



MUNICIPAL
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May 8, 2023

Village of Beulah
Re: Sewer Project and Financing/Funding Options

Village of Beulah Council,

This memo is being written to give the council our initial opinions related to the Village's potential sewer project and discuss how the Village could approach paying for the yearly debt payments related to the issuance of bonds (a.k.a. loan).

To start, I wanted to discuss the various assumptions:

- The Village submitted an application for project funding with the Clean Water State Revolving Fund (CWSRF) for approximately \$12 million
 - The Village is not considered "overburdened" by the program metrics as the median annual household income is above the State's threshold to receive this designation
- The Village is in process of receiving an Administrative Consent Order (ACO) from the State of Michigan relating to this project

The Village is pursuing the best financial funding source for the project. The CWSRF program currently offers the best interest rate and only source for potential direct grant money relating to project funding. Official notification of the grant/loan package will be in October. At that time, the Village would be able to accept the preliminary funding package and move forward with the project or decline and pursue another option. It is not guaranteed that the Village will get funding from the State, although it is likely with the ACO the State is enforcing on the Village.

Grant amounts for projects are determined by the State and change yearly depending on the project and total grant pool the State has to offer. For estimate purposes, I am going to assume a 25% grant package. This is only an estimate at this time, based on past year's data. This would mean that the Village would need to repay \$9 million of the total \$12 million project. To do this, the Village could pursue a couple different options, sewer user rates and/or a millage.

Paying back \$9 million over 30 years would result in a yearly bond payment of around \$430,000. This will result in a large burden for all Village sewer users, no matter the route taken.

To pay this off through sewer user rates, the REU rate would more than triple. I understand that the current REU rate is \$54.43/quarter. This user rate is very low, compared to other communities across the State. The average sewer rate we see is around \$135/quarter.

If that much of a user rate increase is not palatable, the other option would be to raise millage funds to cover all or a portion of the bond payments. There are a couple of ways to do that, either a voted Headlee override or a voted bond issue.

A voted Headlee override sounds complicated but essentially it is a reset of the Village's operating millage. The Village, by charter, is allowed to levy 12.5000 mills per year. Due to Headlee rollbacks, the Village was only able to levy 7.8864 in 2022, and the Village levied the maximum amount. A voted Headlee override would reset the maximum operating millage back to 12.5000 mills in 2024. Headlee rollbacks will start to kick in again in 2025. If the Village went this route, the difference ($12.5000 - 7.8864 = 4.6136$) would result in approximately \$185,000 of additional yearly revenue. This would not fix the whole issue, but it would help. It was discussed that this might be put on the November 2023 ballot to see if the Village could get a start on the funding for this project.

A voted bond issue would put the debt repayment on the ballot. This would be done after the grant/loan package is known from the State so this vote couldn't take place until February 2024. Once the package is known, the Village could ask the voters to approve a debt millage to pay for the whole or partial amount of the project.

In the working group discussion, we talked about doing two possible actions to get the funding started. Since the State is putting an ACO on the Village, the Village can expect that this project needs to be funded and paid for in the timeframe the State dictates. To help get that funding process started, we recommended that the Village consider a user rate increase in the next couple of months. We talked about the possibility of raising the REU rate by 25% to approximately \$68/quarter. This will help educate the users that a major project is underway, and funding is starting. We also discussed the possibility of putting the voted Headlee override on the ballot to hopefully get funding further started.

This process is going to be somewhat complicated with all of options being thrown out. I plan on being at the June 13th council meeting to discuss funding options further and helping get the Village on track.

Sincerely,

A handwritten signature in black ink, appearing to read 'Andy Campbell', written in a cursive style.

Andy Campbell, CPA, Director
Baker Tilly Municipal Advisors, LLC