



Burton Water Cooperative
Community Meeting On
USDA Loan Application
January 9, 2024

Agenda

- Welcome – William Shadbolt
- USDA Loan Application and Progress – Chuck Weinstock
- Next Steps – Merrilee Runyan
- Questions and Answers – William Shadbolt

Welcome and Purpose

To continue community discussion and understanding of our USDA loan application and provide opportunity for questions, share any general comments from USDA regarding our application, and provide an update regarding timing of loan approval, the Congressional Budget scenario, and our voting process for Member approval.

Loan Application and Progress

USDA APPLICATION HISTORY

Following the community meetings and preference survey on financing options our financial plan was finalized. In addition, all required consultant reports and Coop generated information was assembled.

The USDA has a very comprehensive on-line application platform. All their required information must be uploaded before one can submit.

Our loan application was submitted on September 7th.

Loan Application and Progress

To date the USDA has completed its review and approved:

- **Engineering Report**
 - Prepared by Northwest Water Systems-local, highly experienced water system engineering firm
 - Report describes the existing system, condition of infrastructure, proposed capital improvements
- **Environmental Assessment**
 - Also prepared by Northwest Water Systems
 - Examines impact of the purchase and capital improvements on the environment
- **Historical and Cultural Resources Report and Assessment**
 - Prepared by ASM Affiliates
 - Examines impact on any historical structures and archeological resources
- **Proposed operating period bylaws**
 - These by-laws make the transition from a feasibility phase to an operating water utility

Loan Application and Progress

Still pending is:

- Title review for land being purchased
- Financial underwriting (revenues and expenses)
- Management capacity

USDA anticipates completing its underwriting by January 31st.

USDA issues a Loan Commitment Letter after all internal sign offs and confirmation of appropriate 2024 USDA budget authority.

Loan Application and Progress (continued)

Companion Construction Period Loan:

In addition, because we are proposing more than \$500,000 in capital improvements the USDA requires us to obtain a short-term construction loan (up to three years) for the initial USDA funded capital improvements and related costs.

This loan is repaid from the overall USDA commitment upon completion of construction.

We requested Letters of Interest from four potential lenders.

After review we selected Heritage Bank based on familiarity with USDA programs, loan fees and costs, interest rate, and compatible terms with USDA.

Heritage Bank is a commercial community bank founded in 1927 and headquartered in Olympia primarily serving Washington and parts of Oregon.

Loan Application and Progress (continued)

Heritage has provided a Letter of Interest, subject to underwriting, at our requested amount with an origination fee of 0.75%, with interest only on the outstanding balance at the Prime Rate (currently 8.5%), very reasonable expenses, and a three year term (we think we will need two years). We have budgeted a 2% cushion for potential interest expense increase.

Heritage underwriting has begun. They expect to be finalized shortly after the USDA commitment letter.

Burton Water Coop USDA Loan: Project Budget

¹ **Member Connection Charge:** \$2,500 per connection. Some will be used for initial purchase. The balance of Member Connection Charges paid over time will fund the Operating Reserve (\$100,000) and additional capital improvements (\$805,723).

² **USDA Loan:** 40-year term, interest rate fixed at loan commitment (currently 3.75%), fully amortized, and may be pre-paid without penalty at any time.

SOURCES AND USES	
SOURCES	
Member Connection Charge ¹	\$ 220,277
USDA Loan ²	<u>4,453,683</u>
TOTAL	\$4,673,960
USES	
Purchase	\$1,200,000
Pre-Purchase Feasibility	163,145
Closing	44,834
Start Up	39,000
Capital Improvements	3,006,703
Debt Service Reserve	<u>220,277</u>
TOTAL	\$4,673,960

Burton Water Coop USDA Loan Operating Budget (First Year)

¹ All rates are paid bi-monthly (the same as now).

² Proposed usage rates are the same as current BWC rates (\$0.03/CF) for usage under 1,800 CF. They are higher for usage above 1,800 CF: \$0.06 vs \$0.054 for 1,800-3,400 CF, \$0.09 vs \$0.061 for 3,400-5,000 CF, and \$0.12 vs \$0.061 for over 5,000 CF.

³ Any future operating surplus will be allocated to the capital improvement fund.

Operating Revenue And Expenses		
REVENUE ¹	Bi-monthly charges	Annual Total \$
Base Rate	3/4" meter \$59.76 1" meter \$99.79	\$158,233
Usage ²	Based on individual water actual use	\$125,405
Capital Surcharge	\$58.75 per connection	\$144,858
KC Right of Way Fee	\$10.00 per connection	<u>\$24,720</u>
TOTAL REVENUE		\$ 453,217
EXPENSE		
Operations		\$232,472
USDA Loan		\$220,745
TOTAL EXPENSES		<u>\$453,217</u>
SURPLUS³		\$ 0

Next Steps

Preparing for the final community vote

- Ballots with explanatory information will be sent out, by email, to all BWCoop members immediately upon receiving financing commitment from the USDA and Heritage.
- The timeline is critical: we have 30 days to secure member approval once we have received both our USDA and Heritage commitments.
- The ballot is a simple single yes/no vote but includes approval of these elements (as a package):
 - Purchase of the Burton Water Company assets
 - USDA Loan and related funding elements
 - Bylaws for the operation of the Cooperative
 - Amended Articles of Incorporation
- Approval requires votes in favor by 50% plus one of the total number of Coop members (currently 50% +1 is 154) and 2/3 of those members actually voting.

Next Steps

30 Day Timeline for Member Approval (following financing)

Day 1: Ballot package and notice of Community Meeting sent to all members via email or regular mail. Ballot package contains summary of each item to be approved, voting instructions and ballot

Day 11: Community Meeting: Questions and Answers regarding the Ballot Package
Zoom meeting in evening

Day 21: Ballots must be returned via email, regular mail to our post office box, or hand delivered to Burton Store

Day 28: Results of vote communicated to membership

Day 30: Member approval communicated to sellers

Next Steps

After The Vote

- If the ballot is approved by the members, there is still a considerable amount of work to be done.
- Next up is approval of the sale by the Washington State Utilities and Transportation Commission (UTC).
- The Coop and BWC will make a joint application for this step.
- We anticipate that it will be at least another month between UTC approval and closing.
- We will keep you posted on progress.

Next Steps

What you can do

- Watch for emails from the Board explaining the funding package, operating bylaws and the amended Articles of Incorporation.
- Review materials
- Watch for the ballot package
- Attend the next Community Meeting which will provide an opportunity to ask questions, clarify understanding
- VOTE and encourage your Burton friends and neighbors to VOTE! This is a critical decision for our community.

Questions and Answers

For Questions that occur to you after this meeting, email them to:

info@burtonwater.org

For additional information or to review the reports referenced, visit:

www.burtonwater.org

Thank You