

Clean Water Services

Clean Water Advisory Commission

Meeting Notes

February 12, 2014

Attendance

The meeting was attended by Commission Chair Tony Weller (Builder/Developer) and Commission members Erin Holmes (Environmental), John Jackson (Agriculture), John Kuiper (Business), Mike McKillip (District 3-Rogers), Art Larrance (At-Large-Duyck), David Waffle (Cities), and Cathy Stanton (District 1-Schouten). Clean Water Services District Deputy General Manager Diane Taniguchi-Dennis attended on behalf of General Manager Bill Gaffi.

Commission members Alan DeHarport (Builder/Developer), Molly Brown (District 2-Malinowski), Lori Hennings (Environmental), Judy Olsen (Agriculture), Stephanie Shanley (Business), and Richard Vial (District 4-Terry) were absent.

Others in attendance included Ray Bartlett (EFA, consulting firm) and Clean Water Services staff members Mark Jockers (Government and Public Affairs Manager), Kathy Leader (Finance Manager), Jerry Linder (General Counsel), and Mark Poling (Business Operations Department Director),

1. Call to Order

Mr. Weller called the meeting to order at 6:30 PM in the conference room at the Clean Water Services Administration Building.

2. Review/Approval of January 8 Meeting Notes

Mr. Jackson moved to accept the notes from the meeting of January 8, 2014 as distributed. Mr. McKillip seconded. Mr. Jockers clarified that the document title should be "Meeting Notes" (not "Meeting Summary"). Motion passed.

3. Appeals Subcommittee

Three members and an alternate were appointed to the Appeals Subcommittee at the January meeting. However, only one appointment and an alternate were needed as Mr. Waffle and Mr. McKillip will not complete their current terms until 2015.

Mr. Waffle moved to rescind the January 8 Appeals Subcommittee appointment action. Ms. Stanton seconded. Motion passed.

Ms. Stanton moved to appoint Mr. Vial as a member of the Appeals Subcommittee and Mr. Larrance as an alternate, 2014-2017. Mr. Kuiper seconded. Motion passed.

4. Systems Development Charge (SDC) Financing Policy Review

Mr. Poling reviewed information developed in response to questions and suggestions

from Commission members at the last meeting. This information was included in the pre-meeting materials along with some preliminary recommendation statements based on last meeting's discussion. Mr. Poling would like to take final draft policy recommendations to the Board of Directors by the end of March so any changes to the rates and charges can be incorporated into the District budget process.

Mr. Bartlett found that two other large local utilities, Northwest Natural Gas (NNG) and Portland General Electric (PGE), both impose charges similar to the Clean Water Services SDCs, using complex rate schedules to determine how high and under what circumstances to set the charges.

Mr. Poling said almost no information was available from jurisdictions in other states.

Mr Poling summarized input from the group of 10-11 partner city managers:

1. Almost all felt Clean Water Services should continue to offer SDC financing for multi-family development and for the residential portion of mixed-use development, though a couple felt the interest rate should be increased.
2. Most felt the District should not offer financing to commercial customers, but nearly half felt that if it were offered, it should be at shorter term and higher interest rate (than single-family).
3. One city felt financing should be offered to industrial customers and was willing to administer it.
4. Most cities felt they would not be able to administer an SDC financing program, though some now do so for single-family residential. This response reflected concerns about staffing, especially for smaller cities.
5. Cities have not seen a demand for SDC financing.

Commission members determined the following recommendations:

	Single-Family Residential*	Multi-Family Residential	Mixed-Use Residential	Commercial**	Industrial* (not offered)
Term	10 years	5 years	5 years	5 years	N/A
Down Pmt.	None	20%	20%	25%	N/A
Lien	Yes	First	First	First	N/A
Interest Rate	AA+2%	AA+3%	AA+3%	AA+4%	N/A
Orig. Fee	None	Yes-TBD	Yes-TBD	Yes-TBD	N/A

* *affirmation of current policy*

** *Exception: Any commercial customers converting to sanitary sewer would be treated the same as single-family residential property owners in a LID (Local Improvement*

District).

In addition, Commission members felt there should be some type of limit on the amount financed and that staff should make that decision/recommendation as they have specific knowledge of the amounts involved. Commission members also felt that there should be an origination/application fee for SDC financing, which Mr. Poling said could be included in the District's schedule of rates and charges.

Staff will compile the draft policy recommendation and send it to Commission members. Staff will meet informally with the Clean Water Services Board of Directors to see if there are other questions and discuss how to proceed with gathering public comments (formal public hearing, Commission agenda item, etc.). The draft may be sent to stakeholders such as real estate groups, chambers of commerce, homebuilders associations, land use and economic development groups, and others for their comments. Further discussion with cities will be needed regarding administration of SDC financing. Cities are responsible for administration under existing agreements, but the District may need to take a larger role in an expanded financing program, especially for the smaller cities.

5. Announcements

The next meeting is scheduled for March 13, 2014.

6. Adjournment

Mr. Weller declared the meeting adjourned at 8:47 PM.

(Meeting notes prepared by Sue Baumgartner)

Appendix

Clean Water Services Advisory Commission Meeting Notes February 12, 2014

The following summary is not intended to be a complete list of discussion points from staff and Commission members during the meeting, but is included as context for CWAC's February input on the SDC Financing Policy. Comments are grouped by topic and are not necessarily in chronological order.

General Policy

1. The District should not be the first choice for financing.
2. A slightly-higher-than-market interest rate would make assistance available but not put Clean Water Services into the loan business.
3. We want to offer as much help as we can without having to add staff to monitor it and without putting the District's bond rating at risk.
4. Interest rate should cover Clean Water Services costs, not just for capital but for associated costs and administration.
5. An origination fee would not be unreasonable and would help protect the District from being used as a short-term loan provider.
6. Requiring first lien position will turn most people away—the tougher the terms, the less likely anyone will use the program (do we want to induce people to participate or turn them away?).
7. SDC information and financing options should be offered at the beginning of the process—the property owner/tenant should not be finding out at the last minute that they owe a significant amount that they didn't plan for.
8. This policy will provide a framework within which a city would have flexibility to negotiate their own terms with the developer, as long as the District is made whole.

Single-Family Residential

1. This customer class is the highest priority—SDC financing should always be available for existing single-family residential units, at the most favorable terms possible.
2. Most single-family residential SDCs will be septic-to-sewer conversions financed as a group through an LID, so administration costs will be less than for individually-financed properties.

Multi-family Residential

1. Multi-family projects are more of a commercial venture (not like the single-family homeowner you are trying to assist in converting from septic).
2. If a multi-family project does not materialize, the value of the land might not be equal to the SDC amount so there is more risk to the District.

3. In business loans, anything longer than a 5-year term requires significant security.

Commercial

1. Some sentiment from last meeting for offering financing only to “small” commercial entities, but “small” in terms of revenue is likely to be a tenant, not the building owner who would be responsible for the SDCs and actually seek/benefit from financing.
2. Multi-family residential is a commercial venture, so why not offer financing to other types of commercial projects? Terms wouldn’t have to be the same for all—you could consider risk profiles for different types—but you should at least offer something and not draw an arbitrary line based on use.
3. There are two cost components: operational (running the facilities that treat the wastewater generated by the property) and capital (building the conveyance system and treatment plant capacity, which must be done in advance of the actual use/need). A property with 1 or 2 DU is a very small operational risk. The capital component is the reason for the SDC.
4. A higher interest rate (than for multi-family and mixed-use residential) seems reasonable given the higher risk—this class has one of the highest default rates on property taxes.
5. Delaying collection of SDC until occupancy was mentioned previously as a possibility for commercial customers, but it would fall to cities or county to trigger as the District doesn’t issue occupancy certificates. Different interpretations of “occupancy” could be problematic; but could use a date certain as fallback. Delaying payment probably wouldn’t help those just making tenant improvements as most are completed in 30 days. It might help someone building a new building, though you would expect that their financing package included those costs already.

Industrial

1. It does not seem appropriate for the regulator (issuer of the permit) to be the lender to the permit-holder
2. Typical period for recouping investment in industry is 18 months, so the term for financing would have to be very short—may not be practical
3. As the value of an industrial business is often in equipment rather than the building or land, there is potential for the SDC to be larger than the amount that could be recouped if the business failed to pay off the financed SDC
4. Industrial customers are currently allowed to pay SDCs upon occupancy (when use of capacity begins), so a form of delayed payment is already in place

Cap on Amount Financed

1. Suggested last meeting that an annual limit be set as part of overall budgeting process; this approach builds in an automatic review
2. Keep in mind the possibility that one user could absorb the whole amount

allocated

3. Make sure that whatever amount is devoted to single-family sewer conversions doesn't count toward the total cap amount
4. Further analysis needed to determine basis for cap (for example, percentage of total SDC collections, percentage of capital budget...?)

Origination/Application Fee

1. Should cover costs for title report and other aspects of performing due diligence
2. Origination fee of 1% is typical; that would be about \$50 per DU
3. Could set a flat fee of \$500-\$600 with a maximum of 1% of financed amount
4. Could set variable fees based on District's actual costs

Suggestions

1. Clarify in the policy and in all printed materials, presentations, and other information that "industrial" customers are all those—and only those—which hold industrial discharge permits, and that "commercial" customers are those which are not residential and not industrial discharge permit-holders.
2. Look into how you would know/what would trigger a review of whether an industrial discharge permit was needed if an existing company (which did not previously require a permit) changed its activities without doing any remodeling or other activity that would otherwise cause an automatic review.

Financing of System Development Charges White Paper

Executive Summary and Recommendations

Charge from the Board

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?

Recommendation – To Be Determined

System Development Charges Financing Policy

Background

The District's current SDC financing policy provides financing to owners of residential properties as required under state law. The District's financing is largely associated with the Local Improvement District (LID) or Local Sewer Improvement (LSI) constructed to address public health issues related to failing septic systems. In 2013, The City of Hillsboro wanted to offer sanitary sewer SDC financing to the Holland Group for an Orenco Station development--a large, mixed used development. While supportive of the development, the District's SDC financing policies did not contemplate this type of development.

To ensure a broad perspective on this issue, the Clean Water Services Board of Commissioners (Board) charged the Clean Water Advisory Commission (CWAC) with the following:

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?

CWAC accepted the charge at the August 2013 meeting. District staff worked with the City of Hillsboro and the developer and under an interim policy financed the residential portion of the Orenco Station mixed use development while the recommendation was developed by CWAC and adopted by the Board.

Customer Classes

As a sideboard to the CWAC charge, the Board asked that whatever recommendation the Commission developed, that it be by customer class. Here are the existing definitions of customer class (taken from Rates and Charges resolution and Order, and other sources as noted).

- Residential or a Dwelling Unit (DU) - A separate residential unit with kitchen, bed and bathroom facilities including those in multiple dwellings, apartments, motels, hotels, mobile homes or trailers. Where allowed by zoning regulations, a dwelling unit shall also include an ancillary dwelling unit located on the same lot, when such ancillary dwelling unit does not exceed 1000 square feet in gross floor area.
- Commercial or a Commercial Establishment - Any structure used other than as a dwelling.
- Industrial Class or Industrial User - shall have the meaning set forth in the District’s Industrial Sewer Rules and Regulations, Resolution and Order No. 09-1 (hereinafter R&O 09-1), and in 40 Code of Federal Regulations, Section 403.3(j). R&O 09-1 ““Industrial User” shall mean any user of the District sewerage system who discharges an effluent other than domestic wastewater into the District Wastewater System by means of pipes, conduits, pumping stations, force mains, constructed drainage ditches, surface water intercepting ditches, intercepting ditches, and all constructed devices and appliances appurtenant thereto.” 1.04.28 Industrial User – IU shall have the meaning and scope of 40 CFR 403.3(j). Citation: 40 CFR 403.3(j) “The term *Industrial User* or *User* means a source of Indirect Discharge”.

The Commission considered sub-classes, including:

- Residential – Potential Sub-classes
 - Single Family Residential
 - Multi-family Residential
 - Mixed Use
- Commercial – Potential Sub-classes
 - Small business
 - Other (?)

Other Cities and Jurisdictions Policies and Experience

District staff collected data from like jurisdictions in Oregon including, Cities of Bend, Gresham, and Salem and Clackamas and Washington Counties. Most jurisdictions offer financing to all customer classes (residential, multi-family, commercial and industrial) for up to 10 years, however, interest rates applied are generally higher than current market rates ranging from 5% to 9.5%. In most cases, due the higher interest rate and first lien requirements, they have few commercial and industrial customers utilizing the program. A majority of the financed balances relate to contractors and developers who hold the financing during construction and pay off balances when the property is sold. See [Appendix A](#) for details by jurisdiction.

The Commission also requested information on other regional utility providers. Short of differences in acronyms, Portland General Electric (PGE) essentially uses the same methods as Northwest Natural Gas (NNG). What PGE & NNG have in common is the Oregon Public Utilities Commission (PUC) that tries to be equitable across utilities. Also, another difference with the District is that neither PGE nor NNG produce the energy they sell. Their systems are functionally comparable to the District's collection system. They have nothing like the District's treatment facilities therefore their investment per customer is far smaller than the District's; hence, a big difference in how the up front (SDC) charges are calculated and in how much they are. Here are some specifics.

Portland General Electric

PGE does not offer financing for installing new service. The customer must pay for all pathway costs (trenching, conduit, etc.) upfront. PGE has what's called a Line Extension Allowance (LEA) calculated by the first years load, not including pathway costs. When a customer and/or contractor gives PGE the new load information, a Service and Design Project Manager (SDPM) completes an LEA. Typically, the amount determined in the LEA is enough to cover the installation costs, unless the customer wants to over-build for future growth. In that case, if the customer has established good credit, they can offer a five-year Minimum Load Agreement (MLA) in which the customer agrees to pay a minimum demand amount each year whether they use the power or not. This ensures the collection/recovery of the costs for upgrading the substation transformer, installing new feeders, switches, transformers, etc. Typically, MLA's are used when the customer wants more than one megawatt and is going to grow over the first few years.

Northwest Natural

NW Natural Gas does apply an up-front charge for capital improvements that is similar to the District's SDC. The gas company's charge is regulated by the Oregon Public Utility Commission in Oregon and by the Washington Transportation and Utility Commission in Washington. Both commissions allow the gas utility to apply an up-front charge to new major commercial and industrial customers for the cost of extending service to the new customer and the procedures are similar to those described above for PGE. The Commissions have imposed procedures and approved rate schedules that require the gas company to collect up-front costs from large customers to avoid having those costs become part of the utility's rate base. For more details see [Appendix C](#).

Scale

Total Sanitary SDC Revenues

The District relies on SDC revenues to fund new capital construction and pay for existing capacity in the system, including debt service. This has always been a volatile revenue source by year and by customer class, but has a significant impact on financing of infrastructure to meet capacity needs with growth. District collections have varied from a low of \$2.4 million to a high of \$12.7 million since 2005 and vary by class with 45% collected from industrial customers, 35% from single-family residential, 13% from multi-family and 7% from commercial customers. [Appendix B](#) provides historical trends of Sanitary SDC revenue collected by the District and member Cities by customer class.

How much financing per year and/or per owner?

The current policy has no limitations for the amount of financing the District offers either to an individual or in total. This was not a significant issue for consideration until the recent financing of the multi-family residential portion of the Holland Developments that when executed for the three developments at Orenco Station will total about \$4 million in total SDC financing.

Security

To consider the security of the financing of SDC's, there must be an assessment of the risk of default on the financing and the consequences of default. In this case, the risks are twofold—financial and operational. Whenever the District finances an SDC, it is extending its credit to a 3rd party.

Financial Risk: There is always a positive risk that the 3rd party will not pay back the loan, or pay it back partially or delinquent.

Operational Risk: Operationally, when the District sees increases in building activity, it begins planning for and constructing new wastewater facilities. This construction is ahead of increases in usage and, by so doing, takes two additional financial risks: (1) the money spent on the new capacity, and (2) that the increase in usage will pay the increase in operating costs of the new capacity. This last point requires some explanation. Wastewater Treatment Plants (WWTPs) in general benefit from scale economies, which is to say that the cost of sewage treatment per gallon decreases as the amount of sewage flow increases. This formula also works in reverse: decreases in flows result in higher costs per gallon. If a large development that requires more capacity than exists drives the District to build new capacity and the development fails to materialize, then the District is stuck with increasing operating costs.

Assessing Risk by Customer Class

Single Family residential - Low Risk – Low risk of financial default and low risk of operational failure.

Until recently the SDC's financed were single family residential and the owner of the property took out the financing and with first lien position the District was well secured. Should the District offer financing to developers, the financial and operational risk remain relatively low. The single-family developments appeal to both the home-ownership and rental markets and each residential represents a relatively minute increase in sewage flow. Developers are sensitive to vacancy rates and tend to build new homes just ahead of the market—as a result financial risks are low. One single-family subdivision does not produce sufficient sewage flow to trigger an increase in treatment capacity—operational risk is very low.

Multifamily residential - Low to medium risk – Developments that involve a small number of units (under 100), and units already constructed present low financial and operational risks to CWS for the same reasons as discussed above for single family developments. Larger multifamily developments (e.g., 500 units or more) have greater financial and operational risk to CWS. In general, the larger the multifamily development is the greater the risk both financially and operationally. However, similar to single-family developments, the security of a lien on the real market value is strong and developers tend

to follow the market for new developments very carefully thereby reducing any market risk of complete failure.

Large Multi-Family/Mixed use development - Medium to high risk - The risks of financial and operational default for these developments is similar to that for multiple family plus the added risk of commercial developments. The risks associated with commercial developments is higher than for residential developments because there are fewer of them and competition of newer nearby developments can reduce the value of existing commercial developments, and as explained for Commercial developments, ownership and the ability to collect on liens is more complex and risky.

Commercial - Medium to high risk financially as the financing is not personal, as in single family but most likely with an incorporated body. Equity is probably sufficient on a very small commercial (e.g., restaurant) versus a much larger commercial development where significant value is in the equipment, not in the property, assuming the business owns the property and/or building. The system consequence has an even greater range, from very small to very high depending on the size and nature of the business. Many small businesses do not own the land or the building they occupy and presents a challenge to secure the financing.

Industrial - High financial risk. While the District does not currently finance industrial customers, industrial customers do not purchase the SDC until the time of actual discharge, and all of the infrastructure to serve must be in place and ready at that time. Thus the District already incurs significant financial and operational risk, particularly for high flow and/or high wasteload customers. High risk of financial and operational default results because the scale of industrial development, the financial security pledged for collateral, and the term of usage. The scale of industrial developments can range from a small assembly plant that produces only domestic waste, to a large water-based processing plant that produces significant volumes and solids of wastewater. The risk varies with the scale of the development. For residential developments, the land and building represent over 80% of the real market value of the property and this is the collateral pledged to repay any debt. For industrial developments of any size the real market value is heavily weighted toward the value of the equipment in the building which may have a limited resale value and may depreciate to scrap value in just a few years. The term of use for industrial developments may be very short relative to housing developments. Housing structures last up to 100 years while industrial developments that are primarily valued for their equipment may have a resale value for only a few years (5 to 10 years).

Risk Mitigation

Collateral – currently the District asks for first lien position on the property to get financing. This may not be adequate. The provisions in the SDC statutes closely follow the financing process in the LID statutes. When crafting an LID the local government assesses the risk of repayment based on the necessity to foreclose on a property that has failed to make payments. The government is at substantial risk if payments are not received on time because it has already issued bonds and used the proceeds to pay contractors to make the necessary LID improvements. The debt service schedule requires the government to make periodic payments and if the LID assessments fall short of the debt service

payments, then the government has to use its general fund revenues to make the payments. So when a default on a property happens the government wants to be able to quickly foreclose on the property, sell it, and repay itself for any losses it has incurred. For these reasons, the government crafts the LID so that the LID assessment on any one property is a fraction of the market value of the property. The District incurs a similar but lesser risk with financing large SDCs. The District's risks of accepting installment payments of SDCs is less than it would be for a similar size LID because it does not immediately issue any bonds to cover the financed SDCs. Nonetheless, it needs to protect itself from default on the SDCs it finances.

Generally, the cost of sewer SDCs and of building the on-site sewer lines represents a small fraction of the total cost of a development. A recent article in the ENR magazine (October 14, 2013, pp 55) estimates it represents about 1.6% of the total cost of construction (excluding land). This average is for all types of construction (e.g., residential, commercial, industrial) and may vary substantially among developments. A developer's motivation for financing the SDC portion of a large development will be influenced by the interest rate and terms CWS offers for financing the SDC relative to the developer's access to capital from its own resources or from lenders it depends on for construction financing. CWS is not in a position to evaluate the market risk of a particular commercial or industrial development. That task is performed by lenders who have experience and expertise on staff to evaluate such risks.

Interest Rate – the current rate is the Oregon 10 Year AA Bond rate plus 2% admin fee (current total rate is about 4.6%). Is this adequate to cover the risk component? The District may consider variable interest rates depending on the type of development:

Single Family Residential – Lowest risk and lowest SDC; the market value is concentrated in the land and building and the financing is well secured.

Multifamily Residential – Higher risk and larger SDCs than single family; the market value is concentrated in the land and building

Commercial – Equal to higher risk and SDCs than multiple family; the market value is concentrated in the land and building. However, many businesses do not own the land or the building they occupy.

Industrial – Equal to higher risk and SDCs than commercial; the market value may be concentrated in the equipment used in manufacturing (land and building value may be less than 50% of the total market value)

Term - Current is 10 years. Reducing the term reduces the exposure to potential default. Especially for industrial developments that supply product to an existing or perceived market may have a short life due to market shifts.

Title Transfer – District asks that all outstanding balance with any accrued interest be paid at the time of title transfer.

Borrower – this will vary based on customer class. Most single family residents are individuals. The large multifamily at Orenco is a corporation.

Down Payment – the current policy does not require any up-front payment. Any down payment reduces the financial risk to the District.

Impact on the Financial Capacity of the District with increased SDC Financing

The capital program is funded from three sources – rate revenue (cash), SDC's, and bond proceeds. SDC financing affects all three components. The District will need to ensure adequate financial reserves and maintain strong annual debt service coverage ratios. This is accomplished through net rate revenue (rates less operating expenses) and SDC revenues collected to cover outstanding debt payments. This will allow the District to maintain favorable credit ratings thus keeping the cost of debt issuance low through favorable interest rates. It is important for the District to maintain capacity and flexibility for future debt issuances to meet growth and regulatory based capital expansion needs.

Rate revenue – one of two sources to cover the financed SDC's. Might require higher rate increases to fund the capital program. On the plus side, if financing encourages development, there are more ratepayers.

SDC revenue – obviously, the collection over time reduces this as a source of funding for constructing current program as well as reimbursing and paying off debt for previously constructed SDC eligible projects (SDC_r). Because the District pledges SDC revenue to help back bonds, increased financing may affect the District's ability to pay and/or the District's bond rating, making the cost higher.

Bond Proceeds – the other source of funding to cover financed SDC's. May require more frequent borrowing than the District's current financial plan calls for. Potential effect on the bond rating noted above. Future debt issuances required to meet sanitary sewer expansion needs, in particular if the District experiences rapid growth, will impact the District's fiscal capacity to issue new debt without adequate collection of SDC revenues and/or utility service rate increases.

Economic and Stakeholder Issues

Economic Development – providing financing beyond residential may encourage economic development in the service area. If so, this in turn provides jobs, increased taxes for the taxing jurisdiction. The direct benefit to the District is increased ratepayers but since we charge for what our costs are, it is not a significant benefit other than general economic vitality of the County.

"Big Business" vs. "Small Business" - The ability to raise financing differs by customer. This is also driven in part by economies of scale, business type, etc.

Member Cities – Most Member Cities offer SDC installment payments similar to the District with financing limited to residential and multi-family property owners in installments of up to 10 years at market rates. Most have limited installment balances. The largest balances outstanding are currently

reported for multi-family development in Hillsboro at \$1.8 million. See [Appendix A](#) for detail by jurisdiction.

Under existing IGA's, the member Cities collect SDC's and remit a majority of the Sanitary SDC to the District (96%). If financing was extended to commercial customers the Cities may be more inclined ask the District to revise the IGA to have the District administer the financing agreements.

Administration - The District has limited billing staff and contracts with Tualatin Valley Water District to bill joint and District only utility customers. The District also has an IGA with Washington County Tax & Assessment to administer installment payments for financed LID, LSI and sanitary sewer connection charges. The County charges fees based on new accounts opened and billings generated semi-annually. The District does not have the capacity in-house to administer significant increases in installment payments. Jurisdictions that offer installment payments for business classes also require Legal review of contacts signed with property owners. District staff has experienced this effort when working with Hillsboro staff on the installment agreement for multi-family/mixed use development with the Holland Group.

Stakeholder Input

Member Cities - CWAC Member City Representative and Washington County Manager for Beaverton liaison Dave Waffle and staff solicited input at the Washington County Managers meeting in December and January. [Appendix D](#) contains more detailed information. In general, they favored continuing to finance single and multi-family residential as well as the residential portion of mixed use development. Only 30% favored offering it to commercial and only one City wanted an option to finance industrial development. None of the cities wanted to administer the financing, with some cities simply without staff capacity to take on the responsibility. If we were to offer financing to commercial and industrial, most favored reducing the term and/or increasing the interest rate.

Potential Alternatives

Residential

- Option 1 – No change in policy
 - Complies with state law, but with large multi-family developments such as the Holland Development at Orenco Station, may have significant impact on the amount financed and require more frequent and/or larger bond sales to support the scale of the amount financed.
- Option 2 - Segregate Multi-Family and Multi-Family Mixed Use from Single Family
 - Continue to offer financing to all residential property to meet state requirements but have different terms and conditions and/or limits on the amount the District finances for multi-family dwellings, including the residential portion of mixed use development.

Commercial

- Option 1 - No change in policy
 - No financing of SDC's for commercial property and the fees are payable at the time of building permit. Represents the least risk for the District and collects fees
- Option 2 - Delay SDC until Occupancy
 - This provides the opportunity for the developer and/or business to delay the charge until the Occupancy Permit is issued. Other jurisdictions outside Washington County offer this form of financing. Interest may or may not be charged as well as a down payment. Some jurisdictions have required an application fee to help cover the administrative costs of these short term financing options.
- Option 3 - Finance SDC's
 - Key to this alternative is the terms and conditions. This is a high financial risk and a medium operational risk. Some total dollar limit to financing might be required to protect the District's bond rating.
- Option 4 – Purchase of Temporary Capacity
 - The District has a monthly charge for SDC's for facilities with domestic discharges that are temporary. These charges might be modified to allow a payment route to regular capacity purchase without the full cost upfront. This is also a form of financing.
- Option 5 – Financing for Small Commercial Establishments
 - Provide financing for small businesses. Need to set criteria for clearly defining the customer class as well as different terms and conditions due to the level of financial risk.

Industrial

- Option 1 - No change in policy
 - Under the current District policy, industrial class customers are allowed to postpone payment of SDC charges until the time of discharge. This represents both a high financial and operational risk to the District, depending on type and size of the industry.
- Option 2 - Finance SDC's
 - This alternative represents the highest operational and financial risk to the District of all the alternatives. Terms and conditions are key and many security alternatives may not provide protection for the District's risk. Limiting the total amount financed is key to protecting the District.
- Option 3 – Purchase of Temporary Capacity

- The District has a monthly charge for SDC's for facilities with domestic discharges that are temporary. These charges might be modified to allow a payment route to regular capacity purchase without the full cost upfront. This is also a form of financing.

Recommendation(s) – Working Draft

Based on input from the last CWAC Meeting, here is a working draft set of recommendations so far

Residential

Continue to finance single family and multifamily residential. Whatever policy is adopted or whatever financing limits might be set, ensure that existing residential hooking up to the system (typically through the LSI or LID programs) always have access to financing.

Continue the interim policy of financing the residential portion of mixed use development subject to the usual terms and conditions (interest rate, term, and first lien position, due and payable upon title transfer). Consider placing a maximum amount of annual financing subject to the consideration above.

Commercial

Consider the following and gather input from the member cities

Small Commercial – consider extending financing to small businesses. Look for appropriate collateral and terms and conditions.

Large Commercial – no financing but consider waiting to collect until the time of use.

Industrial

Because the District also regulates industrial customers, keep existing policy of due and payable at the time of use with no financing.

Appendix A – Installment Agreement Comparison

Link to Spreadsheet (not available externally) [Appendix A Installment Agreement Comparison.xlsx](#)

SDS Member Cities/CWS	Allow Sanitary SDC Install- ments	Customer Class	Term	Annual Interest Rate	First Lien	Applica- tion Fee	% Pre- paid	Current Balance Financed	Notes
CWS	Y	SF/MF	10 years/20 semiannual pymts	Oregon 10 year bond rate AA + 2%	Y	N	N	\$321 k	While not financed directly, the District has a receivable from IGA w/Hillsboro for Holland Development Wrap of \$ 1.3 million on MF
Hillsboro	Y	SF/MF	10 years/20 semiannual pymts	10 Yr Avg T-Note +2%	Y	N	15%	\$1.8 million	Includes \$1.4 million for Wrap and \$300K 4th & Main Bldg.
Beaverton	Y	SF/MF	10 years/20 semiannual pymts	Prime + 2%	Y	\$250		none	Legal owner with proof of ownership and proof of property market value via certified appraisal or last County tax roll.
Tigard	Y	SF- reimb. district & connection fee only	10 years/20 semiannual pymts	Applicable Federal Rate (AFR), semi- annual, long-term	Y	N	N	\$25k est.	Loan conditions: owner-occupied, structure existed at time reimb. district formed, and property owner requesting loan held title to property at time district was formed.
Tualatin	Y	SF/MF	10 years/20 semiannual pymts		Y				Use to allow commercial & industrial financing but discontinued few years back. Applied sliding scale fee of 15-20% of amount financed.
Forest Grove	Y	SF/MF	5 or 10 year semiannual installments	5 yr: Prime rate + 1% 10 yr: Prime rate = 2%	Y		15%		Interest rate set by Council resolution, 10 year loan allowed for Sanitary Sewer
Cornelius	Y	SF/MF	10 years/20 semiannual pymts	Not specified	Y	N		Never used	Rules cite Bancroft section of ORS
Sherwood	N								City does not offer installment payments for SDC's. They do not have the capital or staff capacity to administer.

Other Jurisdictions	Allow Sanitary SDC Installments	Customer Class	Term	Annual Interest Rate	First Lien	Application Fee	% Pre-paid	Current Balance Financed	Notes
Salem	Y	SF/MF/COM/IND	10 years/20 semiannual pymts	9.50%				\$2.1 million	Majority financed relate to Contractors - paid once new construction is complete. No significant commercial. Some Condo's/Apts.
Bend	Y	SF/MF/COM/IND	10 years/20 semiannual pymts	Trad. 5 - 7%, Def 12%, Empl. 0% for 3 years	Y				Three loan programs: Traditional, Deferral and Employment Based. Approved over \$2.0 million since 2008. Mainly SF residential.
Gresham	Y	SF/MF/COM/IND	10 years/monthly pymts	8%	Y	\$431		under \$500k	Offer deferral options for businesses to date of occupancy. Each financing requires a contract reviewed by legal. Owner of property must sign agreements.
Clackamas County	N								Limited financing in N. Clackamas indigent w/Federal money.
Washington County LUT*	Y	SF/MF/COM/IND	10 years/20 semiannual pymts	10 Yr Muni Bond +0.5%	Y	N		Under \$25K TDT Only	TIF used to require 9% interest. TDT adopted in November 2008 (Ord 691-A, Sec. 3.B) finances at lower interest rate. County Tax & Assessment administers payment plans similar to District.

Appendix B – Member City and District Revenue by Customer Class

Link to spreadsheet (not available externally) [Appendix B Sanitary SDC Revenue History by Class.xlsx](#)

Member City Sanitary SDC Revenue by Customer Class

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Totals</u>	<u>%</u>
Beaverton												
SF												
Residntl	629,840	570,880	412,850	273,360	42,800	54,018	138,169	249,261	458,275	424,156	3,253,608	26%
MF												
Residntl	1,074,560	582,240	961,283	115,140	429,120	808,418	352,575	60,971	408,395	1,279,566	6,072,268	48%
Commcl	165,568	143,232	195,438	84,336	155,982	530,894	613,461	645,731	342,869	369,579	3,247,090	26%
	<u>1,869,968</u>	<u>1,296,352</u>	<u>1,569,571</u>	<u>472,836</u>	<u>627,902</u>	<u>1,393,329</u>	<u>1,104,205</u>	<u>955,963</u>	<u>1,209,539</u>	<u>2,073,301</u>	<u>12,572,966</u>	<u>100%</u>
Tigard												
SF												
Residntl	701,600	1,167,300	843,820	732,340	265,020	303,440	571,010	462,050	794,186	670,605	6,511,371	75%
MF												
Residntl											-	0%
Commcl	181,830	331,340	167,090	297,070	141,940	135,450	142,430	135,630	185,233	443,345	2,161,358	25%
	<u>883,430</u>	<u>1,498,640</u>	<u>1,010,910</u>	<u>1,029,410</u>	<u>406,960</u>	<u>438,890</u>	<u>713,440</u>	<u>597,680</u>	<u>979,419</u>	<u>1,113,950</u>	<u>8,672,729</u>	<u>100%</u>
Forest Grove												
SF												
Residntl								248,600	380,100	736,410	1,365,110	84%
MF												
Residntl								16,400	64,125	90,660	171,185	11%
Commcl								14,184	-	67,059	81,243	5%
												<u>100%</u>

Year	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Totals</u>	<u>%</u>
	-	-	-	-	-	-	-	279,184	444,225	894,129	1,617,538	
Cornelius												
SF Residntl				24,800	47,600	33,000	25,200	4,100	-	4,665	139,365	25%
MF Residntl				-	-	-	-	-	-	-	-	0%
Commcl				111,600	25,200	151,100	10,800	89,970	13,500	14,400	416,570	75%
	-	-	-	136,400	72,800	184,100	36,000	94,070	13,500	19,065	555,935	100%
CWS												
SF Residntl		2,542,500	2,350,000	1,842,700	1,522,800	836,000	1,444,700	1,430,550	2,195,500	1,959,885	16,124,635	35%
MF Residntl		2,480,000	991,500	623,400	286,900	77,500	57,600	116,900	65,900	1,345,455	6,045,155	13%
Commcl		491,313	498,175	247,269	356,919	304,663	302,256	376,594	219,725	234,598	3,031,511	7%
Industrial		180,815	178,958	94,038	247,445	3,502,070	3,443,236	639,226	3,286,174	9,116,939	20,688,901	45%
	-	5,694,628	4,018,633	2,807,407	2,414,064	4,720,233	5,247,793	2,563,269	5,767,299	12,656,877	45,890,202	100%
Tualatin												
SF Residntl				131,800	159,900	-	78,100	65,600	72,990	9,330	517,720	16%
MF Residntl				-	-	-	-	-	693,000	-	693,000	22%
Commcl				258,340	165,380	88,080	147,967	248,460	859,881	243,981	2,012,089	62%
	-	-	-	390,140	325,280	88,080	226,067	314,060	1,625,871	253,311	3,222,809	100%

Year	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Totals</u>	<u>%</u>
Hillsboro												
SF												
Residntl												
MF												
Residntl	Not Available											
Commcl												
Sherwood	-	-	-	-	-	-	-	-	-	-	-	-
SF												
Residntl												
MF												
Residntl	Not Available											
Commcl												
	-	-	-	-	-	-	-	-	-	-	-	-
Group Totals												
SF												
Residntl	1,331,440	4,280,680	3,606,670	3,005,000	2,038,120	1,226,458	2,257,179	2,460,161	3,901,051	3,805,051	27,911,809	39%
MF												
Residntl	1,074,560	3,062,240	1,952,783	738,540	716,020	885,918	410,175	194,271	1,231,420	2,715,681	12,981,608	18%
Commcl	347,398	965,885	860,703	998,615	845,421	1,210,186	1,216,914	1,510,569	1,621,208	1,372,962	10,949,861	15%
Industrial	-	180,815	178,958	94,038	247,445	3,502,070	3,443,236	639,226	3,286,174	9,116,939	20,688,901	29%
Totals	2,753,398	8,489,620	6,599,114	4,836,193	3,847,006	6,824,632	7,327,504	4,804,226	10,039,853	17,010,633	72,532,179	100%

Appendix C - Northwest Natural Gas

NW Natural Gas does apply an up-front charge for capital improvements that is similar to CWS's SDC. However, the gas company's charge is regulated by the Oregon Public Utility Commission in Oregon and by the Washington Transportation and Utility Commission in Washington¹. Both commissions allow the gas utility to apply an up-front charge to new major commercial and industrial customers for the cost of extending service to the new customer.

While differences exist between how each commission allows the calculation of the charge, the basic calculations are similar. When a prospective customer applies for gas service, the gas company sends out engineering staff to determine the cost to connect the customer. This cost will vary substantially depending upon the distance between the customer and where the gas company's lines currently exist and upon the line's capacity to serve the prospective customer. The gas company then compares the cost of connecting the customer to the annual "margin" the new customer is expected to produce over the next 5 years. The "margin" is in very rough terms the difference between the weighted average cost the gas company has to pay for the gas it will sell the customer (based on current market prices) and the amount the gas company will charge the customer for the gas (based on the current rate schedules). If the 5-year margin is positive, the gas company does not apply an up-front charge; if it is negative the company applies the up-front charge and the customer must pay that amount before the line is extended. The amount of the up-front charge equals the amount of the negative margin. The majority of these calculations result in a zero up-front charge, because the customer uses such a large quantity of gas, the margin fully pays for the capital expansion within 5 years.

The gas company's risk is that the customer's actual purchases of gas fall below the amount estimated in the margin calculation, or the customer goes out of business within 5 years of initiating gas service. In both cases, the regulatory commissions make provisions for the gas company to recoup the initial investment from the customer. The customer is required to secure its forecast of gas purchases by putting up a cash deposit, performance bond, or other form of cash that the gas company can acquire if necessary.

The underlying economics between the gas company and CWS is an important consideration. The gas company operates a pipeline system but does not produce the gas it sells. Many of its large customers purchase gas directly from gas producers and pay Northwest Natural Gas Company to transport the gas (by pipeline) to the customer's location. For its smaller customers, the gas company purchases the gas it sells from other companies that produce the gas. In essence the company is a transport company that

¹ Washington rate schedules 41 and 42, and Schedule X. Oregon rate schedules 31 and 32, and Schedule X. "A Customer may be required to pay the Company, in advance, for costs related to the Company's installation of any new or additional Distribution Facilities necessary to provide service to Customer under this Rate Schedule. See Schedule X." [Oregon, NW Natural Gas Rate Schedule 32 Large Volume Non-Residential Sales And Transportation Service]

invests in pipelines and associated equipment. It is similar to CWS's sewage collection system. CWS on the other hand has both a collection system and production facilities, namely sewage treatment plants, effluent discharge and reuse facilities, and solids disposal facilities. CWS's investment per service connection is far greater than the gas company's.

The gas company notes that the regulatory commissions continue to press the gas company to make sure that new large industrial customers are not being cross-subsidized by all of its other customers. It provided the gas company ample rate schedules to allow the company to charge the full additional cost of providing services to a new large customer. The commissions for assurances that the up-front charges are calculated properly and charged in full so that the cost of extending service to these new customers does not become a burden on the rest of the customers (rate payers).

Appendix D – Member City Input via the Washington County Managers Group

Clean Water Services SDC Financing Policy Review - Notes

Summary from Washington County Managers Meeting

Meeting notes from the Washington County managers meeting on Wednesday, January 22, 2014. See the electronic polling summary at the end of the document for voting on the questions listed below.

Requested Input from Member Cities

Thank you for time on the Washington County managers meeting agenda and your willingness to provide the District and our Clean Water Advisory Commission (CWAC) with your perspectives on Sanitary Sewer SDC financing. Here are the items where we are seeking your input.

Residential

The District currently offers financing to single family residences and under an interim policy is offering to multifamily housing as well, including mixed use commercial/residential for the residential portion only. Should the District continue to offer financing to multi-family and the residential portion of mixed use?

Yes, continue offering financing to multi-family and mixed use residential.

If yes, are you willing to administer the loans within your jurisdiction?

Some were, but generally they weren't too interested because they don't have a lot of staff, particularly the medium to small cities. Hillsboro is okay with administering and stressed flexibility and options throughout the discussion.

Current terms and conditions are 10 year Oregon AA bond plus 2 points and a first lien position. Any recommendations on changes to these requirements?

Most seemed okay with the terms and conditions for residential.

Commercial

The District currently does not offer financing to commercial customers. CWAC is considering offering to this class. Should we?

A lot of discussion here; similar to the discussion at CWAC (difficult to lien, business cycle timing with a 10 year loan, why should we be a bank, etc.) That said, there was still some interest in potential financing.

If yes, are you willing to administer the loans within your jurisdiction?

Not much interest.

Any changes to the standard terms and conditions outlined for residential (i.e. require percentage down, shorter payment terms, higher interest rate, application fee, etc.)?

There was interest in either reducing the term and/or increasing the interest rate.

Industrial

The District currently does not offer financing to industrial customers, those customers who are regulated by the District via a discharge permit, but unlike the other customer classes they are able to defer payment until the time of use instead of at time of building permit. CWAC has a preliminary recommendation of no change in the current policy (no financing) of these customers, who are also regulated by the District through their permit. Have member Cities received requests for financing from this customer class? Should the District offer financing to Industrial Class customers?

Hillsboro was interested under the flexibility moniker; others were not.

If yes, should there be any changes to the standard terms and conditions?

There was input about shorter term and higher interest rate.

Voting device results:

Responses from Washington County Managers Meeting on 1/22/14	Residential			Commercial			Industrial		
	Yes	No	Maybe	Yes	No	Maybe	Yes	No	Maybe
Should the District continue to offer financing to multi-family and the residential portion of mixed use?	89%	11%	-	-	-	-	-	-	-
Should the District offer financing to commercial properties or industrial customers?	-	-	-	30%	70%	-	10%	90%	-
If yes, are you will to administer the loans within your Jurisdiction?	22%	33%	44%	0%	62%	38%	10%	90%	n/a
Current terms are 10 year Oregon AA bond plus 2 points and a first lien position. Any changes to these requirements?									
Leave as is		80%			14%			30%	
Reduce term		0%			29%			20%	
Increase interest rate		20%			14%			10%	
Reduce term & increase interest rate		0%			43%			40%	

