

208 AREAWIDE WATER QUALITY MANAGEMENT PLAN

FINANCIAL ASSESSMENT AND PLANNING GUIDE
FOR IMPROVEMENTS TO
WASTEWATER TREATMENT WORKS
JOHNSTOWN, COLORADO

Prepared For:

Larimer-Weld Regional
Council of Governments

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1.0 SUMMARY STATEMENT

Johnstown's financial capabilities are limited with respect to funding costly wastewater system capital improvements. The Town is presently relying heavily on property taxation and its residents are also paying 5% in State and Town sales taxes. Further, there is outstanding debt for previous water and sewer improvements of \$349,000. These existing obligations, plus the need to consider future outlays that may be required in other service areas, suggest that Johnstown should be careful not to overextend itself in committing to heavy long-term costs to support wastewater improvements.

Problems that will arise as the Town attempts to garner the necessary financing for its wastewater system will demand much attention from the existing residents. However, care should be exercised not to overlook the broader problem at hand which is how a central wastewater system should be managed in the best long run interests of the citizens. Management policies regarding the utility service area, extensions, and utility operation are equally as important, and closely related to, financial policies on new hookup and service charges. Policies in these areas should be discussed early to gain citizen understanding and to set the stage for the purely financial decisions. To assist in these areas, the Town should obtain a copy of the Utility Management Handbook (1977) available from the LWCOG.

The most critical financial variable for the Town is the level of maintenance and operating (M & O) costs associated with the improvements. In the event these costs increase to the range of \$50,000 to \$55,000, the average cost per tap would be \$100 or so each year. This would leave little room for retiring any additional Town debt without exceeding a total sewer cost of 1-1/2% of the average household income in Johnstown. Of course, the 1-1/2% level can be exceeded if the Town's citizens desire, yet in light of other obligations, this may not be the best course to take. In any event, substantial grant assistance would be required. If there were an alternative whereby M & O costs would be affected less, more Town borrowing could be undertaken. Such alternatives should be investigated by the Town and its engineers.

Of utmost importance is that Johnstown is sure of its residents' desire for the proposed system, and their understanding of, and willingness to bear the associated costs. If there is agreement to proceed, the management policies should be discussed and sources for outside financial assistance contacted.

FINANCIAL PROGRAM

1.1 EXISTING CONDITIONS IN JOHNSTOWN

1.2 FINANCIAL CAPABILITIES

The 1974 estimated population of Johnstown was 1,500,* an increase of slightly over 300 people from the 1970 census figure (a 25% increase).

The community's 1977 financial picture can be summarized as follows:

- . Assessed Valuation: \$2.06 million
- . Anticipated Town Revenue from Property Tax (1977): \$45,347
- . Combined Mill Levy on Johnstown Taxpayers: 95.87 mills
 - Town 21.96 mills
 - County 21.13 mills
 - School District 52.78 mills
- . Total Sales Tax: 5% (3% State, 2% Town)
- . Additional Sales Tax Capability (Town and Country): 2%
- . Town's Bonded Indebtedness (January 1, 1977):
 - General Obligation Bonds - Water \$330,000
 - Revenue Bonds - Sewer 19,000
 - Special Assessment - Streets 30,000
 - Total \$379,000
- . Town's General Obligation Bond Capacity (10% of Assessed Valuation): \$206,490
- . Median Family Income: \$7,714

Johnstown's ability to raise further general purpose revenues from tax sources is not promising at this time. At the present combined mill levy, there is little remaining ability to raise property tax revenues. Further, the Town is using two cents of the four cents of sales tax that is statutorily available jointly to the Town and County. Finally, the \$379,000 of Town debt represents a substantial repayment burden for the Town's citizens.

1.3 SEWAGE HANDLING FACILITIES AND PROPOSED IMPROVEMENTS

At the end of 1976, there were 515 taps on the sewer collection system. Sewer service charges are \$36 for single-family units per year; current tap fees are \$500.

* Colorado Department of Local Affairs

There is now a total principal amount of \$19,000 in outstanding sewer revenue bonds, requiring an annual debt service of about \$3,400. These bonds will be completely retired in 1983.

Maintenance and operating costs for the system in 1977 are budgeted for \$22,604. Total cash outlay for the system (maintenance, operations, and debt retirement) is estimated at \$25,200 in 1977.

A total of 99 taps were added to the system in the years 1971 through 1976 -- an average of just over 16 taps per year. An estimated 10 taps were added in 1976.

Income to support the Town's sewer system is budgeted at \$25,600 for 1977, \$24,600 of which is shown to represent sewer system service charges.

In 1973, M & I Consulting Engineers suggested various alternatives for upgrading of the Town's sewerage system. The capital costs of these alternatives ranged up to \$356,000. These estimates should be updated to reflect current construction and related costs. A firm recommendation is also needed as to what degree of upgrading is required to meet current water pollution control requirements and the least cost solution that is acceptable.

The mayor's estimate of the current least cost alternative is more in the range of \$500,000. There is some concern that a change in state or federal law will require another upgrading a few years after this one. Therefore, there is indecision as to how much "system" to actually build.

At this time, there is a good deal of uncertainty regarding possible increases in maintenance and operating costs that might be associated with the proposed capital improvements. Before any definitive conclusions can be drawn from the financial analysis, such costs must be pinned down.

2.0 RECOMMENDATIONS FOR SEWER UTILITY MANAGEMENT

The following are suggested general principles for a balanced utility program. This management process has proven successful in preventing construction and operation of sewer systems from posing an unreasonable burden on residents of growing communities, and is the basis for determining optimum financing capabilities.

2.1 UTILITY SERVICE AREA

The community should lead, not merely follow, development. The community should decide where it is most economical and efficient to provide services and make known where it prefers growth to take place. By not annexing or extending utility lines outside the Town into areas it does not want to see grow, it can avoid having to serve those areas. Conversely, for those areas in

which it wishes to encourage growth, it can build trunk lines into them and save potential developers that front end cost. This approach must be tied to other community goals, programs, and strategies in order to be successful.

2.2 FINANCIAL POLICIES

Utility financing for growing communities should be designed so that "he who benefits pays." This approach may be tempered by other community policies, such as a desire to keep or attract an industry unable to pay its fair share, or to assist development of low income housing which could not be built if a full tap fee were required.

This philosophy can be implemented by applying the following policies:

- . Establish service fees based on all costs of operation including employees' wages and benefits, maintenance, depreciation. Additional costs may be included, such as a reasonable fee paid into the General Fund for services of facilities, provided to the sewer utility by other municipal departments, such as office space and vehicles.
- . Establish plant investment or tap fees (PIF) for all new customers or expansions of service, proportionate to treatment plant and trunk capacities the customer is expected to use. (See 3.1.1)
- . Charge all direct costs of attaching to the system directly to the customer; e.g., costs of tapping into the line, and laterals and pipe from the street to the building.

2.3 SERVICE FOR NEW DEVELOPMENTS

Internal or lateral lines or pumps required to serve new developments should be provided by the developers. They may directly finance and build them, passing on costs to future occupants; or, where occupancy is relatively assured, the community may permit a special improvement district to be formed with the bonds paid back over an extended period of years through added mill levies on the properties benefiting. The cost of these localized facilities should not be borne by the community at large.

All extensions of lines past undeveloped areas to a development should be financed by the development seeking the service. Some of these costs can be paid back as intervening property is developed and attached to the system. The community should not be committed to providing such lines on request.

3.0 ANALYSIS OF JOHNSTOWN'S ABILITY TO FINANCE WASTEWATER SYSTEM IMPROVEMENTS

The major question a community must ask itself when considering its capabilities to finance and operate a sewer utility are:

- . Can the community raise enough money to cover capital cost requirements?
- . Can the community support the system on a continuing basis (operating and maintenance costs)?
- . What are the utility financing implications of whether or not the population in the community increases?

In developing a financial program, sewer utility needs for financing should always be placed in the context of total community funding needs. Because locally generated funds all come from the same taxpayer or user, a more moderate commitment to sewer costs may be necessary in order to achieve other community goals. Considering that there are many ways to accomplish funding goals, financing strategy must be used to develop the most equitable system for the users with a minimum of future risk.

Tables 3.0-A and 3.0-B illustrate how much cost to maintain the improved system and retire debt would fall upon each system user (tap) annually under various assumptions of borrowing and population growth. Table 3.0-A assumes operating costs would not increase with the improvements, whereas Table 3.0-B assumes O & M costs would double to \$55,000 as of 1981. The actual outcome will largely be determined by the type of system improvements eventually selected.

Table 3.0-A shows that if the Town borrows \$300,000 for capital improvements, and experiences growth of 5 taps per year, the total burden per tap would be \$108 measured in 1981. If only \$200,000 were borrowed, the 1981 burden per tap would be \$90. With the higher M & O costs shown in Table 3.0-B, these figures are \$158 and \$140 respectively.

This large difference in the average annual cost which must be paid by each system user points up the importance of giving careful consideration to the operating costs associated with alternative capital improvements.

The remainder of this section contains a discussion of how capital and operating funds might be raised to support the system improvements.

3.1 FINANCING THE PROPOSED CAPITAL IMPROVEMENTS

The 1973 engineering analysis presented alternatives ranging (3.1 continued on page 9).

TABLE 3.0-B*

TYPICAL ANNUAL COST FOR EACH UNIT ON THE SYSTEM

Annual Growth Every
Year Through 1996

Growth Rate Relative to 1975 Popu- lation	New Popu- lation Each Year	New Taps	Funds Borrowed By Town For Sewer System Improvements				
			\$ 0	50,000	100,000	200,000	300,000
0%	0	0	113	123	132	152	171
1	16	5	104	113	122	140	158
2	32	10	95	103	112	129	147
3	48	15	86	95	103	120	136
4	64	20	79	87	95	111	127
5	80	25	72	80	88	102	118
6	96	30	65	73	81	95	110
7	112	35	59	66	74	88	102
8	128	40	54	61	67	81	95
9	144	45	49	55	61	75	88
10	160	50	44	50	56	69	82
ANNUAL COSTS							
Operations and Maintenance			55,000	55,000	55,000	55,000	55,000
Old Debt			3,400	3,400	3,400	3,400	3,400
New Debt			-0-	4,906	9,812	19,624	29,436
TOTAL ANNUAL COST			58,400	63,306	68,212	78,024	87,836

* See notes page 8.

** Based on assumption of M & O costs of appoximately twice those of the present system.

Source: Murray; Briscoe, Maphis, Murray & Lamont, Inc.
March, 1977

NOTES ON TABLES 3.0-A AND 3.0-B

- . All costs are calculated for 1981, but nevertheless are close enough estimates of any year through 1996.
- . Based on existing taps = 515
- . New debt is figured at being retired in 20 years and paying an interest rate of 7-1/2%. Actual terms will be closely related to local financial conditions and bond market conditions upon issue.
- . Tap or Plant Investment fees are used to retire as much new debt as possible. For instance, with the addition of 50 taps at \$500 each, as much as \$25,000 in new debt could be retired. In some cases where the growth rate is high and borrowing low, tap fees are applied to the cost of old debt and/or O & M costs.
- . The yearly growth rate necessary to achieve the annual costs shown on the tables would have to occur every year. For example, referring to Table 3.0-A, if \$100,000 were borrowed, 20 new taps would have to be added every year for the next five years (or a total of 100 new taps added to the system over the five-year period) for the annual cost to be \$52 per unit in 1981. To maintain that annual charge, the growth would have to continue by that rate beyond 1981. Note that under the conditions established for Table 3.0-B, the annual cost is \$95.
- . The source of revenue to pay the annual costs is a local decision. The table simply indicates the amount needed.
- . The tables may be adjusted as new information becomes available by using the following basic formula:

$$\text{Annual Cost Per Unit} = \frac{\text{Annual O\&M} + \text{Annual Debt Service} - \text{Tap Fees}}{\text{Number of Units on the System}}$$

- . Note that the tables show the remaining cost, over and above that paid by tap fees, to be shouldered by system users. It may be determined that the maximum or "worst case" figure shown in the top row of the tables is not unreasonable in terms of user's ability to pay. This is the case if no growth occurs and only current residents are available to pay the full cost. If the figure is unreasonable, funds from other sources should be sought to cover the total cost. An alternative would be initially to scale down the amount of borrowing, if possible.

up to \$356,000 for capital costs. Assuming construction costs have inflated by an annual rate of 10% (a conservative estimate), these alternatives would now require a capital investment closer to \$500,000. Initially, Johnstown must come to grips with the question of what degree of upgrading will be required to meet pollution control standards. The major sources of capital funding are plant investment fees (PIF's), grants, and borrowing.

3.1.1 Plant Investment Fees

A plant investment fee is normally set by dividing the total capital cost of the system by its capacity, and determining the pro rata share. For example, a \$100,000 system to serve 100 units would indicate a PIF of \$1,000 per unit. Where a community is large and wealthy enough to generate the proportionate shares of the capital cost, PIF's could fully finance its system.

The availability of revenue from PIF's depends on when and on the extent of new development that occurs. However, to generate some immediate capital funds through this charge, the Town may be able to find proposed developments that will prepay some of their PIF's. This approach is particularly appropriate if new taps might be unavailable if sewer facilities are not improved. Otherwise, PIF's cannot be expected to provide a significant portion of capital funding that will be initially required.

3.1.2 Grants and Subsidized Loans

Grant funds may be available to assist with the costs of capital construction. Because the availability of such funds will be important in figuring the remaining burden on the local residents, this source of funding should be investigated early in the process of deciding if and how the Town should proceed.

Determine the approximate amount of grants (and/or subsidized loans) available from various government sources. For smaller communities such as Johnstown, these are the most likely sources at this time:

- . Farmers Home Administration
- . The Colorado Department of Local Affairs
- . HUD Community Development discretionary funds for service lines

In order to gauge a community's eligibility, these funding agencies typically evaluate the locality's ability and efforts to finance its own system. For example, the Colorado Department of Local Affairs takes into consideration for each community requesting assistance the following:

- . Legal ability to tax
- . Assessed valuation

- . Median family income
- . Current bonded indebtedness
- . Total tax effort
- . Number of people on fixed incomes
- . Level of user charges

The key element considered by the Department of Local Affairs and the Farmers Home Administration, other factors being equal, is the state guideline that a community's annual user charge for sewer service should be at least 1-1/2% of the median family income. This guide is used to determine if a community is doing its fair share to pay for the system. The figure can be lowered for a number of reasons: for example: if a town is in a weak financial condition, or has a large number of people on fixed incomes. But as a general guide, this tells a community how it will stand in potential aid levels from the various funding sources.

The state guideline that 1-1/2% of a community's median family income represents a reasonable annual user fee, indicates that Johnstown's fee level could be up to \$115.71 per tap per year (1-1/2% x \$7,714) and still be considered "reasonable" under the state guideline. Comparing this figure with annual costs projected in Table 3.0-A indicates that with \$200,000 in grant assistance toward a \$500,000 system, and assuming no population growth, Johnstown would be able to repay a loan of \$300,000 through user fees and charge a "reasonable" annual fee. Under the same conditions of grant funding and borrowing, with 1% annual population growth, the Town could remain below the state guideline fee. On the other hand, if operating costs to support the improvements rise as shown in Table 3.0-B, the state guideline would suggest the need for \$400,000 to \$500,000 of grant aid in order to accomplish the \$500,000 system.

Of course the state guideline provides only one indicator. It may be possible to achieve a larger grant; on the other hand, there may not be enough grant money available and a smaller grant may have to be used. In that event, the way the local financing package is developed becomes much more important. Longer term borrowing, or ballooning the loan so there are smaller payments in the near term with larger payments later so that growth will help to provide a base, become considerations. The table can show what to expect in this regard.

All potential sources of assistance should be checked. A summary of possibilities for subsidies, grants and loans can be found in Table 3.1.2-A. Funding availability varies from month to month as new revenues are made available or previously obligated funds are released for reallocation.

3.1.3 Town Borrowing

To determine estimated borrowing needs, deduct anticipated grant amounts and any immediate local funds that might be allocated to the project from the capital cost estimates for the proposed system.

TABLE 3.1.2-A SOURCES OF POTENTIAL FINANCIAL AID

PROGRAM DESCRIPTION	FHA COMMUNITY FACILITY LOANS/GRANTS - FEDERAL	CONSTRUCTION GRANTS FOR SEWERAGE WORKS (STATE OF COLORADO) STATE	FOUR CORNERS REGIONAL SUPPLEMENTAL MENTAL GRANT-FEDERAL	COMMUNITY DEVELOPMENT ACT (HUD)-DISCRETIONARY FUNDS-FEDERAL	EPA CONSTRUCTION GRANTS - FEDERAL	PREDERSON ENG. RECEIVING GRANTS (STATE OF COLORADO) STATE	ECONOMIC DEVELOPMENT GRANTS (EDA) - FEDERAL
FUND USAGE	TO CONSTRUCT, ENLARGE, EXTEND, OR IMPROVE SEWERAGE SYSTEMS.	TO CONSTRUCT, EXPAND, OR MODERNIZE SEWERAGE TREATMENT FACILITIES.	PROGRAM IS GEARED FOR ECONOMIC DEVELOPMENT TYPE PROJECTS, HOWEVER ECONOMIC DEVELOPMENT HAS A VERY BROAD DEFINITION.	TO CONSTRUCT SEWERAGE COLLECTION LINES NOT TREATMENT FACILITIES.	TO PLAN, DESIGN, AND CONSTRUCT SEWERAGE TREATMENT FACILITIES.	PREDERSON ENGINEERING FOR THE EXPANSION, CONSTRUCTION, OR MODERNIZATION OF SEWERAGE TREATMENT SYSTEMS INCLUDING COLLECTION FACILITIES.	THE PROGRAM IS CURRENTLY BEING CONSIDERED BY THE COMMISSIONERS. IT IS ANTI-ECONOMIC DEVELOPMENT.
FORM OF ASSISTANCE	MAY BE EITHER LOAN OR GRANT. LOAN AMOUNT VARIES UPON THE FINANCIAL NEED OF THE COMMUNITY.	ASSISTANCE IS GIVEN IN THE FORM OF A GRANT. MAXIMUM SUPPLEMENTAL GRANT IS \$200,000.	ASSISTANCE IS IN THE FORM OF FEDERAL FUNDING OR \$150,000.	GRANT FROM DISCRETIONARY FUNDS FOR ALL PORTION OF PROJECT.	ASSISTANCE IS IN THE FORM OF A 75% GRANT.	NORMAL STATE GRANT OF 90% APPLICABLE TO 75% OF THE PROJECT. THE REMAINING 15% REQUIREMENT BEING PENDING UPON FINANCIAL NEED.	QUALIFICATION REQUIREMENTS WILL NOT CHANGE. THE BASIC REQUIREMENT BEING RATE AND HIGH NUMBER OF UNEMPLOYED.
AMOUNT OF ASSISTANCE	LOAN/GRANT RANGE: \$20,000-\$200,000.	AVG. GRANT: \$50,000 MAX. GRANT: \$200,000	AVG. GRANT: \$75,000	AVG. GRANT: \$130,000 GRANT RANGE: \$50,000-\$300,000	AVG. GRANT: 71/4 GRANT RANGE:	AVG. GRANT: \$3,700	
CURRENT FISCAL YEAR APPROPRIATION	\$4.8 MIL LOANS, .9 MIL GRANTS	\$2.3 MIL	\$2.5 MIL	\$2.5 MIL FISCAL YEAR 1977 (COLORADO NONMETROPOLITAN)		\$2790,000	
ANTICIPATED APPROPRIATION NEXT FISCAL YEAR	ABOUT THE SAME AS PRIOR YEAR.	\$2.7 MIL	\$1.7 MIL	MINOR INCREASE FOR FY 1978		\$2700,000	
ELIGIBILITY REQUIREMENTS	MUST NOT HAVE THE CAPABILITY TO FINANCE THE PROJECT THROUGH OTHER SOURCES. POP. LESS THAN 10,000 AS OF LAST CENSUS.	ANY MUNICIPALITY OR SPECIAL DISTRICT	ANYONE WHO CAN GET FEDERAL BASIC FUNDING.	A FORM OF GENERAL PURPOSE GOVERNMENT, E.G. INCORPORATED MUNICIPALITIES, COUNTIES, THE STATE OR INDIAN TRIBES.	SEE ATTACHED NOTICE OF FINAL ADJUSTMENT. GRANT PRIORITY SYSTEM DATED AUG. 20, 1975.	ANY MUNICIPALITY OR SPECIAL DISTRICT.	
ELIGIBILITY REQUIREMENTS	MUST NOT HAVE THE CAPABILITY TO FINANCE THE PROJECT THROUGH OTHER SOURCES. POP. LESS THAN 10,000 AS OF LAST CENSUS.	APPLICANT'S POPULATION MUST BE 5,000 OR LESS, AS OF THE LATEST CENSUS.	MUST HAVE RECEIVED ANOTHER SOURCE OF FEDERAL AID.	N/A	N/A	APPLICANT'S POPULATION MUST BE 5,000 OR LESS, AS OF THE LATEST CENSUS.	
DISCRIMINATING FACTORS	FINANCIAL NEED, THE ENTITY MUST BE INDEBTEDNESS.	FINANCIAL NEED, BONDED INDEBTEDNESS, ASSESSED VALUATION, MEDIAN INCOME, ETC.	THE PROJECT MUST PROMOTE ECONOMIC DEVELOPMENT.	EXTENT TO WHICH COMMUNITY HAS AN ECONOMIC DEVELOPMENT NEED. FITS LOW-MOBILITY HOUSING, NEED FOR HOUSING STOCK, ALLEVIATING HEALTH, SAFETY, & WELFARE PROBLEMS AND GRANTS FROM OTHER AGENCIES.	N/A	FINANCIAL NEED, SERIOUSNESS OF POLLUTION PROBLEM.	
APPLICATION MECHANISMS	BEGIN WITH COUNTY FHA REPRESENTATIVE.	A. SUBMIT GRANT APPLICATION TO DIRECTOR OF LOCAL GOVERNMENTS AND APPLY FOR SITE CONTROL COMMISSION.	DETERMINE A SOURCE OF FEDERAL FUNDING OR POSSIBILITY THEREOF. ARRANGE A PRE-APPLICATION CONFERENCE WITH THE FOUR CORNER REPRESENTATIVE. ARRANGE FOR AN A-95 REVIEW OF PROJECT.	APPLICATION PROCESS WAS PUBLISHED IN THE FEDERAL REGISTER ON 11/15/75. VERY STIFF FOR THESE FUNDS.	THE STATE HEALTH DEPARTMENT WILL CONTACT THE MUNICIPALITY WHEN FUNDING BECOMES AVAILABLE.	A. OBTAIN LETTER FROM LOCAL HEALTH DEPARTMENT OFFICIAL. CERTIFYING THAT SYSTEM IS CURRENTLY IN VIOLATION OF STATE STANDARDS. B. OBTAIN ENGINEERS PROPOSAL FOR WORK. C. OBTAIN APPLICATION FORM LG-562/5.	
APPLICATION DEADLINES	FIRST COME - FIRST SERVED UNTIL APPROPRIATION RUNS OUT.	FUNDING IS ON A FIRST COME, FIRST SERVE BASIS.	NO DEADLINES. FUNDING IS ON A FIRST COME, FIRST SERVE BASIS.	TO BE DETERMINED	N/A	FUNDING IS ON A FIRST COME, FIRST SERVE BASIS.	
TIME REQUIRED TO EVALUATE APPLICATION	3 MONTHS	1-3 MONTHS. THIS INCLUDES TIME REQUIRED FOR HEALTH DEPARTMENT REVIEW OF PLANS AND SPECIFICATIONS.	VERY FAST. AS FUNDING IS TIED TO ALREADY APPROVED FEDERAL FUNDING.	TO BE DETERMINED EXCEPT FOR EMERGENCY SITUATIONS	N/A	2 MONTHS	
MISCELLANEOUS	IF FUNDING IS NOT RECEIVED UPON INITIAL APPLICATION, IT IS REVIEWED MONTHLY UNTIL IS FUNDED OR THE APPROPRIATION IS EXHAUSTED. THESE FUNDS MAY BE USED IN COMMUNITY DEVELOPMENT PROJECTS. THE COMMUNITY MUST BE PREPARED TO USE 1.5% OF ITS MEDIAN FAMILY INCOME PER CUSTOMER PER ANNUM TO OPERATE ITS EXISTING NEW PROJECT.	IF FUNDING IS NOT RECEIVED UPON INITIAL APPLICATION, IT IS REVIEWED MONTHLY UNTIL IS FUNDED OR THE APPROPRIATION IS EXHAUSTED. THESE FUNDS MAY BE USED IN COMMUNITY DEVELOPMENT PROJECTS. THE COMMUNITY MUST BE PREPARED TO USE 1.5% OF ITS MEDIAN FAMILY INCOME PER CUSTOMER PER ANNUM TO OPERATE ITS EXISTING NEW PROJECT.			CURRENTLY THERE IS A LARGE EMPHASIS ON STEP 1 AND 2 GRANTS. COMUNITIES MUST BE READY FOR STEP 1. THE AMOUNTS AVAILABLE FOR STEP 1 AND 2 GRANTS WILL BE GREATLY DIMINISHED.	THESE FUNDS MAY BE USED IN COMBINATION WITH OTHER LOANS/GRANTS.	
CONTACTS	JOHN WELKLE, FHA, 337-4717	IVO ROOSPOLD, DEPT. OF LOCAL GOVERNMENTS, DIVISION OF RURAL DEVELOPMENT, 352-2651	ARMAND SEDRELEY, HUD-DENVER, 337-4866	RON SCHUYLER, STATE DEPT. OF HEALTH, 338-6111	PAUL BENKE, ALL PRO LOCAL GOVERNMENTS, JOHN ZENDER LOCAL PUBLIC WORKS ACT, 337-4714	BILL PEED, STATE OF COLORADO DIVISION OF LOCAL GOVERNMENTS, 337-2150	

Whenever possible, revenue bonds should be used to finance sewer system improvements. If a community must borrow to finance utility improvements, it is desirable to protect its general obligation bonding capacity (tied by state law to assessed valuation) for uses where revenue bonding is not feasible. This is because numerous community needs usually cannot be financed from revenue bonds (e.g., parks, libraries, or police facilities). Therefore, any revenue generating operation, such as a sewer system, should borrow on the direct ability of the system to retire the debt.

There are limitations to this financing method; i.e., cases where the cost of the system exceeds its ability to generate revenue, or where general obligation bonds are not limited by state statute (e.g., bonds for water improvements). Even in these cases, the maximum reasonable revenues should be raised from PIF and user fees to retire at least a portion of the debt. Other sources must then supplement system revenues if the project is to occur.

The feasibility of borrowing for Johnstown depends on the amount of operating and maintenance costs that are expected to be required with the system improvements. With no major increase in M & O costs other than inflation, Table 3.0-A shows as much as \$300,000 could be borrowed and, even with only slight population growth, repaid without requiring user fees above the state guideline. On the other hand, if capital improvements double M & O costs to the range of \$55,000 annually, each of the 515 taps will have to pay over \$106 just to support these costs. Within the guideline of \$116, little will remain for any debt retirement.

3.2 SOURCES OF FINANCING SYSTEM OPERATING COSTS

Funds to pay annual operating costs can be obtained from a number of sources. Most typically, these sources are service or user rates, property taxes and sometimes other general fund revenues.

Service or user rates can be the most equitable source of funds. The beneficiary pays in proportion to the amount of benefit received. Rates should be pegged to reflect the full cost of operation, maintenance, and depreciation, and perhaps some portion of debt service where borrowing to provide a plant for existing customers remains unpaid. Tap or plant investment fees can also be used if necessary, but this is not considered a desirable practice for paying operating costs, as it defeats the purpose of the tap fee. Rather, tap fees should be applied to repay bonds issued to finance the added plant capacity serving the new taps.

Because of historical precedent, many communities do not charge users in proportion to their use, but keep a low user rate by subsidizing costs with mill levies on property. This is particularly true in special districts where high user rates would discourage potential hookups. The argument against this use of property tax revenues is that it depletes

an important source of funding general purpose, non-revenue producing facilities.

A community can choose to subsidize rates from its general fund monies. These might be composed, for example, of revenue sharing funds, sales tax, fees or licenses, or cigarette taxes. The same drawback as with using property taxes applies.

Most generally, however, operations and maintenance costs are covered by annual user rates. To determine if a community can generate sufficient user rate revenue to support the system, the state guideline of 1-1/2% of the median family income can be used as a general guide. While a community can certainly charge more than 1-1/2%, anticipated user fees far in excess of this figure may indicate that the residents of the community will find the sewer utility extremely difficult to support.

As described in section 3.1.3 above, the uncertainty regarding M & O costs is a major issue that should be considered by Johnstown as it decides on the type of capital improvements to construct. If these costs go up significantly from their present level, it can be expected that much of the user fees collected will have to be used for operating the system. This means most of the capital improvements will have to be funded by grants as the community will be unable to afford a large amount of borrowing.

3.3 EFFECTS OF POPULATION GROWTH

Consider the implications of population growth. Increased population can provide increased revenue through PIF's, user fees, and taxes, all of which can ease the burden of supporting the sewer utility on existing residents.

A realistic anticipation of growth might encourage the community to borrow more money to finance its system, and will influence the size and/or type of system the community decides to use.

However, bear in mind that increased population may also generate needs for system expansion (necessitating further borrowing) and that projected growth which does not occur on schedule may seriously burden existing residents with higher annual payments than had been planned. Recognizing the possibility for growth--without counting on it to carry the community's financing needs--is a necessary component of evaluating the community's capabilities to support the sewer utility.

Tables 3.0-A and 3.0-B illustrate impacts for Johnstown of various combinations of borrowing levels and growth rates. It can be used to evaluate risk and anticipated cost per user should the Town borrow money to upgrade its system.

4.0 CONCLUSIONS AND RECOMMENDATIONS

4.1 CONCLUSIONS

Regardless of the M & O costs that are associated with Johnstown's wastewater system improvements, outside financial assistance will be required to fund capital improvements costing \$500,000. The Town's present reliance on property tax, sales tax and its outstanding debt dictate that care be exercised not to become overextended in the area of sewer obligations.

The cost required for maintenance and operation is very important. Tables 3.0-A and 3.0-B show that with only inflation of present costs, as much as \$300,000 might be borrowed and repaid without forcing user costs beyond 1-1/2% of household income (the state guideline). On the other hand, with a doubling of M & O costs, very little could be borrowed as these costs would require user rates of more than \$100 on the average per tap for their support alone.

Thus, if the proposed improvements will substantially raise M & O costs, something close to a 100% grant should be sought. On the other hand, with a program indicating only slight M & O impact, the Town can borrow perhaps as much as \$300,000 to combine with grant funds to pay the cost of capital improvements.

The Town's ability to finance its wastewater system improvements is linked with the policies and overall approach to its management of the system. Policies regarding service area extensions, tap fees and user charges will all be critical in ultimately determining whether or not the sewer improvements impose an excessive burden on the Town's existing and new residents.

4.2 RECOMMENDATIONS

It is recommended that Johnstown and its engineers review the wastewater improvement alternatives with a particular concern toward the anticipated M & O costs. Together with assumptions as to reasonable growth, the tables above should be consulted to get a picture of the burden on the system's users at various Town borrowing levels.

Secondly, with some idea in mind as to the total amount of grant assistance required, town representatives should contact the agencies suggested above to get an idea of the likelihood of obtaining financial aid.

Finally, the Town should work with its citizens to agree on policies regarding its overall approach to management of the proposed wastewater system. A recommended approach is discussed in detail in the Utility Management Handbook (1977) available from the Larimer-Weld Council of Governments.