

CHAPTER 5

CAPITAL IMPROVEMENT FINANCING

EXISTING RATES AND CHARGES

Water service rates are established by resolution. Meters are read and customers billed on a monthly basis, according to the rate schedule shown in Table 5-1. Each customer is charged a demand charge depending on meter size, plus a minimum monthly base rate of \$32.90 that includes the first 7,000 gallons of metered consumption. Usage above 7,000 gallons is charged at \$0.56 per 1,000 gallons. Accounts outside the City limits are charged an additional 50 percent.

TABLE 5-1
Existing Monthly Water Service Rates for First 7,000 gallons ⁽¹⁾

Meter Size (in)	Demand Charge	Base Rate	Volume Charge per 1,000 gal
¾	3.00	32.90	0.56
1	12.00	32.90	0.56
1-1/2	24.00	32.90	0.56
2	57.00	32.90	0.56
3	224.00	32.90	0.56
4	390.00	32.90	0.56

(1) Source: Resolution No. 2009-1191.

General facility charges (GFCs) are also covered in the rate resolution, and are as follows:

Downtown Area:	\$5,168.00 per ERU
Uplake Area	\$7,695.00 per ERU

The uplake area is defined as any area on the North Shore served by the Darnell's BPS or any area south of the Chelan River. The downtown area is defined as all other areas to the east. A separate schedule in the rate resolution defines calculation of ERUs for non-residential connections.

PAST AND PRESENT FINANCIAL STATUS

Table 5-2 summarizes the City's revenues and expenditures between 2004 and 2008.

**TABLE 5-2
Water Utility Historical Revenue and Expenditures**

REVENUES	2004	2005	2006	2007	2008
Water Sales	1,252,012	1,346,824	1,377,779	1,490,876	1,567,243
General Facility Charges	70,197	112,415	268,140	257,144	0 ⁽¹⁾
Miscellaneous Revenue	11,565	17,524	28,537	34,261	24,325
Total Revenues	1,333,774	1,476,763	1,674,456	1,782,281	1,591,568
EXPENDITURES					
Wages and Benefits ⁽¹⁾	281,637	282,088	311,312	340,448	376,850
Supplies ⁽²⁾	77,812	84,160	163,683	127,899	122,093
Other Services & Charges ⁽³⁾	128,526	128,308	136,456	149,945	258,395
Intergovernmental Services	75,515	75,439	74,061	84,743	86,946
Interfund Payments	109,140	129,461	136,009	125,294	132,185
Capital Outlays	14,977	95	13,191	30,995	10,439
Water Construction Fund ⁽⁴⁾	150,000	150,000	288,000	300,000	0
Water Sewer Bond	523,727	519,619	515,500	511,410	631,439
Total Expenditures	1,361,334	1,369,170	1,638,212	1,670,733	1,618,348
BALANCES					
Beginning of Year	420,936	393,376	500,969	537,213	648,760
End of Year	393,376	500,969	537,213	648,760	621,980

- (1) The City has regularly increased water utility salaries per the CPI plus merit increases, and recently added a new employee.
- (2) Increases have been mostly due to meter replacements.
- (3) Recent increases due to fees for Water System Plan and equipment maintenance.
- (4) The City began transferring revenues from General Facility Charges directly to the Water Construction Fund in 2008.

The table shows that the City’s water fund was in good health at the end of 2006. Revenues have consistently outpaced expenditures and have enabled the City to build a balance of \$576,000 in its Water Construction Fund.

SIX-YEAR FINANCING PLAN

Table 5-3 summarizes the City’s 6-year financing plan. The assumptions used in this table were intended to be conservative. For example, Revenues from Increased Rates only account for the 3 percent increase to the base rate the City plans to adopt, and do not include revenues for from increased volume charges. Also, the City’s growth rate was based on an increase of 10 ERUs per year, which is substantially lower than increases in previous years, and which does not account for the many large developments currently being considered. On the expenditure side, employee wages and benefits, which have increased about 10 percent per year the last two years, were assumed to continue to increase at that rate throughout the 6-year planning period. Other expenditures were assumed to increase at an inflation rate of 3 percent.

TABLE 5-3
Six-Year Financing Plan
(Amounts in Dollars)

WATER FUND						
REVENUES	2009	2010	2011	2012	2013	2014
Water Sales ⁽¹⁾	1,684,000	1,690,000	1,696,000	1,702,000	1,708,000	1,714,000
Miscellaneous Revenue ⁽²⁾	24,000	25,000	26,000	27,000	28,000	29,000
Revenue from Increased Rates ⁽³⁾	34,000	70,000	107,000	146,000	186,000	227,000
Total Revenues	1,742,000	1,785,000	1,829,000	1,875,000	1,922,000	1,970,000
EXPENDITURES						
Wages and Benefits ⁽⁴⁾	411,000	452,000	497,000	547,000	602,000	662,000
Supplies ⁽²⁾	128,000	132,000	136,000	140,000	144,000	148,000
Other Services & Charges ⁽²⁾	183,000	188,000	194,000	200,000	206,000	212,000
Intergovernmental Services ⁽²⁾	80,000	82,000	84,000	87,000	90,000	93,000
Interfund Payments ⁽²⁾	133,000	137,000	141,000	145,000	149,000	153,000
Capital Outlays ⁽²⁾	31,000	32,000	33,000	34,000	35,000	36,000
Water Sewer Bonds ⁽²⁾	539,000	520,000	510,000	510,000	510,000	510,000
New Debt Service ⁽⁵⁾	-	28,000	116,000	191,000	264,000	264,000
Total Expenditures	1,505,000	1,571,000	1,711,000	1,854,000	2,000,000	2,078,000
BALANCES						
BOY Balance	622,000	859,000	1,073,000	1,191,000	1,212,000	1,134,000
EOY Balance	859,000	1,073,000	1,191,000	1,212,000	1,134,000	1,026,000
CONSTRUCTION FUND						
REVENUES						
General Facility Charges ⁽⁶⁾	77,000	77,000	77,000	77,000	77,000	77,000
Interest ⁽⁷⁾	14,000	17,000	17,000	16,000	16,000	16,000
Grants and Loans ⁽⁵⁾	-	515,000	1,624,000	1,377,000	1,347,000	-
Total Revenues	91,000	609,000	1,718,000	1,470,000	1,440,000	93,000
EXPENDITURES						
Telemetry	-	515,000	-	-	-	-
Meter Replacement	-	100,000	100,000	100,000	100,000	100,000
Distribution	-	-	1,624,000	1,377,000	1,347,000	-
Total Expenditures	-	615,000	1,724,000	1,477,000	1,447,000	100,000
BALANCES						
BOY Balance	576,000	667,000	661,000	655,000	648,000	641,000
EOY Balance	667,000	661,000	655,000	648,000	641,000	634,000
RATES						
Monthly Base Rate	32.90	33.89	34.90	35.95	37.03	38.14
Increase (%) ⁽⁸⁾	3%	3%	3%	3%	3%	3%
Adjusted Base Rate	33.89	34.90	35.95	37.03	38.14	39.28

(1) Based on an additional 10 ERUs per year using current average revenue per ERU (approximately \$49/ERU/mo).

(2) Based on 3% annual inflation.

(3) Based on Monthly Rate times ERUs. Does not account for volume charges.

(4) Based on 10% annual growth.

- (5) Based on USDA Rural Development loan at 4.5% interest, 40 years. Assumes all projects are funded through this program except the meter replacement project, which is assumed to be funded by the Construction Fund.
- (6) Based on 10 new ERUs per year at a GFC rate of \$7,695 / ERU.
- (7) Based on 2.5% rate of return.
- (8) The City plans to increase base rates by 3% each year to account for inflation. It will also determine what adjustments should be made to volume charges to accompany increases in the base rate. (Note that this analysis does not represent a rate study.)

Table 5-3 indicates that even with cautious assumptions, the Water Fund would be capable of funding the 6-year capital improvement plan with the planned 3 percent annual rate increase. However, over the life of the 6-year plan the Water Fund and Construction Fund balances will begin to shrink unless development occurs at a higher rate than assumed. The City may decide to postpone some of its planned improvements if that occurs.

The City's current choice for initially funding these improvements is USDA Rural Development. It also plans to apply to Public Works Trust Fund in 2011 for 2012 improvements and beyond, assuming that program is available. Other possible funding sources are discussed below.

FUNDING SOURCES

The following section describes the several funding sources available to the City. The funding sources the City selects will depend on the status of its existing financial commitments, capital and cash flow requirements, funding source availability, and the impact on the service rates and connection charges. A summary of these programs is provided in Table 5-4 (next page).

USDA RURAL DEVELOPMENT

USDA Rural Development (RD) has a loan program which, under certain conditions, includes a limited grant program. Grants may be awarded when the annual debt service portion of the utility rate exceeds 1.0 percent to 1.5 percent of the municipality's median household income. Chelan's water improvement projects may qualify for 45 percent grant and 55 percent loan. The loan program provides long-term 30- to 40-year loans at an interest rate usually between 4.0 and 4.5 percent. RD loans are issued as revenue bonds with a 1.1 debt coverage requirement.

DRINKING WATER STATE REVOLVING FUND

In 1997 the Washington State Department of Health began taking applications for a new loan program called the Drinking Water State Revolving Fund (DWSRF). The program was funded by Congress as part of the 1996 reauthorization of the Safe Drinking Water Act. The program provides low-interest loans to help publicly owned as well as privately

owned not-for-profit and for-profit water systems make improvements to water systems for public health protection.

The program is primarily targeted toward projects that will improve public health and safety. Infrastructure improvement projects can also be considered, but are given a lower priority in the ranking. Project rankings and selection are made by the Department of Health; program financial administration is handled by the Public Works Board. Interest rates are typically 0 to 1.5 percent with a 1 percent loan fee.

**TABLE 5-4
Grant and Loan Programs**

Agency	Program	Maximum Amount	Type	Appl. Cycle
USDA Rural Development	Community Assistance Grant and Loan Program	Variable	45% grant, 55% loan	Year-round
Washington State Department of Health	Drinking Water State Revolving Fund	\$3,000,000	Loan	May ⁽¹⁾
	Water System Acquisition and Rehabilitation Program	\$500,000	Grant	September
Wash. State Dept. of Commerce	Planning-Only Grant	\$24,000	Grant	Year-round
	Community Development Block Grant (alternatively, Community Investment Fund)	\$1,000,000	Grant	November
	Traditional and Rural County Program	Max \$500k grant, \$1 M Total	Grant & Loan	January
	Job Development Fund, Community Economic Revitalization Board	Max 33% grant, \$10 M Total	Grant	January
Washington State Public Works Board	Public Works Trust Fund Planning Loan	\$100,000	Loan	Year-round ⁽²⁾
	Public Works Trust Fund Preconstruction Loan	\$1,000,000	Loan	Year-round ⁽²⁾
	Public Works Trust Fund Emergency Loan	\$500,000	Loan	Year-round ⁽²⁾
	Public Works Trust Fund Construction Loan	\$20,000,000	Loan	May ⁽²⁾
U.S. Congress	State and Tribal Assistance Grant	Variable	Grant w/. 45% match	Year-round

(1) The application cycle for 2009 was delayed until October 2009.

(2) PWTF loan program was cancelled for the 2009 biennium because of State budget constraints. It is not known at this time if the program will be available in 2011.

WATER SYSTEM ACQUISITION AND REHABILITATION PROGRAM

The Water System Acquisition and Rehabilitation Program (WSARP) is a grant program headed by Health and administered by the Public Works Board. These grants are

available to Group A systems seeking to acquire and, if necessary, rehabilitate other Group A water systems. Ineligible projects include Group B systems and individual water systems. Annual funding may vary, but in recent years, the State has provided up to \$2 million in total funding, with grants of up to \$500,000 per eligible applicant.

COMMUNITY DEVELOPMENT BLOCK GRANT

Community Development Block Grant (CDBG) financing is available from the Washington State Department of Commerce to non-entitlement cities and counties for projects primarily benefiting low to moderate income persons. The maximum grant funding available is \$1,000,000. To be eligible for CDBG grants, Cities must be included on the list of eligible jurisdictions and this must be a jurisdiction with at least 51 percent low/moderate incomes. The City of Chelan meets this eligibility requirement. Commerce also has a similar program, Community Investment Fund (CIF), which also makes grant awards up to \$1,000,000.

COMMUNITY ECONOMIC REVITALIZATION BOARD

Two programs are currently available through the Department of Commerce's Community Economic Revitalization Board (CERB).

Traditional and Rural County Program. The traditional program is based on "bird-in-the hand" projects where a business opportunity is contingent on receiving CERB funding. The rural program is based on "bird-in-the-bush" projects where communities demonstrate economic benefit would result from a project funded by CERB. Funding is limited to \$1 million, with a per-project grant maximum of 80 percent of the total request or \$300,000 (for the traditional program, \$500,000 for the rural program), whichever is lesser. Loans are 6 to 10 percent interest, 20-year repayment period.

Job Development Fund (JDF). This is a new CERB program funded with money transferred from the Public Works Trust Fund program by the legislature. The JDF can fund either "bird-in-the hand" or "bird-in-the-bush" projects. The application requires demonstrating that the project will affect job creation or retention in one or more businesses in the affected area. This program can provide grant funding up to 1/3 of the total project cost. The maximum grant amount available under this program is \$10 million. The program does not provide loan financing.

PUBLIC WORKS TRUST FUND

The Public Works Trust Fund (PWTF) is a revolving loan fund designed to help local governments finance needed public works projects through low-interest loans and technical assistance. The PWTF, established in 1985 by legislative action, offers loans substantially below market rates, payable over periods ranging up to 20 years, and in amounts up to \$20,000,000. The program is available on a biennial basis, although the 2009 biennium was cancelled because of State funding shortfalls. The next application

cycle is expected in 2011, although a formal announcement that the program will be available at that time has not been made.

Interest rates on construction loans are 0.5 percent, 1 percent, or 2 percent, with the lower interest rates providing an incentive for a higher local match. A minimum of 15 percent of projects costs must be provided by the local community to qualify for a 0.5 percent loan. A 10 percent local share qualifies the applicant for a 1 percent interest rate, and a 15 percent local share qualifies for a 2 percent loan. The useful life of the project determines the loan term, with a maximum term of 20 years.

To be eligible, an applicant must be a local government such as a City or County, or special purpose utility district, and have a long-term plan for financing its public work needs. If the applicant is a County or City, it must adopt the 1/4 percent real estate excise tax dedicated to capital purposes, which Chelan has done. Eligible public works systems include streets and roads, bridges, storm sewers, sanitary sewers, and domestic water. Loans are presently offered for purposes of repair, replacement, rehabilitation, reconstruction or improvement of existing eligible public works systems, and can be sized to meet the needs of growth.

The Public Works Board also has a planning loan program that can be used to finance planning projects such as rate studies and water system plans up to a project cost of \$100,000. Repayment terms are 0 percent over a term of six years. The board's preconstruction loan program provides financing for engineering design and other preconstruction activities. Interest rates are similar to construction loans, i.e., 0.5, 1.0 or 2 percent depending on the local match, with a term of 5 years that can be extended to 20 years with proof of construction financing.

STATE AND TRIBAL ASSISTANCE GRANTS

State and Tribal Assistance Grants (STAG) are available through the federal government by petitioning the applicant's federal Representative or Senators. There is no formal application form, although legislators often have developed their own application form to describe the project and its need. The program requires a 45 percent match, using any type of funding other than funding derived from EPA (e.g. DWSRF). Funding is approved annually as a separate appropriation in the federal budget.