

**APPENDIX C
FINANCING PLAN**

CITY OF HUGHSON

WASTEWATER TREATMENT PLANT FINANCING PLAN

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TABLE OF CONTENTS

EXECUTIVE SUMMARY 1
THE PROJECT 1
FINANCING ALTERNATIVES..... 2
 Revenue bonds 2
 Mello-Roos Community Facilities Districts and Assessment District financing 2
 California “i-Bank” loan 3
 Small Community Grant Program 3
 Capital appreciation bonds..... 3
 Stanislaus County Economic Development Bank loans 4
 State Revolving Fund loan..... 4
FINANCING PLAN 4
 Sewer Development Impact Fee Update..... 4
 Preliminary Revenue Program..... 5
NEXT STEPS 7

EXECUTIVE SUMMARY

Bartle Wells Associates (BWA) was retained by the City of Hughson to develop a financing plan for the upgrade and expansion of the City's wastewater treatment plant (the Project). A Wastewater Treatment Plant Master Plan, completed by Carollo Engineers in October of 2006, outlined approximately \$35.6 million in required improvements to correct deficiencies in operation and provide enough capacity to meet General Plan requirements. BWA was tasked to investigate the range of financing options available to the City, and recommend that option that allowed the City to complete the Project in a timely manner at a lowest possible cost to existing users.

BWA investigated a range of project financing options, to include revenue bonds, Mello-Roos and assessment district financing, i-Bank loans, Small Communities Wastewater Grants, capital appreciation bonds, and the State Revolving Fund (SRF) loan program. After analyzing the pros and cons of each option, along with their fiscal impact on the City and its ratepayers, BWA recommends that the City pursue an SRF loan to finance this project. In addition to being the lowest cost, the financing terms are the most favorable out of all those investigated.

To support repayment of any expected loan, BWA further recommends that the City update its sewer development impact fee to \$13,755. This updated fee reflects new project costs and allocations, not included in the impact fee study completed in the summer of 2006.

BWA has also developed three different rate adjustment scenarios, depending on the level of growth in the City over the next five years.

- High growth: 9% annually for the next four years, cost-of-living indexed thereafter
- Moderate growth: 14% annually for the next four years, cost-of-living indexed thereafter
- Low growth: 22% annually for the next four years, cost-of-living indexed thereafter

BWA further recommends that the City move to quickly adopt the "high growth" scenario rate increases and monitor growth closely. Should growth fall below the 100 units per year level, the City should move to increase rates to the moderate growth level (14% per year). If growth stalls significantly (the low growth scenario), the City would be required to adopt the highest rate recommendations outlined here.

THE PROJECT

The City of Hughson's wastewater treatment plant will reach its operational capacity of 1.0 mgd by the year 2008. Current projections estimate the City's population to increase by 154% to 15,074 persons by the year 2025. To accommodate this growth, the City's General Plan calls for necessary upgrades and improvements to expand its wastewater plant's operational capacity to 1.9 mgd.

The existing pump station will be demolished and a new influent pump station and headworks will be installed on site at the treatment plant. Secondary process facilities will be upgraded as well, with the construction of two new trapezoidal-section oxidation ditches, two new 70-ft clarifiers, and a new RAS/WAS pump system. A new sludge processing facility with gravity belt thickeners will be constructed as well as a new operations center with both laboratory and meeting facilities. Electrical upgrades and a Supervisory Control and Data Acquisition (SCADA) system will be installed to improve system operations and to allow remote monitoring of field equipment.

The 2009 upgrades are expected to take three and half years and cost an estimated \$35,640,000, escalated to mid-point of construction.

FINANCING ALTERNATIVES

BWA investigated a range of financing options for funding the Project. These included,

- Revenue bonds and Certificates of Participation (COPs)
- Mello-Roos (special tax) and Assessment District financing
- California i-Bank loan
- Small Communities Wastewater Block Grant
- Capital appreciation bonds (CABs)
- Stanislaus County Economic Development Bank
- State Revolving Fund loan

Revenue bonds and COPs

Background Revenue bonds and COPs are municipal securities whose repayment is guaranteed by utility revenues. Before selling revenue bonds or COPs, the City would first be required to set sewer service charges that generate net revenues sufficient to meet 100% of annual debt service. Even if the City desired to meet a portion of the debt service with development impact fees, as a practical matter it would **still** be required, as part of its covenants, to maintain rates that are at all times sufficient to meet 100% of annual debt service.

Analysis The requirement that the City set sewer service charges sufficient to generate net operating revenues that meet 100% of annual debt service prior to selling the bonds means that this is not a viable option for the City. It would require an immediate increase in sewer service charges, on the order of at least 130% or more. **Not recommended.**

Mello-Roos Community Facilities Districts (CFDs) and Assessment District financing

Background The Mello-Roos Community Facilities Act of 1982 and the Improvement Bond Act of 1915 allow for the financing of improvements in specific areas that provide public benefits to properties within the Districts. With this type of financing, owners of (typically undeveloped) land can vote to form CFDs or assessment districts for the purposes of financing infrastructure improvements that provide special benefit to a prescribed area. The owner or owners of the land in question can vote to fund the financing with a special tax or assessment on the parcels included in the District. This

type of financing is most commonly used in instances where one or several large development projects are willing to fund major improvements needed so that their construction can proceed.

Analysis After discussions with City staff, it has been determined that there are no likely candidate developments that would be suitable to finance a large portion of the treatment plant upgrades. **Not recommended.**

California “i-Bank” loan

Background The California Infrastructure and Economic Development Bank (CIEDB) administers “i-Bank” loans for communities throughout the state of California to fund water and wastewater infrastructure improvement projects. These are below market rate loans (approximately 2/3 of the average revenue supported rate), up to a maximum of \$10 million.

Analysis BWA contacted the state i-Bank program and discussed the City’s project with them at length. The i-Bank loans are targeted at communities who cannot raise money with market rate securities, or at communities with low household income levels and high job growth needs. Loan officials with the i-Bank program indicated to BWA that the City of Hughson would not qualify for priority financing because its median household income level was too high. **Could provide minor share of funding; not recommended.**

Small Community Grant Program

Background The State Water Quality Control Board administers grant program to provide up to \$2 million in funding to small communities for wastewater or water quality infrastructure improvement projects.

Analysis The program has median household income limits, which the City of Hughson exceeds, making it ineligible. **Not eligible.**

Capital appreciation bonds

Background Capital appreciation bonds (CABs) are a form of revenue secured municipal securities where initial interest payments are deferred. Deferred interest accrues onto the principal amount of the bonds, resulting in a larger total issue size, and, as a result, larger interest payments. This type of financing is typically used in instances where significant future growth allows a public agency to defer payments while building impact fee reserves. These impact fee reserves can then be used to pay down debt payments at a future date.

Analysis Capital appreciation bonds are considered risky investments, and as such, they carry higher interest rates. Also, the City would be basing the ability to pay the future debt largely on new development. Should that new development not materialize, the City’s rate payers would face the significant burden of meeting the larger CAB payments with sewer service charges. **Not recommended.**

Stanislaus County Economic Development Bank loans

Background On direction from City Council, BWA contacted the loan program administrator for the Stanislaus County Economic Development Bank. The EDB has a current total funding capacity of around \$4 million. Program staff indicated that small grants could be made in some cases, but that this project would more likely be appropriate for a loan. They indicated that the maximum size of a loan would likely be around \$500,000.

Analysis Because the loan would only cover a small portion of the costs, the City would still need to find at least one or two other funding sources, so the added effort of applying for this additional loan is probably not advisable. **Not recommended.**

State Revolving Fund loan

Background The State Water Resources Control Board (SWRCB) administers the State Revolving Fund loan program. This program provides below-market rate loans to finance wastewater treatment plant improvements. Priority is given to those projects that address human health hazards and treatment systems that are not meeting their waste discharge requirements.

Analysis This program offers a number of advantages over other lending options. Primary among them is the very low interest rate, currently around 2.5%. Another advantage is that no payments on the loan are due until 12 months *after* the improvement has been in service. This allows the City as many as four years (from the start of design and construction) to slowly build sewer service charges to the appropriate levels to meet future repayment of the loan. During that time, impact fees can be saved expressly for the purposes of meeting debt service in the future. Additionally, the State Water Board does not require the same level of security for repayment of the loan as a market rate security would. There is no reserve fund requirement, and although the City must pledge to repay the loan on time, and to maintain revenues sufficient to do so, there is some level of flexibility in using impact fees to repay a portion of the debt.

BWA is recommending that the City pursue SRF financing to fund the Project. The financing plan that follows outlines the steps necessary to successfully secure the financing, and develops a preliminary revenue program that could meet loan requirements. **Recommended.**

FINANCING PLAN

Sewer Development Impact Fee Update

BWA developed the current sewer DIF as part of the development impact fee study completed in August of 2006. The current sewer DIF is \$5,710. Since that time, the estimated cost of the wastewater treatment plant upgrade and expansion (formerly estimated at approximately \$10M) has increased significantly. As discussed in The Project section above, the recently completed wastewater treatment plant master plan, finished in October of 2006, estimated the total cost of design and construction of the upgrade at \$35.6 million (escalated to the mid-point of construction).

Table 1 details the current and projected wastewater demands included in the Wastewater Treatment Plant Master Plan. Current plant capacity is approximately 1.0 mgd, which will be reached in 2008. The expansion of the plant will add approximately .9 mgd, bringing the total capacity to 1.9 mgd, an amount sufficient to meet General Plan build-out and add another 3,000 new equivalent dwelling units to the City.

Table 2 includes the current capital improvement program for the sewer and wastewater system. The vast majority of the spending included in this program (approximately 95%) is related to the upgrade and expansion of the treatment plant. The user benefit of this project, as outlined in the Wastewater Treatment Plan Master Plan is 19.8% to current users and 80.2% to future users.

Table 3 details the current insured assets for the City's sewer enterprise, totaling approximately \$4.8 million. These assets are allocated relative to the ratio of existing to future users (to build-out), or, approximately 53% to current users and 47% to future users.

Table 4 calculates the updated sewer DIF. Importantly, because the City is required to finance this project, that portion of total interest cost resulting from the financing that can be allocated to future users (80.2%, the same user benefit as the project itself) is included in the sewer DIF calculation. Total project costs that provide benefit to future users are \$30.73 million. Interest cost associated with the financing (assumed for these purposes to be 20 years at 2.5% per year, plus carrying cost during project construction) adds another \$10.39 million. These costs are assigned to future demand to build-out, or approximately 3,000 dwelling units. The new updated sewer DIF is \$13,755. BWA further recommends that this fee be indexed to the Engineering News Record Construction Cost Index (ENR-CCI) so that it keeps pace with the rising cost of construction.

BWA recommends that the City move to adopt this updated DIF as soon as possible. It is extremely important that new development, which is largely driving the need to expand the treatment plant by 3,000 equivalent dwelling units, pay its fair share of the future cost of the plant. Revenue generated from these sewer DIFs can and should be used to meet a significant portion of the loan repayments when they come due.

Preliminary Revenue Program

BWA has developed a preliminary revenue program that will allow the City to meet the expected repayment provisions of the SRF loan. It is important to note, however, that the rate projections included in this program are wholly dependent on the rate of new development in the City. Should the pace of new development slow to lower than expected levels, some of the rate recommendations included here will necessarily have to change. Although there is more flexibility in the SRF program in meeting the loan repayment, ultimately the City has pledged to repay these loans from its revenue, whether they be development impact fees or rates.

Table 5 outlines the current City of Hughson budget for the sewer enterprise. Sewer service charges were last increased July 1, 2006, and updated budget figures indicate that actual sewer service charge revenues will be approximately \$1.45 million in FY 2006/07. Before capital spending or transfers to the fixed asset replacement fund, this gives the City's sewer enterprise net operating revenues of approximately \$440,000.

Table 6 details the sizing and expected loan repayment for the proposed SRF loan. The calculation assumes the total project cost of \$35.64 million, \$100,000 in issuance cost, and accrued interest during construction of \$2.30 million. The total loan size is expected to be approximately \$38.04 million. With interest currently estimated at 2.5%, and repayment occurring over 20 years, the estimated annual loan repayment is \$2.44 million. With current net operating revenues of approximately \$440,000, the City will be required to generate additional revenues on the order of \$2 million.

Tables 7A through 7C provide the City with three different cash flow projections that each meet the requirements of the proposed SRF loan. The three programs differ only in their expected growth rates: Table 7A details the "high growth" scenario, Table 7B outlines the "moderate growth" scenario, and Table 7C shows a "low growth" scenario. All three cash flow projections assume the same growth in non-capital spending (3% per year).

- Table 7A: High Growth

In the "high growth" scenario, BWA assumes that the City will add an average of 100 new units a year through the planning period (an average of about 3% annual growth rate). This would generate development impact fee revenue of over \$1.5 million per year, which allows new development to effectively meet 80% of the loan repayment, a proportion in line with the overall user benefit of the project. The rate increases that would accompany the "high growth" scenario are estimated at 9% per year for the next 4 years, with small, cost-of-living indexed adjustments thereafter.

- Table 7B: Moderate Growth

In the "moderate growth" scenario, BWA assumes that the City will add an average of 65 units a year over the planning period. This is approximately a 2% annual growth rate. This would generate somewhat smaller annual development impact fee revenues, of approximately \$900,000. This would allow for the City to meet approximately 50% of the annual loan payments with DIF revenue. The balance would come from rates. In this scenario, BWA estimates that the City would be required to raise rates approximately 14% each year over the next four years, and then adjust the rates to a cost-of-living index thereafter.

- Table 7C: Low Growth

In the "low growth" scenario, BWA assumes that the City will add an average of 30 new units a year over the planning period. This is an average annual growth rate of

about 1%. New development on this scale would generate approximately \$450,000 per year in development impact revenue, which would allow the City to meet approximately 25% of ongoing debt service with impact fee revenue. BWA estimates that growth at this level would require rate increases of approximately 22% per year for the next four years, with cost-of-living adjustments thereafter.

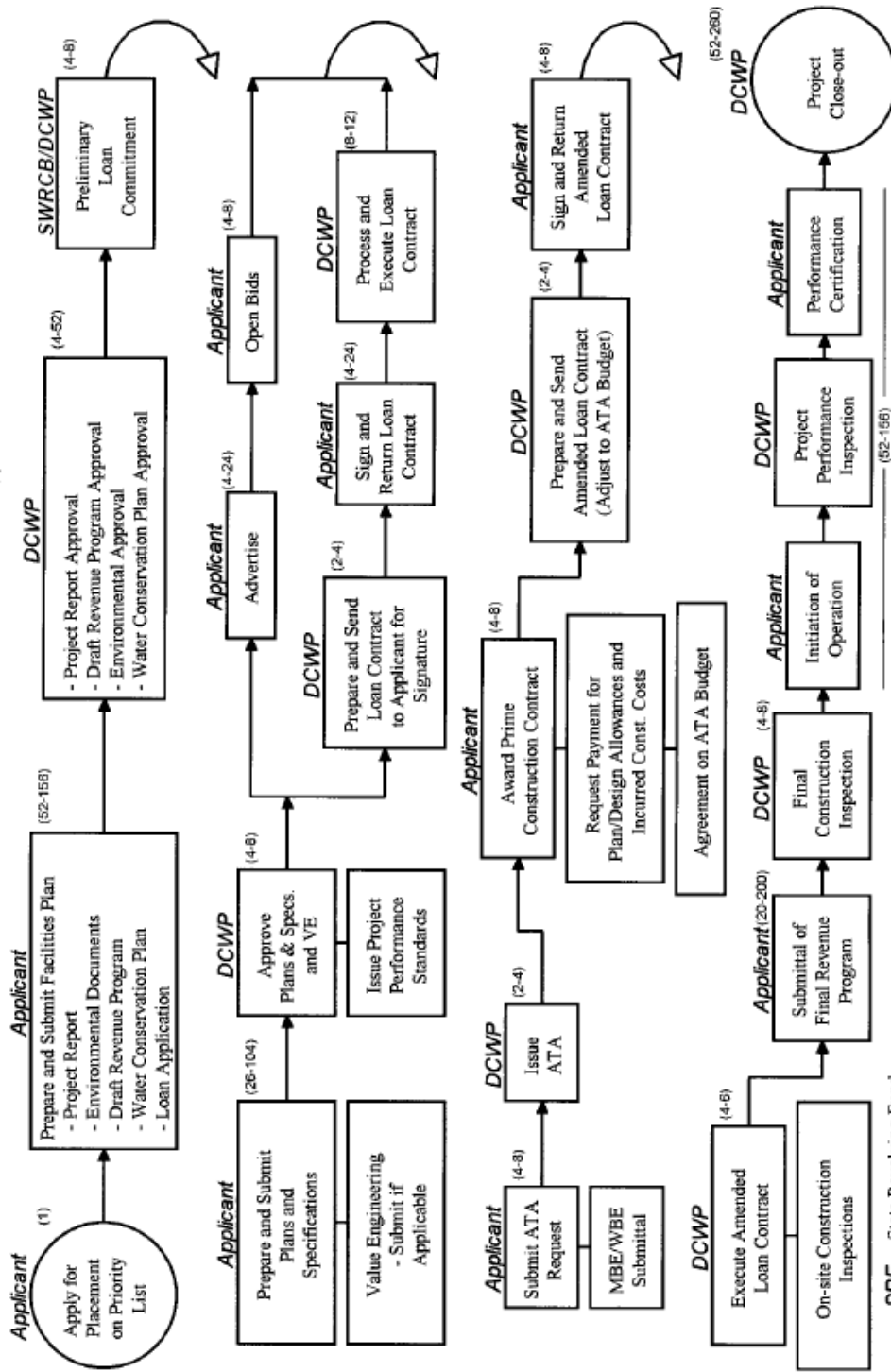
NEXT STEPS

BWA recommends that the City pursue SRF funding to finance the upcoming wastewater treatment plant project. It is by far the lowest cost option available (in terms of total interest cost), it keeps sewer development impact fees at a politically viable level, and it gives the City flexibility in terms of repayment. Also, unlike market rate securities, which would require that the City set sewer rates to levels appropriate to meet debt service **before** selling bonds, the SRF program does not enter repayment for 12 months after the project is complete, which allows the City four to five years to collect impact fees and hold them in reserve for future debt service, and plan for the expected loan repayment with incremental rate increases, rather than one large increase.

BWA has opened preliminary discussions with the State Water Resources Control Board and all indications are that Board officials think the Project is an excellent fit. The next (and most urgent) step is to continue discussions with the Regional Board and get put on the Regional Priority List, that will be submitted by April 30, 2007. It will also be important for the City to complete required project planning documents, the environmental review, and a draft revenue program.

The following flow chart (courtesy of the State Water Resources Control Board) outlines the process for applying for a State Revolving Fund Loan.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
Division of Clean Water Programs
SRF LOAN PROGRAM FLOW CHART



SRF - State Revolving Fund
DCWP - Division of Clean Water Programs
SWRCB - State Water Resources Control Board

Date: 9/14/94

() - Approximate time to complete task in weeks.

Table 1
City of Hughson
Existing and Projected Wastewater Capacity

Wastewater	Current (2008)	Growth	Build-out
Average flow (mgd)	1.00	0.90	1.90
EDUs ¹	3,333	3,000	6,333
Proportion	53%	47%	100%

1- Assumes 300 gpd per EDU.

Source:
Wastewater Treatment Plant TM, Carollo Engineers, 2006.

Table 2
 City of Hughson
 2005-15 Sewer/WWTP Capital Improvement Program

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Total
Fund 61 Projects¹ (Fixed Asset Replacement Fund)										
Charles Street										0
Treatment plant upgrades ²	20,000		3,528,000	3,528,000						7,076,000
Ground water study										0
Water recycling study										0
CEQA study										0
Ongoing capital replacements		200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	1,600,000
Total Fund 61 projects	20,000	200,000	3,728,000	3,728,000	200,000	200,000	200,000	200,000	200,000	8,676,000
Fund 62 Projects³ (Sewer DIF Fund)										
Treatment plant upgrades ²			14,292,000	14,292,000						28,584,000
Ground water study										0
Water recycling study										0
CEQA study										0
Total Fund 62 projects	0	0	14,292,000	14,292,000	0	0	0	0	0	28,584,000
Total CIP	20,000	200,000	18,020,000	18,020,000	200,000	200,000	200,000	200,000	200,000	37,260,000

Source: City of Hughson

1- Fund 61 projects funded by existing users

2- Costs and allocations for WWTP based on Carollo Engineers Master Plan, October 2006 and Alternative 1 Cost Allocation Memo, escalated to mid-point

3- Fund 62 projects funded by future users through DIFs

Table 3
City of Hughson
Summary Insured Capital Assets

	Insured Value
Sewer	
Public works garage (1)	39,644
Admin & lab building	265,800
Chlorine contact building and equipment	257,285
Generator building	117,415
Sludge building	95,182
Headworks	356,044
Shop buildings	269,690
Clarifier	676,791
Aeration basin	1,541,646
Drying beds	39,622
RAS pump station	404,329
Lift stations	415,868
Contractor's equipment (1)	7,196
Vehicles (1)	48,940
Storage sheds and other	<u>1,911</u>
Total sewer	\$4,537,363

1- Allocated 20% each to sewer, water, storm drainage, streets, and parks.

Source: PEPIP-CA Property Schedule, 2005.

Table 4
City of Hughson
Sewer Development Impact Fee

	Value	Allocation to Growth ¹	Allocated Value
Existing facilities			
Existing assets	\$4,537,363	47.4%	\$2,149,277
Future planned facilities			
Draft CIP planned facilities ²	<u>37,260,000</u>	<u>76.7%</u>	<u>28,584,000</u>
Total value of wastewater facilities	41,797,363	73.5%	30,733,277
Interest & Financing Costs			10,530,600
Total Cost Allocated to New Growth			41,263,877
Number of new EDUs			3,000
Fee Calculation			
Update sewer DIF			\$13,755

1- Based on Carollo Technical Memorandum, October 2006

2- See Table 3.

3- Defined as interest cost for financing for chosen method of financing

Table 5
City of Hughson
2006/07 Sewer Operating Budget - Updated (Fund 60)

Revenues

Sewer service charges	\$1,450,000
Grant	30,000
<u>Utility penalties</u>	<u>50,000</u>
Total	1,530,000

Expenditures¹

Salaries and benefits	402,560
Maintenance and operations	578,452
<u>Equipment</u>	<u>109,500</u>
Total	1,090,512

Net operating revenue (before transfers)	439,488
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1 - Includes both sewer and wastewater Fund 60 expenditures; does not include transfers to fixed asset replacement fund

Table 6
City of Hughson
State Revolving Fund Loan

SRF financing¹		
Project cost		\$35,640,000
Issuance cost		100,000
Interest carrying cost		2,300,000
Underwriter's discount		<u>0</u>
Subtotal		38,040,000
Reserve requirement (one year debt service)		0
Total issuance size		38,040,000
Estimated annual debt service		2,440,160
Current net operating revenue		439,488
Additional annual revenue required		2,000,672
Total Interest & Issuance Cost		13,163,200
New growth share	80%	10,530,600

1- SRF payments estimated at 2.5% interest, 20 years

Table 7A
City of Hughson
Sewer System Cash Flow Projection - High Growth

	Projected 2005/06	Budget 2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Starting fund balances								
Fund 60 (O&M)	(\$118,521)	(\$211,411)	\$276,589	\$865,689	\$1,418,789	\$2,168,889	\$2,648,989	\$2,843,089
Fund 61 (Infrastructure)	590,913	(374,337)	(392,337)	(392,337)	(214,337)	(36,337)	(58,337)	(80,337)
Fund 62 (Sewer DIFs)	1,329,043	702,000	780,000	2,028,000	3,333,000	4,701,000	5,217,000	4,836,000
Total Starting Fund Balance	1,801,435	116,252	664,252	2,501,352	4,537,452	6,833,552	7,807,652	7,598,752
Estimated new connections per year			100	100	100	100	100	100
Estimated sewer DIF			\$13,755	\$14,167	\$14,592	\$15,030	\$15,481	\$15,945
Monthly service charge (SFR)	26.65	34.65	37.77	41.17	44.87	48.91	50.38	51.89
Estimated Rate Increase			9.0%	9.0%	9.0%	9.0%	3.0%	3.0%
Net revenues from growth			3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Revenues								
Fund 60 (O&M)								
Sewer service charges	915,000	1,500,000	1,684,000	1,891,000	2,123,000	2,383,000	2,528,000	2,682,000
Grants	41,000	30,000	30,000	0	0	0	0	0
Penalties	25,000	50,000	0	0	0	0	0	0
Other revenues	110	0	100	100	100	100	100	100
Subtotal	981,110	1,580,000	1,714,100	1,891,100	2,123,100	2,383,100	2,528,100	2,682,100
Fund 61 (Infrastructure)¹								
Interest ²	2,000	2,000	0	0	0	0	0	0
Connection Fees	85,000	0	0	0	0	0	0	0
Debt proceeds	0	0	11,868,000	11,868,000	11,868,000	0	0	0
Transfer from operating fund	0	0	0	178,000	178,000	178,000	178,000	178,000
Subtotal	87,000	2,000	11,868,000	12,046,000	12,046,000	178,000	178,000	178,000
Fund 62 (Sewer DIFs)								
Interest	15,000	13,000	23,000	88,000	159,000	239,000	273,000	266,000
Development impact fees	631,000	215,000	1,375,000	1,417,000	1,459,000	1,503,000	1,548,000	1,595,000
Debt proceeds	0	0	0	0	0	0	0	0
Subtotal	646,000	228,000	1,398,000	1,505,000	1,618,000	1,742,000	1,821,000	1,861,000
Total Sewer Revenues	1,714,110	1,810,000	14,980,100	15,442,100	15,787,100	4,303,100	4,527,100	4,721,100
Expenditures								
Fund 60 (O&M)								
<i>Expenditures - Sewer</i>								
Salaries & Benefits	234,000	247,000	254,000	262,000	270,000	278,000	286,000	295,000
Maintenance & Operations	188,000	201,000	207,000	213,000	219,000	226,000	233,000	240,000
New O&M	0	0	0	0	0	250,000	400,000	400,000
Equipment	37,000	56,000	58,000	60,000	62,000	64,000	66,000	68,000
Subtotal	459,000	504,000	519,000	535,000	551,000	818,000	985,000	1,003,000
<i>Expenditures - WWTP</i>								
Salaries & Benefits	114,000	156,000	161,000	166,000	171,000	176,000	181,000	186,000
Maintenance & Operations	336,000	378,000	389,000	401,000	413,000	425,000	438,000	451,000
Equipment	22,000	54,000	56,000	58,000	60,000	62,000	64,000	66,000
Debt service ²	0	0	0	0	0	244,000	488,000	488,000
Transfer to fixed asset replacement (SRF) ³	0	0	0	178,000	178,000	178,000	178,000	178,000
Subtotal	472,000	588,000	606,000	803,000	822,000	1,085,000	1,349,000	1,369,000
Fund 61 (Infrastructure)¹								
<i>Expenditures</i>								
Professional services	0	0	0	0	0	0	0	0
Capital improvements	1,195,250	20,000	11,868,000	11,868,000	11,868,000	200,000	200,000	200,000
Debt service ²	0	0	0	0	0	0	0	0
Subtotal	1,195,250	20,000	11,868,000	11,868,000	11,868,000	200,000	200,000	200,000
Fund 62 (Sewer DIFs)								
<i>Expenditures</i>								
Professional services	100,000	150,000	0	0	0	0	0	0
Capital improvements	500,000	0	150,000	200,000	250,000	250,000	250,000	250,000
Debt service ²	0	0	0	0	0	976,000	1,952,000	1,952,000
Subtotal	600,000	150,000	150,000	200,000	250,000	1,226,000	2,202,000	2,202,000
Total Sewer Expenditures	2,726,250	1,262,000	13,143,000	13,406,000	13,491,000	3,329,000	4,736,000	4,774,000
Surplus/deficit	(1,012,140)	548,000	1,837,100	2,036,100	2,296,100	974,100	(208,900)	(52,900)
Ending fund balance								
Fund 60 (O&M)	(211,411)	276,589	865,689	1,418,789	2,168,889	2,648,989	2,843,089	3,153,189
Fund 61 (Infrastructure)	(374,337)	(392,337)	(392,337)	(214,337)	(36,337)	(58,337)	(80,337)	(102,337)
Fund 62 (Sewer DIFs)	702,000	780,000	2,028,000	3,333,000	4,701,000	5,217,000	4,836,000	4,495,000
Total ending fund balance	116,252	664,252	2,501,352	4,537,452	6,833,552	7,807,652	7,598,752	7,545,852

1- All bond proceeds and Project costs paid to/from Fund 61

2- In "high growth" scenario, 80% of debt service is met by impact fee revenues (Fund 62); 20% of debt service is met by Fund 60

3- SRF loan conditions require that City deposit .5% of total project cost annually into a replacement fund, for the first ten years of the loan.

Table 7B
City of Hughson
Sewer System Cash Flow Projection - Moderate Growth

	Projected 2005/06	Budget 2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Starting fund balances								
Fund 60 (O&M)	(\$118,521)	(\$211,411)	\$276,589	\$925,689	\$1,615,789	\$2,600,889	\$3,073,989	\$2,889,089
Fund 61 (Infrastructure)	590,913	(374,337)	(392,337)	(392,337)	(214,337)	(36,337)	(58,337)	(80,337)
Fund 62 (Sewer DIFs)	1,329,043	702,000	780,000	1,547,000	2,341,000	3,170,000	3,488,000	3,252,000
Total Starting Fund Balance	1,801,435	116,252	664,252	2,080,352	3,742,452	5,734,552	6,503,652	6,060,752
Estimated new connections per year			65	65	65	65	65	65
Estimated sewer DIF			\$13,755	\$14,167	\$14,592	\$15,030	\$15,481	\$15,945
Monthly service charge (SFR)	26.65	34.65	39.50	45.03	51.34	58.52	60.28	62.09
Estimated Rate Increase			14.0%	14.0%	14.0%	14.0%	3.0%	3.0%
Net revenues from growth			2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Revenues								
Fund 60 (O&M)								
Sewer service charges	915,000	1,500,000	1,744,000	2,028,000	2,358,000	2,742,000	2,881,000	3,027,000
Grants	41,000	30,000	30,000	0	0	0	0	0
Penalties	25,000	50,000	0	0	0	0	0	0
Other revenues	110	0	100	100	100	100	100	100
Subtotal	981,110	1,580,000	1,774,100	2,028,100	2,358,100	2,742,100	2,881,100	3,027,100
Fund 61 (Infrastructure)¹								
Interest ²	2,000	2,000	0	0	0	0	0	0
Connection Fees	85,000	0	0	0	0	0	0	0
Debt proceeds	0	0	11,868,000	11,868,000	11,868,000	0	0	0
Transfer from operating fund	0	0	0	178,000	178,000	178,000	178,000	178,000
Subtotal	87,000	2,000	11,868,000	12,046,000	12,046,000	178,000	178,000	178,000
Fund 62 (Sewer DIFs)								
Interest	15,000	13,000	23,000	73,000	131,000	201,000	228,000	212,000
Development impact fees	631,000	215,000	894,000	921,000	948,000	977,000	1,006,000	1,036,000
Debt proceeds	0	0	0	0	0	0	0	0
Subtotal	646,000	228,000	917,000	994,000	1,079,000	1,178,000	1,234,000	1,248,000
Total Sewer Revenues	1,714,110	1,810,000	14,559,100	15,068,100	15,483,100	4,098,100	4,293,100	4,453,100
Expenditures								
Fund 60 (O&M)								
<i>Expenditures - Sewer</i>								
Salaries & Benefits	234,000	247,000	254,000	262,000	270,000	278,000	286,000	295,000
Maintenance & Operations	188,000	201,000	207,000	213,000	219,000	226,000	233,000	240,000
New O&M	0	0	0	0	0	250,000	400,000	400,000
Equipment	37,000	56,000	58,000	60,000	62,000	64,000	66,000	68,000
Subtotal	459,000	504,000	519,000	535,000	551,000	818,000	985,000	1,003,000
<i>Expenditures - WWTP</i>								
Salaries & Benefits	114,000	156,000	161,000	166,000	171,000	176,000	181,000	186,000
Maintenance & Operations	336,000	378,000	389,000	401,000	413,000	425,000	438,000	451,000
Equipment	22,000	54,000	56,000	58,000	60,000	62,000	64,000	66,000
Debt service ²	0	0	0	0	0	610,000	1,220,000	1,220,000
Transfer to fixed asset replacement (SRF) ³	0	0	0	178,000	178,000	178,000	178,000	178,000
Subtotal	472,000	588,000	606,000	803,000	822,000	1,451,000	2,081,000	2,101,000
Fund 61 (Infrastructure)¹								
<i>Expenditures</i>								
Professional services	0	0	0	0	0	0	0	0
Capital improvements	1,195,250	20,000	11,868,000	11,868,000	11,868,000	200,000	200,000	200,000
Debt service ²	0	0	0	0	0	0	0	0
Subtotal	1,195,250	20,000	11,868,000	11,868,000	11,868,000	200,000	200,000	200,000
Fund 62 (Sewer DIFs)								
<i>Expenditures</i>								
Professional services	100,000	150,000	0	0	0	0	0	0
Capital improvements	500,000	0	150,000	200,000	250,000	250,000	250,000	250,000
Debt service ²	0	0	0	0	0	610,000	1,220,000	1,220,000
Subtotal	600,000	150,000	150,000	200,000	250,000	860,000	1,470,000	1,470,000
Total Sewer Expenditures	2,726,250	1,262,000	13,143,000	13,406,000	13,491,000	3,329,000	4,736,000	4,774,000
Surplus/deficit	(1,012,140)	548,000	1,416,100	1,662,100	1,992,100	769,100	(442,900)	(320,900)
Ending fund balance								
Fund 60 (O&M)	(211,411)	276,589	925,689	1,615,789	2,600,889	3,073,989	2,889,089	2,812,189
Fund 61 (Infrastructure)	(374,337)	(392,337)	(392,337)	(214,337)	(36,337)	(58,337)	(80,337)	(102,337)
Fund 62 (Sewer DIFs)	702,000	780,000	1,547,000	2,341,000	3,170,000	3,488,000	3,252,000	3,030,000
Total ending fund balance	116,252	664,252	2,080,352	3,742,452	5,734,552	6,503,652	6,060,752	5,739,852

1- All bond proceeds and Project costs paid to/from Fund 61

2- In "moderate growth" scenario, 50% of debt service is met by impact fee revenues (Fund 62); 50% of debt service is met by Fund 60

3- SRF loan conditions require that City deposit .5% of total project cost annually into a replacement fund, for the first ten years of the loan.

Table 7C
City of Hughson
Sewer System Cash Flow Projection - Low Growth

	Projected 2005/06	Budget 2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Starting fund balances								
Fund 60 (O&M)	(\$118,521)	(\$211,411)	\$276,589	\$1,029,689	\$1,968,789	\$3,401,889	\$4,285,989	\$4,207,089
Fund 61 (Infrastructure)	590,913	(374,337)	(392,337)	(392,337)	(214,337)	(36,337)	(58,337)	(80,337)
Fund 62 (Sewer DIFs)	1,329,043	702,000	780,000	1,066,000	1,351,000	1,648,000	1,719,000	1,531,000
Total Starting Fund Balance	1,801,435	116,252	664,252	1,703,352	3,105,452	5,013,552	5,946,652	5,657,752
Estimated new connections per year								
Estimated sewer DIF			30	30	30	30	30	30
			\$13,755	\$14,167	\$14,592	\$15,030	\$15,481	\$15,945
Monthly service charge (SFR)	26.65	34.65	42.27	51.57	62.92	76.76	79.06	81.44
Estimated Rate Increase			22.0%	22.0%	22.0%	22.0%	3.0%	3.0%
Net revenues from growth			1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Revenues								
Fund 60 (O&M)								
Sewer service charges	915,000	1,500,000	1,848,000	2,277,000	2,806,000	3,458,000	3,597,000	3,742,000
Grants	41,000	30,000	30,000	0	0	0	0	0
Penalties	25,000	50,000	0	0	0	0	0	0
Other revenues	110	0	100	100	100	100	100	100
Subtotal	981,110	1,580,000	1,878,100	2,277,100	2,806,100	3,458,100	3,597,100	3,742,100
Fund 61 (Infrastructure)¹								
Interest ²	2,000	2,000	0	0	0	0	0	0
Connection Fees	85,000	0	0	0	0	0	0	0
Debt proceeds	0	0	11,868,000	11,868,000	11,868,000	0	0	0
Transfer from operating fund	0	0	0	178,000	178,000	178,000	178,000	178,000
Subtotal	87,000	2,000	11,868,000	12,046,000	12,046,000	178,000	178,000	178,000
Fund 62 (Sewer DIFs)								
Interest	15,000	13,000	23,000	60,000	109,000	175,000	208,000	198,000
Development impact fees	631,000	215,000	413,000	425,000	438,000	451,000	464,000	478,000
Debt proceeds	0	0	0	0	0	0	0	0
Subtotal	646,000	228,000	436,000	485,000	547,000	626,000	672,000	676,000
Total Sewer Revenues	1,714,110	1,810,000	14,182,100	14,808,100	15,399,100	4,262,100	4,447,100	4,596,100
Expenditures								
Fund 60 (O&M)								
<i>Expenditures - Sewer</i>								
Salaries & Benefits	234,000	247,000	254,000	262,000	270,000	278,000	286,000	295,000
Maintenance & Operations	188,000	201,000	207,000	213,000	219,000	226,000	233,000	240,000
New O&M	0	0	0	0	0	250,000	400,000	400,000
Equipment	37,000	56,000	58,000	60,000	62,000	64,000	66,000	68,000
Subtotal	459,000	504,000	519,000	535,000	551,000	818,000	985,000	1,003,000
<i>Expenditures - WWTP</i>								
Salaries & Benefits	114,000	156,000	161,000	166,000	171,000	176,000	181,000	186,000
Maintenance & Operations	336,000	378,000	389,000	401,000	413,000	425,000	438,000	451,000
Equipment	22,000	54,000	56,000	58,000	60,000	62,000	64,000	66,000
Debt service ²	0	0	0	0	0	915,000	1,830,000	1,830,000
Transfer to fixed asset replacement (SRF) ³	0	0	0	178,000	178,000	178,000	178,000	178,000
Subtotal	472,000	588,000	606,000	803,000	822,000	1,756,000	2,691,000	2,711,000
Fund 61 (Infrastructure)¹								
<i>Expenditures</i>								
Professional services	0	0	0	0	0	0	0	0
Capital improvements	1,195,250	20,000	11,868,000	11,868,000	11,868,000	200,000	200,000	200,000
Debt service ²	0	0	0	0	0	0	0	0
Subtotal	1,195,250	20,000	11,868,000	11,868,000	11,868,000	200,000	200,000	200,000
Fund 62 (Sewer DIFs)								
<i>Expenditures</i>								
Professional services	100,000	150,000	0	0	0	0	0	0
Capital improvements	500,000	0	150,000	200,000	250,000	250,000	250,000	250,000
Debt service ²	0	0	0	0	0	305,000	610,000	610,000
Subtotal	600,000	150,000	150,000	200,000	250,000	555,000	860,000	860,000
Total Sewer Expenditures	2,726,250	1,262,000	13,143,000	13,406,000	13,491,000	3,329,000	4,736,000	4,774,000
Surplus/deficit	(1,012,140)	548,000	1,039,100	1,402,100	1,908,100	933,100	(288,900)	(177,900)
Ending fund balance								
Fund 60 (O&M)	(211,411)	276,589	1,029,689	1,968,789	3,401,889	4,285,989	4,207,089	4,235,189
Fund 61 (Infrastructure)	(374,337)	(392,337)	(392,337)	(214,337)	(36,337)	(58,337)	(80,337)	(102,337)
Fund 62 (Sewer DIFs)	702,000	780,000	1,066,000	1,351,000	1,648,000	1,719,000	1,531,000	1,347,000
Total ending fund balance	116,252	664,252	1,703,352	3,105,452	5,013,552	5,946,652	5,657,752	5,479,852

1- All bond proceeds and Project costs paid to/from Fund 61

2- In "low growth" scenario, 25% of debt service is met by impact fee revenues (Fund 62); 75% of debt service is met by Fund 60

3- SRF loan conditions require that City deposit .5% of total project cost annually into a replacement fund, for the first ten years of the loan.