

CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Staff Presentation Worksheet

Presentation Date: November 9, 2010 Time: 11:00 AM Length: 30 minutes

Presentation Title: Revenue Obligation Authorization Limit Increase

Department: Water Environment Services

Presenters: Doug Waugh, Mike Kuenzi

POLICY QUESTION

Shall the Board of Directors of Clackamas County Service District No. 1 (District) increase the existing authorization to issue Revenue Obligations in support of Phase I of the Capacity Management Program from \$95 million to \$107 million?

ISSUE & BACKGROUND

Phase I Initial Planning

In 2008, the District initiated Phase I of the Capacity Management Plan for the District. The purpose of the Phase I program was to construct new treatment capacity sufficient to provide for the District's 2008 needs as well as meet anticipated growth through 2015. Phase I consisted of the construction of new treatment facilities at the Tri-City Service District (TCSD) treatment facility, maintenance upgrades to the District's Kellogg treatment facility, and construction of a conveyance pipeline between the District and TCSD. Total program cost was estimated at \$120 million in 2008 dollars. Staff prepared and presented a financing plan to the Board and its advisory committee that included utilizing cash reserves, System Development Charge (SDC) revenues, and an initial debt authorization of \$95 million in revenue obligations.

The financing strategy included three separate bond sales in fiscal years 2008-09, 2009-10, and 2010-11, closely matching the anticipated cash flow requirements of the proposed construction phasing. The monthly service fee was then adjusted on an annual basis to provide the revenues necessary to guarantee the debt service on these borrowings. In 2008, staff projected a retail rate increase that would settle at \$37-38 per customer per month in fiscal year 2010-11 dependent on the final construction bids and the interest rates obtained on the bonds. The sewer SDC was projected to increase from \$2,200 to \$6,600 in recognition of the growth related portions of Phase I investments.

Unforeseen Events and District Responses

Several unanticipated economic events have combined to create a need for additional borrowing authorization beyond the initial \$95 million authorization.

1. Total program construction cost has increased by \$4.2 million over the 2008 estimate. Projected costs are now estimated to be \$124.2 million, an increase of approximately 3.5% over the 2008 estimate. This increase was primarily the

result of the alternative contract methodology (GM/GC) that was selected in order to meet the timeframe established by the MAO between CCSD#1 and the Department of Environmental Quality.

2. Intergovernmental Agreement

An IGA was negotiated between the District and TCSD in 2009 enabling the District to construct its treatment capacity in parallel to TCSD's system. This IGA calls for a one-time \$4 million payment by the District in recognition of the benefits received in being able to utilize a portion of the existing Tri-City treatment infrastructure and for the land that was leased.

3. Debt Service Reserves.

The 2008 crisis in the bond markets eliminated CCSD#1's ability to buy bond insurance at a one-time cost of \$20,000 to \$30,000. This previously available insurance would have met the market requirement for reserve payments. The District has instead been forced to fund one year of debt payment on all Phase I debt in cash reserves. This cash reserve amounts to \$7.8 million in unforeseen program borrowing.

4. Housing Market Recession.

The national recession which began in 2008 has dramatically reduced new home construction within the District. The original financial projections produced in 2008 reflected the then current trend of 1,000 new connections added to the District system each year of the Phase 1 construction. Actual customers added has dropped to 350 units per year, reflecting a significant slowdown in District growth and projected revenue. The cumulative SDC revenue shortfall is projected at \$10 million over the phased construction period.

5. Wholesale Contracts.

Contractual challenges with both of the District's wholesale customers resulted in a revenue shortfall of approximately \$2 million over the 2008 projections.

Staff action has resulted in the need to raise the original revenue obligation authorization by \$12 million and still meet the 2008 retail rate forecast. These achievements came from a variety of financial techniques and cost cutting decisions where appropriate. These include:

- 1) Eliminating those items not absolutely necessary to the direct functioning of the new infrastructure.
- 2) Negotiating a one year timeline extension with DEQ for the construction the intertie pipeline construction. This enabled staff to recognize additional cash flow from rates to help offset some of the observed SDC shortfalls.
- 3) Operation and administrative expenses have been frozen for the last three fiscal years, thereby increasing the cash flow contribution to the project from rates.
- 4) The term on all borrowings was increased from 20 to 25 years. This reduced the annual debt service payments and improved cash flow to help with project financing.
- 5) Debt service payments were structured to begin later in the fiscal year of issuance, increasing the cash flow contribution to the project.

The effect of these actions, given the proposed additional borrowing, will maintain the monthly service fee at the rate that was set for fiscal year 2010-11. That rate is \$38.00 per month per customer and is sufficient to support the final debt issuance needed for the successful completion of Phase I.

QUESTION(S) PRESENTED FOR CONSIDERATION

Shall the Board of Directors of the District increase the existing authorization to issue Revenue Obligations in support of Phase I Program from \$95 million to \$107 million?

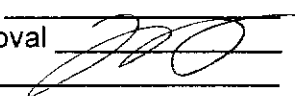
OPTIONS AVAILABLE

- 1) Approve the additional borrowing authorization. New funding limit will allow for the successful completion of Phase I on time.
- 2) Do nothing. Financing to complete Phase I will be insufficient within the planned time frame, leaving the already constructed treatment facilities without the intertie needed to make full use of the new facilities possible. Sufficient funding needed to complete Phase I can then come only from several years of future District cash flows. This delay will also add to the total cost of Phase I.
- 3) Approve an intermediate amount of additional authorization. Similar to Option 1, this will delay the completion of the intertie as any amounts needed beyond what is authorized will need to come from future District cash flows. These delays will increase the total costs of Phase I and delay the use of the new treatment facilities already constructed.

RECOMMENDATIONS

Staff respectfully recommends approving Option #1.

SCHEDULE FOR STUDY SESSION

Division Director/Head Approval _____
Department Director/Head Approval _____
County Administrator Approval _____ 

For information on this issue or copies of attachments, please contact Kathy Frasier
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