



State of Utah

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**MEMORANDUM**

**TO:** Utah Water Quality Board

**THROUGH:** Erica Brown Gaddis, PhD

**FROM:** Beth Wondimu, P.E. and Ken Hoffman P.E.

**DATE:** March 23, 2022

**SUBJECT:** Millville City's Additional Funding of New Wastewater Collection System

**PROJECT UPDATE**

On January 26, 2022, Millville City (City) appeared in front of the Water Quality Board (Board) to request assistance with the affordability of their City sewer collection system. The project was bid in March 2021. The bid was \$25,931,777 for construction work with a project total of \$30,060,000. During the appearance the City believed they had a viable bid and agreement for adjustment of the price due to cost increases of materials with a contractor. However, during the bonding process the City's attorney found these adjustments did not meet State procurement requirements which does not allow the City to change unit prices. Because of this reason, the City was required to re-bid the project.

On March 17, 2022, Millville re-bid the sewer project and the bid came in over the original construction estimate. Only one bidder was received in the amount of: \$29.3 million. The bid is good for 30 days or until April 16, 2022. The bid has been reviewed by Franson Engineering and the costs have been compared. The analysis of the bid indicated that higher costs are due to:

- Higher pipe material costs.
- Higher costs of concrete due to market conditions
- Higher cost of asphalt

Using the increased materials and the amount of the \$29.3 million bid, the City's shortfall will be in the amount of \$4.7 million. Previous Board Authorization memos dated in April 2021 and January 26, 2022 are attached to this memo.

## **APPLICANT’S REQUEST**

Under the current market conditions, a total of \$34.8 million is needed to fund the project. **Millville City is requesting \$4.7 million in additional assistance with an escalating repayment amortization schedule.**

## **CURRENT FUNDING PACKAGES**

### *US Department of Agriculture – Rural Development (USDA-RD)*

The USDA-RD has authorized two funding packages of loan and grant funding in support of the project. USDA-RD Package 1 is a loan of \$5,011,000 with an interest rate of 1.5% and a 40-year term and a grant of \$2,949,000. USDA-RD Package 2 is a loan of \$9,700,000 with an interest rate of 1.75% and a 40-year term and a grant of \$6,400,000. USDA-RD Package 2 includes authorization for funding private laterals but will not be funding any laterals.

### *Water Quality Board*

On January 26, 2022, the Board authorized a refinance of the Package 1 USDA-RD \$5,011,000 loan comprised of \$3,750,000 million in principal forgiveness and \$1,261,000 of loan at 0% for a term of 30 years after completion of drawing USDA-RD funds. Also, the Board previously authorized funding comprised of \$4,500,000 in principal forgiveness and \$500,000 of loan at 0% for a term of 30 years. In addition, the Board authorized \$1,000,000 from the Hardship Grant Fund to pay the construction of private laterals for citizens meeting the affordability criteria set forth in R317-101-5.A.3. Finally, the Board authorized \$151,768 from the Hardship Grant Fund to pay off the existing UWLF debt.

## **PROJECT NEED**

The proposed project consists of a new sewerage system with a new pump station and force main that connects to Hyrum City’s existing treatment systems. Millville is the second largest unsewered community in the State of Utah. Millville’s plan to implement a public sewerage system will protect a valuable regional drinking water resource and contribute to orderly growth in the area. The recommended alternative would connect the city’s sewer to the regional wastewater treatment plant in Hyrum City, linking the regional needs for water quality protection.

## **PROJECT DESCRIPTION**

See Page 2 of the attached Authorization Reports.

## **POSITION ON PROJECT PRIORITY LIST**

Millville City is currently ranked No. 6 of 8 on the FY 2021 Wastewater Treatment Project Priority List (PPL).

**APPLICANT’S CURRENT USER CHARGE**

Currently, Millville City charges \$2.00 per month per ERU to service the debt on their portion of the Nibley trunk line connecting to Hyrum. On March 10, 2022, believing the bid was still good the City Council set a monthly sewer rate of \$88.97. Due to State law an impact fee cannot be set yet, however the City is projecting a \$5,000 impact fee for the collections system. Hyrum’s impact fee of approximately \$2,450 will be in addition to this.

**COST ESTIMATE**

The total cost of the project is estimated to be \$34,760,000. A breakdown of these costs is as follows.

	Collection	Laterals
Legal/Bonding	\$50,000	
DWQ Loan Origination Fee	\$64,610	
Collection Sewers	\$29,300,000	
Laterals		\$1,000,000
Interest on Construction Loans	\$1,094,390	
Engineering, CMS, & Environmental	\$1,200,000	
Contingency (7% const. bid)	\$2,051,000	
Subtotals	\$33,857,610	\$1,000,000
<b>Total Project Cost:</b>		<b>\$ 34,760,000</b>

**ESTIMATED ANNUAL COST FOR SEWER SERVICE**

With the new project cost and the previous Board and USDA-RD authorizations, Millville’s ratepayers will pay \$88.97 or 1.80% of the MAGI towards their sewer bills. The Utah Water Quality Board’s State Affordability Criterion of 1.4% of MAGI (\$59,200 for Millville City) or \$69.07 per month for the City will be exceeded by the project allowing for the consideration of grant funds as part of a funding package. Based on the Financial Burden Evaluation Policy for the Utah Wastewater Project Assistance Program, the community has a Financial Burden of: **Medium**.

**PUBLIC PARTICIPATION AND DEMONSTRATION OF PUBLIC SUPPORT**

On March 10, 2022, the City held a public meeting to discuss the project and set user fees. Overall, the public was very supportive of the project.

**STAFF DISCUSSION**

It is critical this bid be awarded and funding closed prior to May 14, 2022. If the project is not closed by May 14 it will have to be re-bid with Build America, Buy America Act requirements which staff estimates will increase costs further and may make the project unaffordable. Staff prepared a revenue and expenses model to evaluate if an escalating amortization schedule could achieve a 1.25 debt to service ratio. The model assumes half the growth projected by Millville with revenue from the increased ERU’s and impact fees. Staff did not find the 1.25 debt to service ratio to be attainable.

However, USDA-RD only requires a 1.1 ratio and the included model shows an approximate amortization schedule to maintain a 1.1 debt service ratio. Staff finds this amortization schedule and debt service ratio acceptable.

### **STAFF RECOMMENDATION**

Staff recommends the Board authorize a \$4,700,000 loan at 0% for a term of 30 years, in addition to the previous authorizations by the Board. This is subject to the following special conditions:

1. Millville City must agree to participate annually in the Municipal Wastewater Planning Program (MWPP).
2. As part of the facility planning, Millville City must complete a Water Conservation and Management Plan.
3. Millville City must pursue and retain remaining funding necessary to fully implement the collection system project.
4. Millville City must develop and implement an asset management program that is consistent with EPA's Fiscal Sustainability Plan guidance.
5. The funding authorizations will expire on May 14, 2022 if the City has not awarded the construction contract by that date.
6. Staff may negotiate with the City an escalating principal repayment schedule.
7. Staff may allow for a debt service ratio of 1.1.

**ATTACHMENT 1**

Year	Revenue			Expenses					DWQ				Total Expense	Balance	Debt Service Ratio	
	ERUs	An. Impact Fee	Total Revenue	Hyrum	O&M	RD Loan	BPR	SLAR	Loan 1 and 2	Reserve	Loan 3	Loan 3				
	Growth Rate	Impact Fee	User Rate	31.86	9.11	9,700,000	4.21	2.03	\$1.261 & \$0.5		\$4.7	Reserve				
	2.25%	5000	88.97			338,256										1.1
2022	724		8,688										-	8,688		
2023	741		17,784										-	17,784		
2024	758	85,000	894,271	289,799	82,865	338,256	38,294	18,465	13,000	8,806	33,000	23,508	845,992	48,279	1.10	
2025	775	85,000	912,421	296,298	84,723	338,256	39,153	18,879	14,000	8,806	39,000	23,508	862,623	49,798	1.10	
2026	792	85,000	930,571	302,797	86,581	338,256	40,012	19,293	16,000	8,806	44,000	23,508	879,254	51,317	1.10	
2027	810	90,000	954,788	309,679	88,549	338,256	40,921	19,732	19,000	8,806	49,000	23,508	897,451	57,337	1.11	
2028	828	90,000	974,006	316,561	90,517	338,256	41,831	20,170	21,000	8,806	55,000	23,508	915,648	58,358	1.11	
2029	847	95,000	999,291	323,825	92,594	338,256	42,790	20,633	23,000	8,806	61,000	23,508	934,412	64,879	1.13	
2030	866	95,000	1,019,576	331,089	94,671	338,256	43,750	21,096	25,000	8,806	67,000	23,508	953,176	66,400	1.13	
2031	885	95,000	1,039,861	338,353	96,748	338,256	44,710	21,559	27,000	8,806	73,000	23,508	971,940	67,921	1.13	
2032	905	100,000	1,066,214	346,000	98,935	338,256	7,000	22,046	33,000	8,806	89,000	23,508	966,550	99,664	1.19	
2033	925	100,000	1,087,567	353,646	101,121	338,256		22,533	38,000	8,806	101,000	23,508	986,870	100,697	1.19	
2034	946	105,000	1,114,987	361,675	103,417	338,256		23,045	47,000	-	124,000	-	997,392	117,595	1.22	
2035	967	105,000	1,137,408	369,703	105,712	338,256		23,556	52,000	-	137,000	-	1,026,228	111,180	1.20	
2036	989	110,000	1,165,896	378,114	108,117	338,256		24,092	58,000	-	155,000	-	1,061,580	104,316	1.18	
2037	1011	110,000	1,189,384	386,526	110,523	338,256		24,628	63,000	-	168,000	-	1,090,932	98,452	1.17	
2038	1034	115,000	1,218,940	395,319	113,037	338,256		25,188	67,000	-	179,000	-	1,117,800	101,140	1.17	
<b>2039</b>	<b>1057</b>	<b>115,000</b>	<b>1,243,495</b>	<b>404,112</b>	<b>115,551</b>	<b>338,256</b>		<b>25,749</b>	<b>69,000</b>	<b>-</b>	<b>185,000</b>	<b>-</b>	<b>1,137,668</b>	<b>105,827</b>	<b>1.17</b>	
2040	1081	120,000	1,274,119	413,288	118,175	338,256		26,333	71,000	-	191,000	-	1,158,052	116,067	1.19	
2041	1105	120,000	1,299,742	422,464	120,799	338,256		26,918	74,000	-	196,000	-	1,178,436	121,306	1.19	
2042	1130	125,000	1,331,433	432,022	123,532	338,256		27,527	76,000	-	202,000	-	1,199,336	132,097	1.21	
2043	1155	125,000	1,358,124	441,580	126,265	338,256		28,136	78,000	-	208,000	-	1,220,236	137,888	1.21	
2044	1181	130,000	1,390,883	451,520	129,107	338,256		28,769	80,000	-	214,000	-	1,241,652	149,231	1.23	
2045	1208	135,000	1,424,709	461,843	132,059	338,256		29,427	82,000	-	220,000	-	1,263,584	161,125	1.24	
2046	1235	135,000	1,453,535	472,165	135,010	338,256		30,085	84,000	-	226,000	-	1,285,516	168,019	1.25	
2047	1263	140,000	1,488,429	482,870	138,071	338,256		30,767	87,000	-	231,000	-	1,307,964	180,465	1.26	
2048	1291	140,000	1,518,323	493,575	141,132	338,256		31,449	89,000	-	237,000	-	1,330,412	187,911	1.27	
2049	1320	145,000	1,554,285	504,662	144,302	338,256		32,155	91,000	-	243,000	-	1,353,376	200,909	1.29	
2050	1350	150,000	1,591,314	516,132	147,582	338,256		32,886	93,000	-	249,000	-	1,376,856	214,458	1.30	
2051	1380	150,000	1,623,343	527,602	150,862	338,256			95,000	-	255,000	-	1,366,719	256,624	1.37	
2052	1411	155,000	1,661,440	539,454	154,251	338,256			98,000	-	260,000	-	1,389,960	271,480	1.39	
2053	1443	160,000	1,700,605	551,688	157,749	338,256			78,000	-	209,000	-	1,334,693	365,912	1.59	