

AGENDA
COUNCIL WORKSHOP
City of Brookings
City Hall Council Chamber
898 Elk Drive, Brookings Oregon
Monday March 2, 2009 4:00pm

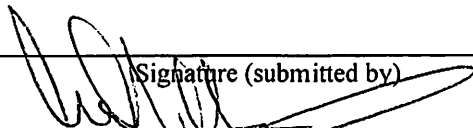
- I. Call to Order
- II. Roll Call
- III. Discussion Items
 - A. Wastewater Rate Study *pg. 3*
 - B. US Borax Infrastructure Financing Agreement *pg. 39*
- IV. Adjournment

All public meetings are held in accessible locations. Auxiliary aids will be provided upon request with advance notification. Please contact 469-1102 if you have any questions regarding this notice.

CITY OF BROOKINGS
Council WORKSHOP Report

Workshop Date: March 2, 2009

Originating Dept: City Manager



Signature (submitted by)

City Manager Approval

Subject: Wastewater Rate Analysis

Recommendation: Review Final Report on Wastewater Rates Analysis prepared by WILLDAN Financial Services

Background/Discussion: WILLDAN Financial Services has prepared a Final Report on Wastewater Rates. Representatives of WILLDAN will attend the March 2 workshop to discuss the report, which was revised following the January 5, 2009 workshop.

Attachment(s): Wastewater Rate Analysis Final Report March 2, 2009

CITY OF BROOKINGS WASTEWATER RATE ANALYSIS

FINAL REPORT

MARCH 2, 2009



Corporate Office
27368 Via Industria
Suite 110
Temecula, CA 92590
Tel: (800) 755-MUNI (6864)
Fax: (951) 587-3510

Office Locations
Anaheim, CA
Lancaster, CA
Oakland, CA

Orlando, FL
Sacramento, CA
Seattle, WA

www.willdan.com

TABLE OF CONTENTS

| | |
|--|----|
| Table of Contents | i |
| Executive Summary | 1 |
| Wastewater Rate Assumptions | 1 |
| Wastewater Rate Findings | 3 |
| Wastewater Rate Recommendations..... | 4 |
| <i>Table E1: Proposed Wastewater Rate Schedule</i> | 4 |
| Suggested Financial Policies..... | 5 |
| Introduction | 6 |
| Current Rates | 7 |
| <i>Table 1: Current Wastewater Rates</i> | 7 |
| Current and Projected Customers | 7 |
| <i>Table 2: Current and Projected Number of Accounts by Customer Class</i> | 8 |
| <i>Table 3: Current and Projected Discharge (HCF)</i> | 8 |
| Annual Revenue Requirements | 9 |
| Approaches to Determining Revenue Requirements..... | 9 |
| Current and Future Revenue Requirements..... | 10 |
| Historical Revenues and Expenses | 10 |
| <i>Table 4: Historic Financial Results</i> | 11 |
| Future Revenue Requirements..... | 12 |
| Operating Expense Projections | 12 |
| Capital Improvement Costs..... | 12 |
| <i>Table 5: Capital Improvement Projects</i> | 13 |
| <i>Table 6: Allocation of CIP Costs</i> | 14 |
| Debt Service..... | 15 |
| <i>Table 7: Current Debt Outstanding – State Revolving Loan</i> | 15 |
| <i>Table 8: State Revolving Loan Paid Through Rates</i> | 16 |
| <i>Table 9: State Current Debt Outstanding – 2003 Debt Issuance</i> | 16 |
| <i>Table 10: Debt Issuance Paid Through Rates</i> | 17 |
| Reserve Funds | 18 |
| Wastewater Revenue Requirements | 18 |
| <i>Table 11: Revenue Requirements Fiscal Years 2008/2009 to 2012/2013</i> | 19 |
| <i>Table 11 (cont): Revenue Requirements Fiscal Years 2008/2009 to 2012/2013</i> | 20 |
| Allocation of Wastewater Costs | 21 |
| Cost of Service Analysis..... | 21 |
| Classification of Expenses to Cost Components | 21 |
| <i>Table 12: Functionalization of Wastewater Utility Revenue Requirements</i> | 22 |
| <i>Table 13: Loading and Unit Rate Calculations – Collection</i> | 23 |
| <i>Table 14: Loading and Unit Rate Calculations – Treatment</i> | 24 |
| <i>Table 15: Loading and Unit Rate Calculations – Current Debt Service</i> | 25 |
| Development of Wastewater Rates..... | 28 |
| Calculation of Proposed Wastewater Rates | 28 |
| <i>Table 17: Calculation of Wastewater Rates</i> | 28 |
| Components of Proposed Wastewater Rates | 29 |
| Conclusion | 32 |

EXECUTIVE SUMMARY

This study of wastewater rates was conducted for the City of Brookings to determine revenue requirements, costs of services, appropriate, fair and equitable rates and rate structures, and to maintain the wastewater utility on a financially sound and stable basis over the next five fiscal years. The study was conducted using historical and projected data on operating and non-operating expenses, debt service, and capital expenditures.

The City retained Willdan Financial Services to prepare a wastewater rate analysis that will include new wastewater rate schedules that meet current and near-term projected system revenue requirements. For purposes of determining annual revenue requirements as a basis to set future wastewater rates, Willdan Financial Services initially examined a study period of ten years, spanning fiscal years 2008/2009 through 2017/2018. However, due to the uncertain nature of the economic climate and in an effort to provide the City with more realistic projections, the study period has been reduced to fiscal years ending 2009 through 2013 (the study period).

Wastewater Rate Assumptions

This section presents the assumptions used in the wastewater rate analysis.

1. The actual budget for fiscal year ending June 30, 2008 was used as the base year.
2. Capital projects are operations-related and will be funded on a "pay-as-you-go" basis as well as by a loan from the Oregon Economic and Community Development Department (OECDD).
3. Construction costs were escalated annually by a factor of 4.04%, based on the average annual percentage change between 2003 and 2007 in the Engineering News Record Construction Cost Index.
4. Desired Operating Reserve Fund Balances are set at 36 days of O&M expenses (10%).
5. The annual customer growth rate for the system as a whole is assumed to be one percent (1.0%) throughout the study period.
6. An inflation factor of four percent (4%) was used to project future operating and personnel expenses.
7. The System Replacement Fund contains money set aside for repair and replacement of wastewater facilities. Currently, that fund has a balance of \$458,500, which will serve as a portion of the beginning balance for the Capital Projects Fund.

8. The beginning Operating Fund balance for fiscal year 2008/2009 is estimated at \$1,316,968, of which, \$281,884 will be transferred to the Capital Projects Fund's beginning balance along with the System Replacement Reserves to fund capital projects to be completed in fiscal year 2008/2009. At the end of fiscal year 2008/2009, and at the end of each subsequent fiscal year, all funds in excess of 10% of O&M and \$500,000 for August Debt Service are assumed to be transferred to the Capital Project Fund.
9. Funds totaling fifteen percent (15%) of O&M expenses are transferred to the General Fund annually to pay for administrative costs associated with general government operations of the City.
10. Harbor Sanitary District (HSD) is financially responsible for the customer and collection costs for all customers within the HSD, including all related costs of the transport of wastewater to the Brookings Wastewater Treatment Plant. The only HSD costs borne by the City are attributed to wastewater treatment.
11. Revenues included in the HSD Charges for Services are correlated to usage. The proposed rate calculated for the HSD is based on historical data as provided by the City.
12. The Wastewater utility currently is paying debt service on State Revolving Loan No. R18230 (the "SFR Loan") and General Obligation Refunding Bonds, Series 2003; the Wastewater Utility has no other outstanding debt.
13. Currently, the HSD and the City of Brookings are engaged in an Intergovernmental Agreement which requires that the HSD pay a percentage of the utility's total current outstanding debt equal to 27.59%. While the intergovernmental agreement will remain in place for the currently outstanding debt, the proposed debt issuance as discussed within this report are apportioned among both HSD and City customers based on discharge.
14. Using the FY 2007/2008 Budget, we calculated the percent transferred to the Wastewater Loan Fund for each period FY 2004/2005 through FY 2007/2008 compared to the amount of total debt service for the SRF Loan for that period. This yielded an average of fifty-one percent (51%). However, pursuant to the City's direction, future debt service payments were calculated as eighty percent (80%) of the total debt service for the following two fiscal years (FY 2008/2009 and FY 2009/2010), after which time the entire debt service would be paid using wastewater rate revenues.
15. Using the FY 2007/2008 Budget and the Debt Service Schedule from the Official Statement for the 2003 General Obligation Bond, we calculated the amount paid through the Wastewater Fund Revenues to be approximately 71% of the total Debt Service using the same approach as listed above. The FY 2006/2007 Audited Financials, however, state that 80% of total debt service is to be paid through User Fee revenues. Per direction from City staff, 80% is assumed to be paid through rate payer revenues in the future.

16. Capital project costs were spread evenly among the years in which those projects were anticipated to be completed according to the Wastewater Facilities Master Plan.
17. Priority III projects were not included because the projected dates of improvement completion are outside of the revised study period. Per direction from the City, Priority I projects will not be funded through rates, and only two-thirds of Priority II projects will be funded through rates.

Wastewater Rate Findings

This section presents the findings of the wastewater rate analysis.

1. The wastewater utility's current financial condition is not viable since revenues have not kept up with rising costs, such as facility repair and maintenance, labor, and materials.
2. Due to increasing expenses, the current revenues are insufficient to finance the utility's operations and repairs.
3. Existing rates will not adequately fund system replacement and major capital project needs.
4. Existing rates will not adequately fund recommended reserve fund balances.

Wastewater Rate Recommendations

Based on the findings of this wastewater rate analysis, we recommend that the City adopt the following items:

1. The proposed wastewater rate structure (see Table E1 below). The rate structure adequately provides for ongoing costs and debt service and allows for funding of reserves for unscheduled expenses.
2. A policy of targeting an Operating Fund balance of 36 days of annual operations and maintenance expenses to ensure that funds are available for emergency purposes and to mitigate future rate shocks.
3. A policy of setting aside funds annually in a CIP reserve account to provide for funding of ongoing capital improvements projects.

Table E1: Proposed Wastewater Rate Schedule

| | FY 2009/2010 | FY 2010/2011 | FY 2011/2012 | FY 2012/2013 |
|-----------------------|---|--------------|--------------|--------------|
| Customer Class | Discharge Rate (Per Hundred Cubic Feet/Account) ¹ | | | |
| Residential | \$ 47.94 | \$ 55.13 | \$ 60.16 | \$ 60.16 |
| Multi Family | 47.94 | 55.13 | 60.16 | 60.16 |
| General Commercial | 7.27 | 8.36 | 9.13 | 9.13 |
| Restaurant | 18.28 | 21.02 | 22.94 | 22.94 |
| Industrial (Mill) | 12.45 | 14.32 | 15.62 | 15.62 |
| Schools | 5.77 | 6.63 | 7.23 | 7.23 |
| Churches | 5.97 | 6.86 | 7.49 | 7.49 |
| HSD | 2.52 | 2.90 | 3.16 | 3.16 |

1. The Residential Customer Class is charged per account and the Multi Family customer class is charged per unit. All other customer classes are charged per hundred cubic feet.

Sources: The City of Brookings; Willdan Financial Services.

Suggested Financial Policies

As part of our recommendations, we suggest the City consider and review potential implementation of the following financial policies related to the management and planning of the wastewater utility. The objectives of setting financial policies would be to 1) guide City Council and management policy decisions that have significant fiscal impacts; 2) set forth operating principles that minimize the cost of utility operations and financial risk; 3) maintain appropriate financial capacity for present and future needs; and 4) promote sound financial management by providing accurate and timely information on the wastewater utility's financial condition. Listed below are the suggested policy items:

1. Utility rates shall be reviewed annually and adjusted, if necessary, to reflect operational and capital cost increases, maintain acceptable debt coverage and minimize future potential for large rate increases.
2. Utility rate studies shall be conducted on a regular basis, e.g. every five years, to ensure the financial viability of the wastewater utility and to ensure cost of service principles are met.
3. Rates should be consistent with City of Brookings Municipal Code 13.15 and established using generally accepted rate setting methodologies including a revenue requirements analysis, cost of service analysis and rate design analysis.
4. Fund balances in the wastewater utility enterprise fund shall be maintained at levels established through rate studies to meet operational, capital and contingency needs. At the time of this rate study, the policies for reserve level funding are as follows:
 - ♦ Operating Reserve Balance equal to thirty-six (36) days of annual operating expenditures.
 - ♦ Reserve Balance of \$500,000 should be maintained annually to ensure the availability of funds to pay the wastewater utility's August debt service.

Excess fund balances shall be used to offset future rate increases, fund approved capital projects, and/or meet unexpected or emergency cost demands of each utility.

INTRODUCTION

This report documents the results of the wastewater rate study conducted for the City of Brookings by Willdan Financial Services. The primary purpose of this study is to develop rate structures that will adequately fund the annual operations and capital needs of the wastewater utility.

This rate study incorporates utility revenues, operating expenses, debt service, and capital expenditures data provided by the City. The objective of the rate study is to develop rate schedules for the wastewater utility during the five-year study period. The projected rate schedules are designed to produce revenues for the wastewater utility to pay administrative, operations, maintenance, capital improvement, and debt service expenditures, in addition to maintaining fund balances at reasonable levels.

The results of the rate study are derived from projected financial analysis of the utility based upon the revenues and expenses of fiscal year ending June 30, 2008 (the base year). A five-year projection of operating results to determine future revenue requirements was developed for the wastewater utility for the fiscal years ending June 30, 2009 through 2013 (the study period).

Current Rates

The City's current wastewater rate structure as provided by the City is listed below:

Table 1: Current Wastewater Rates

| City of Brookings Current Monthly Sewer Charges | | | | |
|--|-----------------|----------------------------|-------------------------------------|------------------|
| <i>Type</i> | <i>Location</i> | <i>Base Monthly Charge</i> | <i>Sewer</i> | <i>SRF-Sewer</i> |
| Single Family | ICL | None | \$44.45 | \$2.60 |
| Multi Family | ICL | None | \$44.45 per unit | \$2.60 per unit |
| General Commercial | ICL | \$2.41 | \$4.68 per 100 cu ft of water usage | \$2.60 per EDU |
| Restaurant | ICL | \$2.41 | \$5.31 per 100 cu ft of water usage | \$2.60 per EDU |
| Industrial (Mill) | ICL | \$2.41 | \$6.36 per 100 cu ft of water usage | \$2.60 per EDU |
| Schools | ICL | \$2.41 | \$2.77 per 100 cu ft of water usage | \$2.60 per EDU |
| Churches | ICL | \$2.41 | \$2.70 per 100 cu ft of water usage | \$2.60 per EDU |
| HSD | N/A | \$1.429 | \$2.276 | \$0.00 |
| Single Family | OCL | \$0.00 | ** not provided** | \$0.00 |
| Multi Family | OCL | \$0.00 | ** not provided** | \$0.00 |
| Commercial | OCL | \$0.00 | ** not provided** | \$0.00 |

Current and Projected Customers

Table 2 shows the current number of wastewater customer accounts. Table 3 depicts the estimated discharge by customer class for the study period.

Table 2: Current and Projected Number of Accounts by Customer Class

| Customer Class | Base - 2007 | FY 2008/2009 | FY 2009/2010 | FY 2010/2011 | FY 2011/2012 | FY 2012/2013 |
|--------------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Residential/Multi Family | 2,829 | 2,857 | 2,886 | 2,915 | 2,944 | 2,973 |
| General Commercial | 164 | 165 | 167 | 168 | 170 | 172 |
| Restaurant | 5 | 5 | 5 | 5 | 5 | 5 |
| Industrial (Mill) | 1 | 1 | 1 | 1 | 1 | 1 |
| Schools | 11 | 11 | 11 | 11 | 11 | 12 |
| Churches | 15 | 16 | 16 | 16 | 16 | 16 |
| HSD | N/A | N/A | N/A | N/A | N/A | N/A |
| Total | 3,025 | 3,055 | 3,086 | 3,117 | 3,148 | 3,179 |

Note: Estimated accounts for FY 2008/2009 through 2012/2013 inflated by 1.0% from base year FY 2007/2008.

Sources: The City of Brookings; Willdan Financial Services.

Table 3: Current and Projected Discharge (HCF)

| Customer Class | Base - 2007 | FY 2008/2009 | FY 2009/2010 | FY 2010/2011 | FY 2011/2012 | FY 2012/2013 |
|--------------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Residential/Multi Family | 180,913 | 182,723 | 184,550 | 186,395 | 188,259 | 190,142 |
| General Commercial | 40,780 | 41,188 | 41,600 | 42,016 | 42,436 | 42,860 |
| Restaurant | 2,503 | 2,528 | 2,553 | 2,578 | 2,604 | 2,630 |
| Industrial (Mill) | 43,982 | 44,422 | 44,866 | 45,315 | 45,768 | 46,226 |
| Schools | 5,733 | 5,791 | 5,849 | 5,907 | 5,966 | 6,026 |
| Churches | 2,283 | 2,306 | 2,329 | 2,352 | 2,376 | 2,399 |
| HSD | 98,220 | 99,202 | 100,194 | 101,196 | 102,208 | 103,230 |
| Total | 374,414 | 378,158 | 381,940 | 385,759 | 389,617 | 393,513 |

Note: Estimated discharge for FY 2008/2009 through 2012/2013 inflated by 1% from base year FY 2007/2008.

Base - 2007 discharge for Residential and Multifamily based on water consumption from February to March.

Sources: The City of Brookings; Willdan Financial Services.

ANNUAL REVENUE REQUIREMENTS

As in most cities, the City of Brookings wastewater utility is operated on an enterprise basis with expenses and revenues accounted for separately from the City's general and other funds. The City's wastewater enterprise fund must receive sufficient total revenue to ensure proper operation and maintenance of the department as well as preserve the financial integrity of the utility and the fund. Adequacy of wastewater revenues can be measured by comparing the wastewater system's revenue requirements to be met from the wastewater rates it charges to its customers.

Approaches to Determining Revenue Requirements

In order to develop adequate revenues from a system of wastewater rates, the annual revenue requirements of the wastewater utility must be determined. There are two commonly accepted bases for determining annual revenue requirements in order to develop a financially sound wastewater rate structure. These approaches are the "cash needs" approach and the "utility" approach.

The "cash needs" basis is typically used by municipally-owned wastewater utilities when establishing rates for their customers. Under this approach, the basic revenue-requirement components include:

- Operating and maintenance (O&M) expenses
- Debt service costs (principal and interest on wastewater utility-related debt instruments)
- Capital expenditures funded directly from current revenues or accruals on a pay-as-you-go basis
- Other elements such as interdepartmental expenses (cost allocation), in-lieu taxes, and interest earnings (considered as a credit to the expenses)

The "utility" basis for determining annual revenue requirements is typically used by regulated investor-owned utilities and regulated municipal utilities. Items normally included in annual revenue requirements based on this approach include:

- Operating and maintenance (O&M) expenses
- In-lieu taxes
- Depreciation expense
- Fair rate of return on the rate base

To determine the revenue requirements for the City's wastewater utility we have used the "cash" basis.

Current and Future Revenue Requirements

The annual revenue requirements are derived from maintenance and operations costs, debt service expenses, and projected capital expense items. Interest earnings, penalties, and other miscellaneous income may offset some of these expenses, but the majority of the costs should be recovered via customer rates and charges.

The City prepares an annual budget for the wastewater system that itemizes all the expenditures for each fiscal year. These expenses include personnel costs, maintenance and operations, equipment repair and replacement, and Capital Improvement Plan (CIP) costs. For the study we also established two new reserves, and added line items within the budget analysis to account for the collection of funds in these reserve accounts. The two reserve funds are as follows:

1. An Operating Reserve - to ensure that funds are available for emergency purposes and to mitigate rate shocks. The reserve amount is set at 10% of the operating revenues. At the end of each fiscal year, any funds in the Operating Reserve in excess of the 10% threshold are assumed to be transferred to the Capital Projects Fund. Additionally, \$500,000 should be set aside annually to ensure the availability of funds to pay the wastewater utility's August debt service.
2. A Capital Projects Fund - to fund CIP "pay as you go" projects. This new fund will enable comprehensive tracking of any net revenues in excess of the 10% Operating Reserve for any given year. The balance of the Capital Projects Fund at the end of FY 2012/2013 is anticipated to be \$509,197, which will be available to fund capital projects beyond the study period.

The wastewater system activities included in our analysis were gathered from the City's actual budget for fiscal year 2007/2008 as well as from information provided by the City. Note that fiscal year 2008/2009 projected revenues and expenditures are based on actual budget for Fiscal year 2007/2008, but additional rate increases will not become effective until the start of fiscal year 2009/2010.

Historical Revenues and Expenses

As a part of this analysis, fiscal years 2004/2005 through 2007/2008 were examined. Base year income and expense data for the wastewater system were obtained for fiscal year 2008/2009 by using the wastewater system budget for fiscal year 2007/2008. The historic financial results of the Wastewater system are shown in Table 4.

Table 4: Historic Financial Results

| | Second Preceding 2004/05 | First Preceding 2005/06 | Actual Budget 2006/07 | Actual Budget 2007/08 |
|--|-----------------------------|----------------------------|--------------------------|--------------------------|
| REVENUE SUMMARY | | | | |
| Net Working Capital | \$ - | \$ - | \$ 934,924 | \$ 1,158,327 |
| Charges For Services | | | | |
| Utility User Fees | 1,744,737 | 1,754,703 | 2,018,006 | 2,056,439 |
| Utility Connection Fees | 21,020 | 48,661 | 4,598 | 25,269 |
| HSD Charges For Services | 510,355 | 550,343 | 499,715 | 286,515 |
| Total Charges For Services | 2,276,112 | 2,353,707 | 2,522,319 | 2,368,223 |
| Miscellaneous Revenue | | | | |
| Interest Income | 12,148 | 25,678 | 39,787 | 30,058 |
| Other Revenue | - | - | 16,838 | (2,400) |
| Transfer In-Wastewater Sys Dev | - | 170,601 | - | - |
| Total Miscellaneous Revenue | 12,148 | 196,279 | 56,625 | 27,658 |
| TOTAL REVENUES | \$ 2,288,260 | \$ 2,549,986 | \$ 3,513,868 | \$ 3,554,208 |
| EXPENDITURE SUMMARY | | | | |
| Personnel Services | | | | |
| Wastewater Collection | \$ 122,699 | \$ 156,812 | \$ 289,071 | \$ 283,424 |
| Wastewater Treatment | 281,321 | 341,337 | 368,472 | 365,581 |
| Total Personnel Services | 404,020 | 498,149 | 657,543 | 649,005 |
| Materials and Services: | | | | |
| Wastewater Collection | 90,376 | 147,777 | 185,438 | 180,787 |
| Wastewater Treatment | 318,705 | 390,245 | 476,851 | 379,086 |
| Total Material and Services | 409,081 | 538,022 | 662,289 | 559,873 |
| Capital Outlay: | | | | |
| Wastewater Collection | 1,015,310 | 50,179 | 78,748 | 4,711 |
| Wastewater Treatment | 224,452 | 57,915 | 192,746 | 30,499 |
| Total Capital Outlay | 1,239,762 | 108,094 | 271,494 | 35,210 |
| Transfers Out: | | | | |
| Transfer Out-General Fund | 30,000 | 54,484 | 47,895 | 89,638 |
| Transfer Out-Dawson Bond Fund | - | - | - | 6,028 |
| Transfer Out-General Reserve | 16,800 | 31,875 | 20,625 | 20,000 |
| Transfer Out-General Fund | 30,000 | 40,139 | 47,571 | 74,514 |
| Transfer Out-Debt Service Fund | 245,000 | 245,200 | 248,900 | 249,000 |
| Transfer Out-General Reserve | - | 6,500 | - | - |
| Transfer Out-WWW Loan Fund | 532,025 | 668,068 | 399,223 | 553,973 |
| Total Transfers Out | 853,825 | 1,046,266 | 764,214 | 993,153 |
| Contingencies & Reserves: | | | | |
| Wastewater Treatment | - | - | - | - |
| Total Contingencies & Reserves | - | - | - | - |
| TOTAL EXPENDITURES | 2,906,688 | 2,190,531 | 2,355,540 | 2,237,240 |
| REVENUES LESS EXPENDITURES | \$ (618,428) | \$ 359,455 | \$ 1,158,328 | \$ 1,316,968 |
| Note: HSD debt service payments for FY 2007/2008 of \$78,944 has been excluded from this budget. | | | | |
| Sources: City of Brookings; Willdan Financial Services. | | | | |

Future Revenue Requirements

An evaluation of future revenue requirements should focus on four specific areas. These areas are increases in operating expenses, capital improvement costs, requirements for debt service, and the maintenance of reserves. The following sections discuss the impact of these four factors on the wastewater utility revenue requirements.

Operating Expense Projections

For the purpose of determining annual revenue requirements as a basis to set future wastewater rates, we used a projection period of five years. During this period (FY 2008/2009 through FY 2012/2013), costs are naturally assumed to increase due to inflationary pressures. The study assumes an expenditure growth rate of four percent (4%) to project the future costs of the system.

Capital Improvement Costs

The City maintains a Capital Improvement Plan (CIP) for the funding of annual capital projects. The values used in this analysis are based on cost estimates provided by the City. Construction costs were escalated annually by a factor of 4.04%, based on the average annual percentage change between 2003 and 2007 in the Engineering News Record Construction Cost Index.

Table 5 presents the operations CIP over the five-year planning period of this study and Table 6 presents the portion of CIP costs for each project that is assumed to be operations-related, i.e. not driven by growth, and will be funded on a “pay-as-you-go” basis or with issuance of debt.

Table 5: Capital Improvement Projects

| Project Name | Priority | FY 2008/2009 | | FY 2009/2010 | | FY 2010/2011 | | FY 2011/2012 | | FY 2012/2013 | |
|-----------------------------------|----------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | | PAYGO | New Debt | PAYGO | New Debt | PAYGO | New Debt | PAYGO | New Debt | PAYGO | New Debt |
| Phase I - Project I | I | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Phase II - Project G | I | - | - | - | - | - | - | - | - | - | - |
| Phase III - Project CE | I | - | - | - | - | - | - | - | - | - | - |
| Phase IV - Project JKL | I | - | - | - | - | - | - | - | - | - | - |
| Project 1 | II | - | 29,227 | - | 30,407 | - | 31,636 | - | 32,913 | - | 34,243 |
| Project 2 | II | - | 14,733 | - | 15,328 | - | 15,948 | - | 16,592 | - | 17,262 |
| Project 3 | II | - | 43,787 | - | 45,555 | - | 47,396 | - | 49,310 | - | 51,302 |
| Project 4 | II | - | 14,467 | - | 15,051 | - | 15,659 | - | 16,292 | - | 16,950 |
| Project 5 | II | - | 22,893 | - | 23,818 | - | 24,780 | - | 25,781 | - | 26,823 |
| Project 6 | II | - | 23,027 | - | 23,957 | - | 24,925 | - | 25,931 | - | 26,979 |
| Project 7 | II | - | 26,507 | - | 27,577 | - | 28,691 | - | 29,850 | - | 31,056 |
| Project 8 | II | 12,320 | - | 12,818 | - | 13,335 | - | 13,874 | - | 14,435 | - |
| Project 9 | II | 20,107 | - | 20,919 | - | 21,764 | - | 22,643 | - | 23,558 | - |
| Project 10 | II | 43,587 | - | 45,347 | - | 47,179 | - | 49,085 | - | 51,068 | - |
| Project 11 | II | 26,293 | - | 27,355 | - | 28,460 | - | 29,610 | - | 30,806 | - |
| Project 12 | II | 37,704 | - | 39,227 | - | 40,812 | - | 42,460 | - | 44,175 | - |
| Project 13 | II | 11,987 | - | 12,471 | - | 12,975 | - | 13,499 | - | 14,044 | - |
| Project 14 | II | 32,613 | - | 33,931 | - | 35,301 | - | 36,727 | - | 38,211 | - |
| Project 15 | II | 31,133 | - | 32,391 | - | 33,699 | - | 35,061 | - | 36,477 | - |
| Project 16 | II | 24,640 | - | 25,635 | - | 26,671 | - | 27,748 | - | 28,869 | - |
| Project 17 | III | - | - | - | - | - | - | - | - | - | - |
| Project 18 | III | - | - | - | - | - | - | - | - | - | - |
| Biosolids Project | | 500,000 | 500,000 | 520,197 | 520,197 | 541,211 | 541,211 | 563,073 | 563,073 | 585,818 | 585,818 |
| Total Wastewater CIP Costs | | \$ 740,384 | \$ 674,640 | \$ 770,292 | \$ 701,892 | \$ 801,407 | \$ 730,245 | \$ 833,780 | \$ 759,743 | \$ 867,461 | \$ 790,433 |

Sources: City of Brookings; Willdan Financial Services.

Table 6: Allocation of CIP Costs

| Project Name | Priority | City | Developer | Existing | New | Deficiency | |
|------------------------|----------|---------------|---------------|-----------------|--------------------|------------|------------|
| | | Funded Cost % | Funded Cost % | Customer Cost % | Development Cost % | % PAYGO | % New Debt |
| Phase I - Project I | I | N/A | N/A | N/A | N/A | N/A | N/A |
| Phase II - Project G | I | N/A | N/A | N/A | N/A | N/A | N/A |
| Phase III - Project CE | I | N/A | N/A | N/A | N/A | N/A | N/A |
| Phase IV - Project JKL | I | N/A | N/A | N/A | N/A | N/A | N/A |
| Project 1 | II | 100% | 0% | 100% | 0% | 0% | 100% |
| Project 2 | II | 100% | 0% | 100% | 0% | 0% | 100% |
| Project 3 | II | 100% | 0% | 100% | 0% | 0% | 100% |
| Project 4 | II | 100% | 0% | 100% | 0% | 0% | 100% |
| Project 5 | II | 100% | 0% | 100% | 0% | 0% | 100% |
| Project 6 | II | 100% | 0% | 100% | 0% | 0% | 100% |
| Project 7 | II | 100% | 0% | 100% | 0% | 0% | 100% |
| Project 8 | II | 100% | 0% | 100% | 0% | 100% | 0% |
| Project 9 | II | 100% | 0% | 100% | 0% | 100% | 0% |
| Project 10 | II | 100% | 0% | 100% | 0% | 100% | 0% |
| Project 11 | II | 100% | 0% | 100% | 0% | 100% | 0% |
| Project 12 | II | 100% | 0% | 90% | 10% | 100% | 0% |
| Project 13 | II | 100% | 0% | 100% | 0% | 100% | 0% |
| Project 14 | II | 100% | 0% | 100% | 0% | 100% | 0% |
| Project 15 | II | 100% | 0% | 100% | 0% | 100% | 0% |
| Project 16 | II | 100% | 0% | 100% | 0% | 100% | 0% |
| Project 17 | III | N/A | N/A | N/A | N/A | N/A | N/A |
| Project 18 | III | N/A | N/A | N/A | N/A | N/A | N/A |
| Biosolids Project | | 100% | 0% | 100% | 0% | 50% | 50% |

Sources: City of Brookings; Willdan Financial Services.

Debt Service

The wastewater utility currently is paying debt service on State Revolving Loan No. R18230. The City, when first acquiring this loan, anticipated to pay debt service primarily through System Development Charges (SDC). SDC revenue was expected to pay up to seventy percent (70%) of the loan payments; however, due to the recent severe decline in real estate development, SDC revenue has not been adequate to cover the payments. As such, a higher percentage of the debt service has been needed from rate payers to cover the current outstanding debt. Discussions with City staff indicated that 80% of the total debt service payment should be made using wastewater rate revenues for fiscal years 2008/2009 and 2009/2010, after which time, the entire debt service is projected to be paid through wastewater rate revenues. Nonetheless, should a substantial increase in SDC revenues occur, an appropriate shift in percentage of debt service paid by wastewater rate revenues may occur. Otherwise, SDC revenues would be shifted to a debt service reserve fund to ensure the City's ability to make future debt service payments.

The wastewater utility is also paying debt service on a 2003 General Obligation Refunding Bond issuance. Per the City's Audited Financial Statements, the portion of the 2003 bond issuance paid through the Wastewater Fund is approximately 80% of the total debt service. The current debt service schedules and the portion of which are paid through rates are shown in Tables 7 through 10.

Table 7: Current Debt Outstanding – State Revolving Loan

| State Revolving Loan No. R18230 | | | | |
|---------------------------------|----------------------|---------------------|-------------------|----------------------|
| Year | Principal | Interest | Fees | Total |
| 2009 | \$ 628,977 | \$ 373,511 | \$ 49,832 | \$ 1,052,320 |
| 2010 | 652,400 | 350,088 | 46,629 | 1,049,117 |
| 2011 | 676,696 | 325,792 | 43,307 | 1,045,795 |
| 2012 | 701,896 | 300,592 | 39,861 | 1,042,349 |
| 2013 | 728,035 | 274,453 | 36,287 | 1,038,775 |
| 2014 | 755,147 | 247,341 | 32,580 | 1,035,068 |
| 2015 | 783,269 | 219,219 | 28,734 | 1,031,222 |
| 2016 | 812,438 | 190,050 | 24,746 | 1,027,234 |
| 2017 | 842,694 | 159,794 | 20,609 | 1,023,097 |
| 2018 | 874,076 | 128,412 | 16,317 | 1,018,805 |
| 2019 | 906,627 | 95,861 | 11,866 | 1,014,354 |
| 2020 | 940,390 | 62,098 | 7,250 | 1,009,738 |
| 2021 | 975,422 | 27,078 | 2,461 | 1,004,961 |
| TOTAL | \$ 10,278,067 | \$ 2,754,289 | \$ 360,480 | \$ 13,392,836 |

Sources: City of Brookings; Willdan Financial Services.

Table 8: State Revolving Loan Paid Through Rates

| Amount of SRF paid through Wastewater Fund | | | | |
|---|---------------------|---------------------|-------------------|---------------------|
| Year | Principal | Interest | Fees | Total |
| 2009 | \$ 364,354 | \$ 216,367 | \$ 28,867 | \$ 609,588 |
| 2010 | 377,922 | 202,799 | 27,011 | 607,733 |
| 2011 | 489,996 | 235,906 | 31,359 | 757,260 |
| 2012 | 508,243 | 217,659 | 28,864 | 754,765 |
| 2013 | 527,170 | 198,731 | 26,275 | 752,177 |
| 2014 | 546,802 | 179,100 | 23,591 | 749,493 |
| 2015 | 567,165 | 158,736 | 20,807 | 746,708 |
| 2016 | 588,286 | 137,615 | 17,918 | 743,820 |
| 2017 | 610,195 | 115,707 | 14,923 | 740,824 |
| 2018 | 632,918 | 92,983 | 11,815 | 737,717 |
| 2019 | 656,489 | 69,413 | 8,592 | 734,494 |
| 2020 | 680,936 | 44,965 | 5,249 | 731,151 |
| 2021 | 706,303 | 19,607 | 1,782 | 727,692 |
| TOTAL | \$ 7,256,779 | \$ 1,889,589 | \$ 247,054 | \$ 9,393,422 |

Note: Payments from the Harbor Sanitary District are paid separately through an intergovernmental agreement between the City and the District and are not included in these amounts.

Sources: City of Brookings; Willdan Financial Services.

Table 9: State Current Debt Outstanding – 2003 Debt Issuance

| 2003 General Obligation Refunding Bonds | | | |
|--|---------------------|-------------------|---------------------|
| Year | Principal | Interest | Total |
| 2004 | \$ 340,000 | \$ 51,338 | \$ 391,338 |
| 2005 | 270,000 | 77,694 | 347,694 |
| 2006 | 275,000 | 72,244 | 347,244 |
| 2007 | 285,000 | 66,644 | 351,644 |
| 2008 | 290,000 | 60,894 | 350,894 |
| 2009 | 295,000 | 54,306 | 349,306 |
| 2010 | 305,000 | 46,044 | 351,044 |
| 2011 | 315,000 | 36,547 | 351,547 |
| 2012 | 215,000 | 26,788 | 241,788 |
| 2013 | 220,000 | 18,100 | 238,100 |
| 2014 | 230,000 | 9,938 | 239,938 |
| 2015 | 150,000 | 2,813 | 152,813 |
| TOTAL | \$ 3,190,000 | \$ 523,348 | \$ 3,713,348 |

Sources: City of Brookings; Willdan Financial Services.

Table 10: Debt Issuance Paid Through Rates

| Amount of 2003 GO Bond paid through Rates | | | | |
|---|---------------------|-------------------|---------------------|--|
| Year | Principal | Interest | Total | |
| 2004 | \$ 196,955 | \$ 29,739 | \$ 226,694 | |
| 2005 | 156,406 | 45,007 | 201,412 | |
| 2006 | 159,302 | 41,850 | 201,152 | |
| 2007 | 165,095 | 38,606 | 203,700 | |
| 2008 | 167,991 | 35,275 | 203,266 | |
| 2009 | 170,888 | 31,458 | 202,346 | |
| 2010 | 176,680 | 26,672 | 203,353 | |
| 2011 | 182,473 | 21,171 | 203,644 | |
| 2012 | 124,545 | 15,518 | 140,063 | |
| 2013 | 127,442 | 10,485 | 137,927 | |
| 2014 | 133,234 | 5,757 | 138,991 | |
| 2015 | 86,892 | 1,630 | 88,522 | |
| TOTAL | \$ 1,847,903 | \$ 303,166 | \$ 2,151,069 | |

Note: Payments from the Harbor Sanitary District are paid separately through an intergovernmental agreement between the City and the District and are not included in these amounts.

Sources: City of Brookings; Willdan Financial Services.

We also anticipate that the City will be able to acquire a loan provided by the OECDD to fund certain capital improvement projects. Per discussion with City staff, the proposed loan would have a term of thirty (30) years and have an interest rate of approximately 4.6%. The total loan amount would be approximately \$4,063,000 and would be composed of the following:

\$3,657,000 – Capital Projects Funds

\$406,000 – Reserve Fund (10% of debt issue)

Reserve Funds

The Operating Fund for the wastewater utility has a balance of \$1,395,912 as of June 30, 2008, according to the FY 2007/2008 Actual Budget (note that this is the unaudited actual budget). Of the \$1,395,912, \$78,944 is revenue received from the HSD for outstanding debt service payments and has been excluded from the required revenue calculations. This leaves a remaining Operating Fund balance of \$1,316,968. We recommended that the City adopt a policy of maintaining a designated balance in the Operating Fund in order to satisfy expense obligations as cash flow fluctuates during the year. In addition, funds equaling approximately half of the annual debt service for State Revolving Loan No. R18230 (\$500,000) should also be reserved in order to ensure the availability of funds for the August debt service payment.

Wastewater Revenue Requirements

Table 11 depicts the annual revenue requirements of the wastewater system for each year of the study period. Fiscal year 2007/2008 is being used as the base year for the study. The study assumes a customer growth rate of one percent (1.0%) and an expenditure growth rate of four percent (4%). The desired Operating Reserve Fund Balance is set at thirty-six (36) days of O&M expenses (10% of Total Operating Expenses). The beginning Operating Fund balance for fiscal year 2008/2009 is estimated at \$1,035,084 of which, \$281,884 will be transferred to the Capital Projects Fund's beginning balance along with the System Replacement Reserves to fund capital projects to be completed in fiscal year 2008/2009. At the end of fiscal year 2008/2009, and at the end of each subsequent fiscal year, all funds in excess of 10% of O&M and \$500,000 for August Debt Service are assumed to be transferred to the Capital Project Fund (line 67).

Table 11: Revenue Requirements Fiscal Years 2008/2009 to 2012/2013

| Description | FY 2007/2008 | FY 2008/2009 | FY 2009/2010 | FY 2010/2011 | FY 2011/2012 | FY 2012/2013 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Operating Revenue | | | | | | |
| 1 Utility User Fees | \$ 2,056,439 | 2,077,004 | 2,097,774 | 2,118,751 | 2,139,939 | 2,161,338 |
| 3 Utility Connection Fees ¹ | \$ 25,269 | - | - | - | - | - |
| 4 Wastewater System Replacement Charge | - | 90,675 | 91,582 | 92,498 | 93,423 | 94,357 |
| 5 HSD Charges For Services ² | 286,515.00 | 289,380 | 292,274 | 295,197 | 298,149 | 301,130 |
| 6 Total Operating Revenue | 2,368,223 | 2,457,059 | 2,481,629 | 2,506,446 | 2,531,510 | 2,556,825 |
| 7 | | | | | | |
| 8 Additional Revenue Required | | | | | | |
| 9 Year | | | | | | |
| 10 FY 2008/2009 0.00% 0 | - | - | - | - | - | - |
| 11 FY 2009/2010 20.00% 12 | - | - | 478,010 | 482,790 | 487,618 | 492,494 |
| 12 FY 2010/2011 15.00% 12 | - | - | - | 434,511 | 438,856 | 443,244 |
| 13 FY 2011/2012 10.00% 12 | - | - | - | - | 306,641 | 309,708 |
| 14 FY 2012/2013 0.00% 12 | - | - | - | - | - | - |
| 15 Total Additional Operating Revenue | - | - | 478,010 | 917,300 | 1,233,114 | 1,245,446 |
| 16 | | | | | | |
| 17 Total Required Revenue | \$ 2,368,223 | \$ 2,457,059 | \$ 2,959,639 | \$ 3,423,746 | \$ 3,764,625 | \$ 3,802,271 |
| 18 | | | | | | |
| 19 Applications of Funds | | | | | | |
| 20 Operating Costs | | | | | | |
| 21 Personnel Services | 649,005 | 674,965 | 701,963 | 730,042 | 759,244 | 789,613 |
| 22 Materials and Services: | 559,873 | 582,268 | 605,559 | 629,781 | 654,972 | 681,171 |
| 23 Total Operating Expenses | 1,208,878 | 1,257,233 | 1,307,522 | 1,359,823 | 1,414,216 | 1,470,784 |
| 24 | | | | | | |
| 25 Net Operating Income (Loss) | 1,159,346 | 1,199,826 | 1,652,117 | 2,063,923 | 2,350,409 | 2,331,486 |
| 26 | | | | | | |
| 27 Debt Service | | | | | | |
| 28 Current Debt Service (SRF Loan) ³ | 553,973 | 609,588 | 759,666 | 757,260 | 754,765 | 752,177 |
| 29 Current Debt Service (2003 Bond) ³ | \$249,000 | \$202,346 | \$203,353 | \$203,644 | \$140,063 | \$137,927 |
| 30 Proposed Loan | - | 47,000 | 96,000 | 148,000 | 203,000 | 262,000 |
| 31 Total Debt Service | 802,973 | 858,934 | 1,059,019 | 1,108,904 | 1,097,828 | 1,152,104 |
| 32 | | | | | | |
| 33 Debt Coverage Ratio | 1.44 | 1.40 | 1.56 | 1.86 | 2.14 | 2.02 |
| 34 | | | | | | |
| 35 Non-Operating Revenue | | | | | | |
| 36 Interest Income | 30,058 | 23,167 | 59,321 | 40,942 | 33,674 | 37,492 |
| 37 Other Revenue | (2,400) | - | - | - | - | - |
| 38 Total Non-Operating Revenue | 27,658 | 23,167 | 59,321 | 40,942 | 33,674 | 37,492 |
| 39 | | | | | | |
| 40 Transfers | | | | | | |
| 41 Transfer Out-General Fund | 89,638 | 102,980 | 107,099 | 111,383 | 115,839 | 120,472 |
| 42 Transfer Out-Dawson Bond Fund | 6,028 | - | - | - | - | - |
| 43 Transfer Out-General Reserve | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| 44 Transfer Out-General Fund | 74,514 | 85,605 | 89,029 | 92,590 | 96,294 | 100,146 |
| 45 Transfer Out-General Reserve | - | - | - | - | - | - |
| 46 Total Transfers | 190,180 | 208,585 | 216,128 | 223,973 | 232,132 | 240,618 |
| 47 | | | | | | |
| 47 Capital Projects Funded by Rates | | | | | | |
| 48 CIP PAYGO Projects | 35,210 | 740,384 | 770,292 | 801,407 | 833,780 | 867,461 |
| 49 Capital Projects Fund Contribution | - | (740,384) | (564,835) | (225,804) | (191,154) | (406,057) |
| 50 Total Capital Projects Funded by Rates | 35,210 | - | 205,457 | 575,603 | 642,626 | 461,404 |
| 51 | | | | | | |
| 52 Net Income (Loss) | 158,641 | 155,474 | 230,833 | 196,384 | 411,496 | 514,854 |

1. Connection Fee Revenue excluded for FY 2008/09 through 2012/13.

2. HSD Charges for Services does not include revenues attributed to HSD charges for Debt or HSD charges for Loan Debt in actual FY 07/08 Budget, as they are part of the terms of an intergovernmental agreement between the HSD and the City, which is not discussed in this study.

3. Current Debt Service payments exclude the 27.59% paid by HSD through intergovernmental agreement.

Sources: City of Brookings; Willdan Financial Services.

Table 11 (cont): Revenue Requirements Fiscal Years 2008/2009 to 2012/2013

| Description | FY 2007/2008 | FY 2008/2009 | FY 2009/2010 | FY 2010/2011 | FY 2011/2012 | FY 2012/2013 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Fund Information | | | | | | |
| Wastewater Enterprise O&M Fund | | | | | | |
| 53 Beginning Operating Fund Balance | 1,158,327 | 1,035,084 | 625,723 | 630,752 | 635,982 | 641,422 |
| 54 Deposit (Withdrawals) | 158,641 | 155,474 | 230,833 | 196,384 | 411,496 | 514,854 |
| 55 Sub Total O&M Fund | \$ 1,316,968 | \$ 1,190,558 | \$ 856,557 | \$ 827,137 | \$ 1,047,479 | \$ 1,156,275 |
| 56 | | | | | | |
| 57 Reserve Balance Percent of O&M | 10% | 10% | 10% | 10% | 10% | 10% |
| 58 Reserve Balance for August Debt Service | NA | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| 59 Desired Operating Reserve Balance | NA | 125,723 | 130,752 | 135,982 | 141,422 | 147,078 |
| 60 Excess (Deficit) O&M / Excess to CIP Fund | NA | 564,835 | 225,804 | 191,154 | 406,057 | 509,197 |
| 61 Ending O&M Fund Balance | - | \$ 625,723 | \$ 630,752 | \$ 635,982 | \$ 641,422 | \$ 647,078 |
| 62 | | | | | | |
| Capital Projects Fund | | | | | | |
| 64 Beginning CIP Fund Balance | NA | 740,384 | 564,835 | 225,804 | 191,154 | 406,057 |
| 65 (Withdrawals for CIP Projects) | NA | (740,384) | (564,835) | (225,804) | (191,154) | (406,057) |
| 66 Deposits excess O&M Funds | NA | 564,835 | 225,804 | 191,154 | 406,057 | 509,197 |
| 67 Ending Capital Projects Fund | \$ - | \$ 564,835 | \$ 225,804 | \$ 191,154 | \$ 406,057 | \$ 509,197 |

2. Assumes \$281,884 will be transferred to the Capital Projects Fund's beginning balance along with the System Replacement Reserves to fund capital projects to be completed in FY 2008/2009. At the end of FY 2008/2009, and at the end of each subsequent fiscal year, all funds in excess of 10% of O&M and \$500,000 for August Debt Service are assumed to be transferred to the Capital Project Fund.

Sources: City of Brookings; Willdan Financial Services.

ALLOCATION OF WASTEWATER COSTS

Cost of Service Analysis

A cost of service analysis converts enterprise-related financing documents to costs incurred by user classes for which rates can be developed. The cost of service study for the City of Brookings is performed in three basic steps.

- The first step is called functionalization, which categorizes cost data in terms of functions performed by a wastewater system. The functions identified in this study include operating and non-operating costs.
- The second step classifies operating and non-operating expenses of the wastewater system to the cost components including the flow and strength of wastewater effluent. The cost components are defined as follows:
 - ♦ Flow Costs: Volume or flow related costs vary with the discharge of wastewater by users over a specified period of time, typically a year
 - ♦ Strength Costs: Strength costs vary with the quality of wastewater discharged as measured by the biochemical oxygen demand (BOD), suspended solids (SS), and Oil & Grease content of the discharged sewage
 - ♦ Customer Costs: Customer related costs vary with the increase or decrease in number of customers over a period of time

The final step in this analysis allocates costs of service to each customer class. This step is accomplished through the development of volume and strength related allocation factors for each customer class. Note that the customer costs are allocated equally to each account for customers within the City of Brookings.

Classification of Expenses to Cost Components

This study utilizes a cost allocation approach that fairly allocates costs among customer classes. This is accomplished by allocating costs into the treatment parameters of flow and strength. These costs are to be allocated in proportion to the percentage that each cost parameter represents. When divided by the wastewater loadings of each user class, unit costs of service are obtained. All costs incurred by a wastewater utility system can be allocated to one or more cost parameters. The allocation of each cost item among flow, BOD, SS is based on industry standards of treatment parameter data.

Each expense of the wastewater system is correlated to a certain percentage of each classification factor. The functionalization, as presented in Table 12, shows these percentages as well as the wastewater system's average projected expenditure budget throughout the study period.

Table 12: Functionalization of Wastewater Utility Revenue Requirements

| Description | Classification | | | | | | | Average FY 2008/09 - FY 2012/13 | | | | | | | |
|---|----------------|-------|------------------|-------|---------------------|----------------|--------|---------------------------------|-------------------|----------------------|-------------------|--------------------|-------------------|---------------------|--|
| | Flow | BOD | BOD ¹ | SS | CDS SS ¹ | Customer Costs | Total | Flow | BOD | CDS BOD ¹ | SS | DS SS ¹ | Customer Costs | Total | |
| <u>Operating Expenses</u> | | | | | | | | | | | | | | | |
| Personnel Services | 65.0% | 15.0% | 0.0% | 15.0% | 0.0% | 5.0% | 100.0% | \$ 475,258 | \$ 109,675 | \$ - | \$ 109,675 | \$ - | \$ 36,558 | \$ 731,165 | |
| Materials and Services: | 30.0% | 30.0% | 0.0% | 30.0% | 0.0% | 10.0% | 100.0% | <u>189,225</u> | <u>189,225</u> | <u>-</u> | <u>189,225</u> | <u>-</u> | <u>63,075</u> | <u>630,750</u> | |
| Total Operating Expenses | | | | | | | | 664,483 | 298,900 | - | 298,900 | - | 99,633 | 1,361,916 | |
| <u>Current Debt Service</u> | | | | | | | | | | | | | | | |
| Current Debt Service (SRF Loan) | 0.0% | 0.0% | 50.0% | 0.0% | 50.0% | 0.0% | 100.0% | \$ - | \$ - | \$ 363,346 | \$ - | \$ 363,346 | \$ - | \$ 726,691 | |
| Current Debt Service (2003 Bond) | 0.0% | 0.0% | 50.0% | 0.0% | 50.0% | 0.0% | 100.0% | <u>-</u> | <u>-</u> | <u>88,733</u> | <u>-</u> | <u>88,733</u> | <u>-</u> | <u>177,466</u> | |
| Total Current Debt Service | | | | | | | | - | - | 452,079 | - | 452,079 | - | 904,158 | |
| <u>Proposed Debt Service</u> | | | | | | | | | | | | | | | |
| Proposed Loan | 29.3% | 35.3% | 0.0% | 35.3% | 0.0% | 0.0% | 100.0% | <u>44,347</u> | <u>53,427</u> | <u>-</u> | <u>53,427</u> | <u>-</u> | <u>-</u> | <u>151,200</u> | |
| Total Proposed Debt Service | | | | | | | | 44,347 | 53,427 | - | 53,427 | - | - | 151,200 | |
| <u>Transfers</u> | | | | | | | | | | | | | | | |
| Transfer Out-General Fund | 25.0% | 25.0% | 0.0% | 25.0% | 0.0% | 25.0% | 100.0% | 27,889 | 27,889 | - | 27,889 | - | 27,889 | 111,555 | |
| Transfer Out-Dawson Bond Fund | 25.0% | 25.0% | 0.0% | 25.0% | 0.0% | 25.0% | 100.0% | - | - | - | - | - | - | - | |
| Transfer Out-General Reserve | 25.0% | 25.0% | 0.0% | 25.0% | 0.0% | 25.0% | 100.0% | 5,000 | 5,000 | - | 5,000 | - | 5,000 | 20,000 | |
| Transfer Out-General Fund | 25.0% | 25.0% | 0.0% | 25.0% | 0.0% | 25.0% | 100.0% | <u>23,183</u> | <u>23,183</u> | <u>-</u> | <u>23,183</u> | <u>-</u> | <u>23,183</u> | <u>92,733</u> | |
| Total Transfers | | | | | | | | 56,072 | 56,072 | - | 56,072 | - | 56,072 | 224,287 | |
| <u>Capital Projects Funded by Rates</u> | | | | | | | | | | | | | | | |
| CIP PAYGO Projects | 29.3% | 35.3% | 0.0% | 35.3% | 0.0% | 0.0% | 100.0% | <u>235,420</u> | <u>283,622</u> | <u>-</u> | <u>283,622</u> | <u>-</u> | <u>-</u> | <u>802,665</u> | |
| Total Capital Projects Funded by Rates | | | | | | | | 235,420 | 283,622 | - | 283,622 | - | - | 802,665 | |
| Total Operating/Non-Operating Expenses | | | | | | | | \$ 1,000,321 | \$ 692,021 | \$ 452,079 | \$ 692,021 | \$ 452,079 | \$ 155,705 | \$ 3,444,225 | |
| Classification Factor | | | | | | | | 29.0% | 20.1% | 13.1% | 20.1% | 13.1% | 4.5% | 100.0% | |

1. CDS stands for current debt service.

Sources: City of Brookings; Willdan Financial Services.

Once the functionalization is calculated, the weighted percentage of cost for each customer class is determined. Table 13 presents the loading and unit rate calculations, which is the weighted percentage of costs associated with wastewater collection per customer class based on flow of wastewater discharge into the system. Collection costs are primarily associated with the system's network of pipelines. Since the HSD is financially responsible for transportation of HSD wastewater to the City's treatment plant, the City bears no costs related to the collection of HSD wastewater, and therefore the HSD's weighted percent of collection costs is zero.

Table 13: Loading and Unit Rate Calculations – Collection

| Customer Class | Projected Discharges to the Sewer System (hcf) | Flow Factor |
|--------------------------|---|-------------|
| Residential/Multi Family | 180,913 | 65.5% |
| General Commercial | 40,780 | 14.8% |
| Restaurant | 2,503 | 0.9% |
| Industrial (Mill) | 43,982 | 15.9% |
| Schools | 5,733 | 2.1% |
| Churches | 2,283 | 0.8% |
| HSD | - | 0.0% |
| Total | 276,194 | 100% |

Sources: The City of Brookings; Willdan Financial Services.

Table 14 presents loading calculations associated with strength characteristics for all costs excluding current debt service. Based on total discharge of each customer class into the system and the strength of the discharge, weighted percentages for BOD and SS are calculated. This methodology ensures that each customer class is paying their proportional share of treatment costs based on both the amount and strength of discharge into the Wastewater Treatment Plant. The percentages of these equivalent discharges into the system help determine share of required revenue to be collected from each customer class. While the HSD is not technically one customer, in order to determine the appropriate rate for the City to impose, the model incorporates historic HSD discharge and the historic concentration levels of said discharge in aggregate.

Table 14: Loading and Unit Rate Calculations – Treatment

| Customer Class | Projected Discharges to the Sewer System (hcf) | Concentration | | Calculated Loading | | | |
|--------------------------|---|---------------|-----------|--------------------|---------------|----------------|---------------|
| | | BOD (mg/l) | SS (mg/l) | BOD (lb/yr) | BOD Factor | SS (lb/yr) | SS Factor |
| Residential/Multi Family | 180,913 | 225 | 225 | 253,934 | 43.6% | 253,934 | 50.3% |
| General Commercial | 40,780 | 200 | 150 | 50,880 | 8.7% | 38,160 | 7.6% |
| Restaurant | 2,503 | 850 | 450 | 13,270 | 2.3% | 7,025 | 1.4% |
| Industrial (Mill) | 43,982 | 450 | 350 | 123,468 | 21.2% | 96,031 | 19.0% |
| Schools | 5,733 | 130 | 100 | 4,650 | 0.8% | 3,577 | 0.7% |
| Churches | 2,283 | 130 | 100 | 1,851 | 0.3% | 1,424 | 0.3% |
| HSD | <u>98,220</u> | 219 | 171 | <u>134,187</u> | <u>23.0%</u> | <u>104,776</u> | <u>20.8%</u> |
| Total | 374,414 | | | 582,240 | 100.0% | 504,927 | 100.0% |

Sources: The City of Brookings; California State Water Resources Control Board Revenue Program Guidelines; Willdan Financial Services.

Per discussions with City staff, the current outstanding debt was undertaken to fund projects related to treatment. For this reason, as shown in Table 12, the total percentages of current debt service are only allotted to BOD and SS characteristics. However, since the amount paid annually by the HSD for the 2003 Bond issue and the SFR Loan is dictated by a fixed percentage, pursuant to their intergovernmental agreement, their debt service costs have been excluded from the percent allocated to each customer class. The revenues and expenses for the HSD's portion of the current debt service have been excluded. Therefore, the HSD's weighted percent of current debt service is zero. Table 15 presents the loading calculations for the current debt service.

Table 15: Loading and Unit Rate Calculations – Current Debt Service

| Customer Class | the Sewer System (hcf) | BOD (mg/l) | SS (mg/l) | BOD (lb/yr) | BOD Factor | SS (lb/yr) | SS Factor |
|--------------------------|------------------------|------------|-----------|----------------|-------------|----------------|---------------|
| Residential/Multi Family | 180,913 | 225 | 225 | 253,934 | 56.7% | 253,934 | 63.5% |
| General Commercial | 40,780 | 200 | 150 | 50,880 | 11.4% | 38,160 | 9.5% |
| Restaurant | 2,503 | 850 | 450 | 13,270 | 3.0% | 7,025 | 1.8% |
| Industrial (Mill) | 43,982 | 450 | 350 | 123,468 | 27.6% | 96,031 | 24.0% |
| Schools | 5,733 | 130 | 100 | 4,650 | 1.0% | 3,577 | 0.9% |
| Churches | 2,283 | 130 | 100 | 1,851 | 0.4% | 1,424 | 0.4% |
| HSD | - | - | - | - | 0.0% | - | 0.0% |
| Total | 276,194 | | | 448,053 | 100% | 400,151 | 100.0% |

Sources: The City of Brookings; California State Water Resources Control Board Revenue Program Guidelines; Willdan Financial Services.

Table 16 shows the loading calculations of the Classification factors by customer class. These calculations are used to determine the allocation factors. The allocation factors are computed by multiplying the functionalization factors by the loading percentages of each customer class. When coupled with their flow, BOD and SS factors, the total revenue requirements can be allocated to each customer class based on their base, flow and strength characteristics. The required revenue allocations for each customer class for each year of the study period are shown in Table 17.

Table 16: Loading, Unit Rate, and Allocation Factors Calculations

| <u>Classification Factors</u> | | | | | | |
|----------------------------------|--------------------|-------------------|---------------------------------|------------------|--------------------------------|-----------------------|
| <u>Customer Class</u> | <u>Flow Factor</u> | <u>BOD Factor</u> | <u>Current Debt Service BOD</u> | | <u>Current Debt Service SS</u> | |
| | | | <u>Factor</u> | <u>SS Factor</u> | <u>Factor</u> | |
| Residential/Multi Family | 65.5% | 43.6% | 56.7% | 50.3% | 63.5% | |
| General Commercial | 14.8% | 8.7% | 11.4% | 7.6% | 9.5% | |
| Restaurant | 0.9% | 2.3% | 3.0% | 1.4% | 1.8% | |
| Industrial (Mill) | 15.9% | 21.2% | 27.6% | 19.0% | 24.0% | |
| Schools | 2.1% | 0.8% | 1.0% | 0.7% | 0.9% | |
| Churches | 0.8% | 0.3% | 0.4% | 0.3% | 0.4% | |
| HSD | 0.0% | 23.0% | 0.0% | 20.8% | 0.0% | |
| Totals | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | |
| <u>Functionalization Factors</u> | | | | | | |
| | <u>Operating</u> | | <u>Debt Service</u> | <u>Operating</u> | <u>Debt Service SS</u> | <u>Customer Costs</u> |
| | <u>Flow Factor</u> | <u>BOD Factor</u> | <u>BOD Factor</u> | <u>SS Factor</u> | <u>Factor</u> | |
| Average FY 2008/09 to 2012/13 | 29.0% | 20.1% | 13.1% | 20.1% | 13.1% | 4.5% |

Sources: The City of Brookings; Willdan Financial Services.

| <u>Allocation Factors</u> | | | | | |
|---------------------------|-------------------|---------------------------------|------------------|--------------------------------|--|
| <u>Flow Factor</u> | <u>BOD Factor</u> | <u>Current Debt Service BOD</u> | | <u>Current Debt Service SS</u> | |
| | | <u>Factor</u> | <u>SS Factor</u> | <u>Factor</u> | |
| 19.02% | 8.76% | 7.44% | 10.10% | 8.33% | |
| 4.29% | 1.76% | 1.49% | 1.52% | 1.25% | |
| 0.26% | 0.46% | 0.39% | 0.28% | 0.23% | |
| 4.62% | 4.26% | 3.62% | 3.82% | 3.15% | |
| 0.60% | 0.16% | 0.14% | 0.14% | 0.12% | |
| 0.24% | 0.06% | 0.05% | 0.06% | 0.05% | |
| 0.00% | 4.63% | 0.00% | 4.17% | 0.00% | |
| 29.0% | 20.1% | 13.1% | 20.1% | 13.1% | |

Sources: The City of Brookings; Willdan Financial Services.

Table 17: Allocation of Revenue Requirements FY 2009/10 to 2012/13

| FY 2009:2010 | | | | | | | | FY 2010:2011 | | | | | | |
|--------------------------|-------------------|-------------------|---------------------------------|-------------------|--------------------------------|-----------------------------|---------------------|--------------------------|-------------------|-------------------|---------------------------------|-------------------|--------------------------------|-----------------------------|
| Customer Class | Flow Factor | BOD Factor | Current Debt Service BOD Factor | SS Factor | Current Debt Service SS Factor | Customer Costs ¹ | Total | Customer Class | Flow Factor | BOD Factor | Current Debt Service BOD Factor | SS Factor | Current Debt Service SS Factor | Customer Costs ¹ |
| Residential/Multi Family | \$ 545,622 | \$ 251,324 | \$ 213,354 | \$ 289,805 | \$ 238,895 | \$ 121,260 | \$ 1,660,262 | Residential/Multi Family | \$ 633,740 | \$ 291,913 | \$ 247,811 | \$ 336,610 | \$ 277,477 | \$ 140,844 |
| General Commercial | 122,990 | 50,367 | 42,749 | 43,550 | 35,900 | 7,010 | 302,556 | General Commercial | 142,852 | 58,489 | 49,653 | 50,584 | 41,698 | 8,142 |
| Restaurant | 7,548 | 13,134 | 11,150 | 8,018 | 6,609 | 214 | 46,672 | Restaurant | 8,767 | 15,255 | 12,950 | 9,313 | 7,677 | 249 |
| Industrial (Mill) | 132,647 | 122,199 | 103,738 | 109,597 | 90,344 | 43 | 558,566 | Industrial (Mill) | 154,069 | 141,934 | 120,491 | 127,297 | 104,934 | 50 |
| Schools | 17,291 | 4,602 | 3,907 | 4,082 | 3,365 | 471 | 33,718 | Schools | 20,084 | 5,345 | 4,538 | 4,741 | 3,908 | 548 |
| Churches | 6,885 | 1,832 | 1,556 | 1,625 | 1,340 | 659 | 13,898 | Churches | 7,997 | 2,128 | 1,807 | 1,888 | 1,556 | 765 |
| HSD | - | 132,808 | - | 119,577 | - | - | 252,385 | HSD | - | 154,256 | - | 138,889 | - | - |
| Totals | \$ 832,982 | \$ 576,256 | \$ 376,453 | \$ 576,256 | \$ 376,453 | \$ 129,658 | \$ 2,868,057 | Totals | \$ 967,509 | \$ 669,321 | \$ 437,250 | \$ 669,321 | \$ 437,250 | \$ 150,598 |

| FY 2011:2012 | | | | | | | | FY 2012:2013 | | | | | | |
|--------------------------|---------------------|-------------------|---------------------------------|-------------------|--------------------------------|-----------------------------|---------------------|--------------------------|---------------------|-------------------|---------------------------------|-------------------|--------------------------------|-----------------------------|
| Customer Class | Flow Factor | BOD Factor | Current Debt Service BOD Factor | SS Factor | Current Debt Service SS Factor | Customer Costs ¹ | Total | Customer Class | Flow Factor | BOD Factor | Current Debt Service BOD Factor | SS Factor | Current Debt Service SS Factor | Customer Costs ¹ |
| Residential/Multi Family | \$ 698,413 | \$ 321,703 | \$ 273,100 | \$ 370,961 | \$ 305,793 | \$ 155,217 | \$ 2,125,187 | Residential/Multi Family | \$ 705,397 | \$ 324,920 | \$ 275,831 | \$ 374,670 | \$ 308,861 | \$ 156,769 |
| General Commercial | 157,430 | 64,458 | 54,720 | 55,746 | 45,953 | 8,973 | 387,260 | General Commercial | 159,005 | 65,103 | 55,267 | 56,303 | 46,412 | 9,063 |
| Restaurant | 9,661 | 16,812 | 14,272 | 10,263 | 8,460 | 274 | 59,742 | Restaurant | 9,758 | 16,980 | 14,415 | 10,366 | 8,545 | 277 |
| Industrial (Mill) | 169,792 | 156,419 | 132,787 | 140,287 | 115,643 | 55 | 714,982 | Industrial (Mill) | 171,490 | 157,983 | 134,115 | 141,690 | 116,799 | 55 |
| Schools | 22,133 | 5,891 | 5,001 | 5,225 | 4,307 | 604 | 43,160 | Schools | 22,355 | 5,949 | 5,051 | 5,277 | 4,350 | 610 |
| Churches | 8,813 | 2,346 | 1,991 | 2,081 | 1,715 | 844 | 17,789 | Churches | 8,902 | 2,369 | 2,011 | 2,101 | 1,732 | 852 |
| HSD | - | 169,998 | - | 153,063 | - | - | 323,061 | HSD | - | 171,698 | - | 154,593 | - | - |
| Totals | \$ 1,066,243 | \$ 737,625 | \$ 481,871 | \$ 737,625 | \$ 481,871 | \$ 165,966 | \$ 3,671,202 | Totals | \$ 1,076,905 | \$ 745,002 | \$ 486,690 | \$ 745,002 | \$ 486,690 | \$ 167,626 |

¹ Customer costs allocated by number of projected sewer accounts for the City of Brookings.

Sources: The City of Brookings; Willdan Financial Services.

Development of Wastewater Rates

Following the distribution of the revenue requirements to the classification factors, these requirements are used in the development of new wastewater rates. Based on the analysis conducted for the City in this rate study, a rate schedule has been developed which, if implemented by the City, should generate enough revenue to cover estimated expenses and maintain the desired wastewater fund balances depicted.

Calculation of Proposed Wastewater Rates

Tables 2 and 3 show the projected amount of discharge for each customer class as well as the projected number of customers. Note that the projected future discharge was calculated using a growth factor of one percent (1.0%) and the number of customers was calculated using a growth factor of one percent (1.0%).

Table 17 shows the wastewater rates for the study period. Note that Residential and Multifamily customers are charged per dwelling unit, while all other classes are charged based on each 100 cubic feet of water consumption. In order to estimate discharge on a per customer basis, the months with the lowest water consumption (per the billing database) were examined. Water consumption is used as a proxy to gauge the amount of wastewater discharged into the system relative to the other customer classes. The months with lowest water consumption are used to minimize the disparity between discharge and water consumption that may be attributed to water that ultimately does not enter into the Wastewater system. Therefore, the rates for Residential and Multifamily will be based on their average water consumption during February and March. This amount should be updated annually.

Brookings Municipal Code 13.15.120 requires a “base monthly charge” in addition to a charge per unit of water usage. The methodology used, as agreed upon with City staff, to calculate the below listed rates, provide sufficient revenue to operate the system while basing the non-residential rates on water usage alone.

Table 17: Calculation of Wastewater Rates

| | FY 2009/2010 | FY 2010/2011 | FY 2011/2012 | FY 2012/2013 |
|-----------------------|---|--------------|--------------|--------------|
| Customer Class | Discharge Rate (Per Hundred Cubic Feet/Account) ¹ | | | |
| Residential | \$ 47.94 | \$ 55.13 | \$ 60.16 | \$ 60.16 |
| Multi Family | 47.94 | 55.13 | 60.16 | 60.16 |
| General Commercial | 7.27 | 8.36 | 9.13 | 9.13 |
| Restaurant | 18.28 | 21.02 | 22.94 | 22.94 |
| Industrial (Mill) | 12.45 | 14.32 | 15.62 | 15.62 |
| Schools | 5.77 | 6.63 | 7.23 | 7.23 |
| Churches | 5.97 | 6.86 | 7.49 | 7.49 |
| HSD | 2.52 | 2.90 | 3.16 | 3.16 |

1. The Residential Customer Class is charged per account and the Multi Family customer class is charged per unit. All other customer classes are charged per hundred cubic feet.

Sources: The City of Brookings; Willdan Financial Services.

Components of Proposed Wastewater Rates

The total expenses of the sewer rates are outlined in Table 12. The five major components of costs are spread among the five main categories of Operating Expenses, Current Debt Service, Transfers, Proposed Debt Service, and Capital Projects to be funded by Rates. The proposed rates are designed to spread the revenue required to capture these costs based on the usage of the system by customer class. The majority of Customers within the City of Brookings are Residential customers. Chart 1 illustrates each component as a percentage as well as the amount of the proposed Residential rate a customer would pay toward each cost category.

Of the total proposed rate, CIP projects will be funded using funds generated from Capital Projects Funded by Rates and the Proposed Debt Service. Chart 2 illustrates the percent of costs for Capital Projects 1 through 16 as compared with the Biosolids Project.

Chart 1 - Components of Residential Sewer Rate for FY 2009/2010

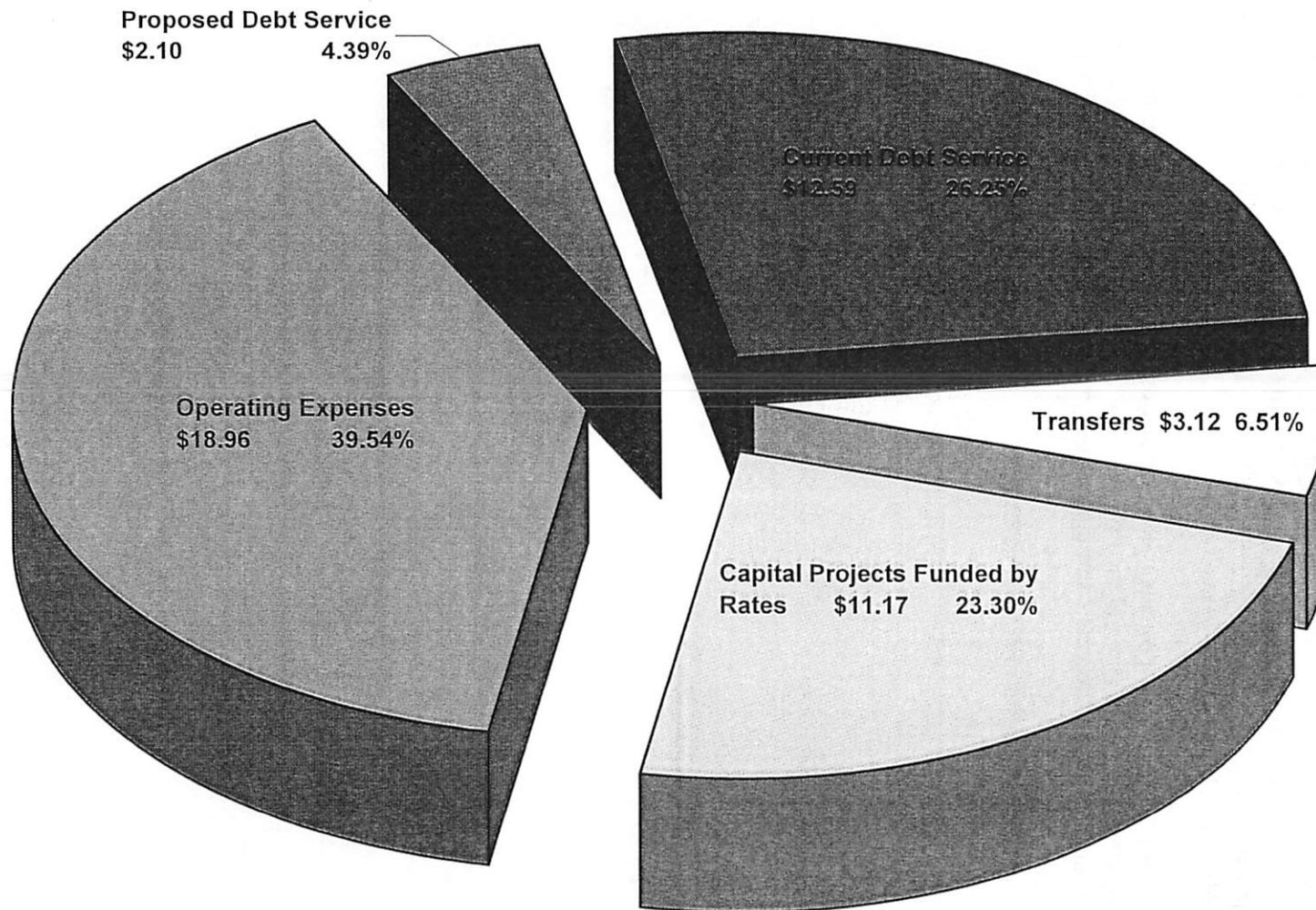
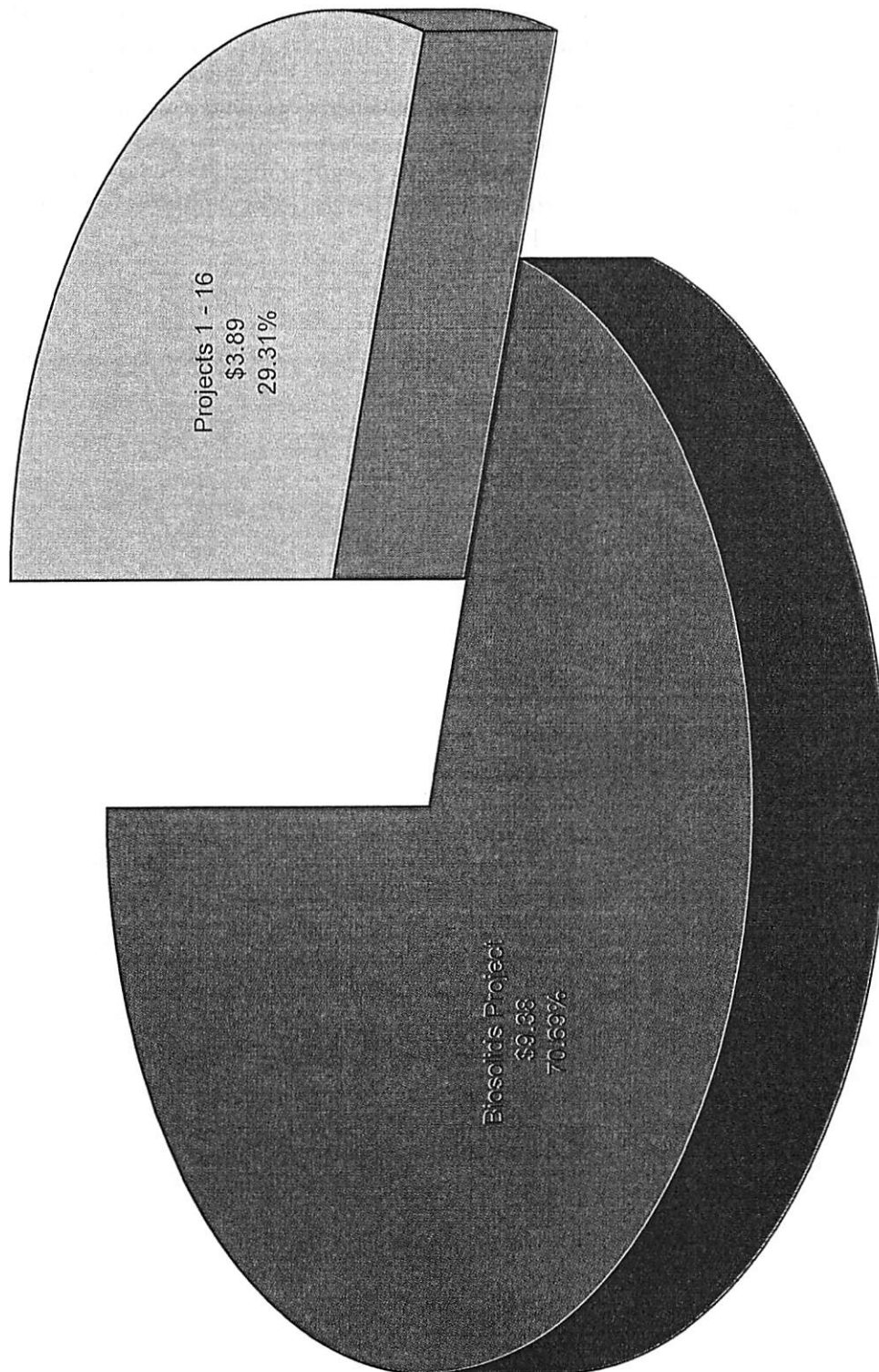


Chart 2 - Cost Components of Capital Projects for FY 2009/2010



CONCLUSION

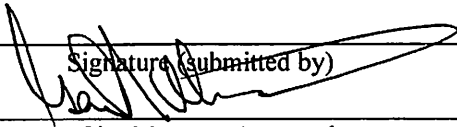
The proposed wastewater rate schedules are based on the City's projected revenue requirements over the next five fiscal years. The proposed rates are designed to generate additional revenues to promote revenue adequacy throughout the five fiscal year planning period. We recommend that the City adopt the proposed rate structures to ensure that the wastewater system has a stable cash flow stream in order to provide for ongoing costs and debt service and allow for the funding of reserves for unscheduled expenses. We also recommend setting a policy of targeting an Operating Fund balance of 36 days of annual operations and maintenance expenses to ensure that funds are available for emergency purposes and to mitigate future rate shocks.

CITY OF BROOKINGS

Council WORKSHOP Report

Workshop Date: March 2, 2009

Originating Dept: City Manager



Signature (submitted by)

City Manager Approval

Subject: Infrastructure Financing Agreement with U.S. Borax

Recommendation: Discussion and direction to staff

Financial Impact: See discussion below.

Background/Discussion:

The City has been in discussion with representatives of U.S. Borax concerning the shared responsibility for installation of infrastructure to support the Lone Ranch development since 2004.

Staff and U.S. Borax representatives have reached a tentative agreement, attached hereto as Draft 4. The Agreement sets forth a cost sharing formula for various segments of the water and sanitary sewer system that will need to be upgraded or constructed anew to serve the Lone Ranch development. The formula is based, generally, upon an analysis by the City's management and engineering consultant on the relationship between the need for the improvements and the Lone Ranch project, the capacity of the improvements to serve customers other than Lone Ranch, and the need for improvements to existing systems regardless of increasing capacity needs.

The general concept is that U.S. Borax would pay the initial cost of the infrastructure improvements in phases as a multi-year build-out of the project occurs. U.S. Borax would then receive reimbursement of the City share of the improvements as System Development Charges are collected from new connections occurring in the Lone Ranch project. The City would have no obligation to reimburse U.S. Borax unless sufficient SDC revenues are received from the Lone Ranch project area.

In 2005, the City used SDCs to pay the full cost of a sewer line replacement and upsizing between Crissey Circle and Parkview Drive. There was no written cost sharing agreement in place at the time. This segment of improvements is in the "50/50" formula area in the proposed Agreement. It is proposed that the City would recover 50 per cent of the initial cost through SDC's and that U.S. Borax would not receive any reimbursement of costs associated with infrastructure work until \$333,624.30 (50 per cent of the project cost) is received in SDC revenue from the Lone Ranch project area. Thus, the U.S. Borax repayment of its share of this project would be in the form of a credit against future reimbursement for the City share of construction of other segments of the sewer main.

Gary Milliman

From: John Trew [johntrew@verizon.net]
Sent: Wednesday, February 18, 2009 1:25 PM
To: Gary Milliman
Subject: Lone Ranch Infrastructure Financing Agreement Draft 4

Gary,

I reviewed the agreement and I am prepared to sign approving as to form.

Thanks
John

*****CONFIDENTIALITY NOTICE*****

This e-mail may contain information that is privileged, confidential, or otherwise exempt from disclosure under applicable law. If you are not the addressee or it appears from the context or otherwise that you have received this e-mail in error, please advise the sender immediately by reply e-mail, keep the contents confidential, and immediately delete the message and any attachments from your system.

In all instances the parties are entitled to reimbursement for their agreed-upon share of the actual cost of construction and engineering. No interest is applied to the amount of reimbursement due.

Policy Considerations: This proposal shifts the initial burden of financing construction infrastructure improvements needed to support the Lone Ranch development to the developer, who would be reimbursed for an agreed-upon City share of the cost from new SDC revenues generated by the Lone Ranch development project. This proposal also resolves a long-standing issue concerning payment by the developer for a portion of the cost of the 2005 sewer main project between Crissey Circle and Parkview Drive.

Attachment(s): Lone Ranch Infrastructure Financing Agreement Draft 4 and Exhibits

DRAFT 4

LONE RANCH INFRASTRUCTURE FINANCING AGREEMENT

This Infrastructure Financing Agreement ("Agreement") is entered into by and between the City of Brookings ("City"), a municipal corporation of the State of Oregon, and U.S. Borax, Inc., a Delaware corporation ("Borax").

RECITALS

WHEREAS, Borax currently owns an approximately 550-acre property located in Curry County, Oregon, known as the Lone Ranch Property. The City has annexed the Lone Ranch Property and the City has approved Borax's Master Plan Development for the Lone Ranch Project, which includes the planning of a residential community that balances commercial, educational and housing possibilities while preserving open space.

WHEREAS, the City and Borax recognize that the development of the Lone Ranch Project cannot occur without adequate public water and sewer infrastructure and that the City needs to make improvements to its existing system. The City and The Lone Ranch Project will require improvements to the existing water and sewer infrastructure as well as the addition of new infrastructure. The City and Borax intend to share the cost and develop a plan for the construction of the required infrastructure improvements.

WHEREAS, the infrastructure improvements will be built as needed, in increments based on the demand for development of the Lone Ranch Project, the needs of the City and the consent of Borax.

NOW, THEREFORE, it is hereby agreed:

1. Purpose. This Agreement is not intended to be a development agreement as defined in ORS 94.504. This Agreement only addresses financial issues relating to the construction of certain public infrastructure facilities. It is not intended to set forth the full range of development responsibilities for the development of the Lone Ranch Project.
2. Improvements. Water system improvements shall be constructed as designated by the attached Schedule A and upon the consent of Borax. Sanitary sewer improvements shall be constructed as designated by the attached Schedule B and upon the consent of Borax.
3. Infrastructure defined: for the purposes of this Agreement, "infrastructure" shall mean water and sewer system improvements needed in whole or in part to serve the Lone Ranch Project.
4. Cost allocation. The City and Borax shall share the actual cost of the required infrastructure improvements as follows:

A. SANITARY SEWER SYSTEM

North of Carpenterville Rd: City - 0%. Borax - 83%, Other – 17%
South of Carpenterville Rd & North of Moore St: City- 50%. Borax- 50%
South of Moore St: City – 77%, Borax – 23%

B. WATER SYSTEM

North of Carpenterville Rd.: City - 0%, Borax - 83%, Other - 17%

South of Carpenterville Rd.: City - 50%; Borax - 50%

"Other" means parcels of property located outside of the boundaries of the Lone Ranch Project, which have a potential to benefit from infrastructure improvements installed pursuant to this agreement.

In the event that the assessment adopted by the City Council method does not include property ownerships other than Borax, the shares allocated to "other" will be allocated to Borax.

Borax will not be responsible for any costs for the infrastructure improvements until said improvements are needed to serve buildings and uses developed on the site. Borax is not responsible for improvements needed to serve development on the community college site, as identified in Phase I of the attached Schedule A and Schedule B.

5. Borax agrees to pay for the entire cost of the infrastructure improvements and be reimbursed by the City for its proportional share of said cost at such time as system development charge fees are received from development occurring within the Lone Ranch Project.

In December, 2005, City paid \$667,248.60 from System Development Charge (SDC) Fees for the construction of the sewer line replacement and upsizing between Crissey Circle and Parkview Drive (within the Moore Street to Carpenterville Road segment). Said payment represented 100 per cent of the actual construction cost. Said payment exceeds the City's cost sharing obligation for this segment of improvements and no reimbursement for sewer system improvements shall be paid to Borax until such time as the City has first received \$333,624.30 in sewer SDC fees from development occurring on the Lone Ranch site.

6. The total costs of constructing the required infrastructure improvements are unknown at this time but will be based upon the actual cost of construction.
7. Authority. Each party hereto represents that it has all requisite power, authority, and authorization to execute and act in accordance with this Agreement and that the person executing this Agreement on such party's behalf has the legal power, right, and actual authority to bind such party.
8. Effective Date. This Agreement shall be effective upon signature of all the parties.
9. Assignment. This Agreement may be assigned by Borax.
10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, and such counterparts shall together constitute one and the same instrument.
11. Controlling Law and Venue. This Agreement shall be deemed to have been entered into in the State of Oregon and shall be construed and interpreted in accordance with the laws of Oregon. Any litigation or proceeding arising out of or connected with this Agreement shall be heard and decided in Oregon Circuit Court for the County of Curry.

12. Integration. This Agreement constitutes the entire Agreement between the parties with respect to the subject matter herein contained and all prior negotiations, discussions, writings and agreements between the parties with respect to the subject matter herein contained are superseded and of no further force and effect.
13. Captions. The captions contained in this Agreement were inserted for convenience of reference only and shall be disregarded in construing or interpreting any of its provisions.
14. Severability. If any clause, section or provision of this Agreement shall be declared unconstitutional or invalid for any reason or cause, the remaining portion of this Agreement shall be in full force and effect and be valid as if such invalid portion thereof had not been incorporated herein.
15. Arbitration/Mediation. Any dispute or claim that arises out of or that relates to this Agreement, or to the interpretation or breach thereof, shall be resolved by arbitration. The parties acknowledge that mediation usually helps parties to settle their dispute themselves. Therefore, any party may propose mediation whenever appropriate through one of the above named organizations or any other mediation process or mediator as the parties may agree upon.
16. Attorney's Fees. In the event suit or action is brought, or an arbitration proceeding is initiated, to enforce or interpret any of the provisions of this Agreement, or that is based thereon, the prevailing party shall be entitled to reasonable attorney's fees in connection therewith.

Signed by the parties hereto on the dates indicated below.

CITY OF BROOKINGS:

City Manager

Date

Approved as to Form:

City Attorney

Date

U.S. BORAX INC.

Vice President, Operations

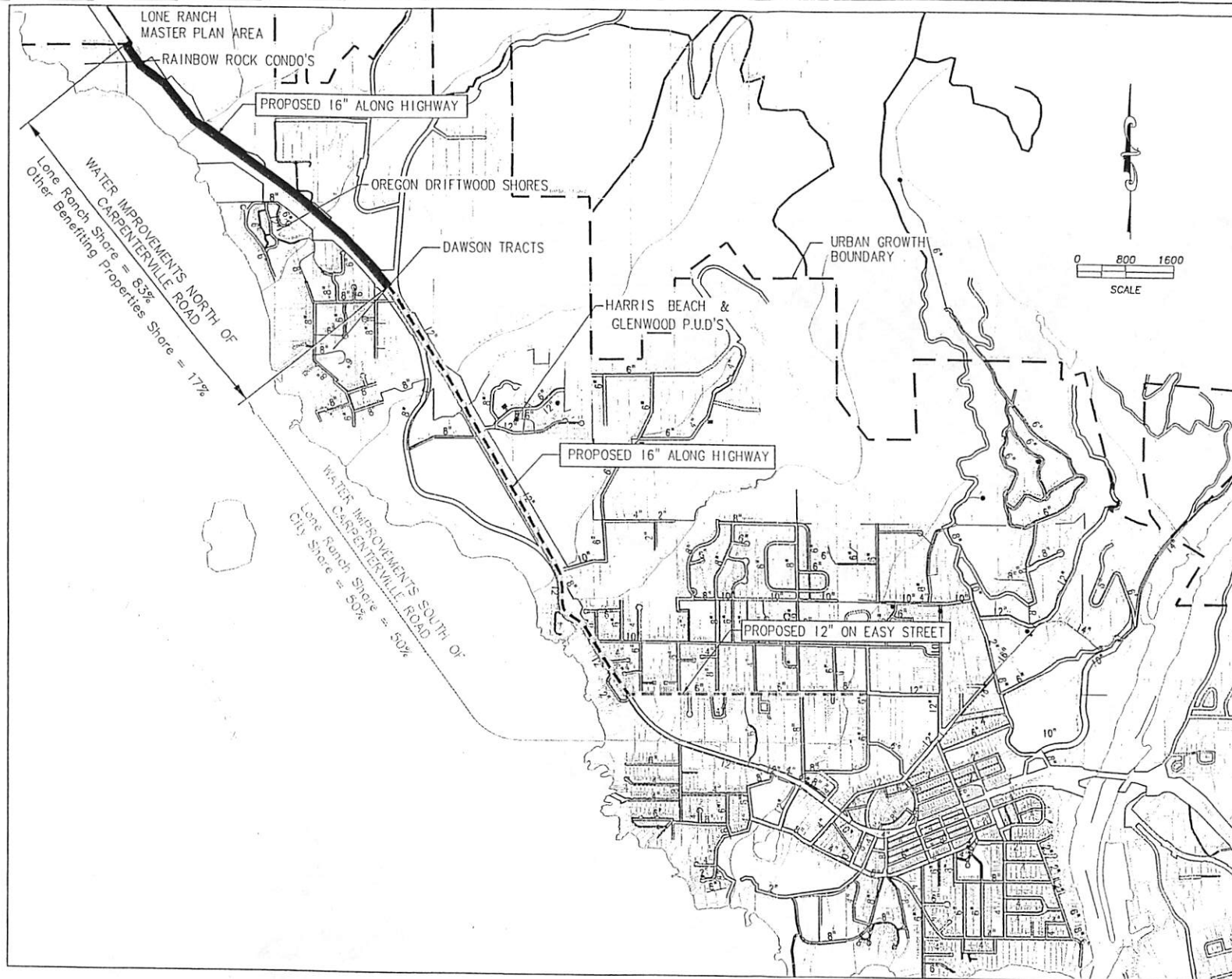
Date

Attachments:

Schedule A - Water System Improvements

Schedule B - Sanitary Sewer Improvements

LONE RANCH WATER COST SHARING EXHIBIT



LONE RANCH SEWER COST SHARING EXHIBIT

