

SULTAN CITY COUNCIL AGENDA ITEM COVER SHEET

ITEM NO: Action A 4.1
DATE: March 27, 2008
SUBJECT: Wastewater Treatment Plant Funding
CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

ISSUE:

The issue before the Council is to authorize the Mayor or designated staff to negotiate a short term loan with Coastal Community Bank to complete the design phase of the Wastewater Treatment Plant upgrades.

SUMMARY:

At the Council retreat on February 9, 2008, the Council was presented with an update (Attachment A) on the Wastewater Plant funding with the following project summary:

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
<u>-\$425,000</u>	<u>expensed in 2007</u>
\$575,000	Beginning loan balance 2008

Expenses January 2008-May 2008

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

Expenses for June 2008 – December 2008

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

The City was \$822,500 short of funds to complete the design phase of the project. The City has been advised that \$500,000 in funds have been allocated by the State to fund the Wastewater Treatment Plant. The shortfall now is \$322,500.

The Mayor and staff have contact Coastal Community Bank and they are willing to provide a short term loan to the City for the balance of \$322,500. The proposal is for the City to use the Certificates of Deposit (CD) worth \$324,000 as collateral for the loan. The term will

coincide with the maturity dates of the CD's which is currently July 2009. This will be an interest only loan payment. Coastal Community Bank has advised that they will require a Council action approving the loan and authorization for the Mayor to sign the documents.

In accordance with RCW 39.50, (Attachment B) the City is authorized to enter into short term obligations and it will require an ordinance to set the interest rates and terms of the loan. Staff has contacted the State Auditor's Office to determine if there is an issue with using the CD's for collateral. We are still waiting for a reply and if there is an issue, staff will bring back a different proposal for short term funding.

ALTERNATIVES:

1. Authorize the Mayor and staff to negotiate a loan with Coastal Community to fund the balance of the design phase of the Wastewater Treatment Plant. This will insure that the project will continue to move forward.
2. Do not authorize the Mayor and staff to negotiate a loan with Coastal Community. This will require staff to seek other sources of funding and may delay the project.

STAFF RECOMMENDATION:

Staff recommends the Council authorize the Mayor and staff to negotiate a loan with Coastal Community and bring back the required ordinance for formal action.

MOTION:

Move to authorize the Mayor and staff to negotiate a loan with Coastal Community and bring back the required ordinance for formal action.

Attachments:

- A. February 9, 2008 Report on WWTP funding
- B. Copies of RCW 39.50

**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
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\$1,000,000 PWTF loan
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\$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 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.

RCW 39.50.010

Definitions.

As used in this chapter, the following terms have the meanings indicated unless the context clearly requires otherwise.

(1) "Governing body" means the legislative authority of a municipal corporation by whatever name designated;

(2) "Local improvement district" includes local improvement districts, utility local improvement districts, road improvement districts, and other improvement districts that a municipal corporation is authorized by law to establish;

(3) "Municipal corporation" means any city, town, county, water-sewer district, school district, port district, public utility district, metropolitan municipal corporation, public transportation benefit area, park and recreation district, irrigation district, fire protection district or any other municipal or quasi municipal corporation described as such by statute, or regional transit authority, except joint operating agencies under chapter [43.52](#) RCW;

(4) "Ordinance" means an ordinance of a city or town or resolution or other instrument by which the governing body of the municipal corporation exercising any power under this chapter takes formal action and adopts legislative provisions and matters of some permanency; and

(5) "Short-term obligations" are warrants, notes, capital leases, or other evidences of indebtedness, except bonds.

[2001 c 299 § 16; 1999 c 153 § 54; 1998 c 106 § 8; 1985 c 332 § 8; 1982 c 216 § 2.]

RCW 39.50.020

Short-term obligations authorized.

Subject to any applicable budget requirements, any municipal corporation may borrow money and issue short-term obligations as provided in this chapter, the proceeds of which may be used for any lawful purpose of the municipal corporation. Short-term obligations may be issued in anticipation of the receipt of revenues, taxes, or grants or the sale of (1) general obligation bonds if the bonds may be issued without the assent of the voters or if previously ratified by the voters; (2) revenue bonds if the bonds have been authorized by ordinance; (3) local improvement district bonds if the bonds have been authorized by ordinance. These short-term obligations shall be repaid out of money derived from the source or sources in anticipation of which they were issued or from any money otherwise legally available for this purpose.

[1982 c 216 § 3.]

RCW 39.50.030

Issuance of short-term obligations -- Procedure -- Interest rate -- Contracts for future sale.

(1) The issuance of short-term obligations shall be authorized by ordinance of the governing body which ordinance shall fix the maximum amount of the obligations to be issued or, if applicable, the maximum amount which may be outstanding at any time, the maximum term and interest rate or rates to be borne thereby, the manner of sale, maximum price, form including bearer or registered as provided in [RCW 39.46.030](#), terms, conditions, and the covenants thereof. For those municipalities and taxing and assessment districts for which the county treasurer is not the designated treasurer by law, the ordinance

may provide for designation and employment of a paying agent for the short-term obligations and may authorize a designated representative of the municipal corporation, subject to the terms of the ordinance in selling and delivering short-term obligations authorized and fixing the dates, price, interest rates, and other details as may be specified in the ordinance. For the county and those taxing and assessment districts for which the county treasurer is the designated treasurer by law or other appointment, the county treasurer shall be notified thirty days in advance of borrowing under this chapter and will be the designated paying agent to act on its behalf for all payments of principal, interest, and penalties for that obligation, subject to the terms of the ordinance in selling and delivering short-term obligations authorized and fixing the dates, price, interest rates, and other details as may be specified in the ordinance. Short-term obligations issued under this section shall bear such fixed or variable rate or rates of interest as the governing body considers to be in the best interests of the municipal corporation. Variable rates of interest may be fixed in relationship to such standard or index as the governing body designates.

The governing body may make contracts for the future sale of short-term obligations pursuant to which the purchasers are committed to purchase the short-term obligations from time to time on the terms and conditions stated in the contract, and may pay such consideration as it considers proper for the commitments. Short-term obligations issued in anticipation of the receipt of taxes shall be paid within six months from the end of the fiscal year in which they are issued. For the purpose of this subsection, short-term obligations issued in anticipation of the sale of general obligation bonds shall not be considered to be obligations issued in anticipation of the receipt of taxes.

(2) Notwithstanding subsection (1) of this section, such short-term obligations may be issued and sold in accordance with chapter [39.46](#) RCW.

[2001 c 299 § 17; 1995 c 38 § 9; 1994 c 301 § 13; 1985 c 71 § 1; 1983 c 167 § 112; 1982 c 216 § 4.]

NOTES:

Acts of municipal officers ratified and confirmed -- 1995 c 38: See note following RCW [3.02.045](#).

Liberal construction -- Severability -- 1983 c 167: See RCW [39.46.010](#) and note following.

RCW 39.50.070

Funds for payment of principal and interest.

For the purpose of providing funds for the payment of principal of and interest on short-term obligations, the governing body may authorize the creation of a special fund or funds and provide for the payment from authorized sources to such funds of amounts sufficient to meet principal and interest requirements.

[1982 c 216 § 8.]