

MEMORANDUM

September 13, 2013

TO: Board of Mayor and Aldermen

FROM: Eric S. Stuckey, City Administrator *Eric*
Russell Truell, Assistant City Administrator / CFO
Mark Hilty, Water Management Director

SUBJECT: Resolution 2013-65 Pertaining to Potential Water and Sanitary Sewer Rate Adjustments Related to TDEC SRF Loans

Purpose

The purpose of this memorandum is to present to and discuss with the Board of Mayor and Aldermen (BOMA) the attached Resolution (2013-65) in order to provide for adequate water and sanitary sewer revenues should BOMA elect to fund certain Integrated Water Resources Planning (IWRP) improvements through the Tennessee Department of Environment and Conservation (TDEC) State Revolving Fund (SRF) loan program.

Background

The City has expressed interest to the TDEC SRF group for funding of various projects related to the IWRP. These projects include:

Clean Water Projects (\$45M)	BOMA Funding Status	Project Status
Water Reclamation Facility Expansion	Design Funded	Design Ongoing
Biosolids Facility Improvements	Preliminary Design Funded through Digestion	Design through Digestion Ongoing
SCADA System Improvements	Design Funded	Design Ongoing

Drinking Water Projects (\$18M)	BOMA Funding Status	Project Status
Water Treatment Plant Improvements	Design Funded for 2MGD, Preliminary Design Funded for 4 MGD	Design as Approved, Ongoing
Advanced Metering Infrastructure (AMI)	Not Funded	On Hold
Water Distribution System Improvements	Design Funded	On Hold
SCADA System Improvements	Design Funded	Design Ongoing

The City received a letter from TDEC (attached) regarding the status of the loans, indicating that funding through SRF would require a rate increase of 15.3% in order to fund both the water and sanitary sewer projects listed above. As previously discussed, TDEC's analyses do not include customer growth, development fees, or anticipated future rate increases. Based on recent conversations with TDEC, these sources of revenue will not be considered unless the City is able to provide some form of guarantee that



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these additional revenues can be expected. It is important to note that the proposed rate increases, based on the current analyses, will need to be in effect prior to the end of construction.

The City received an additional letter from TDEC the first week of September (attached). This letter, dated August 29, 2013, states that a portion (\$4,000,000) of the Water Reclamation Facility expansion project loan can be eligible for 20% principle forgiveness (\$800,000).

To help ensure the City retains SRF funding as an option to fund the IWRP projects, staff is proposing Resolution 2013-65 with the intent of committing the City to rate adjustments, as necessary, with the following conditions:

- The BOMA approves funding of the improvements above, and
- The BOMA approves funding of the improvements through the TDEC SRF.

As stated previously, any rate adjustment wouldn't need to be in effect until completion of construction which is anticipated to be the middle to end of 2015 enabling staff to refine our cost of service.

Recommendation

Staff recommends approval of Resolution 2013-65 as a means to demonstrate to TDEC that the City is willing to make sufficient rate adjustments as necessary based on approved projects and funding sources by the City of Franklin BOMA. This approach is consistent with the process the Board has undertaken the past five year whereby the City develops rate plans based on an assessment the cost of service for providing water and wastewater treatment services including capital investment needs.

RESOLUTION NO. 2013-65

A RESOLUTION TO BE ENTITLED: "INTENT TO AMEND TITLE 22 COMPREHENSIVE FEES AND PENALTIES FOR FUTURE WATER AND SANITARY SEWER RATE ADJUSTMENTS CONTINGENT UPON BOARD AND STATE APPROVED LOANS RECEIVED FROM THE TENNESSEE DEPARTMENT OF ENVIRONMENT AND CONSERVATION STATE REVOLVING FUND"

WHEREAS, the City of Franklin owns and operates a water and sanitary sewer utility system under authorization of the Municipal Charter, and

WHEREAS, revenues received for water and sanitary sewer services are placed into a separate and distinct fund (Utility Fund), and

WHEREAS, this Utility Fund is an enterprise fund of the City maintained in accordance with generally accepted accounting principles, and

WHEREAS, the City received a letter dated August 9, 2013 from Dale Hager from Tennessee Department of Environment and Conservation (TDEC) State Revolving Fund Loan Program, which is attached as Exhibit A, which states that the City "needs to generate an additional approximate \$1,760,000 per year (\$147,00 per month) to qualify for the \$17,500,000 Drinking Water non-subsidized SRF loan or \$2,8000,000 per year (\$234,000 per month) to qualify for the \$45,000,000 non-subsidized Clean Water SRF loan", and

WHEREAS, the letter further states that the City "would need to increase the revenue by \$3,500,000 per year (\$292,000 per month)", and

WHEREAS, the letter states that the proposed loan by the City "will be subject to a by-pass after November 15, 2013 if no significant progress toward processing of the loan is noted by SRF personnel", and

WHEREAS, the City seeks to perform improvements on the water and sanitary sewer utility system with funding from the State Revolving Loan Fund, and

WHEREAS, the City may be required to adjust water and sanitary sewer rates dependent on loan values approved by the Tennessee Department of Environment and Conservation State Revolving Fund and approval of the Board of Mayor and Aldermen to fund these improvements.

NOW, THEREFORE, BE IT RESOLVED:

SECTION 1. That the Board of Mayor and Aldermen hereby intends to amend Title 22 Comprehensive Fees and Penalties, by Ordinance, as necessary, based upon Board of Mayor and Aldermen approval of water and sanitary sewer improvements and Board of Mayor and Aldermen approval of funding these improvements through the Tennessee Department of Environment and Conservation State Revolving Fund.

SECTION 2. That this Resolution shall be effective upon adoption.

ADOPTED THIS _____ DAY OF _____ 2013.



STATE OF TENNESSEE
DEPARTMENT OF ENVIRONMENT AND CONSERVATION
State Revolving Fund Loan Program
Division of Water Resources
William R. Snodgrass Tennessee Tower
312 Rosa L. Parks Avenue, 12th Floor
Nashville, TN 37243

August 9, 2013

The Honorable Ken Moore, Mayor
109 Third Avenue South
Franklin, TN 37064

RE: Additional Revenue Recommendation
Franklin (Williamson County), TN
DWSRF Water Treatment Improvements; Advanced Metering Infrastructure; Water
Distribution System Improvements; and, CWSRF Wastewater Reclamation Facility
Upgrades; Bio-solids Facility; and, Wastewater SCADA System Improvements

Dear Mayor Moore:

Based on a review of audited financial statements for fiscal years 2010 through 2012; information from the facilities plan; projections of revenue and expenses through fiscal year ending June 30, 2017; and, user rates including the rates established via Ordinance # 2012-57, the State Revolving Fund (SRF) Loan Program has determined that the City of Franklin needs to generate an additional approximate \$1,760,000 per year (\$147,000 per month) to qualify for the \$17,500,000 Drinking Water non-subsidized SRF loan or \$2,800,000 per year (\$234,000 per month) to qualify for the \$45,000,000 non-subsidized Clean Water SRF loan. To qualify for both loans, Franklin would need to increase the revenue by \$3,500,000 per year (\$292,000 per month).

The additional revenue could be generated by a 7.6% increase in the existing water and wastewater user rates to qualify for the Drinking Water loan or 12.2% increase in the existing water and wastewater user rates to qualify for the Clean Water loan. To qualify for both loans an increase of 15.3% would be needed. Other means may be used to generate the needed increase in revenues. Please note that user rate increases may be implemented in increments and that the final increment does not have to be effective until the loan reaches the repayment cycle or completion of construction whichever occurs first.

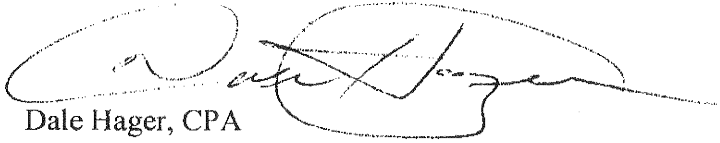
This proposed loan will be subject to by-pass after November 15, 2013 if no significant progress toward processing of the loan is noted by SRF personnel.

Exhibit A

Mayor Moore
RE: Additional Revenue Needed
Date August 9, 2013
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If you have any questions, please contact me at (615) 532-0457 or Dale.Hager@TN.gov .

Sincerely,



Dale Hager, CPA

State Revolving Fund Loan Program, Finance Section

cc: Mr. Eric Stuckey, City Administrator, Franklin, TN (via e-mail)
Mr. Mark Hilty, Director of Water Management, Franklin, TN (via e-mail)
Mr. Sherwin Smith, Program Manager, SRF Loan Program (via e-mail)
Mr. Sam Gaddipati, Environmental Manager, SRF Loan Program (via e-mail)
Ms. Felicia Freeman, Manager, Technical Section, SRF Loan Program (via e-mail)
Dr. Bagher Sami, Manager, Administrative Section, SRF Loan Program (via e-mail)
User Charge System File

ATTEST:

CITY OF FRANKLIN, TENNESSEE

By: _____
Eric S. Stuckey
City Administrator/Recorder

By: _____
Dr. Ken Moore
Mayor

Approved as to Form by:

Shauna R. Billingsley
City Attorney