

**2008 WINTER CITY COUNCIL RETREAT
AGENDA COVER SHEET**

DATE: February 9, 2008

SUBJECT: 2008 Budget Assumptions

CONTACT: Laura Koenig, Clerk/Deputy Finance Director

ISSUE:

The issue before the Council is a review of the 2008 Budget Assumptions and events that have impacted the original proposed budget. There are five areas of concern:

1. Pepperell hearing and reinstatement costs
2. Community Development Director retirement
3. Comprehensive Plan update
4. Waste Water Treatment Plant financing
5. Stormwater Utility

Summary:

Attachment B details the cost associated with the Pepperell hearing and reinstatement and the retirement of the Community Development Director.

At this point, it does not appear that the Pepperell hearing costs will have a negative impact on the General Fund. \$70,000 was budget to cover the legal costs for Police issues. The balance of unused legal funds can be used to off set the cost for wages and benefits to reinstate Ms. Pepperell as ordered by Judge Bibb.

The retirement of the Community Development Director has created a fiscal shortfall. Under the terms of the employment contract, the former employee was entitled to four months severance pay and accrued vacation and sick leave. The total payout is \$50,704. The city is currently under contract with Perteet for on-call planning services and the estimated cost will be between \$35,000 and \$85,000 depending on how long the city uses their service. Hiring a new Community Development Director in May will cost approximately \$69,936 for the remainder of the year.

The budgeted amount for the Community Development Director position is \$104,903 and the cost allocation is split between the General Fund, Street Fund, Water Fund and Sewer Fund. The additional costs will be \$50,737 to \$115,801 depending on the direction the Council provides for employee replacement.

Attachment C provides the detailed estimates for the Comprehensive Plan update. The 2008 budget has set aside \$200,000. The final revised estimate is \$457,639

The City will need to begin work on the fund raising campaign to close this gap as discuss with the City Council in December 2007 or consider other alternatives.

Attachment D prepared by the Public Works Director provides information on the Waste Water Treatment Plant financing.

The 2008 Budget provides for expenditures associated with the Stormwater Utility. The Stormwater Utility fund was established and it was anticipated that the Utility would be in place during the first quarter of 2008. Wages and benefits in the amount of \$22,066 for current employees were allocated to the Stormwater fund. Without the formation of the utility, the City will need to revise the budget to allocate those wages to the Street and Sewer fund. (Attachment E).

Item	2008 Budget	Revised Assumptions
Pepperell Hearing	\$85,300	\$77,165
Community Dev. Dir	\$104,903	\$205,650 (See Attach B)
Comp Plan update	\$200,000	\$457,639
WWTP Project	\$1,000,000	\$1,300,000
Stormwater	\$22,066	\$0

Analysis

The good news is the City ended 2007 in the black. There were available funds to make the \$43,000 interfund loan payment. There is a small ending fund balance of approximately \$52,000 to cover cash flow needs for the first quarter of 2008.

There were not sufficient funds to transfer to the contingency fund.

Staff will present a summary of the 2007 Budget to Council in March. The struggle for Sultan continues to be stabilizing the organization and limiting legal expenses.

Recommendation

Review the changes to the budget assumptions and direct staff to areas of concern. Consider monitoring the budget monthly and prepare to take action to reduce expenditures or raise revenues.

2008 Budget Assumptions

GENERAL FUND REVENUES

Revenue Forecasts

The attached Five-Year Forecast provides a historical look at the last six years (2001-2006) and a prospective look forward to 2013. Future years are based on the 2008 estimated budget as well as the forecast level of development activity.

City staff estimate a total of \$1,961,520 General Fund revenues for 2008

General fund revenues are broken into six categories:

1. Taxes	\$1,349,558
2. License and Permits	\$69,500
3. Intergovernmental	\$265,468
4. Charges for Services	\$125,800
5. Fines and Penalties	\$65,250
6. Miscellaneous	\$85,944

This is a \$3,541 increase over the revenues estimate provided to Council on October 13, 2007 and reflects additional property taxes the City will collect as a result of new construction. This change is based on information provided by the Snohomish County Assessor's Office.

TAXES

Real and Property Tax

Real and Property taxes (\$673,583 estimate for 2008) are divided between the General Fund (\$572,538), Street Fund (\$70,000), and Police Bond Fund (\$31,045). See Agenda Item A 2 for details.

The estimate is based on 1% increase in property taxes. The proposed budget **now** includes estimates from new construction.

Sales Tax

The city has collected 94.4% of its projected sales tax revenues through the third quarter of 2007 (\$236,113). Although sales tax is estimated to increase by a small percentage in 2008 the staff recommendation is to hold sales tax steady at the 2007 rate of \$250,000 in the General Fund.

City staff anticipate collecting sales tax revenues over and above the current (2007) budget of \$250,000. Sales tax revenues from November 2007 and December 2007 will go into the contingency fund (approximately \$46,000). The City may need to use the contingency fund to cover any shortfalls in the general fund at the end of 2007. The General Fund was balanced through the 3rd quarter of 2007.

Any sales tax collected over the budgeted \$250,000 in 2008 will be placed in the contingency fund per Ordinance No. 940-06 approved by the City Council last year. The Contingency fund is anticipated to receive \$72,000 in sales tax revenues (sales tax excess).

B&O Utility – Electric, Gas, Cable, and Phone

Staff reviewed historic collections and increased this by 3.7% based on Gordon Hey's Five-Year projections. The city is currently between 75% and 100% of actual revenues collected compared to budget as of the end of the third quarter

Total estimated revenues \$380,887

City Utilities – Water, Sewer, and Garbage

City Utilities are calculated on the number of accounts for each service and the estimated excess usage. This amount was multiplied by the 6% tax for each service.

This revenue source is difficult to estimate. The tax was implemented in the mid-2006, so there is a lack of history.

Staff estimate \$111,898

LICENSE AND PERMITS/CHARGES FOR SERVICES

These are the most volatile revenue accounts since they are based on activities outside the city's control. Zoning and Subdivision Fees, Hearing Examiner fees, Building Permits, and Plan Check Fees are all contingent on development activity.

License and Permits

Building permit fees make up approximately 80% of the License and Permit revenues

Building Permit Fees

The City's originally estimated 70 building permits for the 2007 budget. The City Council revised this estimate to 22 permits for a total estimated budget of \$45,000. The city has collected \$29,434 at the close of the third quarter. Staff expect to receive 5 permits for Denali Ridge before the end of the year for a total of \$10,000 or \$40,000 for 2007.

2008 Building Permit Fees

Development	# Dwelling Units	Bld Permit Fees \$2,000/unit
George	6	\$ 6,000
Denali Ridge	6	\$12,000
Steen Park	12	\$24,000
Caleb Court	7	\$14,000
Timber Ridge	5	\$10,000
Total 2008	33	\$ 66,000

The 2008 budget is built on an estimated 33 SFR building permits (\$2,000/dwelling unit). City staff recommend adopting a conservative budget of \$54,500 in 2008 to avoid overestimating revenues.

2008 expenses in the Building Department (\$95,280) will exceed Building permit and Plan Check fees by approximately \$20,780.

The City Council may want to consider a building permit fee study in 2008 or 2009 to ensure permit fees are covering permit costs.

Charges for Service

Hearing Examiner Fees

Hearing examiner fees (8 x \$1,500 = \$12,000) are offset by Hearing examiner expenses (\$12,000) in the Planning and Development budget. This is a "pass-through" cost to the applicant.

Zoning and Subdivision Fees

The City originally estimated (budgeted) \$84,245 in zoning and subdivision fees for 2007. The August amended budget anticipated \$30,000 in zoning and subdivision fees. The City has collected \$57,394 at the end of the third quarter.

City staff estimate receiving \$55,000 in zoning and subdivision fees.

Plan Check Fees

The City must review and "check" each building permit submitted. Plan check fees are \$1,000 per permit.

The City originally estimated (budgeted) \$136,990 in plan check fees for 2007. The City's revised estimate for Plan Check Fees for 2007 is \$20,000. The City has collected \$17,583 at the close of the third quarter.

City staff estimate \$20,000 in Plan check fees for 2008.

Passport Fees - Passport fees for 2007 exceeded all expectations. The original 2007 budget estimated \$12,000 in passport fees. The budget amendment in August increased this estimate to \$25,000. The city has collected \$26,305 at the close of the third quarter.

Effective January 1, 2008 American citizens will need a valid passport to drive into Canada. Staff anticipate continued strong demand for passports but at a lower level than 2007 when citizens were required to obtain passports for air travel to Canada and Mexico.

Staff estimate collecting \$15,000 in passport fees in 2008.

INTERGOVERNMENTAL

Per Capita Revenues

The following information was obtained from the *Budget Suggestions for 2008* which is a publication provided to cities by Municipal Research. These revenues are based on population. The Office of Financial Management estimates Sultan's population at 4,530.

Gas Tax – Gasoline and diesel fuel tax receipts. Municipal Research expects that lower fuel prices in 2008 both in absolute terms and relative to other prices, plus continued strong growth in inflation adjusted personal income will result in an estimated 3.4% growth in fuel taxes in 2008.

The City anticipates collecting \$113,658 in gas tax. The gas tax is dedicated to the Street Fund.

Liquor tax – Due to increases in liquor sales, liquor excise taxes continue to rise. With the anticipation of additional stores being open on Sundays, and additional staff hours in the stores to better serve customers, revenues are expected to grow by 5%.

The City anticipates collecting \$21,291 in liquor tax.

Profits of Liquor Board – Liquor Board profits are the difference between revenues from alcohol sales and expenditures from the Liquor Control Board. Liter sales of alcohol continue to grow at over 3%, wine sales are growing at 1%, and beer sales are not growing. Overall the Liquor Control Board anticipates around a 5% increase in profits for 2008.

The City anticipates collecting \$32,072 in Liquor Board Profits

City County Assistance Forecast (Hardship) – The formula used to allocate city funding is based on a sales tax and property tax equalization formula and the 2005 MVET backfill levels.

The total certified amounts for 2008 will not be available until March 1, 2008. The Department of Revenue typically provides an estimate in September. A current search for the estimates did not produce any results. The City has received 81,000 through October 1, 2007 which may be the last distribution. The City may receive one more distribution on December 31, 2007.

City staff anticipate receiving \$104,000 in 2008. The Council could make a determination to reduce this amount to \$80,000 as a more conservative estimate.

Criminal Justice (former CTED programs) –

With the repeal of the motor vehicle excise tax, the only money that cities receive by statute comes from the Office of the State Treasurer on a per capita basis. There is a requirement that these funds be spent on some combination of innovative law enforcement programs, domestic violence prevention programs, and child abuse prevention programs, but no requirement of how much must be spent in each area.

City staff anticipate receiving \$3,488. In the past, the City Council has allocated \$1,000 to the Safe Stop program run by the Volunteers of America.

FINES AND PENALTIES

This revenue category covers three revenues sources: district court, violations bureau and animal control.

City staff recommend maintaining district court revenues at historic levels. The city estimated collecting \$55,000 in 2007. At the close of the third quarter, the city has collected \$41,392. Revenue estimates are \$65,250 for 2008.

The violations bureau has been steadily declining as the number of police officers has decreased. The city budgeted \$15,000 in revenues for 2007. At the close of the third quarter the city had collected \$4,095. Revenue estimates for 2008 are \$7,500.

Animal control fines are expected to provide less than \$500 in revenues in 2008.

MISCELLANEOUS

Miscellaneous revenues include investment interest, contributions, rents and royalties.

Investment Interest

As discussed earlier, code cities may now apportion some investment earnings from funds commingled for investment purposes to the general fund rather than the participating funds unless restricted by law (RCW 35.39.034). Utility funds, bond covenants or other provisions may require that the interest be allocated to the utility fund.

City staff recommend taking advantage of this opportunity where appropriate. This policy decision is included in the draft investment policies in front of the City Council on November 8, 2007.

Contributions/Donations

In the past, the City has received contributions from community members and property owners to support various city activities. Contributions and donations must be accepted in accordance with Sultan Municipal Code 3.68.

The development community has expressed interest in supporting the City's efforts to create a compliant Comprehensive Plan. This could be used to offset the \$200,000 shortfall for this effort in the Planning and Development department.

This is a discussion item for the City Council on November 8, 2007.

Rents and Royalties

In August 2007, the City Council approved redirecting rent from the Post Office building owned by the City to the General Fund as part of the budget amendment approved by Council to balance the General Fund Budget.

The estimated revenue for 2008 from Post Office rent is \$52,144.

GENERAL FUND EXPENSES

Cost of Living Adjustment

The Consumer Price Index (CPI) measures the change in prices paid over time for a fixed "market basket" of goods and services. The CPI for all Urban Consumers (CPI-U) measures the percentage change in prices faced by urban consumers and covers approximately 87% of the population. The Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) is sometimes referred to as the "blue collar measure" is a subset of the CPI-U. The CPI-U is a market basket that reflects the expenditures of urban households that derive more than half their income from clerical and hourly wage jobs. It covers approximately 32% of the population.

The City's bargaining agreement with the Police effective January 1, 2007-December 31, 2008 is based on the CPI-W for the Seattle-Tacoma-Bremerton Area for the period from June 2006 to June 2007.

The cost of living adjustment for police wages for 2008 will be 3.3%

The City's bargaining agreement with public works and clerical staff is currently under negotiation. Management expects the bargaining unit to request the same cost of living adjust as was approved in the police contract.

The cost of living adjustment for public works and clerical staff is estimated at 3.3%

The cost of living adjustment recommended for all other staff (management team) is 3.3%.

Note – there is a \$1055 error that must be corrected in Attachment B to compensate for the difference between a 3.2% COLA incorrectly used in these spreadsheets in lieu of the 3.3% COLA for June to June CPI-W correctly used in Attachment A.

Salary and Wage Costs

Total salary and wage costs for all funds are estimated at \$1,624,226.

The cost to the General Fund is estimated at \$890,010.

The cost to the Street Fund and Enterprise funds is estimated at \$733,354

Salary estimates include a full-time long range planner to assist with the comprehensive plan update, engineering technician (allocated to the capital budget), and converting the temporary, part-time (non-benefited) animal control officer position to part-time benefited position. See Attachment A for details

Benefit Costs

Medical, Dental and Vision Coverage

Medical premiums will increase by 14.8% in 2008. This is a significant impact the General Fund as well as the Street Fund and enterprise funds (water, wastewater, garbage, cemetery, and storm water).

Dental and vision costs **will not** increase over 2007.

Medical premium increases will affect the public works and clerical workers contract currently under negotiation. A premium cost share agreement will help the City control rising health care costs.

Attachment B shows the distribution of wages, salary and benefit costs and the Association of Washington City medical premium costs for 2008.

Public Employees Retirement System (PERS) - Pension Contribution Rates

PERS contribution rates for employers have been increasing quite significantly over the last couple of years. There was a jump from 6.12% effective July 1, 2007. There will be another increase to 8.31% effective July 1, 2008. A projected 9.10% increase will take effect in 2009 and a 9.12% increase is projected for each year from 2011-2013.

Total Salary and Benefit Costs

Benefit costs

Health care benefit costs for 2008 are estimated at	\$310,050
Retirement contributions are estimated at	\$93,963
Social security and other payroll taxes are estimated at	<u>\$168,949</u>
Total benefit costs	\$572,962

Total Salaries and Benefits

General Fund salaries and wages	\$890,010
General Fund benefits	<u>\$307,551</u>
Total	\$1,197,561

Total estimated **revenues** for the General Fund = \$1,956,061. Salaries and benefits are more than half the cost of doing business in the General Fund.

Street Fund/Enterprise Funds salaries and wages	\$733,354
Street Fund/Enterprise Funds benefits	<u>\$265,218</u>
Total	\$998,572
Total all salaries and benefits	\$2,197,188

Distributed Expenses

There are a number of expenses that are distributed across departments, with each department taking its proportionate share of the expense (Attachment B)

Operating Funds

See Budget Worksheets

Legislative - \$8,915 for salaries, travel and seminars and professional services. The cost of the library annexation ballot measure (\$10,000) is expensed from the Library budget.

Executive - \$36,705 for salary, travel (reduced by \$1,500 from 2007), and a proposed salary and benefit survey (\$10,000) to review staff wages and benefits against comparable cities.

Finance - \$31,850 for salary, professional services (\$2,250 for Finance Director services), and audit costs. The budget is reduced from \$47,569 in 2007 to \$31,850 in 2008.

Grants and Economic Development - \$16,600 for salary, new web pages for economic development and tourism, business outreach through quarterly roundtable discussions, and volunteer program support.

Legal Services - \$49,610 this budget is dependent on many factors outside the City's control. The budgeted amount is strictly for normal attorney review approximately \$4,000/month. This does not include special legal needs for unanticipated litigation. Special Legal Counsel for land use issues is currently combined with professional services for the Comprehensive Plan Update in the Planning and Development department.

Civil Service - \$4,150 is a placeholder for supporting the Civil Service Commission. The assumption is that the current appeal in front of the commission will be resolved by the end of the year. There is funding for the Commission's Civil Service Secretary. A competitive process to secure a new secretary should be complete by the end of 2007. The Commission is in the process of finalizing its 2008 budget request. A final Commission budget should be available for Council review at the November 15 Council meeting.

Other Governmental Services - \$63,788 includes expenses that cannot be allocated to a particular department such as copier paper, utilities, insurance for City Hall, City Hall maintenance and repair, and the phone system.

Law Enforcement - \$878,500 **includes funding for 6 patrol officers and a police chief.** The tentative plan is to allocated half a patrol officer to administrative tasks formally performed by the Officer Manager/Records

Specialist. The other half of this officer's time could be allocated to cover vacation and sick leave, school resource officer duties, and patrolling "hot spots" throughout the city to proactively address issues as they arise. Professional services (\$70,000) is for legal services support. The City's SNOPAC obligation will increase from \$40,000 in 2007 to \$71,000 in 2008.

Code Enforcement - \$31,250 is for animal control services. This includes funding for a part-time (20 hours/week), benefited animal control officer position. Professional services is for legal services support for nuisance abatement.

Planning and Development - \$294,465 includes \$75,000 for the Economic Development Strategic Plan. Expending funding on the strategic plan is contingent on receiving the off-setting Community Trade and Economic Development grant. Professional services (\$115,000) includes funding for the Comprehensive Plan Update, and pass-through consultant fees for current development review (\$15,000). The remaining \$100,000 budget for the Comprehensive Plan Update is spread out between the enterprise funds (water, sewer and storm water) and street fund. Hearing Examiner services (\$12,000) is a pass-through expense with a corresponding allocation on the revenue side.

The Long Range Planner position (\$41,184 expense to the General Fund) is not included in salaries and benefits pending further Council discussion regarding the approach to updating the Comprehensive Plan. A decision to fund the Long Range Planner position will require a corresponding off-set in professional services.

Building and Community Development \$95,280 includes building inspection and plan review services as well as engineering (City Engineer). Salaries and benefits for the City Engineer and proposed Engineering Technician position have been allocated to the Capital Budget. The Building department budget does include new computer and GIS/CAD software and the necessary license and maintenance contracts. The addition of engineering staff should provide transition as the City Engineer prepares to retire and some much needed support to get our capital projects completed.

The 2008 budget includes a half-time building inspector (regular, benefited position) and a half-time building official/plans examiner. The plans examiner costs are offset by a corresponding allocation on the revenue side.

Library - \$102,915 covers the cost of the City's contract with Sno-Isle for 2007. The contract provides for retroactive billing to the previous year's services. There is an additional \$10,000 included in this line-item to cover the cost of the annexation ballot measure in 2008. The Snohomish County Auditor estimates the maximum cost of the ballot measure is \$5/voter (approximately \$10,000).

Parks - \$7,620 for allocated insurance costs and repairs to address risk factors. There are no other park expenses budgeted for 2008. City staff recommend leveraging the proposed volunteer program to address park issues. The school

district is maintaining Osprey Park during soccer season. Other sports groups are paying field use fees on the "honor" system.

2007 Legislation that May Affect the Budget

Streamline Sales Tax

In recent years, the legislature has adopted a number of provisions necessary for Washington to conform with the Streamlined Sales Tax Agreement (SSTA). States that adopt this agreement receive payments from firms that have volunteer to collect and remit sales taxes on mail-order and Internet sales.

In 2007, the legislature adopted "destination-based" sourcing. Meaning that sales tax will be allocated on the basis of the destination of the sale rather than where the sale is made. Destination sourcing provides for full mitigation for the jurisdictions that will lose sales tax.

The State Auditor's Office estimates that Sultan will gain approximately \$11,000 in revenues in 2008 as a result of the change. City staff recommend **not** including this as a part of 2008 revenue estimates since 2008 will be the first year of implementation and the exact budget impact in unknown.

Local Option Fees for Transportation Benefit Districts

The legislature provided a new financing mechanism for transportation benefit districts. The legislative bodies of cities or counties may impose the first \$20 (out of a maximum fee of \$100) of the vehicle fee without voter approval.

Counties may use this authority first. They have 180 days, beginning July 22, 2007, to impose these revenue options countywide. To impose the fee, the county must form an interlocal agreement with 60 percent of the cities representing 75 percent of the incorporated population. A city in Snohomish County may not impose the fee before May 22, 2008.

No impact to the City of Sultan at this time. The City Council may consider this as an alternative for discussion in 2008.

Code City Interest Allocation Options

Code cities may now apportion some investment earnings from funds commingled for investment purposes to the general fund rather than the participating funds unless restricted by law (RCW 35.39.034). Utility funds, bond covenants or other provisions may require that the interest be allocated to the utility fund.

City staff recommend taking advantage of this opportunity where appropriate. This policy decision is included in the draft investment policies that will be in front of the City Council later this year.

Comprehensive Plan Expenditure Assumptions

Consultant	Task	Original 2008Est.	Revised 2008Est.	Contract Proposal
Shockey Brent	Prepare needs assessment. Coordinate the work of sub-consultants. Incorporate LOS alternatives into Comp Plan document. Update maps, update development code, guide public participation, prepare SEIS	\$100,000	\$100,000	\$109,749
Dugan Planning Services	Prepare financial analysis for LOS alternatives for capital facilities. Forecast future fiscal capacity. Develop and recommend long-range financial strategies	\$25,000	\$60,000	\$15,790
Perteet Engineering	Determine incremental effect of transportation LOS C on congestion and cost. Prepare planning level cost estimates. Review goals and policies of Transportation Element. Make recommendations	\$0	\$0	\$11,100
Sno. County Long Range Planner	Ensuring consistency between city and county plans. Peer review work done by other consultants.	\$25,000	\$35,000	\$20,000
Perteet Engineering	Inventory existing storm water system. Identify future needs. Prepare LOS alternatives. Prepare planning level cost estimates. Recommend goals and policies for storm water.	\$0	\$0	\$75,000
Water/ Sewer Report	Technical work to update the water and sewer plans (e.g.inventory, needs assessments, LOS alternatives)	\$0	\$30,000	\$26,000
Land use attorney	Representation before the GMHB on comprehensive plan.	\$50,000	\$175,000	\$200,000
Total		\$200,000	\$400,000	\$457,639 YTD

**SULTAN CITY COUNCIL
WINTER RETREAT
AGENDA ITEM COVER SHEET**

ITEM NO: 2008 Budget Assumptions
Attachment D –

DATE: February 9, 2008

SUBJECT: WWTP Upgrade Funding Strategies

CONTACT PERSON: Public Works Director Connie Dunn

ISSUE

City Staff anticipate a cash flow shortfall of approximately \$822,500 for finishing the design of the Wastewater Treatment Plant Upgrade by December 31, 2008. The Public Works Trust Fund (PWTF) loan of \$10 million that was going to be used for construction will not be available until 2010.

Given this set of circumstances, City Staff are seeking direction from the council on how to proceed with funding the Wastewater Treatment Plant (WWTP). What sources of revenue does the council want to pursue? What additional information do you need?

PROJECT EXPENSE SUMMARY

\$1,500,000 Brown and Caldwell contract = \$1,000,000 remaining for 2008
\$150,000 Enviroquip contract = \$105,000 remaining for 2008

\$1,000,000 PWTF loan
-\$425,000 expensed in 2007
\$575,000 Beginning loan balance 2008

Expenses January 2008-May 2008

\$505,000 Brown and Caldwell
\$70,000 Enviroquip
\$575,000 Total Expenses January-May

Expenses for June 2008 – December 2008

\$615,000 Brown and Caldwell
\$35,000 Enviroquip
\$172,500 PWTF loan payment (June)
\$822,500 Total Expenses June-December

The WWTP design is 30% complete. The \$1,000,000 PWTF loan will be exhausted in June 2008. The City needs to raise an additional \$822,000 to finish design, make the 1st PWTF loan payment and apply for SRF through the DOE.

ALTERNATIVES

There are several potential revenue sources. Each source of revenue comes with pros and cons including interest rates, payment due dates and availability. Ideally, the City wants to craft a funding package with the lowest interest rates and payment due dates that are delayed until after the plant is up and running.

1. Short-term Need to Complete Design – \$822,500

- Potential State allocation for 2008. The City is seeking an allocation from the State's Capital Budget. The City has asked for \$800,000. Councilmembers met with key Legislators from the Capital Budget committees in the House and Senate. The City's chances of getting funding will depend on the revenue forecast due out on February 15, 2008. If the City is funded, monies would be available in July 2008.
- Short term revenue notes. The City will use a bond agent to construct and market notes. City staff have contacted Jane Towrey with Piper Jaffery and discussed various short-term revenues options to fund the remaining design costs.
 - 3%-4% Interest
 - Structured for 3 years with no payments
- Public Works Trust Fund Loan to complete design only. The City is eligible for a second \$1,000,000 PWTF loan for design. Design loans are available for application every month. The City could apply for a design loan in March.
 - 6 month turn around for a second \$1 million for design only
 - Lower interest (1/2% to 3%)
 - Due and payable within 6 months of first draw
 - Budgeted payment of \$172,000 due in June 2008 on \$750,000 drawn in 2007. Actual payment will be lower since the actual draw was less than \$500,000.

2. Long-term Need for Construction Funding - \$15 million to \$18 million

- The City needs to create a funding package for construction of the WWTP Upgrade. The funding will need to come from several sources. The Council must consider the pros and cons of each source and determine

the best possible package of revenues. The following lists several sources of revenues along with some pros and cons of each funding source.

- Public Works Trust Fund application in 2009 for funding in 2010.
 - The City was planning to apply for a \$10 million in PWTF loan in 2008 for allocation in 2009. The PWTF board made a decision to allocate all funds in 2008. There are no construction funds available for allocation in 2009. A decision to use PWTF loans will delay the project. The PWTF does not allow retro payments, meaning that the City cannot use short-term financing and repay the debt for expenses with the PWTF loan distributions.
 - \$10 Million
 - Delay project
 - Lower interest rate (1/2%) capitalized over 20 years
 - 3% interest rate over 5 years unless converted to construction loan
- Bond anticipation notes in 2008 for funding in 2009. The City can use bond anticipation notes to cover construction expenses.
 - Project proceeds
 - Higher interest
 - < 4% for 20 years
 - ≥ 4% for 25 years
- State Allocation - \$5 million less any payments in 2008. As discussed, the City is seeking a \$5 million Capital Budget allocation to assist with construction costs.
- State Revolving Fund. The City can apply to the Department of Ecology for a State Revolving Fund loan. The application would be due in June for allocation in 2009.
 - Required Engineering Report to be upgraded to Facilities Plan costing \$40,000 to \$60,000
 - Can be used to pay off interim financing – retro on Bond Notes
 - 3.1% +/- 20 years
 - Bonus – if we qualify for Centennial Clean Water Grant
 - Ask for full amount needed to construct the upgrade

Other funding source

- CURB – requires Family Wage jobs be created with project
- Rural Development – Requires all construction within the City limits to be out of the 100-year flood plan.
- CDBG – requires benefiting low to moderate income families in the community.

ANALYSIS

The City originally planned to have connection fees pay for the PWTF loan design costs. Unfortunately, the development community was slow in getting started on building permits in 2007. The City received only 6 connection payments in 2007 in part because the City does not require developers to pay their sewer connection fees until the home is connected to the sewer system. Depending on the how Denali Ridge and Timber Ridge builders proceed this spring, the City could collect fees for up to 35 connection (approximately \$385,000). This is the optimistic projection.

The council will need to direct staff to proceed with alternative funding sources if there is a desire to proceed with the WWTP Upgrade. Otherwise, work on the plant design will halt in June or December and construction will be delayed.

ATTACHMENTS

1 – Cash flow spreadsheet

Wastewater Treatment Plant Upgrade Funding Strategies

Public Works Report December 13, 2007

GOAL:

To develop funding options and strategies for the upgrade at the Wastewater Treatment Plant (WWTP) to Membrane Bio Reactor (MBR) treatment process.

SUMMARY:

December 4 staff provided materials to the Governmental Services and Public Safety committee used at the funding strategy Public-Private Partnership meeting on November 20, 2007. Funding of the Wastewater Treatment Plant Upgrade Design and Construction is critical for the City to continue with this project.

The project design is moving forward on schedule. The question is whether the City will have sufficient cash flow in 2008 to make the \$172,500 payment on the Public Works Trust (PWTF) loan due June of 2008.

November 20, 2007 meeting included the City, Funding sources, engineers, and the developers with 18 people present.

Possible Funding Sources:

USDA, Rural Development

- Up to \$8 million dollars over 40 years 4% interest
- Applications available anytime of year
- NEPA (National Environmental Protection Act), preliminary design completed and approved by DOE with financial strategy required for submittal
- May come with restrictions on use in the flood plain

Public Works Trust Fund (PWTF)

- State legislature will appropriate funding in 2009 legislative session
- Interest is 3% over 5 years unless converted to construction loan
- Construction funding not available until July 2009

Department of Ecology (DOE)

- State Revolving Fund Loan
- Construction loan application December 2008
- State funding appropriation July 2009

Piper, Jaffray, Co – Jane Towery, Bonding Information

- Discussed Local Improvement District (LID)
- Short-term Water/Sewer Revenue note at 3% interest
 - Bridge note to cover revenue short-fall between June 2008 and July 2009
 - Bridge note could be paid by developer contribution

Community Development Block Grant (CDBG)

- No CDBG representation at the meeting

The City needs to cover the cash flow shortages between June 2008 and July 2010 to keep the project moving forward.

Attachments:

- A. Minutes of the November 20, 2007 Public-Private Partnership meeting
- B. Cash Flow Spreadsheet

Wastewater Treatment Plant Upgrade Funding Strategy

November 20, 2007

Meeting Notes

Goal:

To develop funding options and strategies for the upgrade at the WWTP to MBR treatment process is the purpose of this meeting.

Introductions:

See attached for sign-in sheet

Establishing Local Improvement Districts:

Jane Towery with Piper Jaffrey discussed options for establishing a local improvement district (LID) limited to the property owners who are interested in extending sewer services to their properties.

Jane indicated that she is not aware of a limit on LIDs that excludes properties outside the City limits but inside the City's Urban Growth Area (UGA). The key is that LID must be based on a specific location that will benefit from the improvement.

Jane emphasized that LIDs should be affordable and based on appropriate ratios of expense and benefit.

There are two parts to an LID – interim financing where there are no assessment to the property and project completion (construction) where properties are assessed for the completed improvements.

The group discussed whether LIDs were required to be contiguous properties. The group discussion led to an understanding that LIDs cannot be assessed against undeveloped properties. They can be assessed against undeveloped properties but are not marketable in the public market.

At the conclusion of the discussion, it appeared that establishing an LID limited to the interested property owners to fund the waste water treatment plant expansion is not a feasible option. Other alternatives will need to be developed.

Reports:

Brown and Caldwell

Project design update –

- The project design is moving forward on schedule. The question is whether the City will have sufficient cash flow in 2008 to make the

Wastewater Treatment Plant Upgrade Funding Strategy

November 20, 2007

Meeting Notes

payments on the Public Works Trust Fund (PWTF) loan. The next loan payment is due in June of 2008.

WWTP cash flow annual needs –

- The \$1,000,000 PWTF loan secured for design will be depleted in or around June 2008.
- The City will need to secure additional funding to complete the design and prepare construction drawings and bid documents.
- The City anticipates securing state funding and grants for construction in mid-2009.
- The City anticipates a cash flow shortage between June 2008 and June 2010 (end of WWTP upgrade construction).

Available Funding:

USDA, Rural Development - Darla O'Connor

- Up to \$8 million dollars over 40 years 4% interest
- Applications available anytime of year
- NEPA, preliminary design completed and approved by DOE and financial strategy required for submittal
- May come with restrictions on use in the flood plain

PWTF, - Terry Dale

- State legislature will appropriate funding in 2009 legislative session
- Interest is 3% over 5 years unless converted to construction loan
- Funding not available until after July 2009
-

DOE, Ken Ziebart, Regional Engineer / Tammie McClure, Financial Manager

- State Revolving Fund Loan
- Construction loan application 12/08
- State funding appropriation 7/09

Piper, Jaffray & Co. - Jane Towery, Bonding Information

- See Discussion above on LID
- Short-term Water/Sewer Revenue note at 3% interest
 - Bridge note to cover revenue short-fall between June 2008 and July 2009
 - Bridge note could be paid by developer contribution

CDBG – Debra May

- No CDBG representation at the meeting

Wastewater Treatment Plant Upgrade Funding Strategy

November 20, 2007

Meeting Notes

Discussion:

Time line for funding needs

Funding Needs	Project Phase	Time	Sources of Revenue
Short-term	Design	6/2008-7/2009	Water/sewer revenue bonds
Mid-term	Construction	8/2009-12/2010	State Revolving Fund State Appropriation PWTF loan Rural Development Upfront Connection Charges
Long-term	Debt Repayment	12/2010	General facility charge

- The City needs to cover the cash flow shortages between June 2008 and July 2010 in order to keep the project moving forward.
- Developers would rather pay general facility charge at the time of building permit (i.e. at the time of need) than pay cash up front today even if the connection fee doubles as proposed between now and final construction.
- Any advanced funding from developers (i.e. before connections are needed) should take into consideration the time value of money.
- An LID doesn't seem to be a financing vehicle the City can use for short-term financing since the properties that would benefit are mostly vacant land.
- The City needs to keep in mind the needs of the bond market and ensure any funding from the open market provides sufficient return on investment compared to the risk. Instead use: does not result in utility rates that are too high compared to surrounding communities.

Next meeting agenda

What is the best financial tool to meet the City's short-term need for funding and the City's ability to repay debt service?

**Sultan WWTP Upgrade
Cash Flow Estimate**

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10
Cash Flow Estimate																	
WWTP Upgrade Related C																	
Design Cost																	
BC and subconsultants design																	
Enviroquip MBR design																	
Construction Cost	\$700,000	\$1,125,000	\$1,575,000	\$1,250,000	\$950,000	\$1,075,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$900,000	\$720,000	\$651,000	\$551,000	\$615,000
Additional O&M	\$700,000	\$1,125,000	\$1,575,000	\$1,250,000	\$950,000	\$1,075,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$900,000	\$720,000	\$651,000	\$551,000	\$615,000
WWTP Upgrade Related L																	
Existing PWTF Design Paymen	\$0	\$0	\$0	\$0	\$0	\$229,500	\$229,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
WWTP Upgrade Related R																	
Existing PWTF Design Loan (
Project Cash Shortfall	-\$700,000	-\$1,125,000	-\$1,575,000	-\$1,250,000	-\$950,000	-\$1,304,500	-\$1,000,000	-\$1,000,000	-\$1,000,000	-\$1,000,000	-\$1,000,000	-\$1,000,000	-\$900,000	-\$720,000	-\$651,000	-\$551,000	-\$615,000
Cumulative Project Cash Shortfall	-\$1,522,500	-\$2,647,500	-\$4,222,500	-\$5,472,500	-\$6,422,500	-\$7,727,000	-\$8,727,000	-\$9,727,000	-\$10,727,000	-\$11,727,000	-\$12,727,000	-\$13,727,000	-\$14,627,000	-\$15,347,000	-\$16,398,000	-\$16,549,000	-\$17,164,000
ERUS																	
Total ERU Capacity of WWTP	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180
ERU Capacity Available	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Funding Options																	
1) Developer Connection (
Total charge per ERU	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$16,548	\$16,548	\$16,548	\$16,548	\$16,548
Number of ERUs	550	550	550	550	550	550	550	550	550	550	550	550	550	550	550	550	550
Total Charge	\$7,526,750	\$7,526,750	\$7,526,750	\$7,526,750	\$7,526,750	\$7,526,750	\$7,526,750	\$7,526,750	\$7,526,750	\$7,526,750	\$7,526,750	\$7,526,750	\$9,199,500	\$9,199,500	\$9,199,500	\$9,199,500	\$9,199,500
2) City Revenue Notes with Agreement for Payback																	
3) PWTF Year 2010 - shift																	
4) Rural Development/USF no deadlines, NEPA and En																	
5)																	

**Sultan WWTP Upgrade
Cash Flow Estimate**

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10
6) DOE	\$7,132,450	\$6,007,450	\$4,432,450	\$3,182,450	\$2,232,450	\$5,927,950	\$4,927,950	\$3,927,950	\$2,927,950	\$1,927,950	\$927,950	-\$72,050	\$3,578,650	\$2,859,650	\$2,207,650	\$1,658,650	\$1,041,650
7) CDBG						\$5,000,000											
8) State Line Item																	
9) SRF earliest funding June 2009																	
10) CERB																	
11) Other Developers																	
12) Rates																	

1 The 2008 Engineering Report as
Construction cost includes CMI ser
2 As of Nov 07, ~\$255,000 Spent
3 Per A-6 Handout titled "Example



