

SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET

Date: October 28, 2010

Agenda Item #: Discussion D 3

SUBJECT: Sewer Rates - Debt Service

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

Issue:

The issue before the council is how to fund debt service payments for the Sewer System for 2011 and 2012 and to consider alternatives for sewer rates.

Staff Recommendation:

Staff recommends the following:

1. Alternative 3 base increase of \$4.97 per month with no increase to stormwater until January 2013.
2. Two year ordinance for sewer rate increase
3. All additional revenues will be used to pay off sewer debt to retire other outstanding loans.

Summary:

The Sewer Debt Service fund has payments of \$465,959 due for 2011 and \$461,403 due in 2012. At the Budget Retreat, the Council discussed the sewer debt service requirements for the next two years and considered alternatives that included increasing monthly sewer rates. The alternatives presented are included as Attachment A.

The City bills for five different utilities – water, sewer, garbage, recycle and stormwater. The following chart shows the current monthly billing and the rate increase for 2011 under the existing ordinances:

Based on Current Ordinances for each Utility	Water	Sewer - Alternative 1	Garbage	Recycle	Storm water	Total Monthly Base	Total All Utilities Monthly Increase
2010 Monthly base rate	28.09	64.83	20.08	9.25	6.75	129.00	
2011 Monthly base rate	31.25	64.83	20.46	9.35	8.00	133.89	4.89
2011 Monthly Increase	3.16	0.00	0.38	0.10	1.25	4.89	
Proposed Rate Alternatives							
Alternative 2	31.25	68.07	20.46	9.35	8.00	137.13	8.13
Alternative 3 **	31.25	69.80	20.46	9.35	6.75	137.61	8.61
Alternative 4 **	31.25	71.47	20.46	9.35	6.75	139.28	10.28

** includes charges for excess sewer usage.

Based on the discussions at the retreat, staff has prepared alternatives for the council to consider. Alternative 3 and 4 include a charge for excess sewer similar to the charge for excess water. This would generate approximately \$75,000 in additional revenues.

	Current Rate - No change due to CPI	Alternate 1 - 2010 Max Rate	Alternate 2 - 2011 Max Rate	Alternate 3 2011 rate plus charge for excess usage plus reduced expense	Alternate 4 - Max 2011 rate plus excess usage
Monthly Base Rate	64.83	68.07	71.47	69.80	71.47
Annual Revenues	\$1,137,486.00	\$1,137,486.00	\$1,137,486.00	\$1,137,486.00	\$1,137,486.00
Additional Revenues with rate increase	\$0.00	\$52,332.48	\$107,249.28	\$182,249.28	\$182,249.28
Reduction in operating expense required.	\$162,000.00	\$109,667.52	\$54,750.72	\$27,000.00	\$0.00
Base Monthly increase to customer	\$0.00	3.24	6.64	\$4.97	\$6.64
Charge for excess (2.83/per 100 cf over 600)	\$0.00	0	0	4.64	\$4.64

Discussion:

The Sewer Operating fund has a deficit balance of \$162,000 (rounded). The issue with the operating fund is the need to cover the PWTF loan payments for 2011-2012. The rate alternatives presented to the Council have an impact on the operating budget for 2011.

Current rate structure will require the Sewer Department to reduce expenses by \$162,000. This would require all capital expenses to be eliminated, the facility plan update to be continued into 2012, no transfers for equipment replacement (Attachment B) and operating expenses to be reduced by \$10,000. This does not provide any surplus for emergencies.

1. Alternative 1 would still require the operating budget to be reduced by \$109,667. This would leave the facility plan update in the budget. (\$67,000)
2. Alternative 2 would require a \$54,750 reduction in expenses. This would eliminate capital budget items and equipment replacement transfers.
3. Alternative 3 would still require a reduction in the operating budget. The most likely decrease would be the capital line item for buildings (\$30,000 for roof replacement). This is the preferred alternative as it will lower the amount needed for the monthly rate increase and will also reduce expenditures.
4. Alternative 4 would not reduce any expenditures and would provide the maximum increase in rates.

SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET

Date: October 9, 2010

Agenda Item #: Budget B 10-B

SUBJECT: Sewer Debt Service Fund

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

ISSUE:

The issue before the council is how to fund debt service payments for the Sewer System for 2011 and 2012.

The Sewer Debt Service fund has payments of \$465,959 due for 2011 and \$461,403 due in 2012. The Council may have to consider adopting a sewer rate increase for two years to cover the cost of the Public Works Trust Fund (PWTF) loan.

Summary:

The major impact for 2011 and 2012 is the requirement to pay the balance on the PWTF loan for the Waste Water Treatment Plant (WWTP) design. Under the terms of the loan agreement, the loan for the 50% design must be paid back over a five year period. The City restructured the loan in 2010 to include an additional year on the payment schedule. This reduced the payments in 2010 and 2011 by \$100,000 each year and added a \$210,000 payment to be made in 2012.

The following table shows the debt service requirements for the Sewer Utility for 2011 to 2015.

Table 1 – Debt Service 2011-2015

	2011	2012	2013	2014	2015
Sewer					
PW 596-790-056 Sewer Plant Upgrade	114,136.26	113,059.51	111,982.75	110,905.99	109,829.24
PW 04-691-064 Sewer I & I Project	74,749.53	74,400.23	74,050.95	73,701.63	73,352.35
DEOLO 10034 Sewer Stormwater Report	8,631.24	8,631.24	8,631.24	8,631.24	8,631.24
LTGO Sewer Revenue Bonds	58,025.00	55,965.00	53,905.00	51,845.00	49,785.00
PW 06-962-PRE-131 Sewer Plant Design	210,416.67	209,375.00	0.00	0.00	0.00
Total Sewer Service Debt	465,958.70	461,430.98	248,569.94	245,083.86	241,597.83

The current funding for sewer debt service is from:

1. Connection fees for new units. 5 new connections are anticipated in 2011(11,282 x 5 =\$56,410).

2. Current customers: \$15 of each monthly payment is allocated to debt service. There are 1,346 sewer customers. ($1346 \times 15 \times 12 = \$242,280$ per year). City Staff have evaluated 4 alternatives to fund debt service payments in 2011:

Alternate 1 assumes the “best case scenario”.

- This would use the anticipated sewer debt fund balance of \$71,000
- Use the sewer utility reserve funds of \$50,000 (balance in the fund is \$54,000)
- There will be 5 new connections to generate \$56,000
- Current customers will continue to pay \$15 per month for debt service.
- This would leave an additional \$46,679 to be funded by current customers 2011.
- 2012 budget would not include any fund balance or reserves.

Alternate 1 would require a monthly sewer rate increase of \$3 per unit for 2011. Additional increases would be needed in 2012 as this option depletes all reserve funds.

Alternate 2 assumes there will be no new connections in 2011.

- This would use the anticipated sewer debt fund balance of \$71,000
- Use the sewer utility reserve funds of \$50,000 (balance in the fund is \$54,000)
- Current customers will continue to pay \$15 per month for debt service.
- This would leave an additional \$102,679 to be funded by current customers in 2011.
- 2012 budget would not include any fund balance or reserves.

Alternate 2 would require a monthly sewer rate increase of \$6 per unit for 2011. Additional increases would be needed in 2012 as this option depletes all reserve funds.

Alternate 3 assumes the city does not use the sewer debt service fund balance (leaves it for future years); does not deplete the sewer utility reserve fund and will have 5 new connections in 2011.

- Current customers will continue to pay \$15 per month for debt service.
- This would leave an additional \$167,679 to be funded by current customers in 2011.
- The fund balance (\$71,000) and reserves (\$54,000) would be available in 2012.

Alternate 3 would require a monthly sewer rate increase of \$10 per unit for 2011 and 2012.

This cost could be reduced if the council charges future users (those on septic systems) for a share of the system they will eventually use. There are 1600 total utility customers. The rate would be \$9 per unit for all customers for 2011 and 2012.

Alternate 4 assumes the city does not use the sewer debt service fund balance (leaves it for future years); does not deplete the sewer utility reserve fund and will not have 5 new connections in 2011.

- Current customers will continue to pay \$15 per month for debt service.

- This would leave an additional \$223,679 to be funded by current customers in 2011.
- The sewer debt service fund balance (\$71,000) and reserves (\$54,000) would be available in 2012.

Alternate 4 would require a monthly sewer rate increase of \$13.85 per unit. The total bill for debt service would be \$28.85 per unit per month. ($\$465959/1346 \times 12 = \28.85).

The following is a summary of funding potentials:

Sewer Debt Service Fund	Alternate 1	Alternate 2	Alternate3	Alternate 4
Fund Balance	71,000	71,000	0	0
Sewer Reserve Funds	50,000	50,000	0	0
New Connections	56,000	0	56,000	0
Current Customers (1346)	242,280	242,280	242,280	242,280
	419,280	363,280	298,280	242,280
Total Debt Service	465,959	465,959	465,959	465,959
Amount needed to balance	46,679	102,679	167,679	223,679
Total monthly cost to customer (\$64.83 +)	67.72	71.19	75.21	78.68
Monthly cost increase per unit	2.89	6.36	10.38	13.85
Annual cost increase per unit	34.68	76.28	124.58	166.18

Fiscal Analysis

At the end of 2010 the Sewer Debt Service Fund is anticipated to have an ending fund balance of \$71,000 and Sewer Reserve fund is anticipated to have \$50,000.

The Sewer Reserve funds are used for unanticipated emergencies such as pump failure at the Waste Water Treatment Plant or major service line breaks. The source of funding for the reserve funds is service connection fees. Over the past two years \$330,000 has been transferred from the fund to cover debt service payments and the cost of completing LID 97-1 (mitigation required by Corp of Engineers). This has left a balance of \$50,000 in the fund to cover emergencies. The City repaired lines behind City Hall at a cost of \$32,000.

The City has struggled to make required loan payments over the past two years and have taken steps to divert all connection fees to debt service, restructured the PWFT loan, used sewer reserve funds and reduced expenditures in the operating fund to provide funds for debt service. There is a need for reserves in the debt service fund to cover debt service on the chance that no new service connections are made.

City staff recommends using a combination of alternative 2 and 3 - an allocation \$30,000 of sewer debt service fund balances and \$15,000 of sewer reserve funds for payment of debt service. This would reduce the monthly increase need to \$7.60 for the next two years.

The monthly utility billing would breakout the payment for sewer debt payment with a notation that at the end of 2012, the rates would be reduced.

Capital Equipment - .640
2011

Parks	Water	Sewer	Streets	Garbage	Cemetery	Storm	Total	Item
	4,500.00	2,500.00					7,000.00	Computers-WW and Water
		4,500.00					4,500.00	Incubator
				20,000.00			20,000.00	Dumpsters, 1, 2, & 3 yard
		10,000.00					10,000.00	Waste Activated Sludge Pumps
		1,000.00					1,000.00	Lab Equipment
		24,000.00					24,000.00	Mixer
	0.00	200.00	200.00	200.00		50.00	650.00	Refrigerator of Field Shop/Office
							0.00	Kubota with Hoe Attachment
2,000.00	5,000.00	2,000.00	15,000.00			1,000.00	25,000.00	Signs-Traffic, Park, Storm, WW, Water
	2,500.00						2,500.00	Heaters
	0.00						0.00	Electronic Meters
	5,000.00						5,000.00	Turbidity Meter (Lab)
		0.00					0.00	Effluent Meter
							0.00	
							0.00	
							0.00	
							0.00	
2,000.00	17,000.00	44,200.00	15,200.00	20,200.00	0.00	1,050.00	\$99,650.00	