

Financing Plan

Redwood Sanitary Sewer Service District Josephine County, Oregon



Parametrix, Inc.

8. FINANCING PLAN

Various project funding alternatives exist for the District to implement the preferred treatment alternative. The purpose of this section is to select the best option from those alternatives available. This financing plan includes an evaluation of present and future revenues and costs. The project construction, engineering, administrative, and operation and maintenance (O&M) costs used in the evaluation were taken from Section 5. Revenue projections are based on existing rates, system development charges (SDCs), and the population growth projections presented in Section 2.

The financial analysis consists of two parts:

- **Capital Cost Review** – We reviewed the capital improvement costs to ensure all known, related costs were included.
- **Revenue Requirements Analysis** – We analyzed needs of the utility based on current budget and financial information, projected future operating and maintenance costs, and ongoing capital outlays. We added to this the cost impact of the capital improvement program in terms of direct user charge support and debt service support. Alternative financing approaches and combinations were then examined.

8.1 BACKGROUND

The Wastewater Facility Plan completed in November 1994 included a project financing section. The four funding sources included in this evaluation were the State Revolving Fund (SRF), Community and Economic Development, the Farmers Home Administration, and Revenue Bonds. A very thorough evaluation of each of these funding alternatives was performed, including alternative combinations. The best options were a combination of SRF loans and bond funding, or 100 percent SRF project funding. Because there were not enough SRF loan monies available to finance the entire project, the conclusion reached was that the SRF loans would be augmented with revenue bonds or general obligation bonds.

Also included in the recommended alternative was an increase in system development charges (from \$922/ERU to \$1,966/ERU), and a gradual increase in monthly sewer rates (\$2 to \$3 per year). These changes were implemented in 1995 and have been revised on a regular basis.

8.2 EXISTING FINANCES

Before discussing the various project financing alternatives, a review of the existing finances and costs is presented. A summary of the District's operating revenue and expenses for 1998/1999 is presented in Table 8-1. Under "revenues," the System Development Charge (SDC) shown is for managing the accounts. Most SDC revenues are placed into Account Numbers 594 and 595. Under "expenses," the intergovernment payments include billing by the City of Grants Pass, inspection services, and other services provided by the County. Account Number 596 expenses are for capital works improvements to the system. The current sewer debt level is very low. The total current debt payments per year are only \$12,800.

**Table 8-1
General District Operating Revenue and Expenses**

Rate of Growth:	3.1%/Year		
Rate of Inflation:	4%/Year		
Operational Cost Increase:	5%/Year		
Operating Revenues	Budget	Projected	
	1998/1999	1999/2000	2000/2001
Use Fees	\$515,000	\$530,965	\$547,425
Permit Fees	2,240	2,309	2,381
Connection Fees	5,600	6,005	6,438
System Development Charges	6,384	6,582	6,786
Interest 590	13,290	13,702	--
Fund 594.34 Revenue	20,000	33,908	34,959
Fund 595.34 Revenue	52,000	103,377	106,582
Fund 595.34 Revenue	2,000	2,062	2,126
Interest 394, 395, and 396	56,100	57,839	--
Total Revenue	\$672,614	\$756,749	\$706,697
Operating Expenses			
Salary/Wages	\$111,000	\$116,550	\$18,558
Benefits	37,899	39,415	6,495
Supplies and Chemicals	29,991	31,191	63,510
Power	--	--	11,341
Collection System		--	62,891
Services	89,815	93,408	200
Intergovernment Payment for WWTP	101,540	105,602	91,221
Fund 594.34 Expend	--	--	--
Fund 595.34 Expend	--	--	--
Fund 596.34 Expend	103,746	51,873	51,871
Debt Service	12,800	12,800	12,800
Total Costs	\$486,791	\$318,886	\$278,302

The last day of compost facility operation will be in October 1999. Currently, the biosolids generated at the Redwood WWTP are used as base material for compost generation. The current annual JoGro costs for materials, equipment, and services are approximately \$40,000. For evaluation purposes, it was assumed that these costs would equal the new costs associated with transporting the biosolids to the Grants Pass WRP.

8.3 SYSTEM DEVELOPMENT CHARGES

System Development Changes (SDCs) are billed to new customers so they can pay their share of the sewer system capital costs. SDCs are imposed on new customers connecting to the system as a condition of service, in addition to any costs to connect the customer.

The SDC consists of two components: 1) A reimbursement fee that constitutes a buy-in to existing facilities already in place, and 2) an improvement fee that represents the additional cost of system expansion as planned by the utility. Improvement fees can only be used for capacity-expanding improvements, while reimbursement fees can be used for any planned capital improvements. Separate accounts for each fee component and budget-specific expenditures are in place. Reimbursement SDCs go to Account Number 594 and Improvement SDCs go to Account Number 595.

One benefit of this project being delayed from 1994 to 1999 while the compost facility issues were being resolved, is that the District has been able to accrue a large cash balance. This cash has been set aside until the facility upgrade capital works projects are ready to go. According to the District's 1998/1999 budget, the total cash balance from the four sewer accounts is approximately \$2,050,990.

8.4 FUNDING ALTERNATIVES

The ODEQ's Wastewater Finance Office has already approved a \$3,040,000 State Revolving Fund (SRF) Loan for the District's wastewater project. The District applied for this loan several years ago, and it was approved based on a 20-year payment period at 3.89 percent interest. Access to additional SRF funding is considered very likely. Based on this relatively low interest rate, and no 25 to 35 percent debt service coverage requirements, the District has decided that the project will be totally funded with SRF money. Below is a summary of what SRF funding includes:

State Revolving Fund - This loan program is the successor to the Federal Clean Water Act grant program. Federal and State governments provide money to a revolving loan pool at a lower than market rate. The loans are for planning, designing, and construction of wastewater treatment facilities.

The District could complete a new SRF loan application for new funding, or they could ask for additional funding based on their approved application. A new funding request would need to go through the entire application selection process and compete with all other new applications. Applying for additional SRF funding based on their approved loan should be a relatively simple process, and would provide the greatest chance of success. Because the District is already approved for a \$3.04 million loan, they have a high priority for receiving additional funding.

Although an SRF loan does not require debt coverage like bond funding, a special reserve account would be necessary. This reserve money, called a Required Loan Reserve, is placed in an account for the entire loan period and is used if the District misses a loan payment. The Required Loan Reserve would be equal to the average annual payment over the 20-year period.

Although this entire amount must be kept on reserve, it could earn interest. SRF loan payments are due on June 1 and December 1 of each year.

8.5 FINANCING ALTERNATIVES

This section presents a cash flow analysis of two project financing scenarios. The first scenario will be based on the same O&M cost and population growth rates used in the previous portions of this report. This is called the base case scenario. The second scenario assumes a reduction in the cost for wastewater treatment. The capital and O&M costs used for both scenarios were taken from Section 6 and assumes no increases in sewer fees or SDCs.

8.5.1 Base Case Scenario

The assumptions used for scenario one "Base Case" project finance cash flow spreadsheet are as follows:

- ERU growth rate of 3.1 percent per year
- An inflation rate of 4.0 percent per year
- A salary increase of 5 percent per year
- An SRF loan rate of 3.89 percent paid over a 20-year period

Based on this scenario, the District would be able to finance a project costing up to \$6.79 million, including loan fees. A summary of the Base Case is presented in Table 8-2. The complete spreadsheet is included in Appendix M.

Required Reserve Funds	
District Held Reserves	\$305,000
SRF Loan Reserve	398,816
Total Reserves to be Held⁽¹⁾	\$703,816
Available Funds for the Project	
Available Cash	\$1,347,175
SRF Loan Proceeds	5,440,000
Total Available Funding⁽²⁾	\$6,787,175

(1) Total cash reserves that shall be held for the entire period.

(2) Total funding available to use for project design, construction, administration, etc.

8.5.2 Alternative One Scenario

The "Base Case Scenario" used an annual treatment cost of \$88,500 to be paid to the City of Grants Pass for treatment at the Water Restoration Plant. This cost was based on a ratio of District customers to Grants Pass City WRP customers, and assumed all customers would pay an equal amount per gallon treated. In the Alternative One Scenario, however, the treatment

cost has been reduced to \$38,500. This is the estimated incremental cost increase at the Grants Pass WRP to treat District wastewater and is lower than the average cost per gallon treated. Under this scenario, the District would be able to finance a project costing up to \$7.4 million. A summary of the Alternative One Scenario is presented in Table 8-3.

Table 8-3 Alternative One Scenario Total Project Funding Capability	
Required Reserve Funds	
District Held Reserves	\$225,000
SRF Loan Reserve	436,938
Total Reserves to be Held⁽¹⁾	\$661,938
Available Funds for this Project	
Available Cash	\$1,389,052
SRF Loan	5,960,000
Total Available Funding⁽²⁾	\$7,349,052

(1) Total cash reserves that shall be held for the entire loan period.

(2) Total funding available to use for project design, construction, administration, etc.

8.6 PROJECT FUNDING SUMMARY

Two project financing alternatives were reviewed for the District. In either, the District could finance sufficient monies to implement the preferred treatment alternative. The consensus by the District Board of Commissioners was, however, that the District's share for wastewater treatment costs at the Grants Pass WRP should be \$88,500 per year, not \$38,500 per year as evaluated in the Alternative One Scenario.

Based on this, the District has already begun the process of requesting an additional \$2,400,000 of SRF money. This money will be added to the original \$3,040,000 that was approved in 1995. A preliminary project schedule, included at the end of Section 7, outlines how the funding acquisition needs to proceed.