# CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Sitting as the Governing Body of Clackamas County Service District No. 1 for the first item and as Water Environment Services for items 2-4

## Policy Session Worksheet

**Presentation Date:** 4/10/2018 **Approximate Start Time:** 1:30pm
**Approximate Length:** 2.5 Hours

**Presentation Title:** Water Environment Services Major Initiatives Update

**Department:** Water Environment Services

**Presenters:** Greg Geist, Chris Storey, Lynne Chicoine, Ron Wierenga

**Other Invitees:** Greg Eyerly, Doug Waugh, Amanda Keller, Harvey Rogers, Gulgun Mercereau, Carol Samuels, Steve Donovan

### WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

This report will provide the Board with an update on four major initiatives of Water Environment Services ("WES") that are related.

1. CCSD#1 Integration into WES. The integration of Clackamas County Service District No. 1 ("CCSD#1") into the WES 190 entity, which has already integrated the Surface Water Management Agency of Clackamas County ("SWMACC") and the Tri-City Service District ("TCSD"), is the last remaining element of the transition period anticipated when WES was formed. The integration is best achieved by removing restrictions on asset transfers contained in current bond covenants. In March 2017, the Board gave direction to WES staff on the preferred path to do so, by allowing for the substitution of WES for CCSD#1 with respect to outstanding borrowings of CCSD#1. Below is a summary of that work, which is designed to begin implementation in May 2018 and be completed by June 30th, 2018, prior to the end of the fiscal year. Action item: Direction regarding formal implementation and related actions.

2. Governance. The second item is the emerging conversation regarding governance of WES through the Elected Officials Forum and the participation of Oregon Consensus in that process. Action item: Request direction on proceeding with the Oregon Consensus process and related contracting issues.

3. Rules. The third is an update on the Rules and Regulations of WES, including the interim adoption the Board is engaged in now and the process for the proposed full revamp. Action item: None. This is an update on the currently approved approach to developing new proposed rules for the Board to consider at a later date.

4. Capital Projects. The fourth is a capital projects update that will address both the solids handling project that is underway and will break ground this August, and master planning work regarding the optimal approach to addressing wet weather issues at the treatment plants. Action item: None. This is an update on the currently approved capital construction and planning efforts. Implications of the planning effort will be presented to the Board at a later date when the planning effort is completed.

**BACKGROUND:**

These four issues are all related to the formation of WES as the regional wastewater and surface water service provider and getting it fully operational. On November 6, 2016, the Board unanimously adopted an ORS 190 agreement (the "Agreement") creating WES, a separate legal entity in the form of a municipal partnership, on behalf of and including CCSD#1 and TCSD. Both service districts continue to exist, and their boundaries will continue to change and define the scope of the WES entity. However, pursuant to the Agreement, it is the direction of the Board that the management, operations, regulatory affairs, and financial affairs (excepting previously existing borrowings) be integrated to achieve the savings for ratepayers. On May 18, 2017, the Agreement was amended to add SWMACC, which participates as a partner on an equal basis (together, CCSD#1, SWMACC, and TCSD are the "Partners"). The Board serves as the governing body of WES in the same way as it does for the Partners.

As of July 1, 2017, both SWMACC and TCSD's budgets, operations, assets and regulatory requirements were integrated into WES as required by the Agreement. The target date of June 30, 2018 was established in the Agreement for full integration of all Partners, including CCSD#1. The transition period allows time to implement a complex process of integrating and moving the operations and functionalities of all three districts into the WES entity. The steps necessary to integrate CCSD#1 are the remaining action items.

Prior to, during, and after the creation of WES, the Board offered to engage with stakeholders regarding the governance of it. Prior considerations of the matter, including a blue ribbon panel established in 2008 that included a broad group of participants including elected representatives of the affected cities, recommended that the Board both regionalize the provision of services and remain the governing body of that regionalized service. The details of the current conversation are summarized below.

**ISSUES:**

1. **CCSD#1 Integration & Approach to Outstanding Borrowings**

One of the key issues to be addressed as part of integrating CCSD#1 into WES related to the approximately $92 million of outstanding CCSD#1 borrowings ("CCSD#1 Legacy Debt"). The bond documents for CCSD#1 do not specifically contemplate such a transaction since governments do not regularly integrate with other governments. Typically when businesses borrow, they have the ability to "pass on" their debt when they merge, consolidate, or sell the entity, which is far more common in the private sector. Government bonds usually do not have such provisions. There are, however, bond covenants restricting the transfer of assets as a protection of collateral.

The overall objective is to have WES hold the CCSD#1 Legacy Debt, where it will be paid for exclusively by the CCSD#1 rate zone (rate zone two). This will allow the assets to be held by WES, realizing the efficiencies – especially regulatory efficiencies – that would save ratepayers substantial amounts of money, while also ensuring that ratepayers of TCSD (rate zone one) and SWMACC (rate zone three) do not have to make any payments relating to the CCSD#1 Legacy Debt. When this is accomplished, the integration of CCSD#1 as contemplated in the Agreement can fully take place. Attached is a power point presentation that staff will use to describe this process in detail. Below is a summary of an admittedly technical process to accomplish the objective the Board has established – the full integration of CCSD#1 into WES.

CCSD#1's borrowings are governed by a Master Sewer Revenue Bond Declaration ("Master Declaration") which establishes the terms under which CCSD#1 can borrow funds and how it will pay the associated borrowings. The Master Declaration has a specific provision to allow for amendments so long as "…in the reasonable judgement of the District, [it] does not materially and adversely affect the rights of the owners of any Outstanding Bonds…". and similarly, if the amendment would not "adversely materially affect the payment obligations of the District…or the priority accorded to Policy Costs" of the Reserve Credit Provider (more information provided below on this party).

Therefore the Board, as the governing body of CCSD#1, may make amendments of the Master Declaration so long as it does not materially and adversely affect either the bondowners or the Reserve Credit Provider. That is the approach the Board directed staff to pursue in March 2017. The essence of the proposed amendments (covered below) is that WES is being <u>substituted</u> for CCSD#1 under the Master Declaration, by amending the definition of "District" to be WES instead of CCSD#1. This will allow the borrowings to be managed through WES instead of maintaining CCSD#1 as a separate operating entity, and lay the framework for WES to issue future borrowings. This will accrue a material benefit to all the Partners by allowing SWMACC and TCSD to share in the good credit rating created by CCSD#1's past forays into the bond market. WES will be required to "step into the shoes" of CCSD#1 and manage the CCSD#1 Legacy Debt as well as any future borrowings, as intended.

To implement the substitution of WES for CCSD#1 under the Master Declaration, staff have worked with Hawkins Delafield & Wood as bond counsel, Piper Jaffrey as financial advisors, Donovan Enterprises as financial analytic experts, and Moss Adams as audit and financial statement advisors to document the necessary steps for the Board to make the determination of the necessary changes and whether or not they are material and adverse to bondowners and/or the Reserve Credit Provider. The overall analysis, described below and attached hereto, indicates that not only is the substitution not adverse, but actually has a material <u>positive</u> impact, on the rights of bondowners and the Reserve Credit Provider, based primarily on the savings resulting from the regionalization of the system through WES.

While it is clear who the owners of the bonds are in the context of this decision, the Reserve Credit Provider may not be. The Reserve Credit Provider is the issuer of an insurance policy used to preserve cash and reduce overall cost of borrowings. The Master Declaration requires a reserve account to be established and contain an amount at least equal to one year's debt service, available as an assurance of full payment in the event CCSD#1 fails to make the required payment from its current revenues in any given fiscal year. The annual debt service on the CCSD#1 Legacy Debt is ~$7 million, which is a sizeable amount of money to be locked away for the 20 year time period for repayment of the borrowings.

Therefore a typical strategy, followed here as part of the 2016 refinancing of the CCSD#1 Legacy Debt, is to purchase an insurance policy that will pay that $7 million if ever needed into the reserve account, with an obligation to then replenish and repay. Any amendments must not impair that contractual relationship. There are actually two different reserve insurance policy contracts – one pertaining to the 2002A series of borrowings, and one pertaining to the remainder of the various series of bonds that constitute the CCSD#1 Legacy Debt. The reserve credit insurance policy contract relating to the Series 2002A borrowings is less flexible than the primary reserve credit insurance policy contract covering the vast majority of the outstanding CCSD#1 Legacy Debt. As part of this process, staff is recommending paying off the Series 2002A borrowings, at a cost of approximately $720,000, to fulfill and terminate that contract, save interest expense, and maintain one consistent standard that the Board would be evaluating in making its findings. CCSD#1 has sufficient funds and budget authority currently available to undertake such an action if so directed by the Board.

The steps necessary to amend the Master Declaration to provide for the substitution of WES for CCSD#1 are:

a. Payment in Full of the Series 2002A Bonds. As noted above, there are two different Reserve Credit Providers with two different consent requirements and standards relating to amendments of the Master Declaration. The Series 2002A bonds, which are at a relatively high (4.875%) interest rate, are payable at any time and contain more restrictive consent requirements. Staff recommends repayment in full of these bonds, at a cost of approximately $720,000, to save interest expense and provide a more clear and consistent standard for the Board's determinations under the Master Declaration. If the Board approves, staff will initiate the notice to the appropriate parties of the payment and this can be completed by mid-May.

b. Amendment of the Agreement. This amendment of the Agreement between the Partners that governs WES is to clarify certain aspects of the CCSD#1 integration, and provide more clarity around the process of ensuring that only rate zone two (CCSD#1) ratepayers and contract customers will pay for the CCSD#1 Legacy Debt. This will take two readings because the Agreement is adopted both as a contract by the Partners, and as an ordinance affirming the adoption of the Agreement as required by ORS 190. A draft amendment of the Agreement is attached.

c. Order Ensuring Only Rate Zone Two Supports CCSD#1 Legacy Debt. One of the key promises in the Agreement is that only Rate Zone Two ratepayers will pay for the CCSD#1 Legacy Debt. Once the amendment to the Agreement is adopted, it specifically directs that a separate order be adopted to provide for a transparent ongoing process to ensure that occurs. A draft order providing such a mechanism is attached.

d. Order Finding Facts and Amending the Master Declaration. As previously discussed, to adopt an amendment of the Master Declaration without holding a bondowner vote requires the Board to make certain factual determinations with respect to the impact of those changes on both bondowner rights and the reserve credit provider. Staff has endeavored to compile for the Board's review all relevant information that would be necessary to make those determinations. A draft order (attached) also adopts the amendments of the Master Declaration for clarity. The supporting documents, which are exhibits to the proposed Order, are:

   i. *Financials* representing a retrospective financial statement of WES, to use as a baseline to compare against existing CCSD#1 financials.

   ii. *Report by Donovan Enterprises* providing a third party analysis of the financial impact of WES being substituted as the issuer of the CCSD#1 Legacy Debt. This includes not only a historical review comparing WES performance to CCSD#1, but integrating projections on future requirements and describing hypotheticals for CCSD#1 if it was not part of WES and applying those scenarios to covenants and requirements included in the Master Declaration.

   iii. *Factual Findings* for the Board to review and adopt drafted by WES staff that address the capital, financial, operational, and regulatory savings by having WES as the operating entity in lieu of CCSD#1. The Findings also include an evaluation & discussion of factors that are not directly related to the amendment but often included in evaluations of publicly traded issuances. This was done in support of the report into the securities market of the amendment of the Master Declaration as required by the Securities Exchange Act of 1934. There are additional supporting documents relating to the Findings, such as the Blue Ribbon panel report and the previously-drafted White Paper that discussed regionalization as a service delivery model that have been previously delivered to the Board and are not included here to minimize on the amount of materials. These documents are available upon request and will be part of the materials submitted as part of the formal process.

iv. *Rating Agency Report by Standard and Poor's* ("S&P") to provide additional third party review and validation of the proposed substitution. S&P was the rating agency for the 2016 refinancing that compromises nearly all of the CCSD#1 Legacy Debt. After Board review and direction to proceed, these proposed substitution materials would be presented to S&P for their consideration. S&P has agreed to issue a report on the substitution and provide a new rating for WES as being deemed the "issuer" under the amended Master Declaration. Their review, and issuance of a rating for WES, will both be a factual support for the Board in making their findings and support future WES issuance of borrowings as needed for capital infrastructure.

v. *Amended Master Declaration* is the document allowing for the substitution of WES for CCSD#1, amongst other related changes. Of particular note is the draft amendment also provides adopting a covenant restricting the ability of WES to dissolve so long as any borrowings are outstanding under the Master Declaration, and amendments to the WES Agreement can only be made if there are similar findings of no material and adverse impact on the rights of bondowners, as an assurance that WES will continue as a reliable issuer/payer of the outstanding borrowings. The entire Master Declaration is attached, with proposed changes called out in the attached staff presentation for clarity.

e. Order of WES Accepting the Substitution. This order is to be adopted by the Board as the governing body of WES, representing the other side of the substitution whereby WES agrees to act in place of CCSD#1 and accept all the rights and obligations of CCSD#1 under the Master Declaration as amended.

In addition to the above, there is a process of engaging with any subordinate borrowings relating to the substitution of WES for CCSD#1. Currently, CCSD#1 has a State Revolving Fund ("SRF") loan through DEQ that was used to construct sewers in the North Clackamas Revitalization Area. Per the terms of the loan agreement, DEQ needs to consent to the any transfers or related transactions, and the substitution of WES for CCSD#1 on the SRF loan would qualify. Staff has had preliminary conversations with DEQ and do not anticipate any problems relating to this portion of the work stream.

Staff have prepared a proposed schedule for implementation of the required steps. After approval and direction of the Board to proceed at this policy session, staff will:

- April 11: Issue the 30 day notice regarding the repayment of the 2002A bonds.
- April 24: Formal presentation to S&P of proposed transaction & answer any questions.
- May 10: 1st reading of WES Agreement amendment
- May 15: Payment & confirmation of 2002A Bond repayment completion.
- May 24: 2nd reading of WES Agreement amendment, adoption of amendment and all orders listed above at BCC Business Meeting.
- June 7: Agreement amendment ordinance becomes effective, all orders adopted go effective.
- June 11: Notice of substitution of WES for CCSD#1 are posted on the Electronic Municipal Market Access ("EMMA") system as due notice under the Securities Exchange Act and the Master Declaration as required. The EMMA notice will include the entire set of documents described above in the interests of full disclosure.
- June 8 – June 30: Staff execute remaining integration items for CCSD#1, including asset transfers and budget integration.

If the Board approves the above approach, staff is confident that on July 1, 2018, CCSD#1 will be integrated into WES as directed in the Agreement.

It is important to note that the hypothetical scenarios and financial projections used in the Findings are not determined policy. They were chosen as exemplars of a range of possible options and approaches to illustrate that, in each possible case, the bondholders and reserve credit provider were not materially and adversely harmed by having WES be the issuer of the borrowings rather than CCSD#1.

WES staff wishes to flag that there will be continuing engagement on policies and the development of approaches for each of the operational, financial, capital, and regulatory items discussed as part of this process. It is anticipated that engagement will occur primarily through the WES Advisory Committee and others as directed by the Board to develop approaches and solicit feedback for items prior to their presentation to the Board for final decision.

**2. Governance**

In 2015, there were conversations between CCSD#1 and TCSD about joint investment in solids handling, including pursuant to the "Regional Committee" which was a group consisting mainly of elected officials from both districts, plus one unincorporated resident, with a charter to discuss the appropriateness of joint investments between the then-separate districts. At that meeting, some elected officials, most strongly the Mayor of Oregon City, pushed for a broader conversation regarding governance of the two service districts – with a proposed change that would put city councils, or representatives from them, in charge of each district instead of the Board of County Commissioners. In response, the County noted that the cities were not identifying problems with service but merely a demand for greater control, and expressed concern over the localized management of a regional system, especially with several cities having challenges managing their own retail sewer systems that had led to local moratoriums.

Nevertheless, the Board of County Commissioners responded that they were open to having the conversation, and proposed utilizing Oregon Consensus, a dispute resolution mechanism supported by the Governor's office and housed at Portland State University, to facilitate the discussion. The concept was a facilitated conversation in which all parties work together to try and find a mutually agreeable solution. This is a mediation process with no requirement to act on the results other than persuasion. The participants were to be representatives of all affected stakeholders, especially ratepayers. At least some of the cities refused to agree to Oregon

Consensus at that time. Work continued and eventually the Regional Committee agreed to a joint effort on solids handling, a recommendation that was incorporated into the foundational document creating the WES partnership.

The formation of WES in November 2016 answered definitively at least part of the governance conversation that was raised in 2015. There was at that time a strong suggestion from both Gladstone and Oregon City representatives that TCSD would be better off not working with CCSD1, despite staff and consultant reports to the contrary. The BCC concluded that all ratepayers would benefit from a regional approach to such an economies of scale business as wastewater and surface water, and directed the formation of WES and the combination of all three service districts' business dealing with those issues into the single entity of WES.

Since that time, representatives from various cities have raised the issue twice more. Each time, the Board indicated its willingness to have that conversation with all interested stakeholders participating, again proposing Oregon Consensus as a facilitator. Those offers were not accepted. At the last Elected Officials Forum in February, the issue of "governance" was raised. After Administrator Krupp noted the BCC's continued openness to the conversation with outside facilitation, those cities present (Happy Valley, Johnson City, Oregon City, and West Linn) agreed to utilize the Oregon Consensus process. This was affirmed at the March Elected Officials Forum by a broader group including Milwaukie and Gladstone.

Attached are materials provided by Oregon Consensus that were distributed in support of the March Elected Officials Forum meeting. The WES Advisory Committee was also briefed on the prospect of a governance discussion facilitated by the Oregon Consensus with the same materials, and by the Director of Oregon Consensus who graciously agreed to attend both meetings. As noted in the letter from the BCC addressing these issues sent on March13, the BCC is desirous that all interested stakeholders have a voice in these ongoing discussions.

Given this consensus, staff is recommending that the Board agree to proceed with a process supported and facilitated by Oregon Consensus. The next step in the process would be an assessment, in which Oregon Consensus representative(s) engage in individual interviews with stakeholder representatives to ascertain the nature of the issue, determine if facilitated mediation could bring about progress towards a resolution, and if so the nature of that facilitated conversation. The materials indicate that Oregon Consensus reserves the right to interview individuals that are identified in the assessment process as important to engage, so there may be a two phased assessment process. Once completed, the information gathered as part of the assessment would be reported out to the stakeholders in a general sense either via oral report or, as staff recommends, via a written report that would be made available to all participants.

The issue of the cost of the Oregon Consensus process was discussed at the Elected Officials Forum. The city representatives made a collective proposal to the Board that WES fund the initial phase of work, with the possibility of city reimbursement of some of the costs, and sharing in the ongoing costs if there is agreement to proceed beyond the assessment phase. Staff is desirous of both progress towards resolution of this matter and buy-in from interested stakeholders, in particular the cities requesting this conversation. The proposal made at the Elected Officials Forum, especially in light of the discussion of City reimbursement and ongoing contributions, is consistent with those goals and therefore staff recommends agreement with the proposal.

The next step then would be entering into an intergovernmental agreement with PSU as the entity where Oregon Consensus is housed for a phased approach in implementing the proposed process. Phase one would be the assessment phase and would be funded by WES. Phase two, which would require an amendment of the proposed IGA to implement, would be subject to approval after discussion with the representatives of the Elected Officials Forum, other interested stakeholders, and input to the Board from the WES Advisory Committee.

### 3. Rules & Regulations Update

As part of the transition of having WES be the operating entity, WES needs to adopt ordinances to allow it to function in the same fashion as the three service districts that make up its constituent Partners. As part of the commitment to a transparent process, staff has recommended, and the Board has adopted, ordnances for WES that are identical in nature to those in place for the three Partners at the time of formation of WES. The Board will hear and consider the second reading of the ordinances necessary to convey into WES the ordinances of CCSD#1 on April 12th.

In support of the integration of the service districts and with an objective to update and make more efficient and consistent the rules that apply throughout WES' area of responsibility, staff has undertaken a major overhaul of the rules that are being imported into WES. Many sections of the rules have not been seriously evaluated or amended since adoption in the 1970s or 1980s, and do not have the clarity or flexibility desired to meet current needs. In support of that overhaul, WES is engaging an outside consultant, Brown and Caldwell, to ensure both the identification of best practices and the engagement of all affected parties.

The rule revision project will look at the entire set of ordinances with particular emphasis on administrative, fiscal, development/design, and regulatory areas. The project will kick off in May 2018 and is targeting completion by first quarter of 2019, when proposed changes and updates will be brought back to the Board for consideration. The process envisions significant community engagement, including workshops, external interviews, a public review process and the active participation of the WES Advisory Committee. Attached is a presentation that provides more detail on the process and deliverables.

### 4. Capital Projects & Planning Update

As part of a multi-year planning and capital evaluation effort initiated shortly after the appointment of Director Geist, WES has been establishing the factual underpinnings for a long term capital investment strategy. The initial phase of that work focused on short term needs, and the most immediate of those was solids handling capacity at the Tri-City Water Resource Recovery Facility ("Tri-City WRRF"). The other was an integrated treatment and conveyance master plan that sought the lowest cost investment approach to meeting the required levels of service for WES' customers. Below is a report on both items for the Board's consideration, as well as an attached presentation that will be used to supplement and enhance the below.

*a. Tri-City WRRF Solids Handling Improvements Project (TCSHI)*

The Tri-City WRRF Solids Handling Improvements Project is on schedule and on budget. The design is complete and will be advertised for bid in mid-April. WES anticipates breaking ground in July or August 2018. The estimated cost of construction has been updated throughout design and has held steady at ~$35 million. The project has several components:

- new 1.3 million gallon anaerobic digester and associated equipment,
- new dewatering facilities,
- new truck loading facility,
- biosolids storage,

- bio-gas utilization system that will include gas cleaning, storage and an upsized engine generator that will provide a signification portion of reuse of bio-gas from the digestion process as power for the Tri-City facility, provide process heat for the digesters and space heating for the solids area, the administration building and the laboratory
- Upgrades to existing solids processing area and digesters, and
- adding blend tanks to improve process performance.

WES is also pursuing grant funding from PGE and the Energy Trust of Oregon relating to the bio-gas utilization system, with the goal of reducing the overall cost of the project to ratepayers.

Over the next few months WES will be preparing for the construction by clearing areas, both inside buildings and out that will be impacted by the work. A communication plan regarding the impact of the construction on nearby neighbors is being implemented. The new facilities are anticipated to be on line in Summer 2020 with final completion in December 2020.

*b. Tri-City and CCSD1 Sanitary Sewer Master Plan (Collection System Master Plan, CSMP)*

WES staff has been working with our consultant, CH2M Hill (now Jacobs) to develop a capital plan that will provide reliable collection system infrastructure for the service area for the next 20 years. The capital plan will identify deficiencies in condition and capacity throughout the system and prioritize projects to address those deficiencies. The CSMP is expected to be complete in summer 2018. Significant amounts of work have been done and staff thought the Board would be interested in an update on the status of those efforts.

To date, the condition assessment has revealed that, overall, the system is in good condition, with some areas that need attention. Recently, WES completed an infiltration and inflow (“I/I”) evaluation. I/I is groundwater and rain water that enters the system through cross-connections and pipe defects during wet weather events and contributes significantly to peak flow. Peak flow drives the size of our required capital investment since the system must accommodate peak flow under the Clean Water Act.

Our analysis ranked basins (areas discharging to an interceptor) by best value (most reduction in I/I per dollar spent) and showed that the least cost alternative calls for reducing I/I by 65% in 16 key basins, against baselines for lower I/I reductions. This was also based on modeling that examined the cost of constructing more treatment capacity at the Kellogg WRRF and Tri-City WRRF, versus improvements in the conveyance infrastructure to reduce the amount of flow that is delivered to the treatment plants. The overall lowest cost to ratepayers was pursuing a strategy of high levels of I/I reduction rather than focusing solely on treatment.

In all cases, substantial investment is required. Current (draft) estimates of the needed investment to handle peak flow results in an overall expenditure of $679 million over the next twenty years and reduce system-wide I/I by 30%. This lowest cost approach is contrasted with an estimated $800 million in investment for a treatment only approach, resulting in a savings of $121 million compared to doing no work to reduce I/I and constructing treatment infrastructure to handle projected peak flow. This approach assumes partner cities will maintain their collection system infrastructure to a defined standard, and may implicate doing collection system work in areas where WES typically has not, possibly including on private property with respect to laterals. The final CSMP will be presented to the Board for its consideration when completed.

**FINANCIAL IMPLICATIONS:**

Is this item in your current budget? ☒ YES ☐ NO

What is the cost? Budgeted expenditures for capital projects, consultant for rules update, repayment of debt, professional services for governance conversation, staff time.

What is the funding source? FY17-18 CCSD1 and WES Budgets

**STRATEGIC PLAN ALIGNMENT**

This aligns with several of WES' Strategic Goals:

- Achieve sewer improvements to support the expected regional 20-year growth horizon.
- Priorities and policy recommendations will reflect optimum economies of scale.
- A decision will be made regarding the governance and/or co-investment strategy, allowing for the districts to benefit from the maximum practical economy of scale.

This aligns with the County's Strategic Goals in that it helps build a strong infrastructure.

**LEGAL/POLICY REQUIREMENTS:**

1. There would be extensive actions as described above required to fully integrate CCSD#1 into WES.
2. No requirements for governance conversation.
3. Rules update project will culminate in formal ordinance adoption process.
4. Solids Handling project will require Board approval of the construction contract. The CSMP will have several policy implications that will be brought forward for the Board's consideration when the report is complete this summer.

**PUBLIC/GOVERNMENTAL PARTICIPATION:** Extensive for all the above items.

**OPTIONS:**

Item 1: Should staff proceed with the full integration of CCSD#1 by the substitution of WES for CCSD#1 with respect to the CCSD#1 Legacy Debt?

Option A: Proceed and direct staff to follow proposed steps.

Option B: Not proceed and maintain CCSD#1 as a separate operating entity with separate asset ownership, regulatory compliance, operations and budgets for the term of the CCSD#1 Legacy Debt.

Item 2: Should staff proceed with engagement of Oregon Consensus to facilitate a conversation around the governance of WES?

Option A: Proceed and authorize staff to negotiate an IGA to be brought back to the BCC regarding WES payment of phase one (assessment) of the Oregon Consensus process.

Option B: Proceed and direct staff to seek contributions from city partners in support of payment for phase one (assessment) of the Oregon Consensus process.

Option C: Do not proceed and decline to move forward with the Oregon Consensus process.

Item 3: No action needed. The rules update effort is approved in the current budgets of WES and CCSD#1.

Item 4: No action needed. The initial costs of the Tri-City solids handling improvement project and CSMP are approved in the current budgets of WES and CCSD#1. Future costs will be addressed as part of the budgeting process for WES.

**RECOMMENDATION**:

Item 1: Should staff proceed with the full integration of CCSD#1 by the substitution of WES for CCSD#1 with respect to the CCSD#1 Legacy Debt?

**Recommendation**: Option A. Direct staff to proceed, including engaging with Standard & Poor's for a rating update, defeasement of the 2002A Bonds, and finalization of materials for consideration at future business meetings.

Item 2: Should staff proceed with engagement of Oregon Consensus to facilitate a conversation around the governance of WES?

**Recommendation**: Option A, direct staff to negotiate an IGA with Oregon Consensus via PSU and proceed with phase one (assessment) of the proposed process.

ATTACHMENTS:
- Staff Presentation with respect to CCSD#1 Legacy Debt & Integration
- Draft Amendment of the WES Partnership Agreement
- Draft Order Effectuating Agreement Provisions (Legacy Debt Test)
- Draft Order Finding Facts and Amending the Master Declaration (and attachments)
  - WES Financials prepared by Moss Adams
  - Draft Report by Donovan Enterprises
  - Draft Factual Findings & Disclosure
  - Draft Amended Master Declaration
- Draft Order of WES Accepting Substitution
- Oregon Consensus Materials
- Staff Presentation Regarding Rules Update Project
- Staff Presentation Regarding Capital Projects Update

SUBMITTED BY:
Division Director/Head Approval ___________
Department Director/Head Approval Gregory L Geist
County Administrator Approval ___________

For information on this issue or copies of attachments, please contact Chris Storey at 503-742-4543

# Actions Required for WES to Substitute as Issuer of CCSD#1 Borrowings

April 10, 2017

# Agenda

- » Introduction – Why are we here?
- » History
- » Financial Analysis
- » Board Actions Required
  - – IGA Amendment
  - – Approval of Redemption of 2002A Bonds
  - – Order on Effectuating Agmt Provisions
  - – Finding of No Material and Adverse Effect
  - – Master Declaration Amendment
  - – Board Order accepting substitution of WES for CCSD#1



Water Environment Services
*Beyond clean water.*

# Agenda (cont'd)

» Steps
  – Board Policy Session (this meeting)
  – Rating presentation
  – Subordinate Lender Consent
  – Redemption of 2002A Bonds
  – Board actions
  – EMMA filings
» Schedule

# Introduction – Why are we here?

- To finalize WES Partnership, documents related to CCSD#1 Borrowings will need to be adjusted to substitute WES for CCSD#1 as borrower.
- CCSD#1 issued bonds under “Master Declaration” and loans were issued directly to the District.
- Board is permitted to amend Master Declaration without consent of bondowners or reserve credit provider if there is no material and adverse effect

# Introduction – Why are we here (cont'd)?

» **Staff believes that Partnership will:**
- **Improve financial performance and operating efficiency**
- **Reduce capital needs; and**
- **Improve regulatory management.**

» **Therefore, rights of bond owners or the reserve credit issuer will not be materially and adversely affected.**

» **Presentation will describe factual development and third party opinions being pursued to enable Board to reach this conclusion.**

# History

» **WES formed as Chapter 190 through IGA between CCSD#1 and TCSD on November 6, 2016 with SWMACC ("Partners") joining as of May 18, 2017.**

» **Board concluded that services could be delivered by WES more efficiently than by Partners operating separately.**

# History (cont'd)

- » IGA calls for Partners to contribute assets by June 30, 2018.
- » SWMACC and TCSD have completed their efforts.
- » CCSD#1 is in process.
- » Transfer of CCSD#1's Outstanding Bonds is key component, requiring amendment of Master Declaration.

# Financial Analysis - Summary

- CCSD#1 is only Partner with outstanding long-term borrowings.
- TCSD has no outstanding borrowings. As of 2017, generated $2.5m operating income before depreciation.
- SWMACC has no outstanding borrowings. As of 2017, generated $62,257 operating income before depreciation.
- Partnership will have enhanced ability to pay for outstanding borrowings and to comply with bond covenants.
- WES being substituted for CCSD#1 is not a material and adverse effect to rights of Bondowners or RCP.



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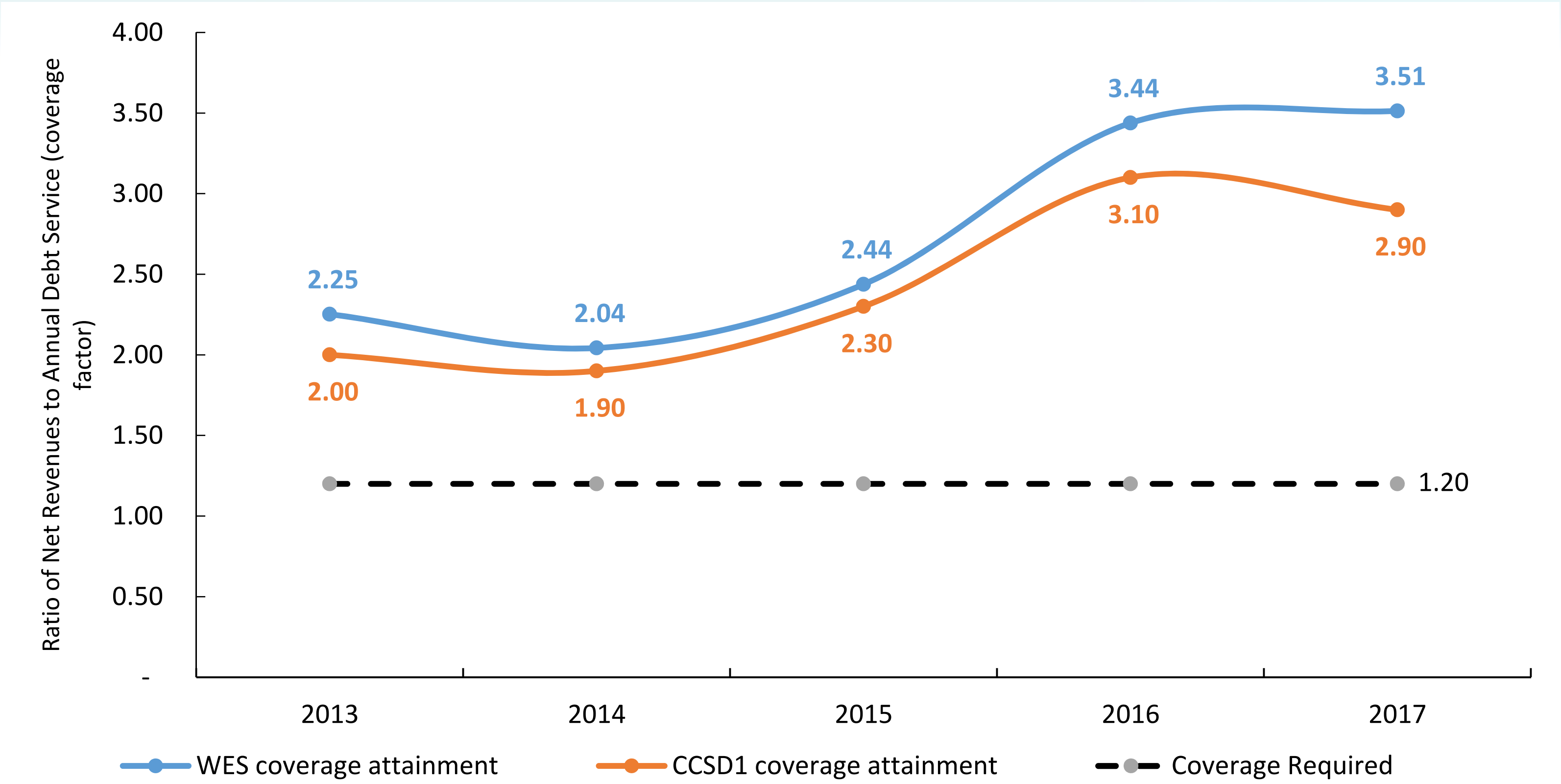
# Financial Analysis - Historical

## Ratio of CCSD#1 Net Revenues vs WES to Annual Debt Service is below:

**Figure 1 - Historical Net Revenue Covenant Compliance**



# Financial Analysis – Projected Cases Considered

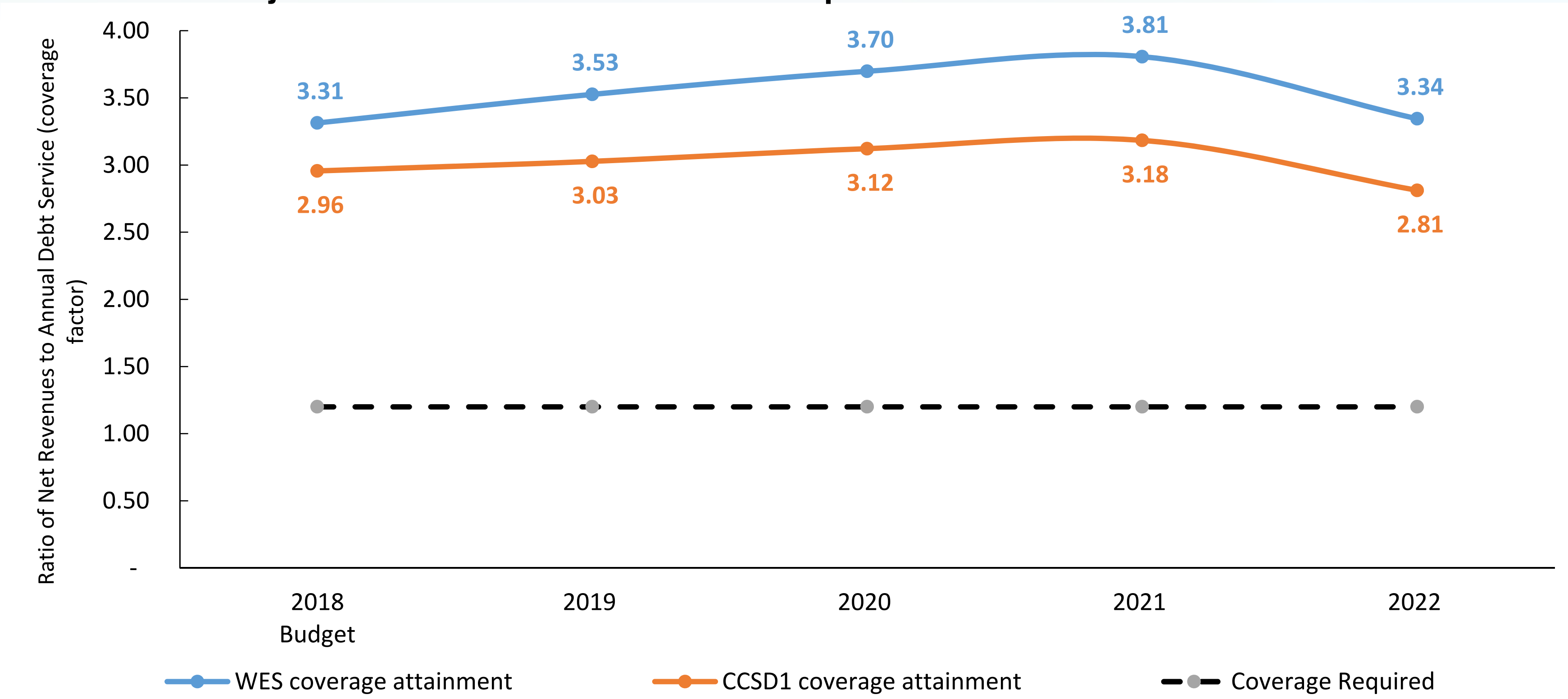
**Four cases were considered in the financial review:**

- **Baseline – CCSD#1 and WES are compared from operating perspective only.**
- **Theoretical comparisons:**
  - **Pooled Resources - CCSD#1/TCSD equally participate in capital needs, with no CCSD#1 premium for co-location on TCSD assets.**
  - **Premium Payment - CCSD#1 pays $4.4m in premium for access to TCSD assets.**
  - **"CCSD#1 Go Alone" – Assumes each district operates and makes capital investment separately.**

# Financial Analysis – Projected (Base Case)

**Baseline case projects coverage of both entities under status quo assumption of no further capital improvements.**

**Projected Net Revenue Covenant Compliance under the Baseline Case**



# Financial Analysis – Pooled Resources Case

- » **Assumes Partners combine forces to allow flow management and balancing between systems to better ensure compliance with regulatory requirements and allow equipment to go offline for maintenance.**
- » **Assumes Partners' reserves are deployed to "buy down" future borrowing needs with matching cash contributions from both CCSD#1 and TCSD.**
- » **As of July 1, 2018:**
  - **CCSD#1 estimated cash reserves = $52.0m**
  - **TCSD reserves = $13.2m.**

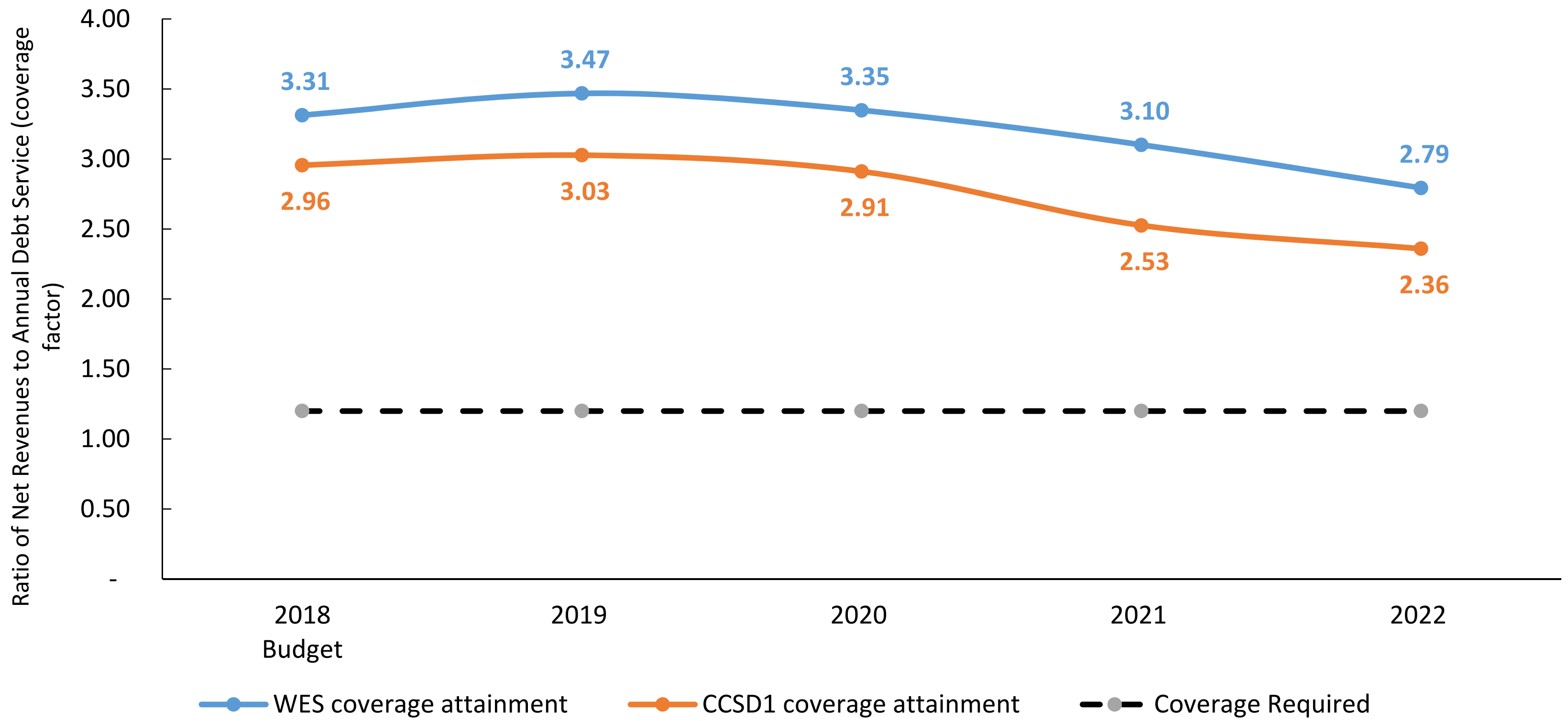
# Pooled Resources Case (cont'd)

- » **Assume existing cash used to buy down borrowings only to extent contributions are matched (i.e., initial cap of $13.2m each).**
- » **Excess CCSD#1 cash reserves assumed retained for future capital projects of benefit to Rate Zone 2.**

# Pooled Resources Case (cont'd)

**Forecasted coverage under pooled resources case is shown below.**

**Projected Net Revenue Covenant Compliance under the Pooled Resources Case**



# Financial Analysis – Premium Payment Case

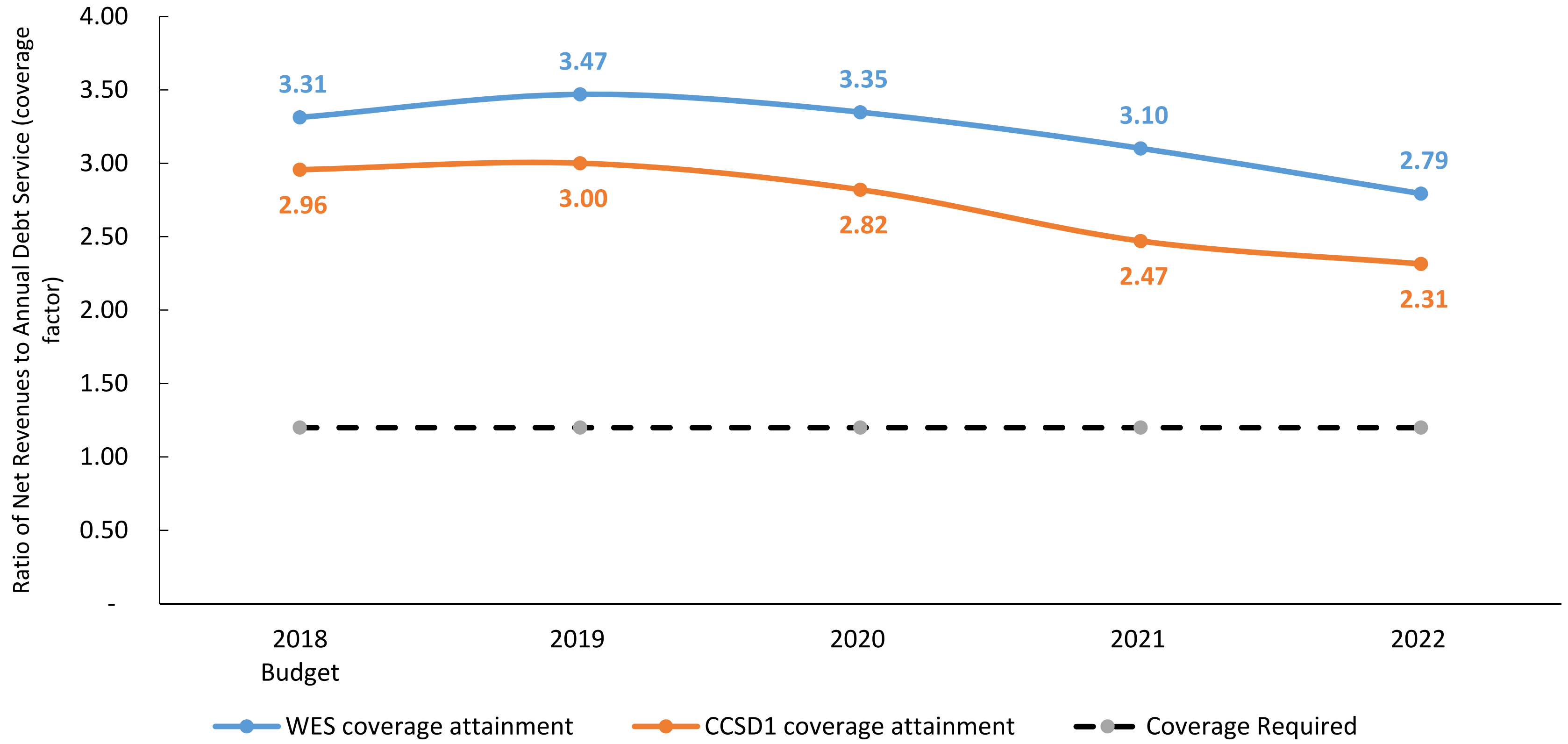
» **Compares Pooled Resources model to independent CCSD#1, but assumes CCSD#1 pays premium to TCSD for hosting collocated facilities.**

» **CCSD#1 is expected to invest $29.3m at the TCSD wastewater plant through FY 2021-22, principally in expanded joint solids handling project.**

» **Premium Payment Case assumes CCSD#1 premium paid to TCSD = $4.4m.**

# Premium Payment Case (cont'd)

Projected Net Revenue Covenant Compliance under the CCSD#1 Premium Payment Case



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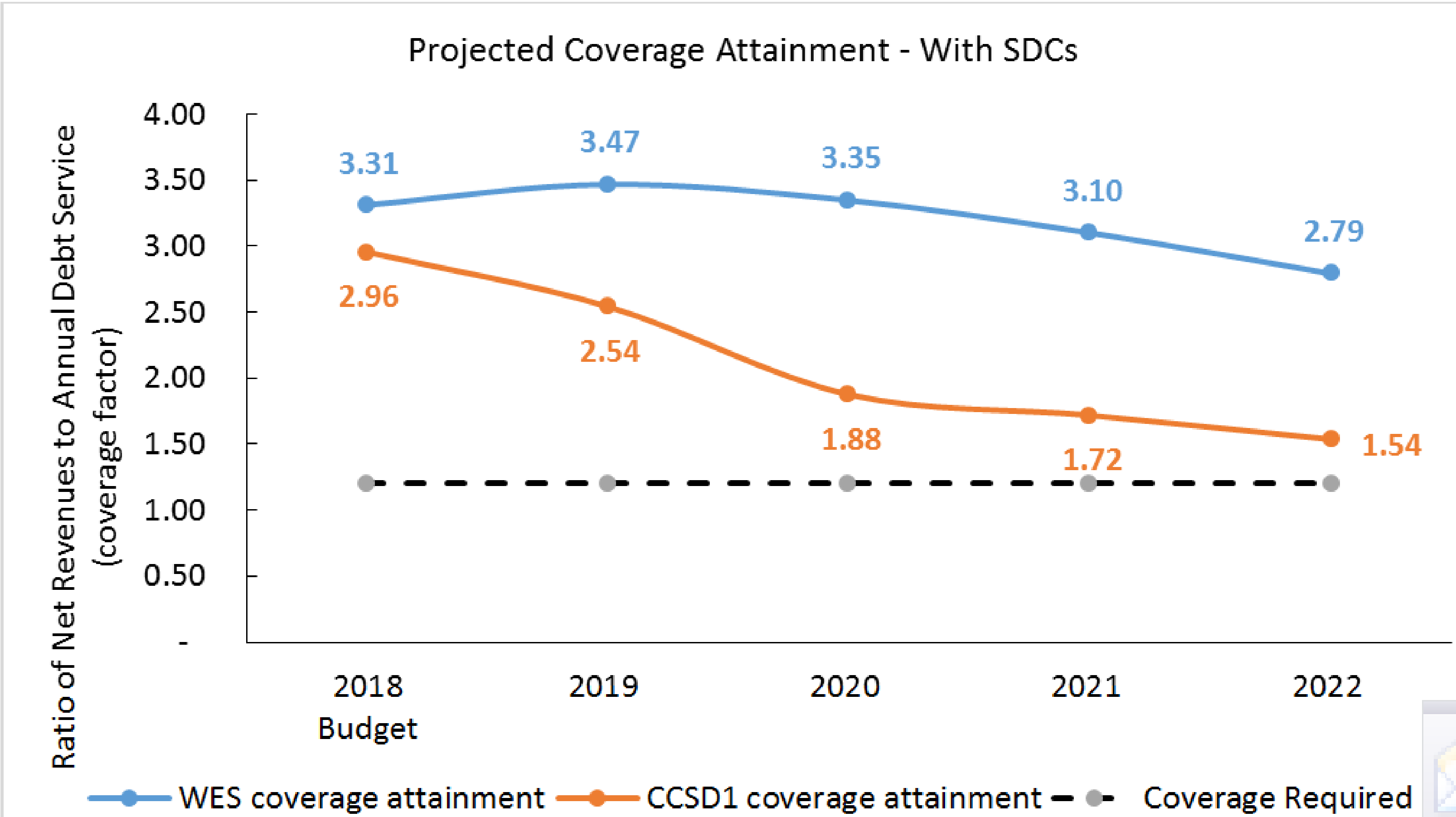
# Go Alone Case

- Examined high level engineering studies conducted for policy review purposes on what it would mean for CCSD#1 and TCSD to not co-invest; each would operate and invest separately.
- Resulted in significantly higher capital expenses for both Districts.
- Was one of major reasons Board agreed to pursue formation of WES originally.
- Included an illustration of reliance and benefit to CCSD#1 (and TCSD) in closest possible integration as represented by WES partnership.

# Go Alone Case (cont'd)

Figure 9 – Projected Net Revenue Covenant Compliance under the Go Alone Case including SDCs



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# Regulatory Management

» **Enhanced regulatory management will be derived through combining existing, separate Clean Water Act permits under watershed permit.**

» **Combined permits will create significant efficiencies in meeting discharge limitations by allowing compliance across broader watershed.**

» **Will help avoid unnecessary investment in required redundancy through collective approach to meet required thresholds.**

# Future Capital Expenditures

- Capital needs can be focused on newest technologies to develop combined approach, rather than each Partner trying to meet increasingly restrictive discharge limitations individually.
- CCSD#1 and TCSD both have aging infrastructure requiring replacement.
- Optimizing reinvestment strategy across regional system will  reflect existing practices of shared maintenance and engineering staff.
- Growth related expenditures will benefit from constructing joint facilities (including solids handling and liquids handling) rather than separate and expensive sets for each Partner.

# Future Capital Expenditures (cont'd)

» **WES anticipates borrowing to construct additional solids handling capacity; potentially 2 interceptor pipelines and a large diameter intertie pipeline.**

» **WES will enter into future borrowings as a combined entity.**

» **Without partnership, each entity would have to issue borrowings, in addition to significant duplicate projects needed to satisfy treatment needs.**

» **Combined financial resources of Partners should allow future financings to be made on same if not better terms than if done separately.**

# 5 Year CIP

| Projects | 2018 | 2019 | 2020 | 2021 | 2022 | Uninflated Total | Percent |
|---|---|---|---|---|---|---|---|
| *Water Resource Recovery Facility Projects:* | | | | | | | |
| Tri City | $ 9,060,000 | $ 17,958,000 | $ 13,088,000 | $ 5,450,000 | $ 5,780,000 | $ 51,336,000 | 30.04% |
| Kellogg Creek | 6,250,000 | 8,700,000 | 4,710,000 | 2,310,000 | 200,000 | 22,170,000 | 12.97% |
| Hoodland | 900,000 | 1,500,000 | - | 500,000 | 2,750,000 | 5,650,000 | 3.31% |
| Boring | - | - | - | - | - | - | 0.00% |
| *Subtotal WRRF Projects* | 16,210,000 | 28,158,000 | 17,798,000 | 8,260,000 | 8,730,000 | 79,156,000 | 46.31% |
| *Other Wastewater System Capital Improvements:* | | | | | | | |
| Collection System Projects | 4,525,000 | 11,690,000 | 23,960,000 | 27,190,000 | 1,600,000 | 68,965,000 | 40.35% |
| Blue Heron Site Improvements | - | - | - | - | 6,000,000 | 6,000,000 | 3.51% |
| Fleet | 710,000 | 770,000 | 1,005,000 | 1,010,000 | 1,090,000 | 4,585,000 | 2.68% |
| Tri City Asset Management | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 2,000,000 | 1.17% |
| Kellogg Creek Asset Management | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 2,000,000 | 1.17% |
| Pump Station Upgrades | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 2,250,000 | 1.32% |
| Development Support Projects | 100,000 | - | - | - | - | 100,000 | 0.06% |
| Water Quality Laboratory | 52,000 | 60,000 | 120,000 | 30,000 | - | 262,000 | 0.15% |
| *Subtotal Other Wastewater System Projects* | 6,637,000 | 13,770,000 | 26,335,000 | 29,480,000 | 9,940,000 | 86,162,000 | 50.41% |
| *Storm and Surface Water Management Projects:* | | | | | | | |
| Carli Property Regional Water Quality Facility | 2,000,000 | | | | | 2,000,000 | 1.17% |
| Mt. Scott Oak Bluff Restoration | 30,000 | 345,000 | 20,000 | 5,000 | | 400,000 | 0.23% |
| Rock Creek Restoration | - | | | | | - | 0.00% |
| Small Projects - Ongoing Drainage Improvements | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 1,750,000 | 1.02% |
| Detention Pond Repair/Rehab | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 1,250,000 | 0.73% |
| Decant Facility | 200,000 | - | - | - | - | 200,000 | 0.12% |
| *Subtotal Storm and Surface Water Management Projects* | 2,830,000 | 945,000 | 620,000 | 605,000 | 600,000 | 5,600,000 | 3.28% |
| *Total* | $ 25,677,000 | $ 42,873,000 | $ 44,753,000 | $ 38,345,000 | $ 19,270,000 | $ 170,918,000 | 100.00% |



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# Capital Expenditures Conclusions

- **By creating single regional provider, WES is able to avoid unnecessary, duplicative capital investments and justify long term combined, economy-of-scale projects to benefit all ratepayers.**
- **Results in less rate pressure and creates healthier, more robust financial performance.**
- **Supports conclusion that transfer of CCSD#1 borrowings and assets to WES not only is clearly not a material adverse effect, but indeed a material positive action that increases the financial resources available to repay any Outstanding Bonds.**



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# Board Actions Required

- » **IGA Amendment**
- » **Board Order Effectuating Agmt Provisions (Debt test)**
- » **Finding of No Material and Adverse Effect**
- » **Master Declaration Amendment**
- » **Board Order accepting substitution of WES for CCSD#1**

# IGA Amendment

- States Partners' intention to contribute all existing facilities, assets and related properties and interests into WES.
- Partners agree that transfer of CCSD#1 debt is desirable and beneficial, allowing more effective contribution by CCSD#1 and debt issuance by WES going forward.
- Clarifies that debt service for CCSD#1 Bonds will be charged to Rate Zone 2 ratepayers.

# Board Order Effectuating Agmt Provisions

- Implements approach for ensuring that CCSD#1 Bonds are charged only to Rate Zone Two (RZ2) customers.
- Compliance will be determined through tested ratemaking, with WES considered single entity without separate financial statements.
- Within 150 days of end of FY, WES will compare cash collections from Rate Zone 2 to required debt service payments due.
- If collections generated are less than debt service, WES shall make corrective rate adjustments to recover costs.



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# Board Finding of No Material and Adverse Effect

» **To amend Master Declaration, Board of County Commissioners as CCSD#1 governing body is required to judge that adoption of Amended Declaration does not *"materially and adversely affect the rights of owners of any Outstanding Bonds"* or the Reserve Credit Provider's rights.**

» **Many factors considered in determination. Key factors from bondowner perspective include:**

1. **No adverse impact on rate covenants.**
2. **No adverse impact from future financings.**
3. **Improved financial performance of organization.**

# Master Declaration Amendment

**Amended Declaration will make four changes:**

1. **Definition of "District."**

**Will define "District" to mean WES, rather than CCSD#1. Will allow WES to operate with respect to making payments, meeting bond covenants, and generally operating system.**

2. **Definition of "Sewer System."**

**Will expand scope of definition beyond just CCSD#1 to cover systems of SWMACC and TCSD as well, in essence broadening assets and rates supporting Outstanding Bonds.**

# Master Declaration Amendment (cont'd)

3. **Covenant not to dissolve WES or adversely amend IGA.**

**Will add new section saying WES will not terminate or dissolve while Bonds are outstanding; limits ability to amend IGA to cases where WES Board judges that amendment does not materially and adversely affect the rights of bondowners. Gives assurance to bondowners that improvements due to creation of WES will not be withdrawn.**

**4. Transition Provision**

**Will add new section allowing WES to calculate compliance with financial covenants by using combined WES financial statements. Clarifies how compliance is measured during transition period, ensures clear reporting and creates baseline for future performance measurement.**

## Board Order Accepting Substitution of WES for CCSD#1

- Authorizes WES Partnership to accept substitution for CCSD#1 under the Amended Master Declaration
- Authorizes WES accepting all rights and obligations of CCSD#1 under bond documents such as the tax certificate and continuing disclosure certificate for outstanding borrowings
- Authorizes Don Krupp or Greg Geist to sign the Amended Declaration on behalf of the WES Partnership.

# Steps

» **Board Policy Session (this meeting)**
» **Redemption of 2002A bonds**
» **Rating presentation**
» **Consent of Subordinate Lender**
» **Board actions**
» **EMMA filings**

# Redemption of 2002A Bonds

» **Documentation for Series 2002A Bonds is somewhat more restrictive than other Series related to approvals required from Reserve Credit Provider in order to amend Master Declaration.**

» **Prepaying all remaining 2002A Bonds will remove these additional requirements and create one consistent standard for Board findings.**

» **Remaining balance is ~$720,000 (including accrued interest), average coupon rate of 4.825%**

» **CCSD#1 has more than sufficient cash on hand, all earning less than interest cost, to prepay these obligations.**

# Rating Presentation

» **CCSD#1 Bonds are currently rated by Standard and Poor's Corporation at "AA+", second highest rating available.**

» **Although not required by terms of Master Declaration, we have asked S&P to review Partnership and proposed amendment of Master Declaration to determine whether, in their view, there is any adverse impact from consolidation and make information available to Board as part of their findings factual support.**

» **Rating conference call is scheduled for April 24.**

# Consent of Subordinate Lender

» **WES has had preliminary conversations with DEQ, and they are supportive.**

» **Would provide for continued subordination of the State Revolving Fund loan to the outstanding bonds. This consent would apply to issuance of future debt as well.**

# EMMA Filings – Material Event Notices

**Under terms of Agreement undertaken for Outstanding Bonds, CCSD1 agreed to provide "Material Event" notices to EMMA:**

**(a) Principal and interest payment delinquencies;**

**(b) Non-payment related defaults, if material;**

**(c) Unscheduled draws on debt service reserves reflecting financial difficulties;**

**(d) Unscheduled draws on credit enhancements reflecting financial difficulties;**

**(e) Substitution of credit or liquidity providers or their failure to perform;**

**(f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability;**

**(g) Modifications to the rights of security holders, if material;**

**(h) Bond calls, if material, and tender offers;**

**(i) Defeasances;**

**(j) Release, substitution or sale of property securing repayment of the Bonds, if material;**

**(k) Rating changes;**

**(l) Bankruptcy, insolvency, receivership or similar event of the obligated person;;**

**(m) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;**

**(n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.**

# Schedule

| | |
|---|---|
| April 10: | Board Workshop |
| April 11: | 30-day notice on Redemption of 2002As |
| April 24: | Presentation to Rating Agency |
| May 10: | First reading of IGA Amendment |
| May 11: | Redemption of 2002As |
| May 24: | Second reading of IGA Amendment<br>Adoption of Board Order on Rate 2 Compliance, Board Finding of No Material and Adverse Effect, Board Order on Substitution of WES for CCSD#1<br>Adoption of Master Declaration Amendment |
| June 7: | Effective date of IGA Amendment |
| June 11: | EMMA Postings |
| June 8-30: | Implement CCSD#1 Integration into WES |

**AMENDMENT #2 TO THE WATER ENVIRONMENT SERVICES**

**PARTNERSHIP AGREEMENT**

This Amendment #2 to the Water Environment Services Partnership Agreement (this "Amendment") is by and between Clackamas County Service District No. 1, a county service district formed under Oregon Revised Statute ("ORS") Chapter 451 ("CCSD#1"), the Surface Water Management Agency of Clackamas County, a county service district formed under ORS Chapter 451 ("SWMACC"), and the Tri-City Service District, a county service district formed under ORS Chapter 451 ("TCSD"), pursuant to ORS Chapter 190 for the amendment of an already-existing intergovernmental entity. The parties are herein individually referred to as "Partner" and collectively as the "Partners."

WHEREAS, CCSD#1 and TCSD entered into that certain ORS 190 partnership agreement dated November 3, 2016 to form the Water Environment Services municipal partnership entity (the "Agreement"); and

WHEREAS, SWMACC became a party to the Agreement on May 18, 2017; and

WHEREAS, the Parties desire to refine the Agreement to clarify certain financial issues primarily pertaining to assuring any borrowings of CCSD#1 will remain the responsibility of ratepayers of Rate Zone 2, which encompasses the boundaries of CCSD#1 and its current and prior contract customers;

NOW, THEREFORE, CCSD#1, SWMACC, and TCSD each hereby agree that the Agreement is amended as follows:

1. Section 1.03 is amended to read in its entirety:

Section 1.03 Partnership Contribution. The Partners intend to contribute the ownership and management of all existing facilities, assets whether tangible or intangible and all related properties and interests into WES, including but not limited to monetary and regulatory assets, contracts, and other agreements that shall be deemed part of the WES Facilities (as defined below) so that the entire system is under WES's sole management and control. This full "Contribution" requires the substitution of WES for CCSD#1 with respect to all outstanding CCSD#1 Bonds (defined below). The Partners herein commit to work together in good faith, to use their best efforts, and to take all necessary actions to accomplish the Contribution as provided herein. It is the intention of the Parties that each will take all available steps as soon as reasonably possible to effectuate the Contribution and will not wait for action by the other to accomplish this goal. The Partners agree that substitution of WES for CCSD#1 with respect to the CCSD#1 Bonds, consistent with Section 3.07 hereof, is a desirable and beneficial action allowing a more effective contribution by CCSD#1 and issuance of borrowings by WES going forward.

2. Section 1.11(a) is amended to read in its entirety:

"CCSD#1 Bonds" means all outstanding borrowings of CCSD#1 as of May __, 2018, including but not limited to the Series 2009A Obligations, Series 2009B Obligations, Series 2010 Obligations, Series 2016 Obligations, and any Oregon State Revolving Fund loans, and any bonds or obligations that refund the same.

3. Section 1.11(b) is amended in its entirety to read:

"CCSD#1 Debt Service" means the principal of and interest on CCSD#1 Bonds, and any other payments or deposits that are required by the documents related to the CCSD#1 Bonds, such as deposits to debt service reserve accounts and bond sinking funds.

4. Section 3.07 of the Agreement is amended in its entirety to read:

The Partners acknowledge that CCSD#1 has issued the CCSD#1 Bonds relating to CCSD#1's existing system, and that neither TCSD nor SWMACC has any outstanding borrowings. The Partners acknowledge and agree that the ratepayers of TCSD and SWMACC shall not be charged for the CCSD#1 Bonds and the related CCSD#1 Debt Service, and that rates shall be imposed to pay for the CCSD#1 Bonds and the related CCSD#1 Debt Service to ensure the same. To effectuate this the Parties agree that:

(a) The Board of WES shall adopt an order establishing a ratemaking policy to ensure the above restriction is effectuated, which may be modified from time to time to address budgetary or accounting factors.

(b) The provisions of this IGA shall not be construed to limit or prevent WES from:

(i) Commingling its gross revenues and applying them to any lawful obligation of WES without regard to the ratepayers that provided those gross revenues;

(ii) Allocating expected operating expenses to its ratepayers in any reasonable manner, regardless of their location; OR

(iii) Establishing rates for its customers in any manner WES determines is equitable and consistent with prudent utility practice, except as specifically limited by Section 3.02 and this Section 3.07.

(c) Nothing in this Agreement is intended or shall be construed to violate any covenant of the CCSD#1 Bonds, and such covenants, to the extent there is a conflict between them and the Agreement, shall control with respect to the CCSD#1 Bonds and any obligations issued on a parity with those bonds and required to have the same covenants as the CCSD#1 Bonds.

(d) Once all of the CCSD#1 Bonds are paid, defeased or refinanced for the benefit of WES as a whole, the provisions of Section 3.07 and any related order shall cease to have any effect.

Except as set forth herein, CCSD#1, TCSD and SWMACC ratify the remainder of the Agreement and affirm that no other changes are made hereby.

| **Clackamas County Service District No. 1** | **Tri-City Service District** |
|---|---|
| ______________________________ | ______________________________ |
| Chair | Chair |
| ______________________________ | ______________________________ |
| Clerk | Clerk |

**Surface Water Management Agency of Clackamas County**

______________________________
Chair

______________________________
Clerk

In the Matter of a Board Order Effectuating the
WES Partnership Agreement Provisions Order No. _____

WHEREAS, on November 3, 2016, an intergovernmental Partnership Agreement (the "Partnership Agreement") was entered into by Clackamas County Service District No. 1 ("CCSD#1") and the Tri-City Service District ("TCSD"), creating a new municipal entity known as Water Environment Services ("WES"), to which the Surface Water Management Agency of Clackamas County ("SWMACC" and, together with CCSD#1 and TCSD, the "Partners") joined as a partner in May 2017.

WHEREAS, the Partners to the Partnership Agreement agreed pursuant to Section 3.07 thereof that the CCSD#1 Bonds (defined below) would be charged only to Rate Zone Two customers, which encompasses the boundaries of CCSD#1 and includes revenues from current or prior contract customers of CCSD#1. This recognition of prior indebtedness at the time of joining the Partnership, and the commitment to charge the costs of the same to Rate Zone Two customers only, is the "Prior Bond Commitment"; and

WHEREAS, Section 1.11 (a) of the Partnership Agreement defines CCSD#1 Bonds as all outstanding borrowings of CCSD#1 as of November 6, 2018, including but not limited to the Series 2009A Obligations, Series 2009B Obligations, Series 2010 Obligations, Series 2016 Obligations, and any Oregon State Revolving Fund loans, and any bonds or obligations that refund the same; and

WHEREAS, Section 3.07 of the Partnership Agreement calls for this Board to adopt an Order to establish the manner in which WES ensures compliance with the Prior Bond Commitment; and

WHEREAS, the combination of sanitary sewer monthly service charge revenues ("Total Retail Monthly Service Charges) and operating payments from Cities ("Total Wholesale Monthly Service Charges") of CCSD#1 (i.e. Rate Zone Two) has always substantially exceeded the required operating expenses of CCSD#1 and annual debt service on the CCSD#1 Bonds, and WES expects this practice will continue;

NOW THEREFORE, IT IS HEREBY ORDERED THAT:

1. Tested Ratemaking. Compliance with the Prior Bond Commitment will be determined through tested ratemaking. The Partners desire that WES account for its operations as a single entity to gain the efficiencies of a more regionalized and simplified structure. Therefore compliance with the Prior Bond Commitment shall be determined solely based on the rates that WES imposes, and shall not be based on a separate financial statement, accounting, or audit of CCSD#1.

2. Flexible Means. From time to time, is it expected that budget and rate making conventions will change as technology and the WES organizational structure evolves. WES management will adjust for these changes, at the discretion of WES management, to assure Rate Zone 2 customers are in compliance with the Prior Bond Commitment.

3. Rate Zone Two Prior Bond Commitment Fee. To comply with the Prior Bond Commitment in a fiscal year, WES shall impose charges only in Rate Zone Two to pay the principal and interest expense on the CCSD#1 Bonds due and payable in that fiscal year. This amount shall be described as the "Rate Zone 2 Prior Bond Commitment Fee."

4. Fee Evaluation. Within 150 days of the end of a fiscal year, WES management will compare actual cash collections generated from the Rate Zone 2 Prior Bond Commitment Fee to the required principal and interest payments due on the CCSD#1 Bonds for that fiscal year.

5. Evaluation Response. If the cash collections generated from the Prior Bond Commitment Fee in a fiscal year is less than the principal and interest required to be paid on the CCSD#1 Bonds in that fiscal year, then in the first Fiscal Year following such discovery, WES shall make corrective rate adjustments for ratepayers in Rate Zone Two such that collections are estimated to be sufficient to cover that year's principal and interest due on the CCSD#1 Bonds plus the amount necessary to reimburse any earlier deficiency.

ADOPTED this ___ day of May, 2018.

BOARD OF COUNTY COMMISSIONERS

________________________________
Chair

________________________________
Recording Secretary

In the Matter of a Board Order
Adopting Findings and Amending the
Master Sewer Revenue Bond Declaration
of Clackamas County Service District No. 1 Order No. _____

WHEREAS, on November 3, 2016, an intergovernmental Partnership Agreement (the "Partnership Agreement") was entered into by Clackamas County Service District No. 1 ("CCSD#1"), and the Tri-City Service District ("TCSD") creating a new municipal entity known as Water Environment Services ("WES");

WHEREAS, on May 18, 2017, the Surface Water Management Agency of Clackamas County ("SWMACC") joined WES with the consent of CCSD#1 and TCSD, each being deemed "Partners" under the Partnership Agreement;

WHEREAS, the Partners to the Partnership Agreement agreed that they would contribute the ownership and management of all existing facilities, assets whether tangible or intangible, and all related properties and interests into WES, including but not limited to monetary and regulatory assets, contracts, and other agreements; and

WHEREAS, the Partners to the Partnership Agreement agreed that the debt service on the CCSD#1 Bonds (as defined and so designated in the Partnership Agreement) would be charged only to Rate Zone Two customers, which encompasses the boundaries of CCSD#1 and includes revenues from current or prior contract customers of CCSD#1 (the "Prior Bond Commitment"); and

WHEREAS, the Partners agree that the substitution of WES for CCSD#1 with respect to the CCSD#1 Bonds, which are also defined as the "Outstanding Bonds" under the Master Declaration, is a desirable and beneficial action allowing a more effective contribution by CCSD#1 and bond issuance by WES going forward; and

WHEREAS, the CCSD#1's Master Sewer Revenue Bond Declaration dated as of August 30, 2016 (the "Master Declaration") provides in Section 13.1.7 thereof that the Board, without the consent of the owners of the Outstanding Bonds, may amend the Master Declaration "[t]o make any change which, in the reasonable judgment of the District, does not materially and adversely affect the rights of the owners of any Outstanding Bonds;" and

WHEREAS, Section 20.1.2.13 of the Master Declaration provides that no provision of the Master Declaration "shall be amended, supplemented, modified or waived, without the prior written consent of the 2016 Bonds Reserve Credit Provider, in a manner that could adversely materially affect the payment obligations of the District" to the 2016 Bonds Reserve Credit Provider under Section 20 of the Master Declaration or "the priority accorded to the reimbursement of Policy Costs" to the 2016 Bonds Reserve Credit Provider; and

WHEREAS, the substitution of WES for CCSD#1 as the responsible entity for the Outstanding Bonds would be the most efficient and reasonable manner for CCSD#1 to meet its obligations regarding contribution as set forth in the Partnership Agreement; and

WHEREAS, the Board has ordered a financial analysis undertaken to determine whether or not the substitution of WES for CCSD#1 as responsible entity for the Outstanding Bonds would (i) materially and adversely affect the rights of the owners of any Outstanding Bonds, or (ii) could adversely materially affect the payment obligations of the District" to the 2016 Bonds Reserve Credit Provider under Section 20 of the Master Declaration or "the priority accorded to the reimbursement of Policy Costs" to the 2016 Bonds Reserve Credit Provider, and found no evidence of material and adverse effect on the rights of bondholders or reserve credit provider, and in fact found improved surety and financial performance;

WHEREAS, a presentation was made to Standard and Poor's' Corporation with regard to this substitution and they have affirmed no rating changes will result from any such change and further found [provide quote from rating report]; and

NOW THEREFORE, IT IS HEREBY ORDERED THAT THE BELOW FINDINGS AND SUPPORTING DOCUMENTS FOR SUCH FINDINGS ARE ADOPTED HEREBY:

1. The combined financials as compiled by Moss Adams LLC as set forth as Exhibit A;

2. Donovan Enterprises Report as set forth as Exhibit B;

3. Findings of the Board as set forth as Exhibit C;

4. Rating Agency Report from Standard & Poor's' as set forth as Exhibit D; and

5. Proposed Amended Master Declaration as set forth as Exhibit E.

AND ORDERED FURTHER, THAT the proposed Amended Master Declaration as set forth in Exhibit E, in reasonable judgment of the District, does not materially and adversely affect the rights of the owners of any Outstanding Bonds, as defined in that document;

AND ORDERED FURTHER, THAT the Board determines that the proposed Amended Master Declaration as set forth in Exhibit E does not adversely materially effect the payment obligations of the District under the Master Declaration's Section 20 or the priority accorded to the reimbursement of Policy Costs under the Authorizing Documents as defined therein;

AND ORDERED FURTHER, THAT the proposed Amended Master Declaration as set forth in Exhibit E is hereby approved and adopted; and

AND ORDERED FURTHER, THAT WES has been substituted for CCSD#1 as issuer of the CCSD#1 Bonds as provided in the Amended Master Declaration as set forth in Exhibit E.

ADOPTED this ___ day of May, 2018.

BOARD OF COUNTY COMMISSIONERS
As the Governing Body of
Clackamas County Service District No. 1

_________________________________
Chair

_________________________________
Recording Secretary

*REVIEW REPORT OF INDEPENDENT ACCOUNTANTS,*
*COMBINING FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION*

*FOR*

# WATER ENVIRONMENT SERVICES

*June 30, 2017*

# Table of Contents

# Review Report of Independent Accountants

Board of County Commissioners of
Clackamas County, Oregon, as Governing Body of
Service District No. 1,
Oregon City, Oregon

We have reviewed the combining financial statements of Water Environment Services (a municipal entity formed in an ORS 190 Partnership Agreement between Service District No. 1, Tri-City Service District and Surface Water Management Agency of Clackamas County), which comprise the statement of net position combining totals as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows combining totals for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Water Environment Services management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

*Accountant's Responsibility*

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

*Accountant's Conclusion*

Based on our review, we are not aware of any material modifications that should be made to the accompanying combining financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

*Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the combining financial statements. Such missing information, although not a part of the combining financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the combining financial statements in an appropriate operational, economic, or historical context. Our opinion on the combining financial statements is not affected by this missing information.

*Supplementary Information*

The supplementary information included in pages 20 through 37 is presented for purposes of additional analysis and is not a required part of the combining financial statements. Such information is the responsibility of management. We have not audited or reviewed such information and we do not express an opinion, a conclusion, nor provide any assurance on it.

Moss Adams, LLP

Eugene, Oregon
April 4, 2018

# Combining Financial Statements

# Water Environment Services
## Statement of Net Position
## June 30, 2017

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| **Current assets:** | | | | | |
| Pooled cash and investments | $ 44,099,226 | $ 11,644,318 | $ 544,476 | $ - | $ 56,288,020 |
| Unbonded assessments receivable, net | 228,387 | - | - | - | 228,387 |
| Accrued interest receivable on assessments, net | 69,651 | - | - | - | 69,651 |
| Accounts receivable | 4,448,603 | 1,511,355 | 19,589 | (173,181) | 5,806,366 |
| Interest receivable | 328,604 | 13,081 | 517 | - | 342,202 |
| Prepaid expenses | 191,196 | 134,110 | 753 | - | 326,059 |
| Total current assets | 49,365,667 | 13,302,864 | 565,335 | (173,181) | 63,060,685 |
| **Noncurrent assets:** | | | | | |
| Pooled cash and investments - restricted | 27,513,657 | 2,257,943 | - | - | 29,771,600 |
| Nondepreciable capital assets | 12,961,066 | 5,080,396 | - | - | 18,041,462 |
| Depreciable capital assets | 159,779,619 | 30,375,302 | 65,559 | - | 190,220,480 |
| Connection charges receivable, noncurrent portion | 148,287 | - | - | - | 148,287 |
| Bonded assessment receivable, net | 141,744 | - | - | - | 141,744 |
| Contracts receivable | 951,410 | - | - | - | 951,410 |
| Unbonded assessments receivable, noncurrent portion | 3,664,746 | - | - | - | 3,664,746 |
| Total noncurrent assets | 205,160,529 | 37,713,641 | 65,559 | - | 242,939,729 |
| **Deferred outflows of resources:** | | | | | |
| Deferred charges on debt refunding | 6,560,089 | - | - | - | 6,560,089 |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | 261,086,285 | 51,016,505 | 630,894 | (173,181) | 312,560,503 |
| **LIABILITIES** | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | 1,716,321 | 361,586 | 60 | - | 2,077,967 |
| Contract labor payable | 369,026 | - | - | - | 369,026 |
| Other liabilities | 212,648 | 11,823 | - | - | 224,471 |
| Unearned income | 69,100 | - | - | - | 69,100 |
| Due to other Service Districts | 173,181 | - | - | (173,181) | - |
| Due to Clackamas County | 363,429 | 71,956 | 2,325 | - | 437,710 |
| Accrued interest payable, payable from restricted assets | 281,925 | - | - | - | 281,925 |
| Loans payable, current portion | 106,208 | - | - | - | 106,208 |
| Current portion of long term debt, payable from restricted assets | 3,730,000 | - | - | - | 3,730,000 |
| Total current liabilities | 7,021,838 | 445,365 | 2,385 | (173,181) | 7,296,407 |
| **Noncurrent liabilities:** | | | | | |
| Long term unearned income, net of current portion | 160,800 | - | - | - | 160,800 |
| Loans payable, net of current portion, payable from current assets | 1,540,031 | - | - | - | 1,540,031 |
| Long term debt, net of current portion, payable from restricted assets | 99,211,959 | - | - | - | 99,211,959 |
| Total noncurrent liabilities | 100,912,790 | - | - | - | 100,912,790 |
| **TOTAL LIABILITIES** | 107,934,628 | 445,365 | 2,385 | (173,181) | 108,209,197 |
| **NET POSITION** | | | | | |
| Net investment in capital assets | 75,747,140 | 35,455,698 | 65,559 | - | 111,268,397 |
| Restricted for capital assets | 20,930,692 | 2,257,401 | - | - | 23,188,093 |
| Restricted for debt service | 6,384,755 | 542 | - | - | 6,385,297 |
| Unrestricted | 50,089,070 | 12,857,499 | 562,950 | - | 63,509,519 |
| **TOTAL NET POSITION** | $ 153,151,657 | $ 50,571,140 | $ 628,509 | $ - | $ 204,351,306 |

The accompanying notes are an integral part of the combining financial statements.

# Water Environment Service
## Statement of Revenues, Expenses and Changes in Net Position
## Year Ended June 30, 2017

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Sewerage charges | | | | | |
| Residential and commercial | $ 25,982,276 | 222,874 | $ - | $ - | $ 26,205,150 |
| Municipalities and other | 4,676,605 | 7,972,783 | - | - | 12,649,388 |
| Surface water management charges | - | - | 180,015 | - | 180,015 |
| Intergovernmental revenue | - | 354,963 | - | (354,963) | - |
| Other operating revenues | 876,582 | 301,501 | 16,482 | (177,000) | 1,017,565 |
| Total operating revenues | 31,535,463 | 8,852,121 | 196,497 | (531,963) | 40,052,118 |
| **Operating expenses:** | | | | | |
| Contracted salaries and benefits | 8,540,477 | 2,480,481 | 67,365 | - | 11,088,323 |
| Professional services | 2,579,513 | 434,975 | 18,193 | - | 3,032,681 |
| Laboratory services | 447,622 | 248,562 | 9,281 | - | 705,465 |
| Other County services | 1,839,984 | 502,346 | 18,280 | - | 2,360,610 |
| Supplies | 656,081 | 1,051,271 | 1,850 | (354,963) | 1,354,239 |
| Vehicle expenses | 516,952 | 180,640 | 5,276 | - | 702,868 |
| Repairs and maintenance | 420,318 | 32,752 | 287 | - | 453,357 |
| Utilities | 959,063 | 723,413 | 501 | - | 1,682,977 |
| Insurance | 228,301 | 156,847 | 1,252 | - | 386,400 |
| Other expense | 790,763 | 579,765 | 11,955 | (177,000) | 1,205,483 |
| Depreciation and amortization | 17,960,982 | 2,581,826 | 2,267 | - | 20,545,075 |
| Total operating expenses | 34,940,056 | 8,972,878 | 136,507 | (531,963) | 43,517,478 |
| Operating income (loss) | (3,404,593) | (120,757) | 59,990 | - | (3,465,360) |
| **Nonoperating revenue (expense):** | | | | | |
| Interest income | 926,695 | 105,031 | 4,382 | - | 1,036,108 |
| Interest expense | (4,423,269) | - | - | - | (4,423,269) |
| Dispatchable power | 69,100 | - | - | - | 69,100 |
| Gain (loss) on disposal of capital assets | (133,219) | (3,103) | - | - | (136,322) |
| Total nonoperating revenue (expense) | (3,560,693) | 101,928 | 4,382 | - | (3,454,383) |
| Income (loss) before contributions | (6,965,286) | (18,829) | 64,372 | - | (6,919,743) |
| **Contributions:** | | | | | |
| Connection charges | 4,847,125 | 976,273 | - | - | 5,823,398 |
| Capital contributions | 2,904,383 | 148,601 | - | - | 3,052,984 |
| Total contributions | 7,751,508 | 1,124,874 | - | - | 8,876,382 |
| Change in net position | 786,222 | 1,106,045 | 64,372 | - | 1,956,639 |
| **NET POSITION - beginning of year** | 152,365,435 | 49,465,095 | 564,137 | - | 202,394,667 |
| **NET POSITION - end of year** | $ 153,151,657 | $ 50,571,140 | $ 628,509 | $ - | $ 204,351,306 |

The accompanying notes are an integral part of the combining financial statements

# Water Environment Services
## Statement of Cash Flows
## Year Ended June 30, 2017

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Combining Totals |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Received from customers | $ 30,348,210 | $ 8,689,156 | $ 173,932 | $ 39,211,298 |
| Paid to suppliers for goods and services | (5,632,098) | (3,207,556) | (135,554) | (8,975,208) |
| Paid to related entities for services | (10,459,184) | (3,230,960) | - | (13,690,144) |
| Other operating revenue | 1,000,836 | 301,594 | 16,482 | 1,318,912 |
| NET CASH FROM OPERATING ACTIVITIES | 15,257,764 | 2,552,234 | 54,860 | 17,864,858 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Bond principal paid | (81,399,801) | - | - | (81,399,801) |
| Interest paid on bonds and contracts | (2,776,885) | - | - | (2,776,885) |
| Assessment and contract principal collected | 700,272 | - | - | 700,272 |
| Interest received on assessments and contracts | 183,984 | - | - | 183,984 |
| Capital contributed by customer/governments | 4,880,605 | 18,447 | - | 4,899,052 |
| Payments made on note payable | (6,396,790) | - | - | (6,396,790) |
| Connection charges collected | - | 567,495 | - | 567,495 |
| Collection of property taxes | - | 805 | - | 805 |
| Proceeds from bonds | 84,946,384 | - | - | 84,946,384 |
| Acquisition of capital assets, net of dispositions | (4,057,610) | (1,102,160) | - | (5,159,770) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (3,919,841) | (515,413) | - | (4,435,254) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Interest received on investments | 666,563 | 100,725 | 4,227 | 771,515 |
| NET CASH FROM INVESTING ACTIVITIES | 666,563 | 100,725 | 4,227 | 771,515 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 12,004,486 | 2,137,546 | 59,087 | 14,201,119 |
| **POOLED CASH AND INVESTMENTS, BEGINNING OF YEAR** | 59,608,397 | 11,764,715 | 485,389 | 71,858,501 |
| **POOLED CASH AND INVESTMENTS, END OF YEAR (1)** | $ 71,612,883 | $ 13,902,261 | $ 544,476 | $ 86,059,620 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:** | | | | |
| Operating income (loss) | $ (3,404,593) | $ (120,757) | $ 59,990 | $ (3,465,360) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Depreciation and amortization | 17,960,982 | 2,581,826 | 2,267 | 20,545,075 |
| Changes in assets and liabilities: | | | | |
| Other receivables | (54,490) | 126,806 | (6,083) | 66,233 |
| Prepaid expenses | 29,891 | (28,129) | (159) | 1,603 |
| Accounts payable | 935,478 | 11,823 | (1,259) | 946,042 |
| Accrued payroll payable | (327,608) | - | - | (327,608) |
| Other liabilities | 118,103 | (19,335) | 104 | 98,872 |
| Total adjustments | 18,662,356 | 2,672,991 | (5,130) | 21,330,217 |
| NET CASH FROM OPERATING ACTIVITIES | $ 15,257,763 | $ 2,552,234 | $ 54,860 | $ 17,864,857 |
| **(1) Pooled cash and investments are reflected on the Statements of Net Position as follows:** | | | | |
| Current assets - unrestricted | $ 44,099,226 | $ 11,644,318 | $ 544,476 | $ 56,288,020 |
| Non-current assets - restricted | 27,513,657 | 2,257,943 | - | 29,771,600 |
| | $ 71,612,883 | $ 13,902,261 | $ 544,476 | $ 86,059,620 |
| **NONCASH CAPITAL ACTIVITY** | | | | |
| Contributions of capital assets from governments developers and customers | $ 2,869,623 | $ 130,154 | $ - | $ 2,999,777 |

The accompanying notes are an integral part of the combining financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity**

Water Environment Services ("WES") was created November 3, 2016 when Clackamas County Service District No. 1 and Tri-City Service District entered into an ORS 190 Partnership Agreement ("the Agreement"). WES jointly owns, operates and manages the functions and assets of the two districts to provide reduced costs, create regulatory efficiencies, and improve service. The Agreement contemplates an 18-month transition period with a target effective date of July 1, 2018. The Agreement specifically allows for continued ownership of assets by the districts so long as required by the covenants under their outstanding debt agreements. Surface Water Management Agency of Clackamas County joined the WES entity on May 18, 2017 to allow full realization of the above-described benefits for all parties. These financial statements present the combined activity of the three formerly separate county service districts.

WES has no potential component units. Since Clackamas County, Oregon ("the County") is financially accountable for, and significantly influences the operations of, WES and the Clackamas County Board of County Commissioners also serves as Board for each of the three WES partners. The three WES partners are included as a blended component unit in the Comprehensive Annual Financial Report of the County for the year ended June 30, 2017.

Fiscal and accounting functions and certain repairs and maintenance of capital assets are provided by personnel of WES, the County's Department of Transportation and Development, the County Treasurer and the County's General Services Agency.

WES personal services are budgeted as part of the County and are contracted for with the County.

Significant accounting policies used in the preparation of the combining financial statements are described below:

**Measurement Focus**

The combining financial statements are prepared on the flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included in the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

**Basis of Accounting**

WES's combining financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred regardless of the timing of related cash flows. WES maintains 13 individual funds for state legal compliance that are combined and reported as a unitary enterprise similar to a commercial entity organized for profit for financial reporting.

WES distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily wastewater treatment and surface water management services. Operating expenses include the cost of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenue and expense. Contributions represent capital assets contributed by governments and developers, and connection fees.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Pooled Cash and Investments**

Pooled cash and investments are comprised of funds held and invested by the Clackamas County Treasurer and the State of Oregon Treasurer's Local Government Investment Pool ("LGIP"). Financial information required by Governmental Accounting Standards Board Statements (GASB) No. 3, No. 31, No. 40, and No. 72 regarding the accounting and financial reporting for WES's pooled cash and investments, held by the Clackamas County Treasurer, has been disclosed in the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. For purposes of the Statement of Cash Flows, pooled cash and investments include all cash and investments held by the Clackamas County Treasurer and LGIP, since they have the general characteristics of a demand deposit account.

Investments in the State of Oregon Treasurer's Local Government Investment Pool are stated at cost which approximates fair value and its share value.

The LGIP is administered by the Oregon State Treasurer. The LGIP is an open-ended no load diversified portfolio offered to any agency, political subdivision or public corporation of the state that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local government in Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which is not registered with the US Securities and Exchange Commission as an investment company. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

**Assessments Receivable**

Assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. The assessments represent liens against benefited property and are generally payable over a period of twenty years at interest rates ranging from 5.4% to 12.09%. WES has determined the collectability of a portion of assessments receivable and accrued interest thereon as doubtful and has established an allowance.

**Sewerage User Charges Receivable**

Sewerage user charges, included as accounts receivable in the Statements of Net Position, are due from property owners within WES. An allowance for doubtful accounts is not deemed necessary as uncollectible accounts become a lien on the property.

**Restricted Assets and Related Liabilities**

Assets, whose use is restricted to specific purposes by state statute or bond indenture, and related liabilities are segregated on the Statements of Net Position.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or acquisition value at the time of donation in the case of contributed sewer pipe installation from developers. WES defines capital assets as assets with an initial cost of more than $5,000 and an estimated life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Depreciation is computed on the capital assets placed in service using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Sewage treatment plant | 20-50 years |
| Sewage treatment line system | 20-50 years |
| Equipment | 10-15 years |

**Intangible Assets**

Intangible assets include software and are stated at cost less accumulated amortization. Amortization is provided using the straight-line method over the life of five years. WES periodically reevaluates the estimated useful lives of these assets.

**Capitalized Interest**

Interest costs are capitalized as part of the costs of capital assets during the period of construction based on the related weighted average net borrowing costs incurred. Interest earned on temporary investments, acquired with the proceeds of such borrowed funds from the date of the borrowing until the assets are ready for their intended use, is used to reduce the interest costs capitalized on the constructed assets. Interest is not capitalized for acquisitions funded by capital grants or other outside parties, which are externally restricted for the acquisition of specified assets. Total interest expense incurred during the year is $4,451,036, of which $4,423,269 was expensed, $27,767 was capitalized.

**Deferred Outflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources, which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

**Bonds**

Bond premium and discount costs are amortized over the life of the associated bond issuances.

**Net Position**

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following four components: Net investment in capital assets; Restricted for capital projects; Restricted for debt service; and Unrestricted net position. Net investment in capital assets consists of all capital assets and intangibles, net of accumulated depreciation and amortization and reduced by outstanding debt (revenue bonds and other debt obligations) that is attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital projects and debt service consists of net position on which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including legal mandates. The balance in Restricted for capital projects of $23,188,093 is restricted due to enabling legislation. This balance relates to unspent System Development Charges. Unrestricted consists of all other assets not included in the above categories.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

WES may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted and unrestricted fund balance in WES's fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the WES's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance.

**Use of Estimates**

The preparation of combining financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combining financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**Adoption of New GASB Pronouncements**

During the fiscal year ended June 30, 2017, the following new GASB pronouncements became effective:

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Issued June 2015.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Issued June 2015.

GASB Statement No. 77, *Tax Abatement Disclosures*, Issued August 2015.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, Issued December 2015.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, Issued December 2015.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, Issued January 2016.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73,* Issued March 2016.

WES has applied all applicable GASB pronouncements in the financial statements.

**Future Adoption of GASB Pronouncements**

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2017:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Issued June 2015

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, Issued March 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

GASB Statement No. 83, *Certain Asset Retirement Obligations*, Issued November 2016

GASB Statement No. 84, *Fiduciary Activities*, Issued January 2017

GASB Statement No. 85, *Omnibus 2017*, Issued March 2017

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, Issued May 2017

GASB Statement No. 87, *Leases*, Issued June 2017

WES will implement the new GASB pronouncements in the fiscal year no later than the required effective date. WES is currently evaluating if the above listed new GASB pronouncements will have a significant financial impact to WES or in issuing its financial statements.

## 2. POOLED CASH AND INVESTMENTS

Pooled cash and investments are comprised of the following:

| | | |
|---|---|---|
| Petty cash | $ | 1,600 |
| Pooled cash and investments | | 86,058,020 |
| | $ | 86,059,620 |

Pooled cash and investments are held by the County Treasurer and represent the WES's equity in pooled accounts maintained by the County Treasurer. Investments with a remaining maturity of more than one year, at the time of purchase, are stated at fair value, which approximates cost.

Various inputs are used in determining the fair value of investments. These inputs to valuation techniques are categorized into a fair value hierarchy consisting of three broad levels for financial statement purposes as follows:

Level 1 - unadjusted price quotations in active markets/exchanges for identical assets or liabilities, that each Fund has the ability to access.

Level 2 - other observable inputs including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs.

Level 3 - unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund's own assumptions used in determining the fair value of investments).

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

## 2. POOLED CASH AND INVESTMENTS (Continued)

The categorization of a value determined for investments is based on the pricing transparency of the investments and is not necessarily an indication of the risks associated with investing in those securities.

At June 30, 2017, none of the WES's accounts fell within these input levels.

State statutes authorize WES to invest in general obligations of the U.S. Government and in its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements and bankers' acceptances, among others. Reference should be made to the June 30, 2017 Comprehensive Annual Financial Report of the County for compliance with these statutes. Investments in the LGIP are stated at fair value, which approximates cost. The Oregon State Treasury administers the LGIP. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the State who by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local government in Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which is not registered with the U.S. Securities and Exchange Commission as an investment company. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. The Oregon Short-Term Fund financial statements and its portfolio rules can be obtained at www.ost.state.or.us. The LGIP is not rated by any national rating service. The LGIP is stated at fair value, which approximates cost. Fair value is the same as the WES's value in the pool shares.

### Custodial Credit Risk

WES is exposed to custodial credit risk because its cash and investments are held by the counterparty in the counterparty's name. This is the risk that in the event of failure of the counterparty, the WES's deposits may not be returned. The WES's cash and investments are held by Clackamas County in a pool, which consists of bank and local government investment pool accounts and federal treasury securities. This pool is subject to general credit claims of the County. WES believes that the risk of County default is slight and outweighed by the advantages of participation in the Clackamas County Cash and Investment Pool.

WES follows the County's policies to address custodial credit risk, which mirror parameters for the investment of public funds set forth in the ORS. Reference should be made to the County Comprehensive Annual Financial Report for information regarding the interest, credit, and custodial credit risks associated with the County's various cash and investments.

### Credit Risk

WES is exposed to credit risk, through the investments made by the Clackamas County Treasurer and the LGIP. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a national statistical rating organization.

WES follows the County's policies to address credit risk, which mirror parameters for the investment of public funds set forth in the ORS. Reference should be made to the County Comprehensive Annual Financial Report for information about the interest, credit, and custodial credit risks associated with the County's various cash and investments.

The State of Oregon LGIP is unrated. Investments with the County Treasurer are invested in US Treasury or US Agencies rated AAA or AA+.

## 2. POOLED CASH AND INVESTMENTS (Continued)

Oregon Revised Statutes limit the types of investments that WES may have. WES is in compliance with these statutes at June 30, 2017. WES is also in compliance with the County's investment policy, which requires the County to limit exposure to credit risk, concentrating its investments in the safest types of securities, diversifying the investment portfolio so that potential losses on individual securities will be minimized, actively monitoring the investment portfolio holdings for ratings changes, changing economic or market conditions, and pre-qualifying the financial institutions with which the County will do business.

## 3. ACCOUNTS RECEIVABLE

Accounts receivable balances were comprised as of June 30, 2017 of the following:

| | |
|---|---|
| Sewerage charges | $ 4,293,690 |
| Connection charges | 577,551 |
| Interest receivable on unbonded assessments | 733,727 |
| Intergovernmental agreement and miscellaneous receivables | 201,398 |
| | $ 5,806,366 |

## 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

| | Balance June 30, 2016 | Additions | Transfers | Deletions | Balance June 30, 2017 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land and easements | $ 8,776,607 | $ - | $ - | $ - | $ 8,776,607 |
| Construction in progress | 5,268,264 | 5,154,401 | (997,715) | (160,095) | 9,264,855 |
| Total capital assets not being depreciated | 14,044,871 | 5,154,401 | (997,715) | (160,095) | 18,041,462 |
| Capital assets being depreciated and amortized: | | | | | |
| Intangibles | 1,842,380 | - | 47,061 | - | 1,889,441 |
| Sewerage treatment plant | 248,026,931 | 1,163,384 | 559,273 | (98,835) | 249,650,753 |
| Sewerage treatment line system | 130,459,029 | 1,706,239 | 8,366 | - | 132,173,634 |
| Collection plant | 20,375,800 | 130,154 | 225,990 | | 20,731,944 |
| Pumping plant | 5,612,671 | | 24,992 | (15,632) | 5,622,031 |
| Gerneral plant | 7,967,447 | | 12,849 | | 7,980,296 |
| Equipment | 10,524,669 | - | 119,184 | (47,765) | 10,596,088 |
| Total capital assets being depreciated and amortized | 424,808,927 | 2,999,777 | 997,715 | (162,232) | 428,644,187 |
| Less accumulated depreciation and amortization for: | | | | | |
| Intangibles | (1,842,378) | (26) | - | - | (1,842,404) |
| Sewerage treatment plant | (141,945,045) | (15,314,709) | - | 98,835 | (157,160,919) |
| Sewerage treatment line system | (46,911,576) | (3,893,307) | - | - | (50,804,883) |
| Collection plant | (10,239,913) | (432,205) | - | - | (10,672,118) |
| Pumping plant | (3,459,472) | (197,405) | - | 15,632 | (3,641,245) |
| Gerneral plant | (5,412,880) | (310,398) | - | - | (5,723,278) |
| Equipment | (8,229,600) | (397,025) | - | 47,765 | (8,578,860) |
| Total accumulated depreciation and amortization | (218,040,864) | (20,545,075) | - | 162,232 | (238,423,707) |
| Total capital assets being depreciated and amortized, net | 206,768,063 | (17,545,298) | 997,715 | - | 190,220,480 |
| Total capital assets, net | 220,812,934 | (12,390,897) | - | (160,095) | 208,261,942 |

## 5. CONTRACTS RECEIVABLE

On May 17, 2012, WES signed a sale agreement and note receivable with the County for the sale of the WES's portion of the building located at 9101 SE Sunnybrook Boulevard. Per the terms of the agreement, interest will accrue on the principal at the rate of 4.325% per annum until the note's maturity date of December 31, 2022. The balance of the note was $848,292, plus accrued interest in the amount of $223,386, as of June 30, 2017.

## 6. LOANS PAYABLE

Amounts represent obligations for state revolving loans from the Department of Environmental Quality (DEQ), which were used for the construction of capital assets and are payable in annual and semi-annual installments. The original amount of Loan R22401 was $2,914,744. At June 30, 2015, Loan R22401 was paid in full.

In November of 2011, WES amended the American Recovery and Reinvestment Act Loan R06224 that was originally awarded in 2009. The amount of this loan is $4,142,142 which financed construction of collector sewers in the North Clackamas Revitalization Area (NCRA). These funds are administered by the Oregon DEQ. Of the total amount, $2,071,071 (50%) is in the form of a loan to be forgiven at the completion of the project. The general terms of the loan forgiveness require timely payments and WES solvency. Accordingly, $2,000,000 was reported as capital contributions in 2010, and $71,071 was reported as capital contributions in 2013. Disbursements of loan proceeds by DEQ are made following submission of eligible invoices by WES. As of June 30, 2013, WES had submitted and received reimbursement requests in the amount of $4,142,142. Loan payments are payable in semi-annual installments of principal and interest over 20 years, with a stated interest rate of 0%. Payments commenced in fiscal year 2013-14.

In September of 2011, WES amended the $5,000,000 Oregon Department of Environmental Quality Loan R22403 that was received in April of 2010. The total amount of this loan is $7,018,376 to finance construction of collector sewers in the North Clackamas Revitalization Area. Disbursements of loan proceeds by the DEQ are made following submission of eligible invoices by WES. As of June 30, 2013, WES had submitted and received $7,018,376 in reimbursable expenses. Loan payments are payable in semiannual installments of principal and interest over 20 years and commenced in fiscal year 2013-14. In August of 2016, Loan R22403 was fully refinanced with the issue of revenue obligation 2016.

These loans are collateralized by future sewer revenues and contain certain financial covenants. As of June 30, 2017, management believes WES was in compliance with these covenants.

Changes in loans payable for the year ended June 30, 2017 are as follows:

| | Interest Rates | Outstanding July 1, 2016 | Increases | Decreases | Outstanding June 30, 2017 | Current Portion |
|---|---|---|---|---|---|---|
| Revolving Loan R06224 | 0.00% | $ 1,752,447 | $ - | $ (106,208) | $ 1,646,239 | $ 106,208 |
| Revolving Loan R22402 | 2.77% | 6,290,582 | - | (6,290,582) | - | - |
| | | $ 8,043,029 | $ - | $ (6,396,790) | $ 1,646,239 | $ 106,208 |

## 6. LOANS PAYABLE (Continued)

Future maturities of revolving loans are as follow:

| Fiscal Year | Principal | Interest | Admin. Fees | Total |
|---|---|---|---|---|
| 2018 | $ 106,208 | $ - | $ 7,966 | $ 114,174 |
| 2019 | 106,208 | - | 7,435 | 113,643 |
| 2020 | 106,208 | - | 6,904 | 113,112 |
| 2021 | 106,208 | - | 6,373 | 112,581 |
| 2022 | 106,208 | - | 5,842 | 112,050 |
| 2023-2027 | 531,040 | - | 21,240 | 552,280 |
| 2028-2033 | 584,159 | - | 7,965 | 592,124 |
| | $ 1,646,239 | $ - | $ 63,725 | $ 1,709,964 |

## 7. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2017 are as follows:

| | Interest Rates | Outstanding July 1, 2016 | Increases | Decreases | Outstanding June 30, 2017 | Current Portion |
|---|---|---|---|---|---|---|
| Revenue Bonds - 2002A | 3.000% - 4.875% | $ 980,000 | $ - | $ (140,000) | $ 840,000 | $ 140,000 |
| Revenue Obligations - 2009A | 2.000% - 4.700% | 32,145,000 | - | (29,775,000) | 2,370,000 | 1,160,000 |
| Revenue Obligations - 2009B | 2.250% - 5.000% | 37,275,000 | - | (33,030,000) | 4,245,000 | 1,360,000 |
| Revenue Obligations - 2010 | 2.000% - 4.625% | 20,715,000 | - | (17,460,000) | 3,255,000 | 790,000 |
| Revenue Obligations - 2016 | 2.000% - 5.000% | - | 83,250,000 | (1,015,000) | 82,235,000 | 280,000 |
| | | $ 91,115,000 | $ 83,250,000 | $ (81,420,000) | $ 92,945,000 | $ 3,730,000 |

Current and future maturities at June 30, 2017 are summarized as follows:

| | |
|---|---|
| Current maturities - face value | $ 3,730,000 |
| Future maturities - face value | 89,215,000 |
| Premium | 9,996,959 |
| | $ 99,211,959 |

### Revenue Bonds 2002A and 2002B

Revenue bonds are payable from monthly sewer and surface water user fees collected from customers connected to and benefited by the systems. The original amount was $15,698,000 and was used to finance capital improvements and capital improvements through an assessment.

Maturities of bond principal and interest, as refunded, at June 30, 2017 are as follows:

## 7. LONG-TERM DEBT (Continued)

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2018 | $ 140,000 | $ 36,995 |
| 2019 | 140,000 | 30,485 |
| 2020 | 140,000 | 23,835 |
| 2021 | 140,000 | 17,063 |
| 2022 | 140,000 | 10,238 |
| 2023 | 140,000 | 3,413 |
| | $ 840,000 | $ 122,029 |

Under the revenue bond agreements, WES has agreed to covenants that it will charge user rates and fees in connection with the operation of the sewer system which are adequate to cover annual debt service as required by the bond agreements. Management believes WES was in compliance with these covenants during the year ended June 30, 2017.

In prior years, WES defeased revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in WES's financial statements. The 2002B issuance, which defeased revenue bond issued in 1994, was paid in full at June 30, 2015.

### Revenue Obligations 2009A, 2009B, 2010 and 2016

Revenue obligations are payable from monthly sewer fees collected from customers connected to and benefited by the system. The original amount of the 2009A issuance was $38,460,000, the 2009B issuance was $44,365,000 and the 2010 issuance was $23,710,000. These issuances were all used to finance capital improvements for the Phase 1 Capacity Expansion Project.

In August of 2016, WES issued revenue obligation series 2016 in the amount of $83,250,000 with an all-in interest rate of 2.20% The proceeds were used to advance refund $77,070,000 of outstanding 2009A, 2009B, and 2010 revenue obligations and to pay of outstanding Oregon DEQ Clean Water State Revolving Fund Loan R22403, which had interest rates ranging from 2.77% to 4.7%. The net proceeds of $85,876,532 (including a $10,523,115 premium and after payment of $1,519,115 in underwriting fees and other issuance costs and the payoff of Loan R22403 in the amount of $6,377,468) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, portions of the 2009A, 2009B, and 2010 are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $8,826,731. This amount is being reported in the statement of net position as a deferred outflow of resources and amortized over the remaining life of the refunded debt in accordance with GASB 65. WES advance refunded portions of the 2009A, 2009B, and 2010 bonds and refinanced Loan R22403 to reduce its total annual debt service payments by approximately $625,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $9.7 million. WES was also able to free up approximately $7.6 million in reserves that will be used on capital projects.

## 7. LONG-TERM DEBT (Continued)

Maturities of 2009A bond principal at June 30, 2017 are as follows:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2018 | $ 1,160,000 | $ 53,700 |
| 2019 | 1,210,000 | 18,150 |
| | $ 2,370,000 | $ 71,850 |

Maturities of 209B bond principal at June 30, 2017 are as follows:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2018 | $ 1,360,000 | $ 142,600 |
| 2019 | 1,415,000 | 87,100 |
| 2020 | 1,470,000 | 29,400 |
| | $ 4,245,000 | $ 259,100 |

Maturities of 2010 bond principal at June 30, 2017 are as follows:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2018 | $ 790,000 | $ 110,450 |
| 2019 | 805,000 | 82,500 |
| 2020 | 820,000 | 50,000 |
| 2021 | 840,000 | 16,800 |
| | $ 3,255,000 | $ 259,750 |

Maturities of 2016 bond principal at June 30, 2017 are as follows:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2018 | $ 280,000 | $ 2,976,881 |
| 2019 | 285,000 | 2,971,231 |
| 2020 | 1,495,000 | 2,931,006 |
| 2021 | 3,095,000 | 2,816,256 |
| 2022 | 4,125,000 | 2,635,756 |
| 2023-2027 | 24,665,000 | 9,717,281 |
| 2028-2032 | 30,255,000 | 4,268,578 |
| 2033-2036 | 18,035,000 | 728,288 |
| | $ 82,235,000 | $ 29,045,277 |

## 7. LONG-TERM DEBT (Continued)

Under the revenue obligation agreements, WES has agreed to covenants that it will charge user rates and fees in connection with the operation of the sewer system, which are adequate to cover annual debt service as required by the bond agreements. WES has also agreed to maintain restricted reserve accounts to provide for the payment of debt service in the event that pledged revenues are not sufficient to pay debt service when due. Management believes WES was in compliance with these covenants during the year ended June 30, 2017.

At June 30, 2017, future pledged revenues are as follows:

| Purpose | Revenue Stream | Principal | Future Pledged Revenue Debt Outstanding | For the Year Ended June 30, 2017 Revenue | For the Year Ended June 30, 2017 Debt (P&I) Total |
|---|---|---|---|---|---|
| State Loan R06224 | Sewer Fees | 2033 | $ 1,646,239 | $ 20,330,209 * | $ 106,208 |
| Revenue Bonds 2002A | Sewer Fees | 2023 | 840,000 | - | 183,400 |
| Revenue Obligations 2009A | Sewer Fees | 2019 | 2,370,000 | - | 1,247,750 |
| Revenue Obligations 2009B | Sewer Fees | 2020 | 4,245,000 | - | 1,556,100 |
| Revenue Obligations 20010 | Sewer Fees | 2021 | 3,255,000 | - | 923,850 |
| Revenue Obligations 20016 | Sewer Fees | 2033 | 82,235,000 | - | 2,528,169 |
| | | | $ 94,591,239 | $ 20,330,209 | $ 6,545,477 |

*Same net revenue sourced pledged for multiple purposes.
Total Gross Revenues of $37,309,309,283 less Total
Operating Expenses of $16,979,074.

## 8. RELATED PARTY TRANSACTIONS

The County Board of Commissioners also serves as the Board of Directors for the following related parties:

- Clackamas County
- Clackamas County Development Agency
- Clackamas County Service District No. 5
- Housing Authority of Clackamas County
- North Clackamas Parks and Recreation District
- Clackamas County Enhanced Law Enforcement District
- Library District of Clackamas County
- Clackamas County Extension and 4-H Service District

During fiscal year 2017, fiscal and accounting functions and certain repairs and maintenance on plant and equipment were performed by personnel of various County departments. Operating expenses in the Statements of Revenues, Expenses and Changes in Net Position for 2017, charged by the above departments, totaled approximately $13,700,000.

At June 30, 2017, WES's related party receivables due from the County totaled $1,075,967, and WES's related party payables due to the County totaled $806,736. WES's related party receivables are included in accounts receivable, interest receivable, and contract receivable on the Statement of Net Position.

## 9. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The three WES partners are required by state law to budget their operations on a fund basis. The budget is generally prepared on the modified accrual basis of accounting. The resolution authorizing appropriations for each WES partner's funds sets the level by which expenditures cannot legally exceed appropriations.

Appropriations are made at the principal object level - materials and services, interfund transfers, capital outlay, debt service, special payments, reserve, and contingency – which are the levels of control established by the resolution. The detail budget documents, however, are required to contain more specific, detailed information for the above mentioned expenditure categories. Management may make transfers of appropriations within object levels. However, transfers of appropriations among object levels require approval by the Board.

Unexpected additional resources may be added to the budget through the use of supplemental budgets. The Board, at a regular Board meeting, may adopt a supplemental budget less than 10% of the fund's original budget. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publications in newspapers and approval by the Board. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control and require approval by the Board. Except for the following two listed below, no supplemental budgets or appropriation transfers were made during the year ended June 30, 2017.

> Tri-City Service District – the Board approved a supplemental budget for the District greater than 10% in order to accomplish the integration of the District into the municipal partnership WES.
>
> Surface Water Management Agency of Clackamas County - the Board approved a supplemental budget for the Agency greater than 10% in order to accomplish the integration of the Agency into the municipal partnership WES.

All annual appropriations lapse at fiscal year-end.

## 10. COMMITMENTS

WES has commitments under contractual agreements for various multi-year contracts related to capital acquisition and service agreements. The total contract costs are approximately $15,186,200. As of June 30, 2017, approximately $7,113,500 of these contracts remain outstanding.

WES has also entered into agreements with the cities of Oregon City, West Linn and Gladstone ("the Cities"). Pertinent terms of these agreements are as follows:

- The Cities will process and review all permit applications for hookup and inspection; operate and maintain local collection facilities; bill and collect sewer user charges and connection charges.
- The Cities will collect and remit a contractual percentage of connection charges to WES.
- The Cities will bill and collect sewer user charges bimonthly according to the rate schedule provided by WES.
- Should the WES fail to perform services outlined in these agreements, the Cities can terminate the agreement upon 30-days written notice.

**10. COMMITMENTS (Continued)**

In accordance with the terms of these agreements, the following fees and charges were earned by the WES:

| | | |
|---|---|---|
| Sewarage user fees | $ | 7,964,971 |
| Conection charges | | 940,328 |
| Pump station maintenance charges | | 1,049 |
| | $ | 8,906,348 |

**11. LITIGATION**

WES has various claims and pending legal proceedings outstanding. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by WES. In the opinion of management, the ultimate disposition of such proceedings is not expected to have a material adverse effect on WES.

**12. RISK MANAGEMENT**

WES purchases insurance coverage for automobile, flood, earthquake, liability, machinery, and business risks. These policies are subject to minimum deductibles.

IGAs between WES and the County clarify that for workers' compensation and employment practice liability issues, the WES participates in Clackamas County's risk management pool. All employees of WES are contracted from the County. The County is responsible for any workers' compensation risk. All risk of loss related to the self-insurance program is borne by the County. The County is fully self-insured for unemployment benefits, short-term disability benefits, employment practice liability issues, and partially self-insured for dental benefits and workers' compensation. The County carries coverage in excess of $1,000,000 with an outside insurer for workers' compensation claims. There have been no significant reductions in insurance coverage from the prior year for any category of risk, and settled claims have not reached the level of commercial coverage in any of the past three fiscal years.

**13. POLLUTION REMEDIATION**

WES entered into an agreement with the State of Oregon Department of Environmental Quality (DEQ) on June 2, 2000 which requires WES to perform certain specific pollution remediation measures on property owned by WES adjacent to Tri-City Water Resource Recovery Facility ("TCWRRF") which had been used for municipal refuse. The agreement does not have a specific date by which these remediation efforts must be completed. Rather, these measures are to be taken at a time in the future if WES decides to expand the TCWRRF property to provide additional treatment capacity.

On July 19, 2012 the Oregon Department of Environmental Quality (DEQ) issued a Consent Order to two of the WES partners. The purpose of the agreement was to: (a) protect the public health, safety, and welfare and the environment through the design and implementation of remedial measures on the Blue Heron site; (b) to facilitate productive reuse of the property; and (c) to provide WES with protection from potential liabilities in accordance with applicable law. The Remedial Investigation Report and Human Health and Ecological Risk Assessments commissioned by WES were accepted by DEQ on June 18, 2014.

In July 2016, WES continued an alternatives evaluation. WES will be reviewing the alternatives to determine if the site will remain unused or remediation efforts will commence. WES has determined that no obligating events have occurred as of June 30, 2017, therefore no liability has been recorded.

# Supplementary Information

# Water Environment Services
## Schedules of Net Position
## June 30, 2017 - 2012

| | JUNE 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| **Current assets:** | | | | | | |
| Pooled cash and investments | $ 56,288,020 | $ 40,309,847 | $ 34,261,357 | $ 30,912,702 | $ 29,928,404 | $ 30,331,894 |
| Unbonded assessments receivable, net | 228,387 | 263,720 | 304,360 | 351,295 | 431,275 | 47,632 |
| Accrued interest receivable on assessments, net | 69,651 | 66,240 | 63,030 | 65,436 | 63,083 | 67,004 |
| Accounts receivable | 5,806,366 | 5,427,578 | 4,770,187 | 4,331,556 | 5,012,083 | 4,293,011 |
| Interest receivable | 342,202 | 312,530 | 325,753 | 293,546 | 298,169 | 294,052 |
| Property taxes receivable | - | 805 | 844 | 941 | 1,047 | 1,184 |
| Prepaid expenses | 326,059 | 327,662 | 99,385 | 133,677 | 148,318 | 94,056 |
| Total current assets | 63,060,685 | 46,708,382 | 39,824,916 | 36,089,153 | 35,882,379 | 35,128,833 |
| **Noncurrent assets:** | | | | | | |
| Pooled cash and investments - restricted | 29,771,600 | 31,548,654 | 24,950,274 | 21,019,635 | 15,836,865 | 15,049,595 |
| Nondepreciable capital assets | 18,041,462 | 14,044,871 | 13,267,264 | 11,511,698 | 8,741,835 | 37,547,547 |
| Depreciable capital assets | 190,220,480 | 206,768,063 | 223,237,503 | 239,399,484 | 256,566,720 | 236,762,383 |
| Connection charges receivable, noncurrent portion | 148,287 | 72,422 | 69,366 | 60,601 | 64,188 | 30,570 |
| Bond issuance costs | - | - | - | - | 1,143,358 | 1,203,024 |
| Bond discount | - | - | - | 797,576 | - | - |
| Bonded assessment receivable, net | 141,744 | 154,059 | 165,001 | 211,178 | 237,479 | 271,496 |
| Contracts receivable | 951,410 | 1,140,905 | 1,336,577 | 1,531,753 | 1,677,577 | 1,816,600 |
| Unbonded assessments receivable, noncurrent portion | 3,664,746 | 4,380,671 | 5,164,832 | 6,090,928 | 7,633,892 | 384,711 |
| Total noncurrent assets | 242,939,729 | 258,109,645 | 268,190,817 | 280,622,853 | 291,901,914 | 293,065,926 |
| **Deferred outflows of resources:** | | | | | | |
| Deferred charges on debt refunding | 6,560,089 | - | - | 29,828 | 71,140 | - |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | 312,560,503 | 304,818,027 | 308,015,733 | 316,741,834 | 327,855,433 | 328,194,759 |
| **LIABILITIES** | | | | | | |
| **Current liabilities:** | | | | | | |
| Accounts payable | 2,077,967 | 1,499,430 | 1,788,833 | 2,057,938 | 1,909,456 | 2,596,803 |
| Contract labor payable | 369,026 | 696,634 | 590,290 | 518,310 | 529,260 | 514,861 |
| Other liabilities | 224,471 | 94,545 | 56,211 | 410,653 | 544,960 | 1,875 |
| Unearned income | 69,100 | 69,100 | 69,100 | 69,100 | 69,100 | 57,800 |
| Due to Clackamas County | 437,710 | 319,894 | 543,508 | 478,097 | 154,983 | 690,390 |
| Accrued interest payable, payable from restricted assets | 281,925 | 376,027 | 386,685 | 405,875 | 649,629 | 366,715 |
| Loans payable, current portion | 106,208 | 411,633 | 457,772 | 658,869 | 500,933 | 243,113 |
| Current portion of long term debt, payable from restricted assets | 3,730,000 | 3,372,120 | 3,277,120 | 4,182,120 | 4,062,120 | 3,893,585 |
| Total current liabilities | 7,296,407 | 6,839,383 | 7,169,519 | 8,780,962 | 8,420,441 | 8,365,142 |
| **Noncurrent liabilities:** | | | | | | |
| Long term unearned income, net of current portion | 160,800 | 229,900 | 299,000 | 368,100 | 543,948 | 561,648 |
| Loans payable, net of current portion, payable from current assets | 1,540,031 | 7,631,396 | 8,043,029 | 8,446,375 | 9,052,922 | 9,092,574 |
| Long term debt, net of current portion, payable from restricted assets | 99,211,959 | 87,722,681 | 91,055,779 | 95,145,879 | 99,273,573 | 103,264,553 |
| Total noncurrent liabilities | 100,912,790 | 95,583,977 | 99,397,808 | 103,960,354 | 108,870,443 | 112,918,775 |
| **TOTAL LIABILITIES** | 108,209,197 | 102,423,360 | 106,567,327 | 112,741,316 | 117,290,884 | 121,283,917 |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 111,268,397 | 129,221,060 | 141,178,397 | 149,975,048 | 159,817,403 | 165,078,951 |
| Restricted for capital assets | 23,188,093 | 18,934,822 | 12,548,369 | 9,473,884 | 5,954,232 | 5,099,093 |
| Restricted for debt service | 6,385,297 | 4,855,529 | 4,623,957 | 3,751,077 | 1,838,434 | 2,171,013 |
| Unrestricted | 63,509,519 | 49,383,256 | 43,097,683 | 40,800,509 | 42,954,480 | 34,561,785 |
| **TOTAL NET POSITION** | $ 204,351,306 | $ 202,394,667 | $ 201,448,406 | $ 204,000,518 | $ 210,564,549 | $ 206,910,842 |

# Water Environment Services
## Schedule of Net Position
## June 30, 2016

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| **Current assets:** | | | | | |
| Pooled cash and investments | $ 30,138,808 | $ 9,685,650 | $ 485,389 | $ - | $ 40,309,847 |
| Unbonded assessments receivable, net | 263,720 | - | - | - | 263,720 |
| Accrued interest receivable on assessments, net | 66,240 | - | - | - | 66,240 |
| Accounts receivable | 4,357,870 | 1,229,383 | 13,506 | (173,181) | 5,427,578 |
| Interest receivable | 303,393 | 8,775 | 362 | - | 312,530 |
| Property taxes receivable | - | 805 | - | - | 805 |
| Prepaid expenses | 221,087 | 105,981 | 594 | - | 327,662 |
| Total current assets | 35,351,118 | 11,030,594 | 499,851 | (173,181) | 46,708,382 |
| **Noncurrent assets:** | | | | | |
| Pooled cash and investments - restricted | 29,469,589 | 2,079,065 | - | - | 31,548,654 |
| Nondepreciable capital assets | 9,461,356 | 4,583,515 | - | - | 14,044,871 |
| Depreciable capital assets | 174,256,804 | 32,443,433 | 67,826 | - | 206,768,063 |
| Connection charges receivable, noncurrent portion | 72,422 | - | - | - | 72,422 |
| Bonded assessment receivable, net | 154,059 | - | - | - | 154,059 |
| Contracts receivable | 1,140,905 | - | - | - | 1,140,905 |
| Unbonded assessments receivable, noncurrent portion | 4,380,671 | - | - | - | 4,380,671 |
| Total noncurrent assets | 218,935,806 | 39,106,013 | 67,826 | - | 258,109,645 |
| **Deferred outflows of resources:** | | | | | |
| Deferred charges on debt refunding | - | - | - | - | - |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | 254,286,924 | 50,136,607 | 567,677 | (173,181) | 304,818,027 |
| **LIABILITIES** | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | 897,800 | 600,311 | 1,319 | - | 1,499,430 |
| Contract labor payable | 696,634 | - | - | - | 696,634 |
| Other liabilities | 94,545 | - | - | - | 94,545 |
| Unearned income | 69,100 | - | - | - | 69,100 |
| Due to other Service Districts | 173,181 | - | - | (173,181) | - |
| Due to Clackamas County | 246,472 | 71,201 | 2,221 | - | 319,894 |
| Accrued interest payable, payable from restricted assets | 376,027 | - | - | - | 376,027 |
| Loans payable, current portion | 411,633 | - | - | - | 411,633 |
| Current portion of long term debt, payable from restricted assets | 3,372,120 | - | - | - | 3,372,120 |
| Total current liabilities | 6,337,512 | 671,512 | 3,540 | (173,181) | 6,839,383 |
| **Noncurrent liabilities:** | | | | | |
| Long term unearned income, net of current portion | 229,900 | - | - | - | 229,900 |
| Loans payable, net of current portion, payable from current assets | 7,631,396 | - | - | - | 7,631,396 |
| Long term debt, net of current portion, payable from restricted assets | 87,722,681 | - | - | - | 87,722,681 |
| Total noncurrent liabilities | 95,583,977 | - | - | - | 95,583,977 |
| **TOTAL LIABILITIES** | 101,921,489 | 671,512 | 3,540 | (173,181) | 102,423,360 |
| **NET POSITION** | | | | | |
| Net investment in capital assets | 92,126,286 | 37,026,948 | 67,826 | - | 129,221,060 |
| Restricted for capital assets | 16,856,295 | 2,078,527 | - | - | 18,934,822 |
| Restricted for debt service | 4,854,991 | 538 | - | - | 4,855,529 |
| Unrestricted | 38,527,863 | 10,359,082 | 496,311 | - | 49,383,256 |
| **TOTAL NET POSITION** | $ 152,365,435 | $ 49,465,095 | $ 564,137 | $ - | $ 202,394,667 |

# Water Environment Services
## Schedule of Net Position
## June 30, 2015

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| **Current assets:** | | | | | |
| Pooled cash and investments | $ 24,864,154 | $ 9,003,587 | $ 393,616 | $ - | $ 34,261,357 |
| Unbonded assessments receivable, net | 304,360 | - | - | - | 304,360 |
| Accrued interest receivable on assessments, net | 63,030 | - | - | - | 63,030 |
| Accounts receivable | 3,985,782 | 940,344 | 17,242 | (173,181) | 4,770,187 |
| Interest receivable | 314,170 | 11,153 | 430 | - | 325,753 |
| Property taxes receivable | - | 844 | - | - | 844 |
| Prepaid expenses | 70,617 | 28,684 | 84 | - | 99,385 |
| Total current assets | 29,602,113 | 9,984,612 | 411,372 | (173,181) | 39,824,916 |
| **Noncurrent assets:** | | | | | |
| Pooled cash and investments - restricted | 23,617,330 | 1,332,944 | - | - | 24,950,274 |
| Nondepreciable capital assets | 9,044,388 | 4,222,876 | - | - | 13,267,264 |
| Depreciable capital assets | 188,345,691 | 34,821,718 | 70,094 | - | 223,237,503 |
| Connection charges receivable, noncurrent portion | 69,366 | - | - | - | 69,366 |
| Bonded assessment receivable, net | 165,001 | - | - | - | 165,001 |
| Contracts receivable | 1,336,577 | - | - | - | 1,336,577 |
| Unbonded assessments receivable, noncurrent portion | 5,164,832 | - | - | - | 5,164,832 |
| Total noncurrent assets | 227,743,185 | 40,377,538 | 70,094 | - | 268,190,817 |
| **Deferred outflows of resources:** | | | | | |
| Deferred charges on debt refunding | - | - | - | - | - |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | 257,345,298 | 50,362,150 | 481,466 | (173,181) | 308,015,733 |
| **LIABILITIES** | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | 1,350,398 | 436,489 | 1,946 | - | 1,788,833 |
| Contract labor payable | 590,290 | - | - | - | 590,290 |
| Other liabilities | 56,211 | - | - | - | 56,211 |
| Unearned income | 69,100 | - | - | - | 69,100 |
| Due to other Service Districts | 173,181 | - | - | (173,181) | - |
| Due to Clackamas County | 376,691 | 164,426 | 2,391 | - | 543,508 |
| Accrued interest payable, payable from restricted assets | 385,602 | 1,083 | - | - | 386,685 |
| Loans payable, current portion | 403,346 | 54,426 | - | - | 457,772 |
| Current portion of long term debt, payable from restricted assets | 3,277,120 | - | - | - | 3,277,120 |
| Total current liabilities | 6,681,939 | 656,424 | 4,337 | (173,181) | 7,169,519 |
| **Noncurrent liabilities:** | | | | | |
| Long term unearned income, net of current portion | 299,000 | - | - | - | 299,000 |
| Loans payable, net of current portion, payable from current assets | 8,043,029 | - | - | - | 8,043,029 |
| Long term debt, net of current portion, payable from restricted assets | 91,055,779 | - | - | - | 91,055,779 |
| Total noncurrent liabilities | 99,397,808 | - | - | - | 99,397,808 |
| **TOTAL LIABILITIES** | 106,079,747 | 656,424 | 4,337 | (173,181) | 106,567,327 |
| **NET POSITION** | | | | | |
| Net investment in capital assets | 102,118,135 | 38,990,168 | 70,094 | - | 141,178,397 |
| Restricted for capital assets | 11,270,770 | 1,277,599 | - | - | 12,548,369 |
| Restricted for debt service | 4,568,612 | 55,345 | - | - | 4,623,957 |
| Unrestricted | 33,308,034 | 9,382,614 | 407,035 | - | 43,097,683 |
| **TOTAL NET POSITION** | $ 151,265,551 | $ 49,705,726 | $ 477,129 | $ - | $ 201,448,406 |

# Water Environment Services
## Schedule of Net Position
## June 30, 2014

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| **Current assets:** | | | | | |
| Pooled cash and investments | $ 23,094,048 | $ 7,518,742 | $ 299,912 | $ - | $ 30,912,702 |
| Unbonded assessments receivable, net | 351,295 | - | - | - | 351,295 |
| Accrued interest receivable on assessments, net | 65,436 | - | - | - | 65,436 |
| Accounts receivable | 3,655,350 | 833,484 | 15,903 | (173,181) | 4,331,556 |
| Interest receivable | 287,573 | 5,774 | 199 | - | 293,546 |
| Property taxes receivable | - | 941 | - | - | 941 |
| Prepaid expenses | 100,833 | 31,862 | 982 | - | 133,677 |
| Total current assets | 27,554,535 | 8,390,803 | 316,996 | (173,181) | 36,089,153 |
| **Noncurrent assets:** | | | | | |
| Pooled cash and investments - restricted | 19,957,245 | 1,062,390 | - | - | 21,019,635 |
| Nondepreciable capital assets | 7,627,428 | 3,884,270 | - | - | 11,511,698 |
| Depreciable capital assets | 201,724,821 | 37,602,302 | 72,361 | - | 239,399,484 |
| Connection charges receivable, noncurrent portion | 60,601 | - | - | - | 60,601 |
| Bond discount | 797,576 | - | - | - | 797,576 |
| Bonded assessment receivable, net | 211,178 | - | - | - | 211,178 |
| Contracts receivable | 1,531,753 | - | - | - | 1,531,753 |
| Unbonded assessments receivable, noncurrent portion | 6,090,928 | - | - | - | 6,090,928 |
| Total noncurrent assets | 238,001,530 | 42,548,962 | 72,361 | - | 280,622,853 |
| **Deferred outflows of resources:** | | | | | |
| Deferred charges on debt refunding | 29,828 | - | - | - | 29,828 |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | 265,585,893 | 50,939,765 | 389,357 | (173,181) | 316,741,834 |
| **LIABILITIES** | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | 1,698,360 | 358,714 | 864 | - | 2,057,938 |
| Contract labor payable | 518,310 | - | - | - | 518,310 |
| Other liabilities | 410,653 | - | - | - | 410,653 |
| Unearned income | 69,100 | - | - | - | 69,100 |
| Due to other Service Districts | 173,181 | - | - | (173,181) | - |
| Due to Clackamas County | 418,701 | 55,846 | 3,550 | - | 478,097 |
| Accrued interest payable, payable from restricted assets | 403,751 | 2,124 | - | - | 405,875 |
| Loans payable, current portion | 606,547 | 52,322 | - | - | 658,869 |
| Current portion of long term debt, payable from restricted assets | 4,182,120 | - | - | - | 4,182,120 |
| Total current liabilities | 8,480,723 | 469,006 | 4,414 | (173,181) | 8,780,962 |
| **Noncurrent liabilities:** | | | | | |
| Long term unearned income, net of current portion | 368,100 | - | - | - | 368,100 |
| Loans payable, net of current portion, payable from current assets | 8,446,375 | - | - | - | 8,446,375 |
| Long term debt, net of current portion, payable from restricted assets | 95,091,453 | 54,426 | - | - | 95,145,879 |
| Total noncurrent liabilities | 103,905,928 | 54,426 | - | - | 103,960,354 |
| **TOTAL LIABILITIES** | 112,386,651 | 523,432 | 4,414 | (173,181) | 112,741,316 |
| **NET POSITION** | | | | | |
| Net investment in capital assets | 108,522,863 | 41,379,824 | 72,361 | - | 149,975,048 |
| Restricted for capital assets | 8,466,546 | 1,007,338 | - | - | 9,473,884 |
| Restricted for debt service | 3,696,025 | 55,052 | - | - | 3,751,077 |
| Unrestricted | 32,513,808 | 7,974,119 | 312,582 | - | 40,800,509 |
| **TOTAL NET POSITION** | $ 153,199,242 | $ 50,416,333 | $ 384,943 | $ - | $ 204,000,518 |

# Water Environment Services
## Schedule of Net Position
## June 30, 2013

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| **Current assets:** | | | | | |
| Pooled cash and investments | $ 22,256,420 | $ 7,453,341 | $ 218,643 | $ - | $ 29,928,404 |
| Unbonded assessments receivable, net | 431,275 | - | - | - | 431,275 |
| Accrued interest receivable on assessments, net | 63,083 | - | - | - | 63,083 |
| Accounts receivable | 4,205,607 | 969,496 | 10,161 | (173,181) | 5,012,083 |
| Interest receivable | 290,416 | 7,547 | 206 | - | 298,169 |
| Property taxes receivable | - | 1,047 | - | - | 1,047 |
| Prepaid expenses | 104,896 | 43,349 | 73 | - | 148,318 |
| Total current assets | 27,351,697 | 8,474,780 | 229,083 | (173,181) | 35,882,379 |
| **Noncurrent assets:** | | | | | |
| Pooled cash and investments - restricted | 15,011,954 | 824,911 | - | - | 15,836,865 |
| Nondepreciable capital assets | 4,413,767 | 4,328,068 | - | - | 8,741,835 |
| Depreciable capital assets | 217,456,614 | 39,035,478 | 74,628 | - | 256,566,720 |
| Connection charges receivable, noncurrent portion | 64,188 | - | - | - | 64,188 |
| Bond issuance costs | 1,143,358 | - | | | 1,143,358 |
| Bonded assessment receivable, net | 237,479 | - | - | - | 237,479 |
| Contracts receivable | 1,677,577 | - | - | - | 1,677,577 |
| Unbonded assessments receivable, noncurrent portion | 7,633,892 | - | - | - | 7,633,892 |
| Total noncurrent assets | 247,638,829 | 44,188,457 | 74,628 | - | 291,901,914 |
| **Deferred outflows of resources:** | | | | | |
| Deferred charges on debt refunding | 71,140 | - | - | - | 71,140 |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | 275,061,666 | 52,663,237 | 303,711 | (173,181) | 327,855,433 |
| **LIABILITIES** | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | 1,317,945 | 581,324 | 10,187 | - | 1,909,456 |
| Contract labor payable | 529,260 | - | - | - | 529,260 |
| Other liabilities | 544,960 | - | - | - | 544,960 |
| Unearned income | 69,100 | - | - | - | 69,100 |
| Due to other Service Districts | 173,181 | - | - | (173,181) | - |
| Due to Clackamas County | 126,959 | 26,930 | 1,094 | - | 154,983 |
| Accrued interest payable, payable from restricted assets | 646,504 | 3,125 | - | - | 649,629 |
| Loans payable, current portion | 450,633 | 50,300 | - | - | 500,933 |
| Current portion of long term debt, payable from restricted assets | 4,062,120 | - | - | - | 4,062,120 |
| Total current liabilities | 7,920,662 | 661,679 | 11,281 | (173,181) | 8,420,441 |
| **Noncurrent liabilities:** | | | | | |
| Long term unearned income, net of current portion | 437,200 | 106,748 | - | - | 543,948 |
| Loans payable, net of current portion, payable from current assets | 9,052,922 | - | - | - | 9,052,922 |
| Long term debt, net of current portion, payable from restricted assets | 99,273,573 | - | - | - | 99,273,573 |
| Total noncurrent liabilities | 108,763,695 | 106,748 | - | - | 108,870,443 |
| **TOTAL LIABILITIES** | 116,684,357 | 768,427 | 11,281 | (173,181) | 117,290,884 |
| **NET POSITION** | | | | | |
| Net investment in capital assets | 116,536,277 | 43,206,498 | 74,628 | - | 159,817,403 |
| Restricted for capital assets | 5,184,537 | 769,695 | - | - | 5,954,232 |
| Restricted for debt service | 1,783,218 | 55,216 | - | - | 1,838,434 |
| Unrestricted | 34,873,277 | 7,863,401 | 217,802 | - | 42,954,480 |
| **TOTAL NET POSITION** | $ 158,377,309 | $ 51,894,810 | $ 292,430 | $ - | $ 210,564,549 |

# Water Environment Services
## Schedule of Net Position
## June 30, 2012

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| **Current assets:** | | | | | |
| Pooled cash and investments | $ 22,523,501 | $ 7,668,845 | $ 139,548 | $ - | $ 30,331,894 |
| Unbonded assessments receivable, net | 47,632 | | - | - | 47,632 |
| Accrued interest receivable on assessments, net | 67,004 | - | - | - | 67,004 |
| Accounts receivable | 3,680,919 | 767,176 | 18,097 | (173,181) | 4,293,011 |
| Interest receivable | 282,843 | 11,033 | 176 | - | 294,052 |
| Property taxes receivable | - | 1,184 | - | - | 1,184 |
| Prepaid expenses | 85,029 | 8,956 | 71 | - | 94,056 |
| Total current assets | 26,686,928 | 8,457,194 | 157,892 | (173,181) | 35,128,833 |
| **Noncurrent assets:** | | | | | |
| Pooled cash and investments - restricted | 14,269,869 | 779,726 | - | - | 15,049,595 |
| Nondepreciable capital assets | 34,201,873 | 3,345,674 | - | - | 37,547,547 |
| Depreciable capital assets | 195,730,615 | 40,954,873 | 76,895 | - | 236,762,383 |
| Connection charges receivable, noncurrent portion | 30,570 | - | - | - | 30,570 |
| Bond Issuance Costs | 1,203,024 | - | - | - | 1,203,024 |
| Bonded assessment receivable, net | 271,496 | - | - | - | 271,496 |
| Contracts receivable | 1,816,600 | - | - | - | 1,816,600 |
| Unbonded assessments receivable, noncurrent portion | 384,711 | - | - | - | 384,711 |
| Total noncurrent assets | 247,908,758 | 45,080,273 | 76,895 | - | 293,065,926 |
| **Deferred outflows of resources:** | | | | | |
| Deferred charges on debt refunding | - | - | - | - | - |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | 274,595,686 | 53,537,467 | 234,787 | (173,181) | 328,194,759 |
| **LIABILITIES** | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | 2,242,254 | 335,629 | 18,920 | - | 2,596,803 |
| Contract labor payable | 514,861 | - | - | - | 514,861 |
| Other liabilities | 1,875 | - | - | - | 1,875 |
| Unearned income | 57,800 | - | - | - | 57,800 |
| Due to other Service Districts | 173,181 | - | - | (173,181) | - |
| Due to Clackamas County | 690,390 | - | - | - | 690,390 |
| Accrued interest payable, payable from restricted assets | 366,715 | - | - | - | 366,715 |
| Loans payable, current portion | 194,756 | 48,357 | - | - | 243,113 |
| Current portion of long term debt, payable from restricted assets | 3,889,497 | 4,088 | - | - | 3,893,585 |
| Total current liabilities | 8,131,329 | 388,074 | 18,920 | (173,181) | 8,365,142 |
| **Noncurrent liabilities:** | | | | | |
| Long term unearned income, net of current portion | 404,600 | 157,048 | - | - | 561,648 |
| Loans payable, net of current portion, payable from current assets | 9,092,574 | - | - | - | 9,092,574 |
| Long term debt, net of current portion, payable from restricted assets | 103,264,553 | - | - | - | 103,264,553 |
| Total noncurrent liabilities | 112,761,727 | 157,048 | - | - | 112,918,775 |
| **TOTAL LIABILITIES** | 120,893,056 | 545,122 | 18,920 | (173,181) | 121,283,917 |
| **NET POSITION** | | | | | |
| Net investment in capital assets | 120,906,914 | 44,095,142 | 76,895 | - | 165,078,951 |
| Restricted for capital assets | 4,374,745 | 724,348 | - | - | 5,099,093 |
| Restricted for debt service | 2,115,635 | 55,378 | - | - | 2,171,013 |
| Unrestricted | 26,305,336 | 8,117,477 | 138,972 | - | 34,561,785 |
| **TOTAL NET POSITION** | $ 153,702,630 | $ 52,992,345 | $ 215,867 | $ - | $ 206,910,842 |

# Water Environment Services
## Schedules of Revenues, Expenses and Changes in Net Position
## Years Ended June 30, 2017 - 2012

| | FOR THE YEARS ENDED JUNE 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| **Operating revenues:** | | | | | | |
| Sewerage charges | | | | | | |
| Residential and commercial | $ 26,205,150 | $ 24,519,390 | $ 23,097,547 | $ 21,524,727 | $ 20,558,887 | $ 20,161,195 |
| Municipalities and other | 12,649,388 | 11,807,714 | 11,233,339 | 10,143,755 | 9,234,455 | 7,247,658 |
| Surface water management charges | 180,015 | 172,894 | 172,847 | 175,401 | 168,847 | 170,872 |
| Other operating revenues | 1,017,565 | 1,262,651 | 1,146,808 | 911,786 | 1,190,559 | 814,072 |
| Total operating revenues | 40,052,118 | 37,762,649 | 35,650,541 | 32,755,669 | 31,152,748 | 28,393,797 |
| **Operating expenses:** | | | | | | |
| Contracted salaries and benefits | 11,088,323 | 10,893,401 | 9,994,099 | 10,663,305 | 10,055,783 | 9,385,856 |
| Professional services | 3,032,681 | 1,477,276 | 1,402,311 | 1,390,842 | 2,133,235 | 2,398,180 |
| Laboratory services | 705,465 | 720,240 | 677,050 | 597,763 | 623,203 | 304,111 |
| Other County services | 2,360,610 | 2,405,607 | 2,191,248 | 2,159,935 | 1,669,412 | 1,721,831 |
| Supplies | 1,354,239 | 915,109 | 1,104,961 | 1,726,656 | 909,122 | 1,071,813 |
| Vehicle expenses | 702,868 | 648,429 | 743,497 | 557,938 | 699,327 | 532,430 |
| Repairs and maintenance | 453,357 | 603,585 | 310,011 | 281,173 | 217,622 | 338,853 |
| Utilities | 1,682,977 | 1,699,687 | 1,663,133 | 1,649,334 | 1,659,845 | 1,700,991 |
| Insurance | 386,400 | 387,651 | 321,682 | 312,336 | 288,023 | 259,059 |
| Other expense | 1,205,483 | 1,220,083 | 1,036,637 | 1,021,393 | 670,366 | 734,119 |
| Depreciation and amortization | 20,545,075 | 21,073,955 | 20,912,495 | 20,811,184 | 18,260,726 | 17,383,112 |
| Total operating expenses | 43,517,478 | 42,045,023 | 40,357,124 | 41,171,859 | 37,186,664 | 35,830,355 |
| Operating income (loss) | (3,465,360) | (4,282,374) | (4,706,583) | (8,416,190) | (6,033,916) | (7,436,558) |
| **Nonoperating revenue (expense):** | | | | | | |
| Interest income | 1,036,108 | 622,608 | 757,420 | 638,502 | 521,562 | 511,111 |
| Interest expense | (4,423,269) | (4,034,984) | (4,182,378) | (4,687,956) | (4,524,795) | (3,461,992) |
| Federal and state grants | - | - | - | - | - | 4,992 |
| Dispatchable power | 69,100 | 69,100 | 69,100 | 69,100 | 69,100 | 57,800 |
| Gain (loss) on disposal of capital assets | (136,322) | (138,695) | (19,302) | (228,341) | (407,077) | 3,747 |
| Deferred amount on refunding | - | - | - | - | - | (63,710) |
| Amortization of bond issuance costs | - | - | - | - | - | (23,950) |
| Total nonoperating revenue (expense) | (3,454,383) | (3,481,971) | (3,375,160) | (4,208,695) | (4,145,843) | (2,972,002) |
| Income (loss) before contributions | (6,919,743) | (7,764,345) | (8,081,743) | (12,624,885) | (10,179,759) | (10,408,560) |
| **Contributions:** | | | | | | |
| Connection charges | 5,823,398 | 7,435,766 | 3,688,911 | 4,204,541 | 13,233,632 | 4,068,857 |
| Capital contributions | 3,052,984 | 1,274,840 | 1,840,720 | 1,856,313 | 599,834 | 2,711,101 |
| Total contributions | 8,876,382 | 8,710,606 | 5,529,631 | 6,060,854 | 13,833,466 | 6,779,958 |
| Change in net position | 1,956,639 | 946,261 | (2,552,112) | (6,564,031) | 3,653,707 | (3,628,602) |
| **NET POSITION - beginning of year** | 202,394,667 | 201,448,406 | 204,000,518 | 210,564,549 | 206,910,842 | 210,539,444 |
| **NET POSITION - end of year** | $ 204,351,306 | $ 202,394,667 | $ 201,448,406 | $ 204,000,518 | $ 210,564,549 | $ 206,910,842 |

# Water Environment Services
## Schedule of Revenues, Expenses and Changes in Net Position
## Year Ended June 30, 2016

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Sewerage charges | | | | | |
| Residential and commercial | $ 24,325,651 | 193,739 | $ - | $ - | $ 24,519,390 |
| Municipalities and other | 4,435,104 | 7,372,610 | - | - | 11,807,714 |
| Surface water management charges | - | - | 172,894 | - | 172,894 |
| Intergovernmental revenue | - | 321,158 | - | (321,158) | - |
| Other operating revenues | 1,151,697 | 261,584 | 18,370 | (169,000) | 1,262,651 |
| Total operating revenues | 29,912,452 | 8,149,091 | 191,264 | (490,158) | 37,762,649 |
| **Operating expenses:** | | | | | |
| Contracted salaries and benefits | 8,443,783 | 2,395,695 | 53,923 | - | 10,893,401 |
| Professional services | 1,117,850 | 349,563 | 9,863 | - | 1,477,276 |
| Laboratory services | 426,040 | 286,102 | 8,098 | - | 720,240 |
| Other County services | 1,919,327 | 468,916 | 17,364 | - | 2,405,607 |
| Supplies | 350,010 | 883,487 | 2,770 | (321,158) | 915,109 |
| Vehicle expenses | 507,847 | 140,155 | 427 | - | 648,429 |
| Repairs and maintenance | 569,915 | 33,637 | 33 | - | 603,585 |
| Utilities | 878,157 | 821,307 | 223 | - | 1,699,687 |
| Insurance | 232,237 | 154,093 | 1,321 | - | 387,651 |
| Other expense | 859,338 | 520,168 | 9,577 | (169,000) | 1,220,083 |
| Depreciation and amortization | 17,843,322 | 3,228,365 | 2,268 | - | 21,073,955 |
| Total operating expenses | 33,147,826 | 9,281,488 | 105,867 | (490,158) | 42,045,023 |
| Operating income (loss) | (3,235,374) | (1,132,397) | 85,397 | - | (4,282,374) |
| **Nonoperating revenue (expense):** | | | | | |
| Interest income | 582,605 | 38,392 | 1,611 | - | 622,608 |
| Interest expense | (4,034,300) | (684) | - | - | (4,034,984) |
| Dispatchable power | 69,100 | - | - | - | 69,100 |
| Gain (loss) on disposal of capital assets | (139,016) | 321 | - | - | (138,695) |
| Total nonoperating revenue (expense) | (3,521,611) | 38,029 | 1,611 | - | (3,481,971) |
| Income (loss) before contributions | (6,756,985) | (1,094,368) | 87,008 | - | (7,764,345) |
| **Contributions:** | | | | | |
| Connection charges | 6,582,029 | 853,737 | - | - | 7,435,766 |
| Capital contributions | 1,274,840 | - | - | - | 1,274,840 |
| Total contributions | 7,856,869 | 853,737 | - | - | 8,710,606 |
| Change in net position | 1,099,884 | (240,631) | 87,008 | - | 946,261 |
| **NET POSITION - beginning of year** | 151,265,551 | 49,705,726 | 477,129 | - | 201,448,406 |
| **NET POSITION - end of year** | $ 152,365,435 | $ 49,465,095 | $ 564,137 | $ - | $ 202,394,667 |

# Water Environment Services
## Schedule of Revenues, Expenses and Changes in Net Position
## Year Ended June 30, 2015

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Sewerage charges | | | | | |
| Residential and commercial | $ 22,912,937 | $ 184,610 | $ - | $ - | $ 23,097,547 |
| Municipalities and other | 4,316,418 | 6,916,921 | - | - | 11,233,339 |
| Surface water management charges | - | - | 172,847 | - | 172,847 |
| Intergovernmental revenue | - | 498,555 | - | (498,555) | - |
| Other operating revenues | 1,038,252 | 271,055 | 6,501 | (169,000) | 1,146,808 |
| Total operating revenues | 28,267,607 | 7,871,141 | 179,348 | (667,555) | 35,650,541 |
| **Operating expenses:** | | | | | |
| Contracted salaries and benefits | 7,735,723 | 2,220,985 | 37,391 | - | 9,994,099 |
| Professional services | 1,088,194 | 306,083 | 8,034 | - | 1,402,311 |
| Laboratory services | 364,970 | 292,811 | 19,269 | - | 677,050 |
| Other County services | 1,734,376 | 445,204 | 11,668 | - | 2,191,248 |
| Supplies | 678,497 | 924,591 | 428 | (498,555) | 1,104,961 |
| Vehicle expenses | 532,190 | 209,577 | 1,730 | - | 743,497 |
| Repairs and maintenance | 280,338 | 29,643 | 30 | - | 310,011 |
| Utilities | 849,276 | 813,661 | 196 | - | 1,663,133 |
| Insurance | 192,309 | 129,097 | 276 | - | 321,682 |
| Other expense | 730,318 | 467,237 | 8,082 | (169,000) | 1,036,637 |
| Depreciation and amortization | 17,757,833 | 3,152,395 | 2,267 | - | 20,912,495 |
| Total operating expenses | 31,944,024 | 8,991,284 | 89,371 | (667,555) | 40,357,124 |
| Operating income (loss) | (3,676,417) | (1,120,143) | 89,977 | - | (4,706,583) |
| **Nonoperating revenue (expense):** | | | | | |
| Interest income | 700,846 | 54,365 | 2,209 | - | 757,420 |
| Interest expense | (4,179,282) | (3,096) | - | - | (4,182,378) |
| Dispatchable power | 69,100 | - | - | - | 69,100 |
| Gain (loss) on disposal of capital assets | (22,039) | 2,737 | - | - | (19,302) |
| Total nonoperating revenue (expense) | (3,431,375) | 54,006 | 2,209 | - | (3,375,160) |
| Income (loss) before contributions | (7,107,792) | (1,066,137) | 92,186 | - | (8,081,743) |
| **Contributions:** | | | | | |
| Connection charges | 3,343,541 | 345,370 | - | - | 3,688,911 |
| Capital contributions | 1,830,560 | 10,160 | - | - | 1,840,720 |
| Total contributions | 5,174,101 | 355,530 | - | - | 5,529,631 |
| Change in net position | (1,933,691) | (710,607) | 92,186 | - | (2,552,112) |
| **NET POSITION - beginning of year** | 153,199,242 | 50,416,333 | 384,943 | - | 204,000,518 |
| **NET POSITION - end of year** | $ 151,265,551 | $ 49,705,726 | $ 477,129 | $ - | $ 201,448,406 |

# Water Environment Services
## Schedule of Revenues, Expenses and Changes in Net Position
## Year Ended June 30, 2014

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Sewerage charges | | | | | |
| Residential and commercial | $ 21,350,231 | $ 174,496 | $ - | $ - | $ 21,524,727 |
| Municipalities and other | 4,129,879 | 6,013,876 | - | - | 10,143,755 |
| Surface water management charges | - | - | 175,401 | - | 175,401 |
| Intergovernmental revenue | - | 348,655 | - | (348,655) | - |
| Other operating revenues | 818,566 | 250,163 | 12,057 | (169,000) | 911,786 |
| Total operating revenues | 26,298,676 | 6,787,190 | 187,458 | (517,655) | 32,755,669 |
| **Operating expenses:** | | | | | |
| Contracted salaries and benefits | 8,404,311 | 2,218,110 | 40,884 | - | 10,663,305 |
| Professional services | 1,050,798 | 330,236 | 9,808 | - | 1,390,842 |
| Laboratory services | 321,119 | 263,337 | 13,307 | - | 597,763 |
| Other County services | 1,724,881 | 421,671 | 13,383 | - | 2,159,935 |
| Supplies | 1,134,602 | 939,592 | 1,117 | (348,655) | 1,726,656 |
| Vehicle expenses | 389,820 | 167,553 | 565 | - | 557,938 |
| Repairs and maintenance | 251,509 | 29,625 | 39 | - | 281,173 |
| Utilities | 868,072 | 781,182 | 80 | - | 1,649,334 |
| Insurance | 180,664 | 131,435 | 237 | - | 312,336 |
| Other expense | 764,180 | 412,011 | 14,202 | (169,000) | 1,021,393 |
| Depreciation and amortization | 17,813,020 | 2,995,897 | 2,267 | - | 20,811,184 |
| Total operating expenses | 32,902,976 | 8,690,649 | 95,889 | (517,655) | 41,171,859 |
| Operating income (loss) | (6,604,300) | (1,903,459) | 91,569 | - | (8,416,190) |
| **Nonoperating revenue (expense):** | | | | | |
| Interest income | 610,312 | 27,246 | 944 | - | 638,502 |
| Interest expense | (4,682,872) | (5,084) | - | - | (4,687,956) |
| Dispatchable power | 69,100 | - | - | - | 69,100 |
| Gain (loss) on disposal of capital assets | (179,784) | (48,557) | - | - | (228,341) |
| Total nonoperating revenue (expense) | (4,183,244) | (26,395) | 944 | - | (4,208,695) |
| Income (loss) before contributions | (10,787,544) | (1,929,854) | 92,513 | - | (12,624,885) |
| **Contributions:** | | | | | |
| Connection charges | 3,753,164 | 451,377 | - | - | 4,204,541 |
| Capital contributions | 1,856,313 | - | - | - | 1,856,313 |
| Total contributions | 5,609,477 | 451,377 | - | - | 6,060,854 |
| Change in net position | (5,178,067) | (1,478,477) | 92,513 | - | (6,564,031) |
| **NET POSITION - beginning of year** | 158,377,309 | 51,894,810 | 292,430 | - | 210,564,549 |
| **NET POSITION - end of year** | $ 153,199,242 | $ 50,416,333 | $ 384,943 | $ - | $ 204,000,518 |

# Water Environment Services
## Schedule of Revenues, Expenses and Changes in Net Position
## Year Ended June 30, 2013

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Sewerage charges | | | | | |
| Residential and commercial | $ 20,393,369 | $ 165,518 | $ - | $ - | $ 20,558,887 |
| Municipalities and other | 4,008,490 | 5,225,965 | - | - | 9,234,455 |
| Surface water management charges | - | - | 168,847 | - | 168,847 |
| Intergovernmental revenue | - | 711,756 | - | (711,756) | - |
| Other operating revenues | 1,084,477 | 256,369 | 18,713 | (169,000) | 1,190,559 |
| Total operating revenues | 25,486,336 | 6,359,608 | 187,560 | (880,756) | 31,152,748 |
| **Operating expenses:** | | | | | |
| Contracted salaries and benefits | 7,773,485 | 2,226,661 | 55,637 | - | 10,055,783 |
| Professional services | 1,813,248 | 310,564 | 9,423 | - | 2,133,235 |
| Laboratory services | 318,366 | 295,917 | 8,920 | - | 623,203 |
| Other County services | 1,327,312 | 325,194 | 16,906 | - | 1,669,412 |
| Supplies | 872,686 | 745,411 | 2,781 | (711,756) | 909,122 |
| Vehicle expenses | 483,980 | 214,779 | 568 | - | 699,327 |
| Repairs and maintenance | 158,059 | 59,547 | 16 | - | 217,622 |
| Utilities | 886,071 | 773,434 | 340 | - | 1,659,845 |
| Insurance | 171,043 | 116,224 | 756 | - | 288,023 |
| Other expense | 668,755 | 156,102 | 14,509 | (169,000) | 670,366 |
| Depreciation and amortization | 15,257,264 | 3,001,195 | 2,267 | - | 18,260,726 |
| Total operating expenses | 29,730,269 | 8,225,028 | 112,123 | (880,756) | 37,186,664 |
| Operating income (loss) | (4,243,933) | (1,865,420) | 75,437 | - | (6,033,916) |
| **Nonoperating revenue (expense):** | | | | | |
| Interest income | 476,623 | 43,813 | 1,126 | - | 521,562 |
| Interest expense | (4,517,605) | (7,190) | - | - | (4,524,795) |
| Federal and State Grants | 195,367 | - | - | - | 195,367 |
| Dispatchable power | 69,100 | - | - | - | 69,100 |
| Gain (loss) on disposal of capital assets | (222,437) | (184,640) | - | - | (407,077) |
| Total nonoperating revenue (expense) | (3,998,952) | (148,017) | 1,126 | - | (4,145,843) |
| Income (loss) before contributions | (8,242,885) | (2,013,437) | 76,563 | - | (10,179,759) |
| **Contributions:** | | | | | |
| Connection charges | 12,317,730 | 915,902 | - | - | 13,233,632 |
| Capital contributions | 599,834 | - | - | - | 599,834 |
| Total contributions | 12,917,564 | 915,902 | - | - | 13,833,466 |
| Change in net position | 4,674,679 | (1,097,535) | 76,563 | - | 3,653,707 |
| **NET POSITION - beginning of year** | 153,702,630 | 52,992,345 | 215,867 | - | 206,910,842 |
| **NET POSITION - end of year** | $ 158,377,309 | $ 51,894,810 | $ 292,430 | $ - | $ 210,564,549 |

# Water Environment Services
## Schedule of Revenues, Expenses and Changes in Net Position
## Year Ended June 30, 2012

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Eliminating Entries | Combining Totals |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Sewerage charges | | | | | |
| Residential and commercial | $ 20,016,519 | $ 144,676 | $ - | $ - | $ 20,161,195 |
| Municipalities and other | 2,794,416 | 4,453,242 | - | - | 7,247,658 |
| Surface water management charges | - | - | 170,872 | - | 170,872 |
| Intergovernmental revenue | - | 246,358 | - | (246,358) | - |
| Other operating revenues | 730,458 | 72,597 | 11,017 | - | 814,072 |
| Total operating revenues | 23,541,393 | 4,916,873 | 181,889 | (246,358) | 28,393,797 |
| **Operating expenses:** | | | | | |
| Contracted salaries and benefits | 7,274,639 | 2,032,633 | 78,584 | - | 9,385,856 |
| Professional services | 1,901,798 | 449,012 | 47,370 | - | 2,398,180 |
| Laboratory services | - | 282,482 | 21,629 | - | 304,111 |
| Other County services | 1,378,572 | 295,387 | 47,872 | - | 1,721,831 |
| Supplies | 674,237 | 638,717 | 5,217 | (246,358) | 1,071,813 |
| Vehicle expenses | 364,836 | 166,813 | 781 | - | 532,430 |
| Repairs and maintenance | 274,951 | 63,893 | 9 | - | 338,853 |
| Utilities | 894,216 | 806,086 | 689 | - | 1,700,991 |
| Insurance | 165,072 | 93,254 | 733 | - | 259,059 |
| Other expense | 504,752 | 211,398 | 17,969 | - | 734,119 |
| Depreciation and amortization | 14,655,084 | 2,725,761 | 2,267 | - | 17,383,112 |
| Total operating expenses | 28,088,157 | 7,765,436 | 223,120 | (246,358) | 35,830,355 |
| Operating income (loss) | (4,546,764) | (2,848,563) | (41,231) | - | (7,436,558) |
| **Nonoperating revenue (expense):** | | | | | |
| Interest income | 472,179 | 38,236 | 696 | - | 511,111 |
| Interest expense | (3,452,205) | (9,787) | - | - | (3,461,992) |
| Federal and State Grants | 4,992 | | | | 4,992 |
| Dispatchable power | 57,800 | - | - | - | 57,800 |
| Gain (loss) on disposal of capital assets | (42,348) | 46,095 | - | - | 3,747 |
| Deferred amount on refunding | (63,710) | - | - | - | (63,710) |
| Amortization of bond issuance costs | (23,950) | - | - | - | (23,950) |
| Total nonoperating revenue (expense) | (3,047,242) | 74,544 | 696 | - | (2,972,002) |
| Income (loss) before contributions | (7,594,006) | (2,774,019) | (40,535) | - | (10,408,560) |
| **Contributions:** | | | | | |
| Connection charges | 3,425,390 | 643,467 | - | - | 4,068,857 |
| Capital contributions | 2,711,101 | - | - | - | 2,711,101 |
| Total contributions | 6,136,491 | 643,467 | - | - | 6,779,958 |
| Change in net position | (1,457,515) | (2,130,552) | (40,535) | - | (3,628,602) |
| **NET POSITION - beginning of year** | 155,160,145 | 55,122,897 | 256,402 | - | 210,539,444 |
| **NET POSITION - end of year** | $ 153,702,630 | $ 52,992,345 | $ 215,867 | $ - | $ 206,910,842 |

| | FOR THE YEARS ENDED JUNE 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | |
| Received from customers | $ 39,211,298 | $ 36,445,526 | $ 34,779,017 | $ 32,876,959 | $ 29,873,173 | $ 27,953,146 |
| Paid to suppliers for goods and services | (8,975,208) | (8,595,763) | (8,326,452) | (7,609,653) | (8,299,474) | (7,952,616) |
| Paid to related entities for services | (13,690,144) | (13,726,859) | (12,326,829) | (12,647,687) | (12,522,283) | (10,769,933) |
| Other operating revenue | 1,318,912 | 1,336,368 | 1,297,552 | 1,082,063 | 1,344,031 | 1,016,111 |
| NET CASH FROM OPERATING ACTIVITIES | 17,864,858 | 15,459,272 | 15,423,288 | 13,701,682 | 10,395,447 | 10,246,708 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | | |
| Bond principal paid | (81,399,801) | (3,294,426) | (4,197,322) | (4,075,300) | (3,953,357) | (3,441,488) |
| Interest paid on bonds and contracts | (2,776,885) | (4,043,741) | (4,169,838) | (4,581,736) | (4,170,800) | (3,472,994) |
| Assessment and contract principal collected | 700,272 | 828,920 | 999,275 | 1,718,039 | (7,753,493) | 113,613 |
| Interest received on assessments and contracts | 183,984 | (81,905) | (93,185) | (179,956) | (69,839) | 50,913 |
| Grant Revenue | 4,899,052 | - | - | 2,163 | 161,926 | 11,204 |
| Capital contributed by customer/governments | (6,396,790) | 7,034,463 | 3,897,197 | 3,859,431 | 12,448,801 | 5,073,545 |
| Payments made on note payable | 567,495 | (403,346) | (606,547) | (450,633) | (194,756) | (186,992) |
| Proceeds from loans | 805 | - | - | - | 410,981 | 2,860,053 |
| Connection charges collected | 84,946,384 | 827,610 | 310,107 | 505,768 | 955,250 | 548,767 |
| Collection of property taxes | (5,159,770) | 39 | 97 | 106 | 137 | 96 |
| Acquisition of capital assets, net of dispositions | - | (4,315,847) | (5,008,991) | (4,975,621) | (8,476,962) | (24,831,800) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (4,435,254) | (3,448,233) | (8,869,207) | (8,177,739) | (10,642,112) | (23,275,083) |
| **CASH FLOWS FROM NON-CAPITAL ACTIVITIES** | | | | | | |
| Dispatchable power agreement | - | - | - | | 113,000 | - |
| NET CASH FROM NON-CAPITAL ACTIVITIES | - | - | - | - | 113,000 | - |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | |
| Interest received on investments | 771,515 | 635,831 | 725,213 | 643,125 | 517,445 | 225,991 |
| NET CASH FROM INVESTING ACTIVITIES | 771,515 | 635,831 | 725,213 | 643,125 | 517,445 | 225,991 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 14,201,119 | 12,646,870 | 7,279,294 | 6,167,068 | 383,780 | (12,802,384) |
| **POOLED CASH AND INVESTMENTS, BEGINNING OF YEAR** | 71,858,501 | 59,211,631 | 51,932,337 | 45,765,269 | 45,381,489 | 58,183,873 |
| **POOLED CASH AND INVESTMENTS, END OF YEAR** | $ 86,059,620 | $ 71,858,501 | 59,211,631 | 51,932,337 | 45,765,269 | 45,381,489 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:** | | | | | | |
| Operating income (loss) | (3,465,360) | $ (4,282,374) | $ (4,706,583) | $ (8,416,190) | $ (6,033,916) | $ (7,436,558) |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | | | |
| Depreciation and amortization | 20,545,075 | 21,073,955 | 20,912,495 | 20,811,184 | 18,260,726 | 17,383,112 |
| Changes in assets and liabilities: | | | | | | |
| Other receivables | 66,233 | (588,613) | (257,879) | 736,369 | (866,179) | 330,752 |
| Prepaid expenses | 1,603 | (228,277) | 34,292 | 14,641 | (54,262) | (57,771) |
| Accounts payable | 946,042 | (659,927) | (275,416) | 698,480 | (1,458,566) | 6,589 |
| Accrued payroll payable | (327,608) | 106,344 | 71,980 | (10,950) | 14,399 | 21,844 |
| Other liabilities | 98,872 | 38,164 | (355,601) | (131,852) | 533,245 | (1,260) |
| Total adjustments | 21,330,217 | 19,741,646 | 20,129,871 | 22,117,872 | 16,429,363 | 17,683,266 |
| NET CASH FROM OPEREATING ACTIVITIES | $ 17,864,857 | $ 15,459,272 | $ 15,423,288 | $ 13,701,682 | $ 10,395,447 | $ 10,246,708 |
| **NONCASH CAPITAL ACTIVITY** | | | | | | |
| Contributions of capital assets from governments developers and customers | $ 2,999,777 | $ 876,251 | $ 1,248,335 | $ 1,750,047 | $ 468,763 | $ 1,096,708 |

# Water Environment Services
## Schedule of Cash Flows
## Year Ended June 30, 2016

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Combining Totals |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Received from customers | $ 28,644,301 | $ 7,624,595 | $ 176,630 | $ 36,445,526 |
| Paid to suppliers for goods and services | (5,506,127) | (2,984,730) | (104,906) | (8,595,763) |
| Paid to related entities for services | (10,504,687) | (3,222,172) | | (13,726,859) |
| Other operating revenue | 1,056,414 | 261,584 | 18,370 | 1,336,368 |
| NET CASH FROM OPERATING ACTIVITIES | 13,689,901 | 1,679,277 | 90,094 | 15,459,272 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Bond principal paid | (3,240,000) | (54,426) | - | (3,294,426) |
| Interest paid on bonds and contracts | (4,041,974) | (1,767) | - | (4,043,741) |
| Assessment and contract principal collected | 828,920 | | - | 828,920 |
| Interest received on assessments and contracts | (81,905) | | - | (81,905) |
| Capital contributed by customer/governments | 7,034,463 | | - | 7,034,463 |
| Payments made on note payable | (403,346) | | - | (403,346) |
| Connection charges collected | - | 827,610 | - | 827,610 |
| Collection of property taxes | - | 39 | - | 39 |
| Acquisition of capital assets, net of dispositions | (3,252,528) | (1,063,319) | - | (4,315,847) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (3,156,370) | (291,863) | - | (3,448,233) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Interest received on investments | 593,382 | 40,770 | 1,679 | 635,831 |
| NET CASH FROM INVESTING ACTIVITIES | 593,382 | 40,770 | 1,679 | 635,831 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 11,126,913 | 1,428,184 | 91,773 | 12,646,870 |
| **POOLED CASH AND INVESTMENTS, BEGINNING OF YEAR** | 48,481,484 | 10,336,531 | 393,616 | 59,211,631 |
| **POOLED CASH AND INVESTMENTS, END OF YEAR** | $ 59,608,397 | 11,764,715 | 485,389 | 71,858,501 |

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Combining Totals |
|---|---|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASHFROM OPERATING ACTIVITIES:** | | | | |
| Operating income (loss) | $ (3,235,374) | $ (1,132,397) | $ 85,397 | $ (4,282,374) |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | |
| Depreciation and amortization | 17,843,322 | 3,228,365 | 2,268 | 21,073,955 |
| Changes in assets and liabilities: | | | | |
| Other receivables | (329,438) | (262,911) | 3,736 | (588,613) |
| Prepaid expenses | (150,470) | (77,297) | (510) | (228,277) |
| Accounts payable | (582,817) | (76,483) | (627) | (659,927) |
| Accrued payroll payable | 106,344 | - | - | 106,344 |
| Other liabilities | 38,334 | - | (170) | 38,164 |
| Total adjustments | 16,925,275 | 2,811,674 | 4,697 | 19,741,646 |
| NET CASH FROM OPERATING ACTIVITIES | $ 13,689,901 | $ 1,679,277 | $ 90,094 | $ 15,459,272 |
| **NONCASH CAPITAL ACTIVITY** | | | | |
| Contributions of capital assets from governments developers and customers | $ 876,251 | $ - | $ - | $ 876,251 |

# Water Environment Services
## Schedule of Cash Flows
## Year Ended June 30, 2015

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Combining Totals |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Received from customers | $ 27,068,860 | $ 7,538,649 | $ 171,508 | $ 34,779,017 |
| Paid to suppliers for goods and services | (5,388,280) | (2,851,889) | (86,283) | (8,326,452) |
| Paid to related entities for services | (9,456,481) | (2,870,348) | - | (12,326,829) |
| Other operating revenue | 1,019,996 | 271,055 | 6,501 | 1,297,552 |
| NET CASH FROM OPERATING ACTIVITIES | 13,244,095 | 2,087,467 | 91,726 | 15,423,288 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Bond principal paid | (4,145,000) | (52,322) | - | (4,197,322) |
| Interest paid on bonds and contracts | (4,165,701) | (4,137) | - | (4,169,838) |
| Assessment and contract principal collected | 999,275 | - | - | 999,275 |
| Interest received on assessments and contracts | (93,185) | - | - | (93,185) |
| Capital contributed by customer/governments | 3,897,197 | - | - | 3,897,197 |
| Payments made on note payable | (606,547) | - | - | (606,547) |
| Connection charges collected | - | 310,107 | - | 310,107 |
| Collection of property taxes | - | 97 | - | 97 |
| Acquisition of capital assets, net of dispositions | (4,374,192) | (634,799) | - | (5,008,991) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (8,488,153) | (381,054) | - | (8,869,207) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Interest received on investments | 674,249 | 48,986 | 1,978 | 725,213 |
| NET CASH FROM INVESTING ACTIVITIES | 674,249 | 48,986 | 1,978 | 725,213 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 5,430,191 | 1,755,399 | 93,704 | 7,279,294 |
| **POOLED CASH AND INVESTMENTS, BEGINNING OF YEAR** | 43,051,293 | 8,581,132 | 299,912 | 51,932,337 |
| **POOLED CASH AND INVESTMENTS, END OF YEAR** | $ 48,481,484 | $ 10,336,531 | $ 393,616 | $ 59,211,631 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:** | | | | |
| Operating income (loss) | $ (3,676,417) | $ (1,120,143) | $ 89,977 | $ (4,706,583) |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | |
| Depreciation and amortization | 17,757,833 | 3,152,395 | 2,267 | 20,912,495 |
| Changes in assets and liabilities: | | | | |
| Other receivables | (195,103) | (61,437) | (1,339) | (257,879) |
| Prepaid expenses | 30,216 | 3,178 | 898 | 34,292 |
| Accounts payable | (389,972) | 113,474 | 1,082 | (275,416) |
| Accrued payroll payable | 71,980 | - | - | 71,980 |
| Other liabilities | (354,442) | - | (1,159) | (355,601) |
| Total adjustments | 16,920,512 | 3,207,610 | 1,749 | 20,129,871 |
| NET CASH FROM OPERATING ACTIVITIES | $ 13,244,095 | $ 2,087,467 | $ 91,726 | $ 15,423,288 |
| **NONCASH CAPITAL ACTIVITY** | | | | |
| Contributions of capital assets from governments developers and customers | $ 1,248,335 | $ - | $ - | $ 1,248,335 |

# Water Environment Services
## Schedule of Cash Flows
## Year Ended June 30, 2014

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Combining Totals |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Received from customers | $ 26,088,652 | $ 6,618,648 | $ 169,659 | $ 32,876,959 |
| Paid to suppliers for goods and services | (4,710,594) | (2,797,661) | (101,398) | (7,609,653) |
| Paid to related entities for services | (9,797,729) | (2,849,958) | - | (12,647,687) |
| Other operating revenue | 819,843 | 250,163 | 12,057 | 1,082,063 |
| NET CASH FROM OPERATING ACTIVITIES | 12,400,172 | 1,221,192 | 80,318 | 13,701,682 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Bond principal paid | (4,025,000) | (50,300) | - | (4,075,300) |
| Interest paid on bonds and contracts | (4,575,651) | (6,085) | - | (4,581,736) |
| Assessment and contract principal collected | 1,718,039 | - | - | 1,718,039 |
| Interest received on assessments and contracts | (179,956) | - | - | (179,956) |
| Grant Revenue | 2,163 | - | - | 2,163 |
| Capital contributed by customer/governments | 3,859,431 | - | - | 3,859,431 |
| Payments made on note payable | (450,633) | - | - | (450,633) |
| Connection charges collected | - | 505,768 | - | 505,768 |
| Collection of property taxes | - | 106 | - | 106 |
| Acquisition of capital assets, net of dispositions | (3,578,801) | (1,396,820) | - | (4,975,621) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (7,230,408) | (947,331) | - | (8,177,739) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Interest received on investments | 613,155 | 29,019 | 951 | 643,125 |
| NET CASH FROM INVESTING ACTIVITIES | 613,155 | 29,019 | 951 | 643,125 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 5,782,919 | 302,880 | 81,269 | 6,167,068 |
| **POOLED CASH AND INVESTMENTS, BEGINNING OF YEAR** | 37,268,374 | 8,278,252 | 218,643 | 45,765,269 |
| **POOLED CASH AND INVESTMENTS, END OF YEAR** | $ 43,051,293 | $ 8,581,132 | $ 299,912 | $ 51,932,337 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:** | | | | |
| Operating income (loss) | $ (6,604,300) | $ (1,903,459) | $ 91,569 | $ (8,416,190) |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | |
| Depreciation and amortization | 17,813,020 | 2,995,897 | 2,267 | 20,811,184 |
| Changes in assets and liabilities: | | | | |
| Other receivables | 660,490 | 81,621 | (5,742) | 736,369 |
| Prepaid expenses | 4,063 | 11,487 | (909) | 14,641 |
| Accounts payable | 672,157 | 35,646 | (9,323) | 698,480 |
| Accrued payroll payable | (10,950) | - | - | (10,950) |
| Other liabilities | (134,308) | - | 2,456 | (131,852) |
| Total adjustments | 19,004,472 | 3,124,651 | (11,251) | 22,117,872 |
| NET CASH FROM OPERATING ACTIVITIES | $ 12,400,172 | $ 1,221,192 | $ 80,318 | $ 13,701,682 |
| **NONCASH CAPITAL ACTIVITY** | | | | |
| Contributions of capital assets from governments developers and customers | $ 1,750,047 | $ - | $ - | $ 1,750,047 |

# Water Environment Services
## Schedule of Cash Flows
## Year Ended June 30, 2013

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Combining Totals |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Received from customers | $ 23,834,820 | $ 5,861,570 | $ 176,783 | $ 29,873,173 |
| Paid to suppliers for goods and services | (5,773,299) | (2,408,678) | (117,497) | (8,299,474) |
| Paid to related entities for services | (9,699,708) | (2,822,575) | | (12,522,283) |
| Other operating revenue | 1,068,949 | 256,369 | 18,713 | 1,344,031 |
| NET CASH FROM OPERATING ACTIVITIES | 9,430,762 | 886,686 | 77,999 | 10,395,447 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Bond principal paid | (3,905,000) | (48,357) | - | (3,953,357) |
| Interest paid on bonds and contracts | (4,162,647) | (8,153) | - | (4,170,800) |
| Assessment and contract principal collected | (7,753,493) | | - | (7,753,493) |
| Interest received on assessments and contracts | (69,839) | | - | (69,839) |
| Grant Revenue | 161,926 | | - | 161,926 |
| Capital contributed by customer/governments | 12,448,801 | | - | 12,448,801 |
| Payments made on note payable | (194,756) | | - | (194,756) |
| Proceeds from loans | 410,981 | | - | 410,981 |
| Connection charges collected | - | 955,250 | - | 955,250 |
| Collection of property taxes | - | 137 | - | 137 |
| Acquisition of capital assets, net of dispositions | (6,473,781) | (2,003,181) | - | (8,476,962) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (9,537,808) | (1,104,304) | - | (10,642,112) |
| **CASH FLOWS FROM NON-CAPITAL ACTIVITIES** | | | | |
| Dispatchable power agreement | 113,000 | - | - | 113,000 |
| NET CASH FROM NON-CAPITAL ACTIVITIES | 113,000 | - | - | 113,000 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Interest received on investments | 469,050 | 47,299 | 1,096 | 517,445 |
| NET CASH FROM INVESTING ACTIVITIES | 469,050 | 47,299 | 1,096 | 517,445 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 475,004 | (170,319) | 79,095 | 383,780 |
| **POOLED CASH AND INVESTMENTS, BEGINNING OF YEAR** | 36,793,370 | 8,448,571 | 139,548 | 45,381,489 |
| **POOLED CASH AND INVESTMENTS, END OF YEAR** | $ 37,268,374 | $ 8,278,252 | $ 218,643 | $ 45,765,269 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:** | | | | |
| Operating income (loss) | $ (4,243,933) | $ (1,865,420) | $ 75,437 | $ (6,033,916) |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | |
| Depreciation and amortization | 15,257,264 | 3,001,195 | 2,267 | 18,260,726 |
| Changes in assets and liabilities: | | | | |
| Other receivables | (632,446) | (241,669) | 7,936 | (866,179) |
| Prepaid expenses | (19,867) | (34,393) | (2) | (54,262) |
| Accounts payable | (1,487,740) | 26,973 | 2,201 | (1,458,566) |
| Accrued payroll payable | 14,399 | - | - | 14,399 |
| Other liabilities | 543,085 | - | (9,840) | 533,245 |
| Total adjustments | 13,674,695 | 2,752,106 | 2,562 | 16,429,363 |
| NET CASH FROM OPERATING ACTIVITIES | $ 9,430,762 | $ 886,686 | $ 77,999 | $ 10,395,447 |
| **NONCASH CAPITAL ACTIVITY** | | | | |
| Contributions of capital assets from governments developers and customers | $ 468,763 | $ - | $ - | $ 468,763 |

# Water Environment Services
## Schedule of Cash Flows
## Year Ended June 30, 2012

| | Clackamas County Service District No. 1 | Tri-City Service District | Surface Water Management Agency of Clackamas County | Combining Totals |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Received from customers | $ 22,719,885 | $ 5,069,387 | $ 163,874 | $ 27,953,146 |
| Paid to suppliers for goods and services | (5,389,607) | (2,339,545) | (223,464) | (7,952,616) |
| Paid to related entities for services | (8,151,101) | (2,618,832) | - | (10,769,933) |
| Other operating revenue | 932,497 | 72,597 | 11,017 | 1,016,111 |
| NET CASH FROM OPERATING ACTIVITIES | 10,111,674 | 183,607 | (48,573) | 10,246,708 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Bond principal paid | (3,395,000) | (46,488) | - | (3,441,488) |
| Interest paid on bonds and contracts | (3,462,282) | (10,712) | - | (3,472,994) |
| Assessment and contract principal collected | 113,613 | - | - | 113,613 |
| Interest received on assessments and contracts | 50,913 | - | - | 50,913 |
| Grant Revenue | 11,204 | - | - | 11,204 |
| Capital contributed by customer/governments | 5,073,545 | - | - | 5,073,545 |
| Payments made on note payable | (186,992) | - | - | (186,992) |
| Proceeds from Loans | 2,860,053 | - | - | 2,860,053 |
| Connection charges collected | - | 548,767 | - | 548,767 |
| Collection of property taxes | - | 96 | - | 96 |
| Acquisition of capital assets, net of dispositions | (21,396,260) | (3,435,540) | - | (24,831,800) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (20,331,206) | (2,943,877) | - | (23,275,083) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Interest received on investments | 187,341 | 37,941 | 709 | 225,991 |
| NET CASH FROM INVESTING ACTIVITIES | 187,341 | 37,941 | 709 | 225,991 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (10,032,191) | (2,722,329) | (47,864) | (12,802,384) |
| **POOLED CASH AND INVESTMENTS, BEGINNING OF YEAR** | 46,825,561 | 11,170,900 | 187,412 | 58,183,873 |
| **POOLED CASH AND INVESTMENTS, END OF YEAR** | $ 36,793,370 | $ 8,448,571 | $ 139,548 | $ 45,381,489 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:** | | | | |
| Operating loss | $ (4,546,764) | $ (2,848,563) | $ (41,231) | $ (7,436,558) |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | |
| Depreciation and amortization | 14,655,084 | 2,725,761 | 2,267 | 17,383,112 |
| Changes in assets and liabilities: | | | | |
| Other receivables | 112,640 | 225,111 | (6,999) | 330,752 |
| Prepaid expenses | (52,258) | (5,442) | (71) | (57,771) |
| Accounts payable | (80,747) | 86,740 | 596 | 6,589 |
| Accrued payroll payable | 21,844 | - | - | 21,844 |
| Other liabilities | 1,875 | - | (3,135) | (1,260) |
| Total adjustments | 14,658,438 | 3,032,170 | (7,342) | 17,683,266 |
| NET CASH FROM OPERATING ACTIVITIES | $ 10,111,674 | $ 183,607 | $ (48,573) | $ 10,246,708 |
| **NONCASH CAPITAL ACTIVITY** | | | | |
| Contributions of capital assets from governments developers and customers | $ 1,096,708 | $ - | $ - | $ 1,096,708 |

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Date

Mr. Jim Bernard, Chair
Clackamas County Board of Commissioners
150 Beavercreek Road
Oregon City, Oregon 97045

Mr. Ken Humberston – Commissioner
Ms. Sonya Fischer - Commissioner
Mr. Paul Savas – Commissioner
Ms. Martha Schrader - Commissioner
Mr. Don Krupp - Administrator

Dear Mr. Bernard, Commissioners, and Mr. Krupp,

As you are aware, Clackamas County has reorganized its wastewater and stormwater enterprises into a municipal partnership pursuant to Oregon Revised Statutes (ORS) 190. The partnership consists of Clackamas County Service District No. 1 (CCSD#1), the Tri-City Service District (TCSD), and the Surface Water Management Agency of Clackamas County (SWMACC). The new intergovernmental entity that is tasked with managing this partnership is Water Environment Services (WES). To facilitate the orderly integration of these enterprises into WES, it is the intention of the Partners to contribute the ownership and management of all existing facilities, assets, and related properties and interests into WES. It is also the intention of the Partners to contribute all liabilities, payables, and outstanding borrowings into WES.

Currently, the only Partner that has outstanding borrowings is CCSD#1. As of June 30, 2017, CCSD#1 had $1,646,239 in principal outstanding on Clean Water State Revolving Fund loans, and $92,945,000 in principal outstanding on senior lien revenue refunding bonds and revenue obligations. To transfer these borrowings to WES, management is proposing to amend the CCSD#1 Master Sewer Revenue Bond Declaration (Master Declaration) dated August 30, 2016 to define the issuer of the borrowings as WES (from CCSD#1), and to expand the definition of the sewer system to encompass all of the comingled assets of WES. Section 13.1.7 of the Master Declaration allows CCSD#1 "to make any change which, in the reasonable judgment of the District, does not materially and adversely affect the rights of the owners of any Outstanding Bonds." The purpose of this letter and the accompanying financial analysis is to verify, that in our judgment, the transfer of the CCSD#1 borrowings into WES does not materially and adversely affect the rights of the owners of the outstanding bonds.

## *Historical Analysis*

From a financial perspective, the lens that we use to evaluate the impact on owners of the outstanding bonds is the rate covenant (promise) that CCSD#1 has made to the owners and how that promise would have been fulfilled if WES was the responsible party. Section 6.1 of the Master Declaration defines the general covenant, and Section 6.2 defines the “Net Revenue Covenant” which is the formula that is to be used to calculate rate covenant compliance. Both sections are shown below:

> **6.1. General Covenant.** The District covenants for the benefit of the Owners that it will establish and maintain rates and charges in connection with the ownership and operation of the Sewer System which are sufficient to permit the District to pay all Operating Expenses and all lawful charges against the Net Revenues, to remain in compliance with its duties under this Master Declaration and any Supplemental Declaration, and to make all transfers required by this Master Declaration to the Revenue Bond Account, the Revenue Bond Reserve Account, and the Subordinate Obligations Account.
>
> **6.2. Net Revenue Covenant.** The District covenants for the benefit of the Owners of all Bonds that it shall impose fees, rates and charges in connection with the ownership and operation of the Sewer System which, when combined with other Gross Revenues, are adequate:
>
> 6.2.1. To produce Net Revenues in each fiscal Year at least equal to one hundred ten percent (110.00%) of Annual Debt Service due in that Fiscal Year; and
>
> 6.2.2. To produce Stabilized Net Revenues each Fiscal Year at least equal to one hundred twenty percent (120.00%) of Annual Debt Service due in that Fiscal Year.

For this analysis, we have focused on the calculation that is defined in Section 6.2.2. In this case, the term Stabilized Net Revenues means Net Revenues (i.e., Gross Revenues Less Operating Expenses) for a period less deposits to the Rate Stabilization Account for the period, and plus withdrawals from the Rate Stabilization Account for the period. We have reviewed CCSD#1 financial records and have determined there have never been any transfers to or from the rate stabilization account. So, we are treating Section 6.2.2 as requiring a ratio of Net Revenues to Annual Debt Service that must always be equal to or greater than 120%.

Now that we have established the criteria for the Net Revenue Covenant compliance, we need to see two things in terms of material impact on owners of the bonds. First, has CCSD#1 historically met this test, and second, would WES have met this test at the same or stronger levels if they were the issuer of the bonds over the same historical timeframe.

### *Sources of Historical Financial Data*

To perform the Net Revenue Covenant tests discussed above, we had to analyze the historical financial data of the WES Partners. This data was provided to us by WES Staff in budget line item format and is the same source data that has been used by the County’s independent auditors to produce the historical Comprehensive Annual Financial Reports (CAFRs) for each Partner. There are differences between this source (budgetary basis) data, and the final financial data that is reported in the CAFRs. The principal difference is depreciation expense (a non-cash expense). A reconciliation of the budgetary basis data we used for this analysis and the reported CAFR data (for each Partner’s historical data) has been prepared by WES’s auditors and is in a separate report available for your review.

Based on the historical financial records from CCSD#1 and the WES Partners from fiscal 2012-13 through fiscal 2016-17, we have calculated the actual ratios of Net Revenues to Annual Debt Service. The results of that analysis are shown graphically in Figure 1.

Figure 1 - Historical Net Revenue Covenant Compliance Including SDCs

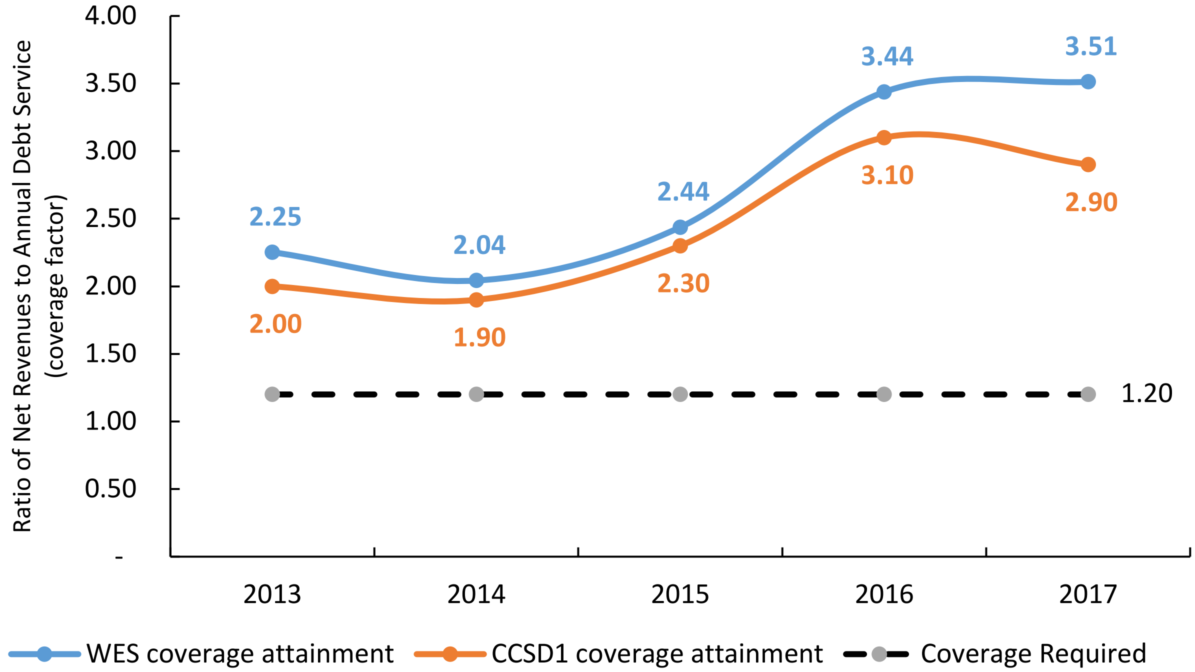
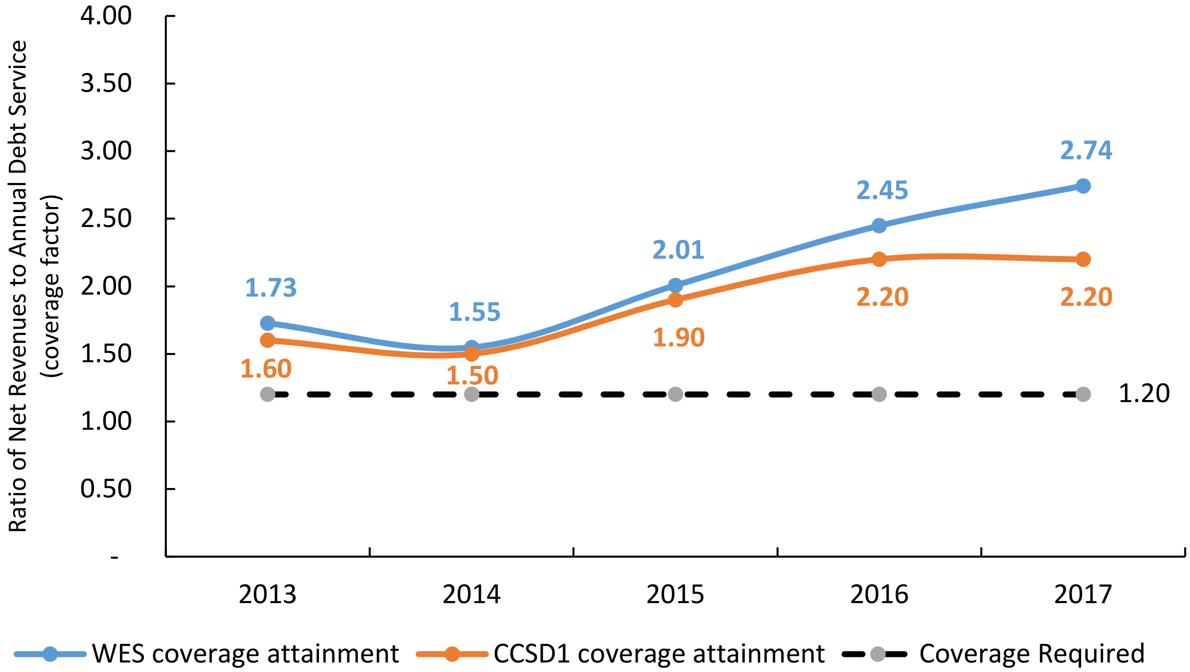



Figure 1 clearly shows over the past five years the Net Revenue Covenant has been met by CCSD#1 as the issuer of the bonds, and by WES if they were the issuer of the bonds. From the owners' perspective, Figure 1 also shows WES producing superior results in each year of the five-year historical period. For example, in fiscal 2016-17, for every dollar of debt service due, WES covered that dollar with $3.51 of Net Revenues (i.e., coverage factor). In that same year, CCSD#1 covered that dollar of debt service with $2.90 of Net Revenues. This indicates to us, from a historical perspective, the owners of the bonds would be better served having WES as the issuer of the bonds versus the current condition of CCSD#1 being the issuer.

The data that created Figure 1 is based on a strict reading of the Net Revenue Covenant. To delve deeper into the analysis, we recalculated the historical coverage attainment by excluding system development charges (SDCs) from the calculations. Even though the Master Declaration explicitly allows SDCs to be included as Gross Revenues of the Sewer System, we wanted to see the impact the exclusion of these revenues would have on coverage attainment with CCSD#1 and WES as issuers of the bonds. SDC receipts are not as predictable a revenue sources as rate revenues. For this reason, we felt it prudent to rerun the coverage calculations with SDCs excluded. The results of that recalculation are shown below in Figure 2.

Figure 2 - Historical Net Revenue Covenant Compliance with SDC Excluded




Even with SDCs excluded from the calculations, both CCSD#1 and WES (as issuers of the bonds) produce coverage more than the Net Revenue Covenant requirement. And, as in the case of the coverage attainments shown in Figure 1, the historical WES results are superior to the CCSD#1 results in every year of the five-year historical period.

Based on our analysis of five years of historical financial data for the WES Partners, we conclude the owners of the bonds, from a historical perspective, are not materially adversely affected by management's proposal to amend the Master Declaration to define WES as the issuer of the bonds and to expand the definition of the Sewer System to include all of the comingled assets of the WES partnership.

## *WES and CCSD#1 Pro Forma Analysis*

WES has formulated a five-year business plan that incorporates forecasted growth in the combined customer base, a capital improvement funding plan, and projected trends in operations and maintenance costs. The purpose of the plan is to solve for rates and charges that will be required to fully fund the planning assumptions that are incorporated in the plan. We have analyzed this business plan to determine if the substitution of WES for CCSD#1 will materially and adversely affect the rights of the owners of the Outstanding Bonds.

As in the case of the historical analysis, our lens for evaluating impacts on the owners of the bonds is the Net Revenue Covenant. In addition to evaluating the "base line" five-year plan, we have developed three (3) sensitivity cases to further test WES planning assumptions relative to impacts on the owners of the bonds. A description of the baseline and sensitivity cases are as follows:

- *The baseline case* – This case strips out the future capital improvement plans for WES and CCSD#1 and only incorporates forecasted growth in the customer base, and operations and maintenance expenses for both scenarios. No new senior or subordinate lien borrowings are added to the forecast. This baseline case is a forecast of the status quo without injecting the noise of future capital funding strategies.
- *The pooled resources sensitivity case* – This case models the WES partnership strategy in that all the Partners pool their resources to achieve economies of scale in the delivery of wastewater treatment services. The Capital improvement plan that is incorporated in this case assumes the collocation of future treatment capacity increments to the maximum extent possible along with other capital improvements that will be required over the five-year forecast horizon (i.e., collection system improvements, machinery, and equipment). This case also assumes that cash reserves of the Partners are deployed to "buy down" future borrowing needs to the extent there is matching cash contributions from both CCSD#1 and TCSD. (A more detailed discussion of how each Partner's cash reserves are contributed over time is the body of this analysis). The coverage factors that are achieved in this case are then compared to the coverage attainment of CCSD#1 if it was not part of the WES partnership.
- *The CCSD#1 premium payment sensitivity case* – This case compares the WES pooled resources model to an independent CCSD#1 model but adds a caveat. Under the WES pooled strategy, all the Partners work cooperatively to achieve financial and operational efficiencies. In the independent CCSD#1 model, we still assume the parties will collocate critical wastewater treatment infrastructure, but, because there is no formal partnership agreement, CCSD#1 will be required to pay a fee to TCSD for hosting the collocated assets within its service area. This has happened in the past when the last increment of liquids handling infrastructure was collocated in the TCSD service area (i.e., at the Tri-City wastewater treatment plant). At that time, CCSD#1 paid a host fee of $4m to TCSD. In this case, we have assumed that upon completion of the collocated solids handling capacity improvements at the Tri-City plant in 2021, CCSD#1 will pay TCSD an additional premium of 15% of the cost of CCSD#1 assets that will be collocated in the TCSD service area. Based on the current capital plan, CCSD#1 is expected to invest $29.3m (expressed in 2018 dollars) at the Tri-City wastewater treatment plant through fiscal 2021-22, principally in the expanded joint solids handling project. At a premium rate of 15%, the total hosting premium paid to TCSD by CCSD#1 amounts to $4.4m. The coverage factors that are achieved in this case are then compared to the coverage attainment of WES under the pooled resources case.
- *The go alone sensitivity case* – This case assumes the WES partnership does not exist. All the current Partners go their separate ways and fund their future capital and operating requirements

independently. It also assumes there will be no more collocation of wastewater treatment facilities. In this case, CCSD#1 will have to expand the Kellogg wastewater treatment plant (the "Kellogg Plant") to meet all the projected future wastewater flows of the District. Placed in operation in 1974, the facility is a secondary treatment plant that serves 77,800 people in unincorporated Clackamas County, Milwaukie, and Johnson City. The Kellogg Plant is located on the banks of the Willamette River inside the city limits of Milwaukie.

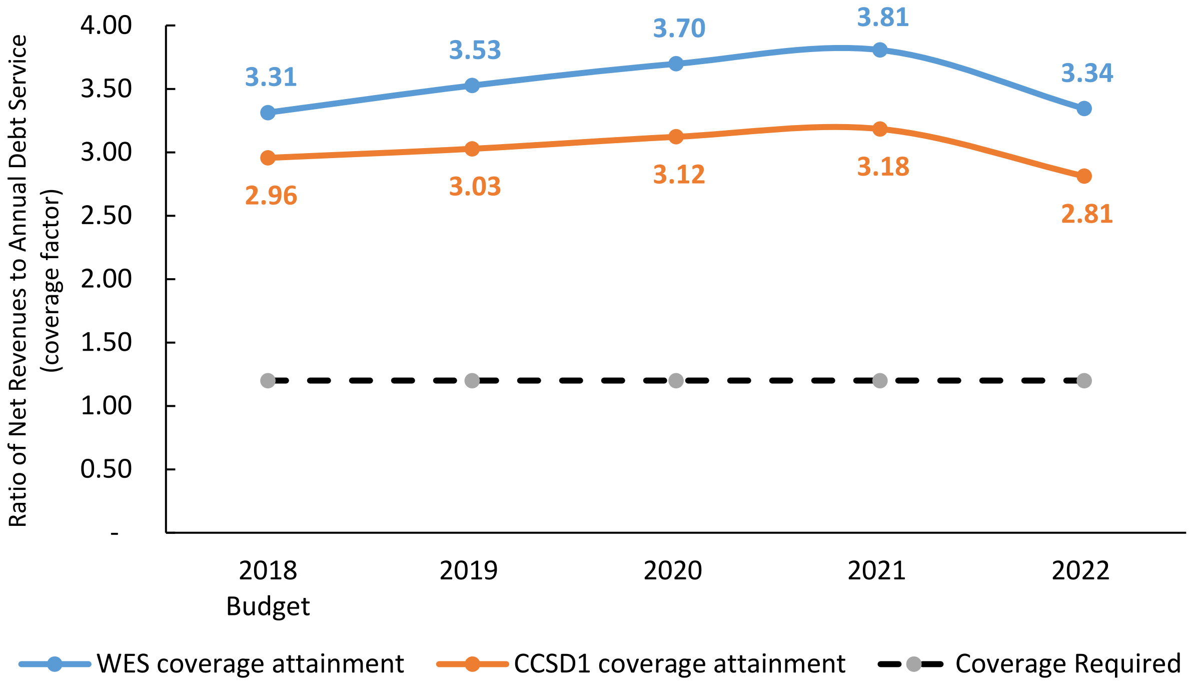
CCSD#1 Wastewater flows that are currently diverted to the Tri-City Resource Recovery Facility (the "TCSD-City Plant") under contract with the TCSD would continue to flow to that facility through the duration of the contract (i.e., December 21, 2030). This facility was originally placed in service in 1986. On December 18, 2008, CCSD#1 entered into a new IGA with TCSD (the "Phase I Agreement") that replaced a prior interim diversion agreement. The Phase I Agreement incorporated the operational terms of the prior diversion agreement for such things as the rental of capacity, and further provided for the leasing of ground and a capital return on investment ("ROI") for the connection of wastewater treatment capital assets to existing TCSD-City Plant infrastructure. It also laid out the terms for the sharing of O&M expenses, and cooperation on financial matters such as the calculation of system development charges. The TCSD-City Plant now serves a total population of 98,000, 72,000 TCSD; and 26,000 CCSD#1. TCSD-City Plant is located on the banks of the Willamette River inside the City limits of Oregon City.

This scenario has been modeled in the past, and the engineering estimate of the costs to expand the Kellogg Plant to treat the future flows of CCSD#1 was $155m. It was also assumed it would take five (5) years to complete the retrofit and expansion of the Kellogg Plant. These capital costs would be in addition to the other capital costs that would have been budgeted for the District over the five-year forecast. For sake of comparison, the coverage factors that are achieved in this case are compared to the coverage attainment of WES under the pooled resources case. Note, we recognize the go alone sensitivity case explicitly assumes the dissolution of WES, but we felt some frame of reference would be helpful to the reader.

***The Baseline Case Results***

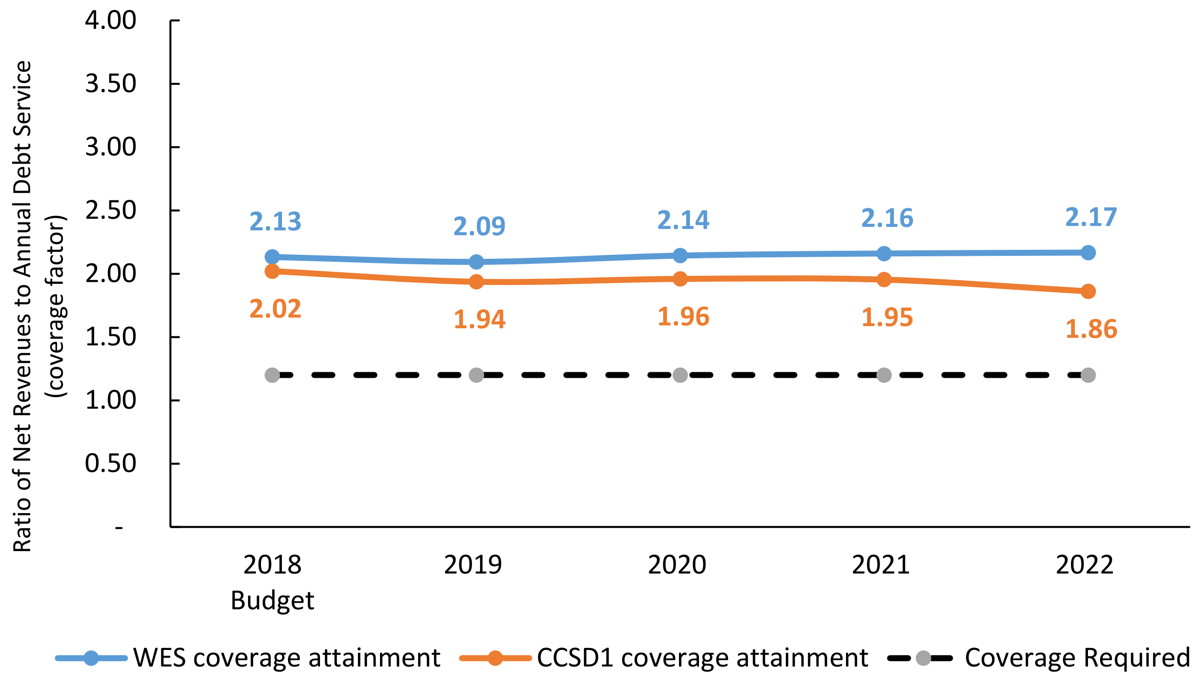
As discussed above, the baseline case models the status quo moving forward. This would be a moot case because it assumes neither WES nor CCSD#1 would be investing in their respective wastewater collection and treatment systems over the next five years. However, we do find the results of this case compelling because it projects the recent actual coverage attainment of both entities, and, ceteris paribus, projects the trend of recent coverage attainment experience. Figures 3 and 4 contain the forecasted coverage attainment of WES and CCSD#1 under the baseline case (with and without SDCs, respectively).

Figure 3 – Projected Net Revenue Covenant Compliance under the Baseline Case including SDCs




The data in Figure 3 shows steady growth in coverage attainment for both WES and CCSD#1 until 2022 when the current population growth spurt in the region is expected to abate and SDC receipts drop. It also shows the continuation of the superior coverage attainment of WES vs. CCSD#1 on its own over the entire five-year forecast horizon.

Figure 4 – Projected Net Revenue Covenant Compliance with SDCs Excluded under the Baseline Case




The data in Figure 4 strips out the benefit of SDCs and charts out the coverage attainment of WES and CCSD#1 based on the growth in rate revenues, the most predictable future revenue sources for both entities. As the data shows for the baseline case, WES coverage attainment is superior to that of CCSD#1 and is effectively steady from year to year over the forecast. Conversely, CCSD#1 coverage attainment is expected to degrade slightly by the end of the forecast as growth abates. WES produces superior coverage results because it has a larger rate base to absorb anticipated future inflation-based cost increases.

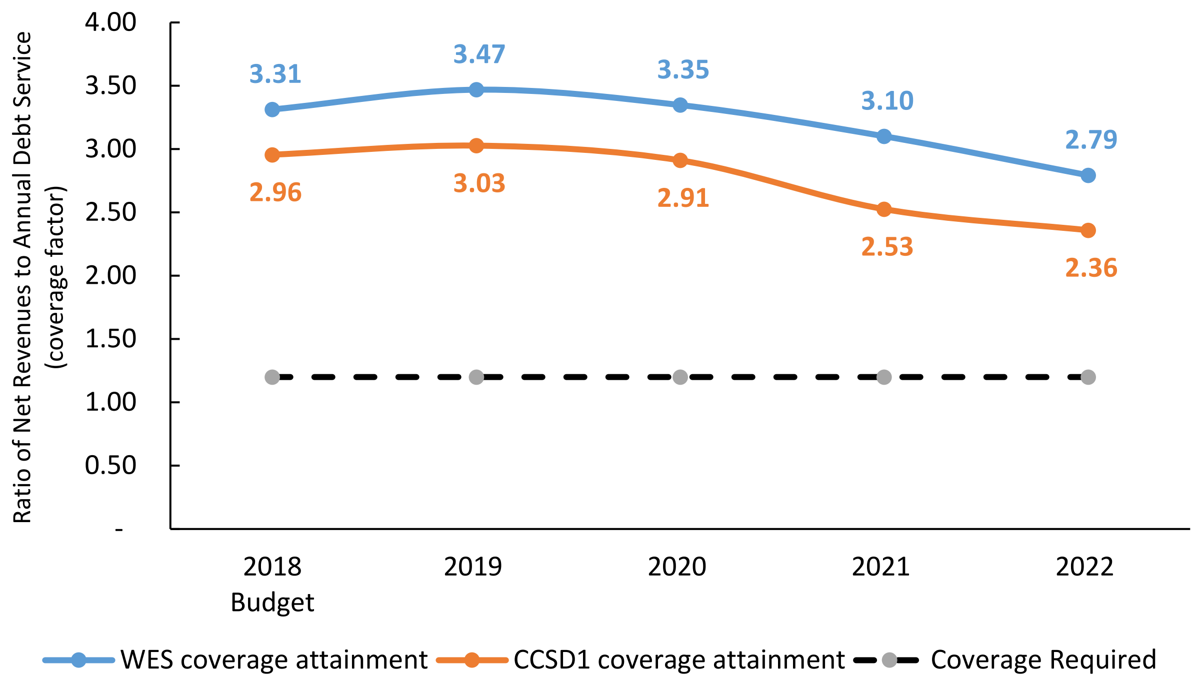
***The Pooled Resources Case Results***

The pooled resources case embodies the regionalization service delivery strategy. Under this strategy, heretofore separate service districts combine forces to share risk. This allows for flow management and balancing between the Partners' systems to better ensure compliance with regulatory requirements and to allow equipment to go offline for routine maintenance. The desire to move to this regional service delivery model was the primary reason for the creation of WES.

Over the next five years (i.e., fiscal 2017-18 through fiscal 2021-22) capital improvement investments are expected to be substantial for CCSD#1 if it were to not join WES, and for WES in the pooled resources strategy. For CCSD#1 on a go alone basis, the inflated costs of needed capital improvements are approximately $139.3 million. For WES as a partnership, the inflated costs of needed capital improvements are approximately $174.1 million. In either case, cash reserves and free cash flows will not be sufficient to fund these projected capital improvement costs. Our modeling indicates new senior lien borrowings will have to be issued by CCSD#1 (on its own), and by WES (under the pooled resources case). Our pooled resources case models this strategy over time and assumes reserves of the Partners are deployed to "buy down" future borrowing needs to the extent there is matching cash contributions from both CCSD#1 and TCSD. To put this parity of cash contributions into perspective, as of July 1, 2018, we estimate CCSD#1 had total cash reserves of $52.0m while TCSD had cash reserves of $13.2m. To avoid the appearance of CCSD#1 subsidizing TCSD's capital cost responsibilities, we have assumed that existing cash will be used to buy down borrowing needs only to the extent there is matching contributions from both CCSD#1 and TCSD (i.e., an initial cap of the $26.4m, or $13.2m each). CCSD#1 cash reserves more than this cap are retained for future rate zone 2 capital project funding support until they are exhausted.

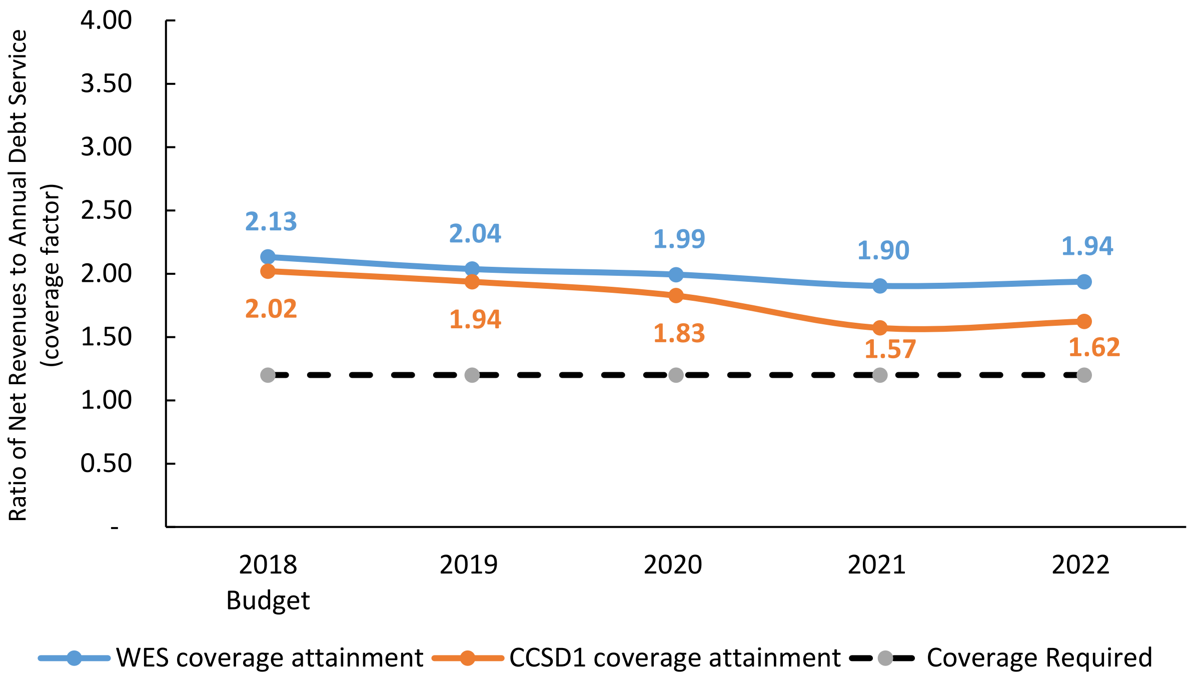
The forecasted coverage attainment of WES and CCSD#1 under the pooled resources case (with and without SDCs, respectively) is shown below in Figures 5 and 6.

Figure 5 – Projected Net Revenue Covenant Compliance under the Pooled Resources Case including SDCs




The pooled resources case (with the benefit of SDCs) produces coverage attainment for WES and CCSD#1 that is less than the coverage attainment shown in the baseline case, and that makes sense. In the pooled resources case, we have now introduced the funding strategy for the five-year capital improvement plans for WES and CCSD#1 respectively. The funding of these capital plans necessitates the issuance of new long-term borrowings in future years which is a drag on coverage attainment. What we see in Figure 5 is the relative advantage WES has in producing superior coverage vs. CCSD#1 on a stand-alone basis in every year of the forecast.

Figure 6 – Projected Net Revenue Covenant Compliance with SDCs Excluded under the Pooled Resources Case

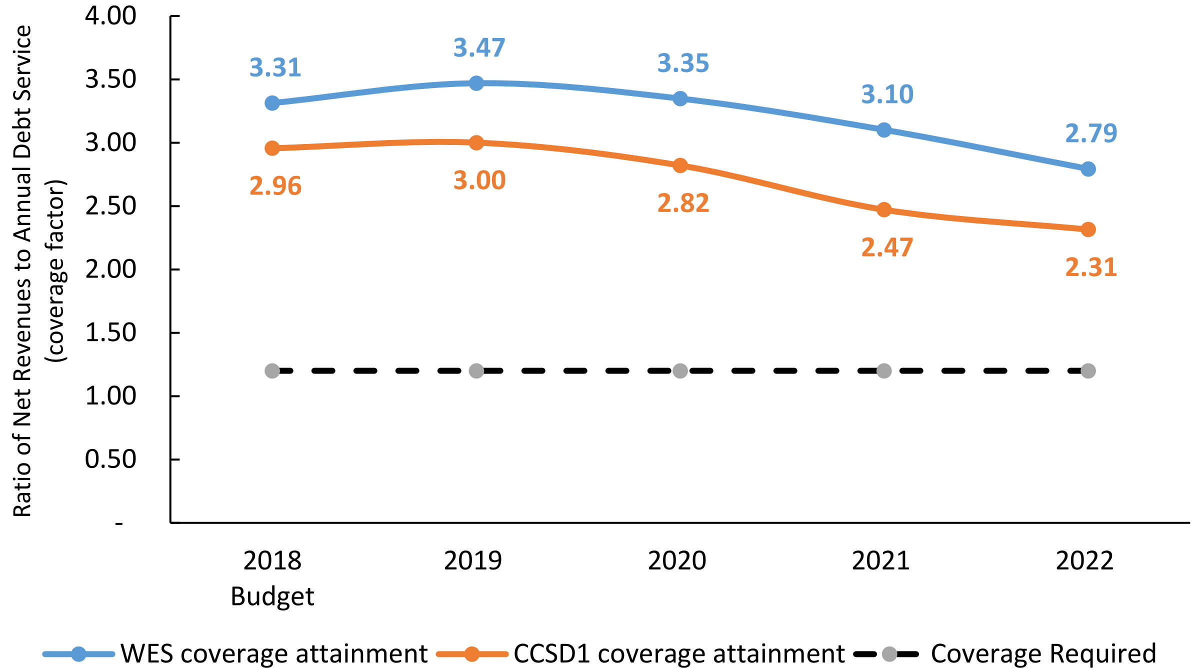



The data in Figure 6 clearly shows the WES economies of scale advantage over CCSD#1 when we strip out the benefit of SDCs in the coverage calculation. When SDCs are stripped out and each entity must embark on the funding of future capital improvements, WES produces a stable coverage attainment trend while CCSD#1's coverage attainment trend is eroding over time, but still above the minimum net revenue covenant threshold of 1.20.

***The CCSD#1 Premium Payment Case Results***

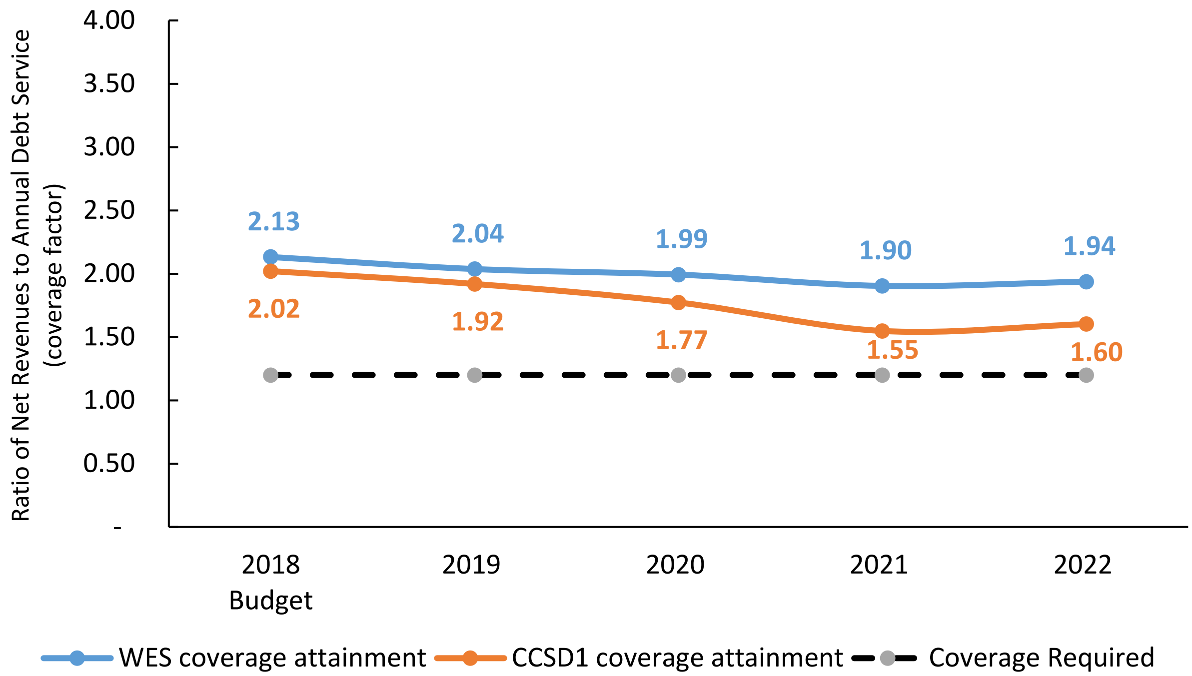
This case compares the WES pooled resources model to an independent CCSD#1 model but adds the caveat of CCSD#1 paying a premium to TCSD for hosting collocated facilities in the TCSD service area. As discussed earlier, CCSD#1 is expected to invest $29.3m at the Tri-City wastewater treatment plant through fiscal 2021-22, principally in the expanded joint solids handling project. At a premium rate of 15%, the total hosting premium paid to TCSD by CCSD#1 amounts to $4.4m. The coverage factors that are achieved in this case are then compared to the coverage attainment of WES under the pooled resources case. The forecasted coverage attainment of WES and CCSD#1 under the CCSD#1 premium payment case (with and without SDCs, respectively) is shown below in Figures 7 and 8.

Figure 7 – Projected Net Revenue Covenant Compliance under the CCSD#1 Premium Payment Case including SDCs




In this case, the WES coverage attainment line shown in Figure 7 above is identical to the WES coverage attainment line for the pooled resources case (i.e. Figure 5). The CCSD#1 coverage attainment for this case is degraded vs. the CCSD#1 coverage attainment in the pooled resources case (i.e. the orange line shown in Figure 5) because of the premium CCSD#1 must pay to TCSD for the hosting of collocated facilities in the Tri-City service area. Under the WES pooled strategy, no such premium would be paid.

Figure 8 – Projected Net Revenue Covenant Compliance with SDCs Excluded under the CCSD#1 Premium Payment Case




The data in Figure 8 is very similar to the data shown in Figure 6. Once again, Figure 8 clearly shows the WES economies of scale advantage over CCSD#1 when we strip out the benefit of SDCs in the coverage calculation. When SDCs are stripped out and each entity has to embark on the funding of future capital improvements, WES produces a stable coverage attainment trend while CCSD#1's coverage attainment trend is eroding over time, even more so in this case because CCSD#1 standing alone is also burdened with the responsibility of paying a premium to TCSD for hosting collocated facilities in the Tri-City service area.

***The Go Alone Case Results***

This is the most troubling case to model and will produce the most adverse impacts on CCSD#1 ratepayers and the owners of the CCSD#1 bonds. In this case, we assume the WES partnership does not exist, and future growth related CCSD#1 wastewater flows are diverted from the TCSD-City Plant. All future CCSD#1 treatment capacity is built at the Kellogg Plant and will require an entirely new, and insular service delivery model going forward.

This scenario was modeled in 2015 for the Regional Advisory Committee. The engineering estimate of the costs to expand the Kellogg Plant to treat the future flows of CCSD#1 was $155m at that time. It was also assumed that the Kellogg Plant would continue to operate during the expansion which was estimated to take five years to complete. The expansion consisted of retrofit and expansion of primary clarifiers, the addition of two and possibly more secondary clarifiers and anaerobic digesters, and a completely new biosolids handling, storage, and disposal system. These capital costs were in addition to the other capital costs that had been budgeted for CCSD#1 over that five-year forecast.

Even though future CCSD#1 flows were assumed to be diverted away from the TCSD-City Plant, there was still a need to expand that plant to add secondary digester capacity. In 2015, this cost was estimated to be $41.5m, and all this incremental cost would have to be funded from TCSD ratepayers. These capital costs were in addition to the other capital costs that had been budgeted for TCSD over that five-year forecast.

On October 8, 2015, the financial modeling results of this go alone scenario were presented to the Regional Advisory Committee. Itemized below are the forecasted capital costs and estimated funding requirements to each District if the go alone strategy was undertaken:[1]

| | Tri-City | CCSD No. 1 | Total |
|---|---|---|---|
| ***Each district moves forward alone*** | | | |
| 5 year CIP inflated | $ 54,524,626 | $ 212,306,411 | $ 266,831,037 |
| SDCs in support of construction | (4,134,271) | (23,441,773) | (27,576,044) |
| Fund balance in support of construction | (4,677,631) | (12,963,564) | (17,641,195) |
| Net capital financing requirement | $ 45,712,724 | $ 175,901,075 | $ 221,613,799 |
| | | | |
| Gross borrowings | $ 50,717,492 | $ 193,697,230 | $ 244,414,722 |
| Issuance cost (legal, underwriting, etc.) | (760,762) | (2,905,458) | (3,666,221) |
| Debt service reserve requirement | (4,244,006) | (14,890,696) | (19,134,702) |
| Net bond proceeds available for projects | $ 45,712,724 | $ 175,901,075 | $ 221,613,799 |
| | | | |
| New annual debt service by June 30, 2020 | $ 4,244,006 | $ 14,890,696 | $ 19,134,702 |
| Current fiscal year debt service (2015-16) | $ 56,193 | $ 7,721,325 | $ 7,777,518 |

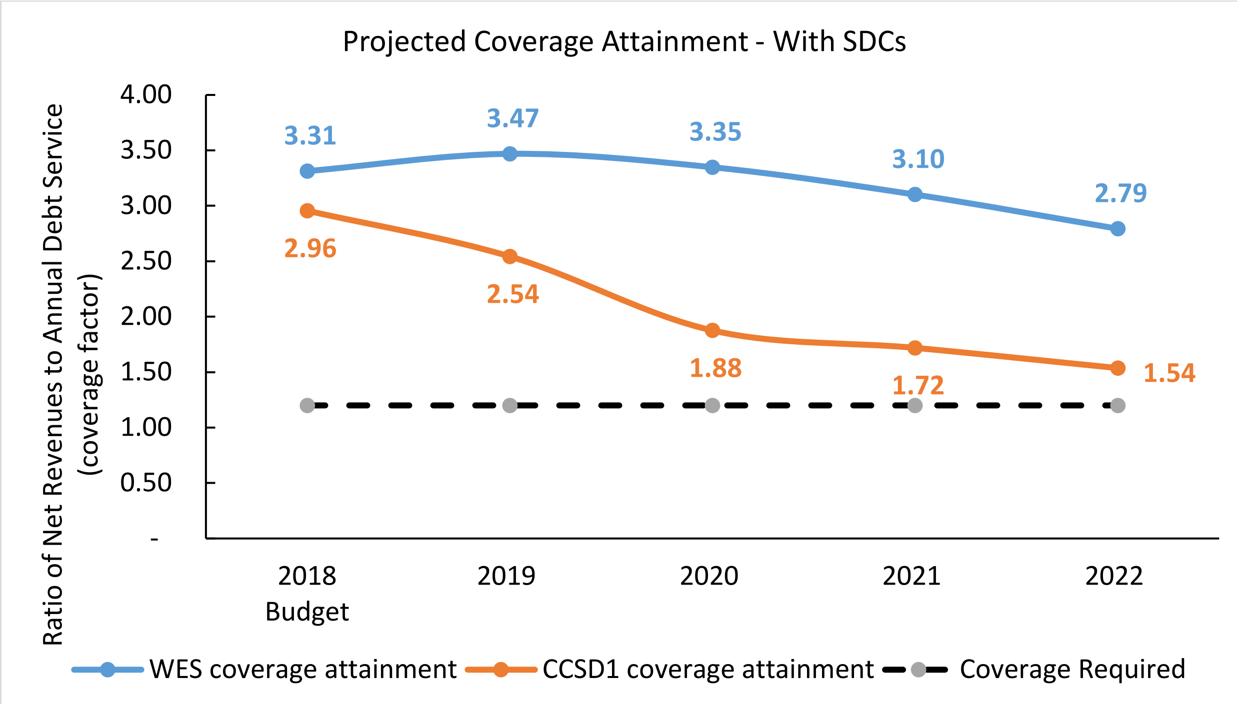
Due to the magnitude of the costs and resulting future borrowing needs for each service district, this go alone strategy was rejected for further consideration by the Regional Advisory Committee.

For this analysis, we have resurrected the go alone case for theoretical comparison purposes. This required the modeling of a new CCSD#1-specific five-year capital improvement plan that will be very expensive and require substantial new CCSD#1 borrowing that will degrade future coverage attainment and greatly exacerbate future rate increases.

We have completed the resurrected modeling of this case, and the coverage attainment results are shown in Figures 9 and 10.

[1] Please note, the data shown below was prepared in 2015 and contained estimated SDCs and fund balance in support of construction estimates at that time. In the Pooled Resources case description, we used SDC and fund balance data that was estimated as of July 1, 2017. The two data sets are different.

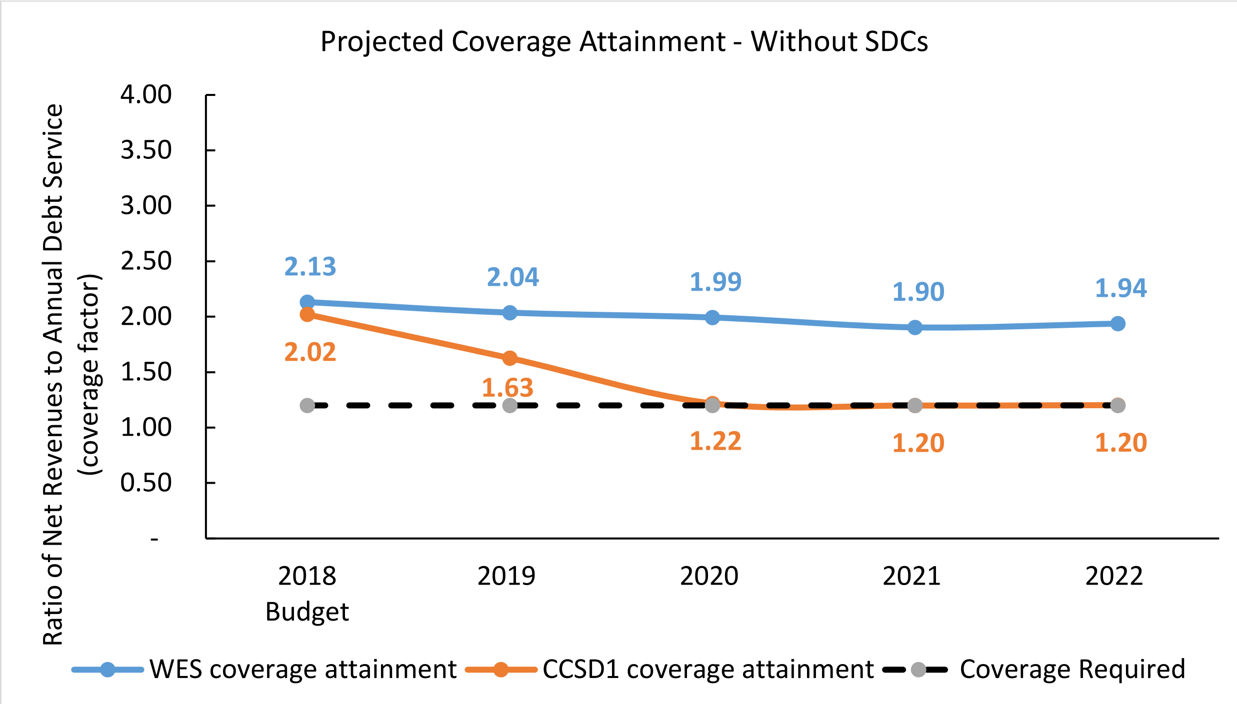
Figure 9 – Projected Net Revenue Covenant Compliance under the Go Alone Case including SDCs




The CCSD#1 coverage attainment data shown in Figure 9, even with the benefit of SDCs to bolster the calculations, paints a picture of rapid and sustained coverage degradation. Also, to achieve this degradation of coverage attainment, the Board would have to approve annual general wastewater rate increases of ~19% per year over the five-year forecast.

For sake of comparison, the coverage factors that are achieved in this case for CCSD#1 are compared to the coverage attainment of WES under the pooled resources case. We recognize the go alone sensitivity case explicitly assumes the dissolution of WES, but we felt some frame of reference would be helpful to you the reader.

Figure 10 – Projected Net Revenue Covenant Compliance with SDCs Excluded under the Go Alone Case




The Go Alone case reduces coverage attainment when SDCs are stripped out of the coverage calculations. As the data in Figure 10 shows, by as early as Fiscal 2019-20, coverage attainment dips down to the 1.20 attainment reference line. Keep in mind, these CCSD#1 coverage attainment values assume annual general rate increases of ~19% per year

## *Study Conclusions and Recommendations to the Board*

We have analyzed historical financial results for the Partners that comprise WES. We have also analyzed the five-year pro forma business plan WES has produced, along with three (3) sensitivity cases against the plan. In all cases, we find if WES were the issuer of the bonds, the owners of the bonds will not be materially adversely affected in terms of WES' ability to repay the historical and projected annual debt service on the bonds. As we have pointed out in our analysis, we believe the regional WES service delivery model will add financial strength to the bond owners' interests versus having CCSD#1 stand alone and be the issuer of the bonds. Therefore, we conclude that in our reasonable judgment the amendment does not materially and adversely affect the rights of the owners of the Outstanding Bonds.

We recommend the Board of County Commissioners adopt the proposed amended Master Bond Declaration to define WES as the issuer of the bonds and to expand the definition of the Sewer System to include all the comingled assets of the WES partnership that was formed on November 3, 2016 and expanded on May 18, 2017.

It has been our privilege to serve you and the customers of WES. If you have any questions concerning the content of this report or the analyses that were developed to support its content, please do not hesitate to contact us at your earliest convenience.

Very truly yours,

Steven J. Donovan
President

# AMENDED MASTER SEWER REVENUE BOND DECLARATION

## WATER ENVIRONMENT SERVICES

## CLACKAMAS COUNTY, OREGON

[_______, 2018]

## Table of Contents

**Page**

## AMENDED MASTER SEWER REVENUE BOND DECLARATION

### Section 1. Master Declaration

THIS AMENDED MASTER SEWER REVENUE BOND DECLARATION is executed as of [_______, 2018], by authorized representatives of both Clackamas County Service District No. 1 ("CCSD#1") and Water Environment Services.

### Section 2. Recitals

**2.1.** On September 15, 1994, the Board of County Commissioners of Clackamas County, Oregon, acting as the governing body of CCSD#1, adopted Order No. 94-1085 establishing the terms under which the CCSD#1 could issue obligations secured by the Net Revenues of its Sewer System.

**2.2.** On July 7, 2016, the Board of County Commissioners of Clackamas County, Oregon, acting as the governing body of CCSD#1, adopted Order No. 2016-71 authorizing a Master Sewer Revenue Bond Declaration to amend and replace the provisions of Order No. 94-1085 and to authorize CCSD#1's $83,250,000 Sewer Revenue Refunding Bonds, Series 2016. The Master Declaration was executed as of August 30, 2016 (the "2016 Declaration").

**2.3.** Section 13.1.7 of the 2016 Declaration and the comparable provision of Order No. 94-1085 allow CCSD#1 to amend the 2016 Declaration and the 1994 Order without the consent of any bondowners to make any change which, in the reasonable judgment of CCSD#1, does not materially and adversely affect the rights of the owners of any outstanding CCSD#1 bonds.

**2.4.** On November 3, 2016, an intergovernmental Partnership Agreement (the "Partnership Agreement") was entered into by CCSD#1 and the Tri-City Service District ("TCSD") creating a new municipal entity known as Water Environment Services ("WES").

**2.5.** On May 18, 2017, the Surface Water Management Agency of Clackamas County ("SWMACC") joined WES with the consent of CCSD#1 and TCSD.

**2.6.** As described in and supported by the documents attached to Order No. [___], entitled "In the Matter of a Board Order Adopting Findings and Amending the Master Sewer Revenue Bond Declaration of Clackamas County Service District No. 1," the governing body of CCSD#1 authorized the amendments to the 2016 Declaration that are in this Amended Master Declaration pursuant to Section 13.1.17 of the 2016 Declaration.

**2.7.** WES has been authorized to accept the obligations imposed on it by the Amended Master Declaration by Order No. [___] of WES, adopted by the governing body of WES on [this date], and WES has evidenced its acceptance of those obligations by executing this Amended Master Declaration.

**2.8.** This Amended Master Declaration Water Environment Services amends the 2016 Declaration to substitute WES for CCSD#1 as the "District," to define the "Sewer System" as the sanitary and storm sewer system of WES, to include the covenant in Section [10.8] regarding termination of WES and amendments to the IGA, and to include the transition compliance language in Section [13.5.]

**2.9.** This Amended Master Declaration describes the covenants of WES that apply to the Bonds that were governed by the 2016 Declaration, and to any future borrowings of WES that are secured on a parity with those Bonds.

## Section 3. Definitions

Capitalized terms used in this Master Declaration shall have the following meanings unless the context clearly requires use of a different meaning:

**3.1. "Annual Debt Service"** means the amount of principal and interest on Outstanding Bonds which is required to be paid in a Fiscal Year, calculated as follows:

(A) interest which is to be paid from Bond Proceeds shall be subtracted;

(B) District Payments to be made in the Fiscal Year under a Parity Derivative Product shall increase Annual Debt Service, and Reciprocal Payments to be received in the Fiscal Year under a Parity Derivative Product shall reduce Annual Debt Service;

(C) Bonds which are subject to scheduled, noncontingent redemption or tender shall be deemed to mature on the dates and in the amounts which are subject to mandatory redemption or tender, and only the amount scheduled to be outstanding on the final maturity date shall be treated as maturing on that date;

(D) Bonds which are subject to contingent redemption or tender shall be treated as maturing on their stated maturity dates;

(E) Interest subsidies shall be subtracted from the interest due on Interest Subsidy Bonds as provided in Section 6.4; and,

(F) Variable Rate Obligations shall be deemed to bear interest from each respective date of computation until their scheduled maturity date at their Estimated Average Interest Rate, calculated as of the date of computation.

**3.2. "Audit"** means the audit, if any, required by ORS 297.425, as it may be amended from time to time.

**3.3. "Auditor"** means a person authorized by the State Board of Accountancy to conduct municipal audits pursuant to ORS 297.670.

**3.4. "Base Period"** means any twelve consecutive months selected by the District out of the most recent twenty-four months preceding the delivery of a Series of Parity Obligations.

**3.5. "Board"** means the Board of WES, acting as the governing body of the District, or its successors.

**3.6. "Bond Counsel"** means Hawkins Delafield & Wood LLP or another law firm having knowledge and expertise in the field of municipal law and which offers opinions on municipal bonds which are generally accepted by purchasers of municipal bonds.

**3.7. "Bondowner"** or **"Owner"** means a registered owner of a Bond.

**3.8. “Bondowners Committee”** means that committee described in Section 13.

**3.9. “Bonds”** means the outstanding ~~Series 2002A Bonds,~~ Series 2009A Obligations, Series 2009B Obligations, Series 2010 Obligations, Series 2016 Bonds and any Parity Obligations.

**3.10. “BEO” or “Book-Entry-Only System”** means a system for clearance and settlement of securities transactions through electronic book-entry changes, which eliminates the need for physical movement of securities.

**3.11. “Business Day”** means any day except a Saturday, a Sunday, a legal holiday a day on which the offices of banks in Oregon or New York are authorized or required by law or executive order to remain closed, or a day on which the New York Stock Exchange is closed.

**3.12. “Code”** means the Internal Revenue Code of 1986, as amended, including the rules and regulations promulgated thereunder.

**3.13. “Construction Account”** means the Sewer Construction Account in the Sewer Enterprise Fund, which the District has created to hold proceeds of Bonds and other revenues related to capital improvements.

**3.14. “Credit Facility”** means a letter of credit, a municipal bond insurance policy, standby bond purchase agreement, or other credit enhancement device which is obtained by the District, which provides for payment in full of Bonds, and which is issued or provided by a Credit Provider.

**3.15. “Credit Provider”** means the person or entity that is: (i) obligated to make or guarantee payments under a Credit Facility; and (ii) whose long-term debt obligations or claims-paying ability (as appropriate) are rated, at the time the Credit Facility is issued, in one of the two highest rating categories, determined without regard to pluses, minuses or other degrees, by a Rating Agency which has issued a rating on Outstanding Bonds. Under rating systems in effect on the date of this Master Declaration, a rating in one of the two highest rating categories by a Rating Agency would be a rating in the “AA” category or better.

**3.16. “Depository”** or **“DTC”** means The Depository Trust Company or any other qualified securities depository designated by the District as its successor.

**3.17. “Derivative Product”** means a written contract between the District and a Reciprocal Payor under which the District is obligated to pay the District Payments in exchange for the Reciprocal Payor’s obligation to pay Reciprocal Payments; and which provides that the District is not required to fulfill its obligations under the contract if:

(A) the Reciprocal Payor fails to make any Reciprocal Payment; or

(B) the Reciprocal Payor fails to comply with its financial status covenants.

**3.18. “Direct Obligations”** means direct obligations of the United States, and any obligations the payment of which is fully and unconditionally guaranteed by the United States.

**3.19. “District”** means the WES, in Clackamas County, Oregon, an intergovernmental entity formed pursuant to ORS 190.010 and the other applicable provisions of ORS Chapter 190.

**3.20. "District Official"** means the District Executive Officer or Director.

**3.21. "District Payment"** means any scheduled payment required to be made by or on behalf of the District under a Derivative Product which is either fixed in amount or is determined according to a formula set forth in the Derivative Product.

**3.22. "Estimated Average Interest Rate"** is the rate at which Variable Rate Obligations are assumed to bear interest. Estimated Average Interest Rate shall be assumed to be equal to (1) if those Bonds were Outstanding during the 12 calendar months immediately preceding the date of calculation, an average of the interest rates per annum which were in effect, and (2) if those Bonds were not Outstanding during the 12 calendar months immediately preceding the date of calculation, (A) with respect to Tax Exempt Bonds, an average of the SIFMA Index during the 12 calendar months immediately preceding the date of calculation, (B) with respect to Bonds that are not Tax-Exempt Bonds, an average of an index determined by the District to be comparable to SIFMA for Bonds that are not Tax Exempt Bonds during the 12 calendar months immediately preceding the date of calculation, (C) with respect to Derivative Products with an index-based rate formula, the rate produced by applying that rate formula to an average of such index during the 12 calendar months immediately preceding the date of calculation, or (D) with respect to Derivative Products that do not have an index-based rate, the rate described in (A) above if the related Bonds are Tax-Exempt Bonds or in (B) above if the related Bonds are taxable, all as specified in either, at the election of the District, a certificate of the District Official or a written statement from an investment banking or financial advisory firm.

**3.23. "Event of Default"** means any event specified in Section 11.2 of this Master Declaration.

**3.24. "First Reserve Subaccount"** means the subaccount of the Revenue Bond Reserve Account that secures the ~~Series 2002A Bonds,~~ Series 2009A Obligations, Series 2009B Obligations, Series 2010 Obligations, Series 2016 Bonds and any subsequent Series of Bonds to which the amounts in the First Reserve Subaccount are pledged and is described in Section 5.4.

**3.25. "First Reserve Subaccount Reserve Requirement"** means an amount equal to the Maximum Annual Debt Service on all Outstanding Bonds that are secured by the First Reserve Subaccount or the amount described in the next sentence. If at the time of issuance of a Series of Bonds secured by the First Reserve Subaccount, the amount required to be added to the First Reserve Subaccount to make the balance in the First Reserve Subaccount equal to Maximum Annual Debt Service on all Outstanding Bonds that are secured by the First Reserve Subaccount exceeds the Tax Maximum calculated with respect to such Series of Bonds, then the First Reserve Subaccount Reserve Requirement shall mean the First Reserve Subaccount Reserve Requirement in effect immediately prior to the issuance of that Series of Bonds, plus the Tax Maximum calculated with respect to that Series of Bonds. ~~On the date of Closing of the Series 2016 Bonds, the~~As of June 2018 the First Reserve Subaccount Reserve Requirement is $6,907,081, which is equal to Maximum Annual Debt Service on all Outstanding Bonds that are secured by the First Reserve Subaccount, and is funded with ~~a Reserve Credit Facility associated with the Series 2002A Bonds and~~ the 2016 Bonds Reserve Credit Facility.

**3.26. "First Reserve Subaccount Valuation Date"** means the first Business Day of each Fiscal Year, each date on which amounts are withdrawn from the First Reserve Subaccount, and each Closing date for a Series of Bonds that is secured by the First Reserve Subaccount.

**3.27. "Fiscal Year"** means the fiscal year of the District as established by Oregon Law. At the time this Master Declaration is adopted, the fiscal year of the District begins on July 1 of each calendar year and ends on the next succeeding June 30.

**3.28. "Fitch"** means Fitch Ratings, its successors and assigns.

**3.29. "Gross Revenues"** means all revenues, fees and charges and other revenues resulting from the operation of the Sewer System, including systems development charges, revenues from product sales and interest earnings on Gross Revenues in the Sewer Enterprise Fund. However, the term "Gross Revenues" does not include:

(A) the interest income or other earnings derived from the investment of the Rebate Fund or any escrow fund established for the defeasance or refunding of outstanding indebtedness of the District;

(B) any gifts, grants, donations or other moneys received by the District from any State or Federal District or other person if such moneys are restricted by law or the grantor to uses inconsistent with the payment of Bonds;

(C) the proceeds of any borrowing;

(D) the proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues);

(E) the proceeds of any casualty insurance which the District intends to utilize for repair or replacement of the Sewer System;

(F) the proceeds derived from the sales of assets pursuant to Section 10.7 of this Master Declaration;

(G) any ad valorem or other taxes imposed by the District (except charges or payments for Sewer System services which become "taxes" within the meaning of Article XI, Section 11b of the Oregon Constitution only because they are imposed on property);

(H) any income, fees, charges, receipts, profits or other moneys derived by the District from its ownership or operation of any Separate Utility System; and

(I) Any federal interest subsidies the District receives for Interest Subsidy Bonds.

**3.30. "IGA"** means the document dated as of November 3, 2016 that is titled "An Intergovernmental Partnership Agreement forming the Water Environment Services Partnership" that was approved by CCSD#1 and TCSD and SWMACC, as it has been and may be amended in the future.

**3.31. "Interest Payment Date"** means any date on which Bond interest is scheduled to be paid, and any date on which Bonds are called for redemption.

**3.32. "Interest Subsidy Bonds"** means Bonds for which the District is eligible to receive federal interest rate subsidies that are similar to the interest subsidies that were available for Build America Bonds.

**3.33. “Master Declaration”** means this Amended Master Sewer Revenue Bond Declaration, including any future amendments made in compliance with the Master Declaration.

**3.34. “Maximum Annual Debt Service”** means the greatest Annual Debt Service, calculated on all Bonds which are Outstanding on the date of calculation.

**3.35. “Moody’s”** means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns.

**3.36. “Net Revenues”** means the Gross Revenues less the Operating Expenses.

**3.37. “Operating Expenses”** means all costs which are properly treated as expenses of operating and maintaining the Sewer System under generally accepted accounting principles or rules of accounting applicable to municipal enterprises similar to the Sewer System. However, Operating Expenses do not include:

(A) any rebates or penalties paid from Gross Revenues under Section 148 of the Code;

(B) payments of judgments against the District and payments for the settlement of litigation;

(C) depreciation and amortization of property values or losses, other non-cash expenses and all amounts treated for accounting purposes as payments for capital expenditures;

(D) debt service payments;

(E) the expenses of owning, operating or maintaining any Separate Utility System;

(F) extraordinary non-recurring expenses of the Sewer System; or

(G) franchise fees and similar charges imposed by the District or Clackamas County on the Sewer System or its operations.

**3.38. “ORS”** means the Oregon Revised Statutes.

**3.39. “Outstanding”** refers to all Bonds authorized and delivered pursuant to this Master Declaration and any Supplemental Declaration except Bonds theretofore canceled or defeased pursuant to Section 14 of this Master Declaration, and Bonds which have matured and not been presented for payment (provided sufficient funds to pay those Bonds have been transferred to the Paying Agent).

**3.40. “Parity Derivative Product”** means a Derivative Product which qualifies as a Parity Obligation in accordance with Section 7.5.

**3.41. “Parity Obligation”** means any obligation payable from the Net Revenues which is issued in accordance with Section 7. , and includes any Parity Derivative Product.

**3.42. “Payment Date”** means a Principal Payment Date or an Interest Payment Date.

**3.43. “Permitted Investments”** means any investments which the District is permitted to make under the laws of the State.

**3.44. “Principal Payment Date”** means any date on which any Bonds are scheduled to be retired, whether by virtue of their maturity or by mandatory sinking fund redemption prior to maturity, and the redemption date of any Bonds which have been called for redemption.

**3.45. “Project”** means any lawful purpose for which Gross Revenues may be spent.

**3.46. “Qualified Consultant”** means an independent engineer, an independent auditor, an independent municipal advisor, or similar independent professional consultant of recognized standing and having experience and expertise in the area for which such person or firm is retained by the District for purposes of performing activities specified in this Master Declaration or any Supplemental Declaration.

**3.47. “Rate Stabilization Account”** means the Rate Stabilization Account of the Sewer Enterprise Fund established which is described in Section 5.6.

**3.48. “Rating Agency”** means Fitch, Moody’s, S&P, or any other nationally recognized financial rating agency which has rated Outstanding Bonds or a Credit Facility at the request of the District.

**3.49. “Reciprocal Payment”** means scheduled payment to be made to, or for the benefit of the District under a Derivative Product by or on behalf of the Reciprocal Payor, which is either fixed in amount or is determined according to a formula set forth in the Derivative Product.

**3.50. “Reciprocal Payor”** means a party to a Derivative Product (other than the District) that is obligated to make one or more Reciprocal Payments thereunder, and which has at least an investment grade rating from a Rating Agency for its obligations under the Derivative Product.

**3.51. “Record Date”** for the ~~Series 2002A Bonds,~~ the Series 2009A Obligations, the Series 2009B Obligations, the Series 2010 Obligations, and the Series 2016 Bonds means the fifteenth (15th) day of the month preceding the month in which each Interest Payment Date occurs, whether or not a Business Day.

**3.52. “Registrar” or “Paying Agent”** means the paying agent and registrar designated by the District.

**3.53. “Reserve Credit Facility”** means any arrangement in which the District pays a fee in exchange for an agreement of a Credit Provider to advance money to the District in the future that the District will use to satisfy a reserve requirement for a subaccount in the Revenue Bond Reserve Account. “Reserve Credit Facility” does not include guaranteed investment contracts, master repurchase agreements and similar Permitted Investments.

**3.54. “Reserve Credit Facility Rating”** means a long-term debt, financial strength or claims paying ability rating assigned by a Rating Agency to a Reserve Credit Provider.

**3.55. “Reserve Credit Provider”** means a person or entity that is obligated to make payments under a Reserve Credit Facility, or any person or entity that has assumed, guaranteed, reinsured or otherwise become obligated to perform a Reserve Credit Provider’s obligations to the District under a Reserve Credit Facility.

**3.56. “Revenue Bond Account”** means the Revenue Bond Account described in Section 5.2 of this Master Declaration.

**3.57. "Revenue Bond Reserve Account"** means the Revenue Bond Reserve Account in the Sewer Enterprise Fund described in Section 5.3 of this Master Declaration.

**3.58. "S&P"** means S&P Global Ratings, a corporation organized and existing under the laws of the State of New York, its successors and their assigns.

**3.59. "Separate Utility System"** means any utility property which is declared by the Board to constitute a system which is distinct from the Sewer System in accordance with Section 9. On the date of this Master Declaration the District does not have any Separate Utility Systems.

**3.60. "Series"** refers to all Bonds or Parity Obligations authorized by a single Order and delivered in exchange for payment on the same date, regardless of variations in maturity, interest rate or other provisions, unless the closing documents for the Series provide otherwise.

~~**3.61. "Series 2002A Bonds"** means the District's Sewer System Revenue Bonds, Series 2002A, issued pursuant to this Master Declaration.~~

~~**3.62.**~~ **3.61. "Series 2009A Obligations"** means the District's Sewer System Revenue Obligations, Series 2009A, issued pursuant to this Master Declaration.

~~**3.63.**~~ **3.62. "Series 2009B Obligations"** means the District's Sewer System Revenue Obligations, Series 2009B, issued pursuant to this Master Declaration.

~~**3.64.**~~ **3.63. "Series 2010 Obligations"** means the District's Sewer System Revenue Obligations, Series 2010, issued pursuant to this Master Declaration.

~~**3.65.**~~ **3.64. "Series 2016 Bonds"** means the District's Sewer Revenue Refunding Bonds, Series 2016, issued pursuant to this Master Declaration.

~~**3.66.**~~ **3.65. "Sewer Enterprise Fund"** means the collection of funds and accounts used by the District to account for the Gross Revenues and the proceeds of Bonds.

~~**3.67.**~~ **3.66. "Sewer System"** means all real and personal property now or hereafter owned, operated, used, or maintained by the District for sanitary sewage disposal, sanitary sewage purification, surface water management, stormwater drainage and similar services within or without the corporate limits of the District. The Sewer System does not include any Separate Utility System.

~~**3.68.**~~ **3.67. "Stabilized Net Revenues"** means the Net Revenues for a period less deposits to the Rate Stabilization Account for the period, and plus withdrawals from the Rate Stabilization Account for the period.

~~**3.69.**~~ **3.68. "State"** means the State of Oregon.

~~**3.70.**~~ **3.69. "Subordinate Obligations"** means obligations having a lien on the Net Revenues that is subordinate and inferior to the lien of the Bonds. Restrictions on Subordinate Obligations are described in Section 8. On the date of this Master Declaration only one Subordinate Obligation is outstanding; it is described in Section 5.5.

~~3.71.~~ 3.70. **"Subordinate Obligations Account"** means the Subordinate Obligations Account of the Sewer Enterprise Fund which is described in Section 5.5.

~~3.72.~~ 3.71. **"Supplemental Declaration"** means any declaration which supplements or amends this Master Declaration that is entered into by the District in compliance with Section 13.

~~3.73.~~ 3.72. **"Tax Maximum"** means for any Series of Bonds, the lesser of the greatest amount of principal, interest and premium, if any, scheduled to be paid in any Fiscal Year on such Series; 125% of average amount of principal, interest and premium, if any, required to be paid on such Series during all Fiscal Years in which such Series will be Outstanding, calculated as of the date of issuance of such Series*;* or, ten percent of the proceeds of such Series, as "proceeds" is defined for purposes of Section 148(d) of the Code.

~~3.74.~~ 3.73. **"Valuation Date"** means July 1 of each year (or the first Business Day thereafter, if July 1 is not a Business Day), and the Business Day following any transfer from the Revenue Bond Reserve Account to the Revenue Bond Account pursuant to Section 5.4.1 or any similar subsection related to a subsequent subaccount in the Revenue Bond Reserve Account.

~~3.75.~~ 3.74. **"Variable Rate Obligations"** means any Bonds issued with a variable adjustable, convertible, or other similar interest rate which changes during the term of the Bonds, and any District Payments or Reciprocal Payments under a Parity Derivative Product for which the interest portion of the payment is based on a rate that changes during the term of the Derivative Product.

## Section 4. Deposit, Pledge and Use of Gross Revenues

**4.1. Deposit of Gross Revenues.** Commencing [date], all Gross Revenues shall be deposited when received in accounts and invested in securities which are not subject to the prior lien or claim of any person. All Gross Revenues shall be credited to the Sewer Enterprise Fund, and shall be used only as described in this Section as long as any Bonds remain Outstanding. Gross Revenues in the Sewer Enterprise Fund shall he used on or before the following dates for the following purposes in the following order of priority:

4.1.1. At any time to pay Operating Expenses which are then due.

4.1.2. Three Business Days prior to each Payment Date, the District shall credit Net Revenues to the Revenue Bond Account in an amount sufficient (with amounts available in the Revenue Bond Account) to pay in full all Bond principal, interest and premium, if any, which is due to be paid on that Payment Date.

4.1.3. On the first day of each month following a Valuation Date on which the balance in a subaccount of the Revenue Bond Reserve Account is determined to be less than its Reserve Requirement, the District shall credit to that subaccount the amount that is required to replenish that subaccount pursuant to Section 5.3.1.4 Section 5.4.7 sets the replenishment requirements for the First Reserve Subaccount.

4.1.4. On the day on which any rebates or penalties for Bonds are due to be paid to the United States pursuant to Section 148 of the Code, the District shall pay the amounts due from the Net Revenues.

4.1.5. On the dates specified in any proceedings authorizing Subordinate Obligations the District shall credit to the Subordinate Obligations Account the Net Revenues required by those proceedings.

4.1.6. On any date, the District may credit Net Revenues to the Rate Stabilization Account, apply Net Revenues to any franchise fees and similar charges imposed by the District or Clackamas County on the Sewer System or its operations, or spend Net Revenues for any other lawful purpose, but only if all credits and payments having a higher priority under this Section have been made.

**4.2. Pledge of Net Revenues.** The District hereby pledges the Net Revenues and any federal interest subsidies the District receives for Interest Subsidy Bonds to payment of principal of, premium (if any) and interest on all Bonds, and as security for such Bonds. In addition, the District hereby pledges the Net Revenues available for transfer to the Revenue Bond Reserve Account to pay amounts due under any Reserve Credit Facility. Pursuant to ORS 287A.310, these pledges of the Net Revenues hereby made by the District shall be valid and binding from the time of the adoption of this Master Declaration. The Net Revenues so pledged and hereafter received by the District shall immediately be subject to the lien of such pledge without any physical delivery or further act, and the lien of the pledge shall be superior to all other claims and liens whatsoever.

## Section 5. Bond Funds and Accounts

**5.1. Required Accounts.** So long as Bonds are Outstanding, the District shall maintain the Revenue Bond Account, the Revenue Bond Reserve Account, and the Subordinate Obligations Account as discrete accounts in the Sewer Enterprise Fund.

**5.2. Revenue Bond Account.** The Revenue Bond Account shall be held and maintained by the District, and amounts credited to the Revenue Bond Account shall be deposited in accounts and invested in securities which are not subject to the prior lien or claim of any person. Until all Bonds are paid or defeased, amounts in the Revenue Bond Account shall be used only to pay Bonds. The District shall transfer sufficient amounts from the Revenue Bond Account to the Registrar in time to permit the Registrar to pay all Bond principal, interest and, premium (if any) when due in accordance with the Bonds. Amounts in the Revenue Bond Account shall be invested only in Permitted Investments. Earnings on the Revenue Bond Account shall be credited to the Revenue Bond Account.

**5.3. Revenue Bond Reserve Account**.

5.3.1. The Revenue Bond Reserve Account shall be held by the District and the District may create subaccounts in the Revenue Bond Reserve Account to secure Bonds. When each subaccount is created, the District shall determine whether the subaccount will secure one or more Series of Bonds. If the District creates a subaccount in the Revenue

Bond Reserve Account, the District shall, when it issues the first Series of Bonds that is secured by that subaccount:

5.3.1.1. establish the Reserve Requirement for that subaccount and pledge amounts credited to that subaccount to pay the Bonds that are secured by that subaccount;

5.3.1.2. determine if the Reserve Requirement for that subaccount may be funded with a Reserve Credit Facility and the requirements for such Reserve Credit Facility;

5.3.1.3. Establish the valuation requirements for that subaccount; and,

5.3.1.4. Establish the replenishment requirements for that subaccount.

5.3.2. The District shall not create any subaccounts in the Revenue Bond Reserve Account for any purpose except securing Bonds in accordance with this Master Declaration.

**5.4. The First Reserve Subaccount and the First Reserve Subaccount Reserve Requirement**.

5.4.1. The First Reserve Subaccount is hereby created in the Revenue Bond Reserve Account. The First Reserve Subaccount shall secure only the ~~Series 2002A Bonds,~~ Series 2009A Obligations, Series 2009B Obligations, Series 2010 Obligations, Series 2016 Bonds and any subsequent Series of Bonds to which the amounts in the First Reserve Subaccount are pledged. Except as specifically provided in this Section 5.4, amounts credited to the First Reserve Subaccount shall be used only to pay principal, interest and premium, if any, on any Series of Bonds that are secured by the First Reserve Subaccount, and only if amounts in the Revenue Bond Account are not sufficient to make those payments.

5.4.2. The District hereby irrevocably pledges the amounts that are credited to the First Reserve Subaccount to pay the ~~Series 2002A Bonds,~~ Series 2009A Obligations, Series 2009B Obligations, Series 2010 Obligations, Series 2016 Bonds. Pursuant to ORS 287A.310, this pledge shall be valid and binding from the Closing date of the Series 2016 Bonds. The amounts so pledged and hereafter received by the District shall immediately be subject to the lien of this pledge without any physical delivery or further act, and the lien of this pledge shall be superior to all other claims and liens whatsoever to the fullest extent permitted by ORS 287A.310.

5.4.3. At Closing of the Series 2016 Bonds the District deposited into the First Reserve Subaccount an amount equal to the First Reserve Subaccount Reserve Requirement. The deposit was permitted to be made from Net Revenues, from Series 2016 Bond proceeds, from other amounts available to the District, or by crediting a Reserve Credit Facility to the First Reserve Subaccount. If the District elects to secure a Series of Parity Obligations with the First Reserve Subaccount, when the District issues that Series the District shall deposit an amount in the First Reserve Subaccount that is sufficient to make the balance in the First Reserve Subaccount at least equal to the First Reserve Subaccount Reserve Requirement, calculated with the Series of Parity Obligations treated as Outstanding.

5.4.4. ~~At Closing of the 2016 Bonds, the~~As of June 2018 the First Reserve Subaccount Reserve Requirement was $6,907,081, which was equal to Maximum Annual Debt Service on all Outstanding Bonds that are secured by the First Reserve Subaccount, and was funded with ~~a Reserve Credit Facility associated with the Series 2002A Bonds and~~ the 2016 Bonds Reserve Credit Facility.

5.4.5. The District covenants to maintain a balance in the First Reserve Subaccount which is equal to the First Reserve Subaccount Reserve Requirement, but solely from deposits of Net Revenues pursuant to Section 4.1.3, from the Closing deposit pursuant to Section 18.5.1.1, and similar Closing deposits for any subsequent Series of Bonds secured by the First Reserve Subaccount. However, the District reserves the right to make deposits to the First Reserve Subaccount from other sources.

5.4.6. The District shall value the First Reserve Subaccount on each First Reserve Subaccount Valuation Date. The value of the First Reserve Subaccount shall be equal to the sum of the values of the Permitted Investments credited to the First Reserve Subaccount, calculated as provided in Section 5.4.12, plus the value of any Reserve Credit Facilities for the First Reserve Subaccount, calculated as provided in Section 5.4.10.

5.4.7. If the balance in the First Reserve Subaccount on a First Reserve Subaccount Valuation Date is less than the First Reserve Subaccount Reserve Requirement, the District shall begin making transfers of Net Revenues to the First Reserve Subaccount in accordance with Section 4.1.3.

5.4.7.1. If the deficiency results from a transfer from the First Reserve Subaccount or from the loss of value of Permitted Investments credited to the First Reserve Subaccount, each transfer required under Section 4.1.3 for the First Reserve Subaccount shall: 1) be equal to at least 1/12 of the deficiency discovered on the first First Reserve Subaccount Valuation Date on which the balance in the First Reserve Subaccount is less than the First Reserve Subaccount Requirement and 2) continue until the balance in the First Reserve Subaccount is equal to the First Reserve Subaccount Reserve Requirement.

5.4.7.2. If the deficiency results from a loss or withdrawal of all Reserve Credit Facility Ratings, each transfer required under Section 4.1.3 for the First Reserve Subaccount shall: 1) be equal to at least 1/60 of the deficiency discovered on the first First Reserve Subaccount Valuation Date on which the balance in the First Reserve Subaccount is less than the First Reserve Subaccount Requirement and 2) continue until the balance in the First Reserve Subaccount is equal to the First Reserve Subaccount Reserve Requirement.

5.4.8. If the balance in the First Reserve Subaccount on a First Reserve Subaccount Valuation Date is greater than the First Reserve Subaccount Reserve Requirement, including the calculations required by Section 6.4.3, the District may transfer the excess to the Revenue Bond Account. In addition the District may use the excess for any other purpose if the District obtains an opinion of Bond Counsel stating that the use of the excess for that purpose will not cause interest on any Bonds to become includable in gross income under the Code.

5.4.9. Earnings on the First Reserve Subaccount shall be credited to that subaccount whenever the balance in that subaccount is less than the First Reserve Subaccount Reserve Requirement. Otherwise, earnings shall be credited to the Revenue Bond Account.

5.4.10. Reserve Credit Facilities credited to the First Reserve Subaccount shall be valued on each First Reserve Subaccount Valuation Date in the following manner:

5.4.10.1. A Reserve Credit Facility shall be valued at the amount available to be drawn on it while any Rating Agency has a Reserve Credit Facility Rating in effect for a Reserve Credit Provider that is in one of the two highest rating categories, determined without regard to pluses, minuses or other degrees. Under rating systems in effect on the date of this Master Declaration, a long-term debt rating in one of the two highest rating categories by a Rating Agency would be a rating in the "AA" or "Aa" category or better.

5.4.10.2. A Reserve Credit Facility shall have no value when no Rating Agency has a Reserve Credit Facility Rating in effect for a Reserve Credit Provider that is in one of the two highest rating categories, determined without regard to pluses, minuses or other degrees.

5.4.11. Moneys in the First Reserve Subaccount may be invested only in Permitted Investments that mature no later than the final maturity date of the Bonds that are secured by the First Reserve Subaccount, and to acquire Reserve Credit Facilities.

5.4.12. Permitted Investments in the First Reserve Subaccount shall be valued on each First Reserve Subaccount Valuation Date in the following manner:

5.4.12.1. Demand deposits, deposits in the Oregon Short Term Fund and other investments which mature in two years or less after the First Reserve Subaccount Valuation Date shall be valued at their face amount, plus accrued interest;

5.4.12.2. Investments which mature more than two years after the First Reserve Subaccount Valuation Date and for which bid and asked prices are published on a regular basis in the Wall Street Journal (or, if not there, then in the New York Times) shall be valued at the average of their most recently published bid and asked prices;

5.4.12.3. Investments which mature more than two years after the First Reserve Subaccount Valuation Date and for which the bid and asked prices are not published on a regular basis in the Wall Street Journal or the New York Times shall be valued at the average bid price quoted by any two nationally recognized government securities dealers (selected by the District in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

5.4.12.4. Certificates of deposit and bankers acceptances which mature more than two years after the First Reserve Subaccount Valuation Date shall be valued at their face amount, plus accrued interest; and

5.4.12.5. Any investment which is not specified above and which matures more than two years after the First Reserve Subaccount Valuation Date shall be valued at its fair market value as reasonably estimated by the District.

5.4.12.6. Any investment which is not specified above and which matures more than two years after the First Reserve Subaccount Valuation Date shall be valued at its fair market value as reasonably estimated by the District.

5.4.13. Withdrawals from the First Reserve Subaccount shall be made in the following order of priority:

5.4.13.1. ***First***, from any cash on deposit in the First Reserve Subaccount; and

5.4.13.2. ***Second***, from the liquidation proceeds of any Permitted Investments on deposit in such First Reserve Subaccount; and,

5.4.13.3. ***Third,*** from amounts drawn on Reserve Credit Facilities in the First Reserve Subaccount.

5.4.14. All amounts on deposit in the First Reserve Subaccount (other than amounts attributable to Reserve Credit Facilities) may be applied to the final payment (whether at maturity or by prior redemption) of the last remaining Series of Bonds secured by the First Reserve Subaccount. Amounts so applied shall be credited against the amounts the District is required to transfer into the Revenue Bond Account under Section 4.1.2.

5.4.15. Amounts in the First Reserve Subaccount (other than amounts attributable to Reserve Credit Facilities) may be transferred into escrow to defease Bonds secured by the First Reserve Subaccount, but only if the balance remaining in the First Reserve Subaccount after the transfer is at least equal to the First Reserve Subaccount Reserve Requirement calculated based on the Bonds that are secured by the First Reserve Subaccount which remain Outstanding after the defeasance.

**5.5. Subordinate Obligations Account.** The District has previously executed a Clean Water State Revolving Fund Loan Agreement No. R06224 outstanding in an approximate amount of $[1,752,447], which constitutes a Subordinate Obligation. So long as any Subordinate Obligations are outstanding, the District shall maintain the Subordinate Obligations Account. The Subordinate Obligations Account may be divided into subaccounts, and the District may establish priorities for funding the subaccounts in the Subordinate Obligations Account. Net Revenues shall be credited to the Subordinate Obligations Account only as permitted by Section 4.1.5. Earnings on the Subordinate Obligations Account shall be credited as provided in the proceedings authorizing the Subordinate Obligations.

**5.6. Rate Stabilization Account.** The Rate Stabilization Account is hereby created within the Sewer Enterprise Fund. The Rate Stabilization Account shall be held and maintained by the District, and amounts credited to the Rate Stabilization Account shall be deposited in accounts and invested in securities which are not subject to the prior lien or claim of any person. Net Revenues may be credited to the Rate Stabilization Account at the option of the District as permitted by Section 4.1.6. Money credited to the Rate Stabilization Account may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. Amounts withdrawn from the Rate Stabilization Account increase Stabilized Net Revenues for the Fiscal Year in which they are withdrawn, and amounts credited to the Rate Stabilization Account reduce Stabilized Net Revenues for the Fiscal year in which they are credited. Credits to and withdrawals from the Rate Stabilization Account that occur within ninety days after the end of a Fiscal Year may be treated as occurring in the most recently ended Fiscal Year. Earnings on the Rate Stabilization Account shall be credited to the Sewer Enterprise Fund.

## Section 6. Rate Covenant

**6.1. General Covenant.** The District covenants for the benefit of the Owners that it will establish and maintain rates and charges in connection with the ownership and operation of the Sewer System which are sufficient to permit the District to pay all Operating Expenses and all lawful charges against the Net Revenues, to remain in compliance with its duties under this Master Declaration and any Supplemental Declaration, and to make all transfers required by this Master Declaration to the Revenue Bond Account, the Revenue Bond Reserve Account, and the Subordinate Obligations Account.

**6.2. Net Revenue Covenant.** The District covenants for the benefit of the Owners of all Bonds that it shall impose fees, rates and charges in connection with the ownership and operation of the Sewer System which, when combined with other Gross Revenues, are adequate:

6.2.1. To produce Net Revenues in each fiscal Year at least equal to one hundred ten percent (110.00%) of Annual Debt Service due in that Fiscal Year; and

6.2.2. To produce Stabilized Net Revenues each Fiscal Year at least equal to one hundred twenty percent (120.00%) of Annual Debt Service due in that Fiscal Year.

**6.3. Compliance Report**. Not later than ninety days after the end of each Fiscal Year the District shall file a certified report with the District Official which demonstrates whether the District has complied with Section 6.2.1 and Section 6.2.2 during that Fiscal Year. If the report demonstrates that the District has not complied with Section 6.2.1 or Section 6.2.2 during that Fiscal Year, it shall not constitute an Event of Default if:

6.3.1. within one hundred twenty days after the end of the Fiscal Year, the District engages the services of a Qualified Consultant; and,

6.3.2. within one hundred eighty days after the end of the Fiscal Year, the Qualified Consultant recommends a schedule of fees, rates and charges or other actions which the Qualified Consultant reasonably projects will permit the District to comply with Section 6.2.1 and Section 6.2.2 for the remainder of the current Fiscal Year the next Fiscal Year; and,

6.3.3. within two hundred seventy days after the end of the Fiscal Year the District implements the recommendations of the Qualified Consultant.

**6.4. Interest Subsidy Bonds.** The amounts assumed to be paid on Interest Subsidy Bonds shall be calculated as follows:

6.4.1. When calculating Annual Debt Service for the rate covenant in Section 6.2, the District shall subtract from interest to be paid on Interest Subsidy Bonds the federal interest subsidies on Interest Subsidy Bonds that the District reasonably expects, at the beginning of the Fiscal Year, to receive during that Fiscal Year.

6.4.2. When calculating Annual Debt Service and Maximum Annual Debt Service for the tests for issuing Parity Obligations in Section 7. , the District shall subtract from the scheduled payments of interest on Interest Subsidy Bonds the amount of federal interest subsidies that the District would have received, had the Interest Subsidy Bonds that are included in the calculation of Annual Debt Service and Maximum Annual Debt Service been outstanding during the Base Period. For example, if 6.8% of federal interest subsidies were sequestered during the Base Period, the District shall subtract from the scheduled payments of interest on Interest Subsidy Bonds 93.2% of the interest subsidies that are scheduled to be paid on the Interest Subsidy Bonds that are included in the calculation of Annual Debt Service and Maximum Annual Debt Service.

6.4.3. When calculating the greatest amount of principal, interest and premium, if any, required to be paid in any Fiscal Year on a Series of Interest Subsidy Bonds to determine the Tax Maximum for Interest Subsidy Bonds that are secured by the First Reserve Subaccount, the District shall subtract from the scheduled payments of interest on Interest Subsidy Bonds the amount of federal interest subsidies that the District would have received, had the Interest Subsidy Bonds that are included in the calculation of Annual Debt Service and Maximum Annual Debt Service been outstanding during the Base Period. For example, if 6.8% of federal interest subsidies were sequestered during the Base Period, the District shall subtract from the scheduled payments of interest on Interest Subsidy Bonds 93.2% of the interest subsidies that are scheduled to be paid on the Interest Subsidy Bonds that are included in the calculation of Annual Debt Service and Maximum Annual Debt Service. If the District reduces the amount it holds in a subaccount of the Revenue Bond Reserve Account because Bonds secured by that subaccount have been paid, the District must take into account the amount of federal interest subsidies that the District would have received in the Fiscal Year before the reduction in determining the amount that the District must retain in the First Reserve Subaccount.

## Section 7. Parity Obligations

**7.1. Conditions for Issuance.** The District may issue Parity Obligations to provide funds for any purpose relating to the Sewer System, but only if:

7.1.1. No Event of Default under this Master Declaration or any Supplemental Declaration has occurred and is continuing.

7.1.2. At the time of the issuance of the Parity Obligations there is no deficiency in the Revenue Bond Account and the District has made all credits to the replenish subaccounts in the Revenue Bond Reserve Account that are required to have been made by that time pursuant to Section 4.1.3.

7.1.3. The covenant to impose fees, rates and charges in Section 6.2 of this Master Declaration shall apply to the proposed Parity Obligations, and any Supplemental Declaration authorizing the issuance of those Parity Obligations shall contain a recital of that covenant.

7.1.4. There shall have been filed with the District either:

7.1.4.1. a certificate of the District Official stating that Net Revenues (adjusted as provided in the second sentence of Section 7.2) for the Base Period were not less than one hundred twenty percent (120.00%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding; or,

7.1.4.2. a certificate or opinion of a Qualified Consultant stating:

7.1.4.2.1. the amount of the Adjusted Net Revenues computed as provided in Section 7.3 below; and,

7.1.4.2.2. that the amount shown in Section 7.1.4.2.1 is not less than one hundred twenty percent (120.00%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the Proposed Parity Obligations treated as Outstanding.

**7.2. Adjustment of Historical Revenues.** Net Revenues may be adjusted for purposes of Section 7.1.4.1 by adding any Net Revenues the District Official calculates the District would have had during the Base Period because of increases in Sewer System rates, fees and charges which took effect after the beginning of the Base Period. However, no adjustment shall be made for these increases unless they have been approved by the Board prior to delivery of the Proposed Parity Obligations and are required to take effect no later than sixty days after the delivery of the proposed Parity Obligations.

**7.3. Adjustment of Projected Revenues.** Adjusted Net Revenues for purposes of Section 7.1.4.2 shall be computed by adjusting the Net Revenues for the Base Period as provided in this Section 7.3:

7.3.1. The District shall provide the Qualified Consultant with the following information:

7.3.1.1. The Base Period and the Net Revenues for the Base Period;

7.3.1.2. Information regarding any Sewer System utility properties that are being acquired with Parity Obligations and have an earnings record;

7.3.1.3. Any changes in rates and charges which have been adopted by the District since the beginning of the Base Period and the dates on which they are scheduled to take effect;

7.3.1.4. Any changes in customers since the beginning of the Base Period; and,

7.3.1.5. A description of any extensions or additions to the Sewer System that were in the process of construction at the beginning of the Base Period or commenced construction after the beginning of the Base Period, the expected date of completion of those extensions or additions, the estimated operating and capital costs of those extensions or additions, and any other changes to the Gross Revenues or Operating Expenses that the District reasonably expects to result from the completion and operation of those extensions or additions.

7.3.2. Using the information provided by the District pursuant to Section 7.3.1 and any additional information the Qualified Consultant determines is necessary, the Qualified Consultant may adjust the Net Revenues for the Base Period:

7.3.2.1. To reflect any changes that the Qualified Consultant projects will result from the acquisition of Sewer System utility properties that are being financed with the Parity Bonds and that have an earnings record;

7.3.2.2. To reflect any changes in rates and charges which have been adopted by the District and which have taken effect or are scheduled to take effect during the twelve months after the date of the Qualified Consultant's certificate, or which increase rates and charges for inflation at a level which the Qualified Consultant determines is reasonable;

7.3.2.3. To reflect any changes in customers of the Water System that occurred after the beginning of the Base Period and prior to the date of the Qualified Consultant's certificate; and

7.3.2.4. To reflect any changes to Gross Revenues or Operating Expenses not included in the preceding paragraphs that are projected to result from the completion and operation of additions and extensions to the Sewer System that were under construction at the beginning of the Base Period, or commenced construction after the beginning of the Base Period.

**7.4. Refunding Exception.** The District may issue Parity Obligations to refund Outstanding Bonds without complying with Sections 7.1.1, 7.1.2, 7.1.3 and 7.1.4 if the refunded Bonds are defeased on the date of delivery of the refunding Parity Obligations and if the Annual Debt Service on the refunding Parity Obligations does not exceed the Annual Debt Service on the refunded Bonds in any Fiscal Year by more than $5,000.

**7.5. Derivative Products as Parity Obligations.** A Derivative Product may be a Parity Derivative Product and a Parity Obligation if the obligation to make District Payments under the Derivative Product qualifies as a Parity Obligation under Section 7.1, after the Reciprocal Payments under the Derivative Product are applied to reduce Annual Debt Service. Any Parity Derivative Product shall clearly state that it is a Parity Derivative Product and has qualified as a Parity Obligation under Section 7. of this Master Declaration. The District shall credit any Reciprocal Payments from a Parity Derivative Product directly to the Revenue Bond Account.

**7.6. Lien of Parity Obligations.** Each Series of Parity Obligations issued in accordance with this Master Declaration shall have a lien on the Net Revenues which is equal to the lien of all other Outstanding Bonds.

## Section 8. Subordinate Obligations

The District has previously entered into a State Revolving Fund loan agreement as described in Section 5.5; any portion of this loan agreement that remains outstanding after the 2016 Bonds are issued will be subordinated to the Bonds and shall constitute a Subordinate Obligation. The District may issue Subordinate Obligations in the future only if:

**8.1. Payment Limited.** The Subordinate Obligations are payable solely from amounts permitted to be credited to the Subordinate Obligations Account pursuant to Section 4.1.6; and,

**8.2. Statement of Limitation.** The Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Net Revenues which is subordinate and inferior to the lien on, and pledge of, the Net Revenues for the Bonds.

## Section 9. Separate Utility System

The District may declare property which the District owns and is part of the Sewer System (but has a value of less than five percent of the Sewer System at the time of the declaration), and property which the District has not yet acquired but would otherwise become part of the Sewer System, to be part of a Separate Utility System. The District may pay costs of acquiring, operating and maintaining Separate Utility Systems from Net Revenues, but only if there is no deficit in the Revenue Bond Account or the Revenue Bond Reserve Account. The District may issue obligations which are secured by the revenues produced by the Separate Utility System, and may pledge the Separate Utility System revenues to pay those obligations. In addition, the District may issue Subordinate Obligations to pay for costs of a Separate Utility System, and may pledge the revenues of the Separate Utility System to pay the Subordinate Obligations.

## Section 10. General Covenants

The District hereby covenants and agrees with the Owners of all Outstanding Bonds as follows, commencing [starting date]:

**10.1. Payment of Bonds.** That it will promptly cause the principal, premium, if any, and interest on the Bonds to be paid as they become due in accordance with the provisions of this Master Declaration and any Supplemental Declaration.

**10.2. Books and Records; Accounting for Revenues.** That it will maintain complete books and records relating to the operation of the Sewer System and all District funds and accounts in accordance with generally accepted accounting principles applicable to municipal enterprises such as the District, and will cause such books and records to be audited annually at the end of each Fiscal Year, and an audit report prepared by the Auditor and made available for the inspection of Bondowners. Gross Revenues, Operating Expenses, Net Revenues and all similar terms shall be measured and accounted for in accordance with generally accepted accounting principles applicable to municipal enterprises such as the District, and not on a cash basis.

**10.3. No Superior Obligations.** That it will not issue Bonds or other obligations having a claim superior to the claim of the Bonds upon the Net Revenues.

**10.4. Prompt Deposit and Credit.** That it will promptly deposit and credit to all funds and accounts all sums required to be so deposited and credited.

**10.5. Operation of System.** That it will operate the Sewer System in a sound, efficient and economic manner, that it will not enter into any agreement to provide Sewer System products or services at a discount from published rate schedules, and that it will not provide free Sewer System products or services except for fire suppression and in case of emergencies.

**10.6. Insurance.** That it will at all times maintain with responsible insurers all such insurance on the Sewer System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.

10.6.1. The net proceeds of insurance against accident to or destruction of the Sewer System shall be used first to repair or rebuild the damaged or destroyed Sewer System, and to the extent excess insurance proceeds remain, shall be applied to the payment or redemption of the Bonds on a pro rata basis.

10.6.2. Insurance described in Section 10.6 shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the District, or in the form of self-insurance by the District. The District shall establish such fund or funds or reserves which it deems are necessary to provide for its share of any such self-insurance.

**10.7. Alienation of System Property.** The District will not, nor will it permit others to, sell, mortgage, lease, transfer, assign, convey or otherwise dispose of or encumber all or any portion of the Sewer System except:

10.7.1. The District may dispose of all or substantially all of the Sewer System, only if the District pays all Bonds or defeases them pursuant to Section 14.

10.7.2. Except as provided in Section 10.7.3, the District will not dispose of any part of the Sewer System in excess of 5% of the aggregate market value of the Sewer System then in service unless prior to such disposition either:

10.7.2.1. there has been filed with the District a certificate of a Qualified Consultant stating that such disposition will not impair the ability of the District to comply with the rate covenants contained in Section 6.1 of this Master Declaration; or

10.7.2.2. provision is made for the payment, redemption or defeasance of a principal amount of Bonds equal to the greater of the following amounts:

10.7.2.2.1. An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding (defined as the total principal amount of Bonds then Outstanding less the amount of cash and investments in the Revenue Bond Debt Service Fund and the Revenue Bond Reserve Account allocable to such Bonds) that the Gross Revenues attributable to the part of the Sewer System sold or disposed of for the 12 preceding months bears to the total Gross Revenues for such period; or

10.7.2.2.2. An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding that the book value of the part of the Sewer System sold or disposed of bears to the aggregate book value of the Sewer System immediately prior to such sale or disposition.

10.7.3. The District may dispose of any portion of the Sewer System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Sewer System.

10.7.4. If the ownership of all or part of the Sewer System is transferred from the District through the operation of law, the District shall to the extent authorized by law, reconstruct or replace such transferred portion using any proceeds of the transfer unless the Board reasonably determines that such reconstruction or replacement is not in the best interest of the District and the Bondowners, in which case any proceeds shall be used for the payment, redemption or defeasance of the Bonds.

**10.8. Termination or Dissolution of WES and Amendment of the IGA.** WES will not terminate or dissolve while any Bonds are Outstanding. WES may only amend, or consent to the amendment of, the IGA if WES reasonably judges that the amendment does not materially and adversely affect the rights of the owners of any Outstanding Bonds.

## Section 11. Events of Default and Remedies

**11.1. Continuous Operation Essential.** The Board hereby finds and determines that the continuous operation of the Sewer System and the collection, deposit, credit and disbursement of the Net Revenues in the manner provided in this Master Declaration and in any Supplemental Declaration are essential to the payment and security of the Bonds, and the failure or refusal of the District to perform the covenants and obligations contained in this Master Declaration or any such Supplemental Declaration will endanger the necessary continuous operation of the Sewer System and the application of the Net Revenues to the operation of the Sewer System and the payment of the Bonds.

**11.2. Events of Default.** The following shall constitute “Events of Default”:

11.2.1. If the District shall fail to pay any Bond principal or interest when due, either at maturity, upon exercise of a right of tender in the case of Variable Rate Obligations, by proceedings for mandatory or optional redemption or otherwise;

11.2.2. Except as provided in Sections 6.3 and 11.3, if the District shall default in the observance and performance of any other of its covenants, conditions and agreements in this Master Declaration, if such default continues for ninety (90) days after the District receives a written notice, specifying the Event of Default and demanding the cure of such default, from the Bondowners Committee or from the Owners of not less than twenty percent (20%) in aggregate principal amount of the Bonds Outstanding;

11.2.3. If the District shall sell, mortgage, lease, transfer, assign, convey or otherwise dispose of or encumber any properties constituting the Sewer System in violation of Section 10.7;

11.2.4. If an order, judgment or decree shall be entered by any court of competent jurisdiction:

11.2.4.1. appointing a receiver, trustee or liquidator for the District or the whole or any part of the Sewer System;

11.2.4.2. approving a petition seeking a declaration of bankruptcy, or the arrangement or reorganization of the District under any applicable law of the United States or the State; or

11.2.4.3. assuming custody or control of the District or of the whole or any part of the Sewer System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within sixty (60) days from the date of the entry of such order, judgment or decree; or

11.2.5. If the District shall:

11.2.5.1. admit in writing its inability to pay its debts generally as they become due;

11.2.5.2. file a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law;

11.2.5.3. make an assignment for the benefit of its creditors;

11.2.5.4. consent to the appointment of a receiver of the whole or any part of the Sewer System; or

11.2.5.5. consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the District or of the whole or any part of the Sewer System.

**11.3. Exception.** It shall not constitute an Event of Default under Section 11.2.2 if the default cannot practicably be remedied within ninety days after the District receives notice of the default, so long as the District promptly commences reasonable action to remedy the default after the notice is received, and continues reasonable action to remedy the default until the default is fully and actually remedied.

**11.4. Remedies.** If an Event of Default occurs, any Bondowner may exercise any remedy available at law or in equity. However, the Bonds shall not be subject to acceleration.

**11.5. Appointment of Trustee.** During the continuance of an Event of Default described in Section 11.2, the owners of twenty percent (20%) in aggregate principal amount of the Bonds then outstanding may call a Bondowners meeting for the purpose of electing a Bondowners Committee.

11.5.1. Such meeting shall be called and the proceedings thereof shall be conducted in the manner provided in Section 12 hereof.

11.5.2. At such meeting the Bondowners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Bondowners, to the Bondowners Committee which shall act as trustee for all Bondowners, and the Bondowners Committee as such trustee may have and exercise all the rights and powers provided for in this Master Declaration to be exercised by the Bondowners Committee. The Bondowners present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondowners Committee at such Bondowners meeting shall be elected or appointed, and may prescribe rules and regulations governing the exercise by the Bondowners Committee of the powers conferred upon it herein, and may provide for the termination of the existence of the Bondowners Committee. The members of the Bondowners Committee elected by the Bondowners in the manner herein provided, and their successors, as a committee are hereby declared to be trustees for the owners of all the Bonds then outstanding, and are empowered to exercise in the name of the Bondowners Committee as trustee, all the rights and powers hereinafter conferred on the Bondowners Committee.

**11.6. Books of District Open to Inspection.**

11.6.1. The District covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the District and all other records relating to the Sewer System shall at all reasonable times be subject to the inspection and use of the Bondowners Committee and any persons holding at least twenty percent (20%) of the principal amount of Outstanding Bonds and their respective agents and attorneys.

11.6.2. The District covenants that if the Event of Default shall happen and shall not have been remedied, the District will continue to account, as a trustee of an express trust, for all Net Revenues and other moneys, securities and funds pledged under the Master Declaration.

**11.7. Payment of Funds to Bondowners Committee.** The District covenants that if an Event of Default shall happen and shall not have been remedied, the District upon demand of the Bondowners Committee, shall, if it is then lawful to do so, pay over to the Bondowners Committee:

11.7.1. forthwith, all moneys, securities and funds then held by the District and pledged under the Master Declaration, and

11.7.2. as promptly as practicable after receipt thereof, all Gross Revenues.

**11.8. Possession by Bondowners Committee of Properties of Sewer System; Receivership.** At any time after the occurrence of an Event of Default and prior to the curing of such Event of Default the Bondowners Committee, as a matter of right against the District, shall, to the extent permitted by law, be entitled to take possession and control of the business and properties of the Sewer System. Upon taking such possession, the Bondowners Committee shall operate and maintain the Sewer System, make any necessary repairs, renewals and replacements in respect thereof, prescribe rates and charges for the Sewer System, collect the Gross Revenues, and perform all of the agreements and covenants contained in all contracts which the District is at the time obligated to perform. At any such time and if permitted by law the Bondowners Committee shall be entitled to the appointment of a receiver of the business and property of the Sewer System, of the moneys, securities and funds of the District pledged under the Master Declaration, and of the Gross Revenues, and of the income therefrom, with all such powers as the court or courts making such appointment shall confer, including the power to perform and enforce all contracts, to the same extent that the District shall then be entitled and obligated to do. Notwithstanding the appointment of any receiver, the Bondowners Committee shall be entitled to retain possession and control of and to collect and receive income from any moneys, securities, funds and Gross Revenues deposited, credited or pledged with or to it under the Master Declaration or agreed or provided to be delivered to or deposited, credited or pledged with or to it under the Master Declaration.

**11.9. Application of Funds by Bondowners Committee.**

11.9.1. During the continuance of an Event of Default, the Gross Revenues received by the Bondowners Committee, whether pursuant to the provisions of the preceding paragraph, or as the result of taking possession of the business and properties of the Sewer System, shall be applied by the Bondowners Committee, first, to the payment of the reasonable and proper charges, expenses and liabilities paid or incurred by the Bondowners Committee (including the cost of securing the services of any engineer or firm of engineers selected for the purpose of rendering advice with respect to the operation, maintenance, repair and replacement of the Sewer System necessary to prevent any loss of Gross Revenues, and with respect to the sufficiency of the rates and charges for services and products sold, furnished or supplied by the Sewer System), second, to the payment of the Operating Expenses, and third to the payment of the principal of, premium, if any, and interest on the Bonds.

11.9.2. In the event that at any time the funds held by the Bondowners Committee and the Paying Agents for the Bonds shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and all Gross Revenues and other moneys received or collected for the benefit or for the account of owners of the Bonds by the Bondowners Committee shall be applied as follows:

11.9.2.1. **First,** to the payment to the persons entitled thereto of all installments of interest then due on Bonds in the order of the maturity of such installments, earliest maturities first, and, if the amount available shall not be sufficient to pay in full any installment or installments or interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

11.9.2.2. **Second,** to the payment to the persons entitled thereto of the unpaid principal and premium, if any, of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, earliest maturities first, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

**11.10. Relinquishment of Possession and Funds Upon Remedy of Default.** If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses, and liabilities of the Bondowners Committee and the owners of Bonds, their respective agents and attorneys, and all other sums payable by the District under the Master Declaration including the principal of, premium, if any, and accrued unpaid interest on all Bonds which shall then be payable, shall either be paid by or for the account of the District, or provision satisfactory to the Bondowners Committee shall be made for such payment, and all defaults under the Master Declaration or the Bonds shall be made good or secured to the satisfaction of the Bondowners Committee or provision deemed by the Bondowners Committee to be adequate shall be made therefor, the Bondowners Committee shall relinquish possession and control of the Sewer System and pay over to the District all moneys, securities, funds and Gross Revenues then remaining unexpended in the hands of the Bondowners Committee and thereupon all Gross Revenues shall thereafter be applied as provided in Section 9 of this Master Declaration. No such payment over to the District by the Bondowners Committee or resumption of the application of Gross Revenues as provided in Section 11 of this Master Declaration shall extend to or affect any subsequent default under the Master Declaration or impair any right consequent thereon.

**11.11. Suits at Law or in Equity.**

11.11.1. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Bondowners Committee by its agents and attorneys, shall be entitled and empowered to proceed forthwith to take such necessary steps and institute such suits, actions and proceedings at law or in equity for the collection of all sums due in connection with the Bonds and to protect and enforce the rights of the owners of the Bonds under the Master Declaration, for the specific performance of any covenant herein contained or in aid of the execution of any power herein granted, or for an accounting against the District as trustee of an express trust, or in the enforcement of any other legal or equitable right as the Bondowners Committee, being advised by counsel, shall deem most effectual to enforce any of the rights of the owners of the Bonds.

11.11.2. Any action, suit or other proceedings instituted by the Bondowners Committee hereunder shall be brought in its name as trustee for the Bondowners and all such rights of action upon or under any of the Bonds or the provisions of this Master Declaration may be enforced by the Bondowners Committee without the possession of any of said Bonds, and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law, and the respective owners of said Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners Committee the true and lawful trustee of the respective owners of said Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of said Bonds; to execute any paper or documents for the receipt of such moneys, and to do all acts with respect thereto that the Bondowner himself might have done in person, provided however, that nothing herein contained shall be deemed to authorize or empower the Bondowners Committee to consent to, accept or adopt, on behalf of any owner of Bonds, any plan of reorganization or adjustment affecting the said Bonds of the District or any right of any owner thereof; or to authorize or empower the Bondowners Committee to vote the claims of the owners hereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the District shall be a party; and provided further, however, that any Bondowner or Bondowners may by mutual agreement transfer title to the Bonds held by him or them to the Bondowners Committee, or may by agreement with other Bondowners create or organize a separate trustee or Bondowners Committee and may confer upon the Bondowners Committee or such separate trustee or Bondowners Committee, such powers and duties as such agreement or agreements shall provide, and the provisions of this Master Declaration shall not be construed as a limitation on the powers and duties which consenting Bondowners may by agreement confer on the Bondowners Committee or such separate trustee or Bondowners Committee. The Bondowners Committee shall have full power of substitution and delegation in respect to any of the powers hereby granted.

**11.12. Direction of Actions of Bondowners Committee.** The owners of not less than a majority in aggregate principal amount of the Bonds that are the subject of a Bondowners Committee at the time Outstanding, may direct the time, method and place of conducting any proceeding for any remedy available to the Bondowners Committee, or exercising any trust or power conferred upon the Bondowners Committee, provided that the Bondowners Committee shall be provided with reasonable security and indemnity and shall have the right to decline to follow any such direction only (i) if the Bondowners Committee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken; or (ii) if the Bondowners Committee in good faith shall determine that the action or proceeding so directed would involve the Bondowners Committee in personal liability or that the action or proceeding so directed would be unjustly prejudicial to the owners of Bonds not parties to such direction.

**11.13. Suits by Individual Bondowners.** No owner of any one or more of the Bonds shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of any provision of the Master Declaration or the execution of any trust under the Master Declaration or for any remedy under the Master Declaration, unless an Event of Default shall have happened and be continuing, and unless no Bondowners Committee has been created as herein provided, but unless no Bondowners Committee has been created as herein provided, but any remedy herein authorized to be exercised by the Bondowners Committee, except the right to take possession of the Gross Revenues and properties of the Sewer System, but including the right to the appointment of a receiver of the business and properties of the Sewer System, may be exercised individually by any Bondowner, in his own name and on his own behalf or for the benefit of all Bondowners, in the event no Bondowners Committee has been created, or with the consent of the Bondowners Committee, if such Bondowners Committee has been created; provided, however, that nothing contained in the Master Declaration or in the Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of, premium, if any, and interest on the Bonds to the respective owners thereof, or affect or impair the rights of action, which are also absolute and unconditional, of any owner to enforce the payment of this Bonds, or to reduce to judgment his claim against the District for the payment of the principal of and interest on his Bonds, without reference to, or the consent of, the Bondowners Committee or any other owner of Bonds.

**11.14. Waivers of Default.**

11.14.1. No delay or omission of the Bondowners Committee or of any owner of Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Article to the Bondowners Committee or to the owners of Bonds may be exercised from time to time and as often as may be deemed expedient by the Bondowners Committee or by such owners.

11.14.2. The Bondowners Committee or the owners of not less than fifty percent (50%) in principal amount of the Bonds that are the subject of the Bondowners Committee and are at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the owners of all of the Bonds that are the subject of the Bondowners Committee waive any past default under the Master Declaration with respect to such Bonds and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

**11.15. Remedies Granted in Master Declaration Not Exclusive.** No remedy by the terms of the Master Declaration conferred upon or reserved to the Bondowners Committee or the owners of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Declaration or existing at law or in equity or by statute on or after the date of adoption of the Master Declaration.

## Section 12. Bondowners Meetings

**12.1. Call of Bondowners Meetings.** The District, the Bondowners Committee or the owners of not less than twenty percent (20%) in aggregate principal amount of the Bonds then Outstanding may at any time call a meeting of the owners of the Bonds. Every such meeting shall be held at such place in the City of New York, State of New York, or in the City of Portland, State of Oregon, as may be specified in the notice calling such meeting. Written notice of such meeting, stating the place and time of the meeting and in general terms the business to be transacted, shall be mailed to the Bondowners by the District, the Bondowners Committee or the Bondowners calling such meeting not less than thirty (30) nor more than sixty (60) days before such meeting, and shall be published at least once a week for four (4) successive calendar weeks on any day of the week, the date of first publication to be not less than thirty (30) nor more than sixty (60) days preceding the meeting; provided, however, that the mailing of such notice shall in no case be a condition precedent to the validity of any action taken at any such meeting. The expenses of publication of such notice shall be paid or reimbursed by the District. The list of Bondholders' names & addresses maintained by the Registrar may only be released by the District. Any meeting of Bondowners shall, however, be valid without notice if the owners of all Bonds then Outstanding are present in person or by proxy or if notice is waived before or within thirty (30) days after the meeting by those not so present.

**12.2. Notice to Bondowners.** Except as otherwise provided in this Master Declaration, any provision in this Master Declaration for the mailing of a notice or other paper to Bondowners shall be fully complied with if it is mailed by first class mail, postage prepaid, to each registered owner of any of the Bonds then outstanding at his address, if any, appearing upon the Revenue Bond Register; and any provision in this Master Declaration contained for publication of a notice or other matter shall require the publication thereof in *"The Daily Bond Buyer"* in the City of New York, State of New York (or in lieu of publication in *"The Daily Bond Buyer,"* in a daily newspaper printed in the English language and customarily published on each business day of general circulation in the Borough of Manhattan, the City of New York, State of New York), and also in a daily newspaper printed in the English language and customarily published on each business day and of general circulation in the City of Portland, State of Oregon.

**12.3. Proxies; Proof of Ownership of Bonds.**

12.3.1. Attendance and voting by Bondowners at such meetings may be in person or by proxy. Owners of Bonds may, by an instrument in writing under their hands, appoint any person or persons, with full power and substitution, as their proxy to vote at any meeting for them. Officers or nominees of the District may be present or represented at such meeting and take part therein but shall not be entitled to vote thereat, except as such officers or nominees are Bondowners or proxies for Bondowners.

12.3.2. Any registered owner of Bonds shall be entitled in person or by proxy to attend and vote at such meeting as owner of the Bonds registered in his name without producing such Bonds, and such persons and their proxies shall, if required, produce such proof of personal identity as shall be satisfactory to the Secretary of the meeting. All proxies presented at such meeting shall be delivered to the Inspectors of Votes and filed with the Secretary of the meeting.

12.3.3. The vote at any such meeting of the owner of any Bond entitled to vote thereat shall be binding upon such owner and upon every such subsequent owner of such Bond (whether or not such subsequent owner has notice thereof).

**12.4. Execution of Instruments by Bondowners.**

12.4.1. Any request, direction, consent or other instrument in writing required or permitted by this Master Declaration to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Bondowners in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument shall be sufficient for any purpose of this Master Declaration if made by either

12.4.1.1. an acknowledgment executed by a notary public or other officer empowered to take acknowledgments of deeds to be recorded in the particular jurisdiction, or

12.4.1.2. an affidavit of a witness to such execution sworn to before such a notary public or other officer.

12.4.2. Where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such acknowledgment or affidavit shall also constitute sufficient proof of his authority.

12.4.3. The foregoing shall not be construed as limiting the District to such proof, it being intended that the District may accept any other evidence of the matters herein stated which it may deem sufficient. Any request or consent of the owner of any Bond shall bind every future owner of the same Bond in respect of anything done by the District in pursuance of such request, direction or consent.

12.4.4. The right of a proxy for a Bondowner to act may be proved (subject to the District's right to require additional proof) by a written proxy executed by such Bondowner as aforesaid.

**12.5. Appointment of Officers at Bondowners Meetings.** Persons named by the District or elected by the owners of a majority in principal amount of the Outstanding Bonds represented at the meeting in person or by proxy in the event the District is not represented at such meeting, shall act as temporary Chairman and temporary Secretary of any meeting of Bondowners. A permanent Chairman and a permanent Secretary of such meeting shall be elected by the owners of a majority in principal amount of the Bonds represented at such meeting in person or by proxy. The permanent chairman of the meeting shall appoint two (2) Inspectors of Votes who shall count all votes cast at such meeting, except votes on the election of Chairman and Secretary as aforesaid, and who shall make and file with the Secretary of the meeting and with the District their verified report of all such votes cast at the meeting.

**12.6. Quorum at Bondowners Meetings.** The owners of not less than the principal amount of the Bonds required for any action to be taken at such meeting must be present at such meeting in person or by proxy to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting; provided, however, that, if such meeting is adjourned by less than a quorum for more than ten (10) days, notice thereof shall be published by the District at least five (5) days prior to the adjourned dated of the meeting.

**12.7. Vote Required to Amend Master Declaration.** Any amendment to the provisions of the Master Declaration, in any particular except the percentage of Bondowners the approval of which is required to approve such amendment, may be made by a Supplemental Declaration of the District and an order duly adopted by the affirmative vote at a meeting of Bondowners duly convened and held, or with written consent as hereinafter provided in this Section 12.7, of the owners of not less than fifty-one percent (51%) in principal amount of the Bonds Outstanding when such meeting is held or such consent is given; provided, however, that no such amendment shall:

12.7.1. extend the date of payment of the principal of any Bond or of any installment of interest thereon or reduce the principal or redemption price thereof or the rate of interest thereon or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date;

12.7.2. give to any Bond or Bonds any preference over any other Bond or Bonds secured equally and ratably therewith;

12.7.3. reduce the aforesaid percentage of Bonds, the owners of which are required to consent to any such order amending the provisions of this Master Declaration; or

12.7.4. authorize the creation of any pledge superior to or, except as provided in Section 7. for the issuance of Parity Obligations, on a parity with the pledge of Net Revenues afforded by this Master Declaration for Bonds, without the consent of the owner of each such Bond affected thereby.

**12.8. Obtaining Approval of Amendments at Bondowners Meeting.** The District may at any time adopt an order amending the provisions of the Master Declaration to the extent that such amendment is permitted by the provisions of Section 13 hereof, to take effect when and as provided in this Section 12. At any time thereafter such order may be submitted by the District for approval to a meeting of the Bondowners duly convened and held in accordance with the provisions of the Master Declaration. A record in duplicate of the proceedings of each meeting of the Bondowners shall be prepared by the permanent secretary of the meeting and shall have attached thereto the original reports of the inspectors of votes and affidavits by a person or persons having knowledge of the facts, showing a copy of the notice of the meeting and setting forth the facts with respect to the mailing and publication thereof under the provisions of the Master Declaration. Such a record shall be signed and verified by the affidavits of the permanent chairman and the permanent secretary of the meeting, and one duplicate thereof shall be delivered to the District. Any record so signed and verified shall be proof of the matters therein stated. If the order of the District making such amendment shall be approved by an order duly adopted at such meeting of Bondowners by the affirmative vote of the owners of the required percentages of Bonds, a notice stating that an order approving such amendment has been so adopted shall be mailed by the District to each Bondowner who has requested such notice (but failure so to mail copies of such notice shall not affect the validity of such order) and shall be published at least once in the manner provided for publication of notices of redemption of Bonds. Proof of such mailing and publication by the affidavit or affidavits of a person or persons having knowledge of the facts shall be filed with the District. Such order of the District making such amendment shall be deemed conclusively to be binding upon the District, the Paying Agent, and the Owners of all Bonds at the expiration of thirty (30) days after the publication of the notice provided for in this Section 12, except in the event of a final decree of court of competent jurisdiction setting aside such order or annulling the action taken thereby in a legal action or equitable proceeding for such purpose commenced within such period; provided that the District and any Paying Agent during such thirty (30) day period and any such further period during which such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such order as they may deem expedient. Nothing in the Master Declaration contained shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Bondowners or of any right conferred hereunder to make such a call, any hindrance or delay in the exercise of any rights conferred upon or reserved to the Paying Agent or the Bondowners under any of the provisions of the Master Declaration.

## Section 13. Amendment of Master Declaration

**13.1. Amendment of Master Declaration Without Bondowner Consent.** Except during any period during which a Bondowners Committee has been duly constituted and is functioning pursuant to Section 11.5 of this Master Declaration, this Master Declaration may be amended by Supplemental Declaration without the consent of any Bondowners for any one or more of the following purposes:

13.1.1. To cure any ambiguity or formal defect or omission in this Master Declaration;

13.1.2. To add to the covenants and agreements of the District in this Master Declaration, other covenants and agreements to be observed by the District which are not contrary to or inconsistent with this Master Declaration as theretofore in effect;

13.1.3. To authorize issuance of Bonds or Subordinate Obligations;

13.1.4. To authorize Parity Derivative Products, and specify the rights and duties of the parties to a Parity Derivative Product;

13.1.5. To modify, amend or supplement this Master Declaration or any Supplemental Declaration to qualify this Master Declaration under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of any Bonds for sale under the securities laws of any of the states of the United States of America;

13.1.6. To confirm, as further assurance, any security interest or pledge created under this Master Declaration or any Supplemental Declaration;

13.1.7. To make any change which, in the reasonable judgment of the District, does not materially and adversely affect the rights of the owners of any Outstanding Bonds;

13.1.8. So long as a Credit Facility (other than a Reserve Credit Facility) is in full force and effect with respect to the Bonds affected by such Supplemental Declaration, to make any other change which is consented to in writing by the issuer of such Credit Facility other than any change which:

13.1.8.1. would result in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or

13.1.8.2. changes the maturity (except as permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds or diminishes the security afforded by such Credit Facility; or

13.1.8.3. materially and adversely affects the rights and security afforded to the Owners of any Outstanding Bonds not secured by such Credit Facility.

13.1.8.4. To modify any of the provisions of this Master Declaration or any Supplemental Declaration in any other respect whatever, as long as the modification shall take effect only after all affected Outstanding Bonds cease to be Outstanding.

**13.2. Amendment With Bondowner Consent.** Except during any period during which a Bondowners Committee has been duly constituted and is functioning pursuant to Section 11.5 of this Master Declaration, this Master Declaration may be amended for any other purpose only upon consent of Bondowners of not less than fifty-one percent 51% in aggregate principal amount of the Bonds outstanding; provided, however, that no amendment shall be valid without the consent of Bondowners of 100 percent of the aggregate principal amount of the Bonds outstanding which:

13.2.1. Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Bondowner; or

13.2.2. Reduces the percent of Bondowners required to approve amendatory Master Declarations.

**13.3. Initial Purchaser As Owner.** For purposes of any consents of Owners required by this Master Declaration or any Supplemental Declaration, including but not limited to Section 13.2, but subject to Section 13.4, the initial purchaser of a series of Bonds may be treated as the Owner of that Series at the time that series of Bonds is delivered in exchange for payment.

**13.4. Issuer of Credit Facility As Owner.** Except as otherwise expressly provided in a Supplemental Declaration, as long as a Credit Facility (other than a Reserve Credit Facility) securing all or a portion of any Outstanding Bonds is in effect, the issuer of such Credit Facility shall be deemed to be the Bondowner of the Bonds secured by such Credit Facility:

13.4.1. at all times for the purpose of the execution and delivery of a Supplemental Declaration or of any amendment, change or modification of this Master Declaration or the initiation by Bondowners of any action which under this Master Declaration requires the written approval or consent of or can be initiated by the Bondowners of at least a majority in principal amount of the affected Bonds at the time Outstanding; and following an Event of Default for all other purposes.

13.4.2. Notwithstanding the foregoing, the issuer of such Credit Facility shall not be deemed to be a Bondowner secured thereby with respect to any such Supplemental Declaration or of any amendment, change or modification of this Master Declaration which:

13.4.2.1. would result in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or

13.4.2.2. changes the maturity (except as expressly permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds or diminishes the security afforded by such Credit Facility; or

13.4.2.3. reduces the percentage or otherwise affects the classes of affected Bonds, the consent of the Bondowners of which is required to effect any such modification or amendment.

13.4.3. In addition and notwithstanding the foregoing, no issuer of a Credit Facility given as security for any Bonds shall be entitled to exercise any rights under this Section during any period where:

13.4.3.1. the Credit Agreement or Credit Facility to which such Credit Provider is a party shall not be in full force and effect;

13.4.3.2. such Credit Provider shall have filed a petition or otherwise sought relief under any federal or state bankruptcy or similar law;

13.4.3.3. such Credit Provider shall, for any reason, have failed or refused to honor a proper demand for payment under such Credit Facility; or

13.4.3.4. an order or decree shall have been entered, with the consent or acquiescence of such Credit Provider, appointing a receiver or receivers or the assets of the Credit Provider, or if such order or decree having been entered without the consent or acquiescence of such Credit Provider, shall not have been vacated or discharged or stayed within ninety (90) days after the entry thereof.

13.4.4. For purposes of determining the percentage of Bondowners consenting to, waiving or otherwise acting with respect to any matter that may arise under this Master Declaration, the Owners of Bonds which pay interest only at maturity, and mature more than one year after they are issued shall be treated as Owners of Bonds in an aggregate principal amount equal to the accreted value of such Bonds as of the date the Registrar sends out notice of requesting consent, waiver or other action as provided herein.

**13.5. Transition Provision for Amended Master Declaration.** The District shall calculate compliance with the financial covenants in this Master Declaration for Fiscal Year 2017-2018 by using the combined financial statements of the WES partners. The combined financial statements of WES will consist of two separately issued financial statements, one financial statement that will include the operations of TCSD and SWMACC and one for CCSD 1.

## Section 14. Defeasance

The District may defease and deem all or any portion of the Outstanding Bonds to be paid by:

**14.1. Irrevocable Deposit of Direct Obligations.** Irrevocably depositing cash or noncallable, nonprepayable Direct Obligations in escrow with an independent escrow agent which are calculated to be sufficient, without reinvestment, for the payment of Bonds which are to be defeased; and,

**14.2. Opinion of Qualified Consultant.** Filing with the escrow agent an opinion from a Qualified Consultant to the effect that the money and the principal and interest to be received from the Direct Obligations are calculated to be sufficient, without further reinvestment, to pay the defeased Bonds when due; and,

**14.3. Opinion of Bond Counsel.** Filing with the escrow agent an opinion of nationally recognized bond counsel that the proposed defeasance will not cause interest on the defeased Bonds to be includable in gross income under the Code.

If Bonds are defeased under this Section, all obligations of the District with respect to those defeased Bonds shall cease and terminate, except for the obligation of the District, the escrow agent and the Registrar to pay the defeased Bonds from the amounts deposited in escrow, and the obligation of the Registrar to continue to transfer bonds as provided in this Master Declaration.

## Section 15. BEO System

**15.1.** Unless otherwise provided by a Supplemental Declaration, all Bonds shall be subject to the BEO System pursuant to the provisions of this Section 15.

**15.2.** The Bonds shall be initially issued as a BEO security issue with no Bonds being made available to the Owners upon the execution and delivery of the letter of representations among the Paying Agent, DTC and the District. Ownership of the Bonds shall be recorded through entries on the books of banks and broker-dealer participants and correspondents that are related to entries on the DTC BEO system. The Bonds shall be initially issued in the form of separate single fully registered typewritten Bonds for each maturity of the Bonds (the “Global Bonds”) in substantially the form attached hereto as Exhibit A with such changes as the District Official may approve. Each Global Bond shall be registered in the name of CEDE & CO. as nominee (the “Nominee”) of DTC (DTC and any other qualified securities depository designated by the District as a successor to DTC, collectively the “Depository”) as the “Registered Owner”, and such Global Bonds shall be lodged with the Depository until early redemption or maturity of the Bond issue. The Paying Agent shall remit payment for the maturing principal and interest on the Bonds to the Owner for distribution by the Nominee for the benefit of the owners (the “Beneficial Owner” or “Record Owner”) by recorded entry on the books of the Depository participants and correspondents. While the Bonds are in BEO form, the Bonds will be available in denominations of $5,000 or any integral multiple thereof within a maturity.

**15.3.** In the event the Depository determines not to continue to act as securities depository for the Bonds, or the District determines that the Depository shall no longer so act, then the District will discontinue the BEO system with the Depository. If the District fails to designate another qualified securities depository to replace the Depository or elects to discontinue use of a BEO system, the Bonds shall no longer be a BEO issue but shall be registered in the registration books maintained by the Paying Agent in the name of the Owner as appearing on the Bond register and thereafter in the name or names of the Owners of the Bonds transferring or exchanging Bonds.

**15.4.** While the Bonds are in BEO form, the District and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of the Depository or to any Registered Owner on behalf of which such participants or correspondents act as agent for the Owner with respect to:

15.4.1. The accuracy of the records of the Depository, the Nominee or any participant or correspondent with respect to any ownership interest in the Bonds;

15.4.2. The delivery to any participant or correspondent or any other person, other than an Owner as shown in the registration books maintained by the Paying Agent, of any notice with respect to the Bonds, including any notice of prepayment;

15.4.3. The selection by the Depository of the beneficial interest in Bonds to be redeemed prior to maturity; or

15.4.4. The payment to any participant, correspondent, or any other person other than the owner of the Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal of or interest on the Bonds.

**15.5.** Notwithstanding the BEO system, the District may treat and consider the Owner in whose name each Bond is registered in the registration books maintained by the Paying Agent as the Owner and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, or for the purpose of giving notices of redemption and other matters with respect to such Bond, or for the purpose of registering transfers with respect to such Bond, or for all other purposes whatsoever. The District shall pay or cause to be paid all principal and interest on the Bonds only to or upon the order of the Registered Owner, as shown in the registration books maintained by the Paying Agent, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligation with respect to payment thereof to the extent of the sum or sums so paid.

**15.6.** Upon delivery by the Depository to the District and to the Owner of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, then the word "Nominee" in this Master Declaration shall refer to such new nominee of the Depository, and upon receipt of such notice, the District shall promptly deliver a copy thereof to the Paying Agent. The Depository shall tender the Bonds it holds to the Paying Agent for re-registration.

## Section 16. Redemption of Bonds

**16.1.** Unless otherwise provided by a Supplemental Declaration, all Bonds shall be subject to the redemption terms of this Section 16.

**16.2.** The District reserves the right to purchase Bonds in the open market.

**16.3.** If Bonds are subject to mandatory redemption the Paying Agent shall, without further action by the District, select the particular Bonds to be redeemed in accordance with the mandatory redemption schedule, by lot within each maturity, call the selected Bonds, and give notice of their redemption in accordance with this Section 16.

**16.4.** If certain maturities of Bonds are subject to both optional and mandatory redemption, the District may elect to apply any of those Bonds which it has previously optionally redeemed. In addition, if the District purchases Bonds which are subject to mandatory redemption, the District may elect to apply against the mandatory redemption requirement any such Bonds which it has previously purchased. If the District makes such an election, it shall notify the Paying Agent not less than sixty days prior to the mandatory redemption date to which the election applies.

**16.5.** So long as the BEO System remains in effect with respect to the Bonds, and unless DTC consents to a shorter period, the Paying Agent shall provide not less than 20 days nor more than 60 days' notice of redemption, and shall provide such information in connection therewith as required by the letter of representations submitted to DTC in connection with the issuance of the Bonds.

**16.6.** During any period in which the BEO System is not in effect with respect to the Bonds, unless waived by any Owner of the Bonds to be redeemed, official notice of any redemption of Bonds shall be given by the Paying Agent on behalf of the District by mailing a copy of an official redemption notice by first class mail postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bonds to be redeemed, at the address shown on the Revenue Bond Register or at such other address as is furnished in writing by such owner to the Paying Agent. All such official notices of redemption shall be dated and shall state:

16.6.1. The redemption date;

16.6.2. The redemption price;

16.6.3. If less than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed;

16.6.4. That on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; and

16.6.5. The place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Paying Agent.

**16.7.** The District shall deposit with the Paying Agent, on or before the redemption date, an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date.

**16.8.** Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the District shall default in the payment of the redemption price or unless the notice was conditional as described in Section 16.9) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Paying Agent at the Redemption Price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Bond, there shall be prepared for the registered owner a new Bond of the same maturity in the amount of the unpaid principal. All Bonds which have been redeemed shall be canceled and destroyed by the Paying Agent and shall not be reissued. Notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any such Bonds. From and after such notice having been given and such deposit having been made, the Bonds to be redeemed shall not be deemed to be Outstanding hereunder, and the District shall be under no further liability in respect thereof.

**16.9.** Any notice of optional redemption given for the Bonds pursuant to this Section 16 may state that the optional redemption is conditional upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such Bonds or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission or of the failure of any such condition shall be given by the Paying Agent to affected owners of the Bonds as promptly as practicable.

## Section 17. Authentication, Registration and Transfer

**17.1.** The provisions of this Section 17 apply only if the Bonds cease to be a BEO issue, and unless otherwise specified in a Supplemental Declaration.

**17.2.** No Bond shall be entitled to any right or benefit under this Master Declaration unless it shall have been authenticated by an authorized officer of the Paying Agent. The Paying Agent shall authenticate all Bonds to be delivered at Closing, and shall additionally authenticate all Bonds properly surrendered for exchange or transfer pursuant to this Master Declaration.

**17.3.** All Bonds shall be in registered form. U.S. Bank National Association is hereby appointed to serve as Paying Agent for the Bonds. A successor Paying Agent may be appointed for the Bonds by ordinance or resolution of the District. The Paying Agent shall provide notice to Owners of any change in the Paying Agent not later than the Bond payment date following the change in Paying Agent.

**17.4.** The ownership of all Bonds shall be entered in the Bond register maintained by the Paying Agent and the District and Paying Agent may treat the person listed as owner in the Bond register as the owner of the Bond for all purposes.

**17.5.** The Paying Agent shall mail each interest payment on the Interest Payment Date (or the next Business Day if the Interest Payment Date is not a Business Day) to the name and address of the Owner, as that name and address appear on the Bond register as of the Record Date. If payment is so mailed, neither the District nor the Paying Agent shall have any further liability to any party for such payment.

**17.6.** Bonds may be exchanged for an equal principal amount of Bonds of the same Series and maturity which are in different authorized denominations, and Bonds may be transferred to other owners if the Owner submits the following to the Paying Agent:

17.6.1. Written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the Owner or his attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent; and

17.6.2. The Bonds to be exchanged or transferred.

**17.7.** The Paying Agent shall not be required to exchange or transfer any Bonds submitted to it during any period beginning with a Record Date and ending on the next following payment date; however, such Bonds shall be exchanged or transferred promptly following the payment date.

**17.8.** The Paying Agent shall not be required to exchange or transfer any Bonds which have been designated for redemption if such Bonds are submitted to it during the fifteen-day period preceding the designated redemption date.

**17.9.** For purposes of this Section, Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 17.6.

**17.10.** The District may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all Owners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.

## Section 18. The Series 2016 Bonds

**18.1.** Pursuant to the authority of District Order No. 2016-71 adopted July 7, 2016 and this Master Declaration, the District has issued its Sewer Revenue Refunding Bonds, Series 2016, in the aggregate principal amount of $83,250,000. The Series 2016 Bonds shall be Bonds as defined in this Master Declaration. The Series 2016 Bonds shall bear interest payable on June 1 and December 1 of each year at the following rates, commencing December 1, 2016, and shall mature in the following years in the following principal amounts:

| Due December 1 | Principal Amount | Interest Rate | CUSIP Base (179282) |
|---|---|---|---|
| 2016 | 1,015,000 | 2.000 | FE3 |
| 2017 | 280,000 | 2.000 | FF0 |
| 2018 | 285,000 | 2.000 | FG8 |
| 2019 | 1,495,000 | 5.000 | FH6 |
| 2020 | 3,095,000 | 5.000 | FJ2 |
| 2021 | 4,125,000 | 5.000 | FK9 |
| 2022 | 4,345,000 | 5.000 | FL7 |
| 2023 | 4,705,000 | 5.000 | FM5 |
| 2024 | 4,945,000 | 5.000 | FN3 |
| 2025 | 5,200,000 | 5.000 | FP8 |
| 2026 | 5,470,000 | 5.000 | FQ6 |
| 2027 | 5,720,000 | 4.000 | FR4 |
| 2028 | 5,925,000 | 3.000 | FS2 |
| 2029 | 6,075,000 | 2.000 | FT0 |
| 2030 | 6,200,000 | 2.125 | FU7 |
| 2031 | 6,335,000 | 2.375 | FV5 |
| 2032 | 6,270,000 | 3.000 | FW3 |
| 2033 | 6,245,000 | 2.500 | FX1 |
| 2035 | 5,520,000* | 2.625 | FY9 |

* Subject to mandatory sinking fund redemption as described in the next subsection.

**18.2.** The Series 2016 Bonds maturing on December 1, 2035, are subject to mandatory sinking fund redemption at a price of 100 percent of the principal amount of the Series 2016 Bonds to be redeemed plus accrued interest to the date of redemption on December 1 in years and amounts as follows:

| Date December 1 | Mandatory Sinking Fund Redemption |
|---|---|
| 2034 | 4,080,000 |
| 2035 | 1,440,000 |

* Final maturity.

A Series 2016 Term Bond subject to optional redemption and redeemed in part will have the principal amount within the respective mandatory redemption dates selected by the District.

**18.3.** The Series 2016 Bonds maturing on or after December 1, 2027 may be redeemed at the option of the District on or after December 1, 2026, at par plus accrued interest to the date of redemption.

**18.4.** The Series 2016 Bonds shall be special obligations of the District, and shall be payable solely from the Net Revenues and amounts required to be deposited in the Revenue Bond Account and Revenue Bond Reserve Account as required and as provided by this Master Declaration. The Series 2016 Bonds are not general obligations of the District and are payable solely from the amounts described in the previous sentence.

**18.5.** The Series 2016 Bonds shall be in substantially the form attached as Appendix A to the 2016 Declaration and shall be signed with the facsimile or manual signature of a District Official.

18.5.1. The Series 2016 Bond proceeds received by the District were applied as follows:

18.5.1.1. $241,747.84 to the First Reserve Subaccount or to acquire a Reserve Credit Facility for the First Reserve Subaccount to meet the First Reserve Subaccount Reserve Requirement;

18.5.1.2. $92,253,999.50 to refund portions of borrowings issued under the District's Master Sewer Revenue Bond Order dated September 15, 1994 and Clean Water State Revolving Fund Loan Agreement No. 22403; and

18.5.1.3. The balance of the proceeds to pay costs incurred in connection with the issuance of the Series 2016 Bonds.

## Section 19. Tax-Exempt Status of Series 2016 Bonds

**19.1. General Covenant.** The District covenants for the benefit of the Owners of the Series 2016 Bonds to comply with all provisions of the Code which are required for interest on the Series 2016 Bonds to be excluded from gross income for federal taxation purposes. In determining what actions are required to comply, the District may rely on an opinion of Bond Counsel. The District makes the following specific covenants with respect to the Code:

19.1.1. The District will not take any action or omit any action if it would cause the Series 2016 Bonds to become "arbitrage Bonds" under Section 148 of the Code.

19.1.2. The District shall operate the facilities financed with the Series 2016 Bonds so that the Series 2016 Bonds do not become private activity Bonds within the meaning of Section 141 of the Code.

19.1.3. The District shall pay, when due, all rebates and penalties with respect to the Series 2016 Bonds which are required by Section 148(f) of the Code.

**19.2. Covenants as Contracts.** The covenants contained in Section 19 and any covenants in the closing documents for the Series 2016 Bonds shall constitute contracts with the owners of the Series 2016 Bonds, and shall be enforceable by them.

## Section 20. Provisions Related to 2016 Bonds Reserve Credit Facility

**20.1. Definitions.**

20.1.1. "2016 Bonds Reserve Credit Facility" means: Municipal Bond Debt Service Reserve Insurance Policy No. 217755-S.

20.1.2. "2016 Bonds Reserve Credit Provider" means: Assured Guaranty Municipal Corp.

20.1.3. “Authorizing Documents” means this Master Declaration.

20.1.4. “First Reserve Bonds” means 2016 Bonds and other Bonds secured by the First Reserve Subaccount.

**20.1. Provisions.**

20.1.1. As described below, the District shall repay any amounts owed to the 2016 Bonds Reserve Credit Facility solely from Net Revenues that are available for such purpose pursuant to Section 4.1.3 of this Master Declaration. The 2016 Bonds Reserve Credit Facility is a Reserve Credit Facility under this Master Declaration.

20.1.2. The 2016 Bonds Reserve Credit Provider shall be entitled to exercise the rights in this Master Declaration only while the 2016 Bonds Reserve Credit Facility is in effect and the 2016 Bonds Reserve Credit Provider is not in default under the 2016 Bonds Reserve Credit Facility. If the 2016 Bonds Reserve Credit Facility is not in effect or 2016 Bonds Reserve Credit Provider is in default under the 2016 Bonds Reserve Credit Facility, the 2016 Bonds Reserve Credit Provider shall have no rights to notice or consent, among the others rights, outlined in this Master Declaration. The rights granted to the 2016 Bonds Reserve Credit Provider in this Section 20 shall not extend to any other Owner.

20.1.2.1. Upon any payment by the 2016 Bonds Reserve Credit Provider under the 2016 Bonds Reserve Credit Facility, the 2016 Bonds Reserve Credit Provider shall furnish to the District written instructions as to the manner in which payment of amounts owed to the 2016 Bonds Reserve Credit Provider as a result of such payment under the 2016 Bonds Reserve Credit Facility shall be made. Amounts drawn under the 2016 Bonds Reserve Credit Facility shall be used solely to pay scheduled payments of principal and interest due on the First Reserve Bonds.

20.1.2.2. The District shall pay the 2016 Bonds Reserve Credit Provider, but solely from Net Revenues as permitted by this Master Declaration, the principal amount of any draws under the 2016 Bonds Reserve Credit Facility and pay all related reasonable expenses incurred by the 2016 Bonds Reserve Credit Provider and shall pay interest thereon from the date of payment by the 2016 Bonds Reserve Credit Provider at the Late Payment Rate. “Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 5%, and (ii) the then applicable highest rate of interest on the First Reserve Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such national bank as the 2016 Bonds Reserve Credit Provider shall designate. If the interest provisions of this Section 20.1.2.2 shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created herein, then all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party hereto, be applied as additional interest for any later periods of time when amounts are outstanding hereunder to the extent that interest otherwise due hereunder for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by the 2016 Bonds Reserve Credit Provider, with the same force and effect as if the District had specifically designated such extra sums to be so applied and the 2016 Bonds Reserve Credit Provider had agreed to accept such extra payment(s) as additional interest for such later periods. In no event shall any agreed-to or actual exaction as consideration for payment obligation created herein exceed the limits imposed or provided by the law applicable to this transaction for the use or detention of money or for forbearance in seeking its collection.

20.1.2.3. Repayment of draws and payment of expenses and the interest accrued thereon at the Late Payment Rate (collectively, “Policy Costs”) shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12th of the aggregate of Policy Costs related to such draw. Amounts in respect of Policy Costs paid to the 2016 Bonds Reserve Credit Provider shall be credited first to interest due, then to the expenses due and then to principal due.

20.1.2.4. As and to the extent that payments are made to the 2016 Bonds Reserve Credit Provider on account of principal due, the coverage under the 2016 Bonds Reserve Credit Facility will be increased by a like amount, subject to the terms of the 2016 Bonds Reserve Credit Facility.

20.1.2.5. All cash and investments in the First Reserve Subaccount of the Revenue Bond Reserve Account shall be transferred to the Revenue Bond Account for payment of debt service on the First Reserve Bonds before any drawing may be made on the 2016 Bonds Reserve Credit Facility or on any alternative credit instrument. Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all alternative credit instruments (including the 2016 Bonds Reserve Credit Facility) on which there is available coverage shall be made on a pro rata basis (calculated by reference to available coverage under each such alternative credit instrument) after applying available cash and investments in the First Reserve Subaccount of the Revenue Bond Reserve Account. Payment of Policy Costs and reimbursement of amounts with respect to alternative credit instruments shall be made on a pro-rata basis prior to replenishment of any cash drawn from the First Reserve Subaccount of the Revenue Bond Reserve Account. For the avoidance of doubt, “available coverage” means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

20.1.2.6. Upon a failure to pay Policy Costs when due or any other breach of the terms of this Section 20, the 2016 Bonds Reserve Credit Provider shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the

Master Declaration, other than (i) acceleration of the maturity of the Bonds or (ii) remedies which would adversely affect owners of the Bonds.

20.1.2.7. The Master Declaration shall not be discharged until all Policy Costs owing to the 2016 Bonds Reserve Credit Provider shall have been paid in full. The District's obligation to pay such amounts shall expressly survive payment in full of the First Reserve Bonds.

20.1.2.8. Policy Costs due and owing shall be included in debt service requirements for purposes of calculation of the additional bonds test and the rate covenant in the Master Declaration.

20.1.2.9. The Paying Agent shall ascertain the necessity for a claim upon the 2016 Bonds Reserve Credit Facility in accordance with the provisions of Section 5 hereof and shall provide notice to the 2016 Bonds Reserve Credit Provider in accordance with the terms of the 2016 Bonds Reserve Credit Facility at least three business days prior to each date upon which interest or principal is due on the First Reserve Bonds.

20.1.2.10. The District will pay or reimburse the 2016 Bonds Reserve Credit Provider any and all reasonable charges, fees, costs, losses, liabilities and expenses which the 2016 Bonds Reserve Credit Provider may pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the 2016 Bonds Reserve Credit Facility, (ii) the administration, enforcement, defense or preservation of any rights in respect of the Authorizing Documents, including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the District) relating to the Authorizing Documents, any party to the Authorizing Document or the transactions contemplated by the Authorizing Documents, (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under the Authorizing Document, if any, or the pursuit of any remedies under the Authorizing Documents, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, (iv) any amendment, waiver or other action with respect to, or related to the Authorizing Documents, the 2016 Bonds Reserve Credit Facility or any other Related Document whether or not executed or completed, or (v) any action taken by the 2016 Bonds Reserve Credit Provider to cure a default or termination or similar event (or to mitigate the effect thereof) under the Authorizing Documents; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of the 2016 Bonds Reserve Credit Provider spent in connection with the actions described in clauses (ii)-(v) above. The 2016 Bonds Reserve Credit Provider reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Authorizing Documents. Amounts payable by the District hereunder shall bear interest at the Late Payment Rate from the date such amount is paid or incurred by the 2016 Bonds Reserve Credit Provider until the date the 2016 Bonds Reserve Credit Provider is paid in full.

20.1.2.11. The obligation of the District to pay all amounts due under this Section 20 shall be a special limited obligation of the District payable solely from Net Revenues that are available for such purpose pursuant to Section 4.1.3 of this Master Declaration, but otherwise shall be an absolute and unconditional obligation of the District , irrespective of (i) any lack of validity or enforceability of or any amendment or other modifications of, or waiver with respect to the First Reserve Bonds, or Authorizing Documents, or (ii) any amendment or other modification of, or waiver with respect to the 2016 Bonds Reserve Credit Facility; (iii) any exchange, release or non-perfection of any security interest in property securing the First Reserve Bonds, or Authorizing Documents; (iv) whether or not such First Reserve Bonds are contingent or matured, disputed or undisputed, liquidated or unliquidated; (v) any amendment, modification or waiver of or any consent to departure from the 2016 Bonds Reserve Credit Facility, or Authorizing Documents; (vi) the existence of any claim, setoff, defense (other than the defense of payment in full), reduction, abatement or other right which the District may have at any time against the Paying Agent or any other person or entity other than the 2016 Bonds Reserve Credit Provider, whether in connection with the transactions contemplated herein, or in the Authorizing Documents or any unrelated transactions; (vii) any statement or any other document presented under or in connection with the 2016 Bonds Reserve Credit Facility proving in any and all respects invalid, inaccurate, insufficient, fraudulent or forged or any statement therein being untrue or inaccurate in any respect; or (viii) any payment by the 2016 Bonds Reserve Credit Provider under the 2016 Bonds Reserve Credit Facility against presentation of a certificate or other document which does not strictly comply with the terms of the 2016 Bonds Reserve Credit Facility.

20.1.2.12. The prior written consent of the 2016 Bonds Reserve Credit Provider shall be a condition precedent to the deposit of any credit facility credited to the First Reserve Subaccount of the Revenue Bond Reserve Account in lieu of a cash deposit into the First Reserve Subaccount of the Revenue Bond Reserve Account.

20.1.2.13. No provision of the Authorizing Documents shall be amended, supplemented, modified or waived, without the prior written consent of the 2016 Bonds Reserve Credit Provider, in a manner that could adversely materially affect the payment obligations of the District under this Section 20 or the priority accorded to the reimbursement of Policy Costs under the Authorizing Documents. The 2016 Bonds Reserve Credit Provider is hereby expressly made a third party beneficiary of the Authorizing Documents.

20.1.2.14. The District covenants to provide to the 2016 Bonds Reserve Credit Provider, promptly upon request, any information regarding the First Reserve Bonds or the financial condition and operations of the District as reasonably requested by the 2016 Bonds Reserve Credit Provider. The District will permit the 2016 Bonds Reserve Credit Provider to discuss the affairs, finances and accounts of the District or any information the 2016 Bonds Reserve Credit Provider may reasonably request regarding the security for the First Reserve Bonds with appropriate officers of the District and will use commercially reasonable efforts to enable the 2016 Bonds Reserve Credit Provider to have access to the facilities, books and records of the Issuer on any business day upon reasonable prior notice.

20.1.2.15. Notices to the 2016 Bonds Reserve Credit Provider shall be sent to the following address (or such other address as the 2016 Bonds Reserve Credit Provider may designate in writing): Assured Guaranty Municipal Corp., 31 West 52nd Street, New York, New York 10019, Attention: Managing Director– Surveillance, Re: Policy No. 217755-S.

EXECUTED ON BEHALF OF THE DISTRICT BY AN AUTHORIZED DISTRICT OFFICIAL AS OF THE __DAY OF______, 2018.

WES HEREBY ACCEPTS ITS SUBSTITUTION FOR CCSD#1 UNDER THIS AMENDED MASTER DECLARATION, AND ACCEPTS ALL RIGHTS AND OBLIGATIONS OF THE "DISTRICT" UNDER THIS AMENDED MASTER DECLARATION AND RELATED DOCUMENTS.

**WATER ENVIRONMENT SERVICES**

By: ________________________________
Greg Geist, District Director

Acknowledged:

**U.S. BANK, NATIONAL ASSOCIATION**, as Paying Agent

By:________________________________

Name:______________________________

Title:_______________________________

In the Matter of an Order of the
WES Partnership Accepting the
Obligations of CCSD#1 under the
Amended Master Sewer Revenue
Bond Declaration And Existing Loan

Order No. _____

WHEREAS, Clackamas County Service District No. 1 ("CCSD#1"), Tri-City Service District and the Surface Water Management Agency of Clackamas County entered into an Intergovernmental Partnership Agreement pursuant to ORS Chapter 190 forming an intergovernmental entity known as Water Environment Services, a municipal partnership ("WES Partnership"); and,

WHEREAS, on May __, 2018, the Board of County Commissioners of Clackamas County, acting as the governing body of CCSD#1, adopted the Amended Master Sewer Revenue Bond Declaration pursuant to Order No. ____ (the "Amended Declaration"); and,

WHEREAS, the Amended Declaration substitutes the WES Partnership for CCSD#1 under the Amended Declaration, and transfers all rights and obligations of CCSD#1 under the Amended Declaration from CCSD#1 to the WES Partnership; and,

WHEREAS, The Board of CCSD#1 expects that substituting the WES Partnership for CCSD#1 as issuer of the Outstanding Bonds will improve the financial performance and operating efficiency, reduce the capital needs, and improve the regulatory management of the issuer, as described in detail in the Order adopted by the Board of CCSD#1; and,

WHEREAS, the acceptance of the WES Partnership of the substitution is consistent with the requirements of the partnership agreement's requirements that the WES Partnership become the operating entity on behalf of all the partners, including CCSD#1; and,

WHEREAS, it is desirable to memorialize the acceptance by the WES Partnership of its substitution for CCSD#1 under the Amended Declaration, and the acceptance by the WES Partnership of all of CCSD#1's rights and obligations under the Amended Declaration; and,

WHEREAS, CCSD#1 also has an outstanding loan with the State of Oregon, CWSRF Loan No. R06224 (the "Loan"); and,

WHEREAS, it is desirable to memorialize the acceptance by the WES Partnership of its substitution for CCSD#1 under the Loan, and the acceptance by the WES Partnership of all of CCSD#1's rights and obligations under the Loan; and,

NOW THEREFORE, IT IS HEREBY ORDERED, by the Board of County Commissioners of Clackamas County, acting as the governing body of the WES Partnership, that the WES Partnership hereby accepts its substitution for CCSD#1 under the Amended Declaration and the

Loan, hereby accepts all rights and obligations of CCSD#1 under the Amended Declaration and the Loan and related documents for each, such as the tax certificate and continuing disclosure certificate for outstanding borrowings, and hereby authorizes the Executive Officer or Director of the WES Partnership to sign the Amended Declaration on behalf of the WES Partnership.

ADOPTED this ___ day of May, 2018.

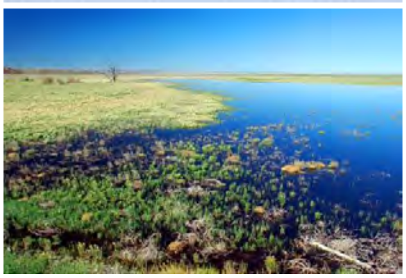
BOARD OF COUNTY COMMISSIONERS,
acting as the governing body of the WES Partnership

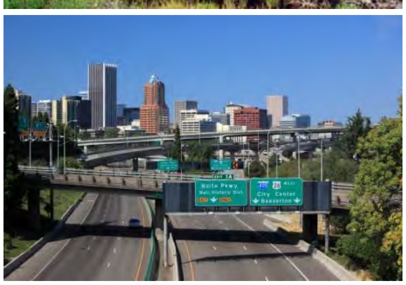
________________________________
Chair

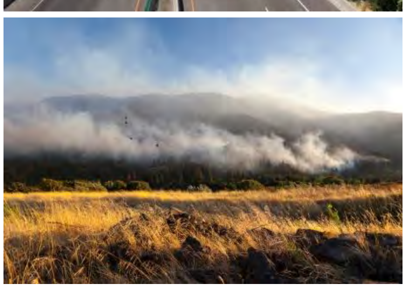
________________________________
Recording Secretary

# Project Highlights

**Oregon Consensus | Portland State University**







**For 25 years, Oregon Consensus has been fulfilling a legislative mandate to provide alternative dispute resolution and agreement-seeking services to Oregon state agencies and communities. We design and facilitate collaboration projects that bring together communities, government, nonprofits, and businesses to find new approaches to contentious public issues. Highlights include:**

- **Preserving Sage Grouse and Local Economies**
  Developed Oregon's Sage Grouse Action Plan, eliminating the need to list sage grouse as endangered, and securing federal, state, and local cooperation to protect habitat while preserving local economies across eastern Oregon. We are continuing to work with stakeholders as they implement the plan. ***Sage Grouse Conservation Partnership.***

- **Securing the Future of the Malheur Wildlife Refuge**
  Strengthened relationships and produced an environmental impact statement and Comprehensive Conservation Plan that will guide management of the Malheur Wildlife Refuge until 2027. We are continuing to facilitate collaborative implementation of the plan. ***Malheur National Wildlife Refuge Working Group.***

- **Addressing Transportation Needs in the Metro Region**
  Recommended a new Area Commission on Transportation, which now serves the greater Portland area with enhanced representation of rural communities and a new mechanism for decision making about transportation investments. ***Region 1 Transportation Coordination Task Force.***

- **Preventing Wildfires**
  In response to devastating wildfires in southeast Oregon, finding collaborative approaches to fire prevention, response, and recovery. ***Harney County Wildfire Collaborative.***

***Breaking impasse, getting results, and saving state resources…***




## *Oregon Consensus is making a difference in Communities Statewide.*

- **Creating Efficiencies for State and County Parks**
  Reviewed park revenue sources and identified ways to improve resource sharing, service delivery, and marketing. Also identified ways to save costs by consolidating management of some parks. ***State and County Parks Collaborative.***

- **Supporting the Roseburg Community**
  Building a community team that will secure recovery funds, improve communication between social services and mental health providers, and address other needs in the wake of a recent shooting at Umpqua Community College. ***Roseburg Community Support Team.***

- **Improving Population Forecasting Statewide**
  Simplified population forecasting for Oregon counties, nearly half of which were previously unable to meet state requirements for forecasting. Developed recommendations (adopted nearly unanimously by the legislature) that consolidated forecasting work, reduced costs, and ensured better data for land use planning. ***Population Forecasting Work Group.***

- **Examining Charter School Funding**
  Exploring whether and how the funding formula for charter schools should be changed. Results may inform discussions in the 2017 legislative session. ***Charter School Task Force.***

### Contact


Oregon Consensus | Portland State University
Urban Center | Suite 720 | 506 SW Mill Street | P.O. Box 751
Portland, OR | 97218-0751 | (503) 725-9077 | *npccdesk@pdx.edu*
*www.oregonconsensus.org* | *www.pdx.edu/npcc*

Peter Harkema, Director, Oregon Consensus
Laurel Singer, Director, National Policy Consensus Center

# Collaborative Agreement Seeking Assessments

**Collaborative Governance** is a term used to describe a variety of approaches in which all sectors -- public, private, and civic – are convened to work together to achieve solutions to public problems that go beyond what any sector could achieve on its own.

A **collaborative agreement seeking** process is a method of collaborative governance. In this approach, representatives of key stakeholders, interests and those affected by a situation use a facilitated, consensus-based process to achieve identified goals. These groups may be empowered to make decisions themselves or structured to make joint recommendations to another governance body. The university-based program of Oregon Consensus serves as a neutral forum and provides the unbiased facilitation that is often essential to enable stakeholders to effectively engage in this collaborative process.

Collaborative agreement seeking is **especially effective for complex public issues** where there are multiple or overlapping authorities that require broad buy-in and support to develop and implement a solution. Using collaboration allows for all parties to work together to create sustainable solutions, often circumventing efforts to block or undermine implementation once a decision has been made.

The collaborative agreement seeking process is flexible and can be structured in a variety of ways to meet the needs of those involved. To be effective, it is important to have common agreement about the issues, outcomes, or solutions that are being sought.

A collaborative agreement seeking process begins with an ***assessment*** to help determine whether conditions are “ripe” for collaboration and if so, how the process should be designed for the greatest likelihood of success**.** To make this determination, the assessment seeks to understand:

- **What** are the issues and opportunities?
- **Who** are the key stakeholders and what are their interests?
- **How** could a collaborative effort be structured to address those interests and what parameters would need to be incorporated?

An assessment conducted by a neutral third party is often critical to assuring that information gained is given freely and analyzed without bias. In addition, the relationship established in the assessment often helps build confidence, trust, and understanding of the collaborative process.

## Steps of an Assessment

- **Organizational Pre-Assessment.** When large organizations are involved in a conflict, pre-assessment work with key leaders and decision makers may be helpful to explore the range of internal interests and to help the organization identify a cohesive perspective that will allow representatives to participate effectively in the larger assessment.

- **Stakeholder interviews.** Individual and/or group interviews are used to identify issues and interests, and to gauge opportunities for collaborative resolution. During the interview process, the facilitator will:

  - Work with key stakeholders to identify a fully representative list of interviewees and questions/issues to be explored.
  - Draft a set of interview questions or protocols to guide interviews with stakeholders.
  - Conduct stakeholder interviews with individuals or groups in person or by telephone. Interview length varies based on complexity. Questions covered are generally the same for each person interviewed, but interviews may be conversational and allow for flexibility.

- **Data analysis.** The facilitator collates interview data and identifies key themes. The facilitator also analyzes whether parties feel they have alternatives to collaboration that might achieve their objectives, and as a result, whether they might not fully engage in collaboration. A judgment is also made about whether resolution is likely. Not every assessment concludes that a collaborative approach is feasible or likely to be of value. Assessment of collaborative potential is based on the following indicators:

  - ***Scope and Objectives***. Objectives are clear and the scope of issues is manageable.
  - ***Adequate Data***. Sufficient information is available or obtainable to support informed discussion of the issues.
  - ***Good Faith Participation***. Parties representing all interests are available and truly believe they are as likely to achieve through collaboration all (or more than) they would be able to achieve through alternative approaches.
  - ***Trust***. The parties have or can build mutual trust.
  - ***Capacity***. Adequate time and resources are available to support the process
  - ***Implementability***. The legal and political context would allow for implementing a consensus agreement.

- **Report and Recommendations.** The facilitator provides a formal or informal report to the stakeholders who initiated the assessment, and often to all interviewees. The report highlights key themes but does not report all comments. Data is not attributed to individuals, and information related as confidential is omitted. If collaboration is recommended, process design and timeline recommendations may be included. The parties may accept, reject, or modify the design recommendations. If the parties choose to move forward, they are not obligated to use the facilitator who did the assessment to lead the collaborative process.

## Outcomes

The assessment ***does not guarantee*** that a situation can and will be resolved to the satisfaction of all parties. The recommendations reflect the facilitator's beliefs, based on the data, about whether and how a collaborative approach might help the parties resolve their differences.

10 April 2018

# WES Rules & Regulations

## UPDATE PROJECT

WATER ENVIRONMENT SERVICES

# What *are* the Rules and Regulations?

- Administrative Rules
  - Internal to WES
  - Administrative Procedures
    - Development Application Submissions
    - Review Process
  - Fiscal Calculations and Methods
    - EDUs & SDC Calculations
    - Connection Charges
    - Fees and Credits
- Design Standards
- Discharge Rules


WATER ENVIRONMENT SERVICES

RULES AND REGULATIONS

JULY 2018

WATER ENVIRONMENT SERVICES

# Why WES Needs This Project

- Each district had its own separate sets
- Must build rules that function properly within the 190 organizational structure
- Separate items that do not require approval from the Commissioners that are commingled with those that require approval
- Modernization – some examples are several decades old
- Reorganization will streamline, make it easier to use for customers & staff

WES

TRI CITY
SERVICE DISTRICT

RiverHealth
Serving Clackamas County Service District No. 1

Surface Water Management Agency of Clackamas County
(A Component Unit of Clackamas County, Oregon)

# Project Details

- Solicited bids in late 2017
- Brown & Caldwell selected for the project
- Brown & Caldwell recently completed a revision of Oregon City's rules & standards

Brown AND Caldwell

- Completion: Early 2019
- Internal Workshops
- Stakeholder & Community Engagement
  - Policy & Technical Workshops
  - External Outreach Interviews
  - Public Review Process
  - WESAC

Deliverables:

- Internal Administrative Rules
- Administrative Regulations
- Stormwater Standards
- Sanitary Sewer Standards
- Adoption Materials
- Training Materials

# What is Next?

- Interim Administrative Rules Adoption
  - Two Public Hearings
    - March 29
    - April 12
  - Adopting Ordinance, Effective July 1
- Finalize Contract with B&C
- Preliminary Stakeholder Involvement Beginning in May 2018

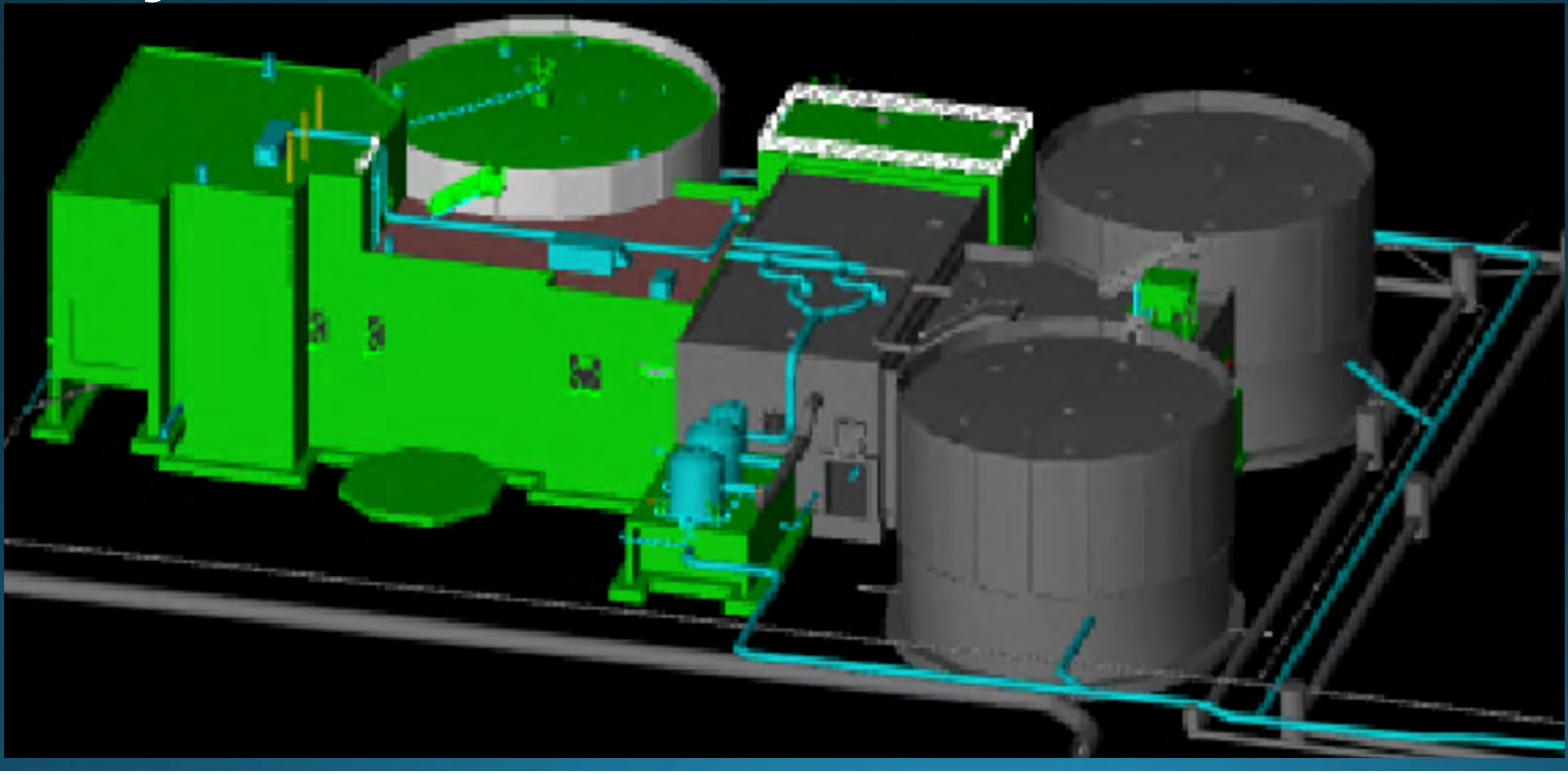
# Your Thoughts & Questions?

# Tri-City Solids Handling Improvements Project

**Lynne Chicoine, PE**
Capital Program Manager
Water Environment Services

Board of Clackamas County Commissioners Policy Session
April 4, 2018

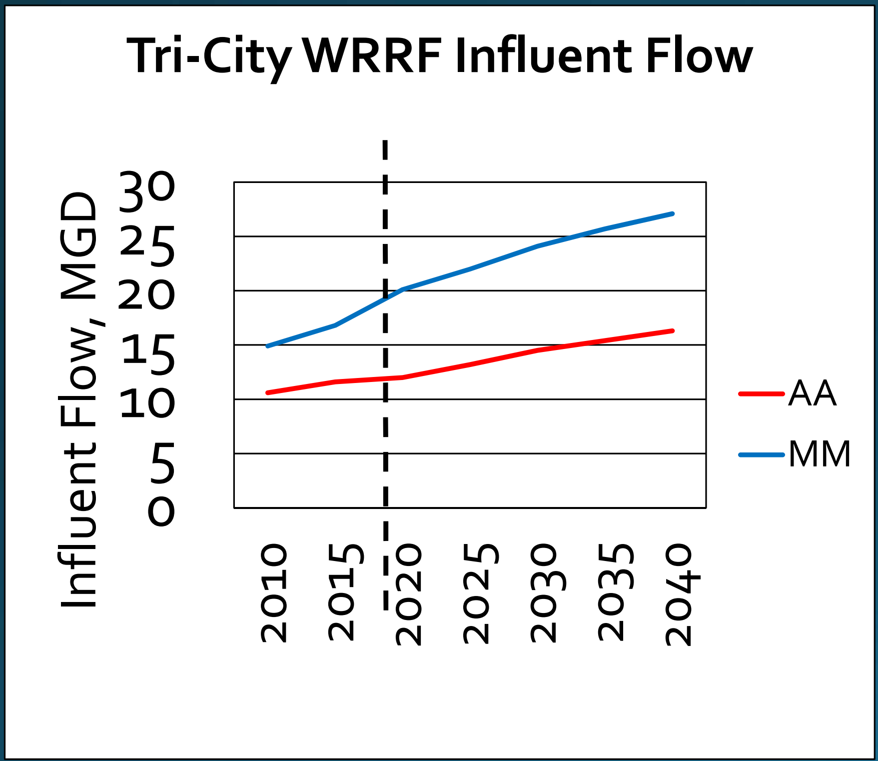
# Tri-City Solids Handling Improvements Project

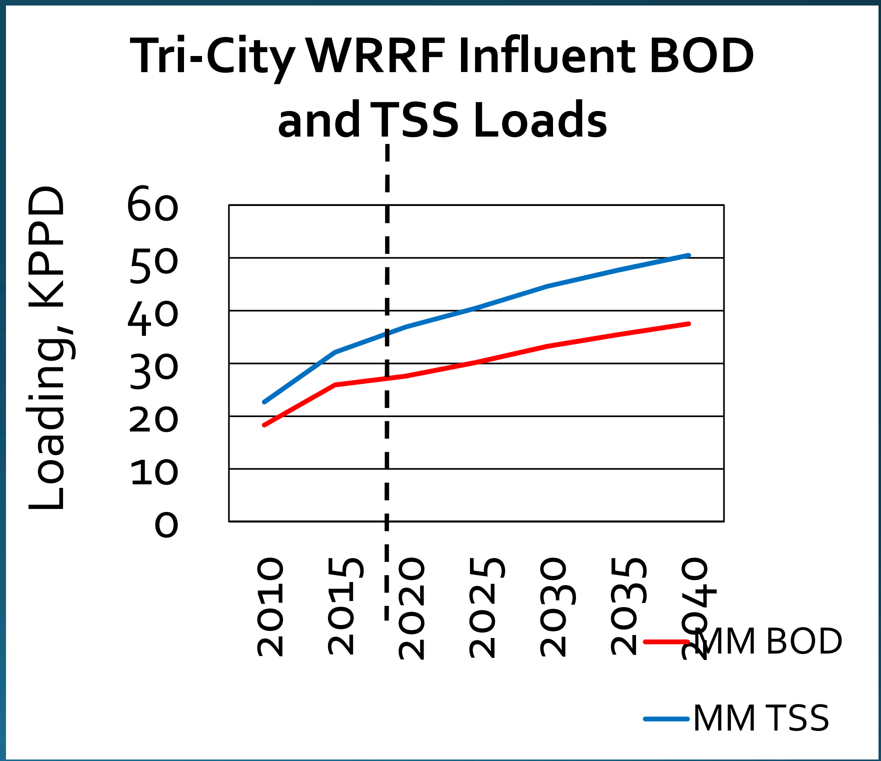


# Presentation Overview

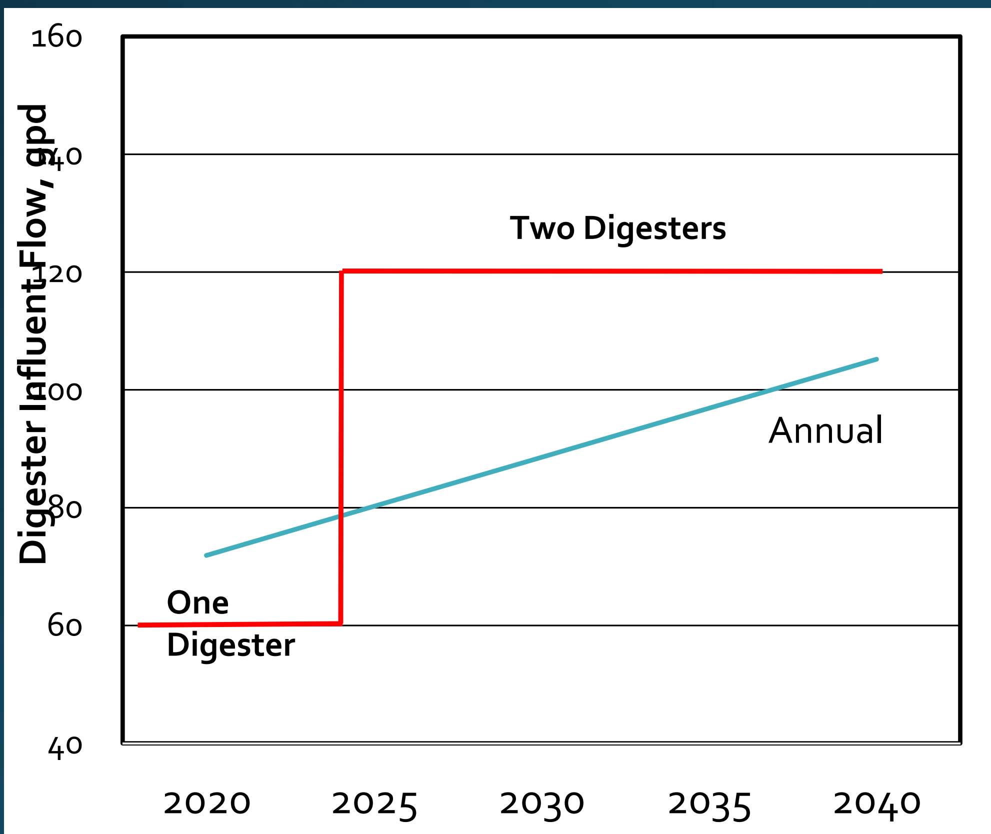
- Background
- Existing Facilities
- Project Evolution
- Proposed Facilities
- Construction Sequencing

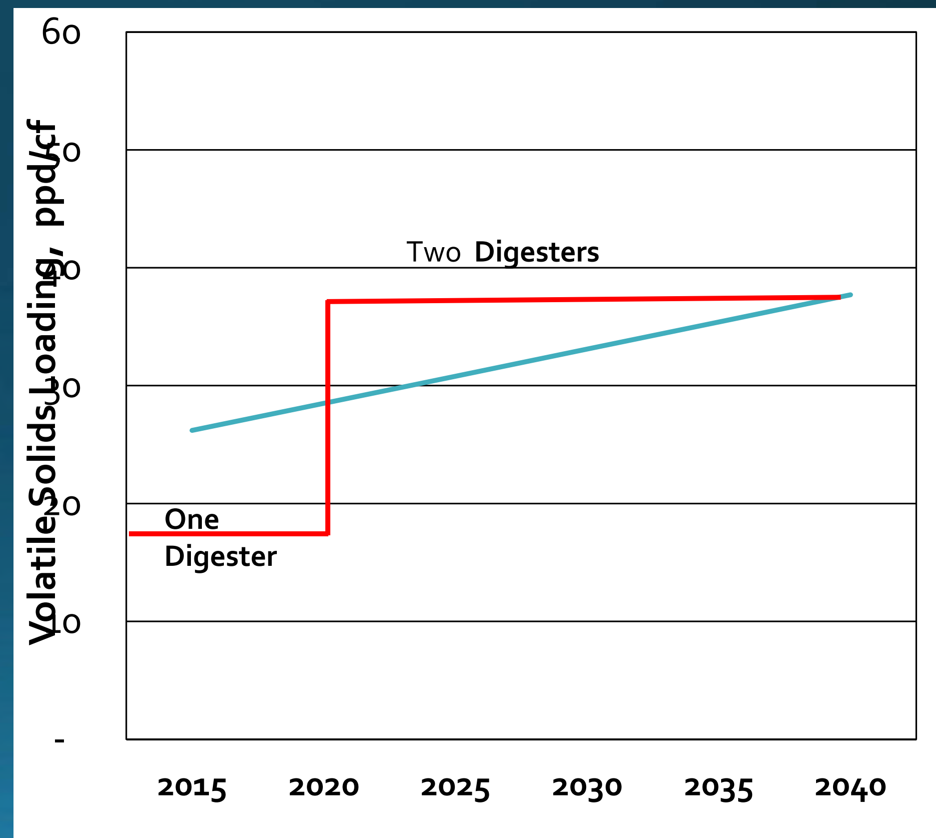
# Flows and Loads Are Increasing



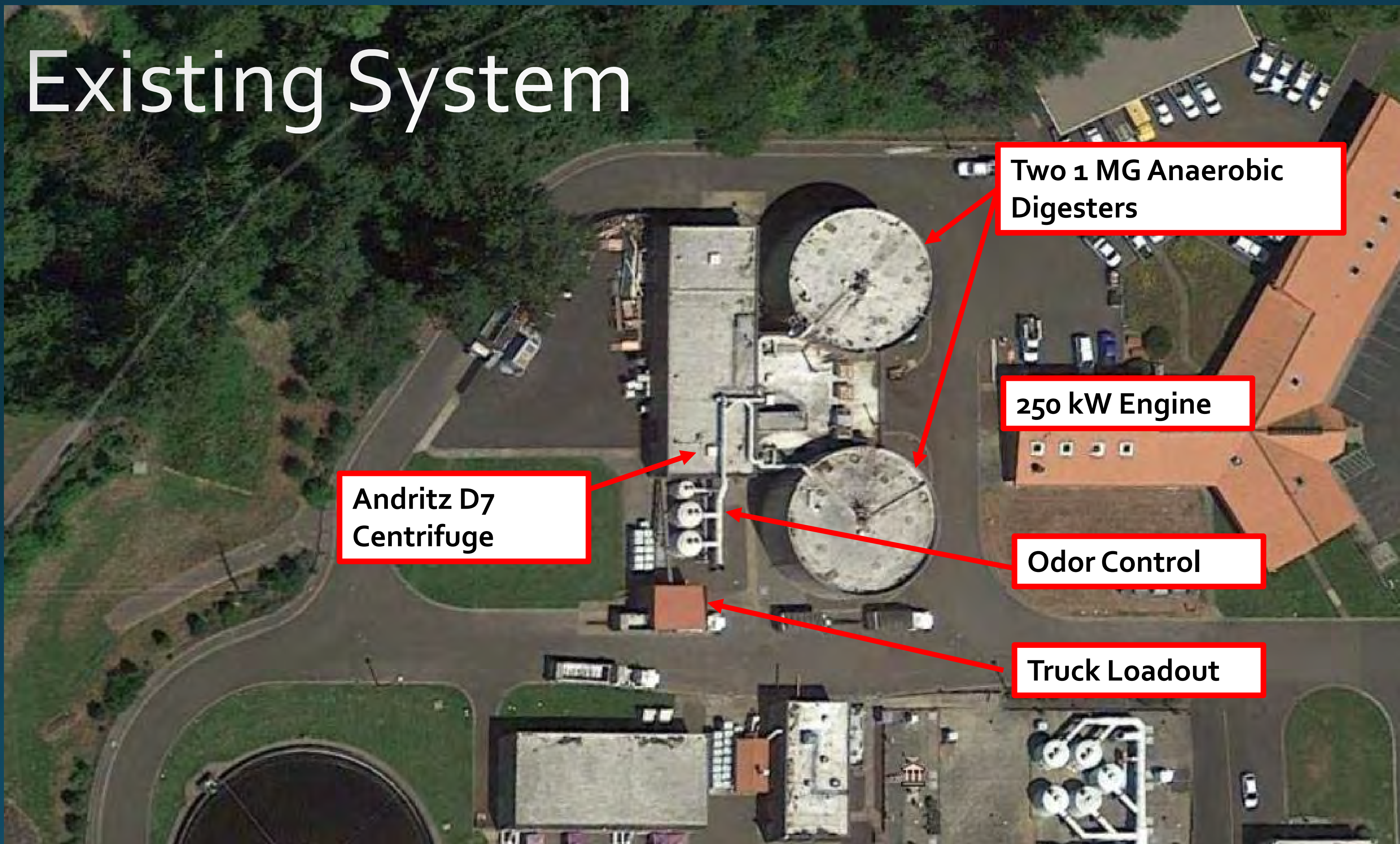



# Existing Digesters are Over Capacity



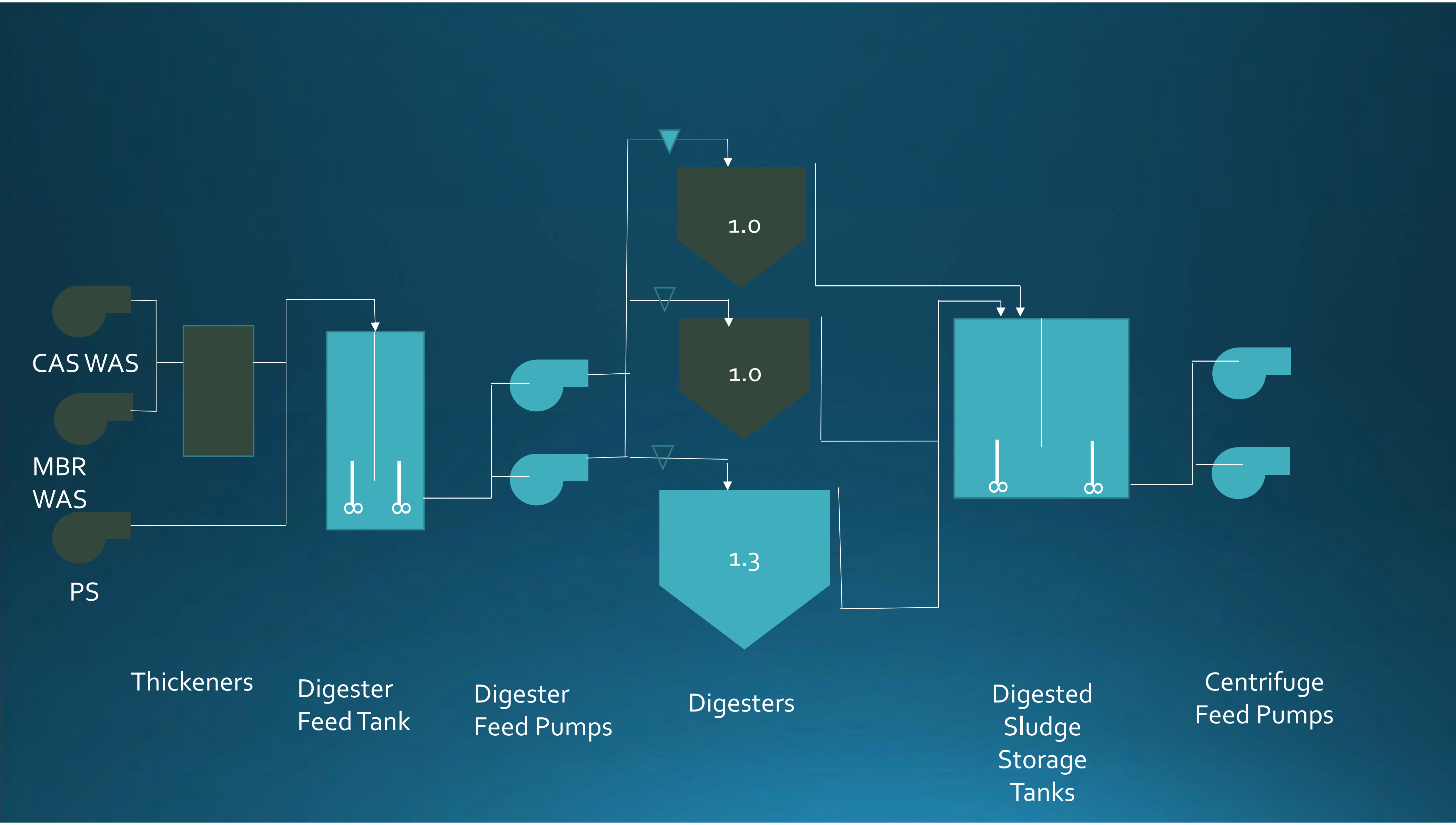



# Existing System

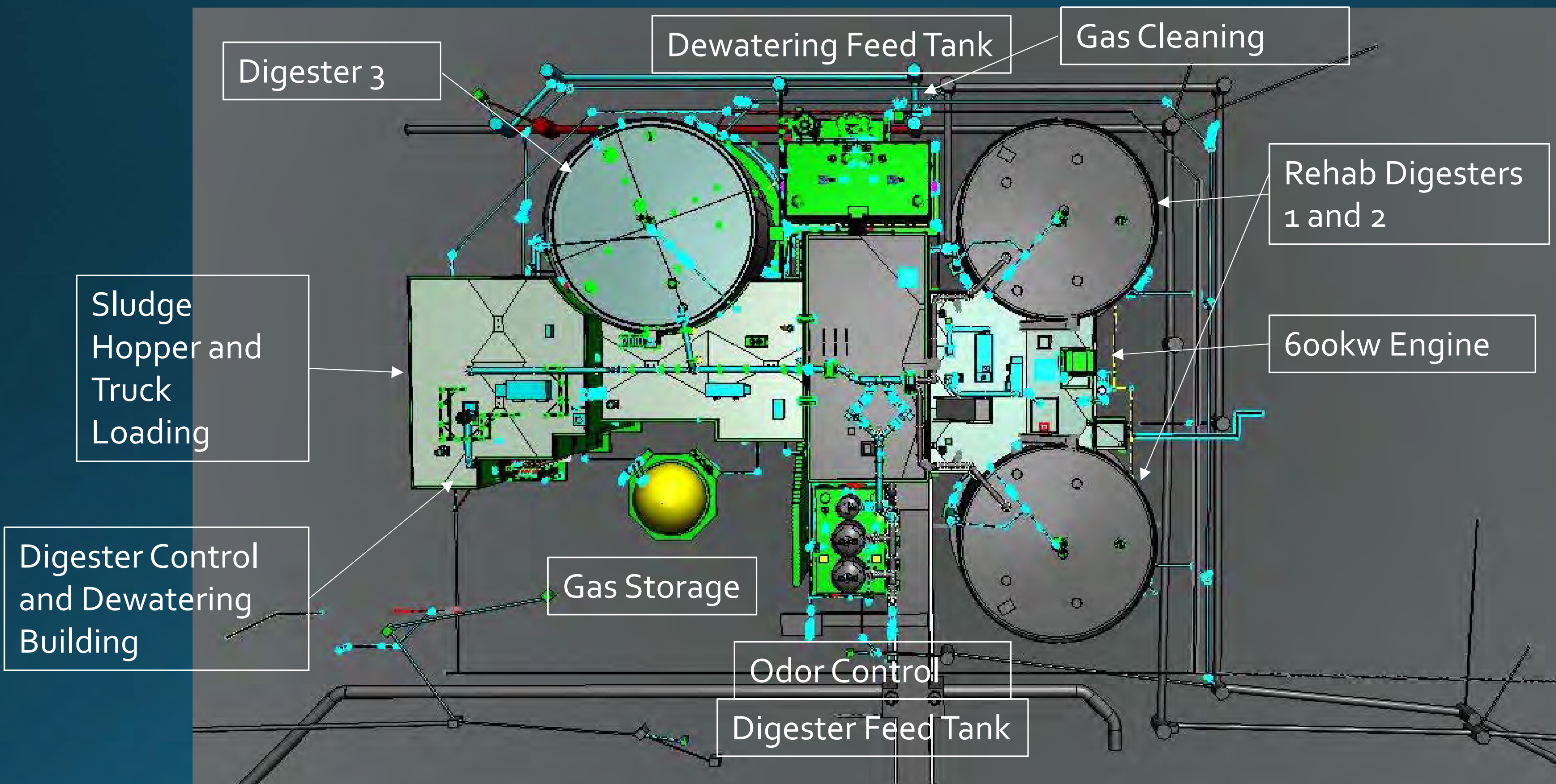


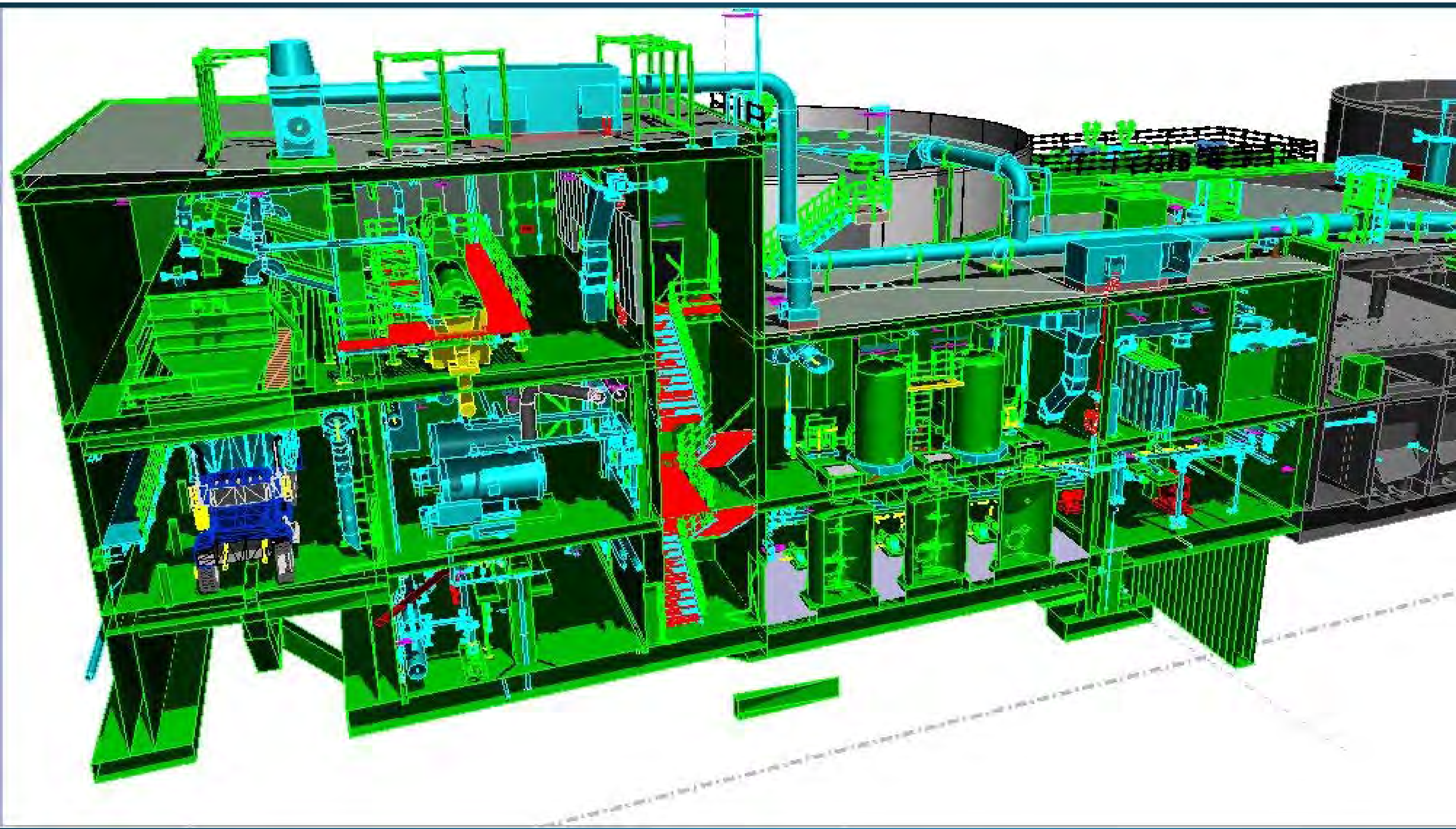
# Revised Project Reduces Project Costs

| Original Concept | Cost, $M | Revised Concept | Cost, $M |
|---|---|---|---|
| Two 1.0 MG Digesters | | One 1.3 MG Digester | |
| Digester Control Building | | Digester Control, Dewatering and Truck Loadout Building | |
| Dewatering Building and Truck Loadout | | See above | |
| One 800 kw Engine | | One 600 kw Engine | |
| Odor Control with Biotower | | Reuse carbon towers | |
| Digester and Dewatering Feed Tanks | | Digester and Dewatering Feed Tanks. | |
| Centrate Treatment | | Not required | |
| Site Power Distribution Upgrade | | Site Power Distribution Upgrade | |
| Back up Power | | Not required, already exists | |
| Landfill Mitigation | | Deferred and removed from project budget | |
| New Maintenance Building | | Eliminated by revising layout | |
| **Original Cost** | **$55M** | **Revised Cost** | **$35M** |


CAS WAS
MBR
WAS
PS
1.0
1.0
1.3
Thickeners
Digester
Feed Tank
Digester
Feed Pumps
Digesters
Digested
Sludge
Storage
Tanks
Centrifuge
Feed Pumps

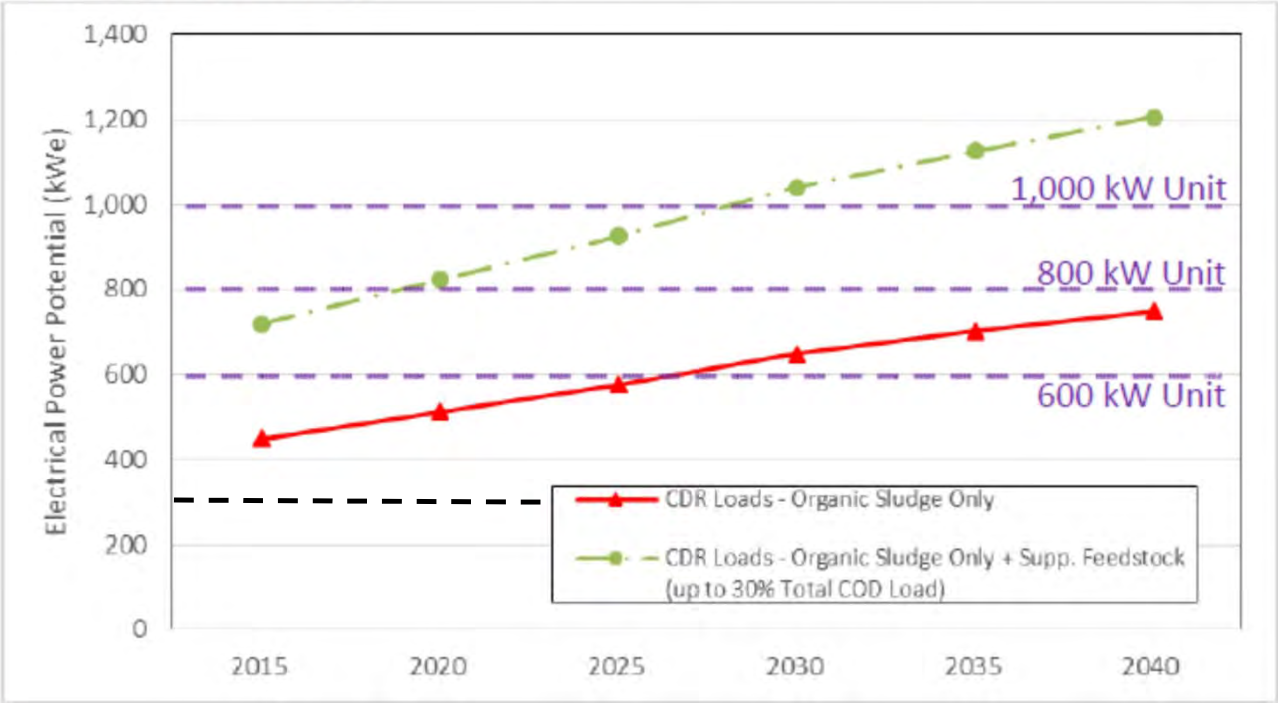
# Revised Project Overview



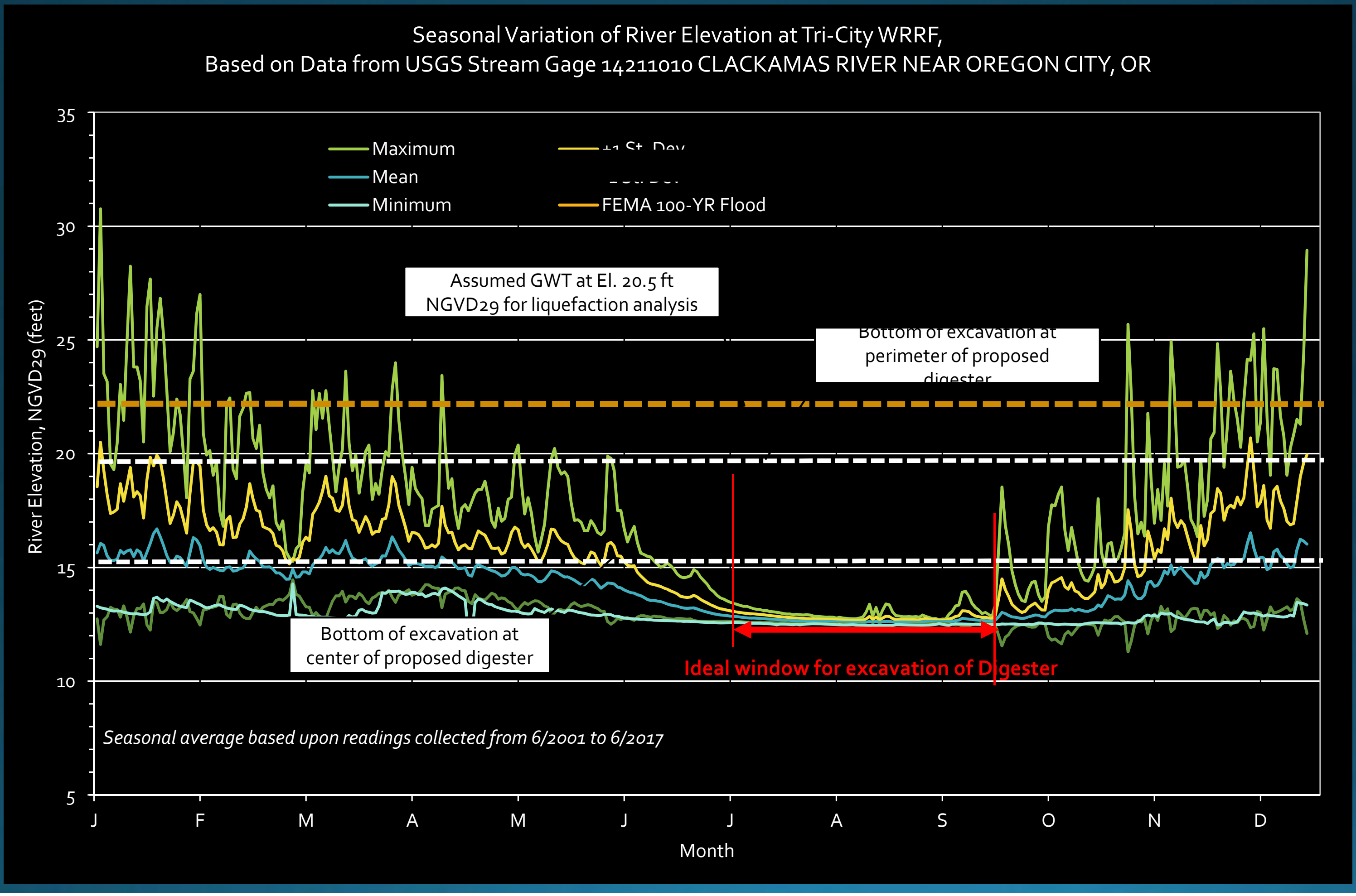


# Revised Electrical Power Production Potential

- PS and WAS loadings from the Conceptual Design Report (CDR)
- Note that volatile solids (VS) content of feed sludge used is higher than 2010-2015 data
  - 2010 to 2015 data shows average VS = 86 to 90% for primary sludge, 76 to 85% for waste activated sludge



# Seasonal Variation of Clackamas River at Site

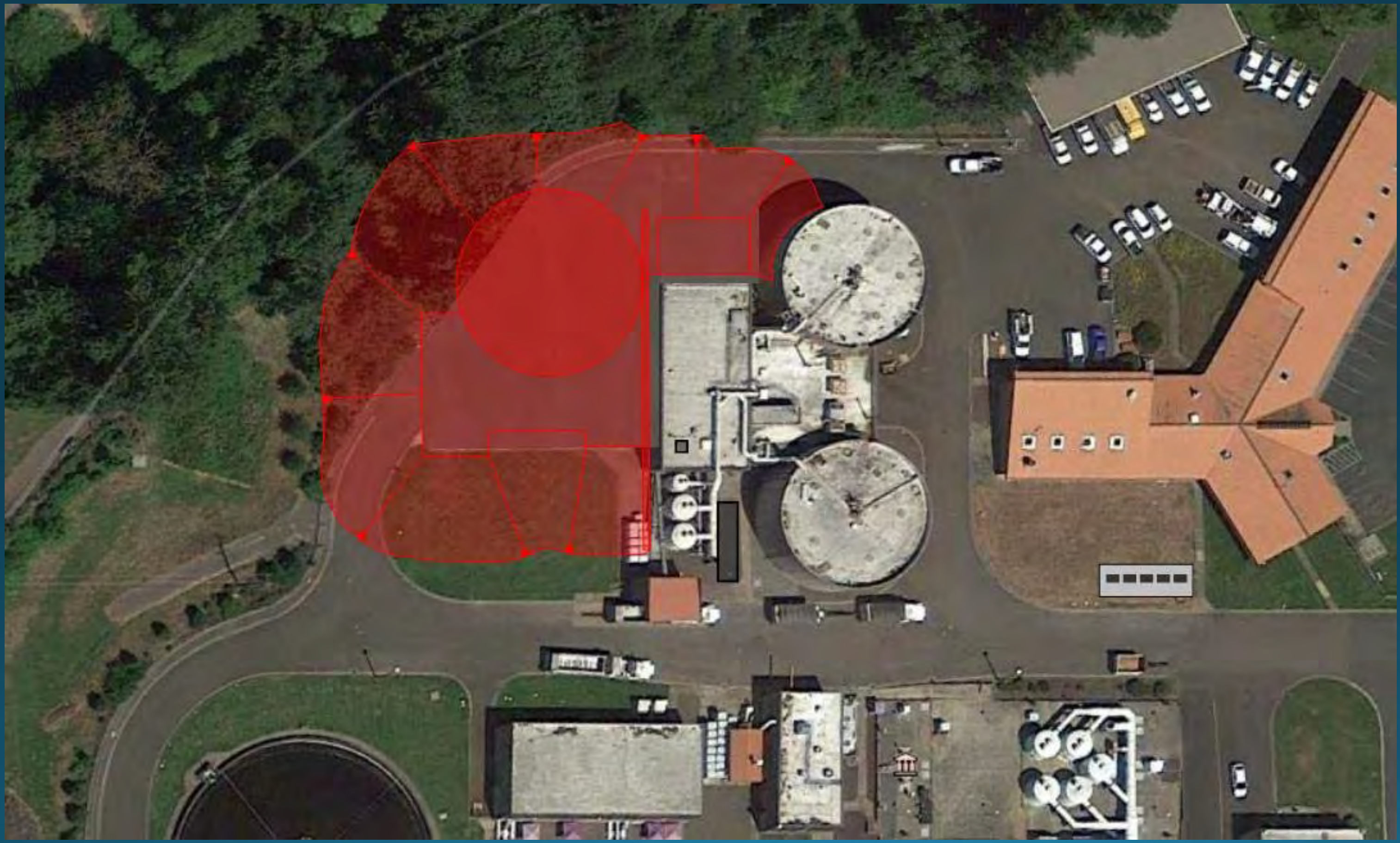


## STEP 1

- Relocate hot water system and install temporary polymer system
- Demolish north end of Thickening Building and retrofit
- Replace and raise electrical service equipment

STEP 2

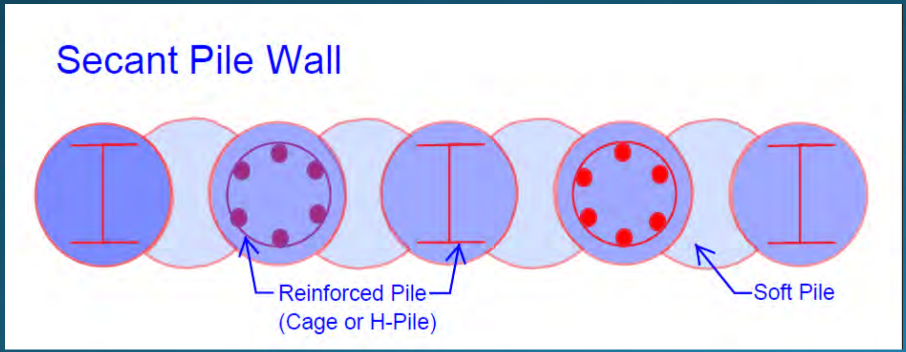
- Install secant pile wall and excavate for new structures



# Construct Secant Pile Wall

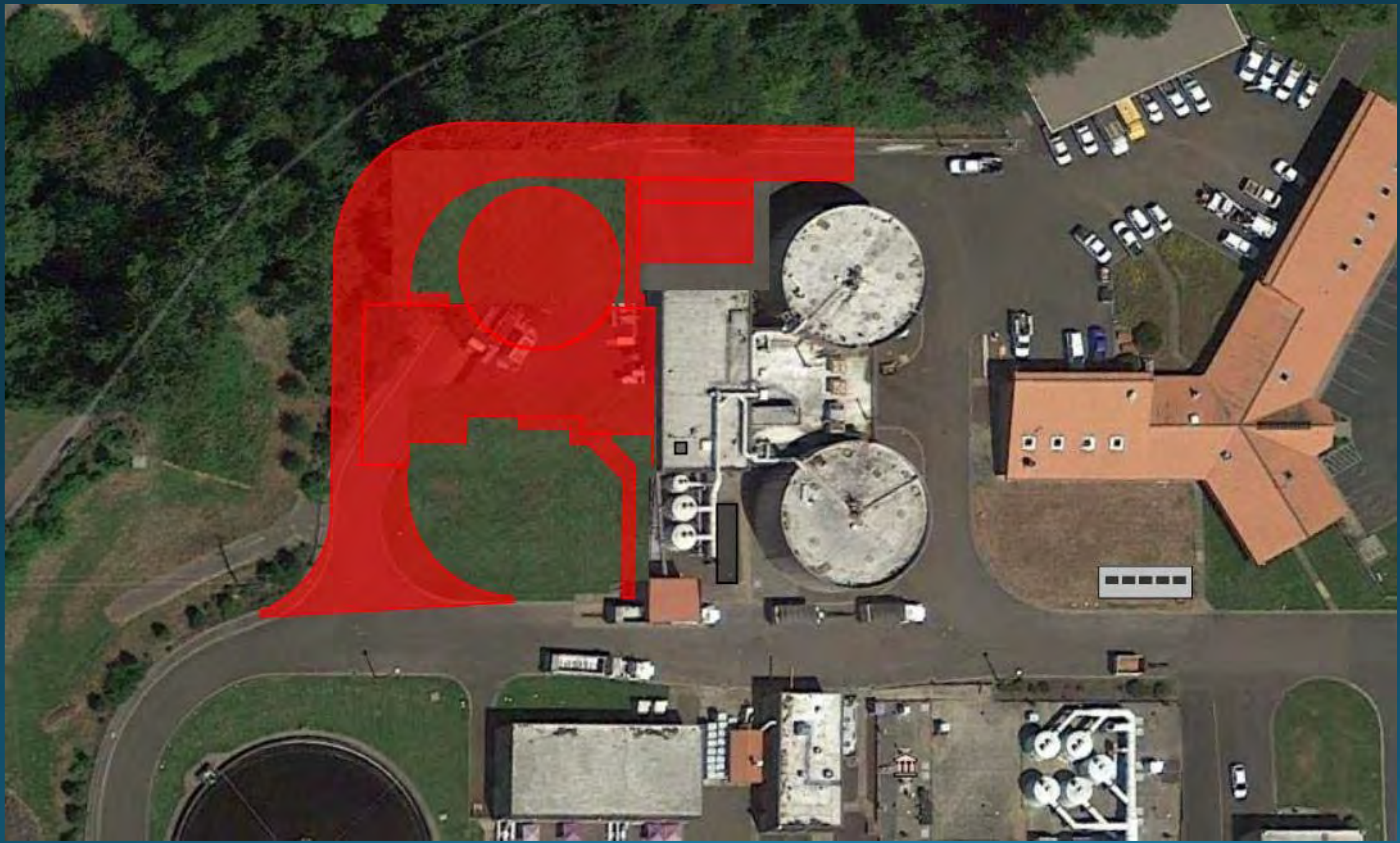
Retaining wall constructed of intersecting concrete piles.

1. Install unreinforced primary piles socketed into the dense to very dense gravelly sand and sandy gravel.
2. Install reinforced secondary piles between primary piles.
3. Install tiebacks to limit deflection.
4. Complete excavation.




STEP 3

- Construct new structures



STEP 4

- Demolish existing cake conveyor and loadout facility
- Build new digester feed tank
- Refurbish and reinstall existing odor control vessels

# STEP 5

- Thickening Building improvements

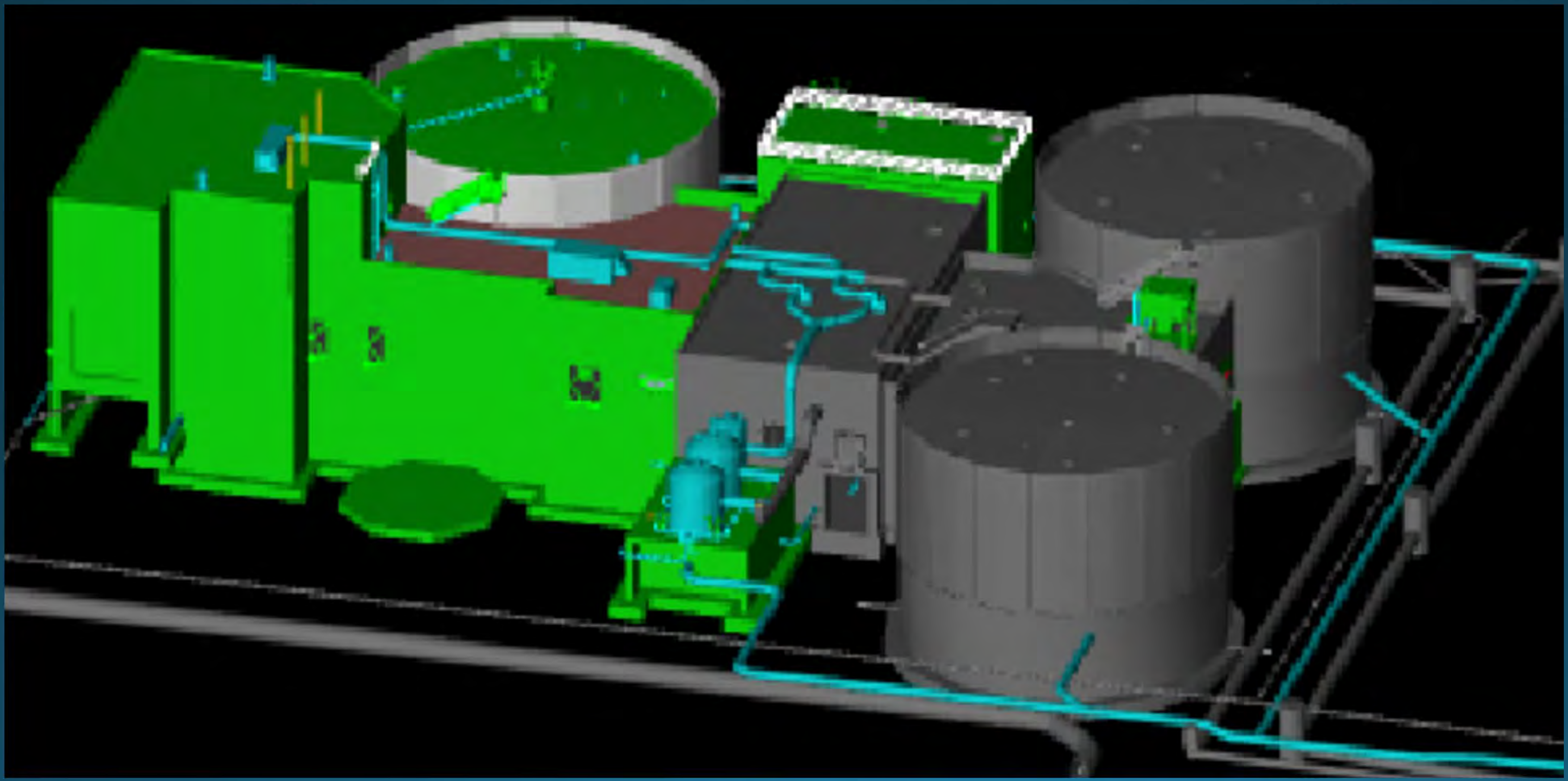
STEP 6

- Digester 1 and 2 improvements

STEP 7

- Digester Control Building improvements
- Cogeneration replacement and gas handling system
- Installation of secondary heating loop(s)

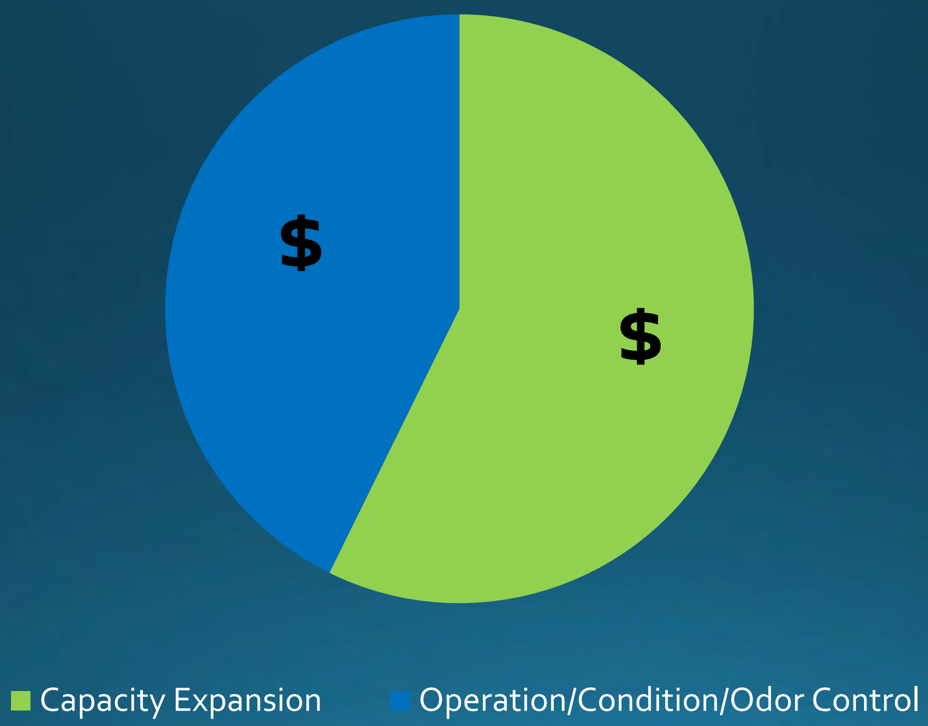
# Anticipated Completion in Dec 2020



# Current Project Addresses Capacity Needs and Rehab of Existing Facilities

**RELIABILITY/CONDITION/ OPERATIONS**

- Digester Feed Tank
- Truck Loadout
- Refurbish Existing Solids Facilities
- Power Distribution
- Polymer System
- Centrifuges




**CAPACITY**

- 1.3 MG Digester
- Digester Control and Dewatering Building
- Dewatering Feed Tank
- Cake Storage

# Questions?

**Lynne Chicoine, PE**
Capital Program Manager
Water Environment Services
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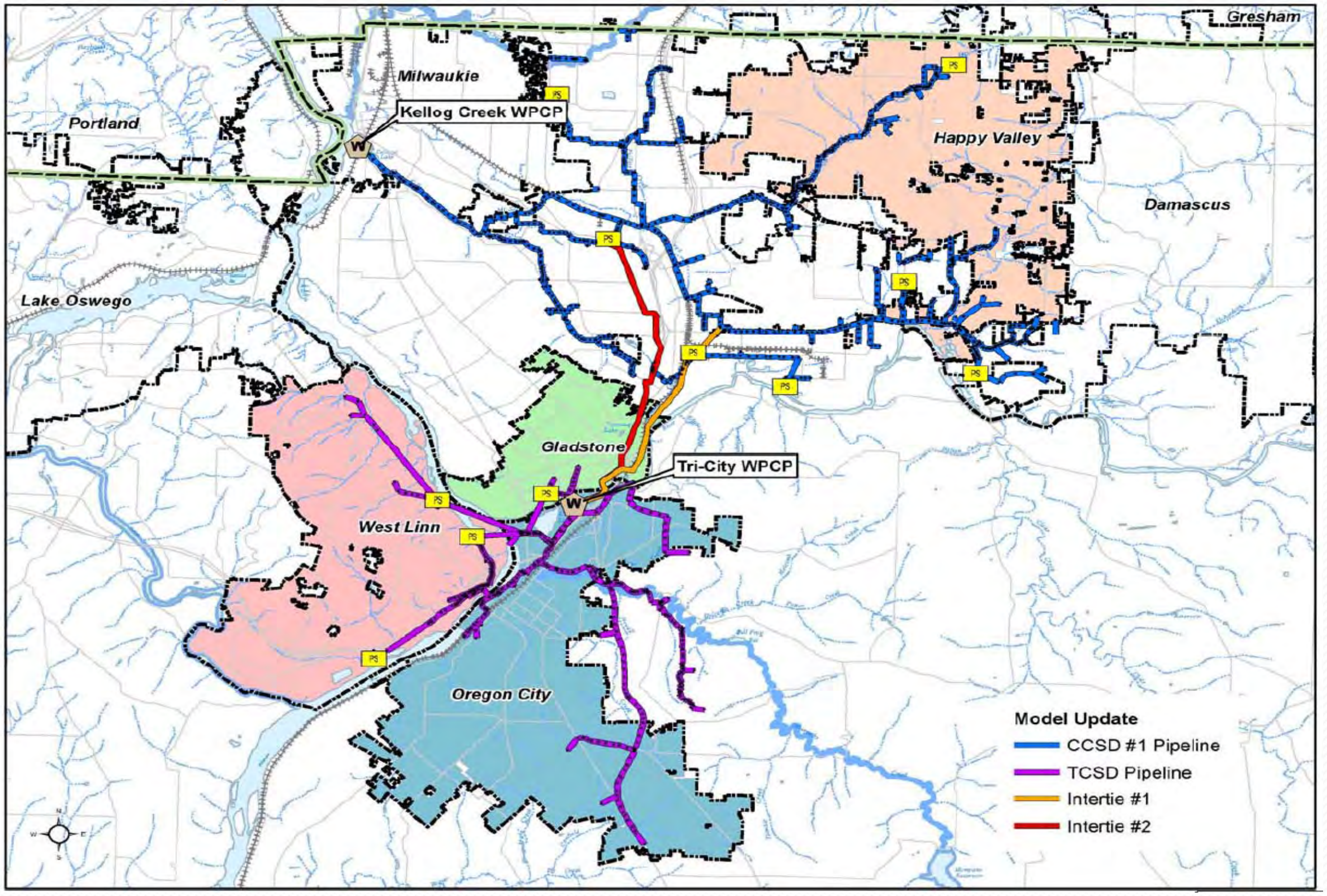
# Tri-City and CCSD #1 Sanitary Sewer Master Plan

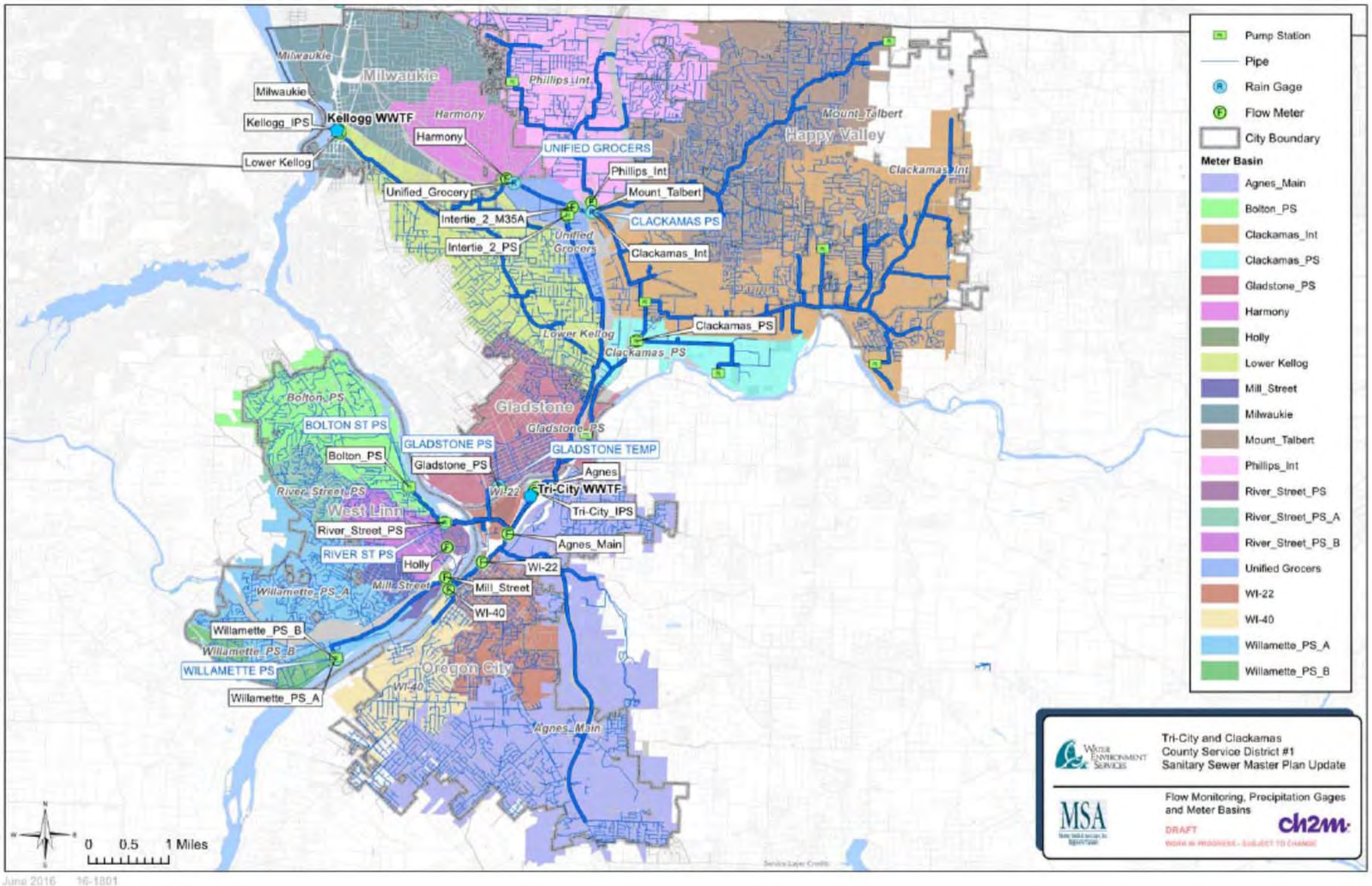



**Lynne Chicoine, PE**
Capital Program Manager
Board of Clackamas County Commissioners
Policy Session
April 4, 2018

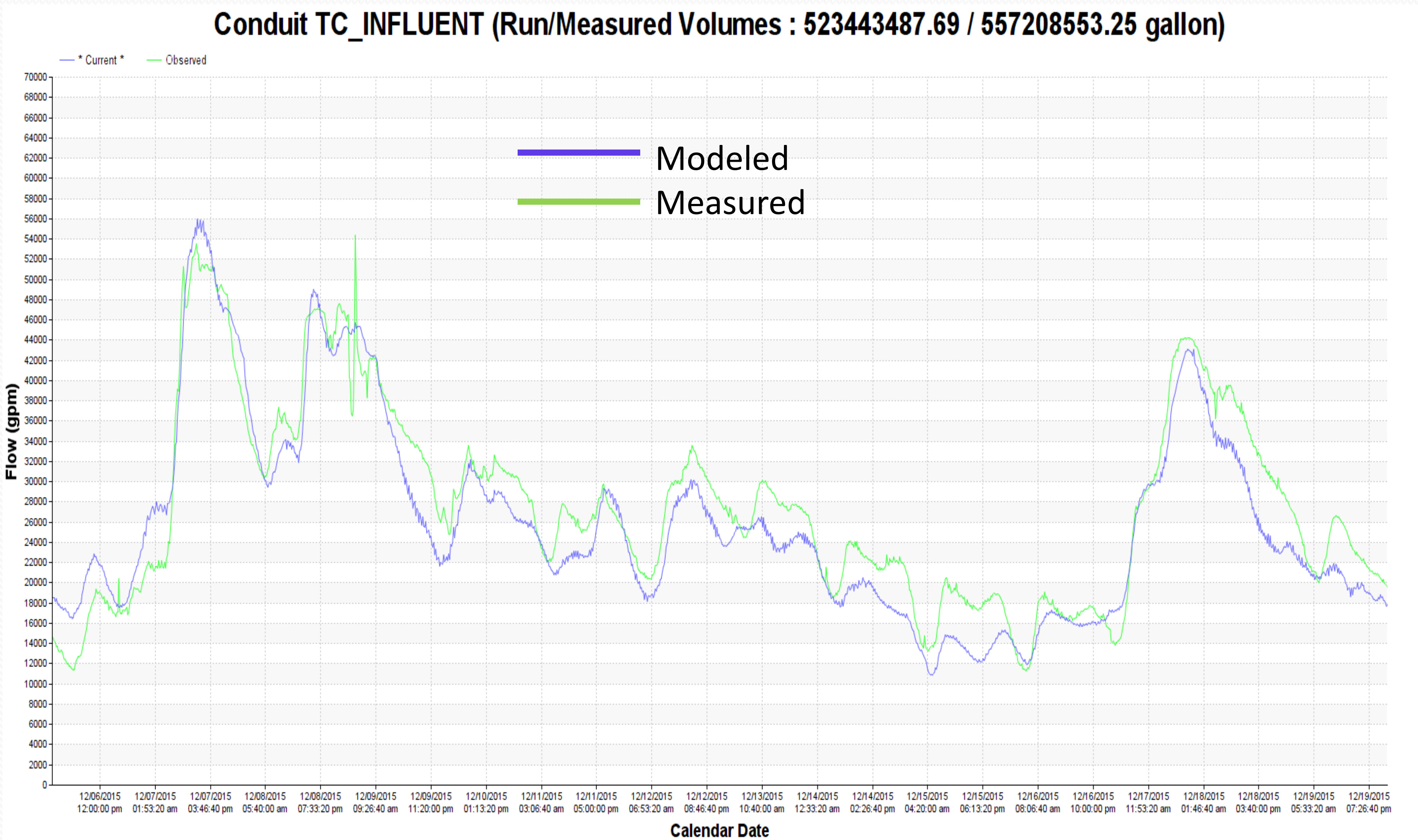
# Agenda

- Model Calibration
- Condition Assessment
- I/I Evaluation
- Next Steps

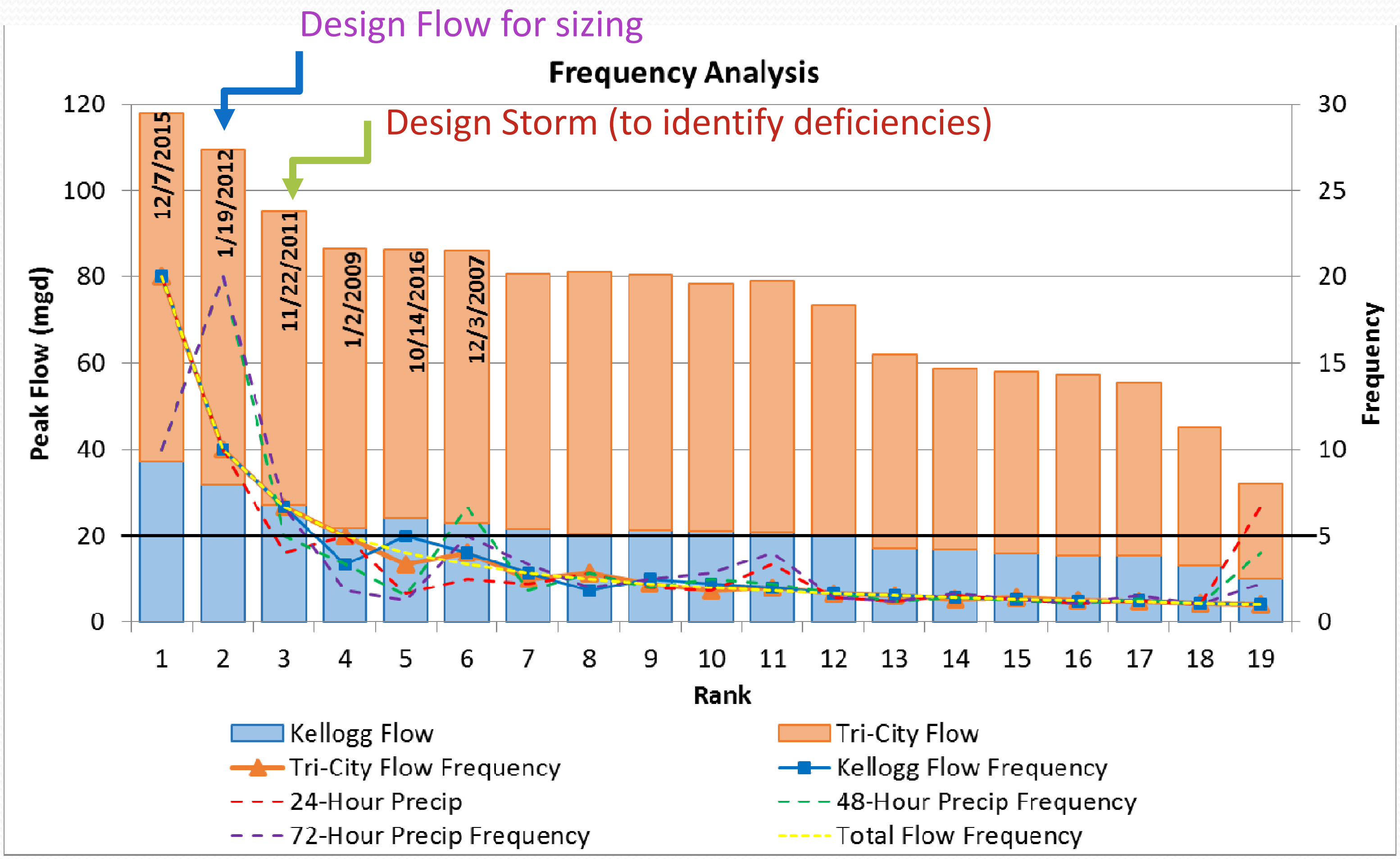
# Monitor Flow to Calibrate Model



# December 2015 Calibration Event



# Select Design Storm that Meets DEQ Standards



# How does the selected design storm compare with City storms?

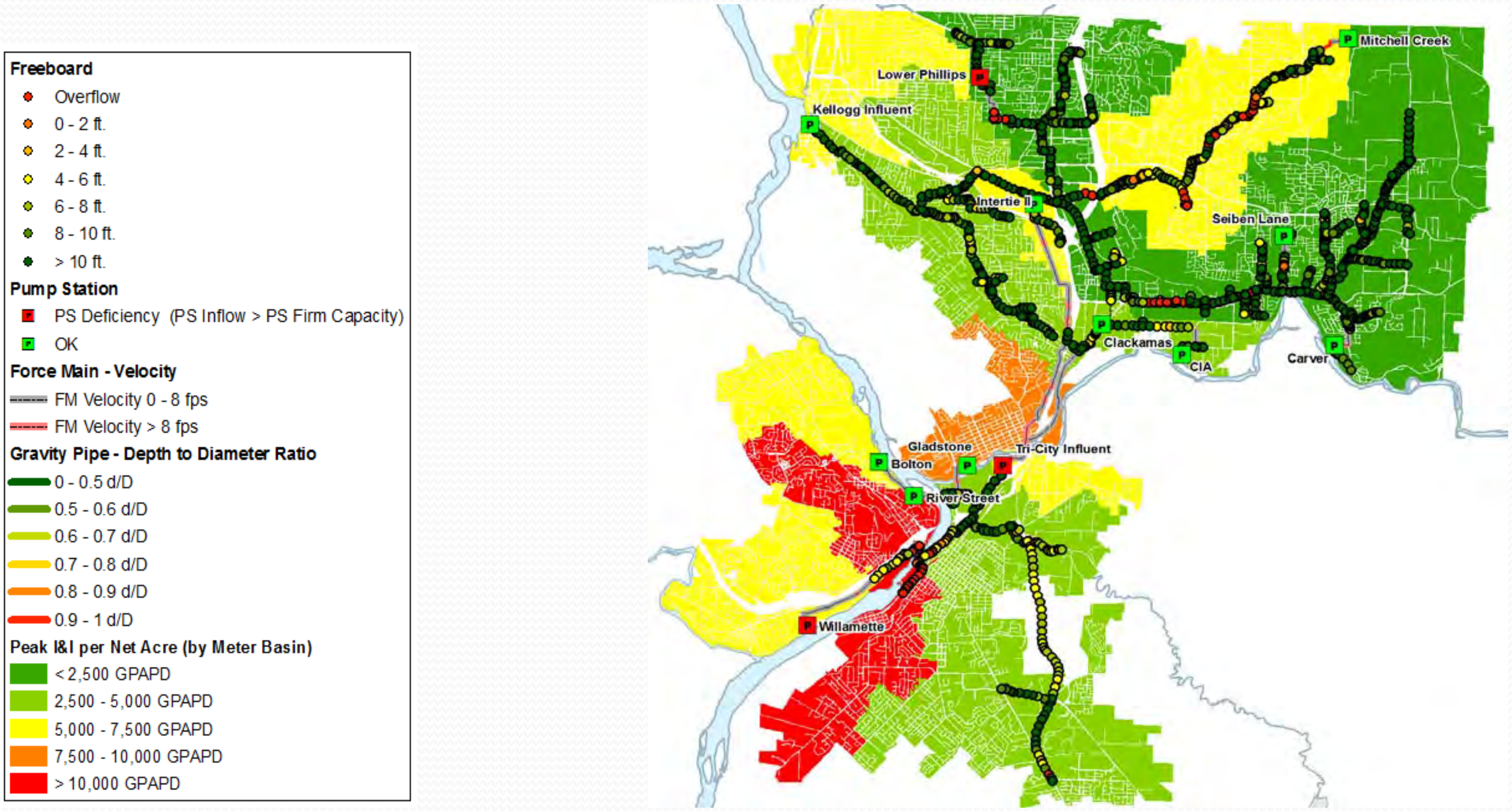
- District Storm
  - Historic rainfall event at local gage (Nov 2011)
  - 72-hour duration equaling a total depth of 4.4 inches
  - Maximum 24-hour rainfall equals 2.6 inches
  - Rainfall results in 7-year flow frequency at treatment facilities

- Oregon City (2014 Master Plan)
  - 10-year, 24-hour storm depth of 3.5 inches
  - 24-hour rainfall depth developed from NOAA Atlas 2
  - NRCS Type 1A Theoretical Distribution

- Gladstone (2015 Master Plan)
  - 5-year, 24-hour storm depth of 3.25 inches
  - 24-hour rainfall depth developed from NOAA Atlas 2
  - NRCS Type 1A Theoretical Distribution

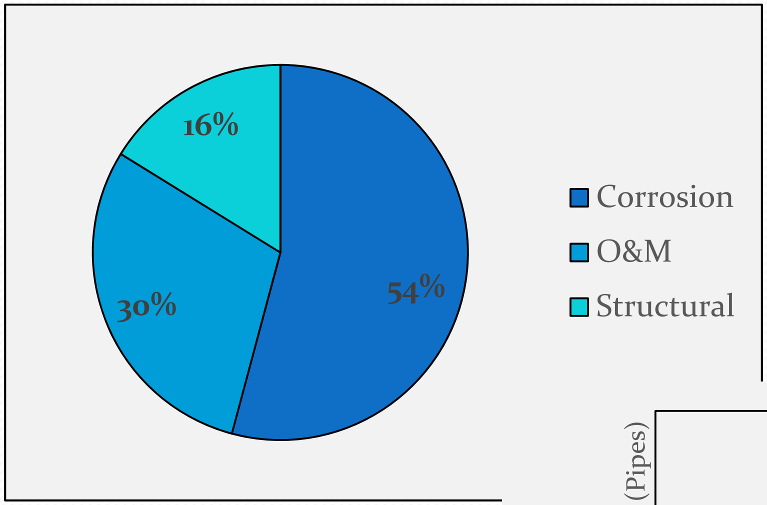
- West Linn (1999 Master Plan)
  - 5-year, 24-hour storm depth of 2.7 inches
  - Distribution and depth from TCSD 1999 Master Plan

# I/I Rate by Basin as Metered – Existing System

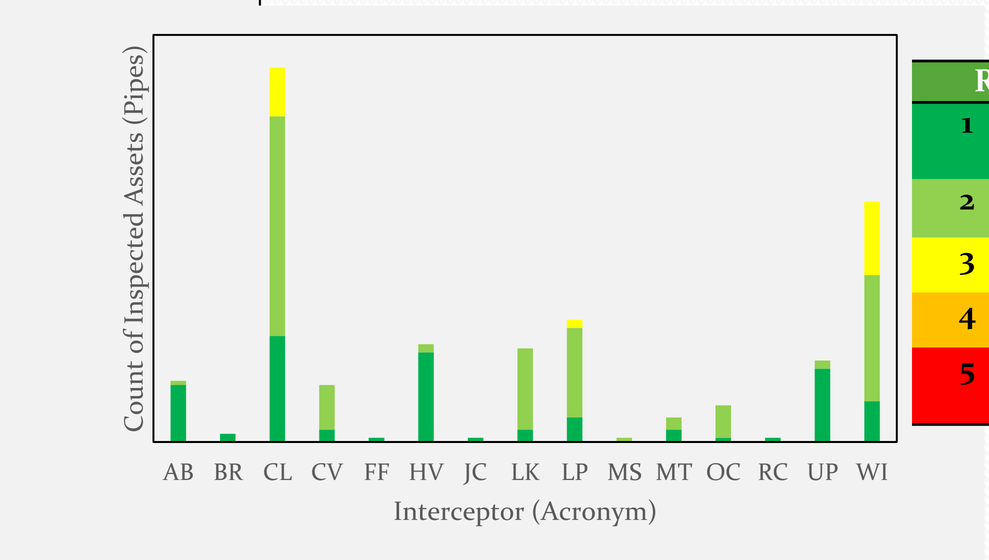


# CONDITION ASSESSMENT SUMMARY

## DEFECT CATEGORY SUMMARY

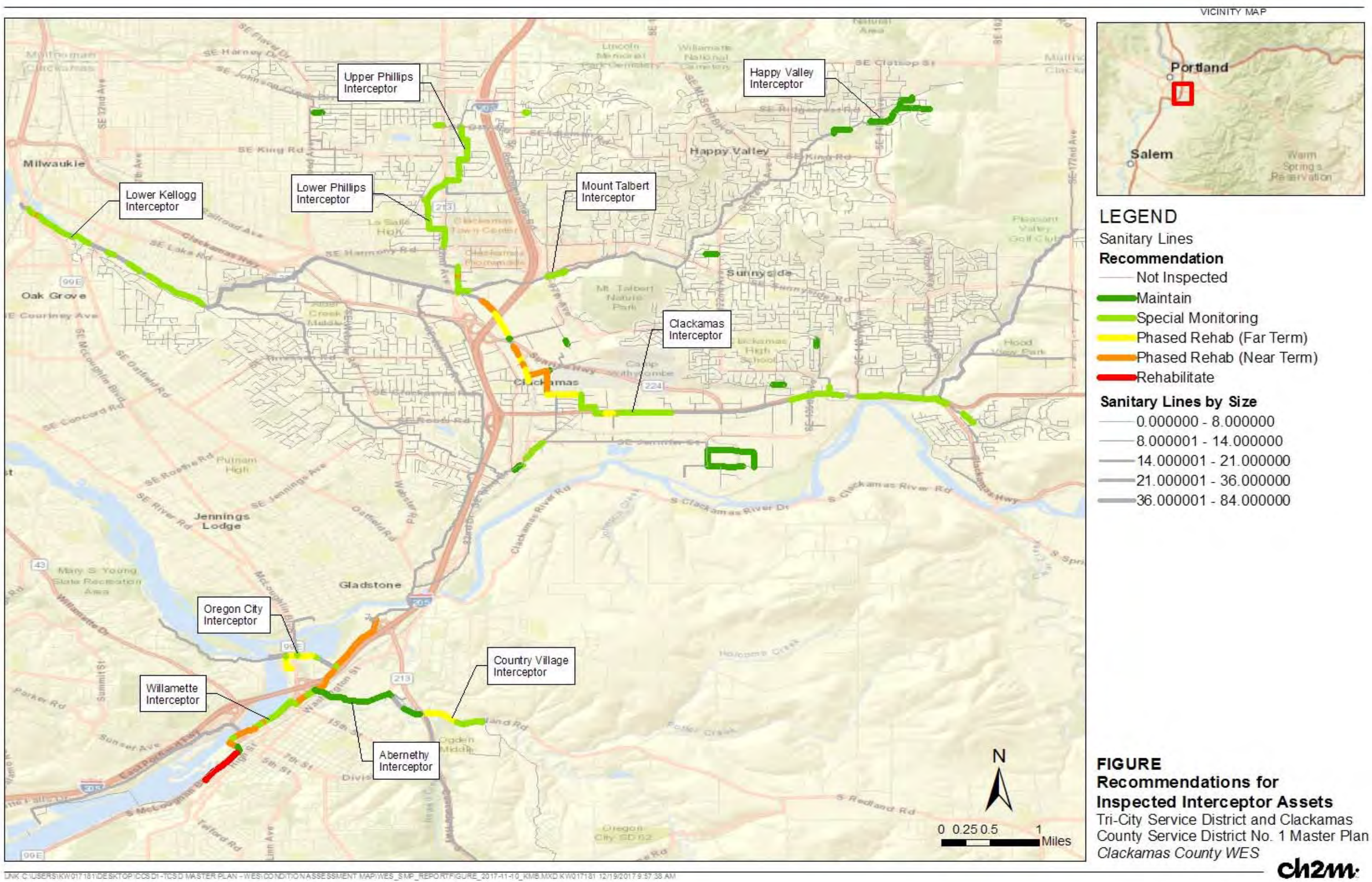



## LIKELIHOOD OF FAILURE BY INTERCEPTOR

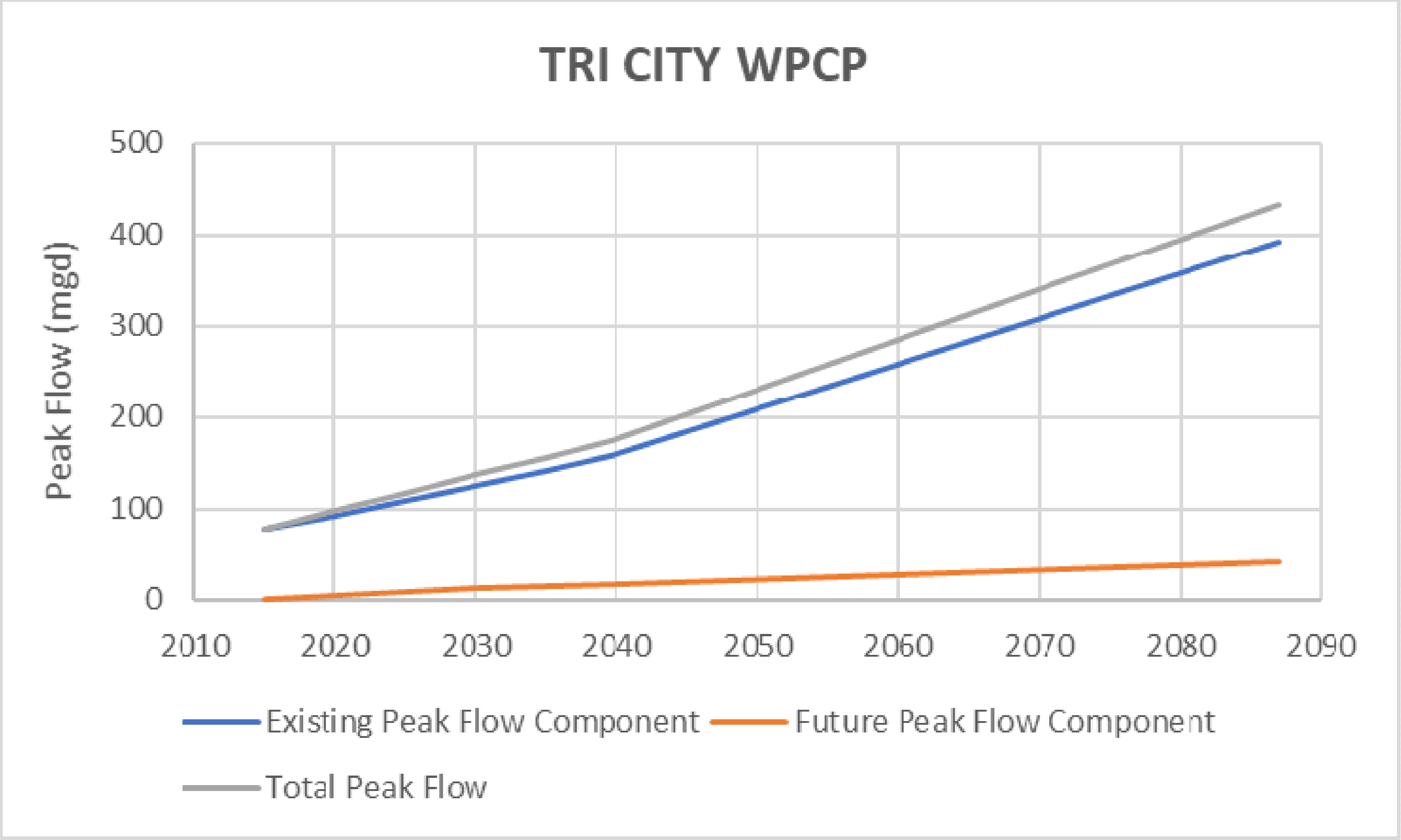



| Rating | |
|---|---|
| 1 | Very Good |
| 2 | Good |
| 3 | Fair |
| 4 | Poor |
| 5 | Very Poor |

# Condition-Based Rehabilitation Recommendations

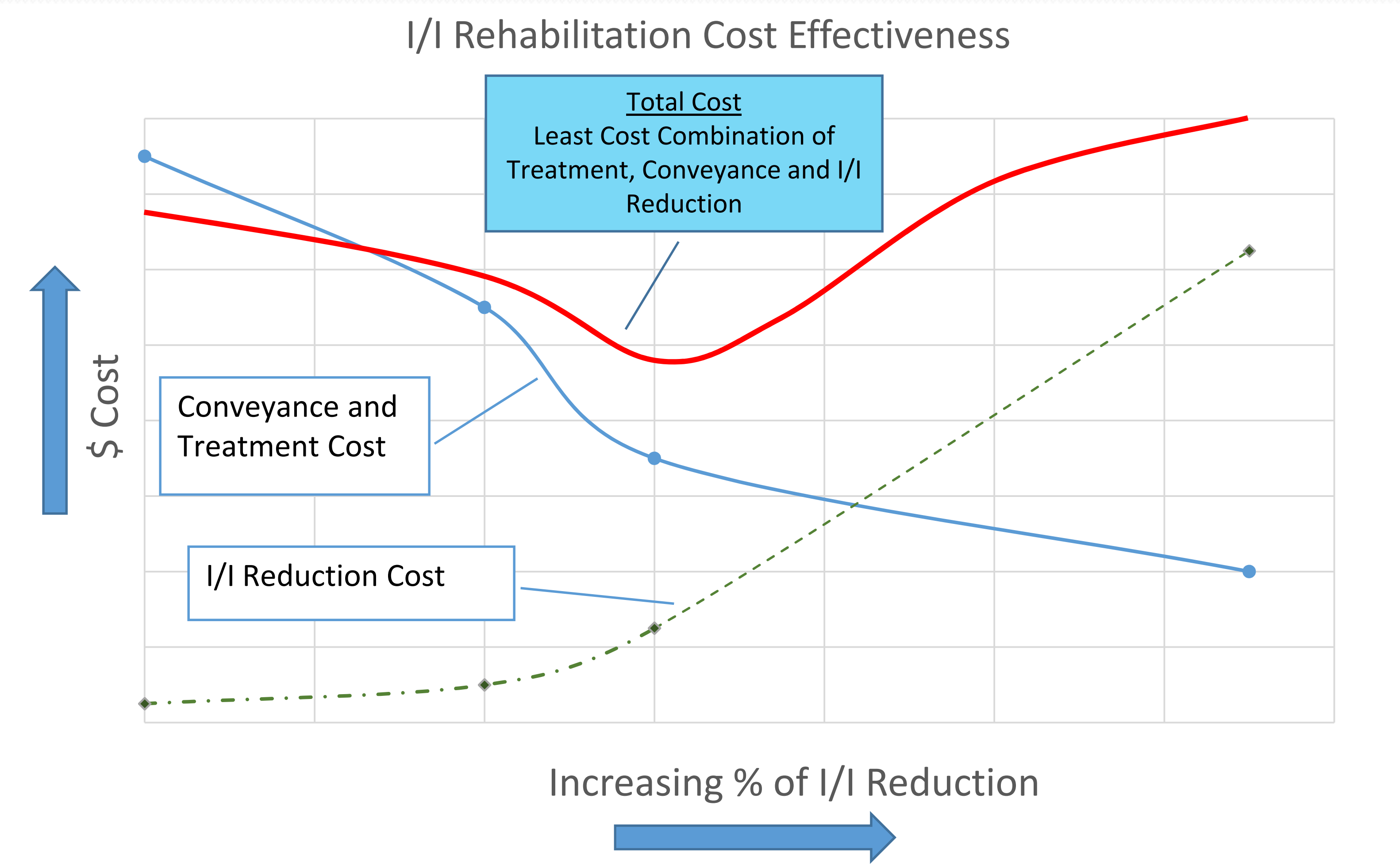


# Wet Weather Flow Projections at Tri-City WPCP with Increasing I/I due to Degradation



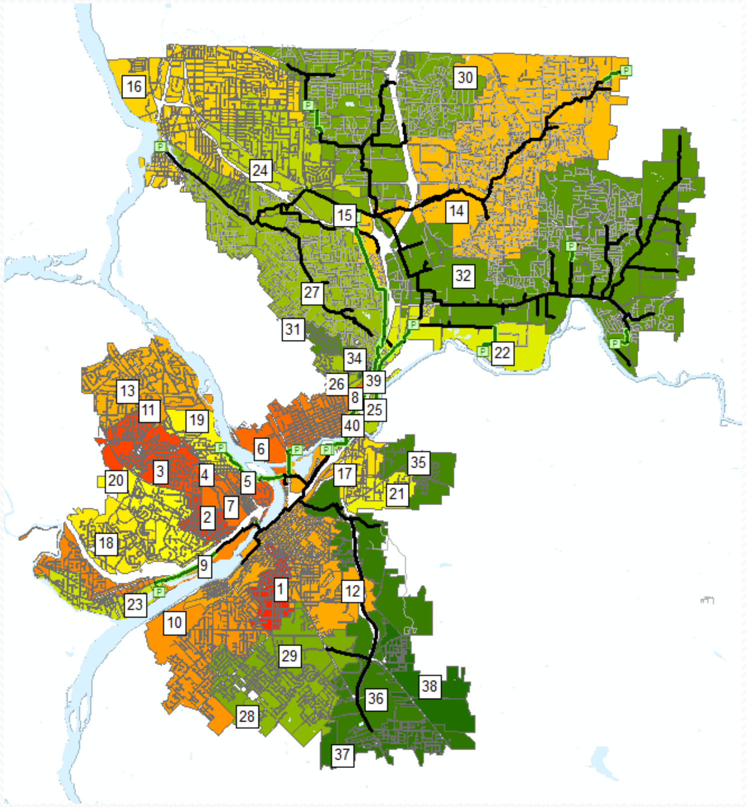

- Degradation of System over Time
- 0-percent I&I Reduction Applied

# Cost effectiveness Analysis Identifies the Low Cost Combination of Infiltration and Inflow (I/I) Reduction and Conveyance and Treatment



# Recommended Cost Effective Solution

- Prioritization of Reduction - Rank Basin by Cost per Volume Reduced
- Local investment -> I&I reduction cost based on local investment in local system



# Rehabilitation Improvements to Achieve I&I Reduction –

**20-Percent Reduction**

- Mainline Rehab and Repair

**30-Percent Reduction**

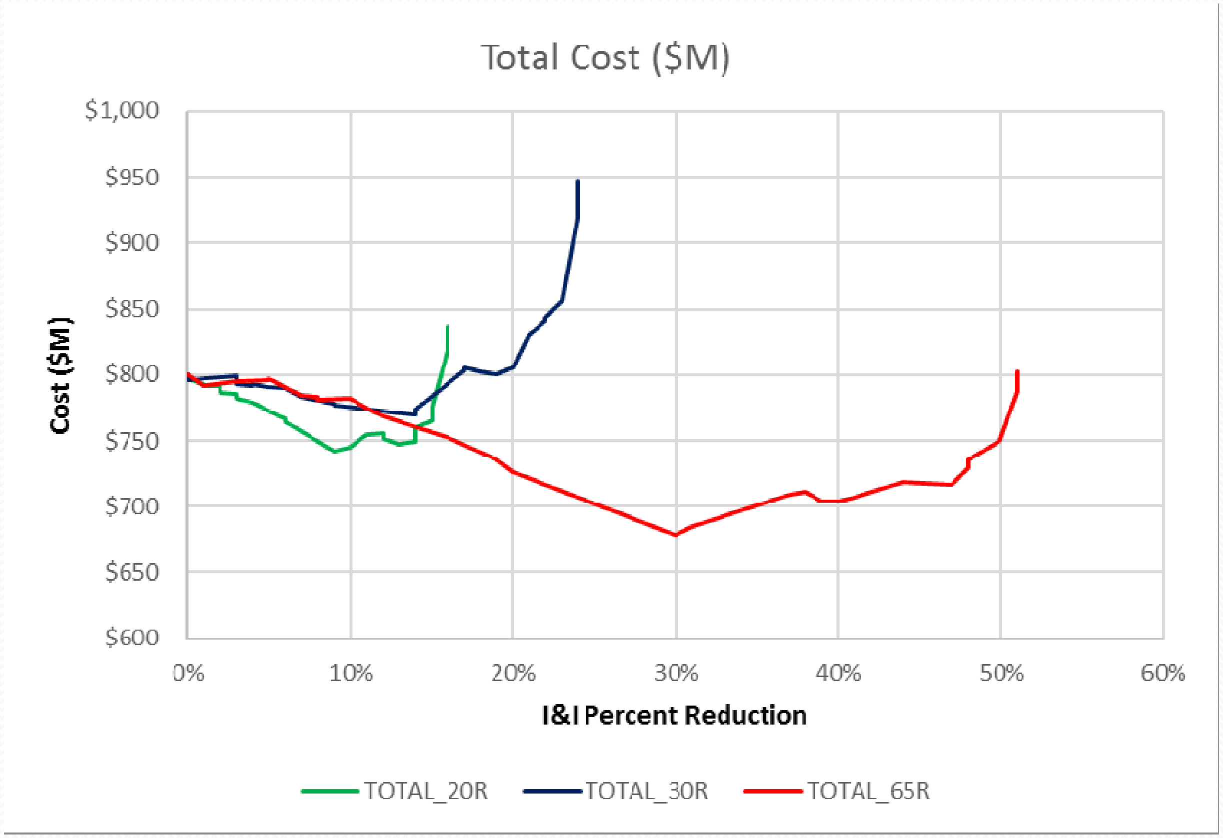
- Mainline Rehab and Repair, Lateral Connection to Property Line

**65-Percent Reduction**

- Mainline Rehab and Repair, Lateral Connection to House

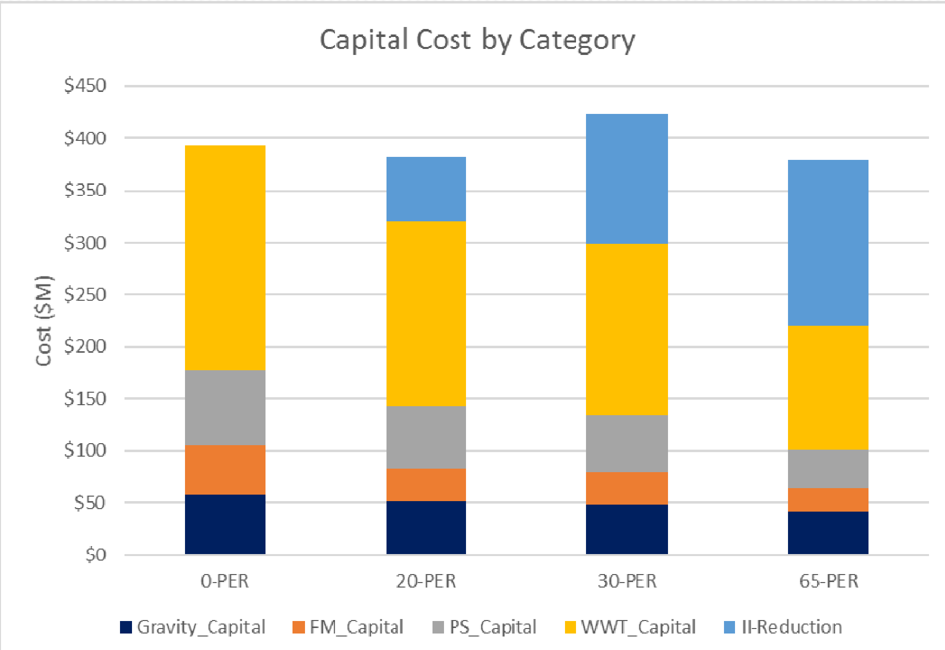
Note: Local agencies may identify, select and implement other methods to achieve targeted reduction amount

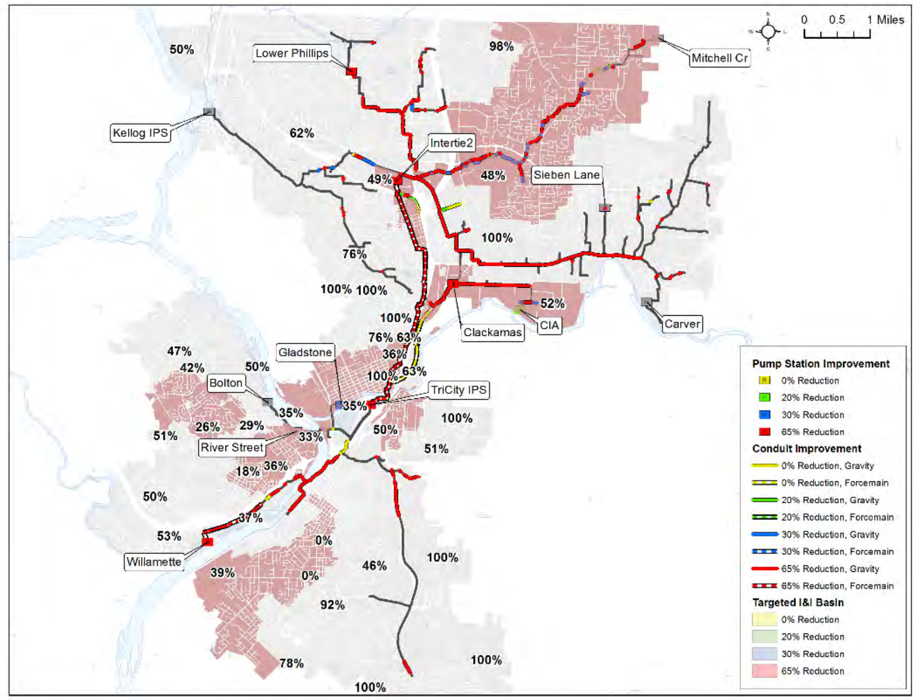
# 2040 – I/I Reduction is Cost Effective for All Scenarios




- 65% shows biggest amount of cost savings

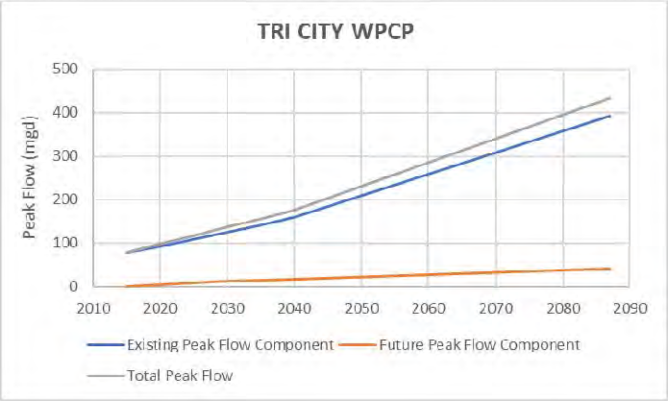
# 2040 Results



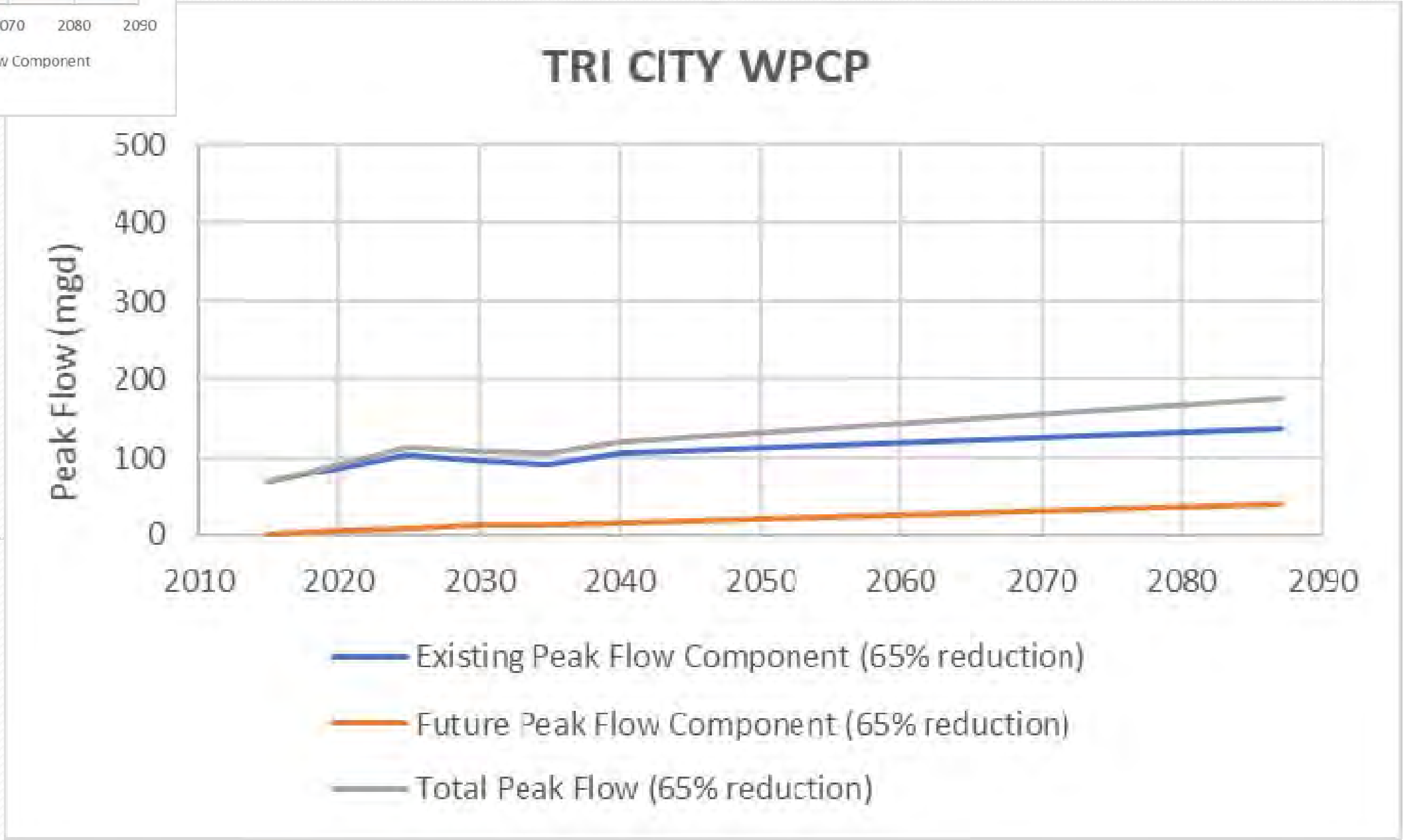




| Cost Category | 0-PER | 20-PER | 30-PER | 65-PER |
|---|---|---|---|---|
| COST MIN ($M) | $800 | $742 | $769 | $679 |
| COST SAVINGS ($M) | $0 | $58 | $31 | $121 |
| SUBBASIN COUNT | 0 | 16 | 16 | 16 |

# Wet Weather Flow Projection at Tri-City WPCP Decreases with Master Plan Recommendation




- 65-percent I&I Reduction
- Reduction applied to cost effective sub-basins



# Summary

- Existing and future peak flows exceed pipe and pump station capacity at multiple locations and treatment capacity at the TC plant
- Condition is generally good with pockets of need for near term rehab
- Infiltration and/or inflow is at a level in portions of the system that is considered excessive (excessive = can be removed at a less cost than conveying and treating it)
- There is a least cost solution that combines pipe, PS and treatment capacity increases with reductions in infiltration and inflow (I/I) through pipe rehabilitation.

# Next Steps

- Perform risk assessment of condition and capacity projects
- Identify project alternatives and select solutions
- Develop risk-based prioritized CIP project list

# Questions?

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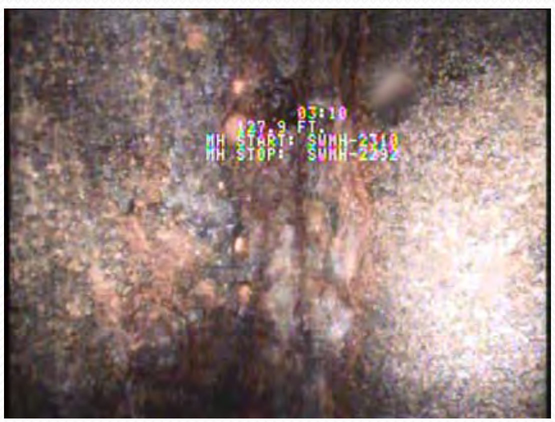
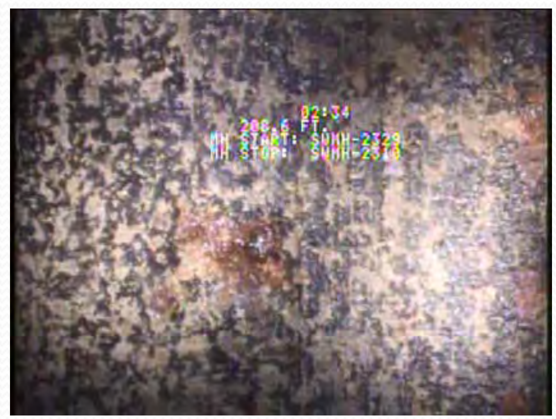
Water Environment Services
lchicoine@Clackamas.us

# Willamette Interceptor





# Wet Weather Flow Projections at Tri-City WPCP with Increasing I/I due to Degradation

**Tri-City WPCP, Peak Flow Projections**

| Timeframe | No I&I Degradation, 0% I&I reduction | I&I Degradation + 0% I&I reduction | I&I Degradation + 20% I&I reduction | I&I Degradation + 30% I&I reduction | I&I Degradation + 65% I&I reduction |
|---|---|---|---|---|---|
| **Existing** | 78 | 78 | 77 | 75 | 67 |
| **2020** | 82 | 98 | 97 | 97 | 92 |
| **2025** | 86 | 117 | 116 | 115 | 113 |
| **2030** | 89 | 137 | 132 | 136 | 109 |
| **2035** | 91 | 155 | 134 | 141 | 105 |
| **2040** | 92 | 176 | 151 | 144 | 121 |
| **Buildout** | 108 | 434 | 264 | 257 | 176 |

**Note. Intertie 2 pump station diversion expanded to limit flow at Kellogg Creek WPCP to 25 mgd.**