



TO: Bernard Lenz – City of La Crosse Utility Manager

FROM: Christine DeMaster

DATE: April 1, 2021

RE: Recommendation Regarding Wastewater Treatment Plant Project Financing

The Sewer Rate Update prepared by Trilogy Consulting, dated October 2020, recommended a schedule of sewer rates for 2021-2023 based on the estimated project costs available at that time and the assumption that the project would be financed with a Clean Water Fund loan through the State of Wisconsin. The recommended schedule of rates, shown on the table below, was adopted by the City Council on November 12, 2020. The sewer rates were based estimated total project costs including engineering services, construction, and construction administration of \$68.0 million and a net of \$1.75 million in principal forgiveness; with \$65.0 million of this cost funded with a Clean Water Fund loan at an interest rate of 1.65% and \$3.0 million financed from a combination of Utility reserves and current revenues.

The current estimated project costs are approximately \$67.25 million, including engineering services, the awarded bid costs with a 5% contingency, and the proposed construction administration contract fee included. Interest rates for the Clean Water Fund Program have decreased to 1.31%. However, one of the requirements of the program is that the City have current intermunicipal agreements with its municipal wholesale customers. The Wisconsin Department of Natural Resources denied the City's request for a variance from this requirement in a letter dated March 1, 2021. Thus, the City cannot take advantage of these low rates without regional cooperation (i.e. – Signed Sewer Service Contracts). The WDNR letter also indicated that the City has until February 23, 2022 to close on a Clean Water Fund loan with the submitted application and current interest rates.

The City requested Trilogy to evaluate the impacts of alternative financing options on rates for both City of La Crosse customers and its municipal wholesale customers. The City's Financial Advisors, Baker Tilly, provided the City and Trilogy with estimated debt service schedules for two financing options: 1) Issue short-term Bond Anticipation Notes (BANs) maturing in November 2024, at a projected interest rate of 0.55%, which could be refunded with permanent financing as early as 2022; or 2) issue Sewer Revenue Bonds maturing in 2022 through 2041 at a projected average interest rate of 2.24%. Trilogy conducted detailed analysis of the sewer rate impacts and discussed our findings with City staff, administration, and legal counsel. It is our recommendation that the City issue short-term BANs and plan to refund the BANs in 2023 with Sewer Revenue Bonds.

Issuing permanent financing in 2021 (option 2) is not recommended because it is not feasible with the adopted sewer rates; the entire cumulative rate increases adopted for 2022 and 2023 would be required

immediately in 2022 in that scenario. This scenario would also eliminate the potential opportunity to secure low-interest financing through the Clean Water Fund or another program.

Issuing BANs maturing in 2024 (option 1) allows construction to commence using the short-term borrowing while issuing the long-term Revenue Bonds at the end of construction when rate increases are in place to pay the debt service associated with that long-term borrowing. It also has the advantage of keeping the option open for the City to negotiate intermunicipal agreements with the municipal wholesale customers and secure Clean Water Fund financing by February 23<sup>rd</sup>, 2022 or explore other low-interest loan or grant funding opportunities.

The following table shows the projected sewer rates and excess revenues with permanent financing in 2024 at a 3.0% interest rate as rates are likely to rise. It shows a small rate increase may be needed in 2024 if the permanent financing has a higher interest rate than the current interest rates.

The following figure shows the average annual sewer bill for a residential customer in the City of La Crosse would remain lower than those of most other utilities in the area and utilities of similar size in Wisconsin at that estimated 3% interest rate.

The actual sewer rates for 2024 may vary from the figures shown based on final project costs and actual interest rates, or changes in other conditions such as total amount borrowed. A new rate study will be needed in 2023 to determine the actual 2024 rates.



	2021	2022	2023	2024
<b>Approved Rates</b>				
City Rate (per CCF)	\$1.52	\$1.90	\$2.15	\$2.15
Ave. Residential Bill - City	\$151.20	\$174.00	\$189.00	\$189.00
Wholesale Rate per MG - Contract	\$1,970	\$2,365	\$3,315	\$3,315
Wholesale Rate per MG - Noncontract	NA	\$2,650	\$3,698	\$3,698

**Recommended Alternative - BANs in 2021;**

**refinance in 2023 <sup>(1)</sup>**

	2021	2022	2023	2024
City Rate (per CCF)	\$1.52	\$1.90	\$2.15	\$2.36
Ave. Annual Residential Bill - City	\$151.20	\$174.00	\$189.00	\$201.60
City Rate of Return - WWTP <sup>(2)</sup>	NA	4.42%	1.82%	3.27%
Wholesale Rate per MG - La Crescent	\$1,970	\$2,365	\$3,267	\$3,267
Wholesale Rate per MG - Noncontract	NA	\$2,650	\$3,652	\$3,652
Wholesale Rate of Return - WWTP - La Crescent <sup>(2)</sup>	NA	4.90%	4.90%	4.90%
Wholesale Rate of Return - WWTP - Noncontract <sup>(2)</sup>	NA	6.90%	6.90%	6.90%

		<u>Future Years</u>	
Transfer of Excess Revenues		\$475,000	\$475,000
WWTP BANs (@ 0.55%)	\$68,510,000		
WWTP Permanent Financing (@ 3.00%)		\$67,250,000	

(1) Rates shown assume that the Sewer Revenue Bonds issued in 2023 are 20-year bonds at 3.0% and that the City does not have contracts with the City of Onalaska, the Town of Campbell, or the Town of Shelby.

(2) The Rate of Return is the amount that the Utility is projected to earn on the value of its Wastewater Treatment Plant assets.

