

**SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO: Budget Workshop - C
DATE: April 24, 2008
SUBJECT: Water/Sewer Debt Service Funds
CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

ISSUE:

The issue before the Council is to review the Water and Sewer Debt Service requirements.

SUMMARY:

The City has issued revenue bonds and secured Public Works Trust Fund loans to fund Water and Sewer to fund system improvements. Attachment A provides detailed information on the outstanding debt for the Water and Sewer funds.

RECOMMENDATIONS:

1. Complete the Water Rate Study
2. Stop the WWTP design at 50% and move forward with construction of the solids handling building in 2009/2010
3. Establish the Stormwater Utility and redirect \$85,559 in loan payments from the Sewer fund to the Stormwater fund.

Water/Sewer Revenue Bonds:

The Water/Sewer Revenue bonds are funded from current user fees. Interfund transfers from the Water (400) and Sewer (401) operating funds are made into the Water/Sewer Revenue Bond Fund (403). The bond ordinance has a 125% coverage factor requirement. This means that 125% of the annual debt service must be available in the funds to meet the bond coverage requirements. The 2008 payments due are \$126,640. ($126,640 \times 125\% = \$158,300$)

The following details the current status of the fund:

Current Fund Balance	\$ 85,149
Budgeted Transfers	\$100,000
Budgeted Investment Interest	<u>\$ 2,000</u>
Total Income	\$187,149
Bond Payments	<u>\$126,640</u>
Ending Fund Balance	\$ 60,509

ANALYSIS

There is not an issue with making the bond payments for the Water/Sewer Revenue Bonds. Staff continues to monitor the bond market to determine if it would be cost effective to refinance the bond issue.

Water Debt Service:

The Water Department has outstanding Public Works Trust Fund loans for the Reservoir and for the Everett Waterline connection. The current outstanding debt is \$1,945,165. The 2008 debt service payments total \$154,764. The source of payment for these loans is the reserve funds

and new connections. The monthly payment made by current customers does not include any debt service payments.

Current Fund Balance	\$ 78,415
Anticipated Revenue	\$ 34,672
Less Bond Payments	\$(154,764)
Funding Shortfall	\$(41,677)

The 2008 budget anticipated \$94,572 in Water System connection fees. With the current reduction in building activity it is not likely that the City will collect the anticipated revenues. The revised estimated revenue is \$34,672.

The City has pledged the assets of the Water Department as collateral for the loans. If the anticipated connection charges are not received, the funds to make the loan payments must be transferred from either the operating fund (Water 400) or the CR Utility fund (405). This will have an impact on budgeted expenditures for fund 400 and 405. The Council will need to determine where budget reductions will be made.

Fund	Expenditure	Budget
400 Water Operations	Capital – Meters	\$143,500
400 Water Operations	Capital – Vehicles	\$ 40,000
405 Reserve Fund	Waterline Extension	\$100,000

ANALYSIS

The problem continues in 2009-2010 and beyond to 2020. The City is obligated to pay the debt service in the amount of \$1,945,165. The average amount due each year is \$150,000. Based on the analysis for 2008, there will not be a reserve balance in the fund at the end of the year. For 2009, at the current connection rate, the City will need at least 29 new connections if 100% of the connection fee is allocated to debt service. If the City continues with the 60/40 split between debt service and capital, the City will need at least 48 new connections in 2009 to meet debt service requirements.

The Water Rate study is crucial as there is nothing factored into the monthly base rate paid by existing customers to make debt service payments on the reservoir and Everett Waterline. These projects benefited existing customers and potential new customers.

Sewer Debt Service:

The Sewer Department has outstanding Public Works Trust Fund and Ecology loans for the Wastewater Treatment Plant, Stormwater plan and I&I Reduction projects. The current outstanding debt is \$4,210,944. The 2008 debt service payment is estimated to be \$376,502. The source of payment for these loans is reserve funds, new service connections and monthly utility payments from current customers. The monthly contribution to debt service made by current customers is \$15 per unit.

Current Fund Balance	\$ 51,433
Anticipated Connections Revenue	\$ 67,690
Current Customer Contributions	\$ 202,800
Less Bond Payments	\$(376,502)
Funding Short fall	\$(54,579)

The 2008 budget anticipated \$203,100 in Sewer System connection fees and with the current reduction in building activity it is not likely that the City will collect the anticipated revenues. The revised estimated revenue is \$67,690.

The City has pledged the assets of the Sewer Department as collateral for the loans. If the budgeted revenues are not received, funds from the operating and reserve funds will be needed to make the loan payments. The Sewer Department is paying the debt service for the Stormwater plan and for the I&I reduction project. The breakdown for those loans is:

PROJECT	LOAN PAYMENT
Sewer Plant – Existing	\$118,443
Sewer Plant – Design for New	\$172,500
Stormwater Plan	\$ 8,631
I & I Reduction	\$ 76,928

Stormwater

It was anticipated that the Stormwater Utility would contribute to the \$85,559 that are directly related to stormwater management. This contribution becomes more crucial in future years as the cost to fund payments for the upgrade to the Sewer Plant increases.

ANALYSIS

The problem continues in 2009 and beyond. The outstanding debt service is \$4,210,944 with an average annual payment of \$450,000. The current contribution from existing customers is \$202,800. Based on the analysis for 2008, there will be no reserve funds to carry forward. It is anticipated that 36 new connections will be need in 2009 to meet debt service requirements if the City continues with the 60/40 split for connection charges. The City will need 22 new connections in 2009 if 100% of the connection charge is allocated to debt service.

RECOMMENDATIONS

Water:

1. Complete the rate study and consider contributions for debt service from current customers.

Sewer:

1. Stop the WWTP design at 50%. Complete the design for the solids handling building and apply for a PWTF loan for construction. Construct the solids handling building in 2009/2010.
2. Direct staff to work with PWTF to extend the design loan out from 5 year payments to 20 year payments and the construction phase starts on the solids handling building.
3. Establish the Stormwater Utility and reassign the \$85,559 debt service payments (I & I and Stormwater plan) from the Sewer fund to the Stormwater Utility fund.

DEBT SERVICE SCHEDULE

	2008	2009	2010	2011-15	2016-20	2021-25	Total
W/S Revenue Bonds	126,290.00	126,755.00	126,845.00	637,000.00	128,875.00	0.00	1,400,587.50
Total Revenue Bond Debt	126,290.00	126,755.00	126,845.00	637,000.00	128,875.00	0.00	1,400,587.50
Public Works Loans							
Water Debt Service							
PW 02-691-PRE 119 Everett Waterline	17,209.44	17,129.39	17,049.35	84,001.06	81,969.94	29,223.88	281,248.06
SFF 97-78-897-076 - Everett Waterline	82,291.86	80,005.98	77,720.09	354,312.19	244,560.45		1,010,332.00
PW 98-791-063 - Water Reservoir	55,261.80	54,015.29	52,768.78	245,146.32	132,129.70	0.00	653,585.00
Total Water Debt Service	154,763.10	151,150.66	147,538.22	683,459.57	458,660.09	29,223.88	1,945,165.06
Sewer Debt Service							
PW 596-790-056 - Sewer Plant	118,443.20	117,366.54	116,289.78	565,297.53	218,581.72	0.00	1,376,095.63
PW 04-691-064- I & I Reduction PW06962PRE131- Sewer Plant Design	76,927.50	76,270.00	75,612.50	368,200.00	351,762.50	269,575.00	1,374,175.00
DEOLO 10034 - Stormwater Plan	172,500.00	257,500.00	257,000.00	514,000.00	0.00	0.00	1,201,652.00
Total Sewer Debt Service	376,501.94	459,767.78	457,533.52	1,490,653.73	613,500.42	308,415.55	4,210,944.40
GO Bond Debt							
GO Bonds Community Center	122,423.00	124,447.00	126,223.00	682,065.00	460,580.00	0.00	1,753,408.00
GO Bonds Police Equipment	31,045.00	30,595.00	30,085.00	156,045.00	154,675.00	124,535.00	590,307.50
Street Sweeper	9,753.74	4,876.87	0.00	0.00	0.00	0.00	34,138.09
Main Street PWTF	27,775.56	0.00	0.00	0.00	0.00	0.00	84,960.49
Total GO Debt	190,997.30	159,918.87	156,308.00	838,110.00	615,255.00	124,535.00	2,462,814.08
TOTAL DEBT	722,262.34	770,837.31	761,379.74	3,012,223.30	1,687,415.51	462,174.43	8,618,923.54