
CHAPTER 11

FINANCING AND IMPLEMENTATION

This Chapter of the City of Kent's 2008 Water System Plan puts forth an implementation strategy for implementing the capital and non-capital recommendations identified throughout the document. A financial analysis is presented to evaluate the ability of the City of Kent to financially support the necessary improvements to the water system identified in the Capital Improvements Plan put forth in Chapter 10. This analysis includes identification of Rate and financing options for meeting the capital and operating needs of the water system. A six-year proposed budget is also provided that identifies the overall revenue requirements compared to anticipated income. This section is not intended to be a rate analysis, but is provided as a cursory review of revenue requirements and identification of potential funding sources. A General Facility Charge, Long-Term Capital Investment and Cost-of-Service Rate Study is being completed by the financial consulting firm of FCS Group concurrent with the review process for this Water System Plan. A revised rate schedule is anticipated as a result of that analysis.

11.1 FISCAL RESPONSIBILITY

Provision of public water service is essential to the preservation of public health, safety and protection of the environment. Because water, and other utility systems must maintain a high level of integrity, they require a much greater capital investment to operate and maintain than most other public services. Most water utility costs are fixed, due to the nature of funding large capital improvements, and the relatively stable costs of operating labor, insurance and other expenses which do not vary with water use. Fixed costs, which are incurred whether or not customers consume water, are associated with making the service available at the point of customer use. A smaller proportion of a utility system's cost is variable and changes with the volume of water consumed and/or used (i.e. the cost of purchased water, power for pumping, etc.). The City of Kent strives to maintain reasonable water rates while maintaining the integrity of the water system and the service provided by the Water Department. The water utility is operated out of a separate utility fund, adding to the viability of the utility and ability to set water rates dedicated to the maintenance and upgrade of the water system as required to meet the public health and safety needs of current and projected customers of the system.

11.2 FUNDING OPTIONS

Funding options available to the City for capital projects consist primarily of debt mechanisms or cash funding through various rates and fees. Historically, Federal and State grant programs were available for financial assistance; however, these have been mostly eliminated or replaced by loan programs. Remaining miscellaneous grant programs are generally lightly funded and heavily subscribed. Although competitive, the benefits of low-interest loan programs in the State of Washington include relatively low administrative costs and the ability to spread costs over a period of time to reduce sudden rate impacts.

Income from water sales is the primary source of revenue and is utilized to finance Water Department expenses that are not otherwise funded by developer extensions, assessments, system development charges (SDC's), or miscellaneous fees. Typical expenses financed from water sales include: operation and maintenance; water supply, and quality analysis; administrative, accounting and collection expenses; debt service requirements; system renewal and replacement; and, other general operating expenses.

The City's rate schedule as of 06/01/2011 is listed in Table 11-1. Water rates are subject to periodic changes, and current rates are available on the City's website at <http://www.ci.kent.wa.us>. Rates include a seasonal and block rate structure as incentives to encourage water conservation and provide customers options for reducing their water bills with certain lifestyle changes. Because the City's rate structure is designed to encourage conservation and, if effective, will reduce consumption and sales, it is imperative that water sales and revenues be closely monitored to insure that water rates and revenues are sufficient. Revenue and expense are review occurs periodically throughout the year to insure that operations are occurring as anticipated in City's approved budget. Annual budgets are prepared in order to estimate expenditures for the following year. Water rates are periodically reviewed to determine adequacy of projected revenues to cover anticipated expenditures. It is especially important to review rates, and system connection charges, at the completion water system plan updates, when updated population, employment and demand projections are developed to confirm project needs during the six-year planning horizon and beyond.

TABLE 11-1: EXISTING MONTHLY WATER RATES				
MONTHLY SERVICE CHARGE TO ALL USERS				
Meter size (inches) ^{1, 2}	Charge			
5/8 and 3/4	\$11.99			
1	\$20.37			
1 1/2	\$31.09			
2	\$41.22			
3	\$87.39			
4	\$105.90			
Commodity charge (\$/ccf) Effective 01/01/2005				
	October 1 - April 30		May 1 - September 30	
	≤ 700 ft ³	> 700 ft ³	≤ 700 ft ³	> 700 ft ³
City retail inside ¹	\$2.85	\$3.86	\$3.77	\$4.80
City retail outside	\$3.77	\$4.80	\$4.60	\$5.65
¹ Includes utility tax of 6.0 percent for inside-city users				
² Includes no water use				

11.2.1 State Funding Programs

The state funding programs which are potentially applicable for the utility improvements currently envisioned are briefly summarized below;

11.2.2.1 Public Works Trust Fund

The State of Washington Public Works Trust Fund (PWTF) offers loans for Pre-Construction, Construction, and Capital Facilities Planning activities. The Pre-Construction loan is offered for design, engineering, preparing bid documents, environmental studies and acquiring rights-of-way for eligible facilities. For Pre-construction loan financing, a maximum of \$1 million per jurisdiction per biennium is offered at an interest rate of 0.5% to 1.5% depending on the loan term and the local match. Applications are accepted monthly. PWTF Construction loans are available for projects that repair, replace and improve public infrastructure systems, including domestic water and sanitary sewer systems. There are no longer limitations on funding growth-related projects that would expand facilities to accommodate future populations. The maximum loan amount is currently \$7 million per jurisdiction and the interest rate ranges from 0.5% to 2% depending on the local match. Applications are accepted each spring and funds are available in the spring of the following year if the application is successful. Project completion time for PWTF Construction loans is 48 months. Due to recent changes in PWTF application scoring that give credit for readiness to proceed and project design completion, make it advisable to obtain Pre-Construction funds prior to applying for Construction funding. This two step process will assist in spreading declining funds to a greater number of utility systems. The PWTF Planning Loan provides loans to finance capital facilities plans. A maximum of \$100,000 per jurisdiction per biennium is offered at a 0% interest rate and no local match is required. Applications for planning loans are accepted monthly and funds are typically awarded the following month. The application cycle is on-going.

11.2.2.2 Community Economic Revitalization Board

Managed by the Department of Community Trade and Economic Development, this program provides grants and loans to fund public facilities that result in specific private sector development. Eligible projects include water, sewer, roads, and bridges. Funding varies.

11.2.2.3 Community Development Block Grant (CDBG) Program –

Also, Administered by the State Department of Community Trade and Economic Development, the CDBG program provides grants and loans for infrastructure improvements (including water projects) for business

development that create or retain jobs for low and moderate income residents.

11.2.2.4 Department of Ecology –

The Department of Ecology Water Quality Financial Assistance Program sponsors three grant and loan programs: the Centennial Clean Water Fund, State Revolving Fund Loans, and the Aquatic Weeds Grant Programs. While most of the funding goes to wastewater programs, projects such as development and implementation of groundwater and wellhead protection programs are included. Funding is generally limited to 50% and comes in the form of either a grant or low interest loan (0% for up to 5 years, increasing to 4.8% for 15 to 20 years).

11.2.2 Bonds

Three types of long-term debt financing are available to the City. These include assessment bonds, general obligation bonds, and revenue bonds.

11.2.2.1 Assessment Bonds

Assessments are typically used to finance capital facilities that will benefit a discrete area. One-time assessments are assigned to properties based on the benefits that will accrue to them. Assessment bonds are secured by the properties assessed. Issuance costs are higher than other types of bonds because they require public notification to all property owners within the assessment area, public hearings, and usually costly engineering and legal expense associated with the assessment spread. A project like the proposed comprehensive improvement program does not lend itself to assessment bond financing because:

- Issuance costs are high.
- Changes in use of properties cannot be reflected in assessments, which are fixed at the time of bond issue.

11.2.2.2 General Obligation (G.O.) Bonds

G.O. Bonds can be repaid either with an ad valorem tax levy, or, if bond proceeds were used for utility facility construction, with system user charge revenue. These bonds are therefore secured by the full faith credit of the issuing agency, as well as system revenues. Consequently, interest costs are lower than for other types of debt financing, as much as 60 basis points (6/10 of 1 percent) below the yields which could be expected from revenue bonds.

11.2.2.3 Councilmanic G.O. Bonds

Councilmanic bonds can be issued by authorization of the City Council, subject to the constraint that the current principal outstanding is limited to $\frac{1}{4}$ of 1 percent of the assessed value within the City's corporate limits. Currently, the City committed to utilization of its councilmanic capacity to other types of municipal improvements.

In addition to councilmanic bonds, G.O. debt can be issued upon authorization by the City's electorate. It is necessary to place the measure before the public for 60 percent ratification by those voting in the election. To achieve such a margin can be expensive in terms of public relations programs, plus the long time necessary to schedule the bond election. This latter point is particularly critical during inflationary periods in which project costs can rise substantially and more than offset the nominal savings that G.O. bonds can achieve through lower interest rates and reserve/coverage requirements.

11.2.2.4 Revenue Bonds

Revenue Bonds are serviced and secured by the revenues generated through utility operations. Advantages of revenue bonds include ease of authorization by the City Council without a bond election, no ad valorem tax security requirements, and the capacity to recover associated debt service costs from users in proportion to the benefits accorded thereto. Disadvantages include slightly higher interest costs, which can range up to 1 percent; and, in some cases, debt coverage requirements that may require the accumulation of revenues in excess of total annual expenditure needs as a guarantee to bond investors that the debt can be serviced adequately. Utility activities have traditionally been financed by revenue bonds.

11.2.2.5 Developer Extension Financing

In general, developers are required to finance mains connecting their developments with the existing water system. They are also required to meet specific on-site fire flow requirements and to provide hydrants and the associated connections to the water system, according to City Ordinance 2434. After construction and approval by the City, ownership of the mains is transferred to the City. In this way, many of the additional distribution mains required by the City will be financed by private developers.

Service requests outside the City limits follow the same developer extension requirement; plus, and in accordance with Council policy, they either annex or as determined by the Director of Public Works execute an annexation covenant.

11.2.3 Systems Development Charge

Since 1981 the City has had a Systems Development Charge which applies to all applications for water service from the City of Kent. This systems development charge is in addition to the tap charge and any latecomers fee or charge in lieu of assessment that might be due. On November 19, 2002 Kent City Council significantly increased the existing Systems Development Charge consistent with Growth Management Planning concepts that Growth pay for growth and to assist in the financing of the City's Water Capital Improvement Program. Current System Development Charges are indicated in Table 11-2.

TABLE 11-2: SYSTEMS DEVELOPMENT CHARGES	
CHARGES PAID BY NEW OR EXPANDING CONNECTIONS TO THE WATER SYSTEM	
Meter size (inches)	Charge
5/8 and 3/4	\$2,600
1	\$4,627
1 ½	\$10,400
2	\$18,486
3	\$41,594
4	\$73,933
5	\$115,528
6	\$166,376
8	\$295,786
10	\$462,162

System Development charge only. Does not include system improvements that may be required to provide service in accordance with all applicable regulatory requirements and standards.

11.3 SHORT-TERM FINANCING PROGRAM

The estimated costs of proposed capital improvement projects recommended for the six year planning horizon are tabulated in Table 11-3. It is anticipated that these projects will be financed from cash on hand. The anticipated revenues and operating expenses over the next six years are included in Table 11-3. Please note that this preliminary budget is currently being reviewed and analyzed by the City's financial consultant to develop a rate recommendation that considers the capital improvement projects identified in Chapter 10. It is recommended that City continue to research and apply for water system grants and other funding sources such as low-interest loans for the Public Works Trust Fund and/or State Revolving Fund. In addition, consideration of bonding large scale, system-wide improvement projects can be a convenient way to accomplish the improvements required to accommodate growth within the service area with minimal impact to existing customers by using System Development Charges to pay off bonds.

TABLE 11-3: PROJECTED WATER SYSTEM BUDGET
Estimated Revenue and Expenses (With Rate Adjustments)

Operating Fund	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Beginning Balance	\$ 1,963,403	\$ 355,973	\$ 1,564,415	\$ 1,832,152	\$ 1,831,583	\$ 2,013,987	2,498,663	\$ 4,708,436	\$ 5,102,864	\$ 4,620,315	\$ 4,300,656
Revenues											
Revenue from rates	8,654,016	13,901,748	16,050,885	18,532,268	21,397,259	24,705,164	27,284,259	28,762,936	30,321,749	31,965,043	33,697,396
Other Revenues	311,748	271,562	301,773	308,467	308,453	313,013	325,130	380,374	390,235	378,171	370,179
Total Revenues	8,965,764	14,173,310	16,352,658	18,840,735	21,705,712	25,018,176	27,609,389	29,143,310	30,711,984	32,343,214	34,067,575
Expenses											
Cash Operating Expenses	8,310,009	9,427,454	9,984,939	10,406,816	11,192,378	11,934,475	12,621,062	14,141,003	14,637,639	14,248,042	14,878,234
Existing Debt Service	2,263,184	2,160,795	2,124,997	2,093,107	2,072,217	2,058,402	2,039,669	2,033,863	2,014,847	2,012,609	1,997,502
New Debt Service	-	507,363	1,423,530	1,599,691	1,718,243	1,760,899	1,934,914	4,407,865	7,007,633	8,369,185	9,730,738
Rate-Funded CIP	-	-	-	-	-	-	-	-	-	-	-
Rate-Funded System Reinvestment	-	869,256	2,551,454	4,741,690	6,540,471	8,779,725	8,803,969	8,166,151	7,534,414	8,033,037	8,498,200
Total Expenses	10,573,193	12,964,868	16,084,921	18,841,304	21,523,309	24,533,501	25,399,615	28,748,882	31,194,533	32,662,873	35,104,675
Net Cash Flow	(1,607,430)	1,208,441	267,738	(569)	182,404	484,676	2,209,774	394,428	(482,549)	(319,659)	(1,037,099)
Ending Balance	\$ 355,973	\$ 1,564,415	\$ 1,832,152	\$ 1,831,583	\$ 2,013,987	\$ 2,498,663	\$ 4,708,436	\$ 5,102,864	\$ 4,620,315	\$ 4,300,656	\$ 3,263,557
days of reserves	16	65	73	72	75	90	162	156	138	134	98
Capital Fund	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Beginning Balance	\$ 7,856,572	\$ 6,726,213	\$ 3,375,239	\$ 5,003,407	\$ 7,264,091	\$ 9,149,132	\$ 11,459,306	\$ 11,576,997	\$ 10,971,864	\$ 10,392,041	\$ 10,902,001
Revenues											
Rate Funded System Reinvestment	-	869,256	2,551,454	4,741,690	6,540,471	8,779,725	8,803,969	8,166,151	7,534,414	8,033,037	8,498,200
Connection Charges	780,227	2,337,828	2,367,572	2,397,315	2,427,058	2,450,853	2,486,545	2,516,288	2,583,330	2,609,163	2,635,255
Net Debt Proceeds Available for Projects	-	5,195,662	9,382,033	1,803,973	1,214,038	436,823	1,782,006	25,324,307	26,622,982	13,943,009	-
Interest Earnings	196,414	168,155	84,381	125,085	181,602	228,728	286,483	289,425	274,297	259,801	272,550
Total Revenues	976,641	8,570,902	14,385,440	9,068,064	10,363,169	11,896,129	13,359,003	36,296,172	37,015,023	24,845,010	11,406,005
Capital Expenditures	(2,107,000)	(11,921,875)	(12,757,272)	(6,807,380)	(8,478,128)	(9,585,954)	(13,241,312)	(36,901,304)	(37,594,847)	(24,335,050)	(9,216,024)
Net Cash Flow	(1,130,359)	(3,350,974)	1,628,167	2,260,684	1,885,041	2,310,175	117,691	(605,133)	(579,824)	509,960	2,189,982
Ending Balance	\$ 6,726,213	\$ 3,375,239	\$ 5,003,407	\$ 7,264,091	\$ 9,149,132	\$ 11,459,306	\$ 11,576,997	\$ 10,971,864	\$ 10,392,041	\$ 10,902,001	\$ 13,091,982
minimum target fund balance	775,646	894,864	1,022,437	1,090,511	1,175,292	1,271,152	1,403,565	1,772,578	2,148,526	2,391,877	2,484,037

