

**SULTAN CITY COUNCIL  
AGENDA ITEM COVER SHEET**

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ITEM NO: Consent C 5

DATE: Janaury 14, 2010

SUBJECT: PWTF Loan # PW-06-962-PRE-131

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

**ISSUE:**

The issue before the City Council is to review and approve the request to the Public Works Trust Fund Board (PWTFB) to extend loan PW-06-962-PRE-131 for the Wastewater Plant Design Phase (Attachment B).

**SUMMARY:**

At the December 10, 2009 Council meeting alternatives were presented to the Council for the extension of the PWTF loan for the Wastewater Plant design. The Council directed staff to request a one year extension of the loan increasing the interest rate from .5% to 1.0%.

In October, city staff discussed extending the payment period with the PWTFB and they responded with a request for information and the city's proposal for restructure of the loan (Attachment A).

The City received a Public Works Trust Fund loan in 2006 to design the upgrade and expansion of the Wastewater Treatment Plant. In August of 2008, the scope of the project was changed to include the addition of one of the centrifuges to Phase I of the project. The scope of work included the design, bid documents for the centrifuge installation, activities during the bid period and construction of the project.

The \$1,000,000 loan was for design and the repayment term is five years. The first payment was interest only in 2007. The city had anticipated starting construction on the upgrade project which would have allowed the city to extend the payments for the design phase loan out over a twenty year period. This did not occur and payment schedule is five years. The city has made two payments and there is a \$625,000 balance on the principle. The loan payment for the next two years will be \$315,600 each year. The 2010 budget includes the full payment on the loan

**RECOMMENDED ACTION:**

Authorize staff to forward the request for a one year extension on PW-06-962-PRE-131 to the PWTFB requesting an extention on the loan repayment terms.

Attachments:           A. Letter from the Public Works Board  
                              B. Letter to the Public Works Board requesting extension of the loan.



Washington State  
Public Works Board

Attachment A

Post Office Box 48319  
Olympia, Washington 98504-8319

October 20, 2009

Deborah Knight  
City of Sultan  
PO Box 1199  
Sultan, WA 99323

Dear Deborah:

Thank you for letting us know that you may have difficulties in making your Public Works Trust Fund Pre-construction Loan payment next year. I'm sure you share our concern about this possibility. The Public Works Board is willing to work with you to try to come up with a resolution that will work for you, and also protect the fund so that others may benefit from this resource. As this process unfolds, you may be asked to attend a Public Works Board meeting to communicate directly with its members.

To help us determine how we can help you, please officially notify us about your current situation by letter. In the letter, please provide the information requested below:

1. Please describe the circumstances that have contributed to your situation. Why are you not able to make your loan payment? Is this a one-time event or do you foresee future problems?
2. Please describe, as clearly and succinctly as possible your financial situation when you initiated the loan:
  - What was your financial position at the time in terms of rates, reserves, operating costs? What is your current rate?
  - What steps had you taken to insure that you had sufficient funds to repay the loan?
  - Have you maintained the rate structure you anticipated was necessary to repay the loan when you applied for it?
  - What is the gap in the amount you owe for the payment and what you can pay?
3. Please describe how you recommend solving this situation and putting yourself in a position to meet your contractual commitment to repay the loan, such as, rate increases, loan restructuring, payment deferral.

We will review the information provided in your letter. After that time, we will schedule a visit with you to further discuss your situation, contractual obligations and any help we can provide.

Thank you again for informing us of your situation.

Sincerely,

Terry Dale  
Client Service Representative  
Public Works Board

Administrative services provided by the Department of Commerce

(360) 725-3150

Fax (360) 664-3029

[www.pwb.wa.gov](http://www.pwb.wa.gov)

**ATTACHMENT B**

January 14, 2010

Terry Dale  
Public Works Board  
PO Box 48319  
Olympia WA 98504-8319

RE: PW-06-962-PRE-131 – Wastewater Plant Design

Dear Terry:

The City of Sultan would like to request a one year extension on the payment term for the above referenced loan. At the December 10, 2009 Council meeting, the Council looked at a number of alternatives ranging from a one to three year extension with varying interest rates. The Council directed staff to request the extension with a proposed increase in the interest rate from .5% to 1.0%.

In October 2009, the City contacted you regarding the possible extension in the payment schedule for the above referenced loan and you responded with a request for additional information. The attached report addresses the information requested.

We look forward to meeting with you to discuss this matter further. Thank you for your consideration and assistance.

Sincerely,

Deborah Knight  
City Administrator

Public Works Trust Fund Loan  
PW-06-962-PRE-131 – Wastewater Plant Design

1. *Please describe the circumstances that have contributed to your situation. Why are you not able to make your loan payment? Is this a one-time event or do you foresee future problems?*

The City of Sultan has experienced the same economic downturn as the State and Country. Building activity has dropped considerably and the connection fees that were anticipated in 2006 when the upgrade project was proposed have not been received.

The City has budgeted to make the required loan payment in 2010 (Attachment A). In order to meet the payment schedule, revenues from existing customers and reserve funds will be used. This will leave little money in reserve for required maintenance and unforeseen emergencies.

The one year extension of the payment schedule will provide \$100,000 which would be used to replace worn pumps to extend the life of the existing plant.

The City has monitored this project since the upgrades were proposed in 2006. We have attached the following staff reports for your review:

1. December 10, 2009 staff report to consider extension of loan
2. March 26, 2009 staff report to closeout loan
3. August 14, 2009 staff report to revise scope of work on project
4. February 9, 2009 staff report on funding strategies
5. August 9, 2007 staff report on developer agreements
6. May 7, 2008 request to extend loan
7. December 6, 2008 staff report to accept the loan
8. December 13, 2007 staff report on funding strategies
9. August 16, 2006 staff report on the proposed plant upgrade

2. *Please describe, as clearly and succinctly as possible your financial situation when you initiated the loan:*
  - a. *What was your financial position at the time in term of rates, reserves, operating cost? What is your current rate?*
  - b. *What steps had you taken to insure that you had sufficient funds to repay the loan.*
  - c. *Have you maintained the rate structure you anticipated was necessary to repay the loan when you applied for it?*
  - d. *What is the gap in the amount you own for the payment and what can you pay?*

In 2004 the City adopted ordinance 865-04 which set out a five year rate schedule for residential and commercial users of the sewer system. This

provided for an annual increase to the rates with a portion (\$13-15) of each monthly charge being allocated to debt service reduction.

The system connection fee has been increased as follows:

Ordinance 965-04 from \$4,496 to \$7,983.

Ordinance 941-06 from \$7,983 to \$9,106

Ordinance 956-07 from \$9,106 to \$10,518 in 2007 and \$11,282 in 2008

Ordinance 1033-09 increased residential and commercial user fees for the period of 2009 to 2011. \$15 per month of these fees are allocated for debt service payments.

The ordinances are attached.

To insure that debt service payments are met, the City has had to delay capital projects and only proceed with necessary repairs and maintenance. In 2009, the City completed the Centrifuge project. This project reduced the cost of sludge removal by \$60,000 per year.

The City has budgeted sufficient funds to cover the loan payments in 2010. The issue we face is the depletion of reserve funds to cover necessary repair and maintenance of the system and unanticipated emergencies.

In 2009, the City expended \$35,000 to repair a main sewer line behind City Hall and in 2008 expended \$25,000 to repair a main sewer line on 4<sup>th</sup> Street. Due to the age of sewer system infrastructure, it is expected that more of the older lines will begin to fail. It is imperative that adequate reserve funds are available to maintain the system.