

TO: Accountants and Auditors, Assessors, Collectors, Treasurers,
Mayors and Selectmen

FROM: James R. Johnson, Director of Accounts

DATE: August 1997

SUBJECT: **Title 5 Betterment Loan Program -- Accounting**

The Massachusetts Water Pollution Abatement Trust (WPAT) will soon be making loans to cities and towns to finance the cost of repairs to failed septic systems of homeowners. These cities and towns have previously received grant funds for administration of this program, through the WPAT based on applications filed with the Department of Environmental Protection (DEP).

This BULLETIN defines the municipal accounting procedures for funds received from the WPAT and the funds to be recouped from homeowners through betterments. The three state agencies involved (WPAT, DEP and DOR's Division of Local Services) have worked to develop common, simplified reports that cities and towns can file with all three agencies; these are included in this BULLETIN.

Program Summary

A grant of \$20,000 is provided to qualifying municipalities for administration of the program. Examples of costs to be covered by the grant are homeowner outreach and assistance, general program administration by an outside consultant, identification of sites with failed septic systems and purchase of computers to maintain maps and other data. The WPAT will provide additional funds (up to \$200,000) in the form of a zero-interest loan¹. The city or town will use these funds to pay for repairs of homes with failed systems. A city council or town meeting vote appropriating the funds for the purpose of septic repairs, and authorizing the borrowing, is required.

The costs will then be assessed as a betterment to the homeowner, and if not paid within 30 days, will be added to the homeowner's property tax bill over a number of years, as provided in G. L. Ch. 80 §13. The homeowner pays the statutory interest rate of five percent².

Special Revenue Fund -- Title 5 Programs

The City Auditor or Town Accountant should establish a special revenue fund, which should be used to account for the following:

Receipts:

¹ The loan is also described as a "50% grant equivalency."

² The treasurer and homeowner may negotiate a different rate, pursuant to G. L. Ch. 111 §127B½.

Advance for administrative expenses (typically \$18,000 of a \$20,000 grant)
Final installment of \$2,000 (will be disbursed when loan is approved)
Proceeds of WPAT loan (will be lump sum amounts, e. g., \$50,000)

Disbursements from grant funds

Administrative costs
Clerk-of-the-works retained by town

Disbursements from loan proceeds:

Fees of engineers, contractors, inspectors for work at homes
Local costs of issuance for WPAT loan and local administrative costs³ (not to exceed 2.5% of the loan amount in the aggregate)

After the Board of Health identifies a failed system, it would execute the betterment agreement with the homeowner for a “not to exceed” amount, which would also define the number of years over which the homeowner could repay the loan. The appropriate city or town officials should consult to insure that the term of repayment by the homeowner is never longer than the term of the loan from the WPAT.

To facilitate payment of the vendors, the WPAT plans to advance a lump-sum amount (typically \$50,000) to the town after the loan agreement is executed. The city or town would define the official (e. g., board of health agent, building inspector) who be responsible to determining that each phase of the work at the home has been satisfactorily completed. That official would then approve bills for payment by the city or town, using the funds advanced by the WPAT.

When all the work at a site has been completed, the Board of Health will issue a certificate of completion. At that time, all costs paid for that site should be totaled, and the Board of Health commits that total amount to the Board of Assessors under provisions of G. L. Ch. 80.

The Treasurer and Accountant would prepare the **Analysis of Homeowner Septic Repair Special Revenue Account** (Form DA91 attached) quarterly and submit copies to WPAT, DEP and DOR, by the 15th of the following month. The form asks for a plan of disbursements during the next quarter (item F); the treasurer and city auditor or town accountant would seek the input of the Board of Health on this question. DEP and the WPAT will then determine whether and what amount of additional advances are needed. Failure to expend the WPAT loan proceeds in an expeditious and timely manner and to file this quarterly report could jeopardize future advances for this program.

³ Use of bond proceeds for administrative costs is allowed under the enabling legislation for the WPAT, G.L. Ch. 29C. Bond proceeds could not be used for such costs for municipal borrowings authorized by G.L. Ch. 44.

The DEP Community Septic Loan Program Payment Requisition (DMS Form T5-1000) may also be used as the detail list for item C. The DEP copy of the report should be sent to the DEP regional office serving your town. The addresses are:

436 Dwight Street, Suite 402
Springfield, MA 01103

10 Commerce Way
Woburn, MA 01801

627 Main Street
Worcester, MA 01605

20 Riverside Drive
Lakeville, MA 02347

For the first report, as of September 30 or December 31, 1997, the period covered should be from inception, i. e., from the date of the first payment of the grant funds.

Administrative costs and cost of issuance of the WPAT loan should be listed under item D. Proceeds of the WPAT loan (not to exceed 2.5% of the loan amount) may be used to pay local cost of issuance of the WPAT loan, e. g., bond counsel fees and local administrative costs. If any loan proceeds are used in that manner, a small appropriation for the debt service on the WPAT loan may be needed. All other administrative costs of the program must be paid from proceeds of the \$20,000 pre-loan assistance grant or from other municipal funds appropriated for the purpose.

No interest is to be accrued into this fund.

Conversion of WPAT Loans to Permanent Amortization Schedule

The loan agreement between the WPAT and the city or town will provide a Final Disbursement Date (e. g., February 1, 1999) by which date all loan proceeds must have been expended for homeowner septic repairs or cost of issuance of the WPAT loan. Unexpended WPAT loan proceeds on the Final Disbursement Date must be repaid to the WPAT. Any amount repaid may be reloaned to the city or town under a separate loan agreement with the WPAT.

Receipts Reserved for Appropriation -- WPAT Loan Repayment

The City Auditor or Town Accountant should establish a Receipts Reserved Account, to account for the following:

Receipts:

- Collection of betterments (and interest if the city council or town meeting vote provides) through tax billing
- Lump sum payoff of betterment balance (e. g., at time of sale of property)

Disbursements:

Loan payments to WPAT

The payment schedule of the loan from the WPAT to the city or town has been structured to recognize the statutory timeframe of assessment of the betterment, inclusion in the tax bill, and collection. All repayments from homeowners are to be accounted for in this account. The intent is that the account will always contain sufficient funds for appropriation to make the loan payments to the WPAT, and even contain a “cushion” in the event that a homeowner is delinquent in payment of his taxes and betterments.

An annual appropriation would be voted for the payment of the WPAT loan, using funds in the Receipts Reserved account. However, the payment to the WPAT is a general obligation of the city or town, and must be paid regardless of the betterment collections. If the balance in the Receipts Reserved account is insufficient to pay the WPAT, the city or town would appropriate the difference, or make payment from available sums in its treasury and raise the amount in setting its current or subsequent year’s tax rate, as provided in G. L. Ch. 59 §23.

The Treasurer and Accountant would prepare the **Annual Analysis of Loans from WPAT and Collection of Betterments** (Form DA92 attached) at the end of each fiscal year, to monitor the overall results of the program. This will require review of both (1) the Loans Payable to WPAT account and (2) the Receipts Reserved for Appropriation - WPAT Loan Repayment account. Any lump sum payments (typically at the time of sale of the property or when a homeowner takes out a home-equity loan) must be applied to pay costs of additional septic repairs under betterment agreements by the next succeeding February 1 or August 1 which is at least six months after the date of receipt or repaid to the WPAT, subject to the approval of the DEP pursuant to its review of the Quarterly Report of the Special Revenue account cited above. Any amount repaid to WPAT may be available for additional betterment agreements. The total of all loans made to homeowners (including those made with the lump-sum payments, cannot exceed the amount appropriated; an additional appropriation (or a reserve fund transfer) would be necessary to increase the spending authority. This form should be submitted with the Analysis of the Special Revenue Account for the quarter ended June 30.

No interest from investment is to be accrued into this account.

Information Requests for Amount of Unapportioned Betterments

Collectors should be aware that, since municipal lien certificates (MLCs) would not

that conveyancers or lenders' attorneys may request the amount of betterments due at later dates. We are advised that such information requests are reasonable and should be satisfied. We feel the information in the following format is most easily extracted from the collector's records, and so recommend this format for answering such a request:

Amount of original betterments dated _____ \$ _____

Amounts paid to date \$ _____

Otherwise, the Collector could provide a certified true copy of existing records in the collector's office or an abstract of public records.

Conclusion

We understand that disbursements will be made by WPAT this summer to over 75 communities. We recognize the desire to complete the septic repairs as soon as possible. We and the other state agencies have cooperated to make the accounting and reporting requirements as simple and straightforward as possible. Any town financial official should feel free to call the Bureau of Accounts field representative for assistance.

City/Town of _____

Quarter ended _____, 19 ____

Analysis of Homeowner Septic Repair Special Revenue Account

Note: file by 15th of month following end of quarter with

Mass. Water Pollution Abatement Trust
 ATTN: Treasurer
 Room 1207, One Ashburton Place
 Boston, MA 02108

Mass. Div. of Local Services
 ATTN: Director of Accounts
 Box 9655
 Boston, MA 02114

Mass. Dept. of Environmental Protection
 ATTN: Regional Coordinator
 [Springfield, Worcester,
 Woburn or Lakeville]

A.	Balance from previous report	\$
B.	Advances from WPAT (including pre-loan assistance payments)	
	Date Amount	\$
C.	Disbursements to or for homeowners (carry total amount forward from schedule on reverse)	Amount \$
D.	Other allowable costs (describe on attachment):	\$
E.	Ending Balance (A+B-C-D)	\$

F. Plan for Disbursements during next quarter:

Completed by:

No.	Date Of Betterments	Homeowner's Name	Payee	Amount	Betterment Committed
TOTALS					
Carry Forward To Section C On Form DA91					

City/Town of _____

Fiscal year ended June 30, 19 ____

Analysis of Loans from WPAT for Homeowner Septic Repair

Note: file with Analysis of Special Revenue Account for quarter ended June 30.

A. Balance from previous report \$

B. Notes or bonds issued to Trust:

Date	Amount
------	--------

\$

C. Collections from regular tax billing⁴:

Date	Amount
------	--------

Aug. 1

Nov. 1

Feb. 1

May 1

\$

D. Lump sum collections

Date	Name	Amount
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\$

E. Principal Payments to Trust

Date	Amount
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Aug. 1

Feb. 1

\$

F. Balance on June 30, 19 ____ \$

Completed by:

Treasurer

Auditor or Accountant

⁴ Principal (and interest if Town Meeting or City Council vote so provides).