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GREGORY L. GEIST | DIRECTOR

Water Quality Protection
Surface Water Management
Wastewater Collection & Treatment

MEMORANDUM

TO: WES Advisory Committee

FROM: Erin Blue, Finance Manager
Chris Storey, Special Projects Consultant

DATE: March 16, 2022

SUBJECT: WES Long-Term Financial Strategy

WES Finance & Leadership has been working to hone a clear long term financial strategy for consideration by the Advisory Committee to guide the long-term revenue and expense strategies of WES. This policy will be used in setting rates, establishing capital expenditure targets, timing of borrowing, general capital financing strategies, and operating fund expenditures amongst other items. An approach reflecting this goal was presented to the Advisory Committee in January 2022. WES staff is now requesting the Committee take formal action to recommend an approach to the Board of County Commissioners.

As presented, staff is recommending a "rate harmonization" approach that will set a levelized, consistent rate increase pattern of 5% for wastewater treatment services and rate increases of 5% for local wastewater collection services in all geographic areas through FY 2030-31. To effectuate this, planned operating and capital expenditures fit within that revenue path. Simultaneously, the Legacy Debt[1] rate component that is only charged to Rate Zone 2 (former CCSD#1 and its wholesale customers) is proposed to decrease due to increased customer growth and SDC revenues available to make the related debt service payments. Over the next nine fiscal years, WES is projecting that the Legacy Debt component of the annual rate can decrease each year.

This approach will result in somewhat uneven overall rate growth between rate zones until rate harmonization is achieved in 2031. This arises because customers in Rate Zones One and Three do not receive the offset of the decreasing Legacy Debt

[1] The "Legacy Debt" refers to borrowings issued by Rate Zone 2/CCSD#1 prior to the consolidation of the service districts into the WES entity, including debt issued in 2009 and 2010, and refinanced at a lower interest rate in 2016, to pay for certain treatment infrastructure. As part of the WES formation documents, only Rate Zone 2 is responsible for this debt. There is currently a balance of approximately $95.7 million outstanding and the last tranche will be fully paid in 2036.

component, although they will pay less in absolute terms in each of those years since those customers never had to pay the Legacy Debt charge in the first place. Once the Legacy Debt rate component is eliminated in 2031, all customers will be paying the same for services irrespective of which rate zone they are in, and indeed the distinction between rate zones begins to disappear. The only meaningful distinctions between customers will be wholesale or retail wastewater use, and level of surface water service received. The remainder of the Legacy Debt obligations will be paid through accrued SDCs until that debt is fully paid off in 2036.

Below is a description of the overarching goals considered in formulating this long term financial proposal, assumptions used in projecting the future, a recap of WES' current financial status from which the assumptions build, and a more detailed explanation of the strategy.

Strategic Goals

In considering how to best assemble a long-term financial strategy, WES is seeking to integrate five specific strategic goals, listed in order of priority:

1. Provide all necessary services to protect public health and water quality.
2. Ensure sufficient infrastructure to support economic development.
3. Honor foundational commitments regarding Legacy Debt payments.
4. Provide services in the most cost-effective manner for ratepayers.
5. Achieve WES Advisory Committee directive of charging by service received, not geographic location.

In doing so, the key variables are customer rates, which provide a supermajority of WES' revenue, and the timing and degree of increase of operating and capital expenditures. As part of assembling a strategy to achieve these goals, WES is also mindful that the WES Advisory Committee has asked for rate increases to be stable and predictable to avoid "rate shock." Equally, WES is seeking to provide revenue stability so there are not wide fluctuations in available funds between years, and any approach must assure fair and equitable cost recovery based on the cost of services provided.

Ultimately, this recommendation allows for a ten-year look forward at rates for each service and major cost component, capital expenditures, and ensures there is funding for all necessary activities while staying consisting with prior Advisory Committee direction.

Approach & Assumptions

Wastewater Only. For the purposes of this analysis, WES staff have focused on wastewater services, as it represents ~90% of expenditures on an annual basis. The WES Watershed Health program is nearing completion of a Surface Water Master Plan which will generate recommendations regarding surface water rates and capital projects, which will be integrated into this plan next fiscal year.

<u>Assumptions</u>

Operating Costs. WES is assuming a 6% growth in labor costs, and inflationary rates ranging from 3 to 4.5% on key service and materials such as electrical and chemical costs for an annual increase in operating costs of 4.8%. Some service and materials costs are currently increasing faster than the projected increases right now, but it is our assumption that the costs will decrease at some point in the next 10 years to result in a 4.8% average cost increase.

Static FTE Count. WES is assuming it will not increase its employee count, despite the increase in infrastructure projected to come online over the next 10 years. Ongoing efficiency efforts, such as the recently-completed outsourcing of biosolids long-haul and application work, will be necessary to ensure sufficient staff are available to operate and maintain the infrastructure. Labor compromises ~50% of the operating budget in the current fiscal year.

Levelized Capital Expenditures. Capital expenditures are assumed to be roughly levelized at $34.9 million/year for the next 10 years, with a total expenditure (excluding inflation expense) of ~$349 million. WES work groups are having extensive discussions around infrastructure needs and timing, and are working to harmonize a proposed Capital Improvement Plan to match this spending. It is recognized that capital expenditures are not always so smooth, and that money not spent in an earlier year is available for a higher expenditure the following year, so the target is to ensure that capital spending does not exceed the cumulative targeted total per year.

SDC Contributions. Consistent with prior Advisory Committee direction, WES is utilizing system development charges (SDCs) to make payments on eligible debt service amounts. This is less than all debt service payments, but is substantial enough that it is greater than annual SDC revenues. Projections assume this will continue until retirement of the relevant debt.

Bond Covenants. WES has issued several series of outstanding debt, including most recently a $40 million issuance in spring 2021 that realized a 0.84% true interest cost. As part of issuing bonds, WES has made certain covenants to bondholders regarding revenue generation, most relevantly that it would meet "coverage" covenants regarding revenue. This covenant requires revenue to be generated in excess of expenditures at a minimum of a 1.2:1 ratio per year. Therefore WES must generate at least 20% more in revenue each year than it expends in certain categories, and submit proof of meeting that covenant annually as part of its bond reporting requirements. This is an income test, not a wealth test, so each year requires a new 20% buffer is required to ensure WES can make debt payments. Revenue received in excess of those expenses are contributed to fund capital in subsequent years. Therefore rates in each of the future years are required to generate this coverage requirement.

Current Financial Status

Operating Expenses. WES currently expends approximately $24 million/year to fund wastewater operating expenses. Growth in operating expenses is a considerable cost driver of future years, and significant management effort will be devoted to controlling costs.

Capital Construction Fund. WES has been building reserves to support planned capital expenditures and levelized rates for several years. WES is estimating a balance of $94 million in the capital construction fund at the end of this fiscal year. This includes the budgeted transfer of approximately $15.5 million into the capital construction fund in this fiscal year, with similar amounts being contributed until debt service payment requirements increase. WES had anticipated decreasing capital reserves over the last two years, but the impact of the pandemic and other variables have slowed capital expenditures.

SDC Fund. WES' SDC fund is estimated to have a balance of $47 million at the end of the fiscal year. As noted above, utilization of SDCs for debt repayment means that, based on projected growth rates, WES will be slowly spending down this fund just from debt service payments. Future SDC-eligible capital projects, such as the Rock Creek Interceptor, will also utilize existing SDC fund balances.

Debt Service Fund. WES projects paying ~$13.2 million per year in annual debt service for outstanding debt, including the Legacy Debt, the SRF loan that supported construction of the Solids Handling Project at the Tri-City Plant (and is partly funding the 3 Creeks Project), and the 2021 Debt Issuance until the next borrowing is issued. Of that, ~$8.7 million will be paid from SDC funds. Please note that in these first two years after issuance, WES will be utilizing the premium (cash paid to allow for a coupon rate higher than the true interest cost) associated with the 2021 issuance to make debt service payments, reducing transfers from the operating fund.

Long-Term Financial Strategy: Adequate Funding Through Rate Harmonization

In order to achieve the 5 strategic goals listed above, WES is proposing a rate harmonization strategy that targets the retirement of the Legacy Debt as the key inflection point. Wastewater rates will be increased at a steady predictable rate of 5% for treatment services and 5% for collection services. This revenue path will provide sufficient funds to sustain operating expenses and realize essential capital infrastructure. In 2031, when the Legacy Debt component is retired, all wastewater ratepayers will be paying the same rate for services received irrespective of their geographic location.

At the assumed rate of capital expenditures of $34.5 million / year, current construction fund balances will be expended in ~5 years and thereafter WES will borrow ~$30 million each year on average to fund the remaining capital projects.

Compliance with the bond covenant requiring the 1.2:1 coverage ratio will drop steadily to the minimum level and remain at that level. This likely will result in WES seeing a decrease in its bond rating from its current AAA to a lower level as borrowing increases and debt service becomes a larger and growing portion of annual expenditures. This, plus likely Federal Reserve rate increases, will result in higher borrowing costs. WES has assumed that future borrowings will have a 3.5% interest rate.

For customers in Rate Zone 2, including Rate Zone 2A (the cities of Johnson City and Milwaukie), there will be an offset to the annual 5% rate increases on the treatment rate arising from the reductions in amounts required to support the Legacy Debt. This offset will result in lower percent increases for those customers compared to customers in Rate Zone One.[2] Since Rate Zone 2 customers are currently paying a <u>higher</u> rate (to reflect the Legacy Debt obligation), the gap between the rates paid for treatment

[2] Note: Rate Zone Three does not currently have any wastewater customers.

services in the two rate zones will converge as Rate Zone One treatment rates increase at 5% and Rate Zone Two treatment rates increases at a slower speed, until in 2031 the rates converge and rate harmonization will be achieved due to the elimination of the Legacy Debt component of charges to Rate Zone 2.

In 2036, the final portion of the Legacy Debt will be repaid. Including the 2021 Issuance, any subsequent debt issued to support the 10 year capital improvement plan will be assigned to either the treatment or collection portion of the rate (depending on the projects supported) and the cost will be shared equally by all customers receiving that service irrespective of their location.

This long-term financial strategy should allow for protecting public health and environment, constructing infrastructure to support economic development, honor the requirement that only Rate Zone 2 pay for the Legacy Debt, and provide cost-effective services to all customers.

Recommended Resolution

Attached is a formal resolution describing the long term financial strategy for consideration and voting upon by the WES Advisory Committee. If adopted, it will be brought forward to the Board of County Commissioners and a substantially similar resolution will be proposed for the Board to adopt affirming the recommendation of the WES Advisory Committee.

WES staff recommends adoption of the attached resolution.

CS/EB

WATER ENVIRONMENT SERVICES ADVISORY COMMITTEE
RESOLUTION OF RECOMMENDATION
REGARDING WES LONG TERM FINANCIAL STRATEGY

This matter coming before the Water Environment Services Advisory Committee ("Committee"), as a public advisory body to the Board of County Commissioners of Clackamas County, Oregon (the "Board") when acting as the governing body of Water Environment Services ("WES"),

WHEREAS, on January 19, 2022 and March 16, 2022, staff presented to the Committee a proposal regarding the long term financial strategy of WES; and

WHEREAS, the proposal included a combined approach to ensure that public health and the environment is protected, economic development is supported, historic commitments regarding debt payments are honored, and cost-effective service and customer parity based on services received is provided; and

WHEREAS, levelized and predictable rate changes within a reasonable range are important to businesses and customers of WES; and

WHEREAS, the support of WES operations and construction of essential capital facilities are a high priority for the community and the region; and

WHEREAS, the Committee has recommend that WES focus on a business approach where customers pay based on the services received and not on their geographic location; and

WHEREAS, in order to accomplish all of the above the Committee believes a comprehensive long-term financial strategy should be adopted;

THEREFORE, BE IT RESOLVED BY THE WATER ENVIRONMENT SERVICES ADVISORY COMMITTEE THAT THE FOLLOWING ACTIONS ARE RECOMMENDED TO THE BOARD OF COUNTY COMMISSIONERS AS THE GOVERNING BODY OF WES**:**

1. The wastewater treatment rate should be increased by approximately 5% each year through the 2030-31 fiscal year; and
2. The wastewater local collection rate should be increased by approximately 5% each year through the 2030-31 fiscal year; and
3. WES capital expenditures should be approximately $34.9 million each year through the 2030-31 fiscal year, with variations between fiscal years to allow for the cohesive bidding and completion of projects, with the goal that expenditures shall not exceed the cumulative allocated total for capital investment; and

4. The Legacy Debt component of the wastewater rate as charged in Rate Zone 2/2A shall be decreased by the amount of the wastewater treatment rate increase until the 2030-31 fiscal year, at which point it shall cease to be charged; and
5. WES Staff should be directed to adjust annual budget proposals if assumptions underlying this strategy are different than projected in a manner consistent with the intent and direction of this strategy.

ADOPTED this 16th day of March, 2022.

The Water Environment Services Advisory Committee:

____

Chair Diana Helm
On Behalf of the WES Advisory Committee

<u>Attachment A</u>: List of Committee Members In Favor and Opposed to the Resolution

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March 16, 2022

WES Long-Term Financial Strategy

Erin Blue, Finance Manager

Chris Storey, Special Projects Consultant

Presentation Outline

- Strategic Goals
- Rate Making Overview
- Projections
- Comprehensive Recommendation
- Summary of Resolution and Request for Motion

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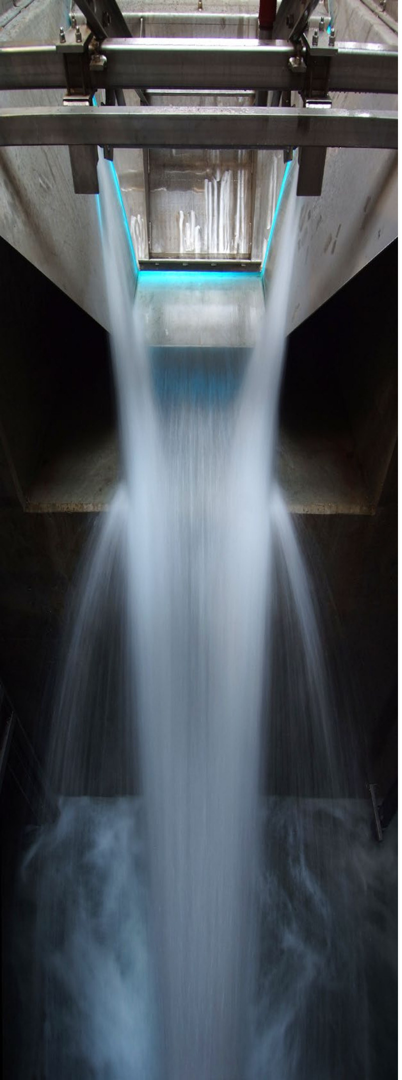

Strategic Goals

1. Provide all necessary services to protect public health and water quality.
2. Ensure sufficient infrastructure to support economic development.
3. Honor foundational commitments regarding Legacy Debt payments.
4. Provide services in the most cost-effective manner for ratepayers.
5. Achieve WES Advisory Committee directive of charging by service received, not geographic location.

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Rate Making Objectives

- Stable, predictable rates
- Fair and equitable full cost recovery based on cost to provide the service
- Revenue stability and predictability

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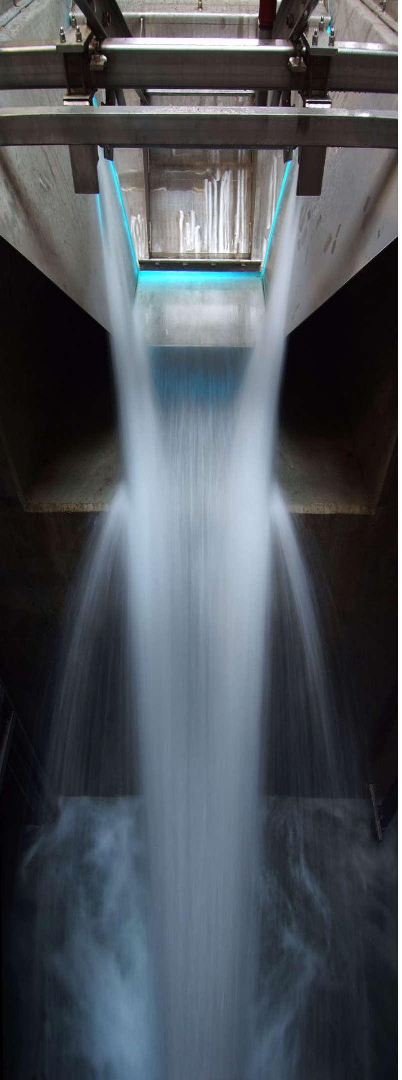

WES Sanitary Sewer Rates

- **Wastewater Treatment** – Applies to all sewer ratepayers; covers costs of operating and maintaining WES' Water Resource Recovery Facilities and funds new asset construction and replacement for treatment plants and interceptors

- **Local Collection** – Applies to ratepayers in Happy Valley and unincorporated areas such as Oak Grove, Hoodland, Boring, etc.; covers costs of operating and maintaining WES' collection system feeding into the interceptors and funds asset replacements necessary to maintain aging infrastructure, especially inflow and infiltration reduction efforts

- **Legacy Debt Service Fee** – Applies to Rate Zone 2 only, including Johnson City and Milwaukie; covers annual debt service costs associated with debt transferred from CCSD No. 1 when WES was formed

- Billed based on Equivalent Dwelling Units (EDUs)

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Projections

- Operating Expenses over 10 year time horizon:
  - Currently at ~$24 million; 4.8% average annual cost increase, consisting of:
    - 6% growth in labor costs (~50% of the Operating budget)
    - 3 – 4.5% growth in other operating costs
  - WES Management working to maintain current FTE count in spite of customer growth
  - Increases in Operating Expenses decrease amount that can be contributed to fund capital projects

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Projections, con’t

- Capital Improvement Plan over 10 year time horizon
  - ~$349 million in planned expenditures through 2033-34
  - Targeting ~$34.9 million/year in expenditures
  - Updated annually with best information
  - Represents compromises on funding and timing
- SDCs will be use to make payments on eligible debt service (~8.7 million of current debt service of ~$13.2 million)
- 1.2:1 Bond coverage requirement maintained, future borrowings at 3.5% interest rate

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Projections, con’t

- WES has been building reserves to support the planned capital program and levelize rates. Currently have approximately $94 million in capital construction fund and $47 million in the SDC fund.

- Existing reserves plus annual contributions are estimated to be spent down over the next 5 years.

- WES assumes it will borrow to fund the remainder of the CIP beginning in 2026-27, with a new borrowing each year.

- Will be looking at SRF loans as well as the bond market. Are currently pursuing Federal dollars to support projects, which may impact timing and total need.

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Comprehensive Recommendation

- WES Advisory Committee gave staff the direction to adjust rates by a minimum of inflation, a maximum of 10%.
- Committee approved revised financial approach that utilizes SDCs for eligible debt service payment, which has increased financial flexibility.
- This, plus other cost savings, generates a proposed rate path of **5% increases per year** to fund the CIP and operations.
- CIP expenditures are capped at ~$34.9 million/year, with some variability for project timelines.

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Recommendation, con't

- The 5% rate increase would be for both wastewater treatment and collection service and be applied consistently to all who receive the service(s).

- There will be an offsetting rate adjustment relating to the Legacy Debt: as growth occurs, more are paying in and the amount per customer needed goes down, and the use of SDC payments for debt decreases pressure on rates. This will offset increases in Rate Zone 2 only.

- Coverage for borrowing will be constrained in later years, and WES likely will see a decrease in its credit rating from its' current AAA, which will lead to somewhat higher interest costs.

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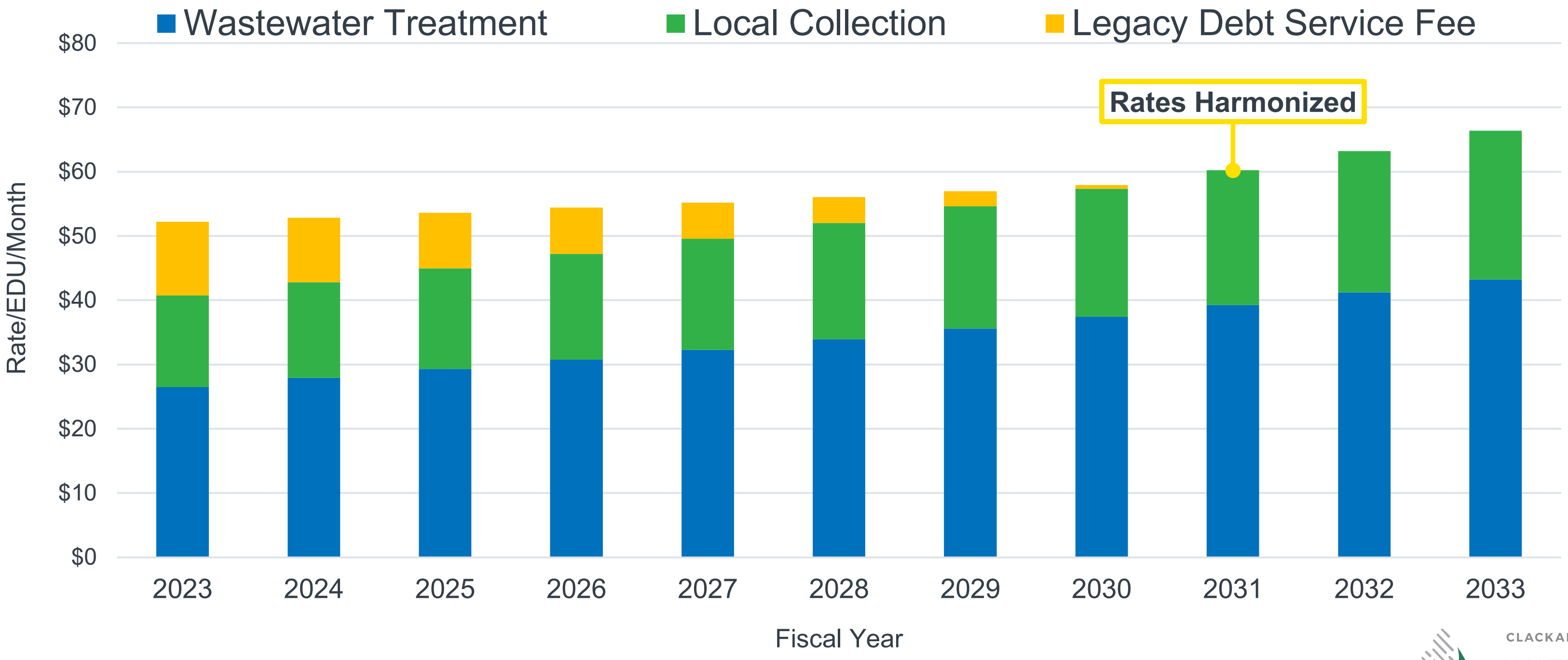
Recommendation, con't

Forecast of Rates under Proposed Strategy



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Recommendation, con't

- By 2031, when the Legacy Debt rate component is phased out, customers will be paying only for the services received, and will be paying the same irrespective of their geographic location.
- Some capital projects are related to the retail system and Rate Zone 2 customers alone will contribute towards those costs.
- Separate surface water financial integration plan is being developed as part of the Surface Water Master Planning process.
- This proposal represents our best effort to reflect the 5 strategic goals from the advisory committee

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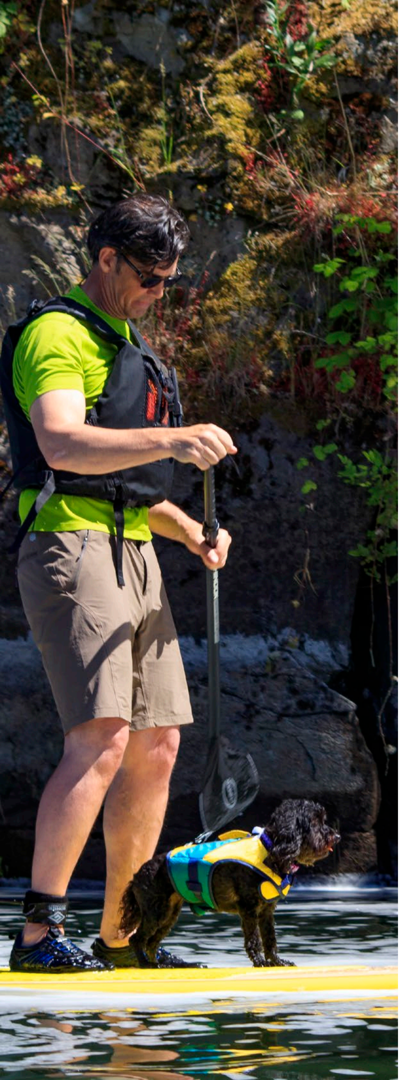

Resolution of Recommendation

- Summary of Resolution; through FY 2030-31:
  - 5% Wastewater Treatment Rate Increases
  - 5% Wastewater Local Collection Rate Increases
  - Target of average $34.9 million in capital expenditures with year-to-year variation
  - Legacy Debt rate component decreased annually by amount of Treatment Rate increase until phased out in FY 2030-31
- Request for motion to adopt resolution

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Thank you
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MEMORANDUM

TO: WES Advisory Committee

FROM: Ron Wierenga, Environmental Services Manager

DATE: March 8, 2022

SUBJECT: WES Rules and Standards Update

BACKGROUND

Clackamas Water Environment Services is updating its Sanitary and Stormwater Rules and Standards. The proposed Rules and Standards documents were available for public comment beginning March 17, 2021 and ending April 17, 2021. Available information included:

- 2021 Rules **draft**
- 2021 Stormwater Standards **draft**
- 2021 Sanitary Standards **draft**
- 2021 Buffer Standards **draft**

WES' Rules and Standards Update Project will review existing rules and standards and recommend updates to: reflect new technologies, approaches, and development patterns; address regulatory changes and requirements; and provide uniform and streamlined development review and approval processes across WES's service area.

Key policy recommendations were presented to the WES Advisory Committee at the November and January meetings. At the January meeting, the Committee recommended that staff update four key policies based on the meeting discussion and concerns expressed by members:

1. Service Connections – clarify responsibilities for service connection repairs in the public ROW.
2. Annexations – clarify when the District will annex properties that are not annexed by cities.
3. System Development Charge Installment Payments – clarify the interest rate applied to installment payments.
4. Reimbursement Districts – clarify interest rates applied in this section.

At this critical step in the stakeholder involvement process we are gathering a final round of recommendations and comments on the key policy recommendations before ordinance adoption in 2022. Note that there will be future policy sessions with the Board of County Commissioners, and adoption hearings with formal public comment taken at that time.

NEXT STEPS

Anticipated Schedule:

- November – March 2022-WES Advisory Committee Review

- April-May 2022 Policy Sessions
- April - June 2022: Final Document Revisions
- June - July 2022: Adoption Hearings
- August-September 2022: Implementation

OPTIONS

Please list options here.

1. The WES Advisory Committee concurs with the proposed key policy changes in the draft Rules and Standards and recommends staff engage the Board of County Commissioners in ordinance adoption.
2. The WES Advisory Committee discusses key policies and recommends continued discussion at the May 2022 WES Advisory Committee Meeting, delaying the Board adoption process and implementation until later in 2022.

STAFF RECOMMENDATION

The WES Advisory Committee concurs with the proposed key policy changes in the draft Rules and Standards and recommends staff engage the Board of County Commissioners in ordinance adoption.

CLACKAMAS WATER ENVIRONMENT SERVICES

UPDATED KEY POLICY RECOMMENDATIONS

UPDATED Policy: Sanitary Service Connection Ownership

Issue

- Significant risk and burden on the District for inspection, maintenance, and repair of service connections.
- Private owners may have significant cost to repair service connections under streets and sidewalks in the public ROW.

Current Policy

- Standards Section 5.5 - Owners are responsible for service connections from buildings to public ROW or easement lines, and WES is responsible from ROW or easement lines to mainline.

Policy Change

- Standards Section 5.6.1 – Building/property owner(s) are responsible for owning, operating and maintaining the pipeline from the building to and including the connection to the mainline located within the ROW or public easement.
- Repairing structural defects are the responsibility of building/property owners, except in the ROW where the District will make repairs.

Significance

- Assigns responsibility and cost of service connection maintenance to property/building owners, except in ROW where repairs may be more complicated and expensive.
- Reduces financial and sewer overflow risk to the District.

DRAFT Language from the Sanitary Standards:

5.6 Service Connections

The following subsections provide the requirements and responsibilities for Service Connections.

5.6.1 Responsibilities

A property shall be served by a single Service Connection designed, constructed, maintained, repaired and/or replaced in the following manner:

1. Operation and Maintenance of the Service Connection:
   a. The property owner(s) that benefits from the Service Connection is solely responsible to own, operate and maintain the Service Connection from the building sewer to the public mainline, including the connection to the mainline located within a public right-of-way or easement.
   b. The District is responsible for maintaining public mainline sewers, and shall not be responsible for maintenance or repair of damage resulting from inadequate or improper operation of the Service Connection, building sewer, or of attached fixtures or appurtenances, such as cleanouts and traps, between the building and public mainline.
2. Property Owner Responsibilities for Repairs:
   a. Inspections and investigations to determine the condition and functionality of the Service Connection from the building to the public mainline.

   b. Repairs of structural and non-structural defects for any portion of the Service Connection that is on private property, including the area within easements granted to the District.

3. District Responsibilities for Repairs:
   a. Repair of structural defects, as determined by the District, for the portion of the Service Connection that is within the public right-of-way.

UPDATED Policy: Annexation into the District

Issue

- WES's 2013 Urban Services Policy Memorandum is not codified in the Rules.

Current Policy

- Properties not with WES's service district must annex into a city and WES prior to obtaining WES services, except in limited circumstances such as where sewer service is readily available, or a public health hazard.

Policy Change

- Rules Section 1.5 - If a property is currently outside of the District boundary and not within an incorporated City boundary, then the property owner must first seek annexation into the appropriate City. The District will not process a petition for annexation until a City has either approved annexation into the City, or denied annexation into the City and consented to District annexation.
- Land that is not in a City UGMA or comprehensive plan may be annexed if contiguous with District Boundary.

- **Significance**
  - Gives WES clearer authority to require annexation prior to providing service.
  - District annexation can still occur under limited circumstances.

DRAFT Language from the Rules and Regulations:

1.5 Annexation

The purpose of this section is to establish procedures relating to the annexation of territory into the District. It is the intent of the District to promote orderly annexation of municipal and unincorporated land where it is determined in best interests of the District and adjoining cities to plan and provide for orderly development.

1) Annexation to the District must satisfy the requirements as set forth in Oregon Revised Statutes Chapter 198.
2) Annexation to the District shall be required prior to a building on a property connecting to and/or benefiting from District-owned, operated or maintained sanitary and/or stormwater infrastructure.
3) Property owners seeking to annex territory into the District must first seek annexation into the applicable City in accordance with local and state ordinances, the Metro Code Chapter 3.07 Urban Growth Management Functional Plan, and/or an Urban Growth Management Area (UGMA) Agreement.
4) The District will not annex lands outside of the UGB, or annex lands within the UGB that are included in an UGMA or a comprehensive land use plan that designates the lands to be incorporated into a City, without a property first annexing into a City or a City consents to District annexation.

5) In the event a City is not willing to annex properties, and the subject properties are contiguous with the current District boundary, then the District reserves the right at its sole discretion to annex the land and provide services, excluding lands as noted in Section 1.5.4 of these Rules and Regulations.
6) The District may annex property and/or provide extra-territorial service at its sole discretion to a property in order to abate a health hazard in accordance with Section 4.4.2 – Health Hazard.

UPDATED Policy: System Development Charge Financing

Issue

- SDC financing policy has no limits on types or amount of SDCs that can financed, causing cash flow interruptions and commitment of WES staff resources for financing agreements, due diligence, collecting payments, etc.

Current Policy

- Section 4.1.8 - Allows for installment payments of SDCs over a 10-year period for all projects regardless of type and size.

Policy Change

- Rules Section 6.2.10 - Installment payments for SDCs are limited to residential and multi-family developments that have been assigned ten (10) or fewer EDUs.
- Installments not to exceed 20 equal semi-annual installments. Applicable interest rate shall be the current US Federal prime rate plus 2% as established in an installment agreement.

Significance

- Aligns with original intent of the financing policy to support small residential sewer connections.
- Aligns interest rate with County policy on SDCs and District policy on Reimbursement Districts
- Reduces financial risk and administrative cost to the District.

DRAFT Language from the Rules and Regulations:

6.2.10 System Development Charge Installment Payments

The District may approve an application to pay the SDC in installments and may lien the property for the amount financed. The District reserves the absolute right to reject any application for installment payments.

Installment payments for SDCs shall be limited to single-family residential and multi-family residential developments that have been assigned ten (10) or fewer EDUs. The amount financed shall be for that portion of a system development charge, and/or a connection charge imposed per Section 6.5.1.

The District shall provide application forms, and prepare an agreement for installment payments, which shall include a waiver of all rights to contest the validity of the lien, except for the correction of computational errors. The application fee for this option shall be set by resolution and included in the District's fee table. The applicant shall provide with the application all supporting documentation, as requested.

A person submitting application for installment payments shall have the burden of demonstrating the person's authority to assent to the imposition of a lien on the property and that the interest of the person is adequate to secure payment of the lien.

If approved by the District, the applicant shall execute an installment promissory note, payable to the District in the form prescribed by the District for payment in installments not to exceed 20 equal semi-annual installments due January 1 and July 1 of each year, to include interest on the unpaid balance in accordance with ORS 223.205 through 223.295. The applicable interest rate shall be the current US Federal prime rate plus 2.0 percentage points.

The promissory note shall be secured by a mortgage or trust deed covering the property to be connected thereto. The cost of recording, preparation of security documents, supporting documentation for the application, and filing fees shall be borne by the applicant in addition to the system development charge. The applicant, by electing to pay in installments, agrees that as an additional remedy to recovery upon the promissory note and foreclosure of the mortgage or remedy in lieu thereof, the District may after 10 days' notice of delinquent installments cause termination of service to the defaulting property.

The District Director or designee shall cause the lien to be entered in the lien docket kept in the Office of the County Clerk in accordance with ORS 451.520. From that time, the District shall have a lien upon the described parcel for the amount of the Reimbursement Charge, together with interest on the unpaid balance at the rate in the last published Oregon State Treasurer's bond indices. The lien shall be enforceable in the manner provided in ORS 223.205 through 223.295, and shall be superior to all other liens pursuant to ORS 223.230.

UPDATED Policy: Reimbursement Districts

Issue

- Property developers are not reimbursed for the cost of constructing offsite sewers that future users connect to.

Current Policy

- NA/New Policy

Policy Change

- Rules Section 6.6 Reimbursement District - A Developing Party who is not otherwise eligible for SDC credits...may request that WES establish a Reimbursement District.
- Benefiting properties connecting within 10 years pay the assigned Reimbursement Charge and interest as determined by the Board.
- Installment payments are authorized, consistent with WES's proposed SDC and connection charge financing provisions.

Significance

- Developers can be reimbursed for future connections to infrastructure they have built.
- Establishes new fees for significant WES staff time/resources to establish reimbursement districts, collect payments etc.

DRAFT Language from the Rules and Regulations:

6.6 Reimbursement Districts

6.6.3.d District Review

The District shall review each application to establish a Reimbursement District and prepare a report and recommendation to the Board on whether a Reimbursement District should be established.

The recommendation shall address the following factors:

- Whether the applicant has paid for some or all the costs of a Qualified Project, which includes improvements for which the applicant desires to be reimbursed
- The area or parcels that are Specially Benefited by the Qualified Project, and whether such parcels would, as a condition of future Development be required to construct some or a portion of the same improvements for which a Reimbursement District and Reimbursement Charge is sought to be established
- That portion of the cost of the Qualified Project within the area of the proposed Reimbursement District that is appropriate for reimbursement by the owners of Specially Benefitted properties
- A rational formula for apportioning the cost of the Qualified Project among properties within the proposed Reimbursement District and the proposed Reimbursement Charge for each property
- The interest rate, if any, to be applied to the proposed Reimbursement Charge over the following 10 years, which represents the estimated annual return on investment of the reimbursable costs
- Whether the applicant has complied with the requirements of this Section 6

6.6.4 Payments

If within 10 years from the date on which a Reimbursement District and Reimbursement Charge is established by the District, the Specially Benefitted property owner receives approval from the District and utilizes such approval for connection, direct connection to, or use of a Qualified Project for which a Reimbursement Charge has been established, then the owner shall pay to the District, in addition to any other applicable fees and charges, the Reimbursement Charge established by the Board and adjusted to reflect the applicable interest rate.

The Reimbursement Charge is immediately due and payable by owners of Specially Benefited property upon Development or permitted use of a Qualified Project as provided by these Rules and Regulations. If connection is made or construction commenced without required permits, then the Reimbursement Charge is immediately due and payable upon the earliest date that any such permit was required.

6.6.4.a Installment Payments

The owner of owner-occupied residential property who is charged a Reimbursement Charge may apply for payment in a maximum of 20 semi-annual installments over a 10-year period, to include interest on the unpaid balance in accordance with ORS 223.205 through 223.295. The applicable interest rate shall be the current US Federal prime rate plus 2.0 percentage points.

The District shall provide application forms, and prepare an agreement for installment payments, which shall include a waiver of all rights to contest the validity of the lien, except for the correction of computational errors. The application fee for this option shall be set by

resolution and included in the District's fee table. The applicant shall provide with the application all supporting documentation, as requested.
A person submitting application for installment payments shall have the burden of demonstrating the person's authority to assent to the imposition of a lien on the property and that the interest of the person is adequate to secure payment of the lien.

The District Director or designee shall cause the lien to be entered in the lien docket kept in the Office of the County Clerk in accordance with ORS 451.520. From that time, the District shall have a lien upon the described parcel for the amount of the Reimbursement Charge, together with interest on the unpaid balance at the rate in the last published Oregon State Treasurer's bond indices. The lien shall be enforceable in the manner provided in ORS 223.205 through 223.295, and shall be superior to all other liens pursuant to ORS 223.230.

CLACKAMAS
WATER
ENVIRONMENT
SERVICES

March 16, 2022

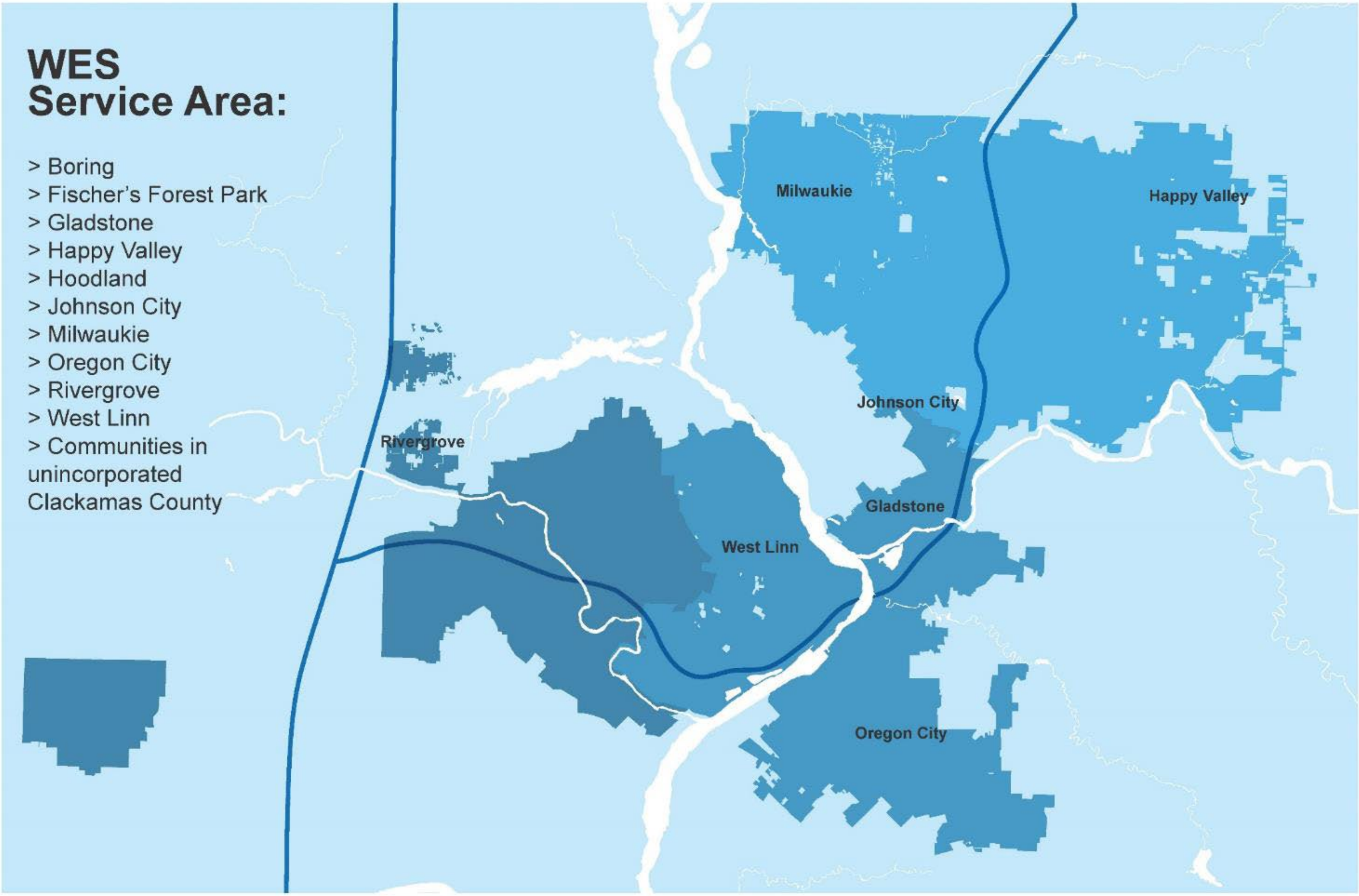
WES Rules and Standards Update

Ron Wierenga, WES Environmental Services Manager

Presentation Agenda

- Project Background
- Key Policy Discussions
    - Service Connections
    - Annexation
    - SDC Financing
    - Reimbursement Districts
- Recommendation
    - The WES Advisory Committee concurs with the proposed key policy changes in the draft Rules and Standards, and recommends staff engage the Board of County Commissioners in ordinance adoption.

WES Rules & Standards



Rules/Standards by Area:

- Administrative Rules for CCSD#1 & SWMACC
- WES Rules (2018)
- TCSD Sanitary Rules
- CCSD#1 Sanitary Rules
- CCSD#1 Sanitary Standards
- SWMACC Stormwater Rules
- CCSD#1 Stormwater Rules
- CCSD#1 Stormwater Standards

Project Outreach and Engagement

Stakeholder Interviews

- Development engineers
- Planners
- Others who use the rules and standards

August 2018

Policy and Technical Issues Workshops

- WES
- DTD
- Happy Valley
- Consulting Engineers

June 2018 – March 2019

Task Force Meetings

- People who use the rules
  - ✓ Developers
  - ✓ Engineers
  - ✓ Partner Cities

October 2018 – January 2019

Community Briefings

- Interest Groups & Neighborhood Associations
- Business Community
- Informational forums

November 2019 - March 2020

Public Review Process

- Public review drafts
- WES Advisory Committee
- County commission hearings

April 2020 – Current

Community Briefings

WES Presentations (Fall 2019- Spring 2020)

- Oregon City Chamber/Government Affairs Committee (October 14, 2019)
- North Clackamas Chamber (November 4, 2019)
- North Clackamas Watersheds Council (November 6, 2019)
- WES Advisory Task Force (November 12, 2021)
- Clackamas Soil and Water Conservation District (November 21, 2019)
- Clackamas River Basin Council (November 21, 2019)
- Happy Valley Business Alliance (November 27, 2019)
- WES Engineering Advisory Group (December 5, 2019)
- WES Hosted Forums (December 5 & 10, 2019)
- Home Builders Association (April 7, 2020)

Direct Communication/Informational Flyer

- Clackamas County Economic Development Commission
- South Clackamas CPO
- Stafford Hamlet CPO
- Sunnyside CPO
- Clackamas County Business Alliance
- Oregon City Business Alliance

WES Advisory Committee

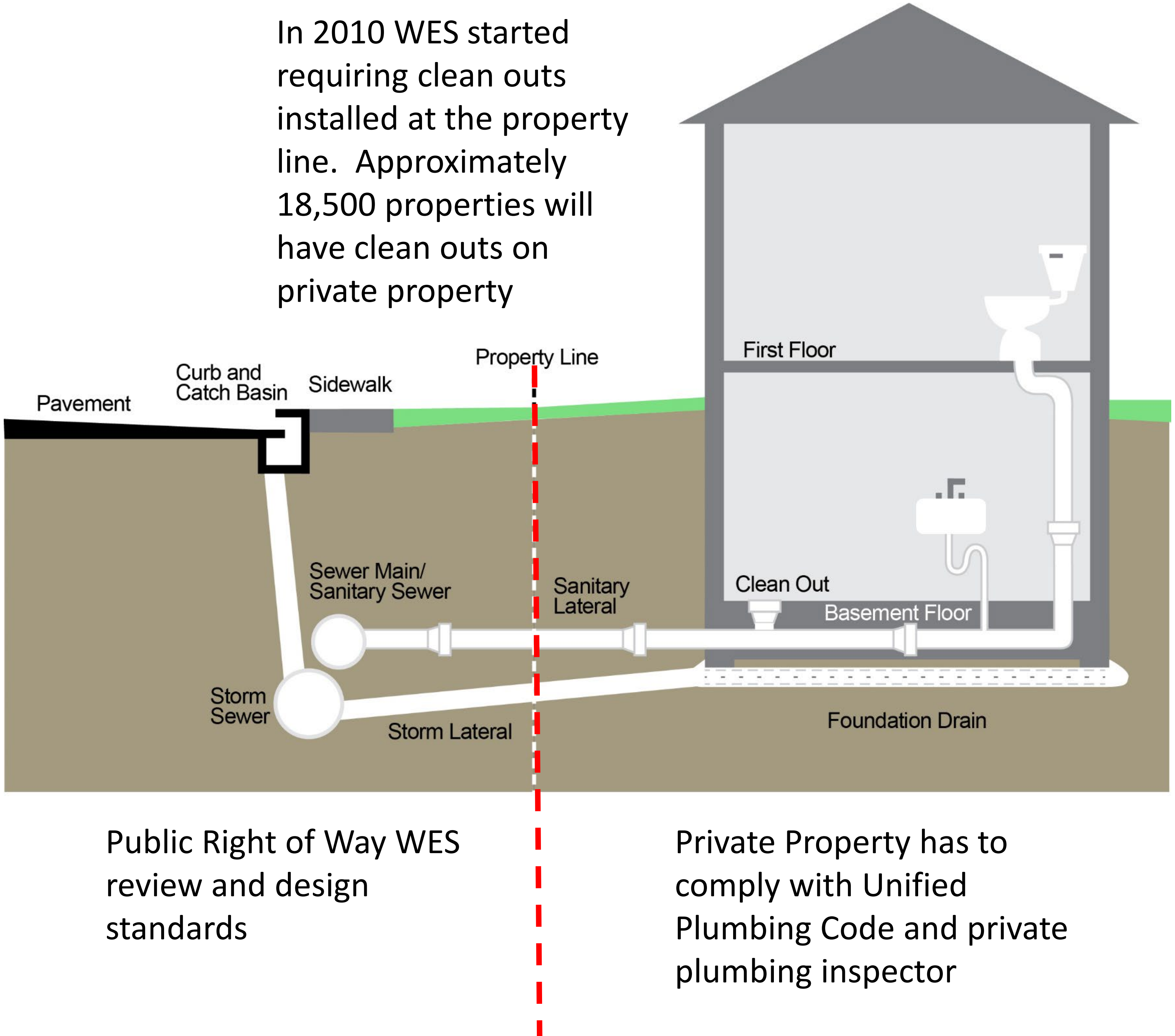
- 03/29/2018 – Introduction
- 06/14/2018 - Update
- 09/28/2018 - Update
- 01/10/2019 - Update
- 07/18/2019 – Update EDU Methodology
- 10/24/2019 – Update EDU Methodology
- 11/14/2019 – Update EDU Methodology
- 01/30/2020 - Update
- 09/17/2020 – Update and Next Steps
- 07/15/2021 – Update and Next Steps
- 11/18/2021 – Key Policy Proposals

Key Policy Changes

Sanitary Service Connection Responsibilities

- **Issue**
  - Significant risk and burden on the District for inspection, maintenance, and repair of service connections.
  - Private owners may have significant cost to repair service connections under streets and sidewalks in the public ROW.
- **Current Policy**
  - Standards Section 5.5 - Owners are responsible for service connections from buildings to public ROW or easement lines, and WES is responsible from ROW or easement lines to mainline.
- **Policy Change**
  - Standards Section 5.6.1 – Building/property owner(s) are responsible for owning, operating and maintaining the pipeline from the building to and including the connection to the mainline located within the ROW or public easement.
  - Repairing structural defects are the responsibility of building/property owners, except in the ROW where the District will make repairs.
- **Significance**
  - Assigns responsibility and cost of service connection maintenance to property/building owners, except in ROW where repairs may be more complicated and expensive.
  - Reduces financial and sewer overflow risk to the District.

In 2010 WES started requiring clean outs installed at the property line. Approximately 18,500 properties will have clean outs on private property



Public Right of Way WES review and design standards

Private Property has to comply with Unified Plumbing Code and private plumbing inspector

- WES has approximately 22,500 "retail" customers. Which equates to approximately 560,000 LF of service connection pipe.
- Approximately 4,000 retail customers were connected after 2010 when WES started requiring a clean out be installed at the ROW.
- 18,500 retail customers (462,500 LF of pipe) can only be accessed through private property.
- To clean a service connection you need access on the upstream end.
- WES does not have equipment sized to clean or CCTV service connections (4" diameter pipe).

Sanitary Service Connection Responsibilities

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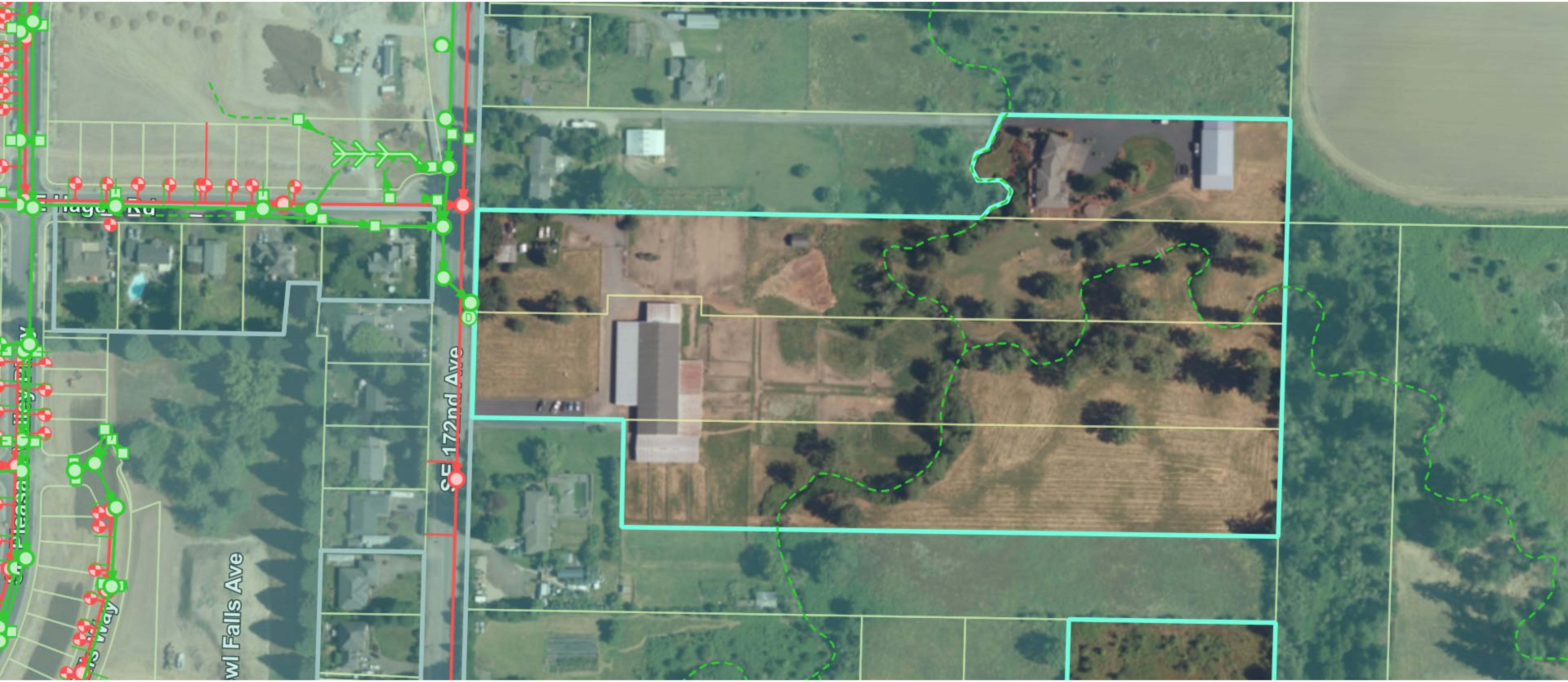
Annexation Into the District

- **Issue**
  - WES’s 2013 Urban Services Policy Memorandum is not codified in the Rules.
- **Current Policy**
  - Properties not with WES’s service district must annex into a city and WES prior to obtaining WES services, except in limited circumstances such as where sewer service is readily available, or a public health hazard.
- **Policy Change**
  - Rules Section 1.5 - If a property is currently outside of the District boundary and not within an incorporated City boundary, then the property owner must first seek annexation into the appropriate City. The District will not process a petition for annexation until a City has either approved annexation into the City, or denied annexation into the City and consented to District annexation.
  - Land that is not in a City UGMA or comprehensive plan may be annexed if contiguous with District Boundary.
- **Significance**
  - Gives WES clearer authority to require annexation prior to providing service.
  - District annexation can still occur under limited circumstances.


SE Safeway Rd
SE 114th Ave
SE 115th Ave
Clackamas River


SE 172nd Ave
wl Falls Ave

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- **Significance**
  - Gives WES clearer authority to require annexation prior to providing service.
  - District annexation can still occur under limited circumstances.

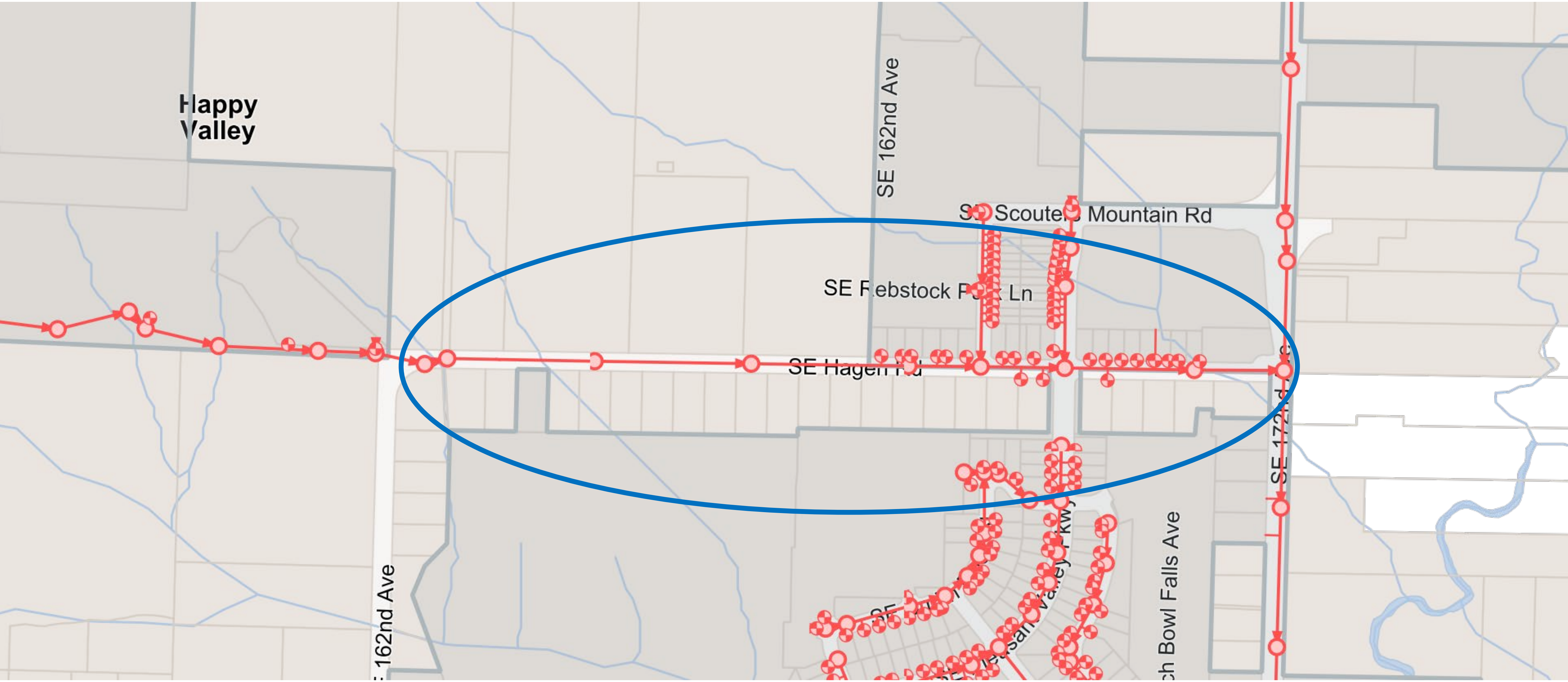
System Development Charge Financing

- **Issue**
  - SDC financing policy has no limits on types or amount of SDCs that can financed, causing cash flow interruptions and commitment of WES staff resources for financing agreements, due diligence, collecting payments, etc.
- **Current Policy**
  - Section 4.1.8 - Allows for installment payments of SDCs over a 10-year period for all projects regardless of type and size.
- **Policy Change**
  - Rules Section 6.2.10 - Installment payments for SDCs are limited to residential and multi-family developments that have been assigned ten (10) or fewer EDUs.
  - Installments not to exceed 20 equal semi-annual installments. Applicable interest rate shall be the current US Federal prime rate plus 2% as established in an installment agreement.
- **Significance**
  - Aligns with original intent of the financing policy to support small residential sewer connections.
  - Aligns interest rate with County policy on SDCs and District policy on Reimbursement Districts
  - Reduces financial risk and administrative cost to the District.

Reimbursement Districts

- **Issue**
  - Property developers are not reimbursed for the cost of constructing offsite sewers that future users connect to.
- **Current Policy**
  - NA/New Policy
- **Policy Change**
  - Rules Section 6.6 Reimbursement District - A Developing Party who is not otherwise eligible for SDC credits...may request that WES establish a Reimbursement District.
  - Benefiting properties connecting within 10 years pay the assigned Reimbursement Charge and interest as determined by the Board.
  - Installment payments are authorized, consistent with WES's proposed SDC and connection charge financing provisions.
- **Significance**
  - Developers can be reimbursed for future connections to infrastructure they have built.
  - Establishes new fees for significant WES staff time/resources to establish reimbursement districts, collect payments etc.

Reimbursement Districts – Scouters Mountain Example



Next Steps

- Anticipated Schedule:
  - November – March 2022: WES Advisory Committee Review
  - April-May 2022: Policy Sessions
  - April - June 2022: Final Document Revisions
  - June - July 2022: Adoption Hearings
  - August-September 2022: Implementation

Recommendation

- The WES Advisory Committee concurs with the proposed key policy changes in the draft Rules and Standards, and recommends staff engage the Board of County Commissioners in ordinance adoption.

Questions?

Ron Wierenga, WES Environmental Services Manager

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