

To: Susan Shanks and Toby LaFrance, City of Tigard
From: Todd Chase and Doug Gabbard, FCS GROUP
CC: Derek Chisholm, Otak
RE: Water Utility Funding Options for River Terrace

Date: November 6, 2013

INTRODUCTION

This document identifies River Terrace water utility funding options available to the City of Tigard. The purpose of this memorandum is to provide input for discussion by city staff, elected officials and interested stakeholders prior to the formulation of a locally preferred financing and funding strategy.

CURRENT WATER SERVICE AND ITS FUNDING SOURCES

The City provides water service to the Tigard Water Service Area, which has 57,000 residents and includes the Tigard Water District and the cities of Tigard, Durham, and King City.¹

By 2016, when the Tigard’s water supply contract with the City of Portland expires, the City will be able to distribute water produced in Lake Oswego by the jointly-owned water treatment plant of the Lake Oswego Tigard Water Partnership. This new partnership will allow Tigard and Lake Oswego to produce up to 38 million gallons of water per day, of which Tigard would receive between 14 and 20 million gallons per day (by year 2040). Tigard’s share of the capital costs associated with water treatment, transmission, intake, etc. is estimated to be \$81 million.

New Construction of Capital Projects

The City currently finances the capital needs of its water utility primarily with revenue bonds tied to water rates. Other sources such as system development charges (SDCs) and utility fees have played only a minor role in financing water infrastructure. On June 30, 2012, the Water Fund owed \$105.4 million in outstanding revenue bonds.² This amount represented 93 percent of the Water Fund’s total liabilities.

Not only must bond debt be repaid from rate revenues, but those rate revenues must be sufficiently greater than both the operating needs and debt service payments to provide a cushion known as “debt service coverage.”

SDCs will become an important resource for capital spending if new development resurges. **Exhibit 1** shows the City’s current water SDCs:

Meter Size	Effective Date		Increase
	2/1/2013	2/1/2014	
5/8" x 3/4"	\$ 6,083	\$ 7,044	15.8%
3/4" x 3/4"	\$ 8,757	\$10,144	15.8%
1"	\$16,225	\$18,791	15.8%
1 1/2"	\$48,645	\$56,343	15.8%
2"	\$78,990	\$91,490	15.8%

Source: Master Fees & Charges Schedule

¹ City of Tigard, “Fact Sheet: Water Financial Plan,” page 1.

² City of Tigard, “Comprehensive Annual Report for the Fiscal Year Ended June 30, 2012,” page 44.

Operations

The Water Division of the City’s Public Works Department has current budgeted operational needs of \$8.1 million per year. These needs are financed with user charges, especially sewer rates.

Exhibit 2 summarizes water-related resources and requirements for Tigard in recent years:

Current Funding of the Water Utility in Tigard		Exhibit 2			
Description	Fund	Actual		Budget	
		FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
<u>Capital Funding</u>					
Resources					
Bond proceeds	Water CIP	\$ 3,100,000	\$ 99,634,079	\$ -	\$ -
Bond proceeds	Water Debt Service	-	12,538,672	-	-
SDCs	Water CIP	107,188	-	-	-
SDCs	Water SDC	339,068	1,164,078	361,575	361,575
Fund balance and other		4,066,418	(97,762,503)	26,306,109	80,381,902
Total resources		<u>\$ 7,612,674</u>	<u>\$ 15,574,326</u>	<u>\$ 26,667,684</u>	<u>\$ 80,743,477</u>
Requirements					
Capital projects	Water CIP	\$ 7,523,029	\$ 9,535,084	\$ 22,706,500	\$ 75,862,443
Debt service	Water CIP	89,645			
Debt service	Water Debt Service		6,039,242	3,961,184	4,881,034
Total requirements		<u>\$ 7,612,674</u>	<u>\$ 15,574,326</u>	<u>\$ 26,667,684</u>	<u>\$ 80,743,477</u>
<u>Operational Funding</u>					
Utility revenue	Water	<u>\$ 5,065,701</u>	<u>\$ 5,331,984</u>	<u>\$ 7,950,086</u>	<u>\$ 8,139,852</u>
Program expenditures	Water	<u>\$ 5,065,701</u>	<u>\$ 5,331,984</u>	<u>\$ 7,950,086</u>	<u>\$ 8,139,852</u>
FTE positions		12.00	12.75	12.50	12.00

Source: FY 2013-14 City budget documents (fund_summaries.pdf and public_works.pdf)

POTENTIAL FUNDING SOURCES

In addition to the current funding sources for water that are identified above, the City could consider several potential new means of funding construction and ongoing operation of water-related infrastructure in the River Terrace subarea plan district. At this stage in the planning process, we are listing potential funding sources that have legal precedence in Oregon. Potential sources of capital and operating funding for the water utility are identified and evaluated at the end of this memorandum in **Exhibit 3**.

New Construction

Options for financing capital needs include the following:

- Area-Specific Water Utility Rates
- Water SDCs (citywide and/or area-specific)
- Special Assessments (such as Local Improvement Districts or Reimbursement Districts)
- Urban Renewal Area
- Bonds (General Obligation Bonds, Full Faith and Credit Bonds, Revenue Bonds, etc.)
- Special Programs
- Developer Contributions

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Area-Specific Water Utility Rates

To the extent that a specific area imposes costs (whether capital or operating) on a utility that the remainder of the customer base does not impose, area-specific rates can be justified. Implementing area-specific rates can take a couple of different forms. On the one hand, the entire utility service area can be divided into districts, and each district can have its own rate schedule. On the other hand, a base charge could be imposed in the entire utility service area with surcharges imposed only in those areas of higher cost.

Water SDCs

ORS 223.297 to 223.314 allows local governments to impose SDCs for capital improvements related to water. SDCs are one-time fees imposed on new development or certain types of major redevelopment. They are intended to recover a fair share of the costs of existing and planned facilities that provide capacity to serve growth. SDCs cannot be used for operation or routine maintenance.

As mentioned above, the City already has SDCs for water. These could be updated to include additional capital projects within River Terrace. The process of adopting a new methodology and water SDCs citywide may result in a higher water SDC for any new development in the City.^b However, the disadvantage with this approach is that there would be no assurance that a water project within the River Terrace area would receive SDC funding in the near-term as there are dozens of other SDC-eligible projects slated for construction.

Another option is the adoption of a new supplemental River Terrace water SDC, which would affect development only within River Terrace. An advantage of this approach is that the City could dedicate these supplemental SDC funds to eligible water projects within River Terrace. A possible disadvantage is an increase in the overall development fees in River Terrace to a level that dissuades private investment activity.

Special Assessments

Local governments can assess specific property owners that benefit from the construction of local facilities through local improvement districts (LIDs) or reimbursement districts.

ORS 223.387 to 223.401 provides local governments the statutory authority to establish LIDs and levy special assessments on the benefited property to pay for improvements. LIDs result in upfront or annual payments from affected property owners within a district. LIDs are payable in annual installments for up to 30 years. LIDs are generally used for capital improvement projects that benefit numerous large tenants and/or private property owners. The future revenue stream generated by LIDs can be used by local governments to obtain financing through the use of loans or bonds.

Similar to LIDs are reimbursement districts. Local governments can negotiate public/private advance financing arrangements with developers, where a developer agrees to front capital improvements/investment within a designated zone of benefit district (ZBD). The local government that adopts a zone of benefit applies a special development impact fee that is charged based on a proportional benefit to properties for the capital infrastructure. The developer is then partially reimbursed when future land use development approvals are granted within the ZBD over a period that usually extends 10-15 years. However, there is no guarantee that future revenues will be as steady and reliable as LID or property tax assessments.

Urban Renewal Area

There may be opportunities to utilize funding from the creation of a new River Terrace Urban Renewal Area (URA) for eligible economic development improvements in accordance with ORS Chapter 457. In

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many cases, URA funds are combined with other local funding sources (e.g., LIDs) to leverage non-local grants or loans.

Maximum Indebtedness Requirements

After the passage of House Bill 3056 (passed by the Oregon Legislature in 2009) urban renewal agencies have new limits on the amounts of maximum indebtedness (MI) in an urban renewal plan adopted after January 1, 2010.

- ◆ If the total “frozen tax base” is \$50 million or less (as in the case of River Terrace where existing assessed market valuation was \$31.84 million in 2013), the total MI may not exceed \$50 million (ORS 457.190(4)(a)).
- ◆ Under ORS 457.220, increases in MI may not exceed an aggregate of 20% of the original MI of the UR Plan, but with an “indexing” of the original MI from July 1, 1999 or one year after the plan was initially approved, whichever is later. Indexing may only happen once.

Revenue Sharing Possibilities

There are also new possibilities for revenue sharing with overlapping districts for plans adopted or substantially amended to increase MI after January 1, 2010. Revenue sharing among overlapping tax districts begins in the later of the 11th year after the initial plan was adopted, or when division of tax collections equal or exceed 10% of the initial MI. For any year when division of tax collections equal or exceed 10% of the initial MI, but are less than 12.5% of the initial MI, the UR agency receives the 10%, plus 25% of the tax increment between 10% and 12.5%. Overlapping tax districts receive 75% of the tax increment between 10% and 12.5%. For any year when division of tax collections equal or exceed 12.5% of the initial MI, the UR agency receives the 12.5% tax increment, and any tax increment collections greater than 12.5% are distributed to overlapping taxing districts.

Concurrence Waivers

Variations in the maximum indebtedness requirements and the revenues sharing provisions can occur if the municipality obtains the written concurrence of the overlapping tax districts that impose at least 75% of the taxes imposed under the permanent rate limits in the URA.

In light of these and other URA provisions, the City may consider the creation of a new River Terrace URA in accordance with requirements set forth in ORS Chapter 457.

Bonds

As the City is aware, bonds are a common means of financing water projects whose benefits are not confined to a single local area.

General obligation (GO) bonds are advantageous, because their debt service is funded by a property tax levy that is outside the limits of Measure 5. However, GO bonds do require voter approval.

Revenue bonds are a form of debt financing that does not require voter approval. However, revenue bonds do require an ongoing source of revenue that can be pledged to payment of debt service. A parks utility fee, whether established by the City or a park and recreation district, could serve this purpose. Revenue bonds are subject to debt service coverage requirements.

A hybrid of these two bond types is the full faith and credit obligation (FFCO). This type of bond represents an unsecured claim on all the revenue streams of an agency without the pledge of any particular revenue stream. FFCOs do not require voter approval, and they are not subject to debt service coverage requirements.

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Special Programs

The City may utilize private bank loans or state loans to make strategic capital facility upgrades. Given the City's limited operating revenues, bank loans would only be viable for smaller budget improvements that promise rapid return on the investment. State loan funds available from Business Oregon currently include the Special Public Works funds that are available on a competitive basis to public jurisdictions and can fund projects up to \$3 million in size. Oregon Bond Bank or Oregon Infrastructure Finance Authority loan funds may be available if the project is well secured and other funding alternatives are not available.

Developer Contributions

An indirect way of using SDCs to fund capital improvements is to provide SDC credits to developers who construct "qualified public improvements" as defined in ORS 223.304(4). For smaller facilities that will serve a single development, the City can require a developer to construct the facility as a condition of development approval. In cases where dedicated cost of public facilities are eligible for System Development Charge credits, the developer may be entitled to an amount of SDC credit based on the amount of the SDC improvement charge and the value of the land and/or capital facility provided.

Potential Funding of Operational Needs

User charges, especially water rates, will continue to be the water utility's primary means of meeting its operational needs.

To the extent that a specific area imposes costs (whether capital or operating) on a utility that the remainder of the customer base does not impose, area-specific rates can be justified. Implementing area-specific rates usually occur in two different forms: 1) the entire utility service area can be divided into districts, and each district can have its own rate schedule; or 2) a base charge could be imposed in the entire utility service area with surcharges imposed only in those areas of higher cost.

NEXT STEPS

Once the city receives input from the River Terrace Technical Advisory Committee and the River Terrace Stakeholder Working Group on the advantages and disadvantages of these water utility funding options, FCS GROUP will work with city staff to "shortlist" funding options for additional consideration.

Exhibit 3

River Terrace Water Facility Funding Options

Funding Option	Considerations					
	Area of Benefit	Lead	Capital Funding	Annual O&M Funding	Advantages	Disadvantages
Water Utility Rates (including area-specific rates)	Citywide or River Terrace Dist.	City Council	\$	\$\$\$	Flexible funding with local precedence	Pay-as-you-go funding for capital projects may not be available when needed.
Water System Development Charge Update (SDCs)	Citywide	City Council	\$\$		Existing citywide water SDC can be updated to include River Terrace projects.	River Terrace projects would not have priority over other city projects. SDCs cannot fund O&M costs.
Supplemental River Terrace Water SDCs	River Terrace	City Council	\$\$\$		New River Terrace SDC could dedicate funds to River Terrace, as development occurs	SDCs cannot fund O&M costs.
Special Assessments (LIDs or Reimbursement District)	River Terrace	Property Owners & City	\$\$		Addresses specific capital improvements with construction timelines; equitable cost allocation results in majority support by affected prop. owners	Some risk to city in case of property owner default on payments
Urban Renewal Area (URA)	River Terrace	City Voters	\$\$\$		New URA could generate funds as development occurs; can be used on wide range of capital projects	URAs cannot fund O&M costs; requires citywide voter approval in Tigard

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Exhibit 3 (continued)

Funding Option	Considerations					
	Area of Benefit	Lead	Capital Funding	Annual O&M Funding	Advantages	Disadvantages
General Obligation Bonds (voter approved)	Project Specific	City Voters	\$\$\$		Project-specific funding source with dedicated source of stable revenue (property tax). Limited risk to City	Public voter referendum has admin cost to City with no guaranteed outcome. Cannot be used for O&M
Full Faith & Credit Bonds (not voter approved)	Project Specific	City Council	\$\$		Project-specific funding source if dedicated revenues are available	Risk to City depends on sources of dedicated revenues. Cannot be used for O&M
Revenue Bonds	Project Specific	City Council	\$\$		Project-specific funding source if dedicated revenues are available	Risk to City depends on sources of dedicated revenues. Interest rates are higher than GO Bonds. Cannot be used for O&M
Special Programs	Project Specific	City Council	\$\$	\$	Project-specific funding source if dedicated revenues are available	Risk to City depends on sources of dedicated revenues. Interest rates are higher than Bond issues
Developer Contributions	Project Specific	City Council & Developer	\$		Developer constructs facility to city standard as a condition of approval; can be eligible for SDC credit.	Limited applicability

Legend:

\$ least positive

\$\$\$ most positive

Source: FCS GROUP and City staff.