

Town of Windsor

Memorandum

August 14, 2018

TO: The Honorable Mayor and Town Council
FROM: Michael Stallings, Town Manager *MS*
SUBJECT: Virginia Department of Health Grant Application

As you are aware, this year's Water Fund CIP contains \$300,000 for the construction of the Duke Street/Virginia Avenue water line project. This project is to upgrade from the existing 4" lines on Duke Street to 8" and to upgrade the 4" lines on Virginia Avenue to 6". This project will increase capacity in these areas, replace aging lines, and provide fire protection where there currently is none.

We applied to the VDH office of Drinking Water for \$150,000 in funding. On July 16th I received the attached letter from the VDH regarding our application.

They have provided us with two options:

Option 1

A \$150,000 loan for 20 years at an interest rate of 1% below the 20-year AA municipal bond rate (currently 2.5-3.5%).

Option 2

A \$75,000 grant and a \$75,000 loan at 2.5% for 30 years.

In order to qualify for option 2, we would have to agree to either raise our water rates so that the average monthly bill is 1% of Median Household Income (MHI) or agree to adjust our rates 3% for each of the next five years. This would require us to increase our water rates from the current \$7.50 per 1,000 gallons to \$8.70 per 1,000 gallons by the year 2023. This would result in an increase of the minimum bill from its current \$26.25 to a minimum bill of \$30.42.

We are required to notify the VDH of our selection no later than August 20th.

We had budgeted \$300,000 for this project. This funding was comprised of \$150,000 from the Water Fund Fund Balance and \$150,000 from the VDH. If we elect to go with option 2, I would propose to schedule full repayment of the \$75,000 loan in the next fiscal year to lessen the interest expenses.

This is for Council's discussion and direction.



COMMONWEALTH of VIRGINIA

DEPARTMENT OF HEALTH OFFICE OF DRINKING WATER

Madison Building
109 Governor Street, 6th Floor
Richmond, VA 23219
Phone: 804-864-7500
Fax: 804-864-7521

July 16, 2018

Subject: Isle of Wight County
Water – Town of Windsor
Duke and Virginia Streets Waterline Replacement
WSL – 007-19

Mr. Michael Stallings, Town Manager
Town of Windsor
8 East Windsor Blvd.
Windsor, VA 23487

Re: 2019 Drinking Water Construction/Financial Assistance
DWSRF Initial Offer

Dear Mr. Stallings:

The Virginia Department of Health (VDH) has completed a preliminary review of your application for drinking water construction funds. The determination of the funding package is shown below; however, this determination and your inclusion in VDH's Intended Use Plan is contingent on the availability of federal and state funding as well as the conditions below.

Based on the information provided, VDH determined the total funding package for your project is estimated to be \$150,000. The final amount will be set at loan closing. The funding package was determined using information provided in your loan application.

There are two funding options for your project. Please indicate which option you will commit to in your response letter by indicating your selection as *Option 1* or *Option 2*. If you select Option 2, indicate your plans for complying with the target rate requirement in your response letter.

Option 1: 100% loan at below market rates

The funding package consists of a **loan for a term of 20 years** (or the design life of the project, whichever is less). The interest rate on the loan will be set equal to **1% below** the 20-year AA municipal bond rate at the time of loan closing. Recently the AA bond rate has varied between 2.5% to 3.5 %.

Option 2: \$75,000 as principal forgiveness (grant funds) with a subsidized loan

The funding package under this special program is \$75,000 as principal forgiveness (grant funds) and the remainder as a **30 year loan** (or the design life of the project, whichever is less) **at 2.5% interest**. To qualify for this offer VDH requires the conditions be met:

- The loan must be closed within 12 months of this offer letter.
- Residential user rates to exceed the target rate (1.0% of MHI) prior to project completion, or a commitment to adjust rates to ensure minimum compound revenue increases of 3%¹ each year for the next five years. The Virginia Resources Authority (VRA) may require additional actions in addition to these to secure the loan.

¹ Alternatively owners may commit to using an inflationary linked index such as the Consumer Price Index (CPI) or the Personal Consumption Index (PCE).

VDH recommends all waterworks maintain updated Waterworks Business Operation Plans (WBOP), Asset Management Plans, and/or Capital Improvement Plans. In your response letter, please notify us of the status of your plans. Recently updated WBOP and Asset Management Plans are required to receive funding. VDH may be able to make funds available if you need to update your plans.

This offer requires a commitment to evaluate revenues and adjust rates as necessary to ensure revenue growth that factors in increases (e.g. operational costs, inflation, etc.), other costs (e.g. asset/equipment replacements, technology upgrades, capital improvements, etc.), and takes into account other potential revenue reductions (e.g. future regulations, reductions from water conservation, etc.). VDH urges waterworks owners establish and fund a capital reserve fund that adequately supports capital improvements and asset replacements.

The financial information submitted indicates the owner should raise or adjust water rates; having adequate financial resources is crucial to maintaining a successful and sustainable waterworks. Furthermore, VDH recommends waterworks owners implement a revenue growth model that includes automatic annual rate adjustments that exceed inflation. VDH recommends waterworks self-evaluate their financial position using the attached ***Building Financial Sustainability/Financial Health Indicators*** to ensure they are able to provide for financial sustainability. You should begin to prepare your latest audited financial statement to avoid any delays in credit review and loan closing.

Currently the federal Drinking Water State Revolving Fund (DWSRF) appropriation and final requirements have not yet finalized. However all recipients should expect complying with the American Iron and Steel, Davis Bacon Prevailing Wage, and other provisions will be required.

The funding package and loan closing are conditioned on and are subject to change based on (but not limited to) the following:

- (1) The availability of federal and state match funds to support the DWSRF Program,
- (2) New restrictions/conditions that the EPA or VDH may require in the use of the SRF funds or for participation in the Program,
- (3) The purpose, benefit, or scope of the project changes from the Preliminary Engineering Report (PER) or the DWSRF Application; or the VDH-ODW Field Office does not concur with the project purpose, benefit, or scope,
- (4) Owner complying with the DWSRF Program requirements, and owner's progress to a timely closing according to a pre-negotiated schedule, or delays/changes in project readiness to proceed,
- (5) Owner's history of activities with the ODW/DWSRF Program (i.e. late or non-payments or non-compliance),
- (6) Owner obtaining user agreements from future water users in the project area, (if applicable)
- (7) The financial estimates provided in your loan application changing,
- (8) Owner's ability to secure the loan, all loan offers will require a credit report acceptable to VDH, rates increases may be required to secure the loan,
- (9) Owner soliciting other lenders for parity on this new debt,
- (10) Owner being debarred or suspended from applying for state or federal funds,
- (11) Waterworks maintaining compliance with the Virginia *Waterworks Regulations* and other applicable state/federal laws, regulations, policies, and procedures, and
- (12) EPA mandates that all program assistance recipients demonstrate full technical, financial, and managerial capacity in order to receive funds. VDH may place special requirements on recipients in order to ensure capacity requirements are met prior to loan closing.

An acceptance of this funding offer reflects a commitment on your part to these requirements. VDH reserves the right to by-pass any project that has not executed financial agreements within 12 months from the date of VDH's original award letter.

Mr. Michael Stallings, Town Manager
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Please notify me in writing as soon as possible but no later than August 20, 2018 at the address above of your acceptance of this initial funding package offer or any concerns and additional factors that should be considered. Failure to notify me can be deemed as your withdrawal from this program. Please use the above referenced project number and name on all correspondence. If necessary I can be contacted at (804) 864-7489 or at steve.pellei@vdh.virginia.gov.

Sincerely,



Steven D. Pellei, PE, Director
Division of Construction Assistance, Planning & Policy

cc: Keith Kornegay, PE, Project Supervisor, FCAP
Hampton Roads Planning District Commission
Christopher Wilson, MD, MPH, District Health Director
Dan Horne, ODW Field Director, Southeast VA Field Office