

UNSEWERED PROJECT FINANCING

CLEAN WATER FUND PROGRAM

Projects to construct new sewer systems typically have more complicated financing issues and more timing issues than other types of wastewater projects. When new sewer collection system projects are undertaken by new Sanitary Districts, Lake Districts or Town Utility Districts, there often are management issues associated with the start-up of operations that must be considered. Since most new districts do not have significant financial resources prior to the completion of the sewer project, it becomes critical that the plan for financing the project properly identifies the critical financing issues so that the District does not end up in a position where it cannot meet its payment liabilities. Some projects may not be affordable without substantial grant funding and this determination needs to be made as early as possible. With these thoughts in mind, the following suggestions are offered to districts preparing to build new wastewater collection systems.

I. Finance Plan for the Project

Consider including in the Finance Plan for the project:

General Background –

- Why is the project needed?
- What is the estimated total cost of the project?
- What is the user composition of the District by user type?
- Are there special issues such as seasonal users?
- Will the District or the users own and maintain the grinder pumps?
- What is the District's debt limit if GO Debt is being considered?
- Is there a draft Intermunicipal Agreement for the District's wastewater to be processed by a treatment plant owned by another municipality?
- What is the estimated income level of the residents in the District?

Sources of Project Funding –

- How much of the project will be funded by the Clean Water Fund Program?
- What project costs are identified as being funded by the other lenders or grant providers?
- How much of the project will be funded by other lenders or grant providers?
- e.g. sewer lateral, treatment plant buy-in charge, financial liability for remaining value of septic systems¹, user owned grinder pumps... Is 100% of the total project cost covered by the proposed financing sources?

Revenues to Pay Project Debt Service –

- Will the District use property tax levies, user charges, special assessments, or a combination to pay the project debt payments?
- Does the District plan to use meters to measure sewer use?

¹ Section 60.726, Wisconsin Statutes, provides for sanitary districts that are constructing a municipal sewer system to compensate property owners for the remaining value of their septic system or holding tank if it is less than 10 years old.

- Will connection fees be charged?
- How will the amount of each of these charges be determined?
- Will the fixed portion of the user charge be used for debt payments so it is not subject to declines based on water usage?
- Will seasonal residents pay sewer user charges year-round?
- What term is proposed for the payment of special assessments on the installment plan?

Total Cost for Typical Household –

- What are all of the sewer system costs that the typical household will pay? Include: annual property tax, annual user charge, annual special assessment installment, septic abandonment charge, connection fee, private lateral cost, grinder pump maintenance, etc.
- Are residents able and willing to pay these costs?
- What is the projected annual sewer cost per household as a percent of the District's Median Household Income?

Timing of Revenues & Debt Payments –

- When will the District's revenue stream(s) start?
- When will the project debt payments start?
- Will interest on the project loan(s) need to be capitalized until District revenues are available?
- When will the 90-day appeal period for the special assessments expire?
- When will the first special assessment installment be collected?
- How will the money from people paying their special assessments in full be applied?

Cash Flow Projection – For projects with special assessments or multiple revenue sources and multiple project debts, a cash flow projection should be prepared. The cash flow projection should lay out the annual revenues available for debt service and the annual debt payments in order to demonstrate that the planned revenues of the District will be sufficient to cover the debt payments (and debt coverage) each year. The projected debt payment schedule should be based on whether the loan amortization is on a level principal & interest basis or on a level principal basis. The cash flow projection should highlight any need for interest to be capitalized to the loan balance while the project is under construction. The District Commissioners should all review the cash flow projection to ensure that the plan is understood and agreed to by all the District Commissioners. [sample Cash flow Projection and sample Loan Payment Schedules are attached for illustration purposes]

II. Timeline – Project Milestones

- ◆ Discuss project feasibility with engineer (including estimated project cost per user and estimated annual sewer charge per household)
- ◆ Submit Facility Plan to DNR Bureau of Watershed Management
- ◆ Submit Intent to Apply (“ITA”) form to DNR Bureau of Community Financial Assistance (CFA) if CWFP funding is anticipated
- ◆ Pass IRS Reimbursement Resolution
- ◆ Prepare preliminary Finance Plan
- ◆ Complete Archaeological Study (if any)
- ◆ Submit Plans & Specifications to DNR Bureau of Watershed Management
- ◆ Obtain easements & land opinion
- ◆ Have attorney prepare 60.726 Financial Liability Opinion (sanitary districts)
- ◆ Start Special Assessment proceedings [send copy of all docs to Bond Counsel as completed]
- ◆ DNR approval of Facility Plan
- ◆ Submit loan application to DNR CFA
- ◆ DNR approval of Plans & Specifications
- ◆ DNR approval of Parallel Cost Percentage
- ◆ DNR approval of 2/3rds Rule findings²
- ◆ Let bids for project construction
- ◆ Pass resolution to accept specific bid
- ◆ Finalize Finance Plan based on bid results
- ◆ Adopt user charge rates
- ◆ Execute construction contracts
- ◆ Collect money from people paying Special Assessment in full
- ◆ Close loan(s) for funding construction
- ◆ Start construction
- ◆ Start user connections
- ◆ Date user connections mostly done
- ◆ Date loan payments start

III. Other Issues

Disclosure of Costs to Sewer System Users - As a lender, the State has an interest in knowing that a reasonable effort was made by the District to inform sewer users of the estimated amounts they will be paying to cover costs associated with the proposed sewer system. [See section above titled *Total Cost for Typical Household*] This effort may include such things as: a public meeting, direct mailings, articles in the local newspaper and one-on-one meetings with individual property owners. The District should retain evidence of this effort and if requested provide a copy to the Department of Administration. Given that new sewer systems tend to be high cost projects, it is important that the size of the annual sewer charges are known by District residents in advance so that they can budget accordingly. Is there broad support for the project at the cost level most recently disclosed by the District?

Sewer User Ordinance – The Sewer Use Ordinance provides a strong incentive for users to connect to the sewer system. If District’s can implement their Sewer Use Ordinance on a timely basis the connection fees and user charge revenues will start on time. Sufficient financial penalty for untimely connections should be considered in order to ensure that the District has sufficient revenues to meet its payment liabilities.

² The 2/3rds Rule is used to determine if an unsewered project, or portions of that project, are eligible for subsidized interest rate financing based on the age of the residences in the project area. See s. 281.58(8)(c), Wis. Stats.

Prepaid Special Assessments – Special Assessments may be levied for the project to pay for costs associated with that specifically identified project. The money collected from special assessments must be used only for the specific project that it was levied for. Special assessments may not be used for other projects or to pay for operating expenses. Prepaid special assessments should be used to prepay project debt so that the District's remaining special assessment revenue stay in balance with its debt payment schedule.

IV. General Project Suggestions

- Consider a Town Utility District form of operation if administrative costs and staffing are issues...i.e. the Town may already have accounting & administrative systems as well as staff.
- Get a rough estimate of the project cost per user and annual sewer cost per household from the engineer as early as possible to determine whether the proposed project is affordable. How much can the typical household in the District afford to pay for sewer service each year?
- Publicize the proposed project so sanitary District residents do not install new septic systems shortly before a municipal sewer system is constructed which would increase the sanitary District's 60.726 financial liability.
- Discuss the preliminary Finance Plan with the lender(s) after the facility plan has been prepared to make sure that the plan is workable. Update the Finance Plan numbers after the Plans & Specs are prepared to make sure that the project is still affordable.
- For complicated projects like many of the new sewer systems, the District may need to hire a Financial Advisor to deal with the project finance and timing issues if the District does not have the in-house expertise or time to devote to financing issues.
- Obtain DNR approval of the Plans & Specs prior to letting the bids for the project to avoid the risk of having to sign construction contracts without having DNR plan approval.
- Make sure that a workable finance plan is developed before letting bids and executing construction contracts.
- Structure any Interim Project Debt so that it can be paid-off at the time that the permanent funding is expected to be available. This may require including a 30-day call provision in the Interim Project Debt instrument.
- Make sure that a reasonable amount of time is factored in for residents to connect to the sewer system so that the District will have sufficient revenues on hand by the time the first debt payment is scheduled.

V. Management Issues for Districts Starting Operations

Accounting System - Is there an adequate accounting system in place for project accounting, user charge billings, special assessment principal & interest installments, special assessment partial payments, special assessment prepayments, connection fees, operating expenses and debt payments?

Management Reporting – Does the accounting system provide the District Commissioners and officers sufficient financial information on a timely basis for decision-making? Is a monthly or quarterly Income & Expense statement generated for the Commissioners? Do the Commissioners receive a monthly report of delinquent accounts? Is a twelve-month Income & Expense statement generated at year-end?

Annual Budget – Is an annual budget prepared as required by section 65.90, Wisconsin Statutes?

Property Tax Levy – Is the District familiar with the deadlines and other requirements for levying a tax on properties within the District in the event that the District has a shortfall in revenues?
[Consult with Town or County officials]

Record Keeping – Is the record keeping system sufficient for the nature of the District's operation? Are records organized so that more than one officer of the District can find and extract information? Is there a sufficient audit trail for verifying payment due and bills paid? Are Contracts, Intermunicipal Agreements, Debt Transcripts, etc., stored in such a way so that they are available for periodic reference?

If the municipality would like to discuss project or loan eligibility issues, contact the DNR Project Manager @ 608-266-7555 assigned to the project. If the municipality would like to discuss financing issues, call Ed Brinson, Department of Administration, at 608-267-1836.

SAMPLE CASH FLOW PROJECTION FOR DEBT PAYMENTS - Level Principal Amortization

Municipality: Trout Lake San Dist No. 4

Assume: Total Project cost is \$1,133,100
 District is levying special assessments with 15 year term
 15 Year \$920,000 CWFP Loan with level principal payments
 10 year Bank loan @ 6% for \$213,100 buy-in charge & laterals, See [13]
 Only 4 months of interest due on 2002 Spec. Assess installment payment

INPUT ITEMS

1,000,000 Total Principal Amount of Special Assessments
 4.500% Interest Rate Charged by Muni on Spec. Assess. (.0XXX)
 920,000 Clean Water Loan Beginning Principal Amount
 3.920% Clean Water Loan Interest Rate

| Years Left | YEAR | [2] Begin Special Assessment Balance | [3] Assumed Prepaid Special Asses. [level Prin] | [4] Sp. Ass. Collect Schedule by Muni | [2]+[3]+[4] Spec. Ass. Interest Charged | [6] Total Income from Sp. Asses. | [6] Debt Service in User Charge | [2]+[3]+[4] + [6] Total Income for Debt Payments | Beginning CWFP Loan Balance | From [2] Excess Special Interest Applied | CWFP Principal Payment [level Prin] | CWFP Interest Payment Annual Amt | [12] CWFP Prin & Int Payment Annual | [13] Bank Debt Payments for InEligibles | [12]+[13] Total Debt Payment(s) | Total Income Minus Total Debt Payments |
|------------|--------|---|--|--|--|-------------------------------------|------------------------------------|--|-----------------------------|---|-------------------------------------|----------------------------------|--|--|------------------------------------|--|
| | Start | 1,000,000 | 0 | NA | NA | - | NA | NA | 920,000 | - | NA | NA | NA | NA | NA | - |
| 15 | 2002 | 1,000,000 | 0 | 66,667 | 15,000 | 81,667 | 25,000 | 106,667 | 920,000 | - | 61,333 | 36,064 | 97,397 | 0 | 97,397 | 9,269 |
| 14 | 2003 | 933,333 | 0 | 66,667 | 42,000 | 108,667 | 25,000 | 133,667 | 858,667 | - | 61,333 | 33,660 | 94,993 | 34,096 | 129,089 | 4,578 |
| 13 | 2004 | 866,667 | 0 | 66,667 | 39,000 | 105,667 | 25,000 | 130,667 | 797,333 | - | 61,333 | 31,255 | 92,589 | 32,817 | 125,406 | 5,260 |
| 12 | 2005 | 800,000 | 0 | 66,667 | 36,000 | 102,667 | 25,000 | 127,667 | 736,000 | - | 61,333 | 28,851 | 90,185 | 31,539 | 121,723 | 5,943 |
| 11 | 2006 | 733,333 | 0 | 66,667 | 33,000 | 99,667 | 25,000 | 124,667 | 674,667 | - | 61,333 | 26,447 | 87,780 | 30,260 | 118,040 | 6,626 |
| 10 | 2007 | 666,667 | 0 | 66,667 | 30,000 | 96,667 | 25,000 | 121,667 | 613,333 | - | 61,333 | 24,043 | 85,376 | 28,982 | 114,358 | 7,309 |
| 9 | 2008 | 600,000 | 0 | 66,667 | 27,000 | 93,667 | 25,000 | 118,667 | 552,000 | - | 61,333 | 21,638 | 82,972 | 27,703 | 110,675 | 7,992 |
| 8 | 2009 | 533,333 | 0 | 66,667 | 24,000 | 90,667 | 25,000 | 115,667 | 490,667 | - | 61,333 | 19,234 | 80,567 | 26,424 | 106,992 | 8,675 |
| 7 | 2010 | 466,667 | 0 | 66,667 | 21,000 | 87,667 | 25,000 | 112,667 | 429,333 | - | 61,333 | 16,830 | 78,163 | 25,146 | 103,309 | 9,358 |
| 6 | 2011 | 400,000 | 0 | 66,667 | 18,000 | 84,667 | 25,000 | 109,667 | 368,000 | - | 61,333 | 14,426 | 75,759 | 23,867 | 99,626 | 10,041 |
| 5 | 2012 | 333,333 | 0 | 66,667 | 15,000 | 81,667 | 25,000 | 106,667 | 306,667 | - | 61,333 | 12,021 | 73,355 | 22,589 | 95,943 | 10,723 |
| 4 | 2013 | 266,667 | 0 | 66,667 | 12,000 | 78,667 | 25,000 | 103,667 | 245,333 | - | 61,333 | 9,617 | 70,950 | 0 | 70,950 | 32,716 |
| 3 | 2014 | 200,000 | 0 | 66,667 | 9,000 | 75,667 | 25,000 | 100,667 | 184,000 | - | 61,333 | 7,213 | 68,546 | 0 | 68,546 | 32,121 |
| 2 | 2015 | 133,333 | 0 | 66,667 | 6,000 | 72,667 | 25,000 | 97,667 | 122,667 | - | 61,333 | 4,809 | 66,142 | 0 | 66,142 | 31,525 |
| 1 | 2016 | 66,667 | 0 | 66,667 | 3,000 | 69,667 | 25,000 | 94,667 | 61,333 | - | 61,333 | 2,404 | 63,738 | 0 | 63,738 | 30,929 |
| | 2017 | | | | | | | | | | | | | | | 0 |
| | 2018 | | | | | | | | | | | | | | | 0 |
| | 2019 | | | | | | | | | | | | | | | 0 |
| | 2020 | | | | | | | | | | | | | | | 0 |
| | 2021 | | | | | | | | | | | | | | | 0 |
| | Totals | | 0 | \$1,000,000 | \$330,000 | \$1,330,000 | \$375,000 | \$1,705,000 | | - | \$920,000 | \$288,512 | \$1,208,512 | \$283,423 | \$1,491,935 | \$213,065 |

Total Prepaid & Reg. Sp. Assess. **1,000,000**

Total Reg & Prepaid Prin: **920,000**

NOTES: Above schedule assumes that the user charge will cover O&M&R cost plus \$25,000 for debt service annually.
 No special assessment delinquencies are assumed and no adjustment for special assessment prepayments is included.
 Fin_Plan_Attach#1.xls

SAMPLE PAYMENT SCHEDULE

based on level total Principal & Interest Payments each bond year

Assumed Date of Loan:

November 1, 2001

| Date | Principal | Interest Rate | Interest | Principal and Interest | Bond Year Debt Service |
|-----------|-----------|---------------|-----------|------------------------|------------------------|
| 01-May-02 | 49,941.10 | 4.000% | 20,000.00 | \$69,941.10 | \$69,941.10 |
| 01-Nov-02 | | | 19,001.18 | 19,001.18 | |
| 01-May-03 | 51,938.74 | 4.000% | 19,001.18 | 70,939.92 | 89,941.10 |
| 01-Nov-03 | | | 17,962.40 | 17,962.40 | |
| 01-May-04 | 54,016.29 | 4.000% | 17,962.40 | 71,978.70 | 89,941.10 |
| 01-Nov-04 | | | 16,882.08 | 16,882.08 | |
| 01-May-05 | 56,176.95 | 4.000% | 16,882.08 | 73,059.02 | 89,941.10 |
| 01-Nov-05 | | | 15,758.54 | 15,758.54 | |
| 01-May-06 | 58,424.02 | 4.000% | 15,758.54 | 74,182.56 | 89,941.10 |
| 01-Nov-06 | | | 14,590.06 | 14,590.06 | |
| 01-May-07 | 60,760.98 | 4.000% | 14,590.06 | 75,351.04 | 89,941.10 |
| 01-Nov-07 | | | 13,374.84 | 13,374.84 | |
| 01-May-08 | 63,191.42 | 4.000% | 13,374.84 | 76,566.26 | 89,941.10 |
| 01-Nov-08 | | | 12,111.01 | 12,111.01 | |
| 01-May-09 | 65,719.08 | 4.000% | 12,111.01 | 77,830.09 | 89,941.10 |
| 01-Nov-09 | | | 10,796.63 | 10,796.63 | |
| 01-May-10 | 68,347.84 | 4.000% | 10,796.63 | 79,144.47 | 89,941.10 |
| 01-Nov-10 | | | 9,429.67 | 9,429.67 | |
| 01-May-11 | 71,081.76 | 4.000% | 9,429.67 | 80,511.43 | 89,941.10 |
| 01-Nov-11 | | | 8,008.04 | 8,008.04 | |
| 01-May-12 | 73,925.03 | 4.000% | 8,008.04 | 81,933.06 | 89,941.10 |
| 01-Nov-12 | | | 6,529.54 | 6,529.54 | |
| 01-May-13 | 76,882.03 | 4.000% | 6,529.54 | 83,411.56 | 89,941.10 |
| 01-Nov-13 | | | 4,991.89 | 4,991.89 | |
| 01-May-14 | 79,957.31 | 4.000% | 4,991.89 | 84,949.21 | 89,941.10 |
| 01-Nov-14 | | | 3,392.75 | 3,392.75 | |
| 01-May-15 | 83,155.60 | 4.000% | 3,392.75 | 86,548.35 | 89,941.10 |
| 01-Nov-15 | | | 1,729.64 | 1,729.64 | |
| 01-May-16 | 86,481.83 | 4.000% | 1,729.64 | 88,211.46 | 89,941.10 |

Each 12 month period ending May 1st has level principal & interest payments

| | | | | |
|-------|----------------|--------------|----------------|----------------|
| Total | \$1,000,000.00 | \$329,116.51 | \$1,329,116.51 | \$1,329,116.51 |
|-------|----------------|--------------|----------------|----------------|

| | |
|-------------------|-----------|
| Net Interest Rate | 4.000% |
| Bond Years | 8,227.913 |
| Average Life | 8.228 |