
Report on Proposed Reserve Capacity Assessments for Water System Improvements

Prepared for the

Village of Lannon

By Trilogy Consulting, LLC
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INTRODUCTION

An important function of local municipalities is to construct public infrastructure improvements that promote the health, safety, and welfare of the public, including local water supply, treatment, storage, and distribution facilities. There are a variety of methods available under Wisconsin Statutes to fund the initial construction and financing costs of public water facilities, including special assessments, impact fees, and water service charges.

The appropriate cost recovery method(s) for a particular improvement or group of improvements should be compliant with Wisconsin Statutes, fair and equitable to the properties or customers, and financially feasible. Important considerations include, but are not limited to, the nature of the improvements, the characteristics of the properties served, precedents established by past funding methods, and for Wisconsin water utilities, Wisconsin Public Service Commission regulatory requirements.

The Village of Lannon has used impact fees to recover the cost of past water system improvements as well as anticipated future improvements and imposed special assessments to recover the costs of its most recent water system expansion in 2021. In response to concerns from property owners, the Village retained Trilogy Consulting, LLC to conduct a review of the Village's funding mechanisms for past, present, and future water system improvements.

Some Village property owners raised questions regarding the ability of the Village to impose impact fees on existing structures. A review of the Village's cost recovery mechanisms for water system infrastructure, conducted by Trilogy Consulting in October 2021¹, recommended that the Village impose reserve capacity special assessments on existing developed properties instead of water impact fees. Reserve capacity assessments are imposed under the special assessment procedures of Wisconsin Statutes §66.0703 through §66.0733 but are imposed on a larger area, generally the entire municipality or utility service area, and may be used to recover the costs of both system-wide improvements and improvements abutting the assessed properties. The report further recommended that the Village continue to impose impact fees on new development. The Village Board directed Trilogy to prepare a report on the proposed reserve capacity special assessments.

Village property owners subject to the special assessments for the 2021 water system expansion also questioned the special assessments for the project and the Village's mandatory connection ordinance. A review of the Village's special assessments and mandatory connection ordinance, conducted by Trilogy Consulting in November 2021², concluded that the Village appropriately exercised its authority under Wisconsin Statutes to require connection to the Village water

¹ "Analysis of Cost Recovery Methods for Water System Capital Costs", Trilogy Consulting, LLC, October 2021.

² "Review of Village Policies for Connection to Water and Charges for the 2021 Water Service Extension Project", Trilogy Consulting, LLC, November 2021.

system and to levy special assessments to fund a portion of the cost of expanding the water system.

Based on additional review of the funding mechanisms for past, present, and future water system improvements, this report recommends the following steps with regards to the Village's funding mechanisms for water system improvements:

1. Repeal the water system impact fees. Impact fees collected through the date the fees are repealed must be held in a restricted fund to be used only for costs of those facilities that were listed in the 2020 impact fee study.
2. Amend the special assessments for the 2021 water system expansion to function as a Reserve Capacity Assessment (RCA), replacing both the impact fees and the special assessments levied for the 2021 water system expansion. The RCA should include the 2021 improvements and all anticipated future water system improvements to serve the remainder of the Village, net of other funding sources, and impose assessments on all new connections to the water system village-wide, including properties that connected as a result of the 2021 water system expansion and properties connecting to future water system expansions.

The following sections of this report detail the history of funding mechanisms used by the Village for water system improvements, the reasons for the proposed use of RCAs to replace both impact fees and the 2021 special assessments, a reconciliation of impact fee revenues and expenditures to date, an evaluation of the amount of the proposed RCAs and impacts on the Lannon Water Utility finances, and recommendations for implementation of the proposed RCAs.

HISTORY OF THE VILLAGE OF LANNON WATER SYSTEM FUNDING POLICIES

In 1997, the Village constructed a sanitary sewer system and, along with that project, installed a limited amount of water main. The water system was not completed or put into use, and no properties connected to the water system at that time.

In 2008, the Village installed additional water main and obtained a well, reservoir, pumping station and water mains that were constructed by the Whispering Ridge subdivision and contributed to the Village. At that time, the Village formed a water utility subject to Wisconsin Public Service Commission requirements, put the water system into service, and began connecting customers. Connection to the system was not mandatory.

In 2008, the Village selected impact fees, authorized by Wis. Stats. §66.0617, as the cost recovery mechanism to fund the Village's cost of installing water system improvements. The Village has imposed impact fees since 2008 on all properties that connect to the Village water system, including both existing structures and new development.

The impact fees were originally established with two different fee zones.³ The larger of the two zones applied to all properties that would eventually connect to the water system in the future and included the cost of the oversizing of the initial water main installation, plus estimated costs for future well supply, elevated storage, and future water main looping and oversizing. The second zone applied only to properties connecting directly to the water main placed in service in 1997 and 2008 and recovered the cost of system-wide facilities plus the cost of an 8-inch equivalent water main installed and paid for by the Village in 2008. The 2008 impact fee study recommended, and the Village adopted, fees based on Residential Equivalent Connections (RECs). Each single-family dwelling unit was charged for one REC, while projected water use was used to assign the number of RECs to nonresidential connections based on projected water use compared to a single-family home.

A portion of the mains installed in 2008 were installed under construction bid alternates and were not included in the 2008 impact fee study because it was uncertain at the time if those segments would be constructed. The impact fee study was amended in 2018 to include the cost of the bid alternative mains⁴. A third impact fee zone was developed to recover the cost of these mains from the properties that could connect to them. The 2018 study recommended imposing impact fees based on equivalent meters instead of RECs. The equivalent meters approach establishes impact fees based on the size of the water meter for each connection and the amount of water that can be supplied by each meter size relative to a standard 5/8-inch or ¾-inch residential meter.

In 2019, the Village constructed an additional watermain extension to serve Lannon Elementary School after the school's private well was found to have contamination issues. In accordance with Village Ordinance 74-216, the water main extension rule, the Sussex-Hamilton School District paid the cost of an 8-inch equivalent water main as the primary beneficiary of this extension. The Village oversized the water main, installed short perpendicular segments at the intersection of Lannon Rd. and Good Hope Rd., and installed public service laterals to additional properties that fronted the water main extension. The Water Utility funded these additional costs with the intention of recovering these costs through impact fees as the adjacent properties connected to the water system.

Rather than create a fourth impact fee zone for the 2019 water mains, a subsequent update to the impact fee study in 2020 incorporated the costs of the 2019 watermain extension, and combined Zone 2 and 3 into a single Zone 2 that applies to all properties connecting directly to mains constructed in 1997, 2008, or 2019.⁵ Under the 2020 study, Zone 1 impact fees continue to recover the cost of system-wide facilities benefiting all properties connecting to the water

³ "Water Supply Public Facilities Needs Assessment", Ruekert/Mielke, January 2008, and "Amendment to Public Facilities Needs Assessment and Water Impact Fee Study", Ruekert/Mielke, March 2008.

⁴ "2018 Water Impact Fee Study", Strand Associates, Inc., January 2018.

⁵ "2020 Water Impact Fee Study," Strand Associates, Inc., October 2020.

system – existing and planned future oversizing of water transmission mains (mains of 12 inches in diameter or greater), wells, reservoirs, and booster pumps. Zone 2 impact fees recover the cost of system-wide facilities, plus the cost of an 8-inch equivalent water main for properties connecting directly to any existing mains in service as of 2020. This change in policy recognized that properties connecting to the existing water mains derive the same benefit from those mains and place the same demand on the water system whether the specific segment of main was constructed in 1997, in 2008 under the main contract, in 2008 as a bid alternate, or in 2019.

In 2021, the Village undertook a significant expansion of the water system in response to contamination in some private wells, as well as the ongoing risk of additional wells being contaminated. The project included construction of 14,827 feet of new water main extensions 8 inches and 12 inches in diameter, and 1,471 feet of 6-inch diameter water main, along with the associated hydrants and public service laterals from the main to the curbstop. The project also included acquiring and improving a well and well facility previously owned by the Lannon Estates mobile home park to serve as a second source of supply.

The Village intended to fund the acquisition and improvement of the well with Zone 1 impact fees imposed on all new connections, since the cost of a second well was included in the impact fee studies. The Village was awarded a grant from the United States Department of Agriculture (USDA) for part of the project and obtained a USDA loan. As a condition of the loan and grant, the Village was required to contribute a small amount to funding for the project. The Village imposed special assessments on the properties that could connect to the new main extensions in accordance with a special assessment report prepared by Strand Associates.⁶ The special assessments were intended to recover the cost of the water mains, hydrants, and public service laterals net of the USDA grant funding. The Village also secured grants from the Waukesha County Community Foundation (Quarry Grant) to pay for a substantial portion of the special assessments on behalf of property owners. Like the impact fees, the special assessment costs were apportioned between properties based on equivalent meters.

A condition of the USDA grant, as listed in the April 15, 2020, letter from the USDA to the Village, was that the Village's water system ordinance include a mandatory connection requirement for properties adjacent to water main. An ordinance to repeal and replace §74-157 of the Village Code was adopted in September 2020 to implement this requirement. This requirement to connect applied to properties in the USDA project area as well as existing structures outside the project area that could connect to mains constructed before 2021.

Under the current funding policies, properties connecting to pre-2021 mains are required to pay Zone 2 impact fees, which cover both the cost of system-wide facilities and the cost of an 8-inch equivalent water main for existing mains in service as of 2021. Properties in the USDA project

⁶ "Special Assessment Needs Assessment", Strand Associates, Inc., October 2020.

area are required to pay the special assessment for the newly installed mains abutting their property and the Zone 1 impact fees covering the cost of existing and planned future system-wide facilities.

Pending resolution of the concerns raised by property owners regarding imposition of impact fees on existing structures connecting to the water system, the Village placed a hold on collection of impact fees from existing structures. The Village has continued to collect impact fees from new developments.

The Village has not yet established a policy for funding additional water main extensions that will be needed in the future to serve the remainder of the Village. However, the amended project plans for Tax Incremental District No. 1⁷ and Tax Incremental District No. 2⁸ include more than \$8.3 million for future water system improvements, including watermain extensions, well, storage, and pumping facilities.

Table 1 summarizes the Village’s current policies with respect to charges imposed on properties connecting to past, present, and future watermain extensions.

Table 1 - Summary of Existing Water System Funding Policies and Charges

	Current Charge per Equivalent Meter			
	Zone 1 Impact Fee (1)	Zone 2 Impact Fee (2)	Special Assessment (3)	Total
Properties Connecting to:				
Pre-2021 Mains	\$1,367	\$6,556		\$7,923
USDA Project Mains	\$1,367		\$15,000	\$16,367
Future Main Extensions	\$1,367	Undetermined		

(1) Zone 1 impact fees include the cost of existing and planned future watermain oversized, wells, elevated storage, and pumping facilities.

(2) Zone 2 impact fees include the cost of the 8" equivalent water main, hydrants, and public service laterals.

(3) Includes the cost of watermains, hydrants, and public service laterals in the USDA project area, net of the USDA grant and Waukesha County Community Foundation grants.

⁷ “Project Plan Amendment, Village of Lannon, Wisconsin, Tax Incremental District No. 1”, Ehlers, August 23, 2022

⁸ “Project Plan Amendment, Village of Lannon, Wisconsin, Tax Incremental District No. 2”, Ehlers, August 15, 2022

Several conclusions and observations can be drawn from the review of the Village's history and policies for funding water system improvements and the supporting documentation:

- In 2020, the Village amended its impact fee policy and fees to charge the same amount for the cost of 8" equivalent water main for all properties connecting to existing water main, regardless of the location, cost, or date of construction of the specific main the property was connecting to.
- Watermain and other infrastructure constructed before 2021 was less costly to the Village as compared to the 2021 water system expansion since a significant share of it was contributed by developers and construction costs were less at that time.
- Property owners connecting to watermain constructed before 2021 have benefited from a significant amount of unanticipated new high-density development that has connected to that watermain and shared in the cost, thereby reducing the cost per property for all properties.
- New development in the Village has generated significant Tax Incremental District (TID) revenues that can be used for future water system improvements. It is anticipated that future development will also generate TID revenues for water system expansion.
- The cost of 2021 watermains per Equivalent Meter Connection (EMC) is significantly higher than the cost of watermains constructed before 2021. The cost of 2021 watermain extensions was reduced by the USDA grant but the net cost is still significantly higher than it was in 1997, 2008, or 2019. None of the 2021 watermain was contributed by developers.
- Unlike the watermain constructed before 2021 or future watermain extensions, there are limited opportunities for new development on properties adjacent to the watermain constructed in 2021 to reduce the cost per EMC.
- Funding for future watermain extensions have not been determined yet. Costs for these facilities may be much higher than the cost of the 2021 water system expansion due to inflation. However, TID funds are expected to be available to offset a significant part of these costs. Some of the lands that would be served by future watermain extensions have significant potential for new development.
- The special assessments for the 2021 water system expansion project, while reasonable and appropriately assessed under Wisconsin Statutes §66.0703, represented a change in policy from past practice of charging properties in the Village for the cost of 8" equivalent water main. Properties connecting to watermain constructed prior to 2021 pay the average cost of all pre-2021 main, while properties connecting to the 2021 water main extensions pay for the cost of that specific project. These assessments are also significantly higher than the impact fees charged to properties connecting to pre-2021 watermain.

ALTERNATIVE APPROACH TO RESERVE CAPACITY ASSESSMENTS

Trilogy's initial reviews of the Village's water system funding mechanisms recommended implementing a Reserve Capacity Assessment charge to replace the existing water impact fees and retaining the special assessments for the 2021 water system expansion project. As an alternative, this report evaluates the potential to amend the 2021 special assessments to incorporate all past and future public water system improvements needed to serve the entire Village, and all property in the Village that will benefit from those improvements. This approach would essentially amend and expand the special assessments to function as an RCA. With this approach, the water impact fees would also be repealed and replaced with the RCAs that apply to all new connections to the water system, both existing structures and new development.

Costs to be Included

Water system improvement costs that could be included in the RCA include costs for improvements constructed prior to 2021 that have not yet been recovered through impact fees, if any; costs for the 2021 water system expansion project; and estimated costs for public water system improvements that will be needed in the future to extend water service to the remainder of the Village.

Offsets to Costs

Costs included in the RCA's should be reduced by actual or anticipated funding from the USDA grant and Tax Incremental Finance revenues.

Assessment Area

Since the costs that would be included in the RCA include all remaining costs to be recovered for past improvements as well as the cost of future improvements needed to extend water service to the remainder of the Village, the assessment area would include the entire Village.

IMPACT FEES

It was recommended in Trilogy's October 2021 report that the Village charge RCAs to existing structures that connect to the water system instead of impact fees. Under the proposed alternative approach to RCAs, the assessments would also apply to new development in the Village and the impact fees would be repealed.

Under Wisconsin Statutes §66.0617, impact fees must be used for the facilities for which they were collected. Therefore, if impact fees are to be repealed, an analysis must be done regarding the fees that have been collected, how those fees have been used, and the appropriate use of any remaining unspent fees.

Impact Fee Revenues

As shown in Table 2, the Village has collected \$2,880,372 of impact fee revenues through the date of this report, including the contribution of the Lannon Estates well in lieu of \$204,000 of impact fees from Lannon Estates.

Table 2- Impact Fee Revenues

Year	Total
2008	\$15,262
2009	\$0
2010	\$14,313
2011	\$36,966
2012	\$9,100
2013	\$0
2014	\$485,750
2015	\$0
2016	\$10,852
2017	\$34,290
2018	\$36,177
2019	\$200,167
2020	\$655,502
2021 ⁽¹⁾	\$900,268
2022	\$481,725
Total	\$2,880,372

(1) Includes the in-kind contribution of the Lannon Estates well.

Impact Fee Costs

Impact fees were adopted in 2008, and updated in 2018 and 2020, to pay for the costs of watermain, hydrants, and public service laterals constructed in 2008 and 2019, as well as anticipated future transmission mains, source of supply, elevated storage facilities, and pumping facilities. Some of the facilities listed in the impact fee studies have already been constructed, while others have not yet been constructed. Table 3 shows a list of the completed water system improvements by year and the share of the cost that was contributed, intended to be funded with impact fees, and funded by the Water Utility and recovered through water rates. In total, the impact fee portion of the construction cost of completed projects prior to 2021 was \$1,751,666.

Table 3 - Water System Improvements and Impact Fee Share of Costs for Pre-20212 Improvements

Existing Assets ⁽¹⁾	Year in Service	Total Cost	Developer Contribution and 1997 Construction ⁽²⁾	Impact Fees	Utility Financed (Rates)
13 fire hydrants	2008	\$163,898	\$42,131	\$121,767	
5 meters	2008	\$1,234			\$1,234
109 services	2008	\$265,089	\$68,118	\$196,971	
90 feet 6" main; 5,102 feet 8" main; 11,829 feet 12" main; 1,419 feet of 16" main	2008	\$2,451,134	\$1,202,535	\$1,248,599	
Well #1 (Whispering Ridge), reservoir, and pumping station	2008	\$946,694	\$946,694		
Land for future elevated storage tank ⁽³⁾	2009	\$69,917		\$96,280	
64 meters	2010	\$15,565			\$15,565
SCADA project	2011	\$27,836			\$27,836
6 meters	2011	\$1,289			\$1,289
18 meters	2015	\$3,991			\$3,991
Replacement of 25 feet of 8" main	2016	\$55,613			\$55,613
Retired - 25 feet of 8" main	2008	(\$49,385)	(\$49,385)		
22 meters	2016	\$4,561			\$4,561
8 meters	2017	\$5,587			\$5,587
21 meters	2018	\$4,990			\$4,990
3 meters retired	2008	(\$741)			(\$741)
121 feet of 12" main; 697 feet of 16" main	2019	\$430,814	\$356,735	\$74,079	
9 service laterals	2019	\$38,100	\$38,100	\$13,970	
10 meters	2019	\$3,685			\$3,685
1 meter retired	2019	(\$247)			(\$247)
2 hydrants	2019	\$18,000	\$18,000		
38 meters	2020	\$6,752			\$6,752
Subtotal Pre-2021 Infrastructure		\$4,464,376	\$2,622,928	\$1,751,666	\$130,115

Source: Public Service Commission of Wisconsin Annual Reports of the Lannon Water Utility, 2020 impact fee study, adjustments have been made as noted.

(1) Description and quantity of assets added and retired each year as reported by the Village in the Annual Report to the Wisconsin Public Service Commission of Wisconsin.

(2) Includes main that was contributed by a developer and main constructed in 1997 by the Village. Mains, services, and hydrants were recorded as placed into service in 2008 when the Village formed the Water Utility.

(3) The amount attributed to impact fees includes \$5,976 of legal expenses and \$20,387 of design engineering expense that were never capitalized and do not appear as assets in the PSC Annual Report, but are reasonable to recover through impact fees.

The impact fee share of the cost of the 2008 water system improvements was not cash funded. It was financed with General Obligation bonds issued by the Village. The water impact fee portion of the debt service payments is shown in Table 4.

Table 4 – Water Impact Fee Portion of 2007 General Obligation Bonds

Year	Principal	Interest	Total Payment	Year End Balance
2008	\$0	\$69,008	\$69,008	\$1,710,000
2009	\$59,272	\$67,332	\$126,604	\$1,650,728
2010	\$62,236	\$64,891	\$127,127	\$1,588,492
2011	\$65,199	\$62,299	\$127,498	\$1,523,293
2012	\$68,163	\$59,655	\$127,818	\$1,455,130
2013	\$71,126	\$56,861	\$127,987	\$1,384,004
2014	\$74,090	\$53,946	\$128,036	\$1,309,914
2015	\$77,054	\$50,913	\$127,967	\$1,232,860
2016	\$77,053	\$47,832	\$124,885	\$1,155,807
2017	\$82,981	\$71,300	\$154,281	\$1,072,826
2018	Refunded			
Total	\$637,174	\$604,037	\$1,241,211	\$0

The Village refinanced the 2007 bonds in 2017. The water impact fee portion of the debt service is shown in Table 5.

Table 5 - Water Impact Fee Portion of 2017 General Obligation Refunding Bonds

Year	Principal	Interest	Total Payment	Year End Balance
2017				\$1,063,934
2018	\$91,872	\$28,235	\$120,107	\$972,062
2019	\$94,835	\$27,739	\$122,574	\$877,227
2020	\$100,763	\$24,805	\$125,568	\$776,464
2021	\$100,763	\$21,782	\$122,545	\$675,701
2022	\$103,726	\$18,715	\$122,441	\$571,975
2023	\$106,690	\$15,559	\$122,249	\$465,285
2024	\$109,653	\$12,314	\$121,967	\$355,632
2025	\$115,581	\$8,935	\$124,516	\$240,051
2026	\$118,544	\$5,423	\$123,967	\$121,507
2027	\$121,508	\$1,823	\$123,331	\$0
Total	\$1,063,935	\$165,330	\$1,229,265	\$0

The water impact fee portion of the 2019 water system extension was cash funded and no new debt was issued.

The cost of acquiring and upgrading the Lannon Estates well in 2021 was also included in the 2020 impact fee study as an eligible impact fee cost. The Village did not incur a direct cost to acquire the well, which was contributed in lieu of payment of impact fees. The estimated value of that contribution, \$204,000, is considered a cost of acquiring the well, and the contribution of the well by Lannon Estates was considered as impact fee revenues. In total, acquiring and upgrading the well cost \$875,203. Since this project was included in the 2020 impact fee study, impact fee funds may be used to fund these costs.

Total construction and financing costs for improvements that have been constructed to date and were intended to be funded with impact fees include debt service on the 2007 bonds and the 2017 refunding bonds, the portion of the 2019 main extensions that were not paid for by the Hamilton School District, and costs for the acquisition and upgrade of the Lannon Estates well.

As noted above, the Village has collected \$2,880,372 of impact fee funds as of the date of this report. As summarized in Table 6, the impact fee funds collected to date are sufficient to cover the past and future debt service payments on bonds issued to finance the 2008 water system improvements, the share of 2019 water main extensions that were not paid for the by Hamilton School District, and \$321,847 of the cost of acquiring and upgrading the Lannon Estates well. The remaining \$553,356 of the cost for the Lannon Estates well will need to be recovered through the RCAs.

Table 6 - Water Impact Fee Costs Incurred to Date and Committed

	Amount
2007 G.O. Bonds Debt Service	\$1,241,211
2017 G.O. Bonds Debt Service - 2018 - 2022	\$613,235
2017 G.O. Bonds Debt Service - 2023 - 2027	\$616,030
2019 Water Main Extension	\$88,049
Lannon Estates Well ⁽¹⁾	\$321,847
Total	\$2,880,372

(1) Total cost of the well is \$875,203, the amount shown is the amount that can be covered by impact fees collected to date.

Summary

In summary, the Village has collected enough impact fee revenues to cover the share of the cost of water system improvements constructed to date that were intended to be paid for with impact

fees. As shown in Table 7, of the total of \$2,880,372 of impact fee eligible cost, the Village has incurred \$2,264,342 to date and has future debt service costs of \$616,030. Impact fee revenues collected to date must remain in a segregated account and be used to fund debt service payments on the 2017 General Obligation Refunding Bonds.

Table 7 - Summary of Impact Fee Revenues and Costs

	Amount
Impact Fee Revenues to Date	\$2,880,372
Costs Incurred to Date	
2007 G.O. Bonds Debt Service	\$1,241,211
2017 G.O. Bonds Debt Service - 2018 - 2022	\$613,235
2019 Water Main Extension	\$88,049
Impact Fee Share of Lannon Estates Well	\$321,847
Total	\$2,264,342
Net Impact Fee Funds to Date	\$616,030
Future Committed Costs	
2017 G.O. Bonds Debt Service - 2023 - 2027	\$616,030
Net Impact Fee Funds	\$0

EVALUATION OF PROPOSED RCA'S

Calculation of RCA's

A calculation of the proposed RCA's is shown in Table 8. Eligible costs include cost for the Lannon Estates well that were not covered by impact fees, costs for watermains, public service laterals, and hydrants for the 2021 water system expansion, and future water system expansions. Offsetting these costs are the USDA grant, the Village contribution for the 2021 water system expansion project, and future TID funds. There is a total of 741 estimated EMCs for new or future connections to the Village water system, including new connections of existing structures as required by the USDA loan and grant. Therefore, the average cost per EMC for all new connections would be \$10,811.

As detailed in the special assessment report prepared by Strand Associates⁹, Quarry Grant funds are available to pay a portion of the special assessments and reduce the cost to property owners and to pay the entire cost of assessments for Lannon Estates. It is recommended that these funds be used to reduce the cost of the amended special assessments to an amount equal to the existing impact fees per EMC. The amount of the recommended grant per EMC is \$2,888. A grant of this amount would reduce the RCA per EMC to \$7,923 and is estimated to use \$2,298,387 of Quarry Grant funds.

Table 8 - Recommended Special Assessments/Reserve Capacity Assessments

Description	Amount
Acquisition and Rehabilitation of Lannon Estates Well	\$553,356
USDA Project Cost for Watermains, Services, and Hydrants	\$6,913,514
Future Village Infrastructure Costs to Extend Water Service	\$12,500,000
Total Eligible Costs	\$19,966,870
Less: USDA Grant Funds	(\$3,493,000)
Less: Village Contribution to Lannon Estates Well	(\$143,000)
Less: TID Funds	(\$8,320,000)
Net Eligible Costs	\$8,010,870
Future Equivalent Meter Connections (EMCs)	741
RCA per EMC	\$10,811
Offsetting Quarry Grant Funds per EMC	\$2,888
Net RCA	\$7,923

Impact on the USDA Loan and Water Utility Finances

An important consideration in evaluating the proposed approach to calculating and implementing RCA's is the impact on the USDA loan and Water Utility finances.

USDA staff were contacted to determine if amending the special assessments for the 2021 project to RCA's as proposed would require USDA review or approval. The USDA deferred to the Village's bond counsel to provide advice to the Village regarding the proposed change.

⁹ "Special Assessment Needs Assessment", Strand Associates, Inc., October 2020.

The Village's bond counsel, Quarles & Brady, advised that:

In the Resolution adopted March 14, 2022, authorizing the bonds for the USDA loan, the Village promised to establish, charge and collect such rates and charges as necessary so that Net Revenues of the Water System (total Revenues less Operation and Maintenance Expenses) shall not be less than 110% of the Annual Debt Service Requirement on the Bonds (see Section 6(d)).

"Revenues" means all income and revenue of the Water System (including any funds provided by the Village – see Section 5) from any source so it would include any RCA fees collected. It would also include any special assessments for the USDA project. That is, the Village is required to charge such rates and charges so that Net Revenues are at least 110% of Debt Service on the Bonds each year.

The bond covenants do not specify how much the Village must collect from any specific source, only that the Water System has Net Revenues that are at least 110% of the debt service.

Baker Tilly, the accounting firm assisting the Village with its current application to the Wisconsin Public Service Commission (PSC) to increase water rates, provided information regarding the Water Utility's forecast revenues, expenses, and debt service.

The debt coverage calculation for 2023 is shown in Table 9. With the water rate increase, the Utility is projected to have net revenues of \$349,163. Including debt service on bonds issued in 2017 and 2020, the Utility's annual debt service payment is \$317,764. Therefore, the net revenues including the proposed RCAs will be sufficient to provide the required debt coverage. As noted, this calculation assumes that the Village will allow payment of RCA's in 20-year installments at the same terms as the special assessments.

Table 9 - 2023 Forecast Debt Coverage

	Forecast Debt Coverage for 2023
<u>Actual Net Earnings</u>	
Operating Revenues	\$300,659
Rate Increase	\$90,779
Interest Income	
RCA Installment Payment Revenues ⁽¹⁾	\$93,654
Operation and Maintenance Expenses	(\$135,165)
Taxes Other than Equivalent	(\$764)
Actual Net Earnings	\$349,163
<u>Required Net Earnings</u>	
Minimum Earnings Required:	
Revenue Bonds	\$317,764
Coverage Factor	1.10

(1) Annual revenues are based on a net RCA of \$7,923 assessed to 222 equivalent meters, 85% of properties electing annual installments, and an interest rate of 2.25% on 20 annual installments.

With the USDA loan payments occurring over a 40-year period, it is also important to evaluate whether the Village will have sufficient funds to pay the debt service for the 2021 project after all RCA's from properties connected as a result of the project have been paid. Table 10 shows a forecast of Water Utility revenues, operating and maintenance expenses, taxes, debt service and debt coverage. For purposes of testing the adequacy of current revenues, it assumes no new customers or additional water system expansion and no additional water rate increases beyond the one that the Village applied for in July 2022. As described above, the Utility has collected sufficient impact fee funds to pay the remainder of the debt service for the 2017 bonds, which will be retired in 2027. Notes issued in 2020 will be retired in 2030.

As shown, revenues from existing water utility customers and RCA installment payments from properties required to connect as a result of the 2021 project will be sufficient to pay debt service and provide the required debt coverage.

Table 10 - Forecast Water Utility Cash Flow Based on Current Conditions

	Sources of Cash				Uses of Cash				Net Cash Flow	Balance	Net Revenues Available for Debt Service		Debt Coverage		
	Utility Operating Revenues	RCA Installment Payments	Impact Fee Reserves	Total Sources of Cash	Operation and Maintenance	Taxes	Existing Debt Service - 2017	Existing Debt Service - 2020			USDA Debt Service	Total Uses of Cash		Debt Service	Debt Service
2023	\$391,438	\$93,654	\$122,249	\$607,341	\$135,165	\$764	\$122,249	\$22,280	\$173,234	\$453,692	\$153,650	\$349,163	\$317,763	1.10	
2024	\$391,438	\$93,654	\$121,967	\$607,059	\$135,165	\$764	\$121,967	\$21,710	\$173,295	\$452,901	\$154,158	\$349,163	\$316,972	1.10	
2025	\$391,438	\$93,654	\$124,516	\$609,608	\$135,165	\$764	\$124,516	\$21,558	\$173,329	\$455,332	\$154,276	\$349,163	\$319,403	1.09	
2026	\$391,438	\$93,654	\$123,967	\$609,059	\$135,165	\$764	\$123,967	\$21,406	\$173,335	\$454,637	\$154,423	\$349,163	\$318,708	1.10	
2027	\$391,438	\$93,654	\$123,331	\$608,423	\$135,165	\$764	\$123,331	\$21,254	\$173,313	\$453,827	\$154,597	\$349,163	\$317,898	1.10	
2028	\$391,438	\$93,654		\$485,092	\$135,165	\$764		\$20,950	\$173,362	\$330,393	\$154,699	\$349,163	\$194,464	1.80	
2029	\$391,438	\$93,654		\$485,092	\$135,165	\$764		\$105,798	\$173,373	\$415,100	\$69,993	\$349,163	\$279,171	1.25	
2030	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,433	\$309,362	\$175,730	\$349,163	\$173,433	2.01	
2031	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,362	\$309,291	\$175,801	\$349,163	\$173,362	2.01	
2032	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,461	\$309,390	\$175,702	\$349,163	\$173,461	2.01	
2033	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,462	\$309,356	\$175,736	\$349,163	\$173,427	2.01	
2034	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,463	\$309,392	\$175,700	\$349,163	\$173,463	2.01	
2035	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,531	\$309,460	\$175,632	\$349,163	\$173,531	2.01	
2036	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,464	\$309,393	\$175,699	\$349,163	\$173,464	2.01	
2037	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,564	\$309,493	\$175,600	\$349,163	\$173,564	2.01	
2038	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,527	\$309,456	\$175,637	\$349,163	\$173,527	2.01	
2039	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,555	\$309,484	\$175,609	\$349,163	\$173,555	2.01	
2040	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,546	\$309,475	\$175,617	\$349,163	\$173,546	2.01	
2041	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,601	\$309,530	\$81,909	\$255,509	\$173,601	1.47	
2042	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,617	\$309,546	\$81,893	\$255,509	\$173,617	1.47	
2043	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,633	\$309,562	\$81,876	\$255,509	\$173,633	1.47	
2044	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,732	\$309,661	\$81,777	\$255,509	\$173,732	1.47	
2045	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,689	\$309,618	\$81,821	\$255,509	\$173,689	1.47	
2046	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,705	\$309,634	\$81,804	\$255,509	\$173,705	1.47	
2047	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,780	\$309,709	\$81,730	\$255,509	\$173,780	1.47	
2048	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,810	\$309,739	\$81,699	\$255,509	\$173,810	1.47	
2049	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,797	\$309,726	\$81,712	\$255,509	\$173,797	1.47	
2050	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,841	\$309,770	\$81,669	\$255,509	\$173,841	1.47	
2051	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,838	\$309,767	\$81,671	\$255,509	\$173,838	1.47	
2052	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,891	\$309,820	\$81,619	\$255,509	\$173,891	1.47	
2053	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,896	\$309,825	\$81,614	\$255,509	\$173,896	1.47	
2054	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,953	\$309,882	\$81,556	\$255,509	\$173,953	1.47	
2055	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,962	\$309,891	\$81,547	\$255,509	\$173,962	1.47	
2056	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,922	\$309,851	\$81,587	\$255,509	\$173,922	1.47	
2057	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,933	\$309,862	\$81,577	\$255,509	\$173,933	1.47	
2058	\$391,438	\$93,654		\$485,092	\$135,165	\$764			\$173,993	\$309,922	\$81,517	\$255,509	\$173,993	1.47	
2059	\$391,438	\$93,654		\$485,092	\$135,165	\$764									
2060	\$391,438	\$93,654		\$485,092	\$135,165	\$764									
2061	\$391,438	\$93,654		\$485,092	\$135,165	\$764									

Summary

The benefits of this approach include the following:

- Every property connecting to the Village water system would pay the same amount per EMC regardless of the location, cost, or construction date of the main segment to which the property connects.
- Every property connecting to the Village water system would benefit from new development in the Village, TID revenues, grant funds, lower costs of older water main, and developer contributions.
- Every property connecting to the Village water system would pay the same cost per EMC for the same benefit from the water system.
- This approach would mirror the Village policy of charging impact fees on the basis of average costs for connection to pre-2021 improvements.

Analysis of the Water Utility's forecast cash flows indicate that the Utility will have sufficient revenues to pay debt service and provide adequate debt coverage with the proposed RCAs.

As the Village plans for future water system expansion projects, an updated analysis of cash flows and debt coverage should be prepared for each project.

RECOMMENDED IMPLEMENTATION

The following steps are recommended in order to implement the proposed changes to the Village's water system improvement funding policies:

1. Repeal water system impact fees imposed by Chapter 63 of the Village Code of Ordinances
 - a. Impact fees collected through the date the fees are repealed must be held in a restricted fund to be used only for costs for those facilities that were listed in the 2020 impact fee study, as detailed above. These funds may be used to pay debt service for the 2017 bonds.
2. Amend the special assessments for the 2021 water system expansion to include all anticipated future water system improvements to serve the remainder of the Village, net of other funding sources, and impose assessments on all new connections to the water system, village-wide.
 - a. The assessments would apply to properties that connected as a result of the 2021 water system expansion and properties connecting to future water system expansions.
 - b. The assessments would not apply to properties that previously paid an impact fee.
 - c. Since the amount of the assessment will be less than the amounts assessed in 2021, property owners that paid assessments in full will be due a refund.

Future installment payments will also be adjusted for those properties paying in installments.

3. Additional policy recommendations with respect to the assessments include the following:
 - a. Defer assessments until a property connects to the water system.
 - b. Allow payment of assessments in up to 20 annual installments, except for new development projects benefiting from TIF funding and Planned Unit Developments. It is recommended that for the RCAs that are presently due and payable, the interest rate should be 2.25%, the same rate that was charged for the special assessments for the 2021 project.
 - c. Allow owners of vacant parcels to prepay at such time as water service becomes available to the property. Since the number of EMC's may not be known before the property is developed, additional assessments may be due upon development.
 - d. Increase the assessment amount per EMC for deferred assessments each year by a percentage equal to the annual change in the Construction Cost Index.
 - e. Since the RCAs have been calculated based on estimated costs for future improvements and estimated EMCs for areas of future development, the assessment report should be periodically updated, particularly when the Village undertakes a major project.