

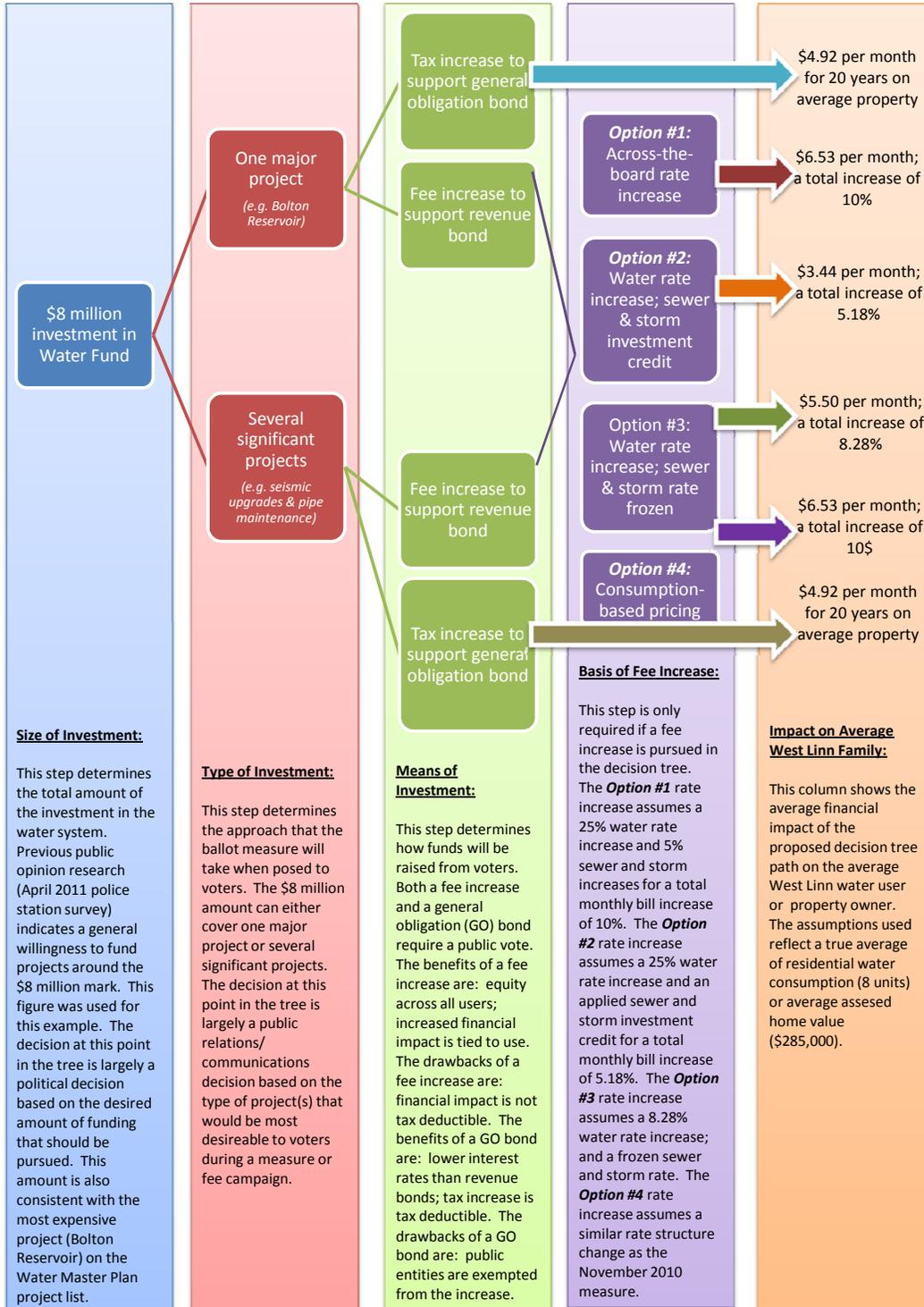
Utility Advisory Board Rate Recommendation

Principles for Utility Advisory Board recommendation:

1. Simplicity
2. System Investment

This decision tree presents several different policy considerations as a way to help winnow down the available recommendation choices for the Utility Advisory Board's (UAB) consideration. This is by no means an exhaustive list of the available choices for the UAB to consider. Instead, this presents some viable choices for the UAB to ponder.

Per the UAB's direction, the attached pages provide additional detail on the "Type of Investment" and "Means of Investment" columns.



Size of Investment

This step determines the total amount of the investment in the water system. Previous public opinion research (April 2011 police station survey) indicates a general willingness to fund projects around the \$8 million mark. This figure was used for this example. The decision at this point in the tree is largely a political decision based on the desired amount of funding that should be pursued. This amount is also consistent with the most expensive project (Bolton Reservoir) on the Water Master Plan project list.

City of West Linn			
Summary of 2008 Master Plan Project Cost Estimates			
Estimated 2008 Costs (8362 ENR 2008 Index)			
<i>(Estimated project costs which agrees to total 2008 Master Plan projects, in 2008 dollars)</i>			
	Non-SDC	SDC	Total
Bolton Reservoir	\$ 5,600,000	\$ 2,400,000	\$ 8,000,000
Health & Safety Lines	8,625,000	-	8,625,000
Other	6,859,795	9,771,980	16,631,775
Total	\$ 21,084,795	\$ 12,171,980	\$ 33,256,775
Estimated 2011 Costs (9116 ENR Sept 2011 Index)			
<i>(Estimated project costs, adjusted to September 2011 dollars)</i>			
	Non-SDC	SDC	Total
Bolton Reservoir	\$ 6,105,000	\$ 2,616,000	\$ 8,721,000
Health & Safety Lines	9,403,000	-	9,403,000
Other	7,478,000	10,653,000	18,131,000
Total	\$ 22,986,000	\$ 13,269,000	\$ 36,255,000
\$ 1,575,751	= fund balance available from Water SDCs as of June 30, 2011		

Size of Investment

Type of Investment

This step on the decision tree determines the approach that the ballot measure will take when posed to voters. The \$8 million amount can either cover one major project, or several significant projects. The decision at this point in the tree is largely a public relations/communications decision based on the type of project(s) that would be most desirable to voters during a measure or fee campaign.

One Major Project: Bolton Reservoir

Project Details:

4 million gallon reservoir

Project Cost (2008 Dollars):

Non-SDC:	\$5.6 million
SDC:	\$2.4 million
TOTAL:	\$8.0 million

Project Cost (2011 Dollars):

Non-SDC:	\$6.1 million
SDC:	\$2.6 million
TOTAL:	\$8.7 million

Project Notes:

- This is a onetime project, thus, staff recommends a general obligation (GO) bond for this project.

Several Significant Projects: Health & Safety Line Replacements

Project Details:

Replace 54,300 feet of asbestos-coated pipe, and 14,573 feet of broken or failing pipe

Project Cost (2008 Dollars):

Non-SDC:	\$8.6 million
SDC:	\$0
TOTAL:	\$8.6 million

Project Cost (2011 Dollars):

Non-SDC:	\$9.4 million
SDC:	\$0
TOTAL:	\$9.4 million

Project Notes:

- This is a multi-year, multi-phased project, thus, staff recommends a revenue bond for this project.
- This project assumes a 200-year replacement cycle for line replacements, which is very conservative.
- The selected water lines were identified if they meet two or more of the following criteria:
 - Leaks
 - Water quality
 - Fire flow deficiencies

Type of Investment

Means of Investment

This step determines how funds will be raised from voters. Both a fee increase and a general obligation (GO) bond require a public vote. The benefits of a fee increase are: equity across all users; increased financial impact is tied to use. The drawbacks of a fee increase are: financial impact is not tax deductible. The benefits of a GO bond are: lower interest rates than revenue bonds; tax increase is tax deductible. The drawbacks of a GO bond are: public entities are exempted from the increase.

City of West Linn GO vs. Revenue Bond Comparison

Issue	General Obligation Bonds		Revenue Bonds		Advantage?
	Pros	Cons	Pros	Cons	
Required voter approval?	Yes, all GO Bonds require voter approval because tax rates increase to pay debt service		In this case, yes as well because the debt service will require an increase in water rates greater than 5%		
Who pays?	Property owners inside City limits		All water users who receive and use City water		Revenue
Who does not pay?	Tax-exempt entities such as the Schools and City		Properties served by a well, vacant properties where water is shut off, and some tenants where landlord pays utilities		
Required staff work?	Less complex as Assessed Values are fairly predictable in Oregon making tax rate increase easily determined		More complex as varies projection scenarios are analyzed determining preferred laddering of bond sizes and smoothing of rate increases		GO
Repayment risk during down economic times?	Market values have declined, but in Oregon, taxes are a function of a lower Assessed Values. Two years ago, overall City AV to RMV ratio was 58%, now it is 78%. Tax rates would automatically increase if AV ever declined below RMV ensuring a no default position		The number of vacant properties is increasing, but it is still a relatively low number in total. Estimated at about 1/3 of the 300 or so homes for sale are vacant. Water shut-off lists are increasing and collection activity is also up.		

Means of Investment

Issue	General Obligation Bonds		Revenue Bonds		Advantage?
	Pros	Cons	Pros	Cons	
Most equitable?	Generally less equitable as property owners pay as a function of their property's Assessed Value versus water use		Generally considered more equitable as who pays is tied most directly to who uses		Revenue
Introduction of future water rate conservation structure?	No direct effect on taxes		Future rate conservation structure could work so well that decreased overall water revenues could cause bond covenants not to be met. This could then require rate increases >5% which, in West Linn, requires a vote. This will be disclosed to potential bond buyers which will dilute the numbers interested and likely cost more in terms of interest rate offered and require other financial protections		GO
Bond sale costs?	Fairly set and routine - estimated at \$50K to \$80K		More variable as it is a function of rate analysis work by independent consultant - estimated higher at \$80K to \$120K		GO
Interest rate?	Lowest interest rate possible as all City assets are collateral. Double A (Aa2/AA) cities such as West Linn could receive as low as 3.5 to 4% in today's bond markets		Higher interest rate is needed to sell (est. +0.5% to +0.75% more) as only Water Fund's assets are collateral (this could be mitigated some if voters also approve the pledge of the General Fund, but adds some complexity to explain and market)		GO
Transparency?	The prospectus used to market the sale of GO Bonds is generally less complicated to prepare and contains general City information		The prospectus used to market the sale of Revenue Bonds is more complicated, focusing on the Fund financial condition and rate projections		GO
20-year rate reset?	Automatic - after 20yr GO Bonds are paid off, tax rate increase is automatically reset back to zero for this bond issue		Action required - after 20yr Rev Bonds are paid off, future UAB/Council action is required to decrease rates at that time		GO
Debt to equity?	As of the last audit, June 30, 2010, the City's debt-to-equity ratio is 7.3% on \$263 million of equity. With say \$10 million of new debt, this ratio would increase to 11%.		As of the last audit, June 30, 2010, the Water Fund's debt-to-equity ratio is 8.7% on \$17 million of equity. With say \$10 million of new debt, this ratio would increase to 68%.		GO

Means of Investment

DRAFT - Subject to UAB Discussion & Data Analysis