

EAST LINCOLN WATER AND SEWER DISTRICT FUND

This fund is used to account for all of the activities of the East Lincoln Water and Sewer District. The ELWS District was established on June 15, 1992 to build a wastewater treatment plant and a system of sewer lines and pump stations to serve a portion of eastern Lincoln County. The district charged sewer tap fees, availability or capacity fees, and monthly charges for service based upon the amount of water consumed. In addition, to pay off the debt associated with beginning this system, those properties within the district boundaries were assessed a special tax levy. During the years, some additional properties were annexed into the District as well, to obtain sewer service.

On June 18, 2007, the ELWS District Board and the Lincoln County Board of Commissioners entered into an agreement whereby all the assets of the ELWS District were transferred to Lincoln County. Henceforth, the operating costs of the sewer system became a part of a combined Lincoln County Water and Sewer System, funded in the Water and Sewer Fund annually. Under the agreement, the outstanding debt of the ELWS District remained with the ELWS District, to be paid each year from a tax levy on all the taxable property within the District boundaries.

The 2007 Agreement essentially changed this fund from the operating and capital budgets for the sewer system to a debt service fund for the District's existing debt, with the revenues to pay that debt coming from a tax levy within the District boundaries. The Agreement calls for the District to formally dissolve once the last payment of principal and interest has been made. At that point, this fund would no longer be needed. The operating and capital budgets for the sewer system can now be found in the Water and Sewer Fund (operating budget) and the W & S Capital Projects Fund (capital budget).

The June 18, 2007 Agreement was an excellent step to convert the sewer system from one solely within this District, to one that can cover a larger area. This is fair to the District property owners since it does not require them to pay for any new debt through the District tax levy. Any new debt from July, 2007 forward has, and will be paid by the customers of the combined Lincoln County Water and Sewer System. A case in point is the new Killian Creek Wastewater Treatment Plant (WWTP), which began operation in October, 2010. Its debt service is paid by all the customers of the combined Water and Sewer System, not those just within the ELWS District.

In FY 2008 (July, 2007-June, 2008) the tax rate was decreased from 11 cents to 7.5 cents per \$100 of assessed valuation. In FY 2009 the tax rate was decreased from 7.5 cents to 2.0 cents. In FY 2010 the tax rate was decreased to 1.75 cents. In FY 2011 the tax rate remained at 1.75 cents. In FY 2012 the tax rate was changed to the revenue neutral tax rate of 1.99 cents following a reappraisal. The tax rate for FY 2013 was 3.55 cents, FY 2014 the tax rate was 3.59 and 3.42 in FY 2015.

The chart on the next page shows the debt service payments for each remaining year, broken down by principal and interest, for each of the three debt instruments used to finance the system.

When the assets of this fund were transferred, there needed to be adequate working capital to assure that the sewer system could continue to operate on a sound financial basis. Once the assets had been transferred, and the combined system had operated for almost a year, it was apparent that cash was available in the combined system that could be used to repay some of the District's sewer debt.

The Board of Commissioners determined that this would be appropriate, as all the revenues within the ELWS District had come from either tap fees, availability (capacity) fees, monthly service charges, or the District tax. It could be argued that most of the capacity fees were earmarked for necessary expansions of the sewer system, and therefore should stay in the Water and Sewer Fund where they were transferred. However, any excess tap fees, monthly service charges, or District taxes that accumulated over the years could legitimately be seen as surplus from the customers of the sewer system—the same customers who still had to pay the District tax levy. In recognizing this, and the financial strength of the Water and Sewer Fund, the Board of Commissioners voted to transfer \$1,773,295 from the Water and Sewer Fund to the ELWS District Fund during FY 2009. When added to the estimated fund balance of \$226,705 at the end of FY 2008, it was projected to provide \$2,000,000 to help make the debt service payments.

As the chart below indicates, there has been only modest growth of 3.01% and 0.98% in the district between the FY 2009 and FY 2012 years, in which revaluations took place. FY 2013 continued this trend at 1.32%, FY 2014 at 0.98%, FY 2015 at 0.96% and 0.08% in FY 2016. This reflects a slow recovery of the residential and commercial real estate markets.

Assessed Valuation History:

FY 2005	\$1,391,548,393	Revaluation Year
FY 2006	\$1,500,515,977	7.83% Increase
FY 2007	\$1,607,899,694	7.16% Increase
FY 2008	\$1,763,747,414	9.69% Increase
FY 2009	\$2,731,176,386	54.85% Increase in Revaluation Year
FY 2010	\$2,813,468,990	3.01% Increase
FY 2011	\$2,841,053,669	0.98% Increase
FY 2012	\$2,552,305,566	10.1% Decrease in Revaluation Year
FY 2013	\$2,586,014,059	1.32% Increase
FY 2014	\$2,611,450,004	0.98% Increase
FY 2015	\$2,636,534,806	0.96% Increase
FY 2016	\$2,638,613,810	0.08% Increase in Revaluation Year

If you look at the Debt Service Repayment Schedule enclosed, you will see that FY 2018 and FY 2019 repayments are small enough to be included with FY 2017, and pay off this debt in FY 2017. According to the Official Statement, all of the 1998 Sewer Bonds maturing on or after June 1, 2009 can be redeemed early by paying a 0.5% premium for each year or portion of a year that the bonds would be repaid early. There will be \$150,000 in principal in 2018 paid one year early, costing \$750; and \$25,000 in principal in 2019 paid two years early, costing \$250. For that \$1,000 in combined premiums, we would not have to pay the \$9,501 in scheduled interest payments for those two years. This is the best financial option.

The chart on the next page shows the estimated tax rates in future years necessary to repay all the debt at the end of FY 2017. In previous years, we had been using over \$500,000 annually in available fund balance that came from the \$2,000,000 transfer from the Water and Sewer Fund noted above. That funding was down to only about \$35,000 by the end of FY 2012. Consequently, the tax rate had to be raised to 3.55 cents in FY 2013 to offset this loss of available fund balance.

In the chart on future tax rates, we have assumed a very modest growth rate of 1.0% per year, which reflects the current situation. It may be better in the out years if commercial and residential construction continues to rebound. The required rates are shown in bold type on the chart. The rate would never go higher than 3.59 cents under this projection. At the end of FY 2017, the debt would be fully repaid, the ELWS District would be dissolved, and this tax would no longer be imposed on those properties within this district.

Based upon the above, I am recommending a district tax rate of 3.25 cents.

**DEBT SERVICE REPAYMENT SCHEDULE
EAST LINCOLN WATER AND SEWER DISTRICT**

						TOTALS
		FY 2016	FY 2017	FY 2018	FY 2019	FY 15-19
PROJECTED EXPENSES						
1995 State Clean Water Loan \$5,000,000	Prin	250,000	250,000			500,000
Dated 5/1/97 – 5/1/17 5.3% to 3.43% Fixed Rate	Int	17,150	8,575			25,725
1998 Sewer Bonds \$1,600,000	Prin	75,000	150,000	150,000	25,000	400,000
Dated 12/1/98 – 6/1/19 4.6% to 4.75% Fixed Rate	Int	19,000	15,438	8,313	1,188	43,939
2004 Sewer Refunding \$5,520,000	Prin	435,000	250,000			685,000
Dated 6/1/04 – 6/1/17 2.0% to 3.4% Fixed Rate	Int	22,420	8,500			30,920
TOTAL PRINCIPAL PAYMENTS		\$ 760,000	\$ 650,000	\$ 150,000	\$ 25,000	\$ 1,585,000
TOTAL INTEREST PAYMENTS		\$ 58,570	\$ 32,513	\$ 8,313	\$ 1,188	\$ 100,584
TOTAL EXPENSES		\$ 818,570	\$ 682,513	\$ 158,313	\$ 26,188	\$ 1,685,584
updated 1/27/15 - dir						

PROJECTED TAX RATES FOR THE ELWSD FUND

	FY 2014	FY 2015	FY 2016	FY 2017	
AVAILABLE FUND BALANCE	\$ 2,312	\$ 1,751	\$ 3,115	\$ 4,967	
CURRENT YEAR PROPERTY TAXES	\$ 910,000	\$ 875,000	\$ 840,000	\$ 852,124	
ALL OTHER REVENUES	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000	
TAX COLLECTION FEES	\$ (26,378)	\$ (26,378)	\$ (26,378)	\$ (26,378)	
DEBT SERVICE PAYMENTS	\$ (892,183)	\$ (855,258)	\$ (819,770)	\$ (858,713)	
ENDING FUND BALANCE	\$ 1,751	\$ 3,115	\$ 4,967	\$ (20,000)	
Assessed value projected for FY 2014 at 97% collection rate				\$ 2,533,106,504	
Divided by \$100				\$ 25,331,065	
FY 2014 to generate \$910,000 the tax rate would need to be				\$ 0.0359	
			3.59 cents		
Assessed value growth of 1% divided by \$100				\$ 25,584,376	
FY 2015 to generate \$875,000 the tax rate would need to be				\$ 0.0342	
			3.23 cents		
Assessed value growth of 1.5% divided by \$100				\$ 25,968,141	
FY 2016 to generate \$840,000 the tax rate would need to be				\$ 0.0323	
			3.33 cents		
Assessed value growth of 1% divided by \$100				\$ 26,227,823	
FY 2017 to generate \$852,124 the tax rate would need to be				\$ 0.0325	
			3.25 cents		

LINCOLN COUNTY EAST LINCOLN SEWER DISTRICT
FISCAL YEAR 2016

ACCOUNT	DESCRIPTION	FY 2014 ACTUAL	FY 2015 BUDGET	FY 2015 THRU 2/28/15	FY 2015 PROJECTED	FY 2016 REQUESTED	FY 2016 RECOMMENDED
REVENUES							
62-0000-00-00-31000-	Current Year Taxes	\$ (920,785)	\$ (928,456)	\$ (825,562)	\$ (928,456)	\$ (866,177)	\$ (818,070)
62-0000-00-00-31050-	Prior Year Taxes	(10,712)	-	(4,683)	(4,800)	-	-
62-0000-00-00-31100-	VTS Tax Revenue	-	-	(15,234)	(18,000)	(18,000)	(18,000)
62-0000-00-00-37000-	Interest Revenue	(2,132)	(500)	(240)	(500)	(500)	(500)
TOTAL REVENUES		(933,629)	(928,956)	(845,720)	(951,756)	(884,677)	(836,570)
EXPENDITURES							
62-4720-54-00-54113-	VTS Collection Fee	1,947	-	1,546	2,000	5,000	5,000
62-7120-54-00-54102-	Contracted Services	-	26,378	5,606	8,000	8,000	8,000
62-7120-54-00-56199-	Miscellaneous	1,180	48,520	1,280	10,000	53,107	5,000
62-9100-59-00-58100-	Debt - Principal	780,000	770,000	-	770,000	760,000	760,000
62-9100-59-00-58101-	Debt - Interest	90,874	84,058	32,880	84,058	58,570	58,570
TOTAL EXPENDITURES		\$ 874,002	\$ 928,956	\$ 41,312	\$ 874,058	\$ 884,677	\$ 836,570