

**SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO: D – 1
DATE: February 28, 2008
SUBJECT: WWTP Upgrade Funding Strategies
CONTACT PERSON: Public Works Director Connie Dunn 
City Administrator Deborah Knight

ISSUE

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

Given this set of circumstances, City Staff is 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 consider applying for State Revolving Fund (SRF) through the Department of Ecology (DOE) or another pre-construction loan for \$1 million from PWTF.

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 create 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

- Short-term revenue notes. The City will use a bond agent to construct and market notes. City staff have contacted Jane Towery with Piper Jaffray and discussed various short-term revenues options to fund the remaining design costs.
 - 5%-6% Interest
 - Structured for 3 years with no payments, if the city cannot repay at 3 years, this bond would need secured by the General Fund.
 - Jane Towery, Piper Jaffray will be at the Council meeting to answer questions about short-term notes and financing.

- 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.

- Developer Funding:
 - The development community has expressed interest in co-signing and/or supporting the City financially in pursuing short-term notes to complete the design.

- Potential State allocation the City of Sultan Wastewater Treatment Plant Upgrade was zero in the 2008 Capital Budget Biennium. The City will continue lobbying during 2009 Capital State Budget.
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. The bond market is in a dislocated state, which means the market is not operating normally; it would be very tricky to borrow money through the bond market.
 - Project proceeds
 - Higher interest
 - Not likely at this time – unless we can guarantee repayment or plan to pass on to existing rate payers
 - < 5% for 20 years
 - ≥ 5% for 25 years
 - State Allocation - \$5 million. 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.
 - Requires existing Engineering Report to be upgraded to a 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

- C Economic Revitalization Board (CERB) – 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.
- Community Development Block Grant (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 applying for building permits in 2007. The City received only six connection payments in 2007 in part because the City does not require developers to pay their sewer connection fees until the home connects to the sewer system. Depending on how Denali Ridge and Timber Ridge builders proceed this spring, the City could collect fees for up to 35 connections (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

Attachment A – Cash flow spreadsheet

Attachment B – Notes from developer meeting

**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	\$800,000	\$720,000	\$651,000	\$551,000	\$815,000
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	\$800,000	\$720,000	\$651,000	\$551,000	\$815,000
WWTP Upgrade Related L																	
Existing PWTF Design Payment	\$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	-\$815,000
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	-\$15,998,000	-\$16,549,000	-\$17,364,000

	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
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

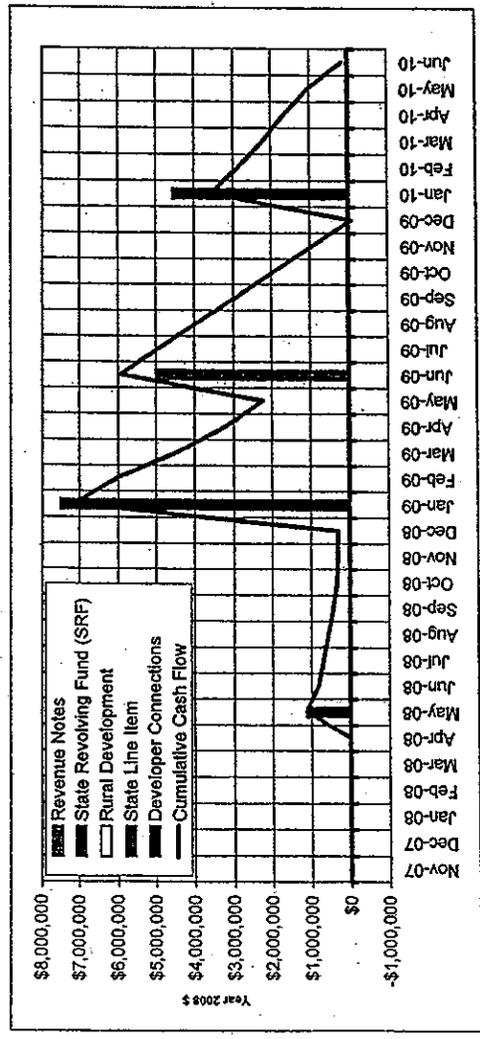
	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10
Funding Options																	
1) Developer Connection (
Total charge per ERU	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$13,685	\$10,548	\$16,548	\$16,548	\$16,548	\$16,548
Number of ERUs	550	550	550	550	550	550	550	550	550	550	550	550	275	0	0	0	0
Total Charge	\$7,426,750	\$7,426,750	\$7,426,750	\$7,426,750	\$7,426,750	\$7,426,750	\$7,426,750	\$7,426,750	\$7,426,750	\$7,426,750	\$7,426,750	\$7,426,750	\$2,914,375	\$0	\$0	\$0	\$0

- 2) City Revenue Notes with Agreement for Payback
- 3) PWTF Year 2010 - shift
- 4) Rural Development/USI no deadlines, NEPA and En
- 5)

**Sultan WWTP Upgrade
Cash Flow Estimate**

	Total (in 2008)	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
6) DOE															
7) CDBG															
8) State Line Item															
9) SRF earliest funding June 2009															
10) CERB															
11) Other Developers															
12) Rates															
Cumulative Cash Flow		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,128,200	\$825,700	\$560,700	\$425,700	\$325,700	\$315,700	\$305,700

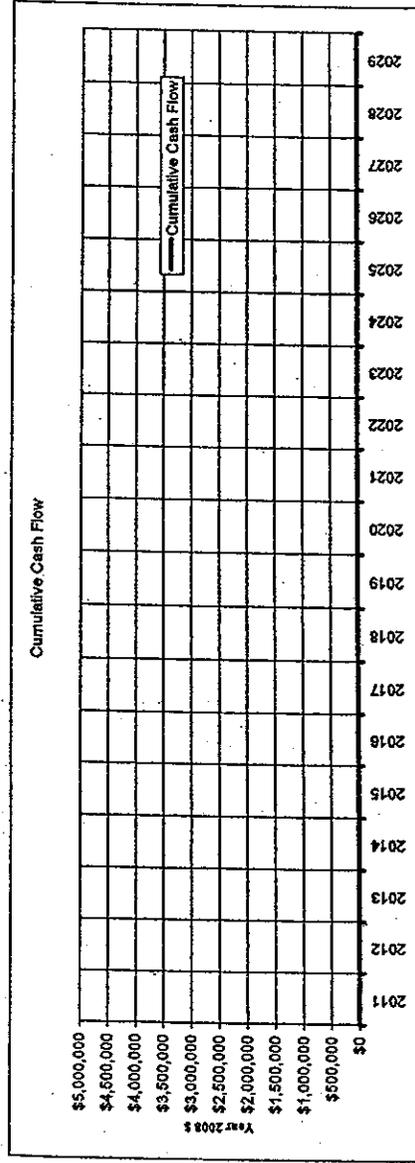
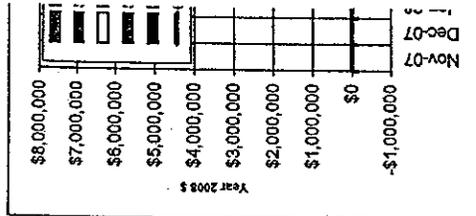
1 The 2008 Engineering Report estimated the total cost at \$15.2M in year 2008 \$. This construction cost was inflated by 5% for 2 years to account for construction cost inflation and to get to current dollars.
 2 As of Nov-07, ~\$255,000 Spent
 3 Per A-6 handout titled "Example GFC Calculation for Future Years"



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	\$2,858,650	\$2,207,650	\$1,658,650	\$1,041,650
7) CDBG																	
8) State Line Item						\$5,000,000											
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10) CERB																	
11) Other Developers																	
12) Rates																	

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



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?

Wastewater Treatment Plant Upgrade Funding Strategy
November 20, 2007
Meeting Notes

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