

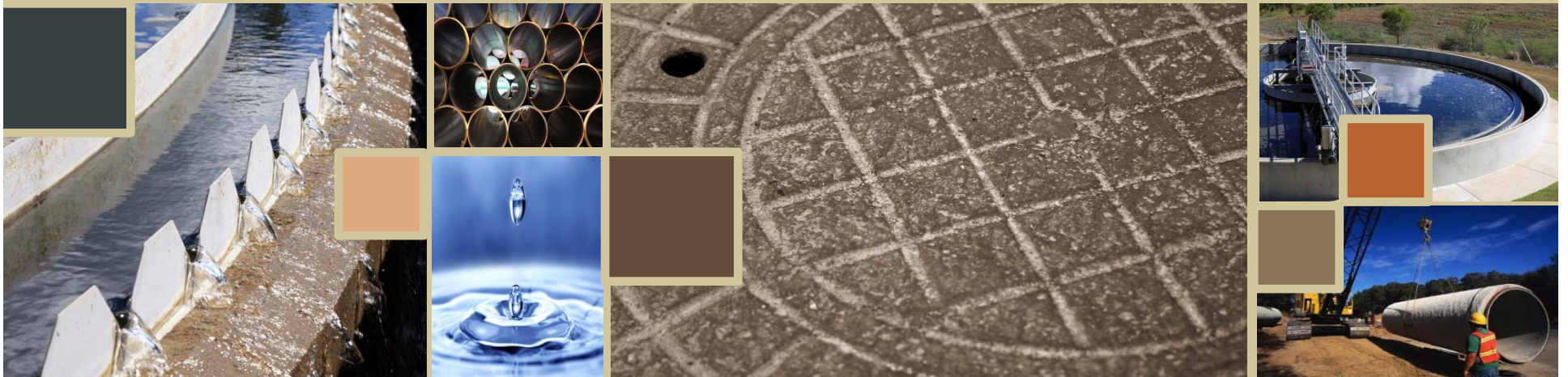


City of Bend

Sewer Infrastructure Advisory Group Meeting #14

Financing Master Plan Improvements

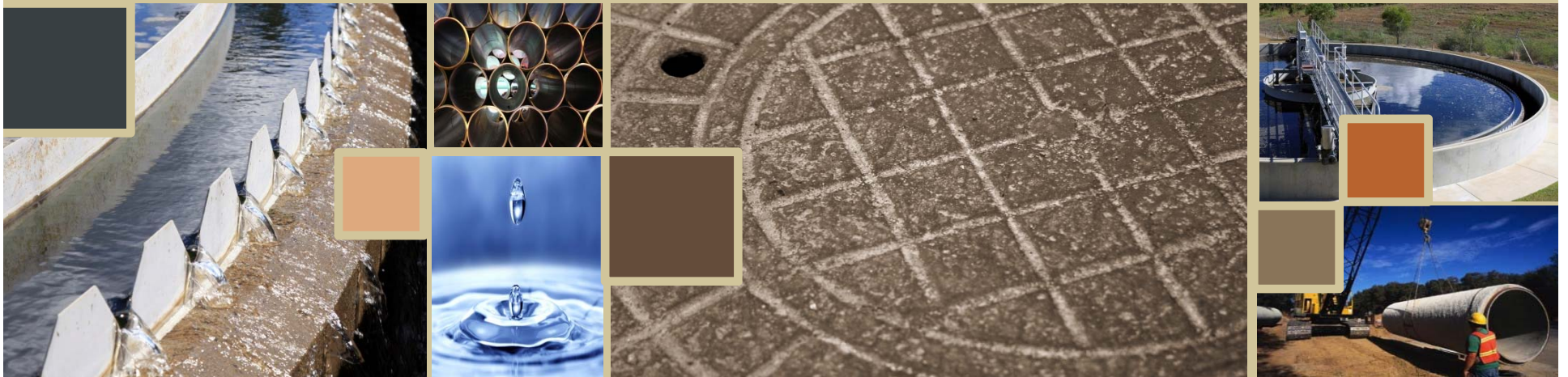
September 12, 2013





City of Bend's Current Financial Position

Presented by: Sonia Andrews, City of Bend Chief Financial Officer



Current Sewer System Financial Position



FY13-14 Monthly Sewer Rates & SDCs
Flat rate \$44.37
Nonresidential also pays \$0.348/cuft if >1000cuft of winter ave water use
Sewer SDC \$2,905 /EDU

Sewer Revenues	Operating Exp & Existing Debt Payments	Net Available for Capital, Future Debt and Reserves
Operating \$18.5M	(\$14M)	\$6.5M
SDCs \$2M		

Current rates can afford the following over the next 5 yrs:

(based on current water consumption and interest rate environment)

- Debt service on \$38.8M DEQ loans for Treatment Expansion
- Additional \$18M in new debt + \$26M in cash = \$44M over next 5 years



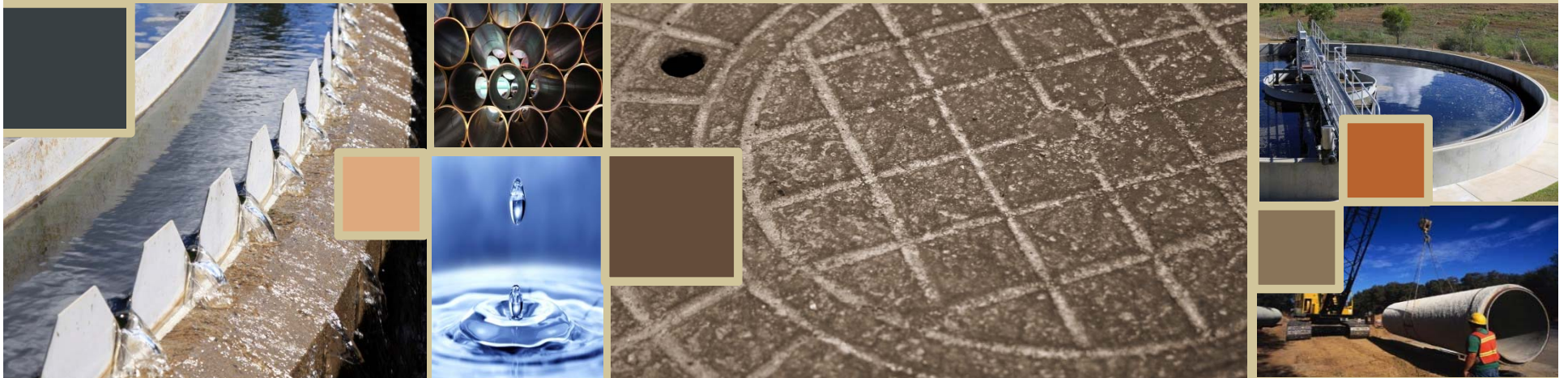
What can Bend Afford

- Depends on
 - How high can we raise rates
 - How much can we raise rates each year
 - Customer growth
- Rates & growth → determines revenues that can be generated → determines how much debt we can issue
- Non-rate funding options



Funding Alternatives

Presented by: John Ghilarducci, FCS GROUP





Funding Options

- Pay-as-you-go (cash funding)
 - Rates
 - System Development Charges
- Debt
 - General obligation bond financing
 - Revenue bond financing
 - Full faith and credit financing
 - Special programs
 - Local Improvement Districts



Rates

- Description: Adjust rates to meet scheduled capital expenditures on a periodic or annual basis.

Advantages	Disadvantages
Ensures that existing users are keeping system up to date	Causes rate volatility from year to year to match capital expenditure schedule
Allows for greater flexibility in capital funding approaches	Burdens existing ratepayers with the full cost of improvements that will serve future users



System Development Charges

- Description: One-time fees paid at the time of development by new development

Advantages	Disadvantages
“Growth pays for growth”	Annual Cash flow is volatile due to reliance on growth
Existing ratepayers are protected from costs of growth-related system capacity	Cost recovery occurs over time; timing may not match scheduled needs
	Cannot generally be used to secure debt
	Use of Improvement fee proceeds restricted to “growth-related” project costs



General Obligation Bond Financing

- Description: Pledges the full, faith and credit of the jurisdiction (taxing power) for debt repayment.

Advantages	Disadvantages
Good terms available	Requires public vote
Does not burden full-time residents / ratepayers with costs of projects that serve full <i>and part time</i> residents / ratepayers	Property value may not correlate with wastewater system needs/impacts
Broadens base of payers	Not all are served by wastewater system
Spreads repayment over years, consistent with users	



Revenue Bond Financing

- Description: Pledges utility rate revenue to debt repayment.

Advantages	Disadvantages
Spreads repayment over years, consistent with users	Terms not as favorable as general obligation bonds
Can be done by Council action	Requires debt service coverage – rates in excess of payment amounts
	Burdens rate payers with cost of projects that serve others



Full Faith and Credit Financing

- Description: Bonds that are not secured by a specific, pledged revenue stream

Advantages	Disadvantages
No debt service coverage requirements	Bondholders have an unsecured claim on all revenue streams
Spreads repayment over years, consistent with users	Increase general fund debt burden
Can be repaid by rate revenues, backstopped by tax revenue	



Special Programs

- Examples:
 - Department of Environmental Quality (DEQ)
 - Clean Water State Revolving fund (CWSRF)
 - Oregon Infrastructure Finance Authority (IFA)
 - Special Public Works Fund (SPWF)
 - Water/Wastewater Financing Program
 - Possible \$750,000 grant based on median household income

Advantages	Disadvantages
Spreads repayment over years, consistent with users	Highly competitive to acquire
Favorable terms	Link to specific project(s)
	May require general fund backing



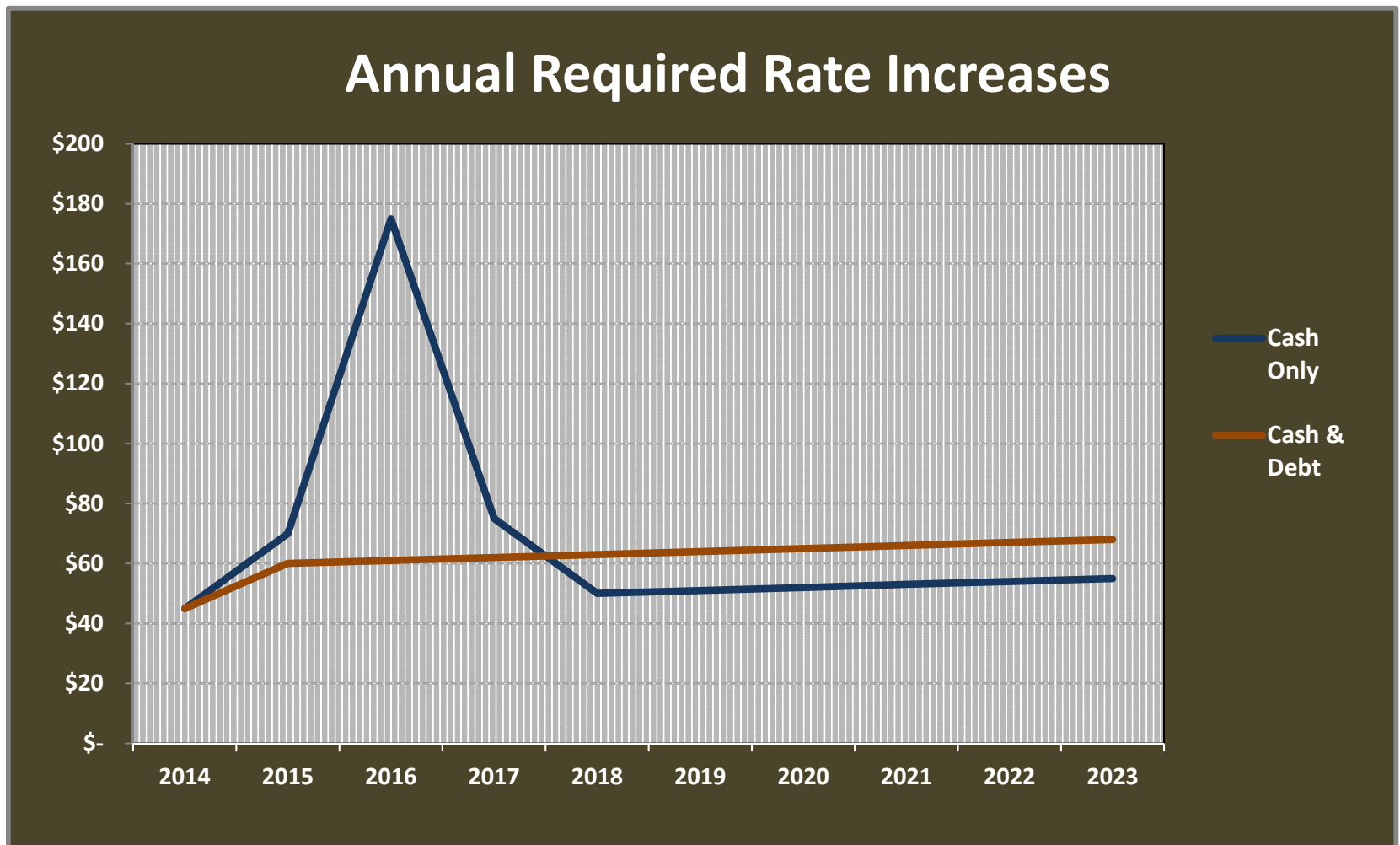
Local Improvement Districts

- Description: Benefiting properties pay for project debt service through assessments

Advantages	Disadvantages
Spreads repayment over years, consistent with users	Better suited for projects that benefit small, well-defined geographic areas
Can be done by Council action	Terms not as favorable as general obligation bonds
	May require debt service coverage - rates in excess of payment amount
	Amount of assessment limited to increase in AV due to improvement
	Administratively burdensome



Debt v. Cash Funding Comparison





Debt Funding Capital

- Useful when cash funding capital will overburden rate payers
 - Keeps near-term rates lower
 - Provides resources to catch up when cash investments in infrastructure have not been made
- Can be used in conjunction with cash funding
- Debt issue should fit projects to be funded
 - Term of debt should be less than useful lives of assets
 - Ongoing R&R/projects should be cash funded
- Current debt environment positive
 - Can inform cash/debt split
- Debt service capacity
 - How much debt can the City/utility afford?



Funding Options Evaluation

	Provides Sufficient Revenue	Equitable Cost Recovery	Easy to Administer	Politically Palatable	Reliable
Rates	●	○	●	○	●
System Development Charges	◐	●	●	◐	○
General Obligation Bonds	●	◐	◐	◐	●
Revenue Bonds	●	◐	●	◐	●
Full Faith and Credit	●	◐	●	◐	●
Special Programs	◐	◐	◐	●	○
Local Improvement Districts	◐	◐	○	◐	●



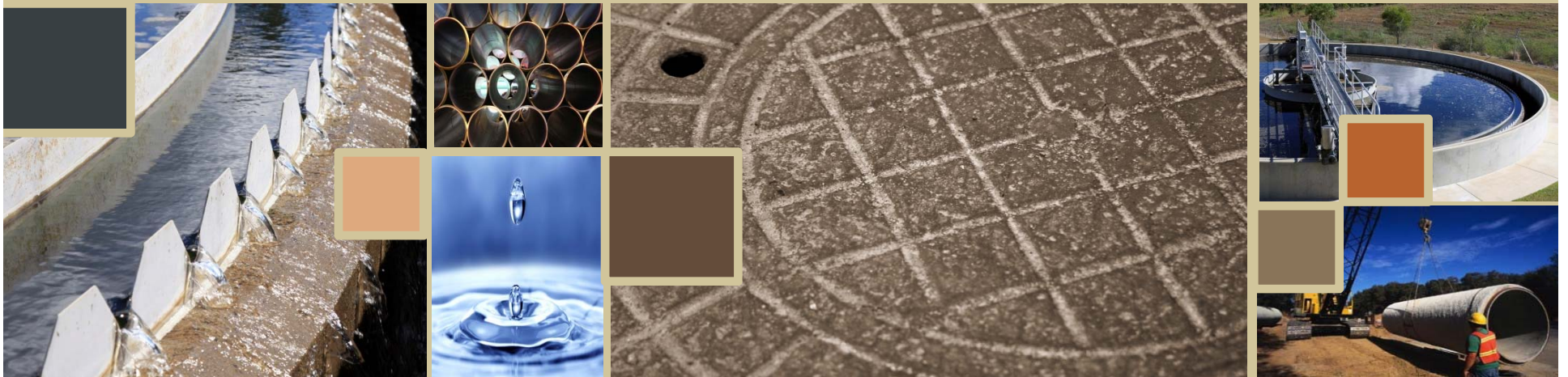
Creative Options

- Voted G.O. bond for equity & financial benefits
 - Broader base
 - Better terms (lower rates)
 - 10% of properties not on City sewer
- Combination options
 - Example: Use FF&C and repay with rates / SDCs
- Use a rate stabilization fund to access SDCs for debt repayment
- Pursue a direct appropriation
- Public / Private Partnerships
 - Private funding with reimbursement
 - Private financing



Rate Scenarios

Presented by: Angie Sanchez, FCS GROUP



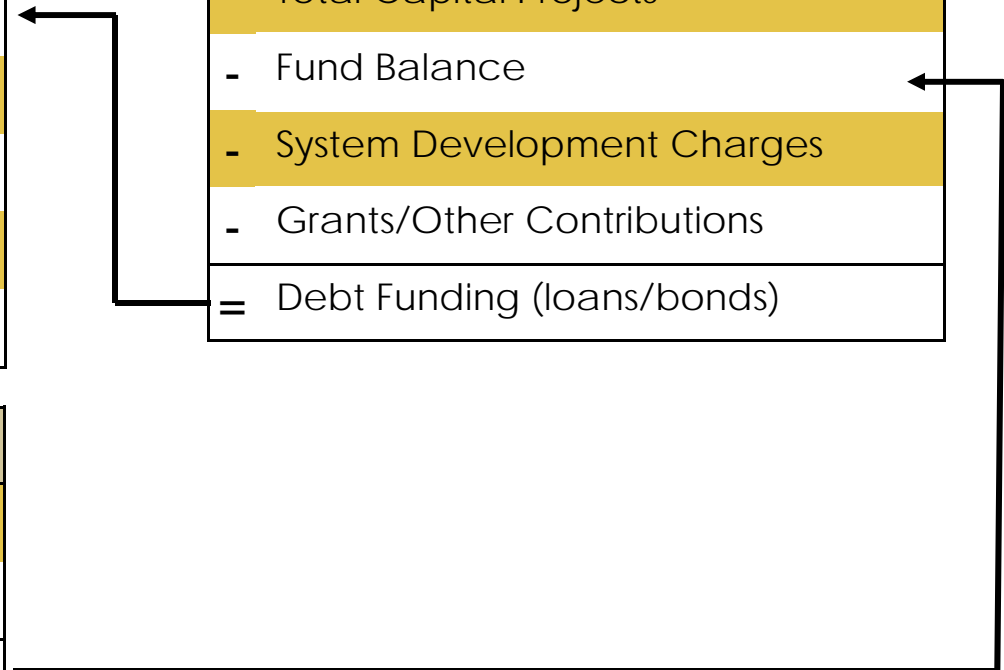


Overview of Sewer Rate Setting

Key Rate Components	
+	Operating & Maintenance
+	Debt Service (existing & new)
+	Rate Funded Capital (routine)
=	Total Revenue Requirement
-	Miscellaneous Revenue
=	Revenue from Rates

Major Capital	
	Total Capital Projects
-	Fund Balance
-	System Development Charges
-	Grants/Other Contributions
=	Debt Funding (loans/bonds)

Fund Balance	
	Beginning Balance
-	Target Balance (90 days O&M)
=	Available for Capital



All scenarios must satisfy cash flow needs, fund balance requirements and debt service coverage targets

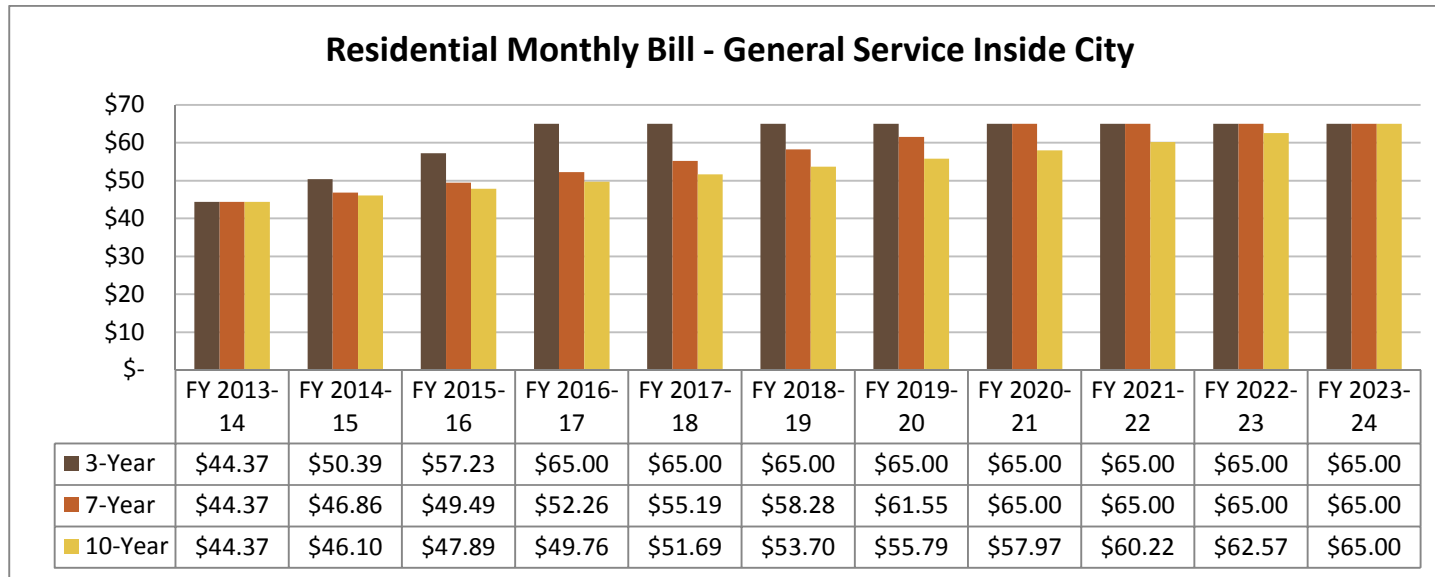


Rate Scenarios

- Current residential monthly rate \$44.37
- Three \$65 baseline rate scenarios evaluated
 - 3 year rate phase-in by FY 2017
 - 7 year rate phase-in by FY 2021
 - 10 year rate phase-in by FY 2024
- Major assumptions
 - No significant change in growth/consumption
 - Average annual O&M escalation 3.0%
 - Bonds 20 year term, 4.25% interest rate



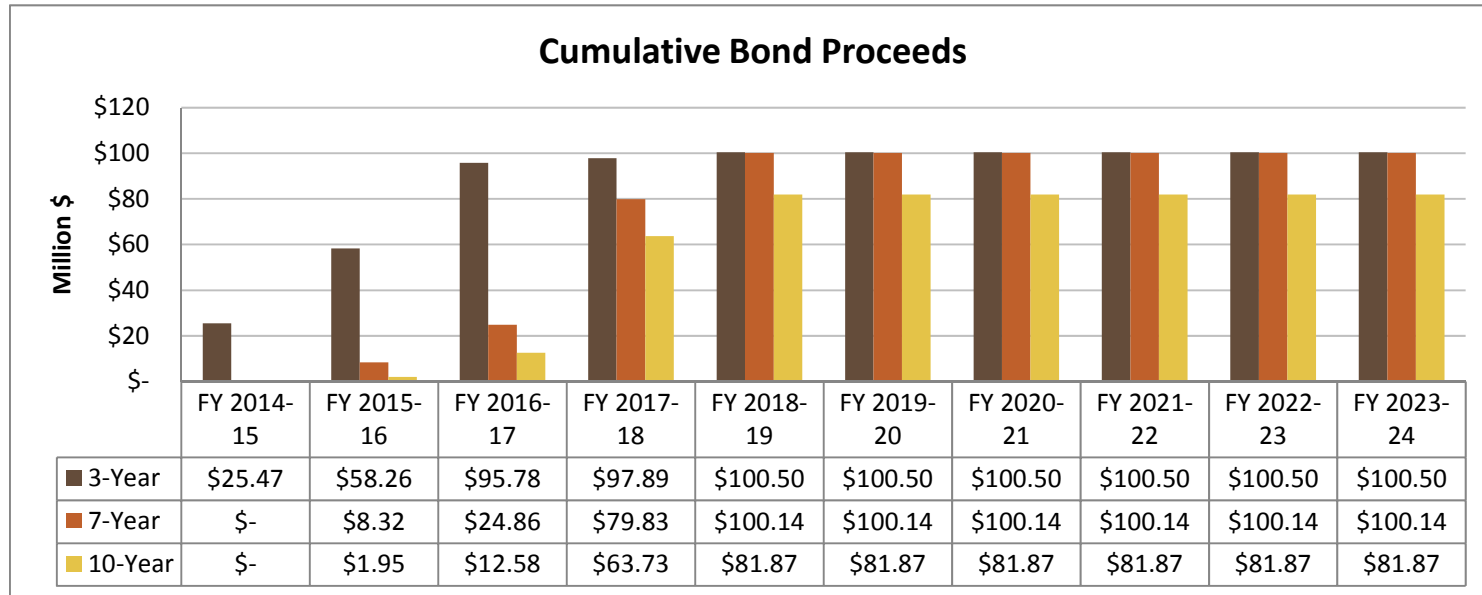
Monthly Rate Comparison



- 3-year scenario – \$65 by FY 2017; 13.57%/year
- 7-year scenario - \$65 by FY 2021 ; 5.61%/year
- 10-year scenario - \$65 by FY 2024; 3.89%/year
- Rate changes begin in FY 2015



Bond Proceeds

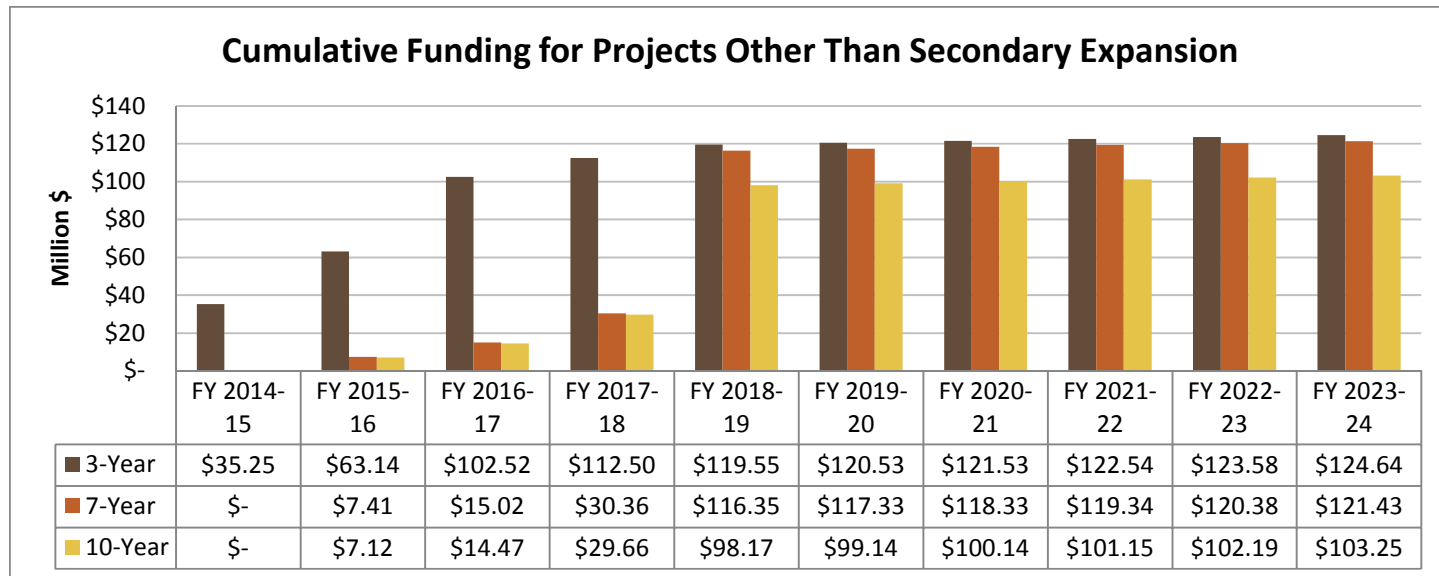


- 3-year scenario – \$100.5 million
- 7-year scenario - \$100.1 million
- 10-year scenario - \$81.9 million
- Bonds issued in first five years



Capital Funding Capacity

(includes all sources)



- 3-year scenario – \$124.6 million
- 7-year scenario - \$121.4 million
- 10-year scenario - \$103.2 million
- Excludes secondary treatment expansion project



Summary

- Current \$44.37 rate can support \$44 million in additional capital over the next 5 years
- \$65 rate can support \$100 - \$125 million additional capital funding over next 10 years
 - Inclusive of current 5-year CIP of \$63 million
 - Excludes secondary treatment expansion project

Questions

