

**Osceola Township
Water System Improvements
EGLE – Drinking Water Revolving Fund (DWRf)**

DESCRIPTION OF PRELIMINARY FUNDING SCENARIO

January 2023

I. NEED

Osceola Township water system is in need of improvements. The Township has identified water system improvements and upgrades to maintain system reliability in water source, water distribution, water service lines, and capacity reliability by extending a water main to Tamarack City.

The improvements include replacing undersized and aging water main, valves, fire hydrants, well pumps, water meters, lead service lines, and installation of watermain from Mason to Tamarack City.

The list of improvements for the proposed project are attached and include a Preliminary Engineering Opinion of Cost. As can be seen, the preliminary total cost is \$8,000,000 for this proposed Water System Improvements Project.

II. FUNDING

EGLE - Drinking Water Revolving Fund (DWRf) currently is offering enhanced loan and grant funding for water and sewer projects stemming from the ARP Program and BIL funds.

Based on the Osceola Township Median Household Income (MHI), the Township may qualify for up to a 75% grant. DWRf's current interest rates are at 1-7/8% for a 20-year term, 2-1/8% for a 30 year term, and as Osceola Township should classify as 'Overburdened', the Township should qualify for a 1-7/8% rate for a 30-year term.

- Loan vs. Grant

Based on DWRf thresholds, the Township qualifies for grant funding when they are classified as "Overburdened". To be classified as overburdened the community must meet the following conditions*:

- Users are directly assessed **TRUE**
- MHI does not exceed 100% of statewide MHI **TRUE**
- The community meets one of the following conditions:

-the taxable value per capita of the area served is less than \$22,920 (lowest 20% of Michigan population) **Osceola = \$23,758**
-MHI is less than state MHI and annual user costs exceed 1% of MHI****TRUE**
****Note: as required for 'Overburdened Status', 1% of MHI = \$41.67 per month minimum for Osceola Twp.**
*Per EGLE, the Median Household Income of Osceola Township is \$50,000.
The statewide Median Annual Household Income is \$63,498.*

EGLE - Drinking Water Revolving Fund/ ARP Grant maximum is \$20,000,000. Maximum loan amount is limited to Program funds available.

The impact to user rates will depend several factors. Several assumptions can be made in order to calculate projected user rates. Assuming funding for a large project is applied for as a "worst case" scenario, using the \$8,000,000 total project cost as included in the attached "Scope of Work, Option 1".

Assumptions made for calculating projected user rates:

1. Assume Township qualifies for 75% grant.
2. Assume Project cost is held to current opinion of cost.

The current residential water user rate for Dollar Bay is \$36.50 per month, and the average residential water user rate in Tamarack City, for a customer using 3,000 gallons per month is \$61.90 per month. The Tamarack City base rate is \$37.00 per month plus \$8.30 per 1000 gallons.

The Dollar Bay base rate is \$36.50 per month and includes 4,000 gallons. With the proposed project the Tamarack City water usage rate of \$8.30 per 1000 gallons (for Upper Michigan Water Company) will go away and be replaced by an additional new debt service charge for the new project, and a new water supply rate (from Dollar Bay) of \$1.00 per 1000 gallons.

The bond service (P&I) amount for a \$2,000,000 loan with a rate of 1-7/8% and a term of 30 years is \$88,266 per year. Assume 500 customers system wide.

Proposed here for the project;
if project costs are spread equitably between Dollar Bay customers and Tamarack City customers,
applying project costs for each systems improvements to the respective customers of each system,
the rate increase for Dollar Bay residents will be \$12.50/month, for a base rate of \$49.00/month,
and the additional new bond service for Tamarack City residents will be \$18.75/month, for a base rate of \$55.75 month, plus a water usage cost of \$1.00/1,000 gallons for an average increase of \$2.50 per month for Tamarack City

customers (\$55.51 vs. \$57.98 ~ \$2.50) (assuming the current average use of 2,230 gallons per month in Tamarack City).

If a smaller project (Option 2) is considered at this time to limit the water rate increase to Dollar Bay customers, keep in mind that the minimum rate to qualify for 'overburdened status' will be 1% of MHI, or \$41.67 per month for Osceola Township.

This smaller project scenario includes the transmission line to Tamarack City and other infrastructure to transmit water to Tamarack City, and is attached as "Scope of Work, Option 2".

Again, if project costs (Option 2) are spread equitably between Dollar Bay customers and Tamarack City customers, applying project costs for each systems improvements to the respective customers of each system, the rate increase for Dollar Bay residents will be \$6.41/month, for a total of rate of \$42.91 month, and the bond service for Tamarack City will remain \$18.75/month, for an average rate of \$58.75/month (use of 3,000 gallons per month).

III. ANTICIPATED SCHEDULE

The following outlines a tentative schedule of the DWRP process from application to construction, assuming the Township authorized this project in early 2023:

| | |
|---|----------------|
| 1. NOI Informational Meeting with DWRP via remote | 10/2022 |
| 2. Prepare and Submit DWRP Project Plan and Application | 10/2022-5/2023 |
| 3. Assume Township Application is Selected | 10/2023 |
| 4. UPEA Begins Design | 11/2023 |
| 5. Publish 45 Day Notice of Referendum | 12/2023 |
| 6. Permitting and Right-of-Way Documents | 2/2024 |
| 7. Environmental Assessment Published | 2/2024 |
| 8. Plans and Specs Approved | 3/2024 |
| 9. Bidding | 4/2024 |
| 10. Loan Closing | 6/2024 |
| 11. Begin Construction | 6/2024 |