REQUEST FOR COUNCIL ACTION

Title:	Wastewater Treatment Plant Funding
Preferred Agenda:	May 10, 2022
Submitted By:	Brandon Neish, Finance Director
Reviewed By:	Christy Wurster, City Manager Pro Tem
Type of Action:	Resolution ____ Motion ____ Roll Call ____ Other __X__
Relevant Code/Policy:	N/A
Towards Council Goal:	Goal 2.b: Increase community awareness of infrastructure needs and appropriate planning documents (sewer).
Attachments:	Cost estimates (West Yost presentation)

Purpose of this RCA:

To review funding options for the Wastewater Treatment Plant (WWTP) project and determine next steps.

Background/Context:

The City began the engineering process for an upgraded WWTP in 2018 after the Oregon Department of Environmental Quality (DEQ) issued an enforcement letter in June 2017 for exceeding allowable Total Suspended Solids (TSS) and E-Coli levels. Since early 2018, issues with preliminary engineering and the COVID-19 pandemic have delayed the project which was originally slated to begin construction in Q4 2020 with substantial completion estimated for October 2022. The delays have added 24 months for construction start with substantial completion estimated for March 2025.

In 2018, original estimates set a budget of $28.2 million. With the effects of the pandemic and inflation driving construction costs upward, the estimated cost of the WWTP is now nearing $55 million with total engineering and construction costs. To date, the City has secured $2 million in lottery funds and $7 million in general fund proceeds from the State of Oregon and has $7.3 million in its own funds. Together, the City's contributions along with the state assistance provides $16.3 million in total funding. Remaining funding would need to come from a mix of grants and loans.

An issue noted by the various funding agencies is the phasing of the project. DEQ's interim financing that the City was going to use until USDA funding was received (USDA distributes at the end of a project) cannot spread across phases. Additional complications include timing of DEQ distributions and the need to spend $7.0 million before July 2023. Phase one of the project is projected to cost $25.9 million for construction with an additional $1.7 million for engineering and $2.5 million for construction services for a total of $30.1 million. Assuming the City is able to draw the entire $7.0 million, this would leave the City drawing $23.1 million of an

approved $30.1 million. The additional $7 million in loan funds cannot be rolled to phase two. This leaves the City vulnerable as a second application would be necessary for phase two.

Staff has begun to review a preliminary plan which would see construction begin on up to $12 million of the overall plant. This phase would be funded by the state assistance received previously and the City's available funds, pushing available loans to a larger, full-scale phase two project. The modified phase one would culminate in the construction of the influent pump station(s), updating the headworks to remove more debris from the wastewater (currently a major problem which can lead to overflows) and replace the current solids dewatering process.

To fund the second phase, the City would be reliant on grants and loans as previously mentioned above. The City has secured grants or principal forgiveness guarantees from DEQ, Business Oregon and the United States Department of Agriculture (USDA). DEQ is able to forgive up to $500k, Business Oregon can grant $750k provided that the City borrow $750k and USDA originally stated they could provide $3 million in grant assistance. During a conference call with USDA on May 3rd, USDA staff indicated that available grant for this project could increase up to 30% with available state and federal resources. This could result in $11.2 million in grant funding from USDA leaving $26.2 million in needed loans to complete the project.

Other options for financing the construction of the plant include obtaining a General Obligation Bond (GO Bond) which would increase property taxes across properties in Sweet Home City limits or extending the project into additional phases (currently being designed in two phases). A GO Bond must be approved by the voters and would necessitate decreasing the repayment terms from 40 to 30 years. Additionally, interest rates are higher in the municipal bond market which was at 3.1% as of May 4, 2022. These factors increase the debt payments to $1.4 million annually and would result in a bond rate of $2.50/$1,000 assessed value (AV) or approximately $300 annually (~$25/month) in taxes to property owners.

The Challenge/Problem:

Can the community afford loans for the WWTP totaling $26.2 million, resulting in annual debt service payments of approximately $1.1 million annually for 40 years?

Stakeholders:

- Sweet Home utility ratepayers – Sewer rate payers will ultimately shoulder the burden of any debt incurred by the sewer fund as rate revenue is the only stream of revenue beyond interest earnings. Utility customers likely desire a system that works while balancing that with a rate that is affordable to a majority.
- Sweet Home staff – Staff is charged with ensuring the sewer treatment plant is operating and limiting violations at the plant in terms of state and federal law. Violations will likely continue to increase as the plant approaches 50 years old and staff has limited options for repairs and maintenance. Staff must also balance operational needs with utility rates to prevent charging a rate that is unattainable for rate payers.
- Sweet Home City Council – The City Council is the deciding body for budget, operations and infrastructure needs in the community. While the City Manager and their staff aid in managing the operations, it is the City Council who must represent the citizens that elect them and ensure the long-term viability of the community (which includes its infrastructure needs).

Issues and Financial Impacts:

$1.1 million per year represents 34.3% of the annual revenue brought in by sewer rates. Currently, the City generates $3.1 million annually at an average rate of $70.21/month per utility account. Additionally, operating expenditures (including existing debt service) for the 2022-2023 fiscal year as approved by the Budget Committee total $2.5 million. When combined with the debt service on $26.2 million, annual expenditures would total $3.6 million, a deficit of $523k. To make up this deficit with rates alone, the City would need to generate an estimated $12.45/month per utility account.

Elements of a Stable Solution:

A stable solution sees the City complete the previously approved engineering to 60% for phase two for the WWTP at a minimum. Beyond that, a decision on direction is necessary before moving on to construction with any part of the project.

Options:

1. *Do nothing* – This is not a recommended option as staff needs more direction on the path the City Council wishes to pursue. Each of the options contains potential financial implications and future action may be necessary related to rates. Doing nothing would require that staff chose a path forward.
2. *Move forward with current planned phase approach with no changes* – Engineers from West Yost have been designing a two phased approach which would split the project basically in half. There are some concerns on this approach from DEQ and USDA related to funding.
3. *Direct staff to research pursuing a General Obligation Bond and return to Council at a future meeting with an overview of process and rates* – The City could pursue a general obligation bond to fund the construction of the Wastewater Treatment Plant. Such a bond would require voter approval prior to any construction which would delay construction timelines and staff research and subsequent action by the Council would need to occur quickly to qualify for the November 2022 election.
4. *Extend the WWTP project by creating additional phases*. This option would see the current two phased project move to three or more. In turn, additional loans would slowly be added creating less of an initial shock to utility rates once the debt payments are due. The dangers with this option include funding agencies not loaning additional funds as our debt portfolio increases over time and costs rising more in the future. Benefits of this option include the potential for costs to come down from today's highs and a gradual increase of utility rates to account for the debt service over time.
5. *Move forward with the previously approved engineering and a reduced scope for the initial phase of construction.* Staff believes this may the best option to mitigate concerns with funding timelines and provide some relief to engineers who are moving at an extraordinary pace. Moving at the pace they are creates some (albeit small because they are professionals) liability as they attempt to figure out how phase one items will integrate with phase two plans that are still being developed. Additionally, reducing phase one ensures that the City still spends current funds on hand while combining the loans to one project down the road. The danger of this option is that costs could rise over the next few years while phase two design is completed and more would be stacked into that phase (13% phase one and 87% phase two vs. current 50/50 split). The benefit could be that supply/product availability increases over the next few years and costs begin to settle some.
6. *Complete engineering work and pause construction until such time the City Council is ready to proceed*. The City Council could decide that the costs to rate payers is currently outside the community's ability to pay such rates and the best thing to do would be to pause the project until costs come down from their current highs. There is no guarantee (and a high likelihood) that costs will return to their previous levels when this plant was in original engineering in 2018-2019 but they could find a new floor that is below today's costs. This would potentially reduce the burden for rate/tax payers but could potentially force DEQ to begin enforcement over issues they've otherwise postponed due to the City's continued progress on designing and constructing the updated facility.

Recommendation:

Staff recommends option 5, *move forward with the previously approved engineering and a reduced scope for the initial phase of construction***.** This solution ensures the project continues without delay and spends essential funds in the first project while allowing time for the market to potentially correct some before constructing the second phase.