**CLACKAMAS RIVER WATER BOARD OF COMMISSIONERS**

**REGULAR BOARD MEETING**

 **BOARD INDEX OF AUDIOTAPE**

**June 11, 2014**

|  |  |
| --- | --- |
| **COMMISSIONERS PRESENT:** | **STAFF PRESENT:** |
| Larry Sowa, President | Lee Moore, General Manager |
| Ken Humberston, Secretary | Carol Bryck, Chief Financial Officer |
| Hugh Kalani, Treasurer | Bob George, District Engineer |
| Dave Mc Neel  |  |
|  |  |
| *Absent: Grafton Sterling* | CRW Employees: Rob Cummings, Suzanne Delorenzo, Kathy Jaeger, Kham Keobounnam, Karen Sype |

**VISITORS:**

William Blanas, Mona Kalani, Gary Kerr, Ernie Platt (SWA), Bill Schulenberg, Katie Schwab (Wedbush)

**Call to Order**

The meeting was called to order at **6:00 pm** by President Sowa. The pledge of allegiance was recited.

**Public Comment**

None

**MOTION:** KenHumberston moved to open the budget hearing. Hugh Kalani seconded the motion.

**MOTION CARRIED 4-0**

 **Ayes:** Humberston, Kalani, McNeel, Sowa

 **Nays:** None

 **Abstentions:** None

**BUDGET HEARING**

Staff had performed the required local Oregon budget standards, a Budget Officer had been appointed, Budget Committee vacancies filled, advertising Committee meetings, the budget document was available to the Committee and the public, two budget meetings had been advertised and held on May 1st and May 15th, the budget was approved as proposed, the Committee declared no tax levy and advertised for tonight’s budget hearing. A summary of the total budget had been provided comparing last fiscal year.

No public comment.

**MOTION:** KenHumberston moved to close the budget hearing. Hugh Kalani seconded the motion.

**MOTION CARRIED 4-0**

 **Ayes:** Humberston, Kalani, McNeel, Sowa

 **Nays:** None

 **Abstentions:** None

**Presentation: Debt Covenants and Rating Agencies -** *Katie Schwab, Wedbush Securities*

Wedbush was and investment bank and CRW’s Financial Advisor. Katie had been engaged by the District five years ago to refinance the water revenue bond. Since then, it seemed appropriate to give an overview of where the District was today. Standard & Poor’s had rated the District’s bond in November 2009. Only six percent (6%) of agencies receive a “AAA” rating; 49.7% received a “AA” rating and 42.4% received an “A” rating. The balance of 2% was rated at a “BBB.” In 2009, the District received an AA- rating. Rating methodologies were based on four primary criterion: economic financial, debt (all quantifiable), and management (qualitative) factors.

1. Economic ratio: Two primary factors were reviewed: Effective income per capita and customer concentration (the top 10%) for total revenue;
2. Financial ratio: (liquidity ratio) – Did the district have sufficient funds/cash on hand for a period of time (days of expenses) in case of emergency.
3. Debt factors: Debt to plant, debt to customer, singular debt coverage and total debt coverage.

In 2012, CRW’s rating was downgraded from an AA- to an A rating. Since then, the District has made improvements. Even though they are located in California and New York, Standard & Poor’s (S&P) analysts read the same newspapers as Oregonians. What they put in their report is the declining financial performance and the coverage fell. One of the improvements was the partnering with Sunrise Water Authority (SWA) that created more “credit positive” results. Additionally, CRW had adopted new rates and charges and financial policies improving the rating. In 2009, the District’s customer population was wholesale and industrial totaling 80,000; policy to have a balanced budget and following the state statutes for investments. The practice (not policy) of including contingency and rate stabilization in the budget was also positive.

Today, in 2014, the District added 20,000 to the customer population for a total of 100,000. The District had established a policy that set aside $500,000 of contingency funds that would not be spent unless a resolution was approved. S&P viewed this as very credit positive and strong policy. Another policy the District put in place was to have 90 days of expenses equal to operations and maintenance and a system replacement fund planned over a five (5) year period to ranging from $500,000 $1.75 million over time.

The District was on the right track the stronger policies, partnership with SWA and increased sales since 2011. As of last FY 2013, revenues were increased, operating expenses were reduced and the ending balance (in this case the terminology referred to net assets) has increased since 2013.

In 2009, CRW’s debt coverage ratio was over 3x the debt service requirement. Revenues minus operational expense and maintenance, including system development charges must equal 1.25 (125%); or, net revenues must be 125% or greater than debt service. Removing SDCs, coverage ratio has to be 1x or 1.00. In 2011 and 2012, CRW had to draw from the rate stabilization fund to meet these coverage requirements. This is what the fund was for, however, if you had to draw from this fund rating agencies viewed this action a “credit negative.” In the same period, as recorded by newspaper articles and the ratios (1.3), the District was going through some turmoil but was recovering in 2013 with a 2.64 debt covenant ratio; 2.14 based on budget and without drawing from the rate stabilization fund.

Based on current ratios, financials and policies it was possible for the District to get back to the “AA” rating but it may take more than one fiscal year. The partnership and water rates are positive trends to get back to this rating and avoid drawing from the rate stabilization fund and follow new financial policies. Rating agencies really frowned upon not following these policies. They want to see three (3) years of positive trends.

There were three ways to present to rating agencies:

1. A face-to-face meeting (good to do if you are on the “border” of a particular rating;
2. Rating agency can come out (not usually best method if you want to present data);
3. Conference Call (teleconferencing and webinars can also be used now).

Analysts say this doesn’t make a difference other than if a rating is on the borderline. The suggestion was to wait until a bond was issued – may be in a year or so – unless a specific capital project required one. Today, a face-to-face is better. Outside of S&P, other rating agencies were Moody’s and Fitch (standalone and is not viewed as highly by investors). S&P is more quantitative and Moody includes more qualitative data in their ratings. Ms. Schwab offered to provide a comparison to Lee Moore and Carol Bryck. Assuming three years of positive AA rating for a 20-year bond issue, the interest rate would be approximately three percent (3%). Economists have predicted rates will go up in 2015-16.

“Ability to pay” is the factor for revenue bond issuance. For general obligation bonds, the certificates of participation are more of a factor. The District had a choice on the method to secure the bond. It could be with taxes or what used to be called certificates of participation. Oregon doesn’t use this terminology anymore and referred to them as “full faith and credit obligations” or “limited tax obligations.” Property taxes can be used to secure bonds and was considered “unlimited tax pledge.” For full faith and credit obligations, these were based on a limited tax pledge and also on all lawfully available funds within the District including any taxes received as a permanent rate and couldn’t require an *extra tax levy* outside of the constitutional tax limitation measures. Rates and charges do not fall within these limitations as they’re not taxes.

Revenues could be used to secure a bond – most common among single-purpose districts like Clackamas River Water. CRW could pledge rates and charges to pay back bond issuance. Additionally, a “bond test” could be performed for investors who are the buying the bonds being issued. If more bonds are issued on ‘a parity’ with the investors – we dilute the *first* bondholders’ security. Essentially, in order to give them assurance their security is not diluted too much; if additional bonds are issued on ‘a parity’ and the coverage rate is 1.25, then to obtain these additional bonds the District has to make sure the debit coverage including forecasted rates and charges and the new debt service for the new bonds is at least ratio of 1.25. Their perspective looked both backward and forward.

**Agenda Item 1.0: Resolution 26-2014: Approve a Supplemental Budget Increasing the General Fund Budget and Capital Outlay Appropriation for FY 2013-2014**

**MOTION:** Ken Humberston moved the Board approve Resolution 26-2014 authorizing an increase in the Capital Outlay appropriation of the General Fund for FY 2013-2014. Hugh Kalani seconded the motion.

At the time the budget was approved by Resolution 21-2013, the General Fund appropriation for Capital Outlay was 209,000. This request is to add $18,800 to the Capital Outlay appropriation. This amount was due to the grant funding received through Clackamas County Emergency Management Department.

 **MOTION CARRIED 4-0**

 **Ayes:** Humberston, Kalani, Mc Neel, Sowa

 **Nays:** None

 **Abstentions:** None

**Agenda Item 2.0: Report from Executive Session** *(prior to tonight’s Regular Meeting)*

The Board met in Executive Session for one hour to discuss the General Manager’s performance evaluation, goals and objectives and compensation. An evaluation had been completed and was being typed by the Board Secretary.

**Agenda Item 3.0: Resolution 21-2014: Adopt Budget and Make Appropriates for FY 2014-15**

**MOTION:** Ken Humberston moved to adopt Resolution 21-2014 adopting the budget and making appropriations for FY 2014-15. Hugh Kalani seconded the motion.

 **MOTION CARRIED 4-0**

 **Ayes:** Humberston, Kalani, McNeel, Sowa, Sterling

 **Nays:** None

 **Abstentions:** None

**Agenda Item 4.0: Resolution 22-2014: Bad Debt Write-Off, Uncollectible Water Bills for FY 2013-14**

**MOTION:** Ken Humberston moved to adopt Resolution 22-2014 for bad debt write-off, uncollected water bills for FY 2013-14. Hugh Kalani seconded the motion.

Staff was recommended $8,030.44 of write-offs on 89 utility billing accounts. All accounts greater than $10.00 have been turned over to collections. The percent of the write-off is .09% of total water sales of $9,054.514 from June 2012 to May 2013.

 Per statute, landlords are not given over to collections without prior approval for the tenant moving in and cannot be held accountable for uncollected water bills. To mitigate this issue, if CRW kept writing off bad debt for the same location, the landlord was encouraged to keep the account in their name and to have the tenant pay them directly. Not everyone is cooperative, so another option given was charging an initial deposit for moving into a location where there had a payment problem. Current policy was to charge a deposit when a tenant location had been on the shutoff list twice with an additional amount each time. If the tenant location had a clean record for at least two years or more, this amount was then applied to the account.

 **MOTION CARRIED 4-0**

 **Ayes:** Humberston, Kalani, McNeel, Sowa, Sterling

 **Nays:** None

 **Abstentions:** None

**Agenda Item 5.0: Resolution 23-2014: Bad Debt Write-Off, Miscellaneous Unpaid Bills for FY 2013-14**

**MOTION:** Ken Humberston moved to adopt Resolution 23-2014 for bad debt write-off, miscellaneous unpaid bills for FY 2013-14. Hugh Kalani seconded the motion.

Staff was recommended $1,298.29 of write-offs for two miscellaneous bills. Both bills were due to property damage due to an automobile accident. Insurance information provided was invalid. The amount was 2.8% of CRW’s total miscellaneous operating and non-operating revenue through April 2014.

 **MOTION CARRIED 4-0**

 **Ayes:** Humberston, Kalani, McNeel, Sowa, Sterling

 **Nays:** None

 **Abstentions:** None

**Agenda Item 6.0: Resolution 24-2014: Approve SDC Rate Increase based on Engineering News Record Index effective July 1, 2014**

**MOTION:** Ken Humberston moved to approve Resolution 24-2014 for the SDC rate adjustment. Hugh Kalani seconded the motion.

 SDC Charges were adjusted to reflect the rate of inflation as indicated in the ENR at 7.75%.

 **MOTION CARRIED 4-0**

 **Ayes:** Humberston, Kalani, McNeel, Sowa, Sterling

 **Nays:** None

 **Abstentions:** None

**Agenda Item 7.0: Resolution 25-2014: Consider Approving Contract with Phillips Law Offices for Legal Services for an amount not to exceed $66,000**

**MOTION:** Ken Humberston moved to approve Resolution 25-2014 approving contract with Phillips Law Offices for legal services for an amount not to exceed $66,000. Hugh Kalani seconded the motion.

 A reduction in the retainer fee had been included for the first six months at $500/mo. with an opportunity to renegotiate an additional in December or $63,000.

 **MOTION CARRIED 4-0**

 **Ayes:** Humberston, Kalani, McNeel, Sowa, Sterling

 **Nays:** None

 **Abstentions:** None

**Consent Agenda Item 1.0: Gross Payroll and Accounts Paid**

 **MOTION:** Ken Humberston moved to approve the consent agenda as presented. Hugh Kalani seconded the motion.

 As part of a regional emergency response system, CRW had received donation of assets due to the District’s participation in the Regional Water Providers Consortium that included a Terex light plan, portable water treatment trailer, overland pipe system, portable emergency lighting package and a confined space air monitoring package purchased with UASI grant funds.

 **MOTION CARRIED 4-0**

 **Ayes:** Humberston, Kalani, Mc Neel, Sowa, Sterling

 **Nays:** None

 **Abstentions:** None

**Agenda Item 8.0 Financial Report**

As of May 2014, the accounts receivable ending balance was $334,000. Commercial account billing was moved to the alternate month within a 2-month customer billing cycle to smooth out cash flow. Cash investment was at $7.6 million not including interest in LGIP. An interest payment of $55,780 on the 2009 bonds was withdrawn from checking and was included in the final balance on the general checking account. A five-year revenue comparison was provided for FY 2014 to through May. As of May 31st, revenue was almost 91.14%% into the budget; Water Sales were at 90.48%.Personnel Services was at 75.80%, Materials & Services was at 74.11%.

**Agenda Item 9.0: General Manager’s Report**

* Commission Meeting on May 12th: The LUBA settlement agreement was approved by the Commission and the City of Oregon City. This created significantly less money than projected with expenses at approximately $15,000.
* Budget: The budget was now adopted by the Board.
* May 20th Work Session: This meeting was held to approve the SDIS Joinder Trust Agreement in order to provide membership with separation and involvement from the actual Trust itself. Staff provided information on the District’s Continuity of Operations Plan (COOP) as requested by Commissioner McNeel. Discussions on the COOP would continue as part of the General Manager’s goals.
* SWA Meeting: Discussion included the issues at the NCCWC plan regarding filtration and notification to CRW to gain understanding of SWA’s requirements for the coming year. The intent was to follow up in the next several weeks.
* Labor Negotiations: Discussion continued and the primary issue was about compensation.
* Mitchell Election Case: CRW’s hearing was scheduled for July to petition the court for fees.
* Holloway Federal Case: Hearing scheduled with Judge Acosta for July 18th.
* Election Status and items of Interest: City of Portland voters rejected the petitioner’s initiative to remove all control over water and sewer from the Portland City Council by a margin of 3 to 1. All initiatives with the City of Damascus failed.
* Significant Events with Water Resources – The generator and electrical upgrades project has been completed with administrative items being closed. CRW was meeting with SWA to discuss the integration and the coordination of the Water Resources and Engineering Groups, including the SCADA system. Long tenured employees with over 30 years of service were recognized. The COOP plan was also discussed to provide these services for both entities.

In response to Commissioner McNeel, the Carver Bridge sill had issues with the south side retaining wall. There was a need for a rock driller and CRW’s waterline can’t build until the wall is built. This should take about a month and in the next few weeks, Engineering was working on short 150 foot piece of waterline. Phase 1 should be close to completion in the next few months.

**Agenda Item 10.0 Public Comment**

None

**Agenda Item 11.0 Commissioner Business – Reports and Reimbursements**

 **Schedule Work Session**

Sowa also asked the Board to submit their reimbursements on time. There was an Executive and Work Session tentatively scheduled for June 23, 2014.

**Meeting adjourned at 7:04 pm**