

TRANSCRIPTION (Excerpt):
City of Sultan Budget Workshop, April 24, 2008
Subject: Status of City of Sultan's Debt Service

(I believe history is prologue. Thus, to add a long-term perspective to the 4/24/08 council discussions re the budget and financing of the City's WWTP plant design and improvements to that facility, we urge taxpayers/citizens to read an [excerpt of a transcription of discussion during the City of Sultan's 11/16/2006 Council Budget Workshop.](#))

[\[AUDIO File 080424 Council Budget Workshop File F-1 begins\]](#)

Police Bond Fund (and an off-topic discussion re SPD building's high gas bills)

Clerk L. Koenig This one we're only going to spend a couple of minutes on tonight. We just want to bring it to your attention because Chief Hawkins will actually be preparing a detailed report at the next council meeting on this. In 19—or 2004, we issued police bonds for the 800 MHz system and, of course, the capital improvements to the police building. As of this date we have about \$16,790 left in that fund that we need to expend. Part of the issue on this is that the 800 MHz system that we anticipated we would have to pay for in 2005, we paid for last year. We are – we have just ordered the antennas, so I'm not even sure if – *[to Chief Hawkins]* are you guys on the system now? Chief Hawkins Well, [unintelligible].

Clerk L. Koenig Okay. So we have just really finished paying for the 800 MHz system and have \$16,000 left. The options the council has is to do other capital facilities at the police department, or you can use this money to offset future bond payments. As I said, we'll be giving you a recommendation at the next council meeting. I'm just getting this to you, too, [because] we didn't realize that we had some money [unintelligible] proposals. So.

C/M K. Blair One thing...one thing I noticed that the gas costs for that building are *extraordinary*. And I've heard there's been for years ongoing issues with the HVAC system there.

Clerk L. Koenig There have been. And we did some major work on that system last year. But it is one that we will look at it again because we have been monitoring the gas and electrical bills which at one point were actually higher than this facility.

C/M K. Blair And that is various – [unintelligible] hired to fix that HVAC system?

Clerk L. Koenig There are still some issues with it.

C/M K. Blair Yes, clearly. I'm looking at the gas bills over this past winter and it's like Oh my Gosh.

[a female makes a comment simultaneously that cannot be understood]

C/M K. Blair Oh, it's like sixteen thousand doll---it was ridiculous.

[unintelligible, simultaneous comments]

Clerk L. Koenig [unintelligible] off the top of my head, I can't, but I know that at one point we finally got somebody to come in there and look at it because it can't cost more to run – to heat that little building down there, because these guys are all in vests and everything. They've got the heat down to 68 degrees, and we were paying \$1,600 for this building and they're paying the same amount for that one. We're going, "There's something radically wrong with this heater system."

[simultaneous comments, and a comment from Champeaux re the need to "find out what they're growing" in the building.]

C/M K. Blair But if that could be something as a priority, it's an ongoing – a tremendous cost for the city and I would think that we should once and for all try and get that fixed and put it on a regular maintenance program.

C/M Slawson See, I don't know too much about this stuff, but what is the building set for this building here? Is it off? And does it go to a nighttime setback?

Clerk L. Koenig I'm sure there's a computer programming on this, but, uh, the heat is supposed to go down to about 68 degrees at night and I'm not sure if anybody's messed with the programming on it again. I – I –

C/M Slawson Could it possibly -- is the reason – *[simultaneous comments by he and Koenig]* this building saves money and theirs doesn't?

Clerk L. Koenig Since our janitor left, who was well-trained in how to operate the computer system, we really don't have anybody who's—who's been trained in [unintelligible]. We have to call the people out that installed it and have them [unintelligible].

City Admin. Knight correctly cuts this discussion short, to move onto key information re debt service:

City Admin. Knight Sorry, but we only have five minutes left, and the next – the next set of information about the debt service is extremely important because this is another area where we've got some serious discussions on how—regarding just how are we going to cover our debt service, especially in our sewer fund. And it leads into the discussion that we're going to have later this evening about what are we going to do about our wastewater treatment plant upgrade. So we'll need at least five minutes to talk about that.

Clerk L. Koenig And if we don't have enough time –

C/M Slawson *[simultaneously]* Is that – is that State?

Clerk L. Koenig -- now we can bring it back under Discussion, because it will impact some decisions that you have to make later tonight.

Debt Service Presentation Begins (@ 4:29-min. time mark of Audio File F-1)

Clerk L. Koenig We have a water and sewer debt service fund and there's three different levels of expenditures in this. You have your water and sewer revenue bonds. Those are funded 100% by the current users. Each month, uh, totally we have -- \$50,000 is transferred – excuse me, each year \$50,000 out of each fund is transferred into the bond fund to make those payments. The fund is healthy. It has to be because part of your bond covenants require that at all times you have 125% of the annual payment in reserves. We try to keep that reserve in this fund although, um, this has been reviewed by the auditors before and we do have the operating fund, you have your reserves funds if you count that towards your 125% it's just cleaner if we make sure that it's always in this fund. So when the bonds come due – and they become due in Jan—in June, and the principal payment in December *[sounds like she says, "with those funds in available"]*. So we're not really concerned about that. This fund has always been healthy. It always has—has more than [an] adequate balance in it.

The problem is in the water and sewer debt fund. The water department has outstanding Public Work Trust Fund loans for the wastewater and the Everett Water Fund connection in the amount of \$1.9 million. The 2008 debt service for that fund is

\$154,764¹. And the source of that payment is strictly what's in the reserve fund right now, and connection fees. We anticipate that this year on the reduced connection fees that **we will have a \$41,000 shortfall in that fund being able to make the debt service.** We have anticipated \$94,572 in connection fees. We've reduced that now down to about \$34,672.

Our recommendation is that we reduce some expenditures. And if you look on the second page of your report you will see that there are expenditures for water meters, vehicles and water line expansion. Water Line Expansion is up on the Basin Road?

City Admin. Knight Yes.

Clerk L. Koenig Okay. So in looking at this, items that we could possibly cut expenditures out, the only one that's realistic is the water meters.

And this problem is going to be ongoing. This is not just a one-year problem. If you look at the Debt Service Schedule on the last page, you will see that this problem continues. The average payments are about \$150,000 a year for water. Currently, there is nothing in your monthly base rate towards debt service for water. And this is one of the issues that when we do the water study, that we would like direction from the council to have the consultant take a look at adding the—to the base the—an amount for debt service 'cause the reservoir and the water line directly benefitted the users.

Any questions on the water [unintelligible] right now?

C/M K. Blair Other than a rate study? I mean, that's the only possible way to continue funding that. We all need connections, right?

Clerk L. Koenig Yeah, the rate study is going to answer some of those questions for us, similar to the sewer rate study. It's gonna tell us whether your connection fees are realistic, whether your current user rates are -- are they covering operations? One of your issues that we had when we did the budget this year is that there was a very, very small surplus, I think about \$1,100 surplus between expenditures and revenues in your water department. That's way too slim of a margin.

C/M K. Blair Well, we do have another option here, too, and that's the \$172,000 for design of the new [sounds like she said, "multi"] sewer plant.

Clerk L. Koenig No. We're talking water.

C/M K. Blair I—I—I know. But I'm looking over your...the ones you were just talking about. And, okay. You've got done \$143[,000] for meters and \$100,000 for the extension.

Clerk L. Koenig Right. So let's say, you know, I've given an analys[is] there that we would need at least 21 [note: *The attachment states 22 connections*] new connections in 2009 to meet the debt service needs of this plan. Realistically we don't feel that's going to happen. We'd need 38 if, uh... well, that's if you had 100% of your connection fee going to debt service. You need 48 new connections next year if you're going to continue with the 60/40 split.

¹ **2008 Water Debt service (loan payments) are as follows:**

2008 loan payments – Total \$154,763.10:

\$17,209.44 Public Works loan – Everett Waterline (PW 02-691-PRE 119 Everett)

\$82,291.86 Public Works loan – Everett Waterline (SFF 97-78-897-076)

\$55,261.80 Public Works loan – Water Reservoir (PW 98-791-063)

2009 loan payments a bit less, at \$151,150.66 (same loans, but amounts vary slightly)

So [the] water fund has been very healthy. This is the first year that we've actually seen a downward spiral, I guess, because it's – in fact it paid off several of its smaller loans to reduce its debt service when it had a surplus of about \$400,000 there. We saved, uh, several thousands of dollars in interest on that.

[Audio File F-2 begins]

The other fund that we have is your sewer debt service fund. It also has outstanding loans for Public Work Trust and Ecology to the amount of \$4.2 million, as it stands today. Fifteen dollars [*\$15.00*] of each payment that we take in each month go towards debt service. So there's about \$200,000 of your annual debt service that is paid by current users. We're still going to experience about a \$54,000 shortfall this year, because the other question of your debt service comes from connections. You're not going to receive the \$203,000 worth of connections that we had anticipated. We're more likely to receive about Sixty-Seven Hundred [*\$6,700*] – Sixty-Seven Thousand [*\$67,000*]. I give you a breakdown there of the loan payments. And I've done this because there's another issue in this whole thing that we are recommending that we move forward with to help offset some of the costs of the sewer plant. Your sewer plant existing [*loan payment*], and your design for your new [*sewer plant*] are \$118,443 and \$172,000 [*respectively*] in payments for this year. [*i.e., \$118,443 loan payment for the existing sewer plan, and \$172,500 loan payment for design of the new plant.*]

The other two [loan payments], it amounts to about \$85,559² are for your stormwater plan and your I & I Reduction. Those were factored into the stormwater utility the group is currently working on as being a source of payment for these loans.

And as you can see in looking at the sheet, the debt service sheet, this problem only gets worse because your average payment starting next year because your design loans are five-year loans. You borrowed a million dollars [*\$1.0 million*] which means that over a five-year period you pay \$250,000 a year, plus interest on those. So the anticipated debt service next year is about \$459,000³

C/M K. Blair Have we drawn down the whole million on the—on the [*public works loan for the WWTP design*] loan?

Clerk L. Koenig We have not yet. But we will, because by June we will have expended the entire million dollars.

C/M K. Blair Will we go to a different plan when we reach the full...?

² \$8,631 loan payment for Stormwater Plan, and \$76,928 loan payment for * & I reduction total \$85,559. All of the figures referred to in Clerk Koenig's narrative can be found on the 4/24/08 "Budget Workshop – C" document, linked to either: www.ci.sultan.wa.us or http://www.ittakesgrit.org/AUDIO_Council_080424.htm)

³ 2008 debt service is \$376,501.94, as follows:

\$118,443.20 – Public Works loan for existing sewer plant

\$76,927.50 – Public Works loan for I&I Reduction (unwanted inflow/infiltration into City's sewer system and sewer plant facility that "eats" up capacity needed for solids)

\$712,500.00 – Public Works Loan for new Sewer Plant design

\$8,631.24 – DEOLO 10034 – Stormwater Plan [*sorry, we do not know what "DEOLO" stands for, but we assume it is a Dept. of Ecology loan*]

TOTAL: \$376,501.94

Clerk L. Koenig No. We go – we can switch to a 20-year payment plan after we receive a construction loan. We cannot apply for construction loans until 2009. So at the earliest, you can't change the payment on this loan until 2010.

C/M K. Blair And with [unintelligible], you don't apply for construction until you have design.

City Admin. Knight Well, we're hoping that we can—we can talk to the Public Works Trust Fund loan (sic) about if we move forward with the solids building as we're proposing, does that count as the construction loan? And then you can convert everything. And that's a question that we have asked and we're waiting for a response.

Clerk L. Koenig We did talk to both the consultant and to Randy Oesch, your—your treatment plant operator today regarding the short-term improvements that were listed in the capital plans, which is about \$120,000 allocated for short-term improvements this year. And we've been advised that about 50% of those will not be needed.

City Admin. Knight Well, we completed—we completed two of the three. So you had your influent pump, your effluent pump and your UV ditches. And we did the effluent pump and the UV ditches, and we're holding off on the influent pump waiting to finish the I&I study to determine what size pump do we need. So we're not going to extend that money this year. So we had that 120 [~~\$120,000~~] or a part of that \$120,000 [sounds like, "as a connection] move over and pay the debt service payment this year. So that's a good thing. That's how we're going to solve the problem that we have this year. What Laura is pointing out is that we have a long-term problem, which is we have—we have \$4.2 million worth of debt in our sewer fund, and we don't have any way to cover that. We were hoping to get that through connection fees, and now those connection fees seem like they're going to be 18 to 36 months out because of the housing downturn. That's why we're recommending that we not move forward with the wastewater treatment plant upgrade, finishing the design, because we have to obligate ourselves to additional debt. And we're just not prepared to recommend that as your staff.

C/M K. Blair I—I find that incredible, too, considering growth is supposed to pay for growth. That growth already existed [and] here we have \$4 million. We're only looking at expanding our plant and that growth did not fund or pay for the existing loan, but that upgrade was done—but that was done 10 years ago.***

City Admin. Knight Right. And that's the reason why you go through a rate study and have the rates that you have today. And those rates were proposed to go up every year for the next five years.

Clerk L. Koenig And part of it too is that we had over 100 connections that paid at a reduced rate prior to your new rate going into effect. Back on the day before the ordinance went into effect, we sold over 50 connections. And there was...nothing we could do to stop them from paying them. They had approved lots. So we did lose some.

City Admin. Knight We need to –

Clerk L. Koenig If—if you want and have more questions when we get into the water treatment plant discussion, we can address this a little more.

City Admin. Knight Thank you. [end of transcription]

[G.R.I.T. NOTE ABOUT THIS TRANSCRIPTION:

Interim Finance Director Gordon Hey, as well as Interim City Administrator [pre-Deborah Knight] Lee Walton, both strongly advised the City to get a handle on its inadequate water and sewer connections fees, as well as its park and traffic impact fees and other financial drains on the City's capital facilities infrastructure. Both men confirmed what we and other city activists had known for several years and (unsuccessfully) tried to communicate to the City Fathers: That for every \$1.00 received in revenue (from temporary, short-term fees from development), it costs the \$1.25 to \$1.40 to support that new development, a losing proposition that creates an ever-larger black hole of debt. And although the City of Sultan is attempting to move forward to try and ensure that development pays for itself, because of the financial hole it has dug or itself, development does not yet, nor may it ever, truly be able pay for itself.]

(At the 54:21-minute point in the audio of the workshop)

Fin. Director Hey And I've gotta add my two cents' worth. You know, there's a structural problem in the rates that we're charging for water and sewer. I mean, the damn things are leading us right down the road to Perdition. They're not growing with our costs. They're not, uh...we're—we're—we're –

C/M Blair We're in the process of *[simultaneous comments]*

Fin. Director Hey -- we're—we're going to be in the process, though, of where we – *[simultaneous comments]* – We're going to be in the process where we won't be able to meet our debt—indebtedness, and here we are, uh, borrowing more money where we can't really nail down where we're going to repay it from.

Mayor Tolson We can't continue to live on tomorrow's revenues.

Fin. Director Hey Yeah. And we're using new money to pay old debt.

Mayor Tolson That's it.

(At the 55:47 minute point)

Fin. Director Hey These costs – costs for capital equipment are not the 4 ½% cost of living index. Capital Equipment --

Mayor Tolson They're up to 12% and 15% and 20% --

Fin. Director Hey -- inflation is double-digit.

C/M Boyd But I believe we have a water rate study we're *[simultaneous comments]* using.

PW Dir. Dunn Yes. But the – the thing there is, it's not just the connection that we need to go back around [to]. It is the day-to-day monthly rate everybody's paying. And right now we have, our rates for water and sewer are connected, and we have in our ordinance through December 1st two thousand...

Female Eight.

PW Dir. Dunn -- eight.

C/M Boyd *[unintelligible]* two dollars –

PW Dir. Dunn --as an increment. But I don't believe those increments are large enough, if you look at the cost of living and the cost of everything else – fuel, materials...

Mayor Tolson Here's the, here's the crux, though, everyone, that we really have to look at. Because as our population grows, our water demand is going to grow. And as soon as we start to tap into the Everett water supply beyond just the trickle that we're at, once we trigger that rate, I—I've asked to get a copy of that negotiated contract with the City of Everett – once it spikes, what's the...what is it? Five years it stays at that rate?

PW Dir. Dunn Yeah. It's—it's quite a –

Mayor Tolson And it's, it's a nasty bite....

(57:55 min.) Mayor Tolson Re Population Boom coming city Sultan (This statement was a comment re water only, but this holds true for any service – like police – that is left unfunded or under-funded):

Because we do have a population boom coming to the City, and it is going to start impacting our ability, especially in the dry summer months, whether or not we're going to be able to afford that contract.