SECTION 10
FINANCING AND IMPLEMENTATION

10.1 GENERAL

This section presents options for implementing the recommendations and findings previously discussed in this Comprehensive Plan. The following factors are considered: financial considerations, funding sources, current rates and charges, and methods of financing capital improvements. More detailed financial analyses and strategies are expected after completion of a separate rate study and further investigation of funding sources. It is important to note that the financial plan outlined herein is focused on system improvements required to serve development within the existing service area. Various funding options for new development within the service area is discussed in terms of policy and generally considered the responsibility of the developer.

10.2 FINANCIAL CONSIDERATIONS

Financial review and recommendations are made based on estimated future expenses, operating experience and plans for future projects. The major considerations in estimating expenses include the following:

- Administration, operation, maintenance and the day-to-day expenses of operating and maintaining the water system;
- The charges associated with water production and purchases;
- Financing capital improvements which are necessary to provide adequate service and extension to existing and new service areas;
- Replacement and updating of existing facilities that require renewal because they are obsolete or no longer serviceable; and,
- Debt service requirements to provide for repayment of interest and principal for all outstanding bonds and loans for previous system improvements.

10.3 WATER SYSTEM BUDGET

The financial status of the Water District has been reviewed to evaluate the ability to provide the level of service and recommended improvements outlined in this document.

The anticipated budget is presented as a starting point for more detailed financial analyses and determination of the need for outside funding assistance. A key recommendation of this Plan is for a detailed rate analysis that includes base rates, commodity charges and connection charges. Net revenue deficits projected for the later years of the term will be addressed, if necessary, either through capital surcharge,

outside funding assistance, or further rate adjustments or by postponing the lowest priority capital projects. These deficits may be alleviated by connection charge revenue if, as is hoped, source development and conservation efforts allow the sale of new water service units over the next several years. and determination of the need for outside funding assistance. A key recommendation of this Plan is for a detailed rate analyses analysis that includes base rates, commodity charges and connection charges.

TABLE 10-1
WATER UTILITY ANTICIPATED SIX-YEAR BUDGET

	2006	2007	2008	2009	2010	2012
Revenues						
Water Revenue	$996,567	$1,100,389	$1,115,556	$1,118,375	$1,157,519	$1,239,963
Connection Charges						
Capital Surcharge			$35,000	TBD	TBD	TBD
Total O & M Expenses		$729,476	$760,899	$798,944	$838,891	$924,877
Debt Service	$145,803	$166,591	$164,602	$162,613	$160,624	$156,647
Subtotal	$145,803	$166,591	$164,602	$162,613	$160,624	$156,647
Capital Expenses						
Water quality projects	$5,000	$10,000	$10,000	$10,000	$10,000	$10,000
Fireflow - Booster & Water Mains	$0	$0	$50,000	$100,000	$150,000	$150,000
Source development	$66,353	$100,000	$200,000	$50,000	$10,000	$10,000
Other projects	$56,328	$10,000		$10,000	$10,000	$10,000
Subtotal	$127,781	$120,000	$260,000	$170,000	$180,000	$180,000
TOTAL EXPENSES	$965,101	$1,045,862	$1,220,240	$1,210,426	$1,252,162	$1,332,195
NET REVENUE/(LOSS)	$31,466	($33,761)	($54,096)	($107,436)	($138,112)	($174,754)

Note: Water District 19 recognizes that sufficient funds may not be available to complete all projects identified herein without assistance funding (low interest loans or grants) and/or a rate increase. Annual budgeting will explore options for funding and allow for reprioritization of projects based on available funds.

10.4 FUNDING SOURCES

Table 10-1 illustrates the need for additional capital to fund water system operations and the proposed Capital Improvement Plan. The following listed revenue sources are either currently utilized by the District or are potentially available for funding operation and maintenance expenses and financing capital improvements to the water systems. Careful review of each potential source of funding (primarily grants and low interest loans) is recommended to develop the most cost effective financial strategy for future system operation. In addition, consideration of rates as discussed below is recommended as a follow-up to this Plan.

10.4.1 RATES

Rates and charges are utilized to finance expenses which were not paid either when the system (or portion thereof) was initially constructed, or by the assessment of general facility charges. These expenses typically include: operation and maintenance expenses; water production and purchase costs; customer accounting and collection expenses; administration and general expenses; taxes; debt service requirements; and renewal and replacement or capital expenses. The current water rates are shown in Table 10-2. The rates are established by Resolution and remain in effect at the publishing of this Plan.

TABLE 10-2
EXISTING WATER RATES
(AS OF JANUARY~~2007~~ 2008)

SIZE OF SERVICE	BI-MONTHLY BASE RATE	
¾"	$63.39	
1"	$88.74	
1 ½"	$114.10	
2"	$196.49	
3"	$695.69	
4"	$884.28	
6"	$1326.40	
8"	$1831.93	
Low income	$48.57	
Consumption Charge	Commercial	Residential
0 -1000 cu. ft.	~~$1.76~~ $1.80	$1.58
1001 – 2000 cu. ft.	~~$1.94~~ $2.00	~~$1.79~~ $1.88
2001 – 4000 cu. ft.	~~$2.10~~ $2.25	~~$2.15~~ $2.37
4001 – 6000 cu. ft.	~~$2.74~~ $2.90	~~$3.00~~ $3.45
Over 6001 cu. ft.	~~$3.61~~ $3.80	~~$4.13~~ $4.96
Bulk Water	$16.00 per 1000 gallons	
Connection Charge	~~$7089.00~~ $9214.00	

A complete rate analysis is recommended as a follow-up to this Plan but Tables 10-1 and 10-2 indicate that a rate increase will be required to meet the financial requirements of the CIP if alternative means of financing cannot be obtained. The recommended rate study should include a complete cost of service evaluation to ensure that the various customer classifications are paying an equitable share of the costs to the system. An example of this is the differing fireflow requirements for commercial and industrial properties compared to single family residences. Since fireflows are typically the driving factor in facility sizing, those customer classifications requiring higher flows would be expected to pay a

higher proportion of facility up-sizing to accommodate the associated fireflow requirements. Consideration of American Waterworks Association (AWWA) guidelines regarding cost of service analyses is recommended.

10.4.2 CONNECTION CHARGES

New connections to the District are required to pay connection charges in addition to the costs associated with the purchase and installation of the water meter. This General Facility Charge, or GFC, is intended to provide an equitable means for new customers of the system to pay their fair share of system-wide capital improvements. General facilities are typically identified as storage reservoirs, sources of supply, transmission mains, pump stations and oversized pipes to serve large areas, and the facilities and equipment required to maintain the system as a whole.

It is important that GFC's are maintained at a level that will support construction of new facilities and to ensure that growth pays for growth. State regulations dictate the method of calculating GFC's and provide guidance on what projects and costs can be included in the calculation. Recalculation of General Facilities Charges should be accomplished on a regular basis and is recommended as a follow-up at the close of a comprehensive water system planning effort.

Local Facilities Charges, or LFC's, are another type of connection charge that are intended to cover connecting parties' equitable share of water system facilities in the immediate vicinity of property connecting to the system.

When local facilities have been constructed and paid for by a previous developer, a latecomer agreement may exist requiring benefited properties which connect to a water line to pay their pro rata share of the cost to install facilities. In instances where no latecomer agreement exists, in accordance with State regulation LFC's can be used to require all customers to pay their fair share of system development costs.

10.4.3 UTILITY DISTRICT LOCAL IMPROVEMENT DISTRICT (ULID) FINANCING

Local Improvement District (ULID) is a means by which improvements can be financed by those property owners directly benefiting from the improvements. This method of financing is typically accomplished by the majority of benefited property owners signing a petition for the improvements. It is possible, however for a ULID to be formed by District Resolution. ULID financing is generally used for local facilities improvements and initial financing is typically by bond sales or loans. The costs of improvements are typically allocated and assessed against

properties within a ULID area, although revenue from rates can also be used to repay the bonds required to finance a ULID improvement.

10.4.4 DEVELOPER FINANCING

New facilities constructed within the service area should be financed by the developers of presently unimproved property or property that redevelops. All of the improvements required for service to property within new plats, or commercial and industrial developments will be designed and constructed in accordance with the District's developer extension policies as set forth in the "Developers Standards for the Construction of Water Systems" handbook.

10.4.5 COMBINATION FINANCING BY DEVELOPERS AND THE DISTRICT

It may be necessary in some cases to require the developer to construct facilities which are oversized for the current development in order to provide for the comprehensive development of the water system. The District may ~~may~~ elect to enter into an agreement to reimburse the developer for the extra costs associated with increasing the size of facilities over that required to serve the property proposed for development. Oversizing should be considered when it is necessary to construct any water main 8-inches in diameter in single-family areas for Comprehensive Plan compliance. Construction of any water main in multi-family, commercial or industrial areas that is larger than the size required to serve the current development proposal is considered oversizing.

10.4.6 BOND FINANCING

Bond financing is another method of financing water system improvements and can be achieved by the sale of either general obligation or revenue bonds. General obligation bonds must have the support of the majority of the voters in the District and are paid through assessments against properties within the District. Revenue bonds, however, do not require voter approval and may be financed by whatever funds are available to the District for the payment of debt service. This might include revenues from water sales, general fees, latecomer charges or other funds.

10.4.7 GRANT FINANCING

Grant financing has become increasingly scarce for utility systems in recent years but is still available for some specific circumstances. Current grant programs for water system facilities include the State of Washington Centennial Clean Water Fund and State Revolving Fund for Water Pollution Control. These programs are aimed at eliminating pollution sources and/or correcting

documented existing pollution problems. They are therefore not appropriate for ongoing rehabilitation and replacement projects. They may be considered, however, in the event that particular health hazards have been identified and documented and it is determined that improvements ~~to~~ will provide a solution to the existing pollution problems.

10.4.8 PUBLIC WORKS TRUST FUND (PWTF) LOANS

Public Works Trust Fund financing is a low interest loan program which can be used to finance utility system improvements. Interest rates range from 0.5% to 2% depending on the level of local participation and the loans must be repaid within twenty years. This type of financing has been very beneficial to utility districts throughout the State and is recommended as a method of financing for future improvement and replacement projects. Those projects which may be eligible for Public Works Trust Fund financing are identified in the Capital Facilities Plan.

10.4.9 STATE REVOLVING FUND (SRF)

The State Revolving Fund is a program that is similar to the PWTF program and administered by PWTF staff. Water source and treatment projects are prioritized under the competitive SRF application process. Loan interest rates are similar to PWTF rates, except that a loan fee is required in lieu of a local match.

10.4.10 RURAL DEVELOPMENT DIRECT LOANS AND GRANTS

The Rural Development division of the United States Department of Agriculture, through Rural Utility Service, is authorized to provide financial assistance for water and waste disposal facilities in rural areas and towns of up to 10,000 people. Interest rates are set quarterly and are based on current market yields for municipal obligations. The terms on the loans can vary, with a maximum being 40 years or the useful life of the improvement or facilities to be financed, whichever is less. Rural Development Loans are federally financed, and as such, federal rules and regulations apply. A limiting factor to obtaining grants funding from Rural Development is that water rates must be documented at a high level ~~the~~ before grants become available.

10.5 FINANCING CAPITAL IMPROVEMENTS

10.5.1 GENERAL FACILITIES

The most difficult improvements to finance are general facilities such as reservoirs, water pump stations, transmission mains, treatment facilities and other facilities which will benefit a large area. This is because this type of facility is generally needed before water service can be provided and often times before

customers are available to assist in financing. In new and expanding areas where water service is not currently available, general facilities are typically financed by one of the following methods:

- Requiring the initial developer to pay for improvements with a pay-back arrangement as the area develops (latecomer charges);
- Passing a general obligation bond which is approved by voters;
- Forming a LID and assessing the benefited properties equally;
- District financing of improvements and assessing a General Facilities Charge (GFC) to each property within the benefited area as development occurs. These charges must be sufficient to cover all costs incurred, including interest on money and an allowance at a rate that will amortize the investment; or,
- Grants or low interest loans to assist in construction of these type of improvements.

In established areas of the District, financing general facilities presents a different type of problem. The general facilities are normally paid for when the system is constructed and the costs are assessed against existing customers. As the system expands and new connections are added, a charge in lieu of assessment can be levied or connection charges imposed to offset the original construction costs. This money, in addition to the funds from monthly rates for renewals and replacements, should be adequate to finance general facility improvements. Theoretically, if the facilities charges are adequate, sufficient funds will be available to complete general facility projects as required.

10.5.2 LOCAL FACILITIES

Local facilities such as local distribution mains and appurtenances benefit a smaller area than general facilities. The costs for construction of these improvements can be directly attributable to the properties within an identified area which receive direct benefit from the improvements. Methods of financing local facility improvements are summarized below:

- Formation of a ULID;
- Developer Extension Agreement and Financing;
- Local Facilities Charges (LFCs);
- Pay-back (Latecomer) Agreements; or,

- Grants and other outside assistance to reduce local costs, including District participation.

Funding new local improvements through rate increases is not recommended because it would result in all customers paying for improvements which benefit only a small area. Renewal and replacement of local facilities is typically financed through rates.

10.5.3 PRIVATE FACILITIES

Individual service lines, backflow preventers and other site specific appurtenances are financed by the individual customer receiving the direct benefit from such facilities.

10.6 FINANCING STRATEGY

The Capital Improvements Plan identifies approximately $20 million in water system improvements, excluding developer financed extensions. Of these improvements, approximately $ 1.15 million is recommended for the next six years with approximately $150,000 at least partially financed by capital improvement charges and $1 million in system renewal and replacements that would be funded through rates, cost improvements, or Local Facilities Charges.

It is recommended that the District fund the recommended improvements in the following manner. First, any grants or low interest loans should be utilized to finance needed projects. Next, cash on hand from GFCs, LFCs, rates and any other sources of money should be utilized. Any short-fall in these funding sources required to finance the required system improvements may be obtained from selling revenue bonds. Bond issues, however, must consider available funding for repayment of the bonds.

10.7 ENVIRONMENTAL REVIEW

As part of this planning process and in order to comply with the requirements of the State Environmental Policy Act (SEPA), an environmental checklist has been prepared and circulated for comment. A copy of the SEPA checklist and associated Declaration of Non-Significance is contained in the Appendices to this document.