

## **CHAPTER 9**

### **FINANCING ANALYSIS**

#### **INTRODUCTION**

This chapter discusses alternative methods for financing stormwater management capital improvement projects and program activities that were recommended in Chapter 8 Capital Improvement Plan and Program Activities.

Funding for capital improvements and program activities is an essential requirement for the implementation of the recommendations. Funding sources available to the County include stormwater management fees grant and loan funds, debt financing, and improvement districts. All financial resources are discussed below.

#### **STORMWATER MANAGEMENT FEES**

Stormwater management fees are authorized by RCW 36.89. They are the primary means of funding ongoing maintenance programs, repair or replacement of existing systems, program activities, and administration of the stormwater program. In addition, fees can be used to repay debt service for loan or bond indebtedness for the utility.

Jefferson County could collect a monthly or annual fee from all developed properties including County Roads and State Highways in an amount to be determined based upon the services provided and the number of Equivalent Residential Units (ERUs) as described in Chapter 8.

Fee revenue would be deposited in a UGA Stormwater Management Fund. The Fund would pay for planning, design, construction, acquisition, maintenance and operation, and improvements of the drainage facilities, for program activities, and for overall administration of stormwater management in the UGA.

#### **STORMWATER MANAGEMENT OPERATING EXPENSES**

Future stormwater management operation and maintenance expenses are estimated using input from County staff, previous maintenance expenditures, and current contracting rates.

The County does its own catch basin cleaning and pipe jetting. The year 2004 estimated cost for cleaning catch basins is based on a crew of 2 people/day for 2 days (40 catch basins total at 5 catch basins per day). Therefore, at a labor rate of \$240/day/person, the total cost estimated for conducting catch basin cleaning twice a year is \$1,000 (in 2003 dollars). Pipe jetting is approximated at 750 lineal feet per day for a 3 person crew. Since the County has its own jet truck, only labor costs are involved with jetting the

pipes. With 1,000 lineal feet of stormwater pipe in the UGA, the estimated cost for jetting the pipes on an annual basis is \$960.

The County also conducts ditch maintenance within the UGA. The rental cost for machinery is approximately \$300/hour. Assuming it takes one day to clean the ditches on an annual basis with a three person crew, the annual cost is estimated at approximately \$1,000.

Under miscellaneous expenses are the annual cost of stormwater utility supplies and equipment of \$5,000 per year and for rate analysis, the cost is adjusted at 4% per year for inflation (see Table 9-2). A \$5,000 administration expense was also added to the total stormwater utility operation and maintenance costs.

Table 9-1 shows a budget projection for annual stormwater operation and maintenance expenses for the years 2002 through 2007. All expenses are increased by a 4.0% annual inflation factor in the rate analysis (see Table 9-3). Training for staff is estimated at \$2,000 per year.

**TABLE 9-1**

**Stormwater Management Operation & Maintenance Expenses**

<b>Activity</b>	<b>Quantity</b>	<b>Rate (per day)</b>	<b>Frequency (per year)</b>	<b>Crew (# persons)</b>	<b>Estimated Annual Cost</b>
Catch Basins/Dry Wells	40	15	2	2	\$2,000
Clean/Jet Pipes	1,000 LF	750 LF	1	3	\$1,000
Maintain Ditches	4,000 LF	4,000 LF	1	3	\$1,000
Drainage Supplies	---				\$5,000
Administration	---				\$5,000
Training					\$2,000
<b>Total (Rounded):</b>					<b>\$16,000</b>

**STORMWATER MANAGEMENT FEE REVENUE**

This Plan recommends that Jefferson County continue to fund maintenance and operations activities through the County Road operations budget. It could, however, chose to fund these activities through a stormwater management fee and collect monthly fees starting in January 2005. Future stormwater management revenues would be generated from these fees and operating balances. The fee revenue projected for the year 2005 is based 5,244 ERUs multiplied by the rate of \$4.00 per ERU. Estimates of fee revenues for the years 2005 through 2010 are based on the number of ERUs being billed at the start of the year 2002 and increased by an annual growth factor of 2.76% from 2002 to 2005 and 0.59% from the year 2006 to 2007.

**TABLE 9-2**

**Potential Stormwater Management Fee Revenue**

<b>Revenue</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
ERUs	5,244	5,389	5,537	5,690	5,847	6,175
Monthly Fees	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00
<b>Total Operating Revenues</b>	<b>\$20,976</b>	<b>\$21,555</b>	<b>\$22,150</b>	<b>\$22,761</b>	<b>\$23,389</b>	<b>\$24,035</b>

**ALTERNATIVE CAPITAL FINANCING SOURCES**

**GRANT AND LOAN FUNDS**

Within the State of Washington there are several grant and loan funds available for capital improvements. Among these are the Public Works Trust Fund (PWTF), Centennial Clean Water Fund (CCWF), and the State Revolving Fund (SRF). There are other State and Federal agencies that offer funding for wetlands protection and flood control. These include the Flood Control Assistance Account Program (FCAAP) through the Department of Ecology and the Aquatic Lands Enhancement Account (ALEA) through the Department of Natural Resources. None of these programs can be counted on to consistently provide revenue for stormwater improvements and therefore, should be considered secondary avenues of funding. In addition, grant funding is extremely limited. Therefore, loans are the more likely source for outside funding.

**PUBLIC WORKS TRUST FUND**

The Public Works Trust Fund (PWTF) is a revolving loan fund designed to help local governments finance needed public works projects through low-interest loans and technical assistance. The PWTF, established in 1985 by legislative action, offers loans substantially below market rates, payable over periods ranging up to 20 years.

Interest rates are 0.5 percent, 1.0 percent, or 2.0 percent, with the lower interest rates providing an incentive for a higher financial share. The local community, to qualify for a 2.0 percent loan, must provide a minimum of 5 percent local matching funds of the project's costs. A 10 percent local share qualifies the applicant for a 1.0 percent interest rate and a 15 percent local share qualifies for a 0.5 percent loan. The useful life of the project determines the loan term, with a maximum term of 20 years.

To be eligible, an applicant must be a local government such as a city, town, county, or special purpose utility district, and have a long-term plan for financing its public work needs. If the applicant is a town, city, or county, it must adopt the ¼ percent real estate excise tax dedicated to capital purposes. Eligible public works systems include streets and roads, bridges, storm sewers, sanitary sewers, and domestic water. Loans are presently offered only for purposes of repair, replacement, rehabilitation, reconstruction or improvement of existing service users. A recent change has now made projects

intended to meet reasonable growth (as detailed in a twenty-year growth management plan) eligible for PWTF funding.

### **CENTENNIAL CLEAN WATER FUND**

The Centennial Clean Water Fund (CCWF) is administered by the Department of Ecology and provides loans and grants for projects that enhance water quality. Eligible stormwater projects include water quality treatment facilities and projects or facilities that address non-point pollution problems. Projects which only address flood control or wetlands purchase are not eligible under CCWF. Under its grant program, water quality facilities construction projects may receive 50% of the eligible cost. The design and construction of water quality facilities are also eligible for 100% loans. Recent loan terms have been 4.5 to 5% interest rate for 20 years. Eligibility for grants is based on a rating system that includes such factors as seriousness of the water quality problem, public health impacts, and beneficial impact of the project on water quality.

### **STATE REVOLVING FUND**

The State Revolving Fund (SRF) program will provide loans for stormwater related projects. The Department of Ecology administers the SRF program. Projects that are eligible for funding under this program must have a component that contributes to the improvement of water quality. Flood control projects are not eligible. Loan terms vary depending on the payback period. Recent loan terms are 1.5% interest on loans for 20 years, 0.5% interest on loans paid back in 5 years. Loans can cover 100% of the project cost.

### **FLEXLINE**

Flexline is a low cost cooperative program offered by the Association of Washington Cities (AWC) and Washington State Association of Counties (WSAC) in cooperation with U.S. Bank of Washington. Cities, Towns and Counties may pool debt of up to \$500,000 per jurisdiction per issuance into one larger certificate of participation (COPs). The cooperation financing alternative may be used to purchase equipment, real property, or other debt-financed projects.

The COPs have the appearance of a bond or note and are tax exempt. Typically, Flexline debt is non-voted or non-utility backed revenue debt. To receive Flexline financing a municipality needs to submit an application, and pass an ordinance or resolution for financing. Funding is usually provided after the ordinance or resolution becomes effective. Interest rates are determined in the open market.

## **FLOOD CONTROL ASSISTANCE ACCOUNT PROGRAM**

The Flood Control Assistance Account Program (FCAAP) was established by the state of Washington in 1984 to assist local jurisdictions with comprehensive flood planning and maintenance efforts to reduce flood damages. The program is administered through the Department of Ecology in association with the Department of Fish and Wildlife and County engineers. Funding for the program is approximately \$4.0 million each biennium. Operations, maintenance, and capital improvement projects are all eligible for grant assistance as long as the public entity has a certified comprehensive flood control management plan in place. The FCAAP are generally written through the County. This means that the all projects within the County are ranked and compete for the portion of the total FCAAP funds available to the County.

## **AQUATIC LANDS ENHANCEMENT ACCOUNT**

The Aquatic Lands Enhancement Account (ALEA) was established in 1994 to provide grants to cities, towns, counties, and port districts for preservation or improvement of wetlands, natural systems, waterfront redevelopment plus some aquatic-land related planning. The maximum grant is \$100,000 and the project must be associated with state-owned aquatic lands. A storm project that redirects or treats runoff and thus improves state-owned aquatic lands would be an eligible project under this program.

## **DEBT FINANCING**

Two forms of debt financing are available for capital improvements including general obligation (G.O.) bonds and revenue bonds. General obligation bonds are backed by the “full faith and credit” of the County and are paid for through property tax levies. These bonds require voter approval before they can be implemented. A less common means of financing capital improvements associated with stormwater projects is through the use of revenue bonds. The County, like other municipalities, is authorized to issue tax-exempt bonds. The principal and interest of such bonds are repaid from revenue generated from a water, sewer, or stormwater utility. This type of funding may be offered without voter approval. However, in order to qualify to sell revenue bonds, the County must establish that its net operating income, gross income less expenses, is equal to or greater than its debt coverage factor (typically 1.3-1.4) times the annual principal and interest due for all outstanding bonded indebtedness. Essentially, utility rates have to be set high enough to ensure revenue bond repayment.

## **DEVELOPER FEES**

The County may require improvements for service to a property within new plats or commercial improvements to be financed by the developer. The developer, for example, is usually required to construct detention facilities in accordance with County standards or pay into a fund for construction of an off-site facility to service multiple properties. The alternative approach allows the County to develop facilities in a planned and cost effective manner. However, several developments are generally required before the

County has available funds to construct a regional facility. The County has little control over the scheduling of such facilities unless alternative funding sources such as service charge revenues are utilized on a short-term basis to fund initial construction and are then repaid as developer fees are collected.

## **IMPROVEMENT DISTRICTS AND SPECIAL ASSESSMENTS**

Levying of special assessments on benefited properties has been used throughout the State for stormwater improvements. Projects funded through special assessments must have an identifiable benefit to the properties included in the assessment area and charges for each parcel must be consistent with the relative benefit to each property. In Washington, municipalities can establish a local improvement district (LID) or utility local improvement district (ULID). These approaches require an assessment against benefited property owners within the district boundaries. In order to establish the district and implement this approach, a minimum percentage of property owners within the proposed district must vote their approval.

The use of LIDs to fund stormwater projects is complicated by the difficulty in quantifying benefits for individual property owners. For water and sewer improvements, for example, the benefits are generally easy to identify. With drainage improvements, however, upstream or hillside properties which could contribute significantly to runoff may actually benefit little from improvements because of their protected location. One result may be to narrowly establish the boundaries of the LID, which may be counterproductive to comprehensive stormwater management. Another problem with LIDs is that they place heavy administrative burdens on the County to maintain the improvements in the district.

## **RECOMMENDATIONS**

- Whenever possible, utilize low cost alternative (State or Federal) fund sources for financing major capital improvements.
- Re-evaluate the six-year budget as actual operation and maintenance expenses become available.