (see instructions)
a. Indicate if part of your discharge is into a municipal waste transport system under another responsible organization. If yes, complete the rest of this item and continue with Item 7. If no, go directly to Item 7.

106a

Yes No

b. Responsible Organization Receiving Discharge Name

106b

Ocean Discharge

Number & Street

106c

N.A.

City

106d

State

106e

Zip Code

106f

N.A.

c. Facility Which Receives Discharge Give the name of the facility (waste treatment plant) which receives and is ultimately responsible for treatment of the discharge from your facility.

106g

d. Average Daily Flow to Facility (mgd) Give your average daily flow into the receiving facility.

106h

7.24 mgd Average

3.00 mgd Minimum

15.00 mgd Maximum

7. Facility Discharges, Number and Discharge Volume (see instructions) Specify the number of discharges described in this application and the volume of water discharged or lost to each of the categories below. Estimate average volume per day in million gallons per day. Do not include intermittent or noncontinuous overflows, bypasses or seasonal discharges from lagoons, holding ponds, etc.

Primary wastewater treatment plant and outfall design criteria.

ATTACHMENT B

City of Gloucester

Financial Assessment and
Affordability Analysis
For the Secondary Sewage
Treatment Plant

February 4, 2011

1. Executive Summary

The City of Gloucester, not unlike other communities within the Commonwealth of Massachusetts and around the nation, has felt the impact of the dramatic downturn in the national economy over the past several years. As a result of the stock market “crash” in September 2008, the City’s assets including the investments held for pensions and trust funds lost significant value, up to as much as 25 percent. Declining local and State revenues have also negatively affected the financial condition of the City requiring significant budgetary cuts to appropriations in most, if not all, City departments.

From the fiscal year 2000 – 2009, the City had negative free cash in the general fund. Negative free cash is an indication of financial hardship and that no funds are available to appropriate for any purpose out of unreserved fund balance. All major funds within the City of Gloucester, including the general fund, water fund and sewer fund have had “unhealthy” fund balance/retained earnings over this same time period. The City has been focused entirely on trying to improve the financial condition of all funds in the past three years.

The City’s bond rating is Aa2 with a negative outlook presently. The City has implemented a tremendous amount of positive changes to policy and overall approach to the financial operations of the City to improve our rating. Requiring a secondary sewage treatment plant to be paid for by the users alone could negate a lot of the hard work that we have completed in the past 24 months. Collection rates, level of debt, fund balance/retained earnings levels, future capital costs and more affect bond ratings.

Gloucester is experiencing close to 10% unemployment, increased foreclosures on residential properties, rising taxes and significant increases in water/sewer rates, declining property values, poor economic growth due to less construction of new buildings and more. A new charter school was just placed into operations which will cost the City \$2.4 Million per year once the state subsidy disappears. All of these factors weigh heavily on every financial decision being made every day.

While the sewer enterprise fund is a self supporting fund, the costs to the sewer users in Gloucester can not be viewed in an economic vacuum. These same users pay local city taxes, water, sewer, state income tax, meals tax, sales tax, etc. The City of Gloucester’s infrastructure is aged to the point where a lot of improvements are necessary to maintain existing treatment plants, transmission lines, pump stations, towers, streets, municipal buildings, capital equipment and more. There is

a saturation point to what the taxpayers can pay for municipal services. After all a majority of our residents have mortgages on their properties that they are paying on as well.

Adding a \$60 Million secondary sewage treatment plant would increase the existing total sewer and CSO debt by 150%. Most of the existing debt will not retire until the year 2032. The operations and maintenance costs of adding the SSTP would increase the operating budget by approximately 10% and the new associated debt would increase it by another 50% for a total of a 60% increase in annual cost to the sewer users! Who can support such an increase?

The City has a significant amount of sewer and CSO related debt already. The City needs to increase and then maintain its sewer enterprise fund budget by approximately \$2,000,000 - \$3,000,000 in order to cover the cost of a repair and replacement program for existing assets. That additional cost would increase the sewer rate by an additional \$3.82 - \$5.73 per 1,000 gallons respectively. Those amounts are not reflective in any of the calculations within this report. Additional debt is necessary to repair and replace existing capital assets which will add to our existing debt burden. Adding \$60 Million in new debt is completely reckless and would be financially crippling to the City's financial condition. The sewer rate would astronomically increase to a point where collections would drop drastically causing a snowball effect. Rates would rise, collections would fall causing rates to rise higher shifting the burden to the higher income residents and businesses. High water volume usage commercial customers might not continue to do business within Gloucester and move operations to another more affordable community which would again continue the collapse of the enterprise fund and place the additional burden on the remaining rate payers.

The following table shows just how much of a burden the increase in rate from the construction of a secondary sewage treatment plant would have on a residential customer. The table shows the current charge, average year charge (assuming that the secondary sewage treatment plant debt impact starts in 2015) and the peak year charge – all as a percentage of median household income (MHI).

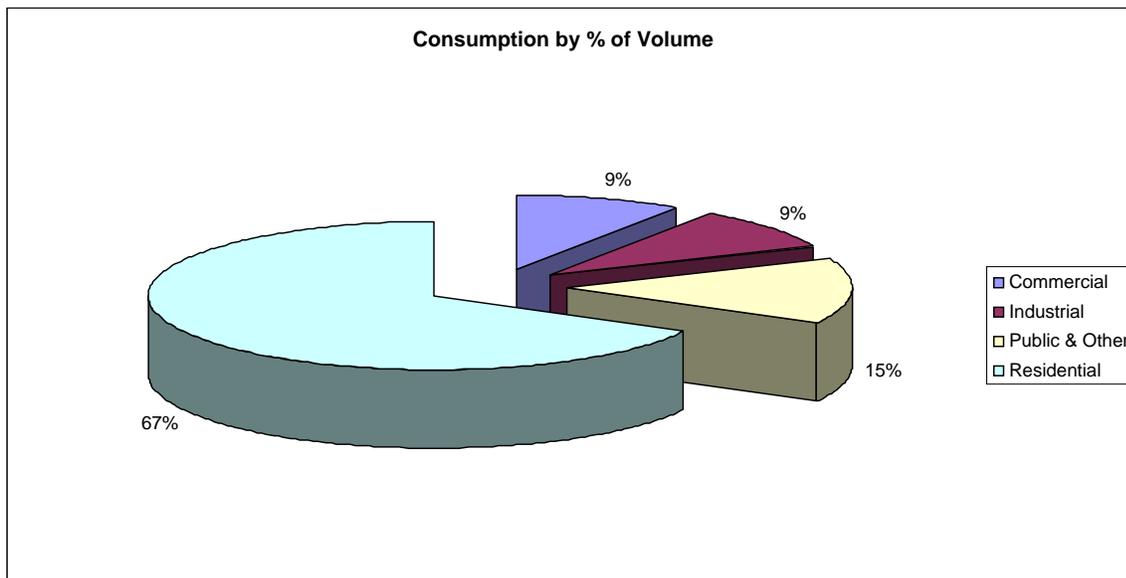
Residential Customer (90,000 gallons/year)	Annual Sewerage Charges	2000 Median Household Income	Sewerage Charges as % of MHI
Current Charge	1,251	47,722	2.62%
Average Year Charge 2015-2034	2,570	47,722	5.39%
Peak Year Charge	2,655	47,722	5.56%

The Clean Water Act (P.L. 92-500) imposed the need for secondary sewage treatment plants on most communities years ago. Many communities were eligible for a 75% federal grant to pay for the capital costs to build the plants. The City of Gloucester, under all possible local funding scenarios, can not afford to pay for a \$60 Million secondary sewage treatment plant. Unless and until close to 100% federal funding assistance is provided to the City would we be able to consider building it. Even if that level of funding was provided the users would struggle paying the additional operational costs associated with an additional treatment plant. The City would then experience increased costs to replace and repair that treatment plant in the future. **Simply put the secondary sewage treatment plant can not be undertaken any time in the next 20 years if it is paid for by the City. It would be fiscally devastating.**

2. Introduction and Background

The City of Gloucester (Gloucester) is located in Essex County on the North Shore of Massachusetts. Gloucester owns and operates one wastewater collection and treatment facility and provides service to the Town's of Essex and Rockport in addition to Gloucester. The customer base of the sewer enterprise fund includes approximately 6,928 residential, 328 commercial, 68 industrial and 777 mixed use and public facilities; a total of 7,727 customers. Wastewater generated and transported is treated at the wastewater treatment plant which has a design capacity of 7.24 million gallons per day.

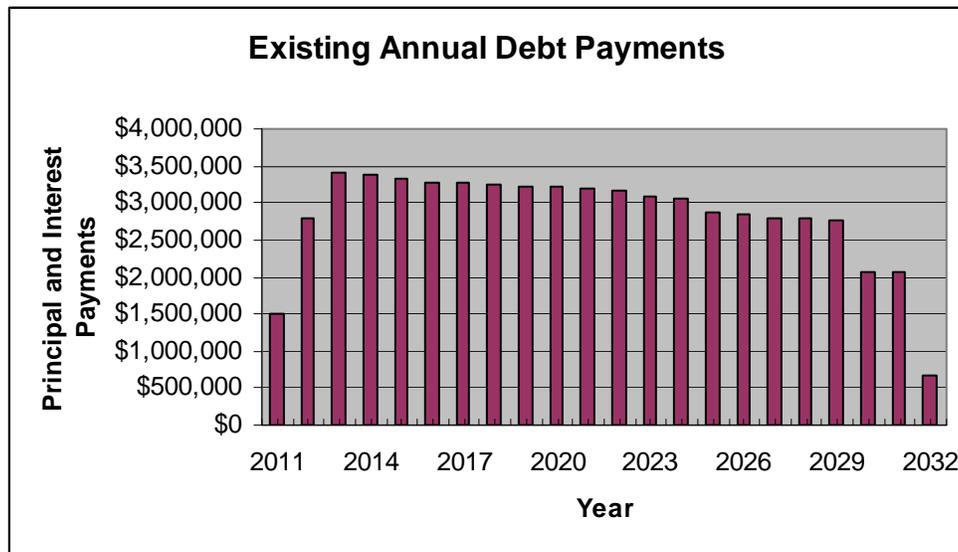
Revenue generated from each customer class was estimated using the current user consumption by percentage of volume. Figure 1-1 graphically represents the estimate and demonstrates that 67% of the consumption currently generated to finance the operations of the wastewater treatment plant is from the residential class.



Existing annual debt payments (all sewer and CSO debt) includes all existing current long-term debt and the estimation of the existing short-term debt converted to long-term debt. In other words it represents debt payments for currently committed financing of capital projects. It does not include estimated debt payments for a secondary sewage treatment plant.

Existing Annual Debt Payments			
Year	Payment	Year	Payment
2011	1,494,116	2022	\$3,152,935
2012	2,780,579	2023	\$3,071,991
2013	3,415,570	2024	\$3,057,358
2014	3,390,164	2025	\$2,873,850
2015	3,320,054	2026	\$2,830,293
2016	3,285,705	2027	\$2,799,491
2017	3,266,323	2028	\$2,788,119
2018	3,236,801	2029	\$2,758,540
2019	3,222,132	2030	\$2,073,869
2020	3,207,802	2031	\$2,073,868
2021	3,186,397	2032	\$670,000
		Total	\$61,955,957

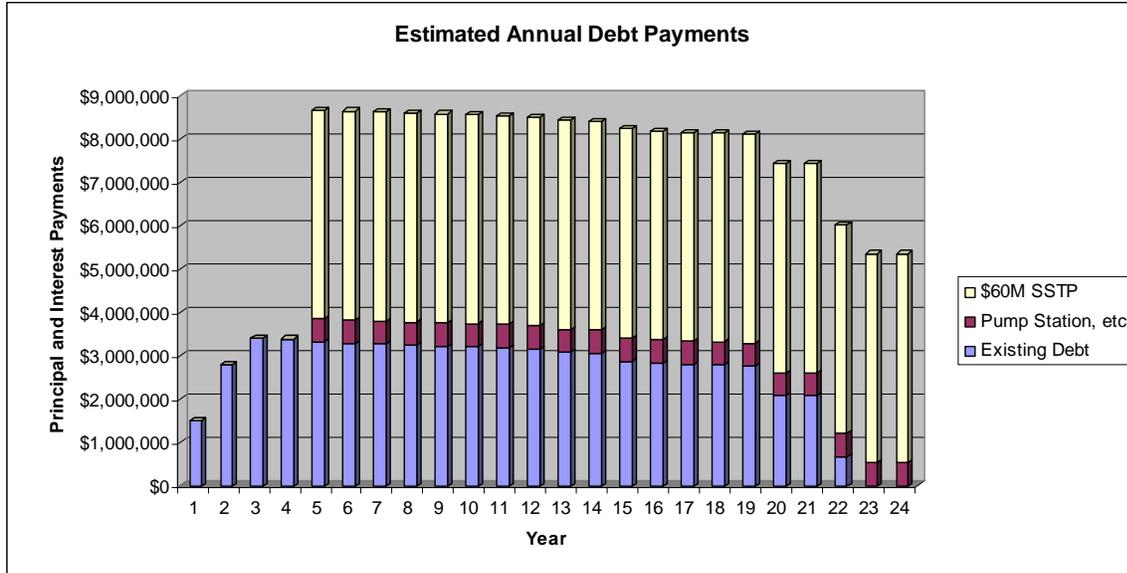
The following chart is the graphic representation of the data above showing the existing debt to retire fully in 2033. As the chart indicates, there is no significant drop off of principal and interest payments for the existing debt until the year 2030.



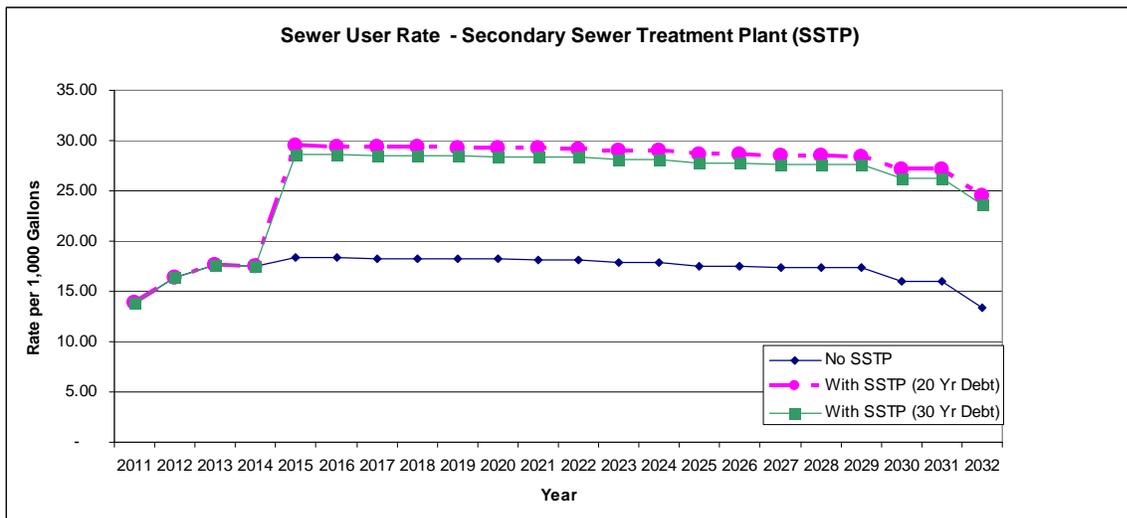
Estimated future annual debt payments include the amount for existing annual debt per the information listed above plus the estimated annual debt payments associated with a secondary sewage treatment plant with a capital cost of \$60,000,000 amortized over 20 years. The City has not considered to this point extending debt schedules from 20 to 30 years because the interest cost attributable to the extra 10 years would double the total interest paid. For example if the \$60 Million principal debt was amortized over 20 years the interest cost would be \$36 Million at 5% interest. The same amount of principal debt amortized over 30 years at 6% interest would cost the City of Gloucester \$68 Million dollars or nearly twice as much interest as the 20 year option. Interest rates are typically higher per year the longer debt is amortized therefore 20 year amortization would be at an interest rate of 5% and 30 year amortization would cost the City 6% interest per our estimations. The following chart shows the addition to existing debt of the 20 year amortization of the \$60 Million cost of the proposed secondary sewage treatment plant at 5% interest, assuming level debt service payment for future borrowing. It also shows future debt costs associated with a capital cost of \$6.75 Million for pump station pretreatment, hydraulic assessment and other pump station improvements.

Year	Annual Debt Payment	Existing	Authorized	\$ 6.75 Million Pump Station Pretreatment, etc @ 5% for 20 yrs. Capital Cost Debt	\$60 Million Secondary Sewage Treatment Debt @ 5% for 20 years Capital Cost Debt	Total Estimated Future Debt
2011	\$1,494,116			\$0	\$0	\$1,494,116
2012	\$2,780,579			\$0	\$0	\$2,780,579
2013	\$3,415,570			\$0	\$0	\$3,415,570
2014	\$3,390,164			\$0	\$0	\$3,390,164
2015	\$3,320,054			\$535,000	\$4,810,000	\$8,665,054
2016	\$3,285,705			\$535,000	\$4,819,500	\$8,640,205
2017	\$3,266,323			\$535,000	\$4,814,000	\$8,615,323
2018	\$3,236,801			\$535,000	\$4,814,000	\$8,585,801
2019	\$3,222,132			\$535,000	\$4,819,000	\$8,576,132
2020	\$3,207,802			\$535,000	\$4,818,500	\$8,561,302
2021	\$3,186,397			\$535,000	\$4,812,500	\$8,533,897
2022	\$3,152,935			\$535,000	\$4,811,000	\$8,498,935
2023	\$3,071,991			\$535,000	\$4,813,500	\$8,420,491
2024	\$3,057,358			\$535,000	\$4,809,500	\$8,401,858
2025	\$2,873,850			\$535,000	\$4,819,000	\$8,227,850
2026	\$2,830,293			\$535,000	\$4,811,000	\$8,176,293
2027	\$2,799,491			\$535,000	\$4,816,000	\$8,150,491
2028	\$2,788,119			\$535,000	\$4,813,000	\$8,136,119
2029	\$2,758,540			\$535,000	\$4,812,000	\$8,105,540
2030	\$2,073,869			\$535,000	\$4,812,500	\$7,421,369
2031	\$2,073,868			\$535,000	\$4,814,000	\$7,422,868
2032	\$ 670,000			\$535,000	\$4,816,000	\$6,021,000
2033	\$ -			\$535,000	\$4,818,000	\$5,353,000
2034	\$ -			\$535,000	\$4,819,500	\$5,354,500
Totals	\$61,955,966			\$10,700,000	\$96,292,500	\$168,948,466

The following chart is a graphic representation of the data above showing the estimated future annual debt payments; including the capital cost for \$6,750,000 in pump station pretreatment, hydraulic assessment and other pump station improvements and \$60,000,000 for a secondary sewage treatment plant.



As anyone can easily see, the new debt from building a SSTP would more than double the existing debt and almost double the sewer rate – a 50% increase to the rate. Now consider adding an estimated \$1 Million in operation and maintenance costs associated with a SSTP and that would add another 10% increase to the rate. A combined increase of almost 60% to the sewer rate would be devastating to the community and would have crushing affects to the local economy with residents and businesses on the City’s sewer system. This could be the driving stake to the heart of businesses that truly want to stay in Gloucester but just can’t take on any more operational costs associated with any significant increased water/sewer bills from the City.



The table below shows comparative costs associated with the annual debt payments of principal and interest of a \$60 Million secondary sewage treatment plant. The totals of the annual debt payments reflect 5% for 20 years and 6% for 30 years, a difference in total of \$34.5 Million.

	<u>\$60,00,000</u> <u>Debt Payments</u> <u>at 5% for 20 years</u>	<u>\$60,000,000</u> <u>Debt Payments</u> <u>at 6% for 30 years</u>
2015	\$ 4,810,000	\$ 4,360,000
2016	\$ 4,819,500	\$ 4,360,000
2017	\$ 4,814,000	\$ 4,360,000
2018	\$ 4,814,000	\$ 4,360,000
2019	\$ 4,819,000	\$ 4,360,000
2020	\$ 4,818,500	\$ 4,360,000
2021	\$ 4,812,500	\$ 4,360,000
2022	\$ 4,811,000	\$ 4,360,000
2023	\$ 4,813,500	\$ 4,360,000
2024	\$ 4,809,500	\$ 4,360,000
2025	\$ 4,819,000	\$ 4,360,000
2026	\$ 4,811,000	\$ 4,360,000
2027	\$ 4,816,000	\$ 4,360,000
2028	\$ 4,813,000	\$ 4,360,000
2029	\$ 4,812,000	\$ 4,360,000
2030	\$ 4,812,500	\$ 4,360,000
2031	\$ 4,814,000	\$ 4,360,000
2032	\$ 4,816,000	\$ 4,360,000
2033	\$ 4,818,000	\$ 4,360,000
2034	\$ 4,819,500	\$ 4,360,000
2035		\$ 4,360,000
2036		\$ 4,360,000
2037		\$ 4,360,000
2038		\$ 4,360,000
2039		\$ 4,360,000
2040		\$ 4,360,000
2041		\$ 4,360,000
2042		\$ 4,360,000
2043		\$ 4,360,000
2044		\$ 4,360,000
Totals	\$ 96,292,500	\$ 130,800,000

3. Economic / Financial Position

Debt indicators

Bond Rating: The most recent bond rating for the City of Gloucester received a rating of Aa2 however that rating included a negative outlook. The City of Gloucester has been trying to improve the overall financial condition of all funds for several years now but the increasing pressure of potential additional debt burdens could offset recent gains in financial conditions. EPA considers the City's rating a strong debt indicator. However, there are increased uncertainties in the financial markets since the global financial crisis rippled through the municipal bond market starting in late 2008, and continued access to long-term borrowing at reasonable interest rates is not assured. The municipal bond market is going to get increasingly more stringent and costly due to the financial times that the nation is facing presently.

City of Gloucester Bond Rating Most Recent GO Bond	
Date	2010
Rating Agency	Moody's
Rating	Aa2 (negative outlook)

Net debt/Property Value: According to the City of Gloucester's Statement of Indebtedness as of June 30, 2010, the total debt outstanding was \$124,272,736. An additional net amount of \$11,519,126 has subsequently been added to the amount outstanding for a grand total of \$135,791,862. This amount represents 2.5% of the total assessed valuation of the City for 2011. This indicator is often used as part of financial capability assessments as a gauge of how heavily leveraged a community's debt is against General Obligation Bond borrowing capabilities. It helps indicate the capacity the community has to take on additional debt to support the sewer enterprise fund. In Gloucester's case, the sewer debt typically falls outside of the debt limit and as a result it is the affordability of all of the taxes, fees and charges to the users that truly matters. The cost to the residential property in comparison to the median household income is considered by the City to be the best criteria for assessing affordability.

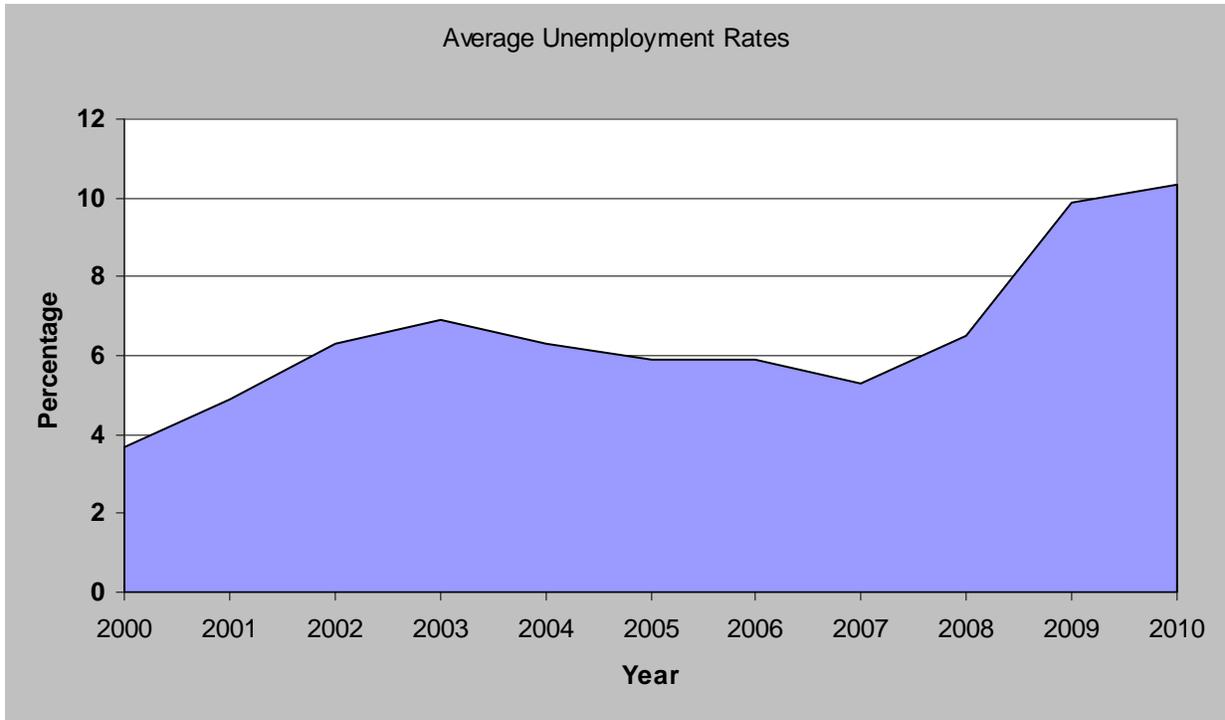
Gloucester's Net Debt/Property Value	
Debt Outstanding	135,791,862
2011 Assessed Valuation	5,288,079,920
Debt Outstanding/Assessed Valuation	2.50%

Socioeconomic Indicators

Unemployment Rate: According to the Massachusetts Executive Office of Labor and Workforce Development (EOLWD) the unemployment rate for Gloucester as of December 2010 was 9.0%, .4 percentage points lower than the US unemployment rate of 9.4%. Within the last 12 months the unemployment rate has gone from a high of 13.4% to 9.0% for the City of Gloucester. The unemployment rate for Gloucester from 2000 to 2008 ranged from 3.7 to 6.5 percent. Economic trends don't show any signs of improvement locally. This is the highest unemployment that the City has faced in 10 years. The EPA considers unemployment rates that are 1 percentage point below the national average to be an indication of a "strong" economic base. While that may be an appropriate approach on this issue in more "ordinary" economic times, the City believes that in the current economy having a local unemployment rate of 9% is indicative of a placing a "high burden" on these residents, regardless of how the City's unemployment rate compares with national figures. A high unemployment rate leads to a lower percentage of collection of user charges which in turn will cause an additional increase in user rate to everyone else to ensure proper cash flow to run the operations of the sewer enterprise fund.

Gloucester Laborforce, Employment and Unemployment					
Month	Year	Labor Force	Employed	Unemployed	Unemployment Rate
11	2010	16,684	15,178	1,506	9
10	2010	16,331	15,137	1,194	7.3
9	2010	16,313	14,979	1,334	8.2
8	2010	16,529	15,179	1,350	8.2
7	2010	16,727	15,147	1,580	9.4
6	2010	16,710	15,066	1,644	9.8
5	2010	16,609	14,802	1,807	10.9
4	2010	16,826	14,819	2,007	11.9
3	2010	16,988	14,842	2,146	12.6
2	2010	16,972	14,703	2,269	13.4
1	2010	16,803	14,642	2,161	12.9

Annual	Year	Labor Force	Employed	Unemployed	Unemployment Rate
Average	2009	16,547	14,904	1,643	9.9
Average	2008	16,424	15,357	1,067	6.5
Average	2007	16,369	15,498	871	5.3
Average	2006	16,506	15,539	967	5.9
Average	2005	16,595	15,608	987	5.9
Average	2004	16,532	15,484	1,048	6.3
Average	2003	16,659	15,509	1,150	6.9
Average	2002	16,769	15,710	1,059	6.3
Average	2001	16,715	15,900	815	4.9
Average	2000	16,445	15,844	601	3.7



Median Household Income: The estimated 2000 median household income for the City of Gloucester was \$47,722. According to the US Census Bureau, the comparable figure for the United States as a whole was \$41,994. MHI is within 25 percent of the nationwide average MHI. EPA’s benchmark for this would be “mid-range”.

Financial Management Indicators

Property Tax/Property Value: The City of Gloucester has a taxable residential property value of \$4.72 billion. The \$53.4 million in residential property tax revenue is 1.1 percent of the value. However, this indicator does not take into consideration the State Income Tax of 5.3 percent. Combining the high income tax rate with the property tax rate equals a 6.4 percent and this is an appropriate method for measuring the tax burden on households. The 6.4 percent does not include property taxes, federal income taxes, sales tax or meals tax. All of these taxes are present in the Commonwealth of Massachusetts. The 6.4 percent alone places the City of Gloucester’s tax burden in the “weak” category.

Property Tax Collection Rate: Using the latest available data for fiscal year ended June 30, 2010, the collection rate was approximately 97% for the year. That puts the City of Gloucester in the mid-range as far as the benchmark in concerned. The City of Gloucester’s collection rate for the sewer enterprise fund revenues is a better financial management indicator than the property tax collection rate because the user revenue funds all of the expenses of the enterprise fund. Trying to tie the property tax collection rate to this affordability analysis is not a realistic approach. The sewer user collection rate for the fiscal year ended June 30, 2010 was approximately 91% which would be considered “weak”.

Overall, the City considers its financial situation to be “weak”, in light of the factors considerations cited above which include:

- Negative outlook on credit watch by one of the major rating agencies
- “Mid-range” net debt to market value
- High absolute unemployment (9% or higher) in a tough economy
- “Mid-range” median household income compared with national figures
- Sewer user charge collection rates in the “weak” range
- High combined local and state tax and user charges combination is “weak” range

Cost per Household

The City of Gloucester’s customers already pay a significant portion of their household income for sewer service. The additional burden of the secondary sewage treatment would place the annual charge well above the 1.75% to 2.00% of median household income that is often considered an affordability threshold.¹ The City of Gloucester has issued a significant amount of debt already as a result of the Combined Sewer Overflow capital projects in recent years. The highest estimated rate for sewer users that would include operations and maintenance and all existing debt for sewer and CSO capital costs would be \$17.57 per 1,000 gallons. Based upon EPA’s affordability criteria, 90,000 gallons per year is the estimated average family usage. Using that amount times the user rate the cost per household would equal \$1,581.30.

If the City of Gloucester was required to build a \$60,000,000 secondary sewage treatment plant an estimated \$1,000,000 in additional O&M costs and \$4,820,000 in additional principal and interest debt payments would be added to the existing annual sewer expense budget. That would have an estimated impact to the rate of \$11.09 / 1,000 gallons bringing the highest total rate to \$29.50 / 1,000 gallons or a cost per household of \$2,655.

The highest cost per household for 2010 in the Commonwealth of Massachusetts was \$1,632. The peak amount above, \$29.50 / 1,000 gallons or a cost of \$2,655 is \$1,023 above the highest cost of \$1,632. That \$1,023 difference equates to 62.68% more than the highest cost per household.

¹ Over the years, guidance documents have been issued by the Environmental Protection Agency and others related to the affordability of sewer utility charges to customers. Some of these guidance documents relate to the burden imposed overall by utility charges, some are specific to particular programs such as CSO/SSO programs. Some of the guidance documents have indicated that the burden is excessive when sewerage charges require more than 1.75% to 2.00% of annual income for a household with a median household income.

The following table shows the estimated residential sewerage charges and resulting burden for the household with median household income:

Residential Customer (90,000 gallons/year)	Annual Sewerage Charges	2000	Sewerage Charges as % of MHI
		Median Household Income	
Current Charge	1,251	47,722	2.62%
Average Year Charge 2015-2034	2,570	47,722	5.39%
Peak Year Charge	2,655	47,722	5.56%

As previously stated, median household income (MHI) for the City of Gloucester is \$47,722. The existing cost per household, not including the costs of a secondary sewage treatment plant, as a percent of MHI equals 2.62%. The cost per household as a percent of MHI if a secondary sewer treatment plant were considered would be 5.56%.

Both of those percentages are considered an extremely high burden on the residential user. In the next section of this report specific customers were chosen to determine estimated impacts based upon existing usage data times the new rate per thousand gallons based upon a new \$60 Million secondary treatment plant being constructed.

4. Excessive Burden to Customers

Cost to a major sewer user – Addison Gilbert Hospital

The annual cost, based upon consumption of 2,200,000 gallons per year, is approximately \$38,650 once all the debt is realized (without the secondary sewer treatment plant). If the secondary treatment plant were to be built and the costs associated with it were fully implemented in fiscal year 2015, for instance, the cost to the Addison Gilbert Hospital would increase to an annual amount of over \$64,898. An increase of 67.9% in total.

Cost to a local restaurant on the City’s sewer system

The annual cost, based upon consumption of 320,000 gallons per year, would have a similar impact of increasing the annual cost by 67.9% as well resulting in an increase of \$3,818. The Commonwealth of Massachusetts and the City of Gloucester increased the meals tax in 2010 which have already had an impact on local restaurants.

Conclusion:

The City of Gloucester does not believe that it is financially feasible or affordable to construct a secondary sewage treatment plant until existing debt associated with the existing sewage treatment plant and CSO is retired. There is no relief from existing O&M or debt costs until the year 2032. Unless the federal government has the means to pay for the secondary sewage treatment plant in full the City of Gloucester can not take on the overwhelming burden on it's own until at least 20 years into the future.

The City of Gloucester's volume of consumption and number of users just can not handle the amount of capital costs of the current system never mind the addition of \$60 Million in additional capital and \$1 Million per year in O&M costs. With the high rate of unemployment, the high percentage of costs to median household income, an economy based upon tourism and the need to keep restaurants and other tourism related industries operational in the City, an extremely limited financial capacity available in the sewer enterprise fund, a low collection rate for sewer user charges, a local property tax to property value ratio and a 5.3% income tax burden the system can't be burdened with any additional debt! The City still has sewer trunk lines to replace that haven't been factored in to any of the calculations above. The total amount for that replacement cost could also be in the millions of dollars. It is a burden to the taxpayers to merely maintain the system as it exists presently. As shown in the preceding section, implementation of secondary treatment with local funds now would lead to charges for a household with a median household income more than double the levels identified as the "non" affordability threshold in EPA guidance documents relative to wastewater programs.

The City has a good portion of its residents who are on fixed incomes and live in homes passed down from generation to generation that are of considerable property value which makes paying taxes very difficult. Any regulation or policy implementation that is being considered must be weighed against the practical and financial impacts to see if it is feasible.