

## CHAPTER 9

### CAPITAL IMPROVEMENT FINANCING

#### INTRODUCTION

This section is an analysis of the economic impacts of financing capital improvement projects discussed previously in Chapter 8. The City completed a water rate study in September 1999, which addresses water utility revenue requirements through 2004. Appendix Q contains a copy of the rate study. The rate study, which was adopted by City Ordinance #99-016, includes an annual 2.5 percent increase in the consumption charges and a slight modification to these rates in their relative levels between customer classes. The rate increases will provide sufficient revenue to cover the operation and maintenance, debt, and capital expenses projected in the rate study.

#### WATER RATES

The 1999 rate study increased water rates due to increased operation and maintenance costs, inflation, and capital improvement projects identified prior to this Plan. These rates became effective November 1, 1999. The new water rate structure also incorporates additional water utility staffing consisting of 1/6 administration FTE (full time equivalent) in 2000, 1/2 maintenance FTE in 2001, 1 maintenance FTE in 2004, and 1/2 operations FTE in 2001. A 1 percent annual increase is incorporated into water sales revenue projections. This is a conservative assumption which takes into account projected growth and a potential for decreased water usage due to conservation. The rates do not change the flat monthly charges for any of the customer classes, but do increase the monthly consumption rates by 2.5 percent annually starting in 2000 and through 2004. Table 9-1 shows the current water rate structure as established by City Ordinance #99-016.

**TABLE 9-1**

**Current Water Rates (Source: City Ordinance #99-016)**

<b>Customer Class</b>	<b>Monthly Flat Rate</b>	<b>Monthly Consumption Rate</b>
Single Family (Includes Duplexes)	\$16.60	First 400 cf - \$0.00577/cf Over 400 cf - \$0.01709/cf
Multi-family (per unit)	\$15.92	First 400 cf - \$0.00577/cf Over 400 cf - \$0.01709/cf
Motel/Hotel (per unit)	\$15.62	First 400 cf - \$0.00510/cf Over 400 cf - \$0.01510/cf
<b>Commercial</b>		
3/4"	\$16.60	First 400 cf - \$0.00552/cf Over 400 cf - \$0.01634/cf
1"	\$22.10	First 400 cf - \$0.00552/cf Over 400 cf - \$0.01634/cf
1-1/2"	\$35.74	First 400 cf - \$0.00552/cf Over 400 cf - \$0.01634/cf
2"	\$52.16	First 400 cf - \$0.00552/cf Over 400 cf - \$0.01634/cf
3"	\$96.02	First 400 cf - \$0.00552/cf Over 400 cf - \$0.01634/cf

**EXISTING CONNECTION CHARGES**

Property owners seeking to connect to the City's water system must pay connection charges based on monthly water use. The City's connection charge is \$2,400 for each 500 cf/month increment of water used. For example, a customer using 1,501 cf/month would be charged \$9,600 (4 x \$2,400). These connection charges apply to customers inside and outside the city limits. Multi-unit customers are charged a connection fee for each unit.

**AVAILABLE CAPITAL IMPROVEMENT FUNDING**

The 1999 rate study identified a total of \$3,079,981 in capital projects during the years 1999 through 2004, not including capital projects completed in 1999. This Water System Comprehensive Plan revises the capital projects listed in the rate study, but maintains the total capital project costs of approximately \$3,039,400 between 2000 and 2004.

The revised list of capital improvement projects to be funded for the years 2000 through 2004 is shown in Table 9-2.

TABLE 9-2

## Capital Improvement Projects

Capital Improvement Projects	2000	2001	2002	2003	2004
D-1: Hendrickson Street	\$101,000				
D-2: Pine Court, PRV at 7 <sup>th</sup> & Hammond, Check Valve at 5 <sup>th</sup> & Pine		\$118,000			
D-3: 7 <sup>th</sup> Ave., Reservoir Road to McCurdy Road		\$330,000			
D-4: Hammond Street				\$ 309,000	
D-13: DOT Reimbursement	\$237,900				
D-14: Bell & Cedar Streets Between 3rd and 5th Avenues			\$325,000		
M-1: Leak Detection Survey	\$ 10,000				
M-2: Touch Read Water Meter Installation					\$265,000
M-3: Main Replacement	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$20,000
M-4: Hydrant upgrades	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$50,000
M-5: Vehicles	\$ 8,000	\$ 8,500	\$ 8,500	\$ 9,000	\$9,500
Ranney Capital Projects				\$ 950,000	
<b>Total</b>	<b>\$426,900</b>	<b>\$526,500</b>	<b>\$403,500</b>	<b>\$1,338,000</b>	<b>\$344,500</b>

The 1999 Rate Study covers the first five years of the six-year planning period. In 2004, the rate study projects that total water utility revenues will fund operation and maintenance expenses, debt service, taxes, and contribute approximately \$350,000 toward either capital projects or reserves. In the year 2005, the City intends to maintain the main replacement, hydrant upgrade, and vehicle expenses, and use remaining funds to rebuild City reserves.

The City has \$950,000 budgeted for Ranney Well capital projects, related to installing a filtration process at the Infiltration Gallery should it be required by the Department of Health. Another option the City is considering is, if required to install filtration, to discontinue use of the Infiltration Gallery, use a portion of the \$950,000 to construct Port Williams Well No. 3, and either keep the remainder in reserve or use the funds to construct projects D-5, D-6, and D-7.

## **FUNDING SOURCE ALTERNATIVES**

Several funding source alternatives are also available to the City for the financing of proposed capital improvement projects. Summaries of these alternatives are provided.

### **PUBLIC WORKS TRUST FUND LOANS**

The Public Works Trust Fund (PWTF) is a revolving loan fund designed to help local public works entities 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.

Currently (2000) PWTF loans are available at interest rates of 0.5 percent, 1 percent, and 2 percent, with the lower interest rates provided to applicants who provide a greater share of the total project costs. A minimum of 5 percent of project costs must be provided by the local community or loan applicant to qualify for a 2 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 0.5 percent loan. Construction loans are limited to \$7 million per biennium per jurisdiction for jurisdictions with populations of 100,000 or less. The useful life of the project determines the loan term up to a maximum of 20 years.

To be eligible for a PWTF loan, 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 works needs (i.e., a financial program). Eligible public works systems include roads, bridges, storm sewers, sanitary sewers, and domestic water systems. Loans are presently offered only for purposes of repair, replacement, rehabilitation, reconstruction, or improvement of existing eligible public works systems, in order to meet current standards and to adequately serve the needs of existing service users. Ineligible expenses include public works financing costs that arise from forecasts, speculations, or service area growth. Such costs do not make an entire project ineligible, but must be excluded from the scope of a PWTF application.

Since substantially more trust fund dollars are requested than are available, local jurisdictions must compete for the available funds. Applications are carefully evaluated by the Public Works Board, which submits to the Legislature a prioritized list of those projects recommended to receive low-interest financing in the form of PWTF loans. After reviewing the list, the Legislature indicates its approval by passing an appropriation from the Public Works Assistance Account to cover the cost of the proposed loans. Once the Governor has signed the appropriation bill into law, those local governments

recommended to receive loans are offered a formal loan agreement with appropriate interest rate and term, as determined by the Public Works Board.

### **REVENUE BONDS**

Another source of funds for construction of major utility improvements is the sale of revenue bonds. The tax-free bonds are issued by the City. The major source of funds for the debt service on these revenue bonds is from water fees and charges. In order to qualify to sell revenue bonds, the City must show that its net operating income (gross income less expenses) is equal to or less than a factor, typically 1.2 to 1.4, times the annual debt service on all par debt. If a factor has not been specified, it will be determined at the time of any future bond issue. This factor is commonly referred to as the debt coverage factor, and is applicable to revenue bonds sold on the commercial market.

### **DEVELOPER FINANCING**

Developers typically fund the construction of water system extensions to property within new developments. They are then entitled to reimbursement from the City. Upon completion, the developer extensions are turned over to the City for ownership and operation and maintenance.

In some cases the developer may be required to construct facilities beyond those necessary for the development, in order to provide either extensions beyond the plat and larger pipelines for the ultimate development of the water system. The City may reimburse the developer through either direct outlay or reimbursement agreements for the additional cost of those facilities, including increased size of pipelines or booster stations over those required to serve the property under development.

### **UTILITY LOCAL IMPROVEMENT DISTRICTS**

Another potential source of funds for improvements comes through the formation of Utility Local Improvement Districts (ULIDs) involving an assessment made against properties benefited by the improvements. ULID bonds are further guaranteed by revenues and are financed by issuance of revenue bonds.

ULID financing is frequently applied to water system extensions into previously unserved areas. Typically, ULIDs are formed by the City at the written request (by petition) of the property owners within a specific area of the City. Upon receipt of a sufficient number of signatures on petitions, the local improvement area is defined, and a water system is designed for that particular area in accordance with the City's Water Comprehensive

Plan. Each separate property in the ULID is assessed in accordance with the special benefits the property receives from the water system improvements. There are benefits to the City in using a ULID as a funding source. The assessment places a lien on the property and may or may not be paid in full upon sale of the property. Property owners may pay the assessment immediately upon receipt, thus reducing the costs financed by the ULID. The advantages of ULID financing, as opposed to rate financing, to the property owner include:

- The cost of construction is borne by those receiving the benefit.
- The ability to avoid interest costs by payment of assessment within 30 days of lien date.
- If the ULID assessment is paid off in installments, it may be eligible to be deducted from federal income taxes, however this should be verified by a qualified tax consultant on a case by case basis.
- Low income senior citizens may be able to defer assessment payments until the property is sold.
- Some Community Development Block Grant funds are available to property owners with incomes near or below the poverty level. Funds are available only to reduce assessments.

The major disadvantage of the ULID process is that it may be politically difficult to approve formation. The ULID process may be stopped if owners of 60 percent of the dollar amount within the ULID boundary file a written protest.