

## SECTION 10 FINANCIAL PLAN

### 10.1 INTRODUCTION

This balanced financial plan has been developed as a guide to show what can be expected for financial performance in the next six-years as the City follows the capital facilities plan and other recommendations of this plan. Capital financing in terms of borrowing will be required to complete the projects identified. The City also evaluated monthly rates and facilities charges along with this planning effort. The resulting schedule of rates and facilities charges adopted by the City Council is reflected in this chapter.

### 10.2 FINANCIAL HISTORY

The City of Sedro-Woolley owns and operates the sanitary collection system and treatment plant within the City. The City accounts for all sewer financial activity within several sewer-related funds. The two main funds are the sewer operating fund (401) and the cumulative reserve/sewer facilities fund (410). The sewer financial activity has been combined in Table 10-1 to reflect the summary three-year history.

Table 10-1  
 City of Sedro-Woolley  
 Summary Sewer Financial History

<b>Sewer Financial Activity</b>	<b>Actual 2002</b>	<b>Actual 2003</b>	<b>Est. 2004</b>
<b>Revenue</b>			
Sewer Service Charges	\$1,775,915	\$1,824,363	\$1,884,947
Sewer Connection Fees	484,618	333,630	283,570
Special Sewer Connections	-	-	-
Late Penalties & Interest	1,215	4,609	6,500
Misc.(sale of scrap, fix assets, refund)	75,980	320	55,000
Investment Interest	91,225	65,306	52,884
Grant from FEMA	-	-	1,093
Subtotal Revenue	\$2,428,953	\$2,228,228	\$2,283,994
<b>Expenditures</b>			
Maintenance & Operations	840,777	824,055	951,266
Capital Outlay	528,525	246,127	3,551,749
Admin Charge - Transfer to 001	55,000	110,950	111,000
1998 Revenue Bond - Transfer to 407	400,000	400,000	500,000
Equipment Replacement Fund - Transfer to	208,870	176,220	200,000
Taxes and Assessments	-	19,044	-
Subtotal Expenditures	\$2,033,172	\$1,776,396	\$5,314,015
<i>Est. Ending Balance Sewer Operating + Cum. Reserve Funds</i>			\$2,336,899

The sewer revenue has been sufficient to pay for maintenance, operations, administrative charges and debt repayment in all years. Beginning in 2004, the City has embarked on a major sewer capital program to invest in replacement and expanding capacity of its sewer mains in the core of the City. A sewer moratorium has been in place since late 2004 in certain areas. As sections of the improvement program are completed, the sewer moratorium will be lifted. There is sufficient capacity in the treatment plant with the planned main replacement program to serve the City within the planning period.

Together with embarking on the aggressive capital program, the City increased its sewer general facilities charge from \$3,300 to \$5,300 in 2004. This was adjusted to \$7,266 in 2005 based on the outcome of the connection charge study. The monthly rates for single family were adjusted from \$37.75 to \$41.75 with the 2005 rate study and are expected to be \$45.75 per month beginning 2007. The City also introduced a low-income discount for qualified senior/disabled homeowners in 2005. This combination of increases will allow the City to borrow the necessary funds and complete the capital program required to remove the moratorium and provide for economic development within the City.

The City prepares an annual budget that includes operating, debt and capital expenditures. The annual process involves review of financial projections and adoption of a balanced budget. Every several years, the City completes a rate study to provide updated projections of revenue and expenditures for the next three to six years.

### 10.3 SEWER UTILITY FUNDS

The City of Sedro-Woolley has five funds related to the sewer utility.

- Sewer Fund 401 – This is the operating fund for sewer activity. Sewer service charges are the primary revenue source for this fund. Other sources include late payments, interest, miscellaneous and capital funding such as grants, loan proceeds or transfers from the cumulative reserve fund. The uses of the fund include maintenance, operations, capital expenditures, and transfers to the general fund for administrative/finance support, the 1998 revenue bond fund for debt repayment and the equipment replacement fund.
- Cumulative Reserve/Sewer Facilities Fund 410 – This fund captures the reserves set aside for capital improvements. The main revenue source is connection fees/general facilities charges. Interest is also earned on the fund balance. Typically expenditures are not made in this fund, rather a transfer is made to sewer fund 401 for capital improvements underway and to sewer debt fund 407 for debt service payments.
- 1998 Sewer Revenue Bond Fund 407 – This is a restricted bond fund that is tied to the repayment of the 1998 sewer revenue bonds. The 1998 revenue bonds are supported by assessments, rates and connection charges. The assessments are deposited into

this fund and transfers are made from funds 401 and 410 for the remainder of the annual debt service payment. The City splits the bond payment 50/50 between rates and connection fees, or about \$250,000 each per year.

- Revenue Bond Reserve Fund 411 – This is a restricted bond reserve fund that is required as a covenant of the 1998 sewer revenue bonds. Additional contributions are not required and these funds can be used to make the last debt payments on the 1998 revenue bonds.
- Sewer Treatment Construction Fund 331 – This was a special construction fund established to receive and disburse the proceeds from the 1998 sewer revenue bonds. It is anticipated that the minor balance will be spent in 2005 and this fund will be closed.

The financial plan for the capital improvements includes a major loan from the Washington State Public Works Trust Fund. The City may wish to consider establishing a project fund to deposit the loan proceeds, earn interest and account for all transactions related to the project. This will assist the City in closing out the loan, determining the full cost of the project and calculating the local match. A 10% local match provides a 1% interest rate, while a 15% local match provides a 0.5% interest rate. The final rate will be determined at project close-out.

In addition, the City may wish to consider establishing a debt service fund so that regular transfers can be made to ensure that the annual debt service payments can be made. The City currently manages the revenue bond debt in this manner with regular transfers to the Revenue Bond Fund 407. While this may seem like over-complicating the accounting structure, the benefit is the ability to set aside the debt payment over the year and avoid an over-inflated fund balance in Fund 401 that may be misleading. Typically revenue bond funds are restricted to solely making payments on the outstanding bonds. The City should verify the bond fund requirements with its Bond Counsel before any attempt to co-mingle debt repayments for the Public Works Trust Fund loans.

#### 10.4 FUNDING PRIORITIES

Sewer service charges, or monthly rates, are the primary on-going source of revenue for sewer maintenance, operations, administration, capital and debt service. Any surplus is held in the fund balance and available for capital projects.

General facilities charges (shown as connection fees in the budget) are used for capital improvements, either in the way of debt service payments on previous projects, used for current capital projects, or are set aside in reserves for future capital improvements. Connection fees are deposited into the Cumulative Reserve/Sewer Facilities Fund 410 until appropriated for a specific project or debt repayment. Sewer Inspection Fees are deposited in the operating fund.

The outstanding Sewer Revenue Bond payments are handled in a restricted Fund No. 407. A transfer is made from Sewer Fund 401 each year for the rate portion (approx. \$250,000) of the annual payment. Another transfer is made from the Cumulative Reserve/Sewer Facilities Fund 410 each year for the connection fee portion (approx. \$250,000) of the debt payment. Assessments are deposited in the bond fund as required. Interest earned remains in the fund for future debt payments.

There are suggestions presented for the City's consideration in the above section related to sewer utility funds about managing the upcoming major capital project and associated debt payments.

The City completes an annual budget that balances the revenue and expenditures for the year. This process involves staff, City management and elected officials and is an important exercise in evaluating changing circumstances and the associated impact on the sewer program and ultimately rates.

As the City moves forward with this financial plan and major sewer improvements, the Council recognized the importance of adopting a multi-year rate that would ensure the loan repayments could be made. While this is reasonable with today's assumptions, it must be verified as the project moves forward and assumptions might have shifted, such as cost, timing, amount of loan, and new connections.

#### 10.5 OUTSTANDING DEBT

The sewer utility has one outstanding debt issue, Sewer Revenue and Refunding Bonds, 1998. This \$6,410,000 bond sale included both refunding of outstanding debt and providing for the sewer treatment plant upgrade. The payments are due December 1 and June 1 each year through June 1, 2018. Interest only payments are made in December, with principal included in the June payment. The total outstanding principal at the end of 2004 is \$4,930,000.

The 1998 sewer revenue bond also included funding for the Cook Road ULID. The assessments received are deposited directly into the bond fund for debt payments. At the end of 2004, there was \$178,000 assessment principal outstanding.

Table 10-2 shows the annual debt service schedule for the 1998 sewer revenue bonds.

Table 10-2  
 City of Sedro-Woolley  
 Sewer Revenue and Refunding Bonds, 1998

<b>Debt Schedule</b>	<b>Annual Debt Service</b>	<b>Annual Principal Payment</b>	<b>Principal Balance</b>
2005	504,628	280,000	4,930,000
2006	507,335	295,000	4,650,000
2007	504,283	305,000	4,355,000
2008	500,643	315,000	4,050,000
2009	491,513	320,000	3,735,000
2010	491,691	335,000	3,415,000
2011	495,905	355,000	3,080,000
2012	484,380	360,000	2,725,000
2013	487,508	350,000	2,365,000
2014	455,435	365,000	2,015,000
2015	457,148	385,000	1,650,000
2016	457,594	405,000	1,265,000
2017	452,175	420,000	860,000
2018	450,890	440,000	440,000
<b>Totals</b>	<b>6,741,126</b>	<b>4,930,000</b>	<b>-</b>

10.6 ADDITIONAL CAPITAL FUNDING SOURCES

In addition to pay-as-you-go, seeking grants and selling revenue bonds, the City may also consider low-interest loans from the State of Washington: Public Works Trust Fund, the Department of Ecology’s Centennial Clean Water Fund or Clean Water State Revolving Fund. These would be appropriate for large projects serving customers over a long period.

*10.6.1 Clarifier Number 1 Repair*

Grant funds are a good source of capital funding because the money does not have to be repaid. Unfortunately, grants are not easy to come by. Skagit County has a grant program to participate in projects related to economic development. The City continues to be successful in obtaining these grants. The Department of Ecology has limited grant/loan combinations available for large projects. They use a highly competitive annual cycle with applications due in November of each year. The City should continue to pursue grants when appropriate and available.

*10.6.2 Low-Interest Loans*

The State of Washington operates several low-interest loan programs for sewer capital projects. The Public Works Trust Fund has both a Pre-Construction and a Construction program with loans with interest rates up to one and a half percent and loan terms up to

20 years. The pre-construction fund is available year round and the construction program is a competitive program with applications due in May. In addition, the Department of Ecology has Centennial Clean Water Fund and the Clean Water State Revolving Fund for qualified projects with low interest rates. The DOE programs have applications due in November.

#### *10.6.3 Bond Sales*

The City has the authority to sell several types of bonds that would be appropriate for capital projects: revenue, general obligation, limited general obligation and local improvement district bonds. In general, bonds are a more costly form of funding capital projects than grants and low-interest loans from the State, but the City controls the timing. This can be an attractive funding alternative for major capital projects that will provide service over many years, particularly in times of low interest rates.

#### *10.6.4 Contributions, Joint Projects*

Pursuing contributions from benefiting parties or joint projects can provide cost savings to the Sewer fund when appropriate for the project. There is potential with the hospital expansion and the Northern State Multi-Service Center.

### 10.7 CAPITAL IMPROVEMENTS PLANNED: 2005-2010

The capital improvements identified in Section 9, Capital Facilities Plan have been brought forward into developing the financial plan. The primary focus for the capital program at this time is the removal of the sewer moratorium. Together with the most critical projects to allow for economic development, the immediate projects total approximately \$11,500,000 in 2004 dollars. These are all projects identified by the City to be completed in the first three years. From that perspective, numerous scenarios were discussed with the City Council over financing alternatives focusing on these first three years. There were two Council workshops and a public hearing on the various funding scenarios. The preferred scenario is presented in Table 10-3.

Table 10-3  
 City of Sedro-Woolley  
 Three-Year Funding Plan for Priority Capital Projects

ALT. 2	ALL PWTF LOAN IN 2006	Estimated \$2004	Budget/ Reserve	PWTF 2006
6-1	Metcalf St. Sewer Replacement Phase 1 (P1)	500,000	500,000	
6-2	Metcalf St. Sewer Replacement Phase 2: Northern to State (P2)	600,000		648,960
6-4&3	Garden of Eden Gravity Sewer, Force, W Jones Pump Station	1,720,000	1,720,000	
6-6&12	SR 20 - Ph 2 & Holtcamp Rd. Pump Station/Forcemain	1,350,000	445,750	958,250
6-7&11	SR 20 - Ph 3 & Sterling Rd. Pump Station/Forcemain	2,275,000		2,460,640
6-9	Northern State Multi-Svc Center I&I Study (M1)*	25,000	25,000	
6-13	Township St. to Treatment Plant Sewer Main Replacement(P10)	982,500		1,062,672
6-14	Township St. Sewer Main Replacement - Phase 1 (P11)	950,000		1,027,520
6-15	Township St. Sewer Main Replacement - Phase 2 (P12)	700,000		757,120
6-16	Township St. Sewer Main Replacement - Phase 3 (P13)	1,113,000		1,203,821
6-18	McGarigle Rd. Sewer Main Replacement (P15)	1,296,000	-	1,401,754
	<b>Subtotal this Scenario</b>	<b>11,511,500</b>	<b>2,690,750</b>	<b>9,520,736</b>
	<i>SR20 includes \$445,750 anticipated grant from Skagit Co.</i>			
	<b>Project Needs This Scenario</b>	<b>\$11,511,500</b>	<b>\$2,690,750</b>	<b>\$9,520,736</b>

The major difference between the funding plan alternatives related to the financing of the capital projects - selling revenue bonds, general obligation bonds or borrowing from the Public Works Trust Fund. Essentially, the lowest impact on monthly rates was a PWTF loan, yet it requires that the moratorium remain into 2006 for portions of the City, and there is no guarantee that the City's application will rank high enough to be funded. That said, the City Council thought this was a reasonable path to undertake with pre-construction borrowing immediately to begin design of the lines to be ready for construction in 2006.

Tables 10-4 and 10-5 show the six-year capital projects and funding sources. The funding plan includes capital costs escalated to the year of construction at 4% per year. Table 10-4 shows the projects scheduled with the escalated projects costs. Table 10-5 shows the funding sources for the six-year plan.

Sewer rates, facilities charges or reserves are the primary sources of revenue scheduled for the capital improvements. Costly projects that would provide long-term service would be appropriate for long-term debt through low-interest loans, like PWTF or DOE SRF. There is

also the possibility of Centennial Clean Water Funds in the form of combined grant and loan through the Department of Ecology. Overall, this would minimize the impact on rates, preserve existing reserves for future capital projects and continue long-term investment in the sewer system.

Due to the timing, the immediate capital improvements have been scheduled for a PWTF loan with applications due in May, 2005 and funds available in 2006 for construction. The assumption is that PWTF loans would be pursued with the City providing a 10 percent local match and receiving a 1.0 percent interest rate. If local match of 15 percent can be shown at project close-out, the interest rate would be reduced to 0.5 percent. The projects identified for 2005/06 are phased to remove the sewer moratorium. The City should investigate whether the phases completed in 2005 would count as local match for the phases completed with the proposed 2006 loan.

Table 10-4  
 City of Sedro-Woolley  
 Sewer Capital Improvement Program

No.	City of Sedro-Woolley Six-Year Capital Improvement Schedule	----- Escalated Project Costs -----						TOTAL 2005-2010
		2005	2006	2007	2008	2009	2010	
6-1	Metcalfe St. Sewer Replacement Phase 1 (P1)	500,000	-	-	-	-	-	500,000
6-2	Metcalfe St. Sewer Replacement Phase 2: Northern to State(P2)	-	648,960	-	-	-	-	648,960
6-3&4	Garden of Eden Gravity Sewer, Forcemain & W. Jones Pump Sta.	1,720,000	-	-	-	-	-	1,720,000
6-6&12	SR 20 - Phase 2 (P5)	445,750	958,250	-	-	-	-	1,404,000
6-7&11	SR 20 - Phase 3 (P6)	-	2,460,640	-	-	-	-	2,460,640
6-8	West Nelson St. Sewer Extension (P7)	-	-	-	561,240	-	-	561,240
6-9	Northern State Multi-Service Center I&I Study (M1)	25,000	-	-	-	-	-	25,000
6-10	Northern State Multi-Svc Center I&I Replacement/Rehab(M2)	-	-	-	584,929	-	-	584,929
6-13	Township St. to Treatment Plant Sewer Main Replacement (P10)	-	1,062,672	-	-	-	-	1,062,672
6-14	Township St. Sewer Main Replacement - Phase 1 (P11)	-	1,027,520	-	-	-	-	1,027,520
6-15	Township St. Sewer Main Replacement - Phase 2 (P12)	-	757,120	-	-	-	-	757,120
6-16	Township St. Sewer Main Replacement - Phase 3 (P13)	-	1,203,821	-	-	-	-	1,203,821
6-17	Sapp Rd. Sewer Extension (P14)	-	-	-	906,640	-	-	906,640
6-18	McGarigle Rd. Sewer Main Replacement (P15)	-	1,401,754	-	-	-	-	1,401,754
6-19	North of Fidalgo Alley Rehabilitation /Replacement (S1)	-	-	-	170,565	-	-	170,565
6-20	S of Talcott St. Alley Rehabilitation/Replacement (S2)	-	-	-	-	-	297,983	297,983
6-30	Comprehensive Sewer Plan Update (M2)	-	-	-	-	-	189,798	189,798
6-A	SR-20 Sewer Main Analysis Study	-	-	50,619	-	-	-	50,619
6-B	Annual Pump Station Rehab	-	-	-	11,699	12,167	12,653	36,518
6-C	Annual Renewal & Replacement	Incl. in CIP	-	-	-	-	-	-
6-D	Annual Repair Existing System - Emergency & Corrective	50,000	54,080	84,365	87,739	121,665	126,532	524,381
6-E	Annual I&I Reduction Program	-	-	-	11,699	12,167	12,653	36,518
6-F	Develop Grease Program	-	-	-	11,699	-	-	11,699
6-G	Telemetry Upgrade Exist Pump Station (Fibre Optic)	-	-	-	46,794	48,666	50,613	146,073
8-5	Clarifier Number 1 Repair	-	-	269,967	-	-	-	269,967
<b>Total Project Costs (\$Escalated)</b>		<b>2,740,750</b>	<b>9,574,816</b>	<b>404,951</b>	<b>2,393,004</b>	<b>194,664</b>	<b>690,232</b>	<b>15,998,418</b>

Estimated Project Costs escalated at 4.0% per year. Base year of estimates is 2004.

Table 10-5  
 City of Sedro-Woolley  
 Sewer Capital Improvement Program

<b>Funding Sources for CIP</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>TOTAL</b>
Budget 2005 / Carryover Budget 2004*	2,071,000						2,071,000
Grant from Skagit County	445,750						445,750
New Revenue Bond, 2005	-						-
New Loans (Assume PWTF)		9,500,000	-	2,000,000	-	268,000	11,768,000
Rates	50,000	54,080	134,984	169,629	194,664	202,451	805,809
Reserves / Connection Charges	174,000	20,736	269,967	223,375	-	219,780	907,859
<b>Total</b>	<b>2,740,750</b>	<b>9,574,816</b>	<b>404,951</b>	<b>2,393,004</b>	<b>194,664</b>	<b>690,232</b>	<b>15,998,418</b>

*\$331,000 toward project 6-1; project 6-3 & 6-4 are one in budget with \$1,000,000 in '05; project 6-9 incl. 20,000 in '05; add \$1,362,750 carryover from budget '04.*

*Loans assume 10% local match for 1.0% interest rate. Current PWTF program allows a reduction to 0.5% interest with 15% match.*

<b>New PWTF Loan Repayment @ 1.0% Interest</b>							
2006 Loan		85,500	595,000	590,000	585,000	580,000	
2008 Loan				18,000	125,263	124,211	
2010 Loan						2,412	16,785
<b>Anticipated PWTF Loan Payment</b>	<b>-</b>	<b>85,500</b>	<b>595,000</b>	<b>608,000</b>	<b>710,263</b>	<b>706,623</b>	

10.8 SIX-YEAR FINANCIAL PLAN

The following three tables present the six-year financial plan and includes the monthly rates and general facilities charges (connection fees) adopted by the City Council in 2005.

Table 10-6  
 City of Sedro-Woolley  
 Key Assumptions in Six-Year Financial Plan

SEDRO-WOOLLEY	Dr. Bdgt.	Projected	Projected	Projected	Projected	Projected
SIX-YEAR FINANCIAL PLAN	2005	2006	2007	2008	2009	2010
<b>ASSUMPTIONS:</b>						
New Connections (ERU's)	140	140	140	100	50	50
Ratepaying ERU's	4,396	4,536	4,676	4,816	4,916	4,966
Growth Percentage	3.5%	3.5%	3.5%	2.0%	1.0%	1.0%
<b>Connection Fee</b>	<b>\$7,266</b>	<b>\$7,266</b>	<b>\$7,266</b>	<b>\$7,266</b>	<b>\$7,266</b>	<b>\$7,266</b>
Annual Cost Escalation		3.0%	3.0%	3.5%	3.5%	3.5%
Investment Interest		1.0%	1.0%	1.0%	1.0%	1.0%
<b>Single Family Monthly Rate = \$37.75</b>	<b>\$41.75</b>	<b>\$41.75</b>	<b>\$45.75</b>	<b>\$45.75</b>	<b>\$47.75</b>	<b>\$47.75</b>

**Key Assumptions:**

New Connections - The new connections were estimated by the City with knowledge of current activity and considered timing of the sewer moratorium removal.

Ratepaying ERU's - The total billing ERU's at the end of 2004 was 4,161. It was assumed that the multi-family rates would be the same per unit as single family based on the current design with individual laundries, more bathrooms, etc. It was also assumed that a discount for low-income senior customers would be introduced. The combination added an estimated 235 ERU's for 2005. The Council expanded the discount to include low-income disabled customers.

Growth Percentage - This approximation is used as a factor to increase future maintenance, operations and equipment replacement costs to reflect the larger ratepayer base requiring service.

Connection Fee - The General Facilities Charge adopted by the Council in 2005 to support the new customers share of debt on the capital program and is an increase from the \$5,300.

Annual Cost Escalation - This factor is used to increase certain costs in the future to reflect the general inflation in the dollar.

Investment Interest - This factor is used to estimate interest earnings on the fund balances invested by the sewer utility funds.

Single Family Monthly Rate - This line shows the anticipated monthly rate for single family in the six-year financial plan. The Council adopted the rates for only the first three years: 2005-2007.

Table 10-7 shows the six-year financial plan for the sewer operating fund 401. The financial plan differentiates between operating and capital sources and uses of the funds. Operating revenue is used to pay for operations, on-going capital outlay to be paid from rates and debt. Any surplus is then available for capital. Capital revenue sources are added to reflect the total annual amount available for capital improvements in each year. The remainder is either added to reserves, or reduces reserves available for the future.

Table 10-7  
 City of Sedro-Woolley  
 Six-Year Financial Plan/ Sewer Fund 401

<b>SIX-YEAR FINANCIAL PLAN</b>	<b>Dr. Bdgt.</b>	<b>Projected</b>				
<b>SEWER FUND 401</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Operating Revenue</b>						
Sewer Service Charges	1,885,000	2,054,900	2,118,300	2,181,700	2,227,000	2,249,700
Additional from Multi & Senior Discount	62,099					
Additional from Rate Increase	129,668	217,728	442,176	442,176	560,160	560,160
Investment Interest	20,000	10,900	13,600	15,900	15,000	14,300
Late Penalties & Interest	1,500	1,500	1,500	1,500	1,500	1,500
Subtotal Operating Revenue	2,098,267	2,285,028	2,575,576	2,641,276	2,803,660	2,825,660
<b>Operating Expenditures</b>						
Maintenance	214,000	228,135	243,203	256,749	268,393	280,565
Additional Staff (2/5 FTE)	10,400	21,424	22,067	22,839	23,638	24,466
General Operations	875,095	932,895	994,513	1,049,907	1,097,520	1,147,293
Admin Charge – Transfer to 001	111,000	114,330	117,760	121,881	126,147	130,563
Equip Replacement Fund - Transfer to	118,620	126,455	134,807	142,316	148,770	155,517
<b>Capital Outlay from Rates</b>						
Buildings & Structures	10,000	10,000	10,000	10,000	10,000	10,000
Portable Equipment	31,500	30,000	30,000	30,000	30,000	30,000
Professional Services	118,000	100,000	100,000	100,000	100,000	100,000
WWTP Machinery/Equipment	125,000	125,000	125,000	125,000	125,000	125,000
Subtotal Operating	1,613,615	1,688,239	1,777,350	1,858,693	1,929,469	2,003,403
<b>Operating Surplus (Deficit)</b>	<b>484,652</b>	<b>596,789</b>	<b>798,226</b>	<b>782,583</b>	<b>874,191</b>	<b>822,257</b>
<b>Debt Service</b>						
1998 Revenue Bond - Transfer to 407	250,000	250,000	250,000	250,000	250,000	250,000
New Loan Payment for CIP		85,500	595,000	613,000	522,921	525,921
Subtotal Debt Service	250,000	335,500	845,000	863,000	772,921	775,921
Net Available for Capital	234,652	261,289	(46,774)	(80,417)	101,270	46,336
<b>Other Capital Revenue</b>						
Grant fr. Skagit Co.	445,750					
Proceeds from New Loans for CIP		8,550,000		2,000,000		268,000
Transfer from Fund 410	1,000,000	1,140,362	777,340	486,700	123,400	123,400
Total Available For Capital	1,680,402	9,951,651	730,566	2,406,283	224,670	437,736
<b>Capital Improvements</b>						
Retainage for Completed Projects	51,385					
Capital Outlay Identified in Plan 6A-6H	50,000	54,080	134,984	169,629	194,664	202,451
Capital Improvement Program	2,690,750	9,520,736	269,967	2,223,375		496,781
Total Capital Improvements	2,792,135	9,574,816	404,951	2,393,004	194,664	699,232
<b>Annual Surplus (Deficit)</b>	<b>(1,111,733)</b>	<b>376,835</b>	<b>325,616</b>	<b>13,278</b>	<b>30,005</b>	<b>(261,496)</b>
<b>Beginning Fund Balance</b>						
Designated for Sewer Plant Equip	100,000	100,000	100,000	100,000	100,000	100,000
<b>Ending Fund 401 Balance</b>	<b>987,719</b>	<b>1,264,554</b>	<b>1,490,170</b>	<b>1,403,448</b>	<b>1,333,454</b>	<b>971,958</b>

The operating revenue and expenditures seem quite clear in Table 10-7. However, several of the lines in the capital section should be highlighted for the City's clear understanding in moving forward.

New Loan Payment for CIP – This loan payment assumes a 1% interest rate on PWTF loans.

Grant from Skagit County – This grant is for a portion of the SR20 phased work.

Proceeds from New Loans for CIP – The previous table with funding sources indicates that the amount to be borrowed in the 2006 PWTF loan would be \$9,500,000 under the assumption that the work underway in 2005 is a phase of the project to be completed with the 2006 loan. In order to be conservative in this six-year financial plan, it is shown that 90% of the \$9,500,000 (10% local match) would be available for capital revenue. The 2008 and 2010 loans also assume a 10% local match.

Transfer from Fund 410 – It is assumed that the annual connection fee receipts will be used in full for either debt or capital projects. First priority will be the annual transfer to the bond fund for \$250,000 payment on the sewer treatment plant bonds, and the remainder will be transferred to the sewer fund for capital projects or new PWTF debt repayment. The 2005 budget included a \$1,000,000 transfer. The projections for 2006 include the remaining current activity plus \$200,000 from the fund balance to go toward the 10% local match on the 2006 loan.

Ending Fund 401 Balance – This shows the projected ending balance in each year based on the assumptions included in this scenario.

Table 10-8  
 City of Sedro-Woolley  
 Cumulative Reserve/Sewer Facilities Fund 410

SIX-YEAR FINANCIAL PLAN	Dr. Bdgt	Projected				
CUM RES/SWR FACIL FUND 410	2005	2006	2007	2008	2009	2010
<b>Revenue</b>						
Investment Interest	10,000	12,100	10,100	10,100	10,100	10,100
Special Sewer Connections	161,022	161,022				
<u>Sewer Connection Fee</u>	<u>750,000</u>	<u>1,017,240</u>	<u>1,017,240</u>	<u>726,600</u>	<u>363,300</u>	<u>363,300</u>
<b>Subtotal Revenue</b>	<b>921,022</b>	<b>1,190,362</b>	<b>1,027,340</b>	<b>736,700</b>	<b>373,400</b>	<b>373,400</b>
<b>Expenditures</b>						
Xfer to Sewer Fund 401 Capital Proj	1,000,000	1,140,362	777,340	486,700	123,400	123,400
<u>Xfer to Sewer Fund 407 Bond Pymnt</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
<b>Subtotal Expenditures</b>	<b>1,250,000</b>	<b>1,390,362</b>	<b>1,027,340</b>	<b>736,700</b>	<b>373,400</b>	<b>373,400</b>
<b>Annual Surplus (Deficit)</b>	<b>(328,978)</b>	<b>(200,000)</b>				
Beginning Fund Balance	1,539,281	1,210,303	1,010,303	1,010,303	1,010,303	1,010,303
<b>Ending Fund 410 Balance</b>	<b>1,210,303</b>	<b>1,010,303</b>	<b>1,010,303</b>	<b>1,010,303</b>	<b>1,010,303</b>	<b>1,010,303</b>

The ending 410 balance has not been further assigned to allow a reserve to follow through with the debt service payments on the treatment plant bonds should sewer connections be slower than anticipated. This same reserve would allow the City flexibility in completing its future capital projects should the costs be higher than anticipated.

## 10.9 SEWER RATES

Monthly sewer rates and charges were raised effective May 1, 2005 based on the three-year plan in this section. The ordinance contains a three-year schedule for increasing rates to help ensure that the plan can be carried out. This is to be reviewed before the end of the three-year period and if the City were to borrow any further monies.

Table 10-9  
 City of Sedro-Woolley  
 Schedule of Monthly Sewer Rates

<b>Monthly Rate by Customer Class:</b>	<b>May 1, 2005</b>	<b>Jan. 1, 2007</b>
Single Family	\$41.75	\$45.75
Low-Income Senior/Disabled	\$37.75	*
Multiple Residential Unit	\$41.75	\$45.75
Nonresidential Monthly Base Rate (includes 750 cubic feet per mo.)	\$41.75	\$45.75
Nonresidential Monthly Volume Rate (over 750 cubic feet per mo.)	\$3.20 per 100 cubic feet	\$3.55 per 100 cubic feet

\*The City Council did introduce a low-income senior/disabled rate with this rate adjustment. The previous single-family rate of \$37.75 was held constant for qualified low-income senior/disabled homeowners that are within the annual income limit of \$35,000 set by the County. The final rate ordinance expanded the discount to include low-income disabled homeowners qualifying for the County's property tax exemption. While the rate ordinance did not set an increase for this customer class for 2007, it is anticipated that a review will be completed and the rate adjusted in line with other rates such that the maximum discount would be 20%. The proposed rate had been \$40.75.

## 10.10 SEWER FACILITIES CHARGE – CONNECTION FEE

New connections to the sewer system pay a Sewer Facilities Charge of \$7,266 per residential unit or residential equivalent unit for non-residential connections, as adopted by the Council in March 2005. This calculation is based on the balanced financial plan to carry out the capital improvements, support a reasonable share of the anticipated debt plus the \$1,650 toward repayment of the outstanding treatment plant bonds.

Several alternatives were evaluated in detail with the Council. In evaluating the alternatives, the Council attempted to balance the desire for economic development activity within the City,

together with the need for significant capital investment to remove the sewer moratorium and considered the impact on existing customer's monthly rates. The alternative selected did the best overall job of balancing.

The City has been discussing a program to provide incentive for existing septic users to convert to the sanitary sewer system when it becomes available. These homeowners may request a waiver when a new line is installed in the vicinity if their septic system is meeting requirements. The program would be designed to provide incentive for these same homeowners to convert to the sewer system as it becomes available to promote overall water quality within the City.

As connection fees increase, some communities begin discussing programs that would allow individual homeowners to pay their facilities charge over a period of time, with interest. Typically these are targeted at individual homes and would not apply to new development that is required to connect new homes to the sewer system. While this is attractive, it is important for the City to consider the impacts on the overall financial plan and ability to support the debt and carry out the capital improvements identified before adopting such an adjustment.

#### 10.11 COMPARISON TO OTHER JURISDICTIONS

While it is interesting to compare to what other jurisdictions are charging for sewer service and new connections, it is important to understand that Sedro-Woolley is developing its financial plan to carry out the projects and maintenance level required for its own system.

A comparison of single family monthly sewer rates and facilities charges for new connections is shown in Table 10-10. This research was last updated in late 2004/early 2005 and reflects the monthly rate for 800 cubic feet of usage. While some rate structures vary by volume, most common is a flat rate for residential.

Table 10-10  
 City of Sedro-Woolley  
 Comparison to Other Jurisdictions

**Single Family Customer Rates & Charges**  
 (5/8" Meter @ 800 cf per month)

Jurisdiction	Monthly Sewer Rate	Sewer Facilities Charge
Sedro-Woolley	\$41.75	\$7,266
Anacortes	\$42.87	\$4,080
Arlington	\$35.40	\$2,700
Burlington	\$39.55	\$3,754
Duvall	\$54.45	\$7,647
Lake Stevens	\$40.00	\$6,363
Marysville	\$28.40	\$4,490
Monroe	\$41.15	\$5,912
Mt. Vernon	\$37.77	\$2,700
Sultan	\$46.00	\$7,983

Note - The City of Arlington is in the process of updating its sewer comprehensive plan and will be studying rates and connection charges based on the recommendations of its planning process.

10.12 SUMMARY RECOMMENDATIONS

The City Council has taken action on the recommendations in the financial plan by passing the rate and fee ordinances. A summary of the actions follows:

- Increased the Sewer Facilities Charge to \$7,266 for new connections to the sewer system.
- Increased multi-family per unit rates to be the same as single family to reflect the newer style of multiple units that are very similar to single family units.
- Introduced a low-income senior/disabled sewer rate for qualified homeowners. The program was expanded to include low-income disabled homeowners after the projections were developed. The rate ordinance did not include an increase in 2007 for this customer class. It is anticipated that this will be reviewed and the rate adjusted in 2007 in line with other rates, up to a maximum of 20% discount.
- Adopted a three-year rate schedule to ensure that the loan repayments could be made for the anticipated 2006 PWTF loan.

- Monitor the rate outlook – the rate outlook should be reviewed annually with the budget process. A rate study should be completed to update the future projections in 2007 and before any additional borrowing is done. The financial plan includes assumptions on the number of new customers paying the connection fee and paying monthly rates. The future rates may be impacted by any one of the assumptions being slowed.
- Understand the risk in this plan – the PWTF construction loan process is on an annual cycle. If the project does not rank high enough to get on the 2006 list, the City will have to re-evaluate the financial plan. The City could sell bonds to have the construction financing available in the 2006 construction season. An additional rate increase will likely be necessary before selling the bonds. The interest rates may be higher than they are this year. Another option would be for the City to pursue Department of Ecology funds in November of 2005, with the funds being available later in 2006.