

DATE: November 4, 2013

TO: Clean Water Services Advisory Commission (CWAC) Members
and Interested Parties

FROM: Mark Jockers, Government & Public Affairs Manager

SUBJECT: REMINDER OF AND INFORMATION FOR NOVEMBER 13 MEETING

This is a reminder of the CWAC meeting scheduled for **Wednesday, November 13, 2013**. The CWAC meeting packet will be mailed to Commission members on November 4. The Agenda will also be posted to Clean Water Services' website on November 4 at [CWAC section of our website](#).

Additional materials on the System Development Charge financing agenda item will be emailed to the Commission in advance of the November 13 meeting.

Food will be served for CWAC members at **5:30 p.m.** prior to the meeting.

Please call or send an email to Mark Jockers (JockersM@cleanwaterservices.org; 503 681-4450) if you are unable to attend so food is not ordered for you.

Enclosures in this packet include:

- Agenda for Meeting November 13, 2013
- September 11, 2013 Meeting Notes

Clean Water Services Advisory Commission
November 13, 2013

AGENDA

6:30 p.m. Welcome

6:35 p.m. Review/Approval of Meeting Notes of September 11, 2013

6:40 p.m. 2013 Stormwater Report

- Roger Dilts, Regulatory Affairs Water Resource Analyst

The Stormwater report is an annual document Clean Water Services submits to DEQ on behalf of the District and its member Cities summarizing activities and results for stormwater collection, illegal discharges and industrial pretreatment activities for the year.

Action Requested: Informational item

6:55 p.m. Regional Stormwater Management Charge (RSMC) Update

- Nora Curtis, Conveyance System Department Director

Action Requested: Update

7:10 p.m. System Development Charge (SDC) Financing Policy Review

- Mark Poling, Business Operations Department Director
- Kathy Leader, Finance Manager

Action requested: Provide input on policy areas

8:15p.m. Announcements

8:30 p.m. Adjournment

Next Meeting: December 11, 2013

Clean Water Services

Clean Water Advisory Commission

Meeting Minutes

September 11, 2013

Attendance

The meeting was attended by Commission Chair Tony Weller (Builder/Developer) and Commission members Molly Brown (District 2-Malinowski), Lori Hennings (District 1-Schouten), Erin Holmes (Environmental), Mike McKillip (District 3-Rogers), Art Larrance (At-Large-Duyck), Judy Olsen (Agriculture), Stephanie Shanley (Business), and Jerry Ward (Agriculture), and Clean Water Services District General Manager Bill Gaffi.

Mr. Gaffi was unable to stay for the entire meeting. Commission members Alan DeHarpport (Builder/Developer), John Kuiper (Business), David Waffle (Cities), Richard Vial (District 4-Terry), and Sandy Webb (Environmental) did not attend.

The meeting was also attended by Clean Water Services staff members Nora Curtis (Conveyance Systems Department Director), Mark Jockers (Government and Public Affairs Manager), Kathy Leader (Finance Manager), Carrie Pak (Engineering Division Manager), and Mark Poling (Business Operations Department Director).

1. Call to Order

Mr. Weller called the meeting to order at 6:34 PM in the conference room at the Clean Water Services Administration Building.

2. Review/Approval of July 17 Meeting Notes

Ms. Hennings moved to approve the minutes of the meeting held July 17, 2013 and Ms. Olsen seconded the motion. Motion passed.

3. Regional Stormwater Management Charge (RSMC)

Ms. Curtis said the Board of Directors is moving toward adopting a RSMC (Regional Stormwater Management Charge) as Clean Water Services begins to incorporate a regional approach to stormwater management (*presentation attached*). The RSMC charge would apply to development or redevelopment of properties served by publicly-funded regional stormwater management facilities and would be used to reimburse the District or a developer for the costs of constructing such facilities. The Board has asked the Commission to designate a subgroup to participate in stakeholder meetings during the RSMC adoption process over the next few months.

Ms. Curtis explained that stormwater management has conventionally been based on a “one development, one facility” approach with each small facility built with the development it serves. The regional approach calls for fewer, larger facilities, each serving multiple developments which will be built at different times. The RSMC would cover actual costs for stormwater management facility construction, land, and interest. It

would be assessed on each lot as a per-cubic-foot-of-stormwater charge based on land use, percent impervious surface, and lot size. Charges associated with the construction of improvements in the right-of-way would be assessed at the time of the development permit. Because it will be based on actual costs, the RSMC could be adjusted at least once, but no more than twice, annually to account for changes in land prices, interest rates, or other factors. Depending on the development project, the RSMC may or may not be assessed in addition to the SDC (system development charge). Maintenance and other ongoing management costs associated with regional stormwater management facilities will be factored into rates, as is done with single-development facilities.

Ms. Curtis compared existing development on a 97-acre area near Tualatin (slide #5), where 15 stormwater management facilities (red icons) serve 16 developments (blue boundaries), with proposed development (slide #6) in a 97-acre area (yellow boundary) within the North Bethany planning area (red boundary) where there will be only three stormwater management facilities (numbered circles). Rather than being tied to a specific development, each facility will serve all the developments in its sub-basin (blue boundaries). There are 18 sub-basins in the entire North Bethany planning area, with boundaries based on the current topography and drainage patterns. Using a preliminary cost estimate of \$9.19/cubic foot, the initial RSMC in North Bethany would range from \$1,563 to \$2,233 per lot. When the right-of-way RSMC paid by the developer is factored in, a hypothetical “total” cost per lot would be \$2,481-\$3,545, compared to an average per-lot cost of \$5,823 in the previously referenced area Tualatin.

Ms. Curtis said North Bethany is currently the only area where RSAP (Regional Stormwater Approach Projects) are being planned and thus the only area where the RSMC will apply initially. North Bethany projects are not subject to SDCs. However, current planning being done in other developing areas are considering the use of regional stormwater management and the Board has indicated its desire to potentially use the RSMC in areas other than North Bethany.

Ms. Curtis outlined five potential RSMC implementation options (slide #15) to provide flexibility for various development approaches, District financing capability, and project pace.

Ms. Curtis said that RSAP development planning must also consider the conveyance system to each stormwater management facility. Similar to sanitary sewer system construction, conveyance from a development to its regional stormwater management facility must be built from wherever development occurs, and must be built to adequately accommodate future development as well. The Clean Water Services District’s LSI (Local Sewer Improvement) fee program reimburses developers who choose to build offsite or downstream sanitary sewer conveyance so their development can proceed. Modifications are proposed to the LSI program to allow the same for stormwater conveyance construction. Ms. Curtis noted developers want reassurance that pieces of the regional system can be built when they are needed. She added that there may be eminent domain issues when property between the development and the facility is not owned by the developer.

Ms. Curtis said the District's initial budget for RSAPs is \$2 million included in the FY13/14 SWM (surface water management) capital fund. The amount will be reviewed annually.

Commission members offered several comments in response to Ms. Curtis's presentation:

1. Make sure the fourth of the five RSMC implementation options (slide #15) does not end up reimbursing the developer for more than was spent. (Weller)
2. Having fewer but larger facilities seems better for wildlife as well as for hydrology. (Weller)
 - a. Native amphibians make substantial use of stormwater facilities and greater distances between facilities will disrupt the habitat connectivity needed for them to get from pond environment to forest environment and back during their life cycle. Some specific recommendations to minimize this effect have already been developed and could be incorporated into regional facilities planning now. (Hennings, Holmes)
 - i. As most of the facilities are planned for the lowest point of the sub-basin, they are close or even attached to wetland or stream areas. (Curtis)
 - b. As the regional facilities will address both quality and quantity, will there be pollutants in the water that will affect frogs and other wildlife? (Brown)
 - i. Like single-development facilities, regional facilities will include water quality treatment manholes to help prevent that. (Curtis)
 - c. No standing water in these facilities during the summer will eliminate amphibian breeding habitat. (Hennings)
3. Clarification that RSMC for right-of-way improvements will be charged with development permit fees up front, and the rest of the RSMC charged as construction occurs lot by lot. (McKillip, Curtis)
4. Will the regional facilities allow access for the public to enjoy the nature setting? (Hennings)
 - a. Yes, many of the facilities planned for North Bethany are co-located with park trails. (Curtis)

Ms. Curtis reviewed the schedule for the RSMC adoption process, which will include meetings with stakeholders in September, October, and November, Board work sessions

in October and November, and a public hearing on the final proposal December 3. The Board is particularly interested in having a subgroup of Commission members participate in the stakeholder meetings. These will generally be held every other Thursday, beginning at 3 or 3:30 and running an hour to an hour and a half.

Ms. Brown, Ms. Holmes, Mr. McKillip, Mr. Waffle and Mr. Weller will serve as the subgroup attending stakeholder meetings, though not all of them will need to be at every meeting. Staff will update the entire Commission on the RSMC process at the November meeting.

4. Design & Construction Standards Update Progress Report

Ms. Curtis also provided a brief progress report on the Clean Water Services Design & Construction Standards (D&Cs) update. Several update items depend on the federal NPDES (National Pollutant Discharge Elimination System) permit renewal requirements, which continue to be delayed and are now not expected until the end of this (calendar) year. However, two issues are more time-critical than the permit-related issues. One is erosion control methods for stream restoration projects. Staff has developed guidance for this, which can be used immediately and then incorporated into the eventual D&C update. The other critical issue is the use of payment-to-provide (PTP) for vegetated corridor (VC) mitigation on projects where wetland mitigation is accomplished through a wetland bank rather than being done onsite. While this is not a significant revenue issue for Clean Water Services and it affects only a small number of projects, it can be a significant issue for those projects. As staff will not be able to review proposed D&Cs update language with stakeholder groups until next spring, they will ask the Board of Directors to suspend the requirement for VC mitigation in the interim. Ms. Curtis clarified that wetland banks can still be used for wetland mitigation, and a VC will still be required for any remaining onsite wetland area.

5. System Development Charge Financing Policy Review

Mr. Poling and Ms. Leader reviewed the charge from the Board of Directors that the Commission consider whether the District should offer financing (payment over time) of SDCs (system development charges) for commercial and industrial customer classes (including subclasses if determined appropriate) and if so, under what terms and conditions (*presentation attached*). The Board needs a policy defined by customer class so they are not put in the position of deciding multiple individual requests for financing. As required by state statutes, current District policy extends financing for SDCs to owners of single-family and multi-family residential units. Under the state rules, the District may also choose to offer financing to industrial and/or commercial customers. The state rules do not prescribe specific approaches to financing SDCs—each jurisdiction can set interest rates, terms, or other conditions as deemed appropriate.

Mr. Poling explained that the issue of financing for commercial or industrial customers came up in the process of a recent agreement between the City of Hillsboro, Clean Water Services, and Holland Partner Group Management to provide SDC financing for the residential portion (1,200+ units) of a large multi-use project in the Orenco Station area. Because it is a multi-family residential project and the developer intends to remain the

owner, it fits into the current financing policy. However, it increases the District's outstanding installment payment balance for financed SDCs from about \$35,000 to about \$4 million. As Mr. Weller observed, the state rules were enacted to encourage homeowners to connect to sanitary sewer systems from septic tanks, but they now apply awkwardly to situations such as this project, which were not envisioned years ago.

Mr. Poling reviewed some of the SDC revenue information presented at the last meeting and reminded Commission members of the information in the pre-meeting memo from Ray Bartlett of Economic and Financial Analysis (*attached*). The memo outlined issues that should be examined in future "white papers" on each customer class, including the program scale (i.e., consider per-project limit, limit on total amount financed, and how limits would apply—first come, first served or?), security and risk (i.e., appropriate length of term, appropriate interest rate, effect on current and future bonds issued by the District, effect on District's bond rating), and economic importance to all stakeholders (i.e., customers small and large as well as business/public and residential, the District, and cities and other partners).

Mr. Poling said several white papers, sharing examples of how jurisdictions similar to Clean Water Services approach SDC financing, will be prepared for Commission members to review in the next couple of months as they begin working on a draft recommendation for release in early January. Public input opportunities will overlap with draft development and extend through mid-February. The final draft recommendation should be completed and presented to the Board in March.

Commission members shared some initial observations and reactions:

1. It seems generous to only require the (Hillsboro) developer to pay the commercial portion of the SDC (or 5%, whichever is greater) up front. That is not very much equity. (Ward)
2. A financing program is not actually an outlay of funds to subsidize development; it is forgoing immediate collection of funds that will come in eventually. (Weller)
3. This (Hillsboro) project is multi-family residential, but on a commercial scale. Seems like it should be a different class--\$4 million is real money and a real risk. (Ward)
4. It does not seem right for Clean Water Services to get into the position of financing a business rather than helping a homeowner. (McKillip)
5. Should we consider whether a project is for low-income housing? (Unknown)
6. Is the benefit to the District for offering financing great enough to warrant doing it? There is benefit to the recipient of the financing and the community benefits from jobs; the City of Hillsboro has some incentive because the project will increase its tax base. Clean Water Services gets more rate-paying customers, but

with associated costs of serving them. (Weller)

7. Would be interesting to see a model of how this financing works--does financing make the difference between doing the project or not? If SDC financing wasn't available through Clean Water Services, the developer would just include that cost in the overall project financing...unless they are operating on such a fine line that financing the SDCs makes or breaks the project. (McKillip)
8. Keep in mind the precedent that may be set by financing SDCs for commercial/industrial customers—will North Bethany developers ask to finance their RSMCs? (McKillip)
9. It seems clear we can't do anything that would potentially affect the District's bond rating. (Hennings)
10. Hard to see how to keep such a program going without capping it—otherwise you have to borrow money to make up for what you haven't collected. (Weller)
11. Whatever we do should not prevent even one homeowner from converting a septic system to sanitary sewer—the original intent of the state law. We don't want to end up with all the allocated funds used for business(es) and nothing left for homeowners. (McKillip)

Mr. Poling concluded by reviewing a list of stakeholder groups, which he feels are all represented by Commission members. He and Ms. Leader will return next meeting.

5. Announcements

Mr. Jockers noted the annual Washington County Political Race coming up Wednesday, September 18. This light-hearted canoe race on the Tualatin River features local city and county officials, including members of the Washington County Board of Commissioners, who also serve as the Clean Water Services District Board of Directors. In keeping with the spirit of the event, members of the Board will be equipped with giant squirt guns.

Mr. Jockers also reminded that despite the recent change to meeting on the second Wednesday of the month, the next Commission meeting will be October 16 (the third Wednesday) because key staff will be attending a conference earlier in the month.

6. Adjournment

Mr. Weller declared the meeting adjourned at 8:43 PM.

(Meeting notes prepared by Sue Baumgartner)

Date: September 4, 2013

To: Clean Water Services Advisory Commission

From: Nora M. Curtis, Conveyance Department Director

Re: Regional Stormwater Management Charge (RSMC) Background Information

At your September meeting, Clean Water Services staff will present information to the Commission regarding a proposed Regional Stormwater Management Charge (RSMC). The RSMC is a new charge intended to reimburse the District or a developer who initially funds construction of a regional stormwater facility. The RSMC is a charge to be levied on development or redevelopment of properties that are served by publicly funded regional stormwater management facilities. Initially, it would only apply in North Bethany, since it is the only area in the District where regional facilities are currently planned.

Regional stormwater management is an alternative to the “traditional” method of managing stormwater on a development-by-development basis. Instead of each individual development providing a stormwater management facility which only treats stormwater from one development, larger, more centrally located facilities are used to provide stormwater management from multiple developments.

On September 4, 2013, Clean Water Services sent out 90-day notice of a December 3rd Public Hearing for the District’s Board of Commissioners’ (Board) consideration of adoption of the Regional Stormwater Management Charge. The notice went to all property owners in the North Bethany area, the Citizen Participation Organization (CPO) 7, and the Portland Metropolitan Homebuilders Association.

Written materials detailing the methodology will be available for distribution in early October. The District will be having an initial meeting with the primary North Bethany developers this week and will have additional stakeholder meetings in October and November. We have also made a request to be placed on the CPO 7 agenda in October or November to give an overview of the charge to interested citizens in the area.

The Board has asked staff to keep the Commission informed of the RSMC adoption process. At your September 11, 2013 meeting, we will present information on the RSMC structure and will request the Commission designate a sub-group to participate in the stakeholder meetings.

The background image shows a residential neighborhood with several houses and trees. In the foreground, there is a large, calm body of water, possibly a pond or a slow-moving stream, which reflects the surrounding greenery and houses. The water is surrounded by tall grass and some small trees. The overall scene is a mix of nature and residential development.

Regional Stormwater Management Charge (RSMC)

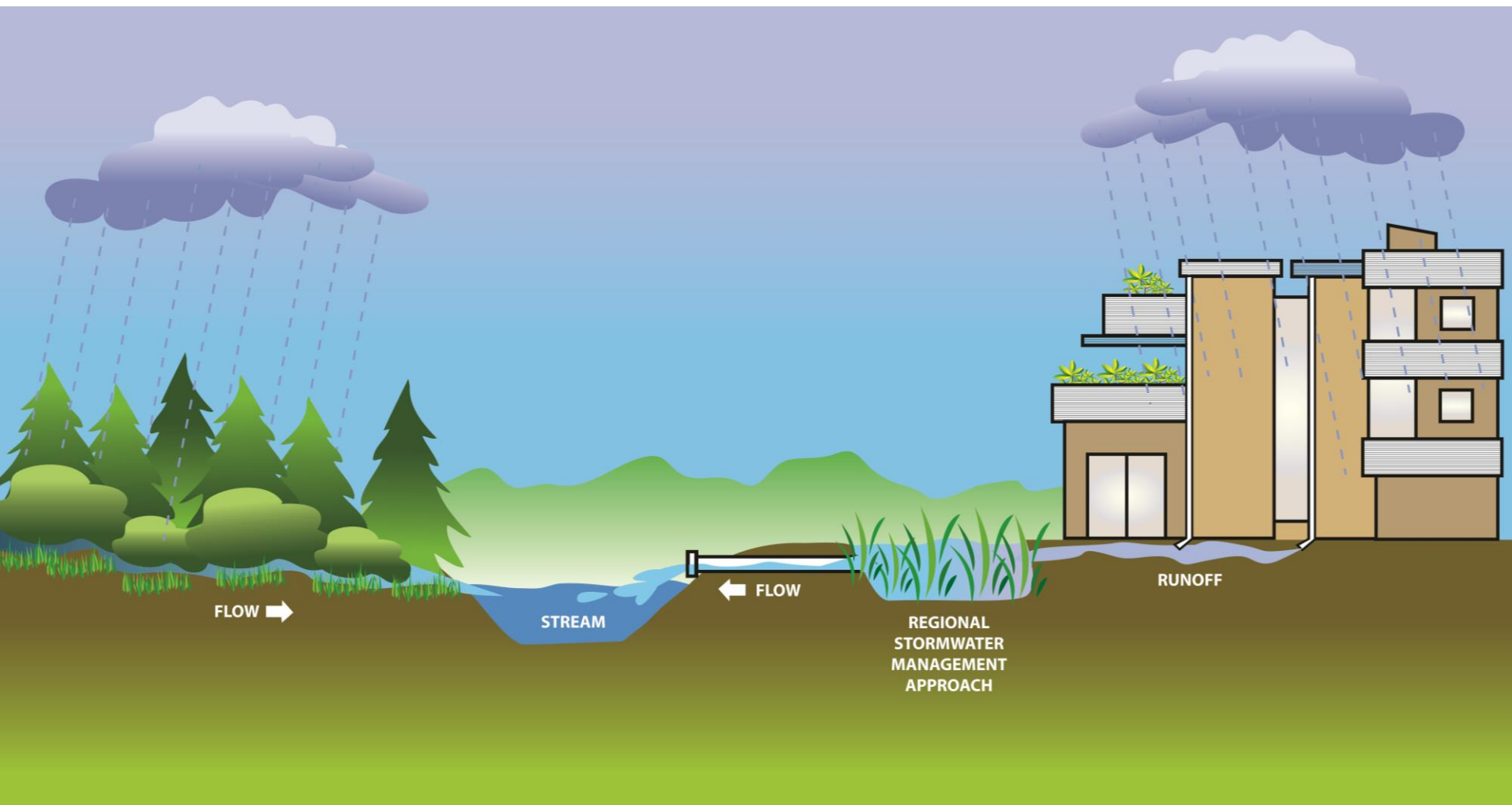
**Clean Water Services Advisory
Commission**

September 11, 2013

Agenda

- **Concepts of Regional Stormwater Management Charge**
- **Approach for addressing Conveyance Improvements**
- **Schedule for adoption of Regional Stormwater Management Charge**
- **Identify Subgroup for Stakeholder Participation**

Stormwater Management



Traditional v. Regional Stormwater Management

Traditional Strategy

- Each development provides treatment onsite
- Costs built into lot costs by each developer--not obvious
- Lots receive SDC credit for facility
- Higher long-term maintenance costs






Regional Strategy

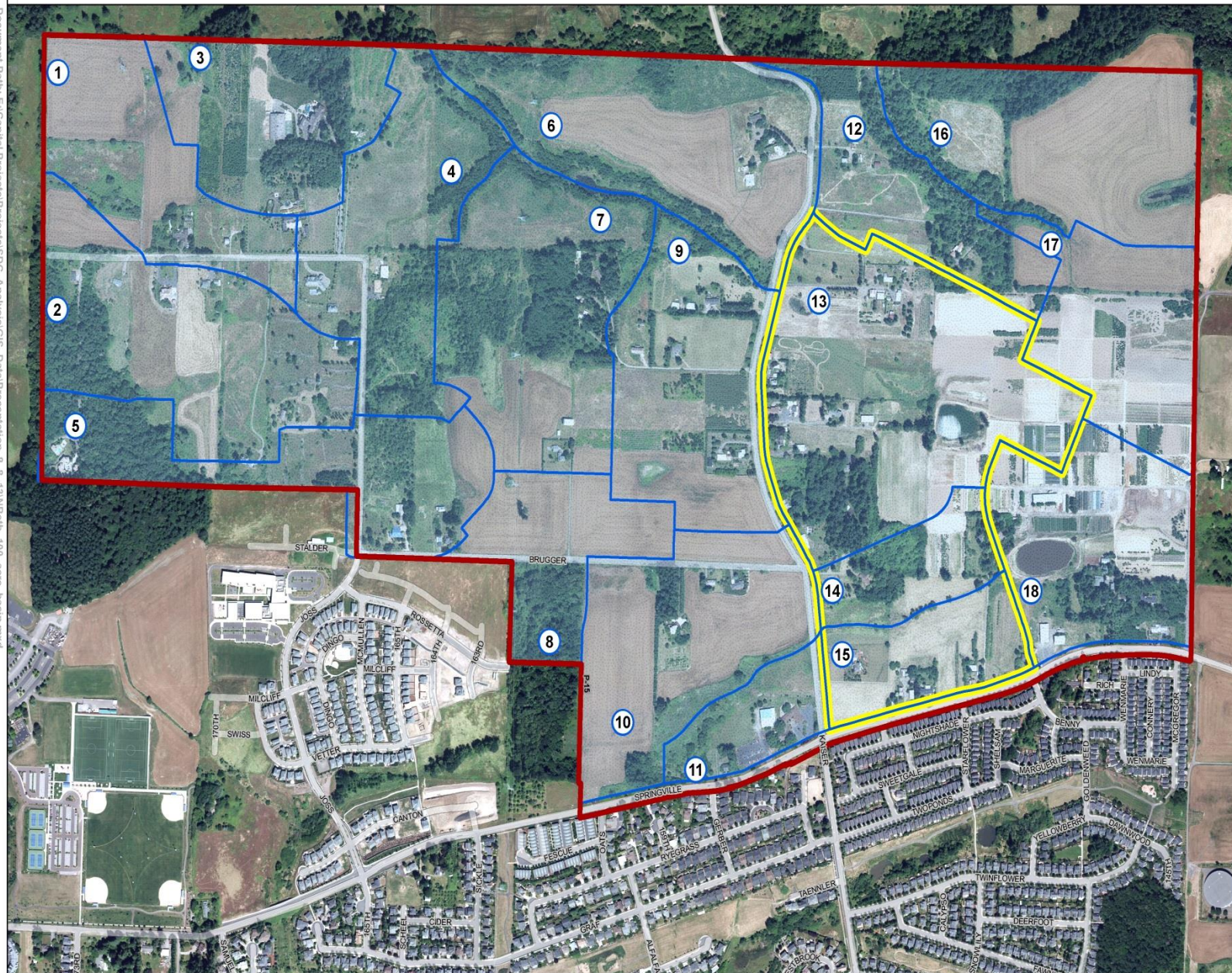
- Multiple developments served by fewer facilities
- Costs assessed as fees--more transparent
- RSMC for ROW paid by developer; lot charges paid by builder
- Lower long-term maintenance costs



North Bethany Planning Area

Legend

-  Regional SWM Sites
-  Boundary
-  Subbasins (outline)
-  97 Acre Basin
-  Subbasins (fill)



1 inch = 600 feet

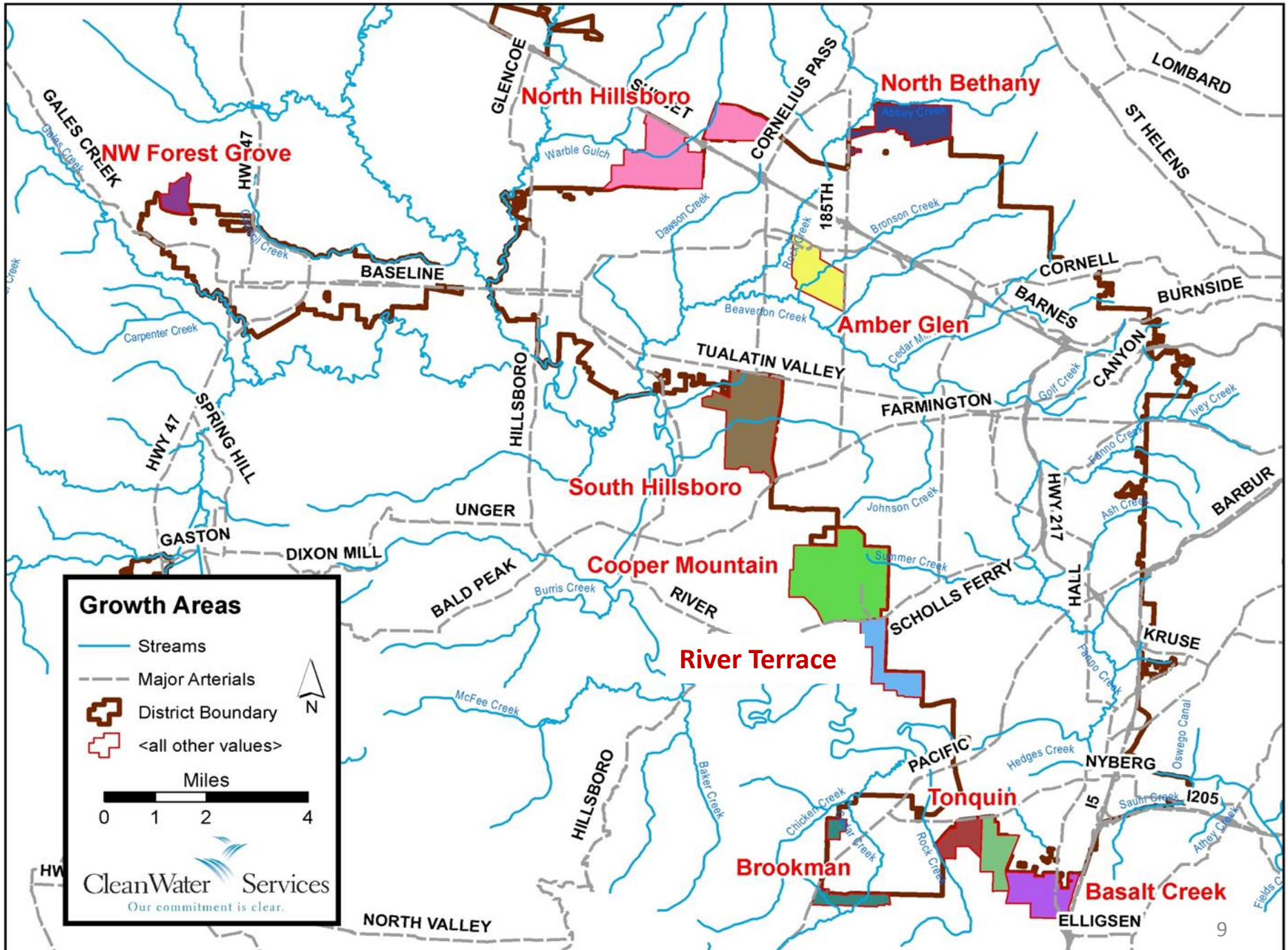
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RSMC Definition and Structure

- The Regional Stormwater Management Charge is a charge assessed to properties served by Regional Stormwater Management Approach Projects which receive public funding.
- Potential Fee Components
 - Design and Construction of publicly-funded Regional Stormwater Approach Projects (RSAP)
 - Land
 - Interest-not included in initial charge but will be added as charge matures

General RSMC Structure

- Stormwater management requirements based on 2013 Land Use Plan and modeling performed as part of Drainage Implementation Plan for N. Bethany.
- Charge is per cubic foot (CF) of stormwater management required based on land use type, percent impervious used for facility design, and actual lot size.
- Although initially implemented for N. Bethany, could be used in any area with similar types of projects—S. Hillsboro, Cooper Mountain, River Terrace, etc.



Growth Areas

- Streams
- Major Arterials
- District Boundary
- <all other values>

Miles

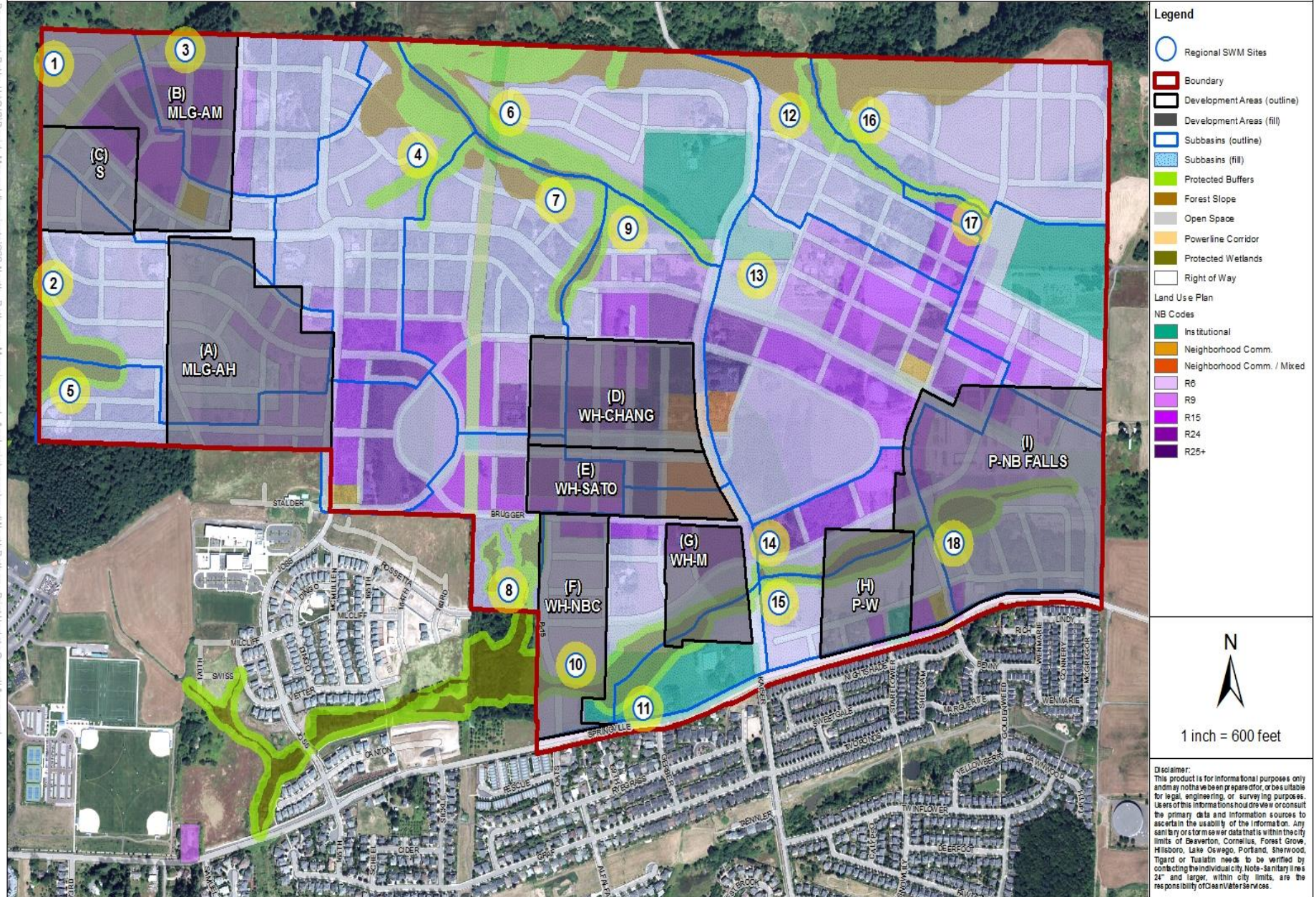
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CleanWater Services
Our commitment is clear.

Proposed RSMC

- **Ultimate (buildout) RSMC estimate is based on 2013 estimate of all facilities and land costs to provide Regional Stormwater Management in the N. Bethany Area**
- **Actual RSMC will be set based on actual costs for implementation of Regional Stormwater Approach Projects**

North Bethany Planning Area



N. Bethany Summary Costs

Basin	Vol	AC	Land	Basin	Total	Cost/CF
1	90,605	0.60	\$ 301,922	\$463,000	\$ 764,922	\$ 8.44
2	180,338	1.15	\$ 576,626	\$916,000	\$ 1,492,626	\$ 8.28
3	111,514	0.73	\$ 366,765	\$633,000	\$ 999,765	\$ 8.97
4	114,127	0.75	\$ 375,435	\$579,000	\$ 954,435	\$ 8.36
5	102,802	0.68	\$ 340,693	\$513,000	\$ 853,693	\$ 8.30
6	84,071	0.56	\$ 281,869	\$513,000	\$ 794,869	\$ 9.45
7	147,233	0.95	\$ 475,816	\$756,000	\$ 1,231,816	\$ 8.37
8	38,333	0.28	\$ 138,461	\$292,000	\$ 430,461	\$ 11.23
9	100,624	0.67	\$ 334,001	\$588,000	\$ 922,001	\$ 9.16
10	85,813	0.58	\$ 287,513	\$444,000	\$ 731,513	\$ 8.52
11	12,197	0.10	\$ 51,932	\$138,000	\$ 189,932	\$ 15.57
12	74,923	0.51	\$ 254,390	\$419,000	\$ 673,390	\$ 8.99
13	189,050	1.21	\$ 603,727	\$776,000	\$ 1,379,727	\$ 7.30
14	22,651	0.17	\$ 86,898	\$184,000	\$ 270,898	\$ 11.96
15	49,223	0.35	\$ 172,680	\$296,000	\$ 468,680	\$ 9.52
16	124,146	0.81	\$ 405,401	\$636,000	\$ 1,041,401	\$ 8.39
17	69,260	0.47	\$ 236,049	\$448,000	\$ 684,049	\$ 9.88
18	100,624	0.67	\$ 333,473	\$504,000	\$ 837,473	\$ 8.32
	1,697,534	11.2	\$ 5,623,651	\$9,098,000	\$ 14,721,651	\$ 8.67

**POTENTIAL "BUILDOUT" RSMC = \$14,721,651/1,697,534 =
\$8.67/CF**

Implementation

- RSMC may or may not be in addition to SDC based on whether development impacts projects included in SDC calculation.
 - North Bethany properties will not be subject to SDC
- Developer pays RSMC for ROW with site development permit; RSMC on individual lots paid at connection permit
- RSMC will be reviewed and adjusted at least annually, not more often than semi-annually
 - Add New projects
 - Index Historical Construction costs to ENR
 - Add/adjust components

Implementation Concepts

- **Flexibility to handle:**
 - **Multiple development approaches**
 - **District financing capability**
 - **Pace of project implementation**
- **Prior to establishment of initial fee amount, fee collection will be deferred to substantial completion of construction—avoids the need for multiple individual development agreements**

Flexible Implementation

Developer-implemented Regional Stormwater Approach Project (RSAP)—no public funding requested	RSMC Does Not Apply to any property served by RSAP; RSAP not included in RSMC calculation
Developer-implemented RSAP—100% public funding requested for implementation	District funds RSAP; cost-sharing agreement req'd; all properties subject to RSMC
Developer-implemented RSAP---partial public funding requested for portion of project not providing service to developer's project	District & Developer fund RSAP; cost-sharing agreement req'd; developer properties receive RSMC credit; remaining served properties subject to RSMC
Developer-implemented RSAP—developer wishing reimbursement over time	Developer funds RSAP; developer properties receive RSMC credit; remaining properties subject to RSMC; developer reimbursed (or has future credits)
District-implemented RSAP	District funds RSAP; all properties subject to RSMC

Estimated Initial RSMC

- 1 Project currently with design-level estimate—estimate still includes contingency

- N. Bethany Creek Regional Stormwater Facility

Total CF

133,599

- **Costs**

	<u>Total</u>	<u>/CF</u>
Land	\$ 595,000	\$ 4.45
Design and Construction	<u>\$ 633,000</u>	<u>\$ 4.74</u>
Total Cost/CF	\$1,228,000	\$ 9.19

Estimated Initial RSMC

NB Land Use District	Density min-max (units/ac)	<u>Detached</u> Housing Minimum Lot Size (SF)	% Imp	CF Req'd	RSMC @\$9.19/CF	Est "Total" Cost/Lot
R6	5-6	4000	45%	243	\$ 2,233.17	\$ 3,544.71
R9	7-9	2800	50%	189	\$ 1,736.91	\$ 2,757.00
R15	12-15	2100	60%	170	\$ 1,563.22	\$ 2,481.30
R24	19-24	2100	65%	184	\$ 1,693.49	\$ 2,688.08
R25+	20-25	2100	80%	227	\$ 2,084.29	\$ 3,308.40
ROW(per SF)			71%	0.135/SF	1.24/SF	

LIDA will slightly reduce CF requirements for ROW



Rogers Park

Hedges Park

IBACH PARK
ESTATES

Ibach Park Estates

HEDGES PARK

PARK VIEW
ESTATES

Park View Estates

ROGERS
PARK

Ibach Estates

GLEN AT
IBACH PARK

Glen at Ibach

CENNINA

Lake Forest II

LAKE FOREST
NORTH

Ibach Meadows

IBACH
MEADOWS

WARWICK
ESTATES

Park Ridge West

PARK
RIDGE WEST

SW 108TH AVENUE

Forest Ridge

FOREST RIDGE

Lake Forest

Lakeridge Terrace

LAKE RIDGE
TERRACE

BROOKWOOD PARK

Brookwood Park

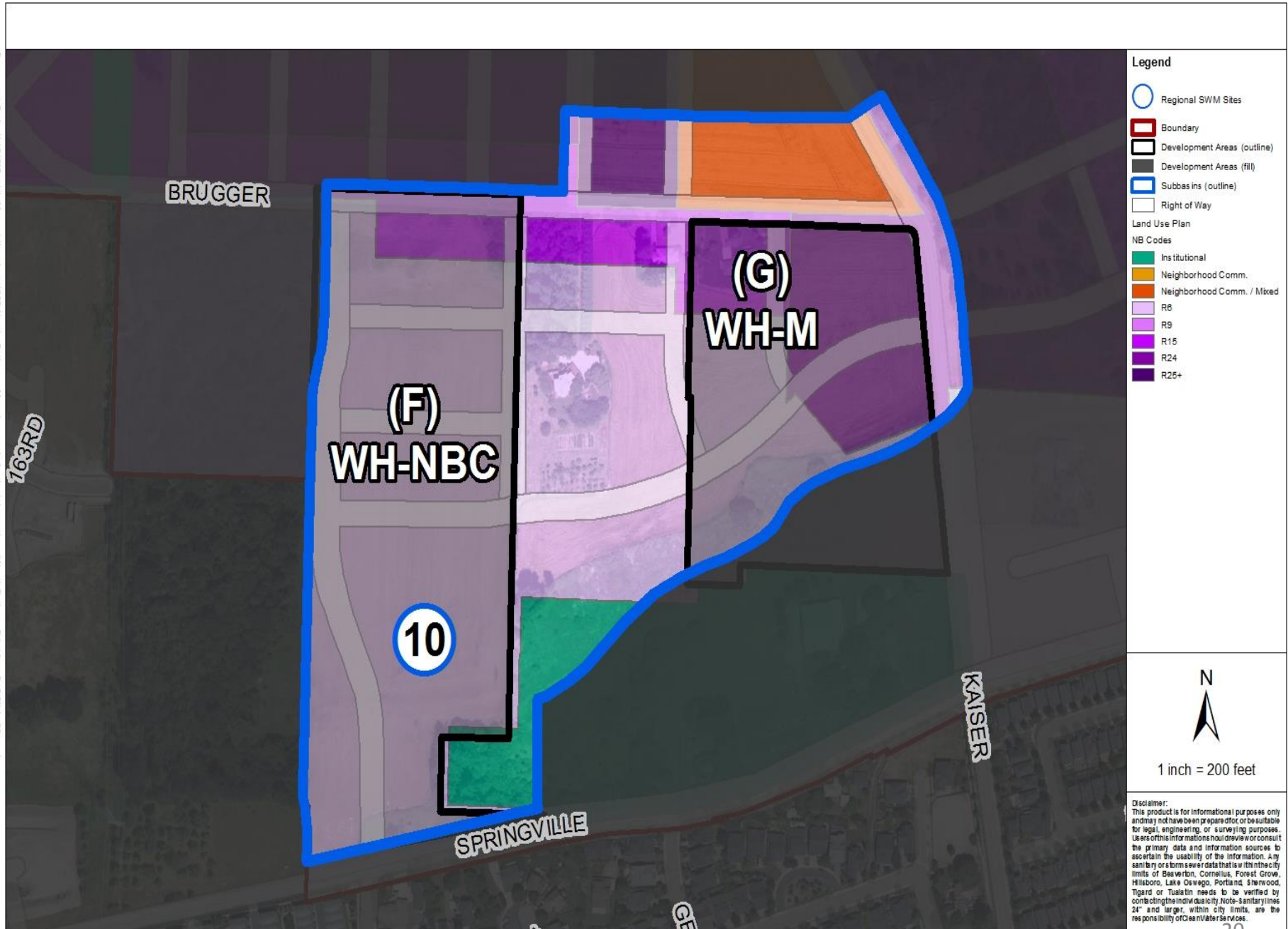
LAKE FOREST

LAKE FOREST
EAST

CANTERWOOD NO.2

Canterwood

<u>Development</u>	<u>Size (ac.)</u>	<u># Lots</u>	<u>WQF Tract Size (SF)</u>	
Ibach Meadows	2.4	11	4452	
Ibach Park Estates	4.85	18	6290	
Park View Estates	4.159	19	5215	
Glen at Ibach	2.35	10	8052	
Hedges Park	18.96	63	15542	
Rogers Park	6.23	25	12395	
Lake Forest North	7.38	32	11978	
Park Ridge West	4.91	19	8426	
Warwick Estates	2.213	10	0	
Cennina	2.212	8	4348	
Forest Ridge	5.72	22	9105	
Lake Forest	16.385	64	28857	
Lakeridge Terrace	8.05	38	17160	
Brookwook Park	5.14	24	9924	
Lake Forest East	0.98	5	0	
Canterwood No. 2	4.85	25	2771	
108th ROW			7800	
	96.789	393	152315	
			Land Cost	\$ 1,748,336
			Construction	\$ 540,000
				\$ 2,288,336
			Per Lot Cost	\$ 5,823



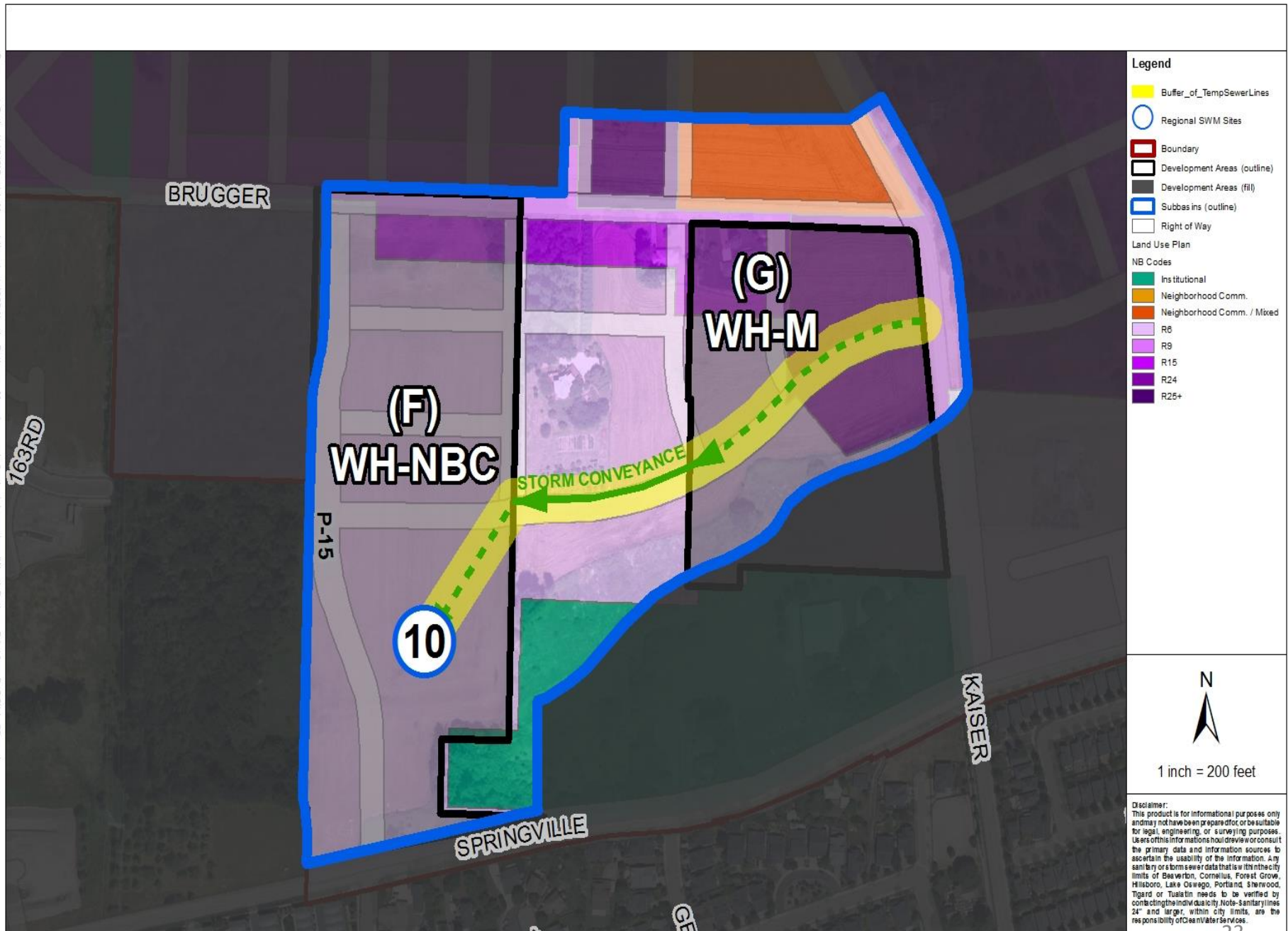
1 inch = 200 feet

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CONVEYANCE FACILITIES

Conveyance System

- All conveyance system facilities are developer responsibility – “To and Through”
- Propose Modifications to existing District Local Sewer Improvement (LSI) program to allow:
 - Reimbursement to developers desiring to build before downstream conveyance in place
 - Reimbursement for District-implemented conveyance projects in very limited situations



Financing

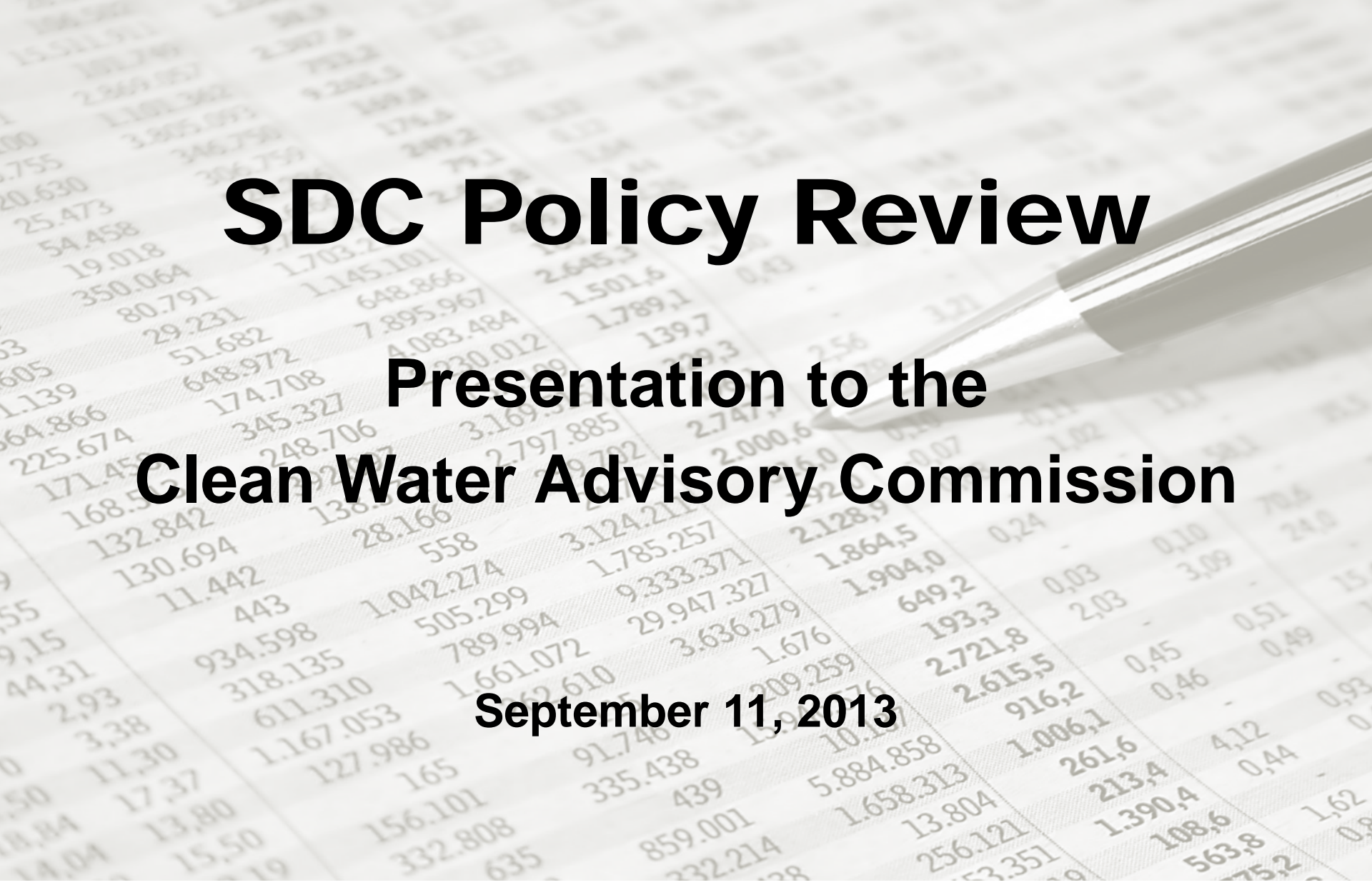
- Initial funding for District participation is through SWM capital fund
- \$2M in FY13/14 budget; review annually
- Options for financing management if necessary
 - Cap contribution at \$2M (net of collected charges)
 - First-come, first-served
 - RSAP prioritization
 - Maximums to individual developers
 - Interfund loan for additional funding if needed

Proposed Schedule

Aug 27	Board Worksession
Sept 4	90-day Notice to Interested Parties General Notice of Intent to Establish Charge
September	Meet with stakeholders to share methodology background
Oct 1	Board Worksession
Oct 4	60-day Notice with Materials including Estimated maximum initial amount and methodology
Oct-Nov	Meet with stakeholders on implementation process details
Nov 26	Board Worksession—update on stakeholder input—recommend initial charge
Dec 3	Public Hearing

CWAC Subgroup

- **3-4 Members**
- **Attend/Participate in Stakeholder Meetings**
 - **Late afternoon every other week or so**
- **Potential input at Public Hearing**
- **General CWAC Update in November prior to Hearing**



SDC Policy Review

Presentation to the Clean Water Advisory Commission

September 11, 2013

Board Charge to CWAC

- **Should the District consider financing (payment over time) the Sanitary System Development Charge (SDC) for commercial and industrial customer classes? If so, with what terms and conditions?**

Board Sideboards

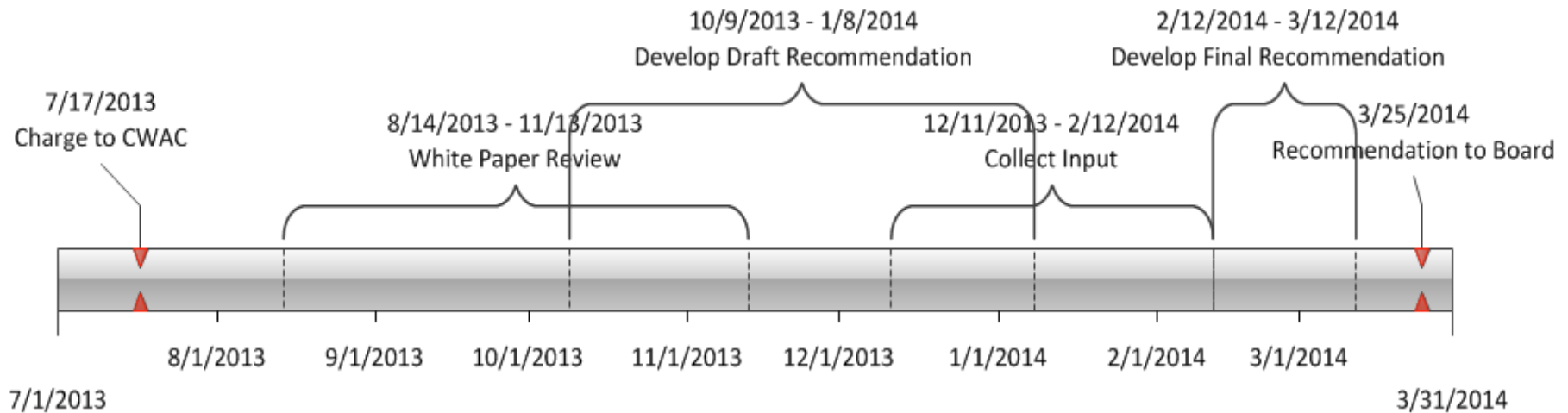
- **Maintain Financing by Customer Class**



Proposed Process

- **Review Information about potential changes and their affects through a “White Paper” format.**
 - **White papers prepared by staff and consultants with subject matter expertise**
- **Collect Stakeholder and Public Input**
 - **Cities via SDS and Finance Committees**
 - **Public Comment @ Commission Meetings**

Proposed Schedule

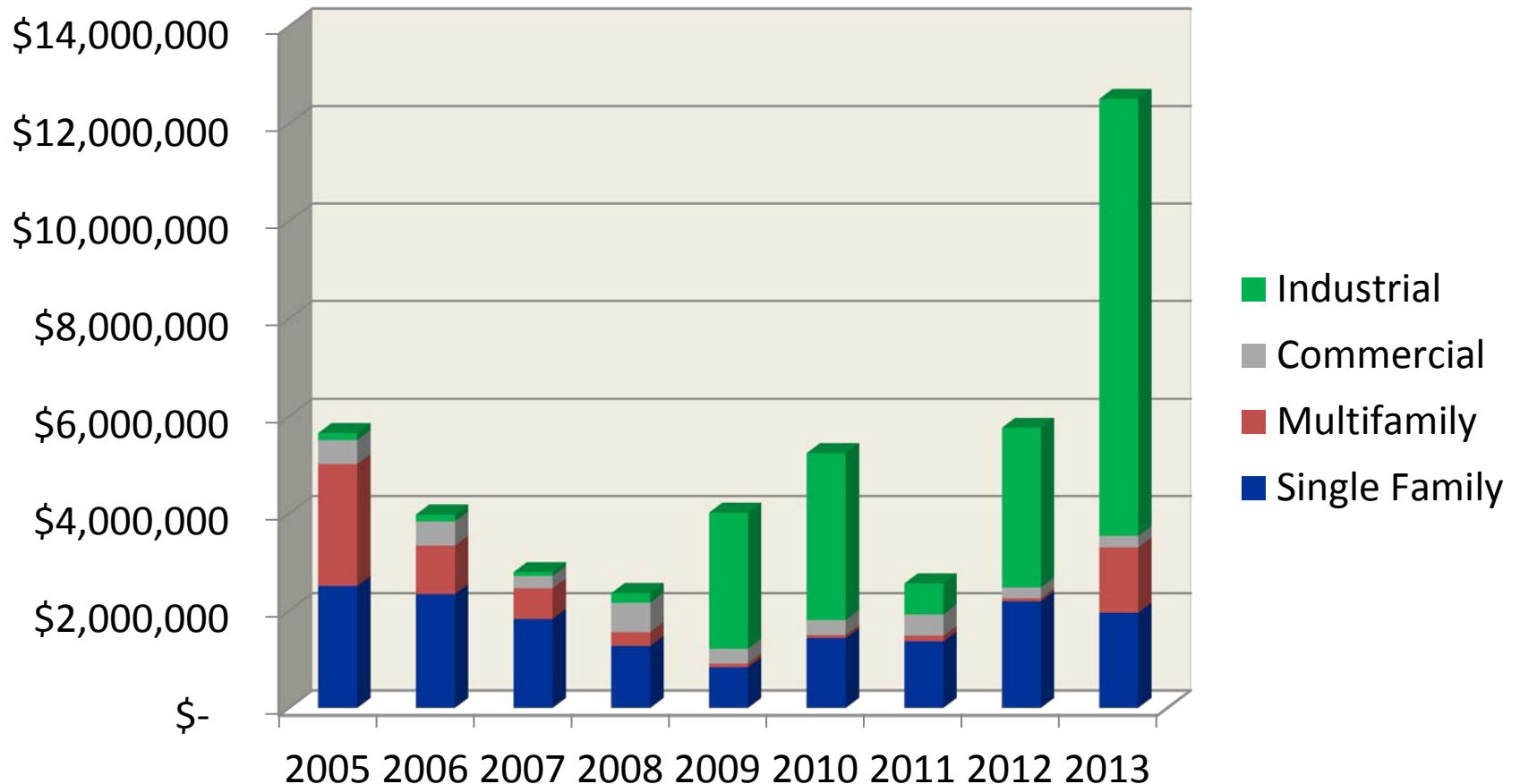


SDC Financing

- **Current District Ordinance**
 - **Offered to Residential Property Owners Only**
- **ORS Requirements**
 - **Residential Property Owners**
 - **Multi-family Property Owners**
 - **Mixed use**
 - **Commercial and Industrial**



District Collected SDC Revenue by Customer Class



Background White Paper

- **Review Economic and Financial Analysis Paper**
 - **Issues to Address**
 - ❖ **Scale**
 - ❖ **Security**
 - ❖ **Exposure to Financial Risk**
 - ❖ **Economic and Stakeholder Issues**

White Papers

- **By Class of Customer**
 - **Should the District Finance Commercial SDC's**
 - ❖ **Potential Sub-classes**
 - **Should the District Finance Industrial SDC's**
 - ❖ **Potential Sub-classes**
 - **Executive Summary and Recommendations**
 - ❖ **Ties together the existing policy and any recommendations for the Board from the Advisory Commission**

White Paper Outline

- **Background**
 - **Other Cities and Jurisdictions Policies and Experience**
- **Scale**
 - **How much financing per year and/or per owner?**
 - ❖ **Current**
- **Security**
 - **What risk for default?**
 - ❖ **Collateral**
 - ❖ **Interest Rate**
 - ❖ **Term**
 - ❖ **Title Transfer**

White Paper Outline

- **Exposure to Financial Risk**
 - **Maintain the District's Bond Rating**
- **Economic and Stakeholder Issues**
 - **Economic Development**
 - **"Big Business" vs. "Small Business"**
 - **Member Cities**
- **Ease of Administration**
- **Alternatives**
- **Recommendation(s)**

Stakeholders

- **Stakeholders**
 - **Ratepayers**
 - **Member Cities**
 - **Industry**
 - **Environment**
 - **Builders/Developers**
 - **Customers in each class**
 - **Economic Development Interests**
 - **Bondholders**

Other Action Items

Next meeting

- **Review Draft White Papers**
- **Process for collecting stakeholder input**

MEMORANDUM

TO: Clean Water Services Advisory Commission

FROM: Raymond J. Bartlett

DATE: September 9, 2013

RE: Financing Sanitary Sewer SDCs for Commercial & Industrial Developments

INTRODUCTION

CWS retained Economic & Financial Analysis, a consulting firm familiar with Oregon's systems development charge (SDC) statutes and CWS's operations in general, to help analyze financing commercial and industrial SDCs. CWS wants to evaluate the fiscal impact of allowing commercial and industrial developments to finance their sanitary sewer SDCs. CWS currently allows owners of residential developments to finance sewer SDC.

BACKGROUND

Currently, CWS allows residential owners to request installment payment of sewer system development charges, and up to \$2,000 for plumbing costs to connect a property to the sewer collection system. CWS has offered this method of payment for more than 10 years and currently has 19 active installment agreements.

CWS's installment terms are 20-equal semiannual payments over a 10-year term at an interest rate that varies with the municipal bond market. The interest rate equals the current interest rate on Oregon AA municipal bonds plus 2 percentage points. Currently, the AA 10-year bond rate is 3.14% therefore the installment interest rate entered into on this date would be 5.14% (3.14% + 2%). By comparison average fixed rate, 30-year mortgages range from about 4.3% to about 4.5%.

Table 1 shows the annual summary of new installment loans since fiscal year ending June 30, 2003. The total value of the agreements' principal amounts to only about \$62,000 of which only about \$36,000 is outstanding. Most of these agreements are with individuals who owned an existing house on a septic tank and who connected to CWS's sewer system. Since it was an existing house likely with an existing mortgage, the owner chose to finance the SDC through CWS rather than through a commercial lender. The cost of obtaining a commercial loan probably exceeded the cost of borrowing from CWS.

Table 1 Outstanding Installment Payment Agreements, as of July 1, 2013

Fiscal Year Ending June 30,	Original Amount	Number	Balance as of 6/30/2013	Interest Rate
2003	\$11,500.00	3	\$1,984.35	5.86%
2004		-	-	-
2005	2,500.00	1	2,189.05	5.66%
2006	21,500.00	8	7,411.55	6.01%
2007	2,800.00	1	2,800.00	5.88%
2008	2,800.00	1	2,493.31	6.24%
2009	3,100.00	1	3,100.00	5.54%
2010	4,100.00	1	2,972.24	4.78%
2011	9,000.00	2	7,622.76	4.52%
2012	4,665.00	1	4,665.00	4.33%
Average weighted interest rate				5.52%
Total	\$61,965.00	19	\$35,238.26	

Source: Clean Water Services financial records for Fund 107.

CWS's financial exposure on these loans is minimal. CWS secures the loans with a lien on the real estate and the value of the real estate likely exceeds the largest outstanding balance of \$4,665 by several hundred percent. The program has been earning interest at the weighted average rate of 5.52% since 2003. Last year, CWS earned \$3,802 in interest payments on the outstanding agreements. Defaults on the semi-annual payments result in repayment when the property changes ownership or the owner refinances the mortgage. The program has had no reported losses on any of its loans, and its cost of operations has been incidental to the District's overall financial administration.

The program likely makes it easier for home owners to transition from septic tanks to connection to CWS's sewer system. Once connected, CWS and the City partner benefit from future sewer rate revenues that likely exceed the additional cost the new sewer customer imposes on the system. There also may be health and environmental benefits of vacating an existing septic system.

This CWS service, a loan program open to owners of single-family and multifamily residences, exposes CWS financially to near zero risk, the volume of business is very small, and the performance has been exemplary by banking standards—i.e., no defaults.

CWS can choose to open a similar program for commercial and industrial developments. CWS's Ordinance 28 controls all aspects of its systems development charge program. Section 13, *Installment Payment of SDCs* limits the installment program to "... the owner of the parcel of residential land subject to the development charge . . ." It goes on to state that "Owners of commercial and industrial property may apply for installment payments upon adoption by the Board of a Resolution and Order providing for one or both classes, and in consideration of the fiscal impact upon the Agency."¹

¹ CWS, Ordinance 28 was adopted in March 1994 when its name was the Unified Sewerage Agency. Also, since 1994 the State statute that gave rise to Ordinance 28 has been amended several times by 6 different Legislatures.

The Board has asked the Clean Water Services Advisory Commission to prepare an analysis of offering installment payments to these classes of owners. The analysis needs to address the fiscal impact on CWS, the advisability of extending the installment program to these classes, and, if advisable, then to advise the Board on rules and procedures for these classes of owners.

ISSUES TO ADDRESS

Scale In a typical year, the financed number and dollar value of the financed SDCs is a small fraction of the total number and value of the SDCs. For example in fiscal year 2011-12, only 2 (0.4%) of the 488 single-family developments that paid SDCs used the program to finance their SDCs. In dollar terms, only \$9,000 (0.4%) of the \$2,195,500 in SDCs were financed.

On average since 2005, CWS receives about \$5 million a year in SDC revenues. Forty-nine (49%) of those receipts were from residential properties and about 51% from industrial (44%) and commercial (7%) properties. Potentially, the scale of installment agreements if offered to commercial and industrial classes could balloon to several millions of dollars per year. The Board can control the level of activity by these classes by the rules and procedures CWS adopts.

Table 2 System Development Charge Receipts, Fiscal Years 2005-2013

Fiscal Year	Residential		Total	Commercial	Industrial	CWS
	Single Family	Multifamily				Total
2005	\$2,510,000	\$2,512,500	\$5,022,500	\$491,313	\$144,435	\$5,658,247
2006	\$2,344,800	\$996,700	\$3,341,500	\$498,175	\$143,166	\$3,982,841
2007	\$1,834,700	\$628,800	\$2,463,500	\$249,869	\$83,492	\$2,796,861
2008	\$1,274,300	\$286,900	\$1,561,200	\$605,419	\$197,244	\$2,363,863
2009	\$836,000	\$77,500	\$913,500	\$304,663	\$2,803,084	\$4,021,247
2010	\$1,437,500	\$64,800	\$1,502,300	\$302,256	\$3,441,695	\$5,246,251
2011	\$1,369,050	\$116,900	\$1,485,950	\$438,094	\$639,226	\$2,563,269
2012	\$2,195,500	\$65,900	\$2,261,400	\$219,725	\$3,286,174	\$5,767,299
2013	\$1,959,885	\$1,345,455	\$3,305,340	\$234,598	\$8,973,604	\$12,513,542
Average 2005-13	\$1,751,304	\$677,273	\$2,428,577	\$371,568	\$2,190,236	\$4,990,380
% Total	35%	14%	49%	7%	44%	100%

Source: Clean Water Services.

Security The expected useful life of a single-family house is 100 years. A 10-year installment agreement represents only 10% of the assets life. The amount of the installment agreement, up to \$6,800 today, represents a small fraction of the market value (e.g., the maximum installment agreement of \$6,800 is less than 5% of the value of \$250,000 home). The current agreement is secured by the value of the asset. Also, housing from one property to the next is relatively uniform compared to most commercial and industrial developments and most of the value of a residence is in the land and building, and very little in the contents.

Offering installment agreements to commercial and industrial classes presents additional risks because these developments are not as uniform as housing in longevity or value. For example, most of the value in a manufacturing plant is in the equipment (contents) not in the land and buildings as it is in housing. The equipment depreciates and in some industries it depreciates in less than 10 years due to wear-and-tear or due to functional obsolescence. The land and perhaps the buildings a manufacturing plant occupies likely will retain their value and even appreciate over time.

Commercial property such as retail stores have far different life expectancy and land-to-equipment values than manufacturing or housing. Mixed-use developments with commercial and residential components present even a different set of value/longevity issues. Given these variances and uncertainties, CWS will have to develop a reasonable means of securing its installment agreements with such broad and diverse classes of developments.

Exposure to financial risk CWS is an active participant in the municipal bond market. It finances its major capital improvements by issuing revenue bonds that are secured by the user fee and SDC revenues it takes in each year. As of June 30, 2012, CWS had \$272,385,000 in outstanding revenue bonds and in 2012 it paid \$33,858,014 in principal and interest. CWS's high credit rating (Aa2 by Moody's Investor Services) is the result of prudent financial management and by controlling its financial risks and exposures.

Since the financial crisis of 2007-08, followed by Congress's response (2010 Dodd-Frank Wall Street Reform and Consumer Protection Act), coupled with a few significant municipal bankruptcies (Detroit, Michigan, Stockton and San Bernardino, California, and Jefferson County, Alabama), the US Securities and Exchange Commission has tightened the rules on issuing municipal debt. These new rules broaden the definition of borrowing to include activity such as "lending" money to private or quasi-private parties. So far CWS's installment loan program to residential owners is too small to disclose as a significant risk to buyers of CWS's revenue bonds. Expanding the program to the commercial and industrial classes may become significant and require disclosure in future revenue bond issues. If rating agencies such as Moody's perceives the expanded installment program to be loans and to be significantly risky, then these rating agencies may downgrade CWS's bond rating. The lower the rating the higher will be the interest rates on future revenue bonds. Also, CWS has to consider the provisions of its outstanding bonds to make sure there are no restrictions on expanding its SDC installment program. As a general condition of its outstanding bonds, CWS is obligated to disclose to existing bond holders any significant change in CWS's activities that might jeopardize future scheduled bond payments.

Economic & Stakeholder Issues The purpose for this effort is based on the need to support Washington County's economy by encouraging or, at least not discouraging, commercial and industrial development from occurring in the County. While a valid purpose, we do need to determine to what extent CWS's SDCs discourage development if at all. These are important stakeholders who we will need to contact and discuss their issues with CWS SDC policies, rules and procedures. Similarly, CWS's city partners will be effected by any decision CWS makes regarding the financing of sewer SDCs. These partners are major stakeholders that need to be involved in the analysis.

CWS and its partners provide valuable infrastructure services similar to other utilities—gas, electricity, telecommunications, transportation—and as such has economic value to commercial and industrial users. As a part of finding out that value, we will look at similar sized metropolitan regions to see how they value and price their services, what financing tools they may offer to similar types of development, and their procedures.