

**CLACKAMAS RIVER WATER BOARD OF COMMISSIONERS
BOARD WORK SESSION
February 24, 2020**

COMMISSIONERS PRESENT:

Sherry French, President
Naomi Angier, Secretary
Rusty Garrison, Treasurer
Tessah Danel
Hugh Kalani

STAFF PRESENT:

Todd Heidgerken, General Manager
Karin Holzgang, Executive Assistant to the Board

CRW Employees: Chief Engineer, Adam Bjornstedt; Chief Finance Office, Carol Bryck; IT Manager, Kham Keobounnam; Water Resources Manager, Rob Cummings; Emergency Manager, Donn Bunyard; Engineering Manager, Joe Eskew; Water Distribution Supervisor, Jason Labrie

COMMISSIONERS ABSENT: 0

VISITORS: Chris Hawes, Gary Kerr

Call Work Session to Order

Commissioner French called the meeting to order at 6:00 pm. The pledge of allegiance was recited and roll call taken.

1. Financial Overview of Future Investment in Capital Projects

- With recent master planning efforts, CRW needs to strategize how it will prioritize and fund large capital improvements.
 - Possible Funding sources- Debt, reserves, grants, partnering with neighboring agencies
- Debt covenants or debt coverage- requirement of bond holders (Revenue-Operating expenses divided by debt service payment = ratio (min with SDC's is 1.25 and min without SDC's is 1.0)
- O & M target balance- revenue minus operations & maintenance (CRW policy requires 90 days of expenses in the ending fund balance)
- Rate funded capital- share of general fund revenue (water rev. rates)
- Cash flow- cash on hand
 - ✓ Planning efforts
 - Water system master plan
 - Water treatment plant facilities plan
 - CRW system faces significant capital improvement needs within the next 10-20 years
 - ✓ Debt is generally required for large projects
 - Spreads the repayment out beyond current customer base to future customers that also receive benefit from the projects
 - Revenues must be adequate to repay the debt and to meet required debt covenants

- ✓ Debt issuance related to rates
 - Rates must cover
 - ❖ Debt service payments
 - ❖ General fund 90-day operating reserve balance
 - ❖ Funding of capital reserves
 - ❖ Cash for operations
- ✓ Not a question of debt "or" rate increases- it is both
 - Assumptions used in forecast- debt
 - ❖ The forecast is projecting additional borrowing of \$41 million
 - ❖ Projections are for 30-year bonds structured similarly to the series 2016 bonds
 - ❖ Anticipating borrowing during FY 2022-paying interest only in first year
 - ❖ Interest and principal paid in all future years
 - Rate increases would not change the current eighth-year rate plan but would be continued at a consistent rate each year
 - ❖ Customers can anticipate effect on their bills
 - ❖ District can rely on revenue to meet District needs- Operating expenses, debt service payments, funding of CIP
 - Revenue forecast is conservative
 - Expenses are forecast with generalized inflation applied to Materials and services and a higher inflation rate is applied to personnel services costs to cover anticipated PERS rate increases and the costs of health insurance
 - CIP investments would continue including when borrowed dollars are being used for large scale capital projects
 - ❖ Water system master plan has identified system needs
 - ❖ Through each budget period projects will be identified and prioritized
 - ❖ CRW can anticipate continued ODOT/County DTD projects that have an impact on our system
 - SDC reserve funds are conservatively estimated based on historic data
 - ❖ Past three years have been higher, but we are not counting on that to continue
 - ❖ Funds will accrue in the SDC reserve fund until such time as we are authorized through budget appropriation to spend on appropriate capital projects
 - ❖ Forecast estimates the balance growing to over \$5,000,000 by FY 2020
 - General fund will continue to fund Capital reserve fund for future CIP projects
 - ❖ Forecast reduces the funding from rate revenue in the General Fund from \$2,000,000 per year to \$250,000 in year one (FY22) but ramps back up to \$2,000,000 by FY 28 and increases thereafter

- ❖ CRW will continue to have enough funding for ongoing CIP projects including annual inflation on current year funding of \$1.5 million
 - With Existing rates we don't get there
 - ❖ Beginning in FY 22 if we reduce transfer to capital reserve from 2 mill to \$250,000 –lose ability to put aside for larger CIP
 - ❖ By FY 23 we won't meet debt covenants with new debt issuance of \$41 million
 - ❖ By FY 25 our General Fund ending balance no longer meets our 90 requirement
 - ❖ By 26 our General fund ending balance is negative
 - ✓ With 5% annual rate increase after current 8-year plan is complete we are able to:
 - Meet debt covenants through forecast period
 - Need to reduce FY 22 transfer to Capital Reserve from \$2,000,000 to \$1,250,000 and will increase each year thereafter to restore \$2 mill or more by FY 25
 - Our General fund ending balance continues to meet our 90-day requirement throughout the forecast period
- Board Guidance- What staff is asking of the Board to consider regarding this presentation
 - Are there questions about the assumptions and how they impact the covenants, ending fund balances and operational spending?
 - Recognizing the need for annual rate increases to fund Capital Improvements (including debt service) is there additional information you to see?
 - Some of the costs have a potential to be shared with neighboring agencies. What are your thoughts or concerns regarding partnering within the region with those that would also benefit from these projects?

2. Progress Report on the 2019 Board Goals for the General Manager

- 1) Conduct Planning Activities to prepare CRW for the future
 - Budget-complete
 - CRWSC- confirm purpose of CRWSC with Board is complete
 - Determine role of NCCWC and the CRWSC in the development of water supply agreement with SWA- CRW will develop an agreement with NCCWC directly which SWA is a part of
 - Strategic planning- process initiated
 - Water treatment plant master plan- work in progress
- 2) Complete implementation of existing major projects
 - Backbone phase 1 -substantially complete
 - Backbone phase 2- initiate analysis on funding strategies
 - Secure necessary property and easements for phase 2 backbone projects- in process
 - Emergency preparedness- VHR radio projects complete, AWIA project response in process, Emergency operations will be completed and printing by spring 2020

- 3) Implement opportunities to expand communications with the Board and those relying on CRW for water
 - Board- presented a state of the District in March 2019 for 2018
 - Customer/public- a customer survey was distributed in Dec. 2019 and results are being compiled
- 4) Establish agreements or processes that provide benefits and stability to CRW
 - South Fork Water Board- no progress on a water supply agreement
 - Oregon City- process developed for future annexation and withdrawal
 - Continuing to work with Oregon City to clean up the areas that are still needing to be withdrawn from CRW service area

3. Commissioner Communications-none at this time

4. General Manager Update

- Strategic Planning - All focus groups have been held and the 1 on 1 interviews have been completed, the work shop was held, the customer surveys have been received and results are being compiled. The consultant has all of the information and will be sharing next steps with the Board in March
 - The commissioners will be having the opportunity to meet with Mr. Heidgerken in 1 on 1 meetings in March, Karin will set these up
 - Next CRWSC meeting will be at CRW on March 9 at 4pm
 - There will be a Special Meeting preceding the March 23 work session
 - The April Board meeting will be Wednesday April 15th
 - Todd is out of the office at a conference Wed-Friday and on vacation Monday 3/2

Public Comment: none

Open meeting is adjourned at 7:22pm



Financial Overview – Future Capital Projects

**Board Work Session
February 24, 2020**



Presented by:

Carol Bryck, Chief Financial Officer

Presentation Overview

- Identified need for additional investment in infrastructure.
- What is CRW's capacity to borrow and/or find other funding sources?
- Common Terms/definitions
- Review of planning efforts
 - Water System Master Plan
 - Water Treatment Plant Facility Plan
- Assumptions used in forecast
- Preliminary forecast
 - CRW debt capacity
 - Impact on CRW rates
- Discussion

Financial Overview

Future Investment in Capital Projects

With recent Master Planning efforts, CRW needs to strategize how it will prioritize and fund large capital improvements.

Funding could come from various sources such as:

- Debt
- Reserves
- Grants
- Partnering

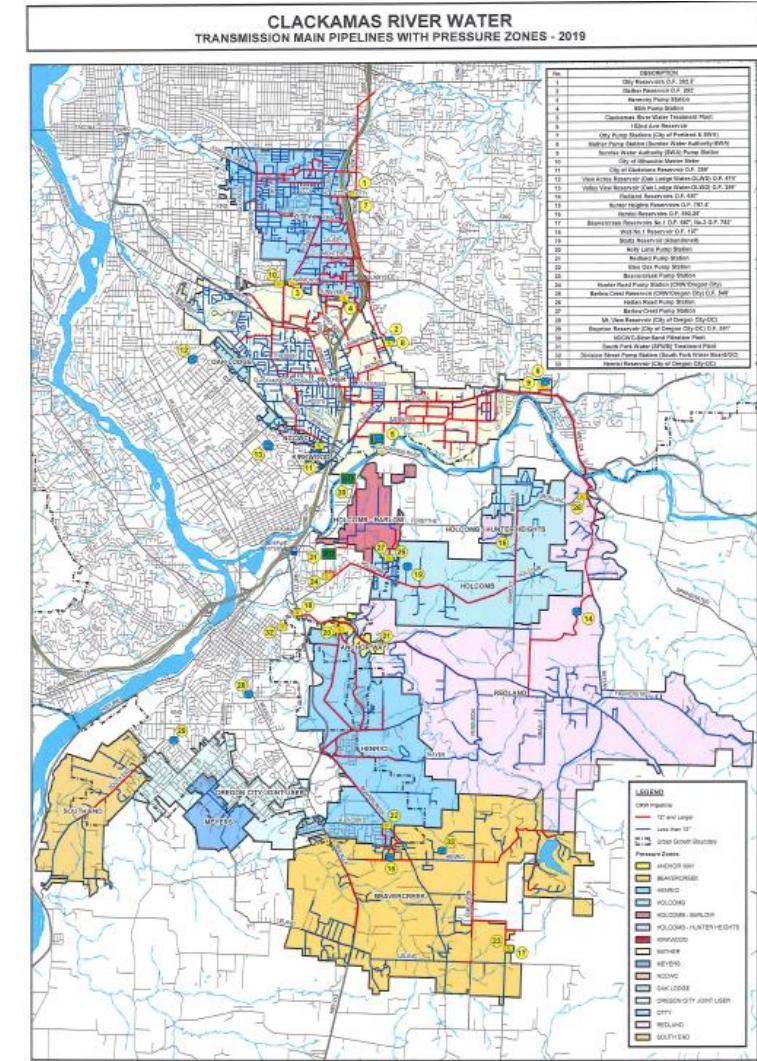


Common Terms

- Debt Covenants or Debt Coverage – requirement of bond holders
 - Calculation of revenue (with and without System Development Charges) minus Operating Expenses divided by Debt Service Payments = ratio:
 - Minimum requirements with SDCs – 1.25
 - Minimum requirements without SDCs – 1.00
- O & M target balance – Revenue minus Operations & Maintenance
 - CRW policy is to hold 90 days worth of operating expenses in the ending fund balance
- Rate funded capital – share of General Fund revenue (water rate revenue) transferred to Capital Reserve to fund capital improvement projects
- Cash Flow – cash on hand to meet obligations – operating costs, debt service payments, and capital needs

Planning Efforts

- Water System Master Plan
- Water Treatment Plant Facilities Plan
- CRW system faces significant capital improvement needs within the next 10 – 20 years



Relationship of Debt and Rates

- Debt is generally required for large projects
 - Spreads the repayment out beyond current customer base to future customers that also receive benefit from the projects
 - Revenues (primarily from water rates) must be adequate to repay the debt and to meet required debt covenants
 - Revenue (excluding SDC) – Operating Expense = Debt Service payments
 - Revenue with SDC – Operating Expense = Debt Service payments x 1.25
 - Maintain General Fund reserve requirements of 90 days operating expense
 - Provide for funding of Capital Reserve to be used for ongoing (routine) capital improvements within the system

Impact of Debt on Rates

- Debt issuance related to rates
 - Rates must cover:
 - Debt service payments
 - General Fund 90-day operating reserve balance
 - Funding of Capital Reserves
 - Cash for operations
- Not a question of debt “or” rate increases – it is both

Assumptions used in forecast – Debt

- The forecasts is projecting additional borrowing of \$41 million.
- Projections are for 30-year bonds structured similarly to the Series 2016 bonds.
- Anticipating borrowing during Fiscal Year 2022 – paying interest only in first year
- Interest and principal paid in all future years

Assumptions used in forecast – Rate Increases

- Rate increases would not change the current eight-year rate plan but would be continued at a consistent rate each year
 - Customers can anticipate effect on their bills
 - District can rely on revenue to meet District needs:
 - Operating Expenses
 - Debt Service Payments
 - Funding of CIP

Assumptions used in forecast – Revenue & Expense

- Revenue forecast is conservative. Based on completion of the eight-year rate plan and forecasted rate increases going forward but with no increase in consumption.
- Expenses are forecast with generalized inflation applied to Materials & Services and a higher inflation rate is applied to Personnel Services costs to cover anticipated PERS rate increases and the costs of health insurance.

Assumptions used in forecast – CIP Investments

- CIP Investments would continue including when borrowed dollars are being used for large scale capital projects:
 - Water System Master Plan has identified system deficiencies
 - Through each budget period projects will be identified and prioritized for inclusion in the budget
 - CRW can anticipate continued ODOT/County DTD projects that have an impact on our system – particularly with the emphasis on transportation projects at the State and Federal level

Assumptions used in forecast – SDC Reserve Funds

- SDC Reserve Funds are conservatively estimated based on historical data:
 - Past three years have been higher, but we are not counting on that to continue
 - Funds will accrue in the SDC Reserve Fund until such time as we are authorized through budget appropriation to spend on appropriate capital projects
 - Forecast estimates the balance growing to over \$5,000,000 by FY 2020

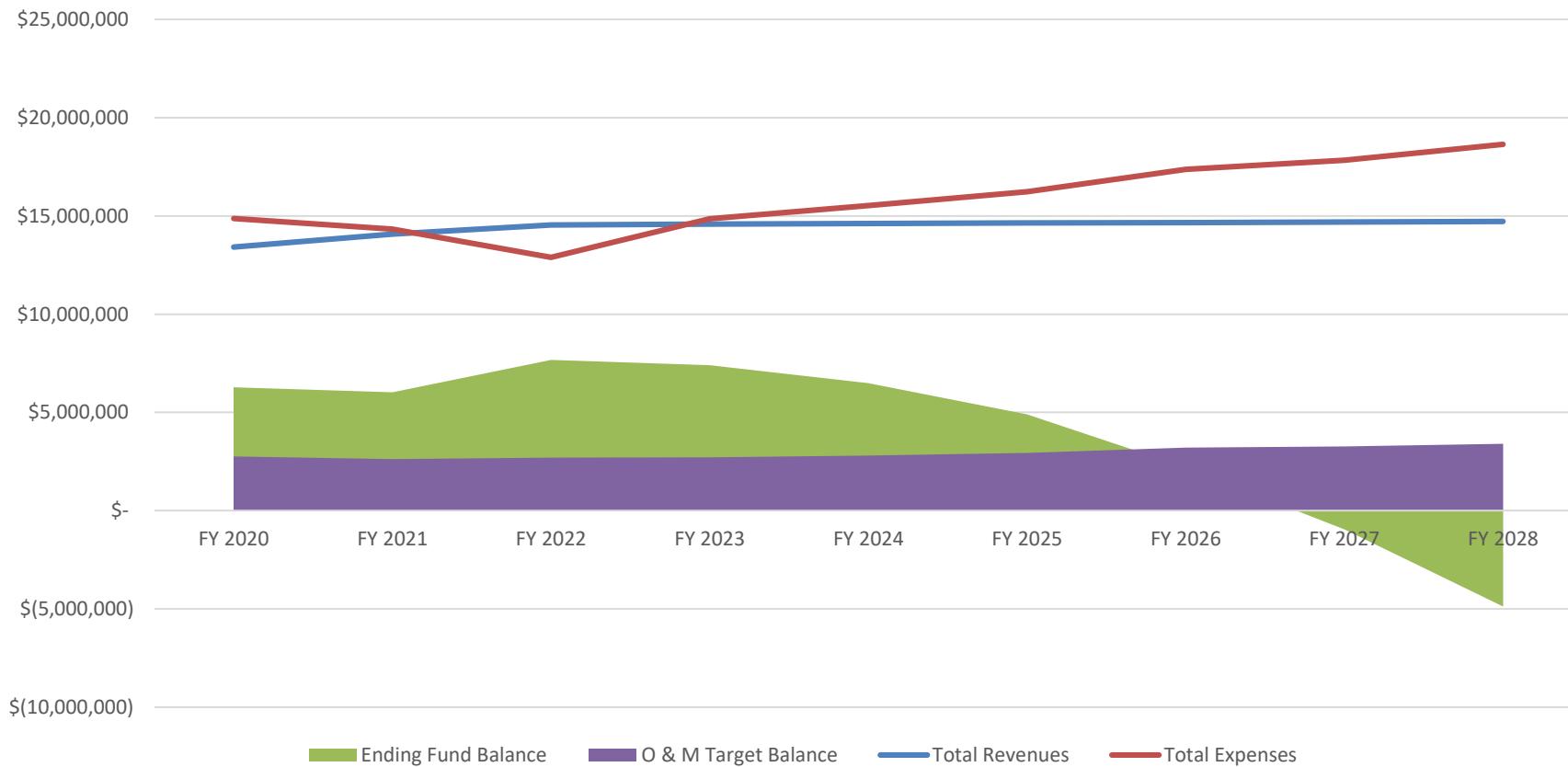
Assumptions used in forecast – Capital Reserve Fund

- The General Fund will continue to fund Capital Reserve Fund for future CIP projects:
 - This forecast reduces the funding from rate revenue in the General Fund from \$2,000,000 per year to \$250,000 in year one (FY 2022) but ramps back up to \$2,000,000 by FY 2029 and increases thereafter
 - CRW will continue to have enough funding for ongoing CIP projects including annual inflation on current year funding of \$1,500,000

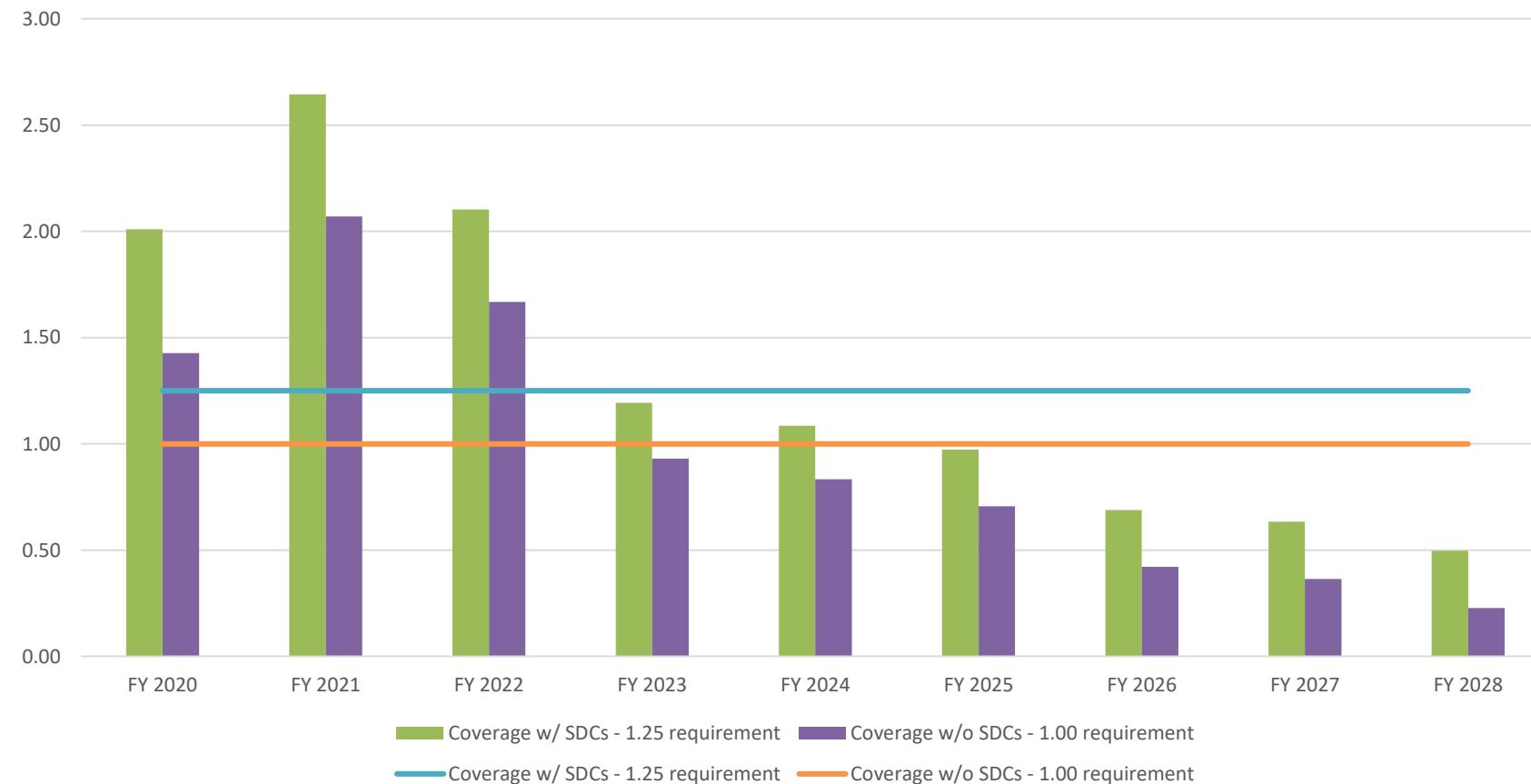
New borrowing without continued rate increases

- With existing rates we don't get there:
 - Beginning in FY 2022 if we reduce transfer to Capital Reserve from \$2,000,000 to \$250,000 – lose the ability to put aside for larger CIP projects that won't be debt funded – Capital Reserve balances will not be growing to meet CIP annual requirements
 - By FY 2023 we won't meet debt covenants with new debt issuance of \$41,000,000
 - By FY 2025 our General Fund ending balance no longer meets our 90-day requirement
 - By FY 2026 our General Fund ending balance is negative

No Additional Rate Increases – Impact on Ending Fund Balance and Reserve Requirements



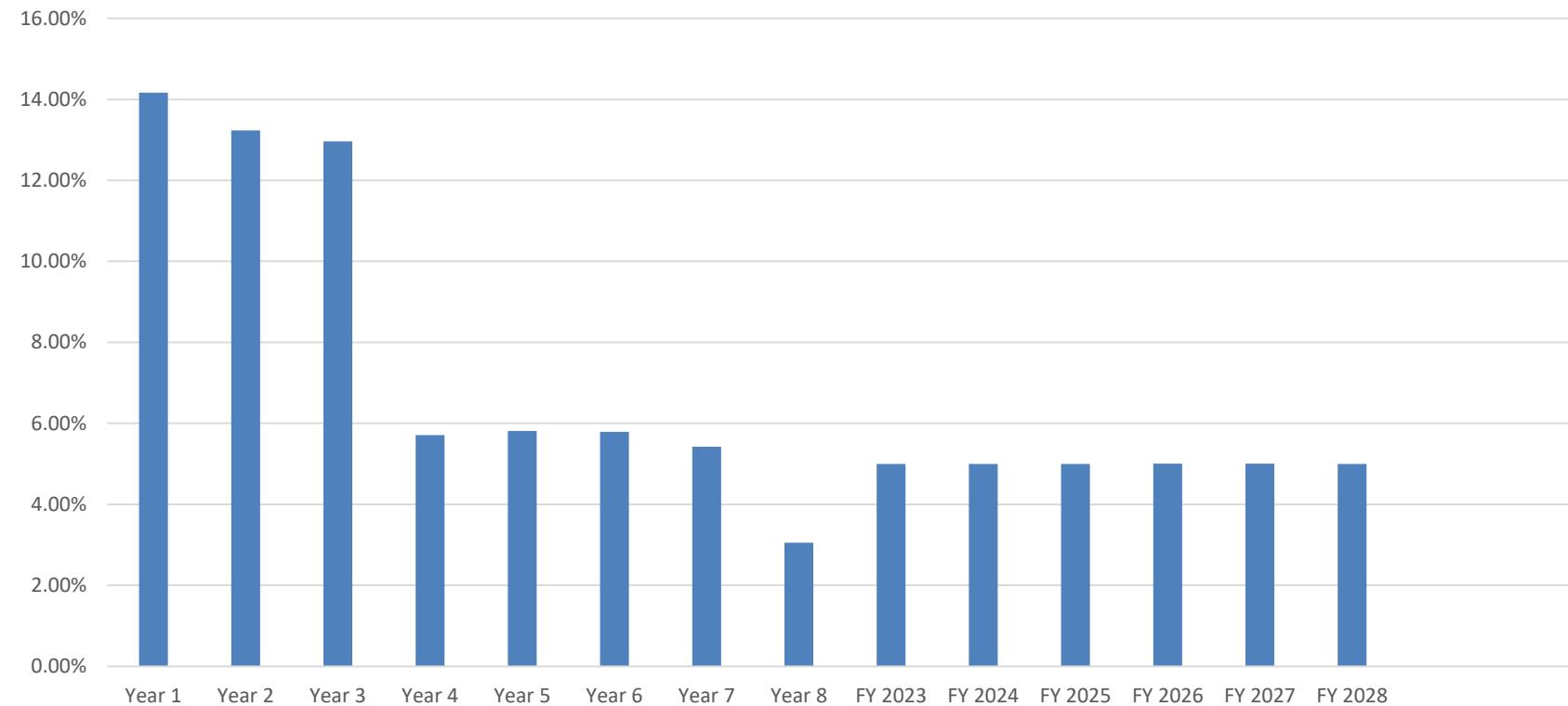
No Additional Rate Increases – Impact on Debt Covenants



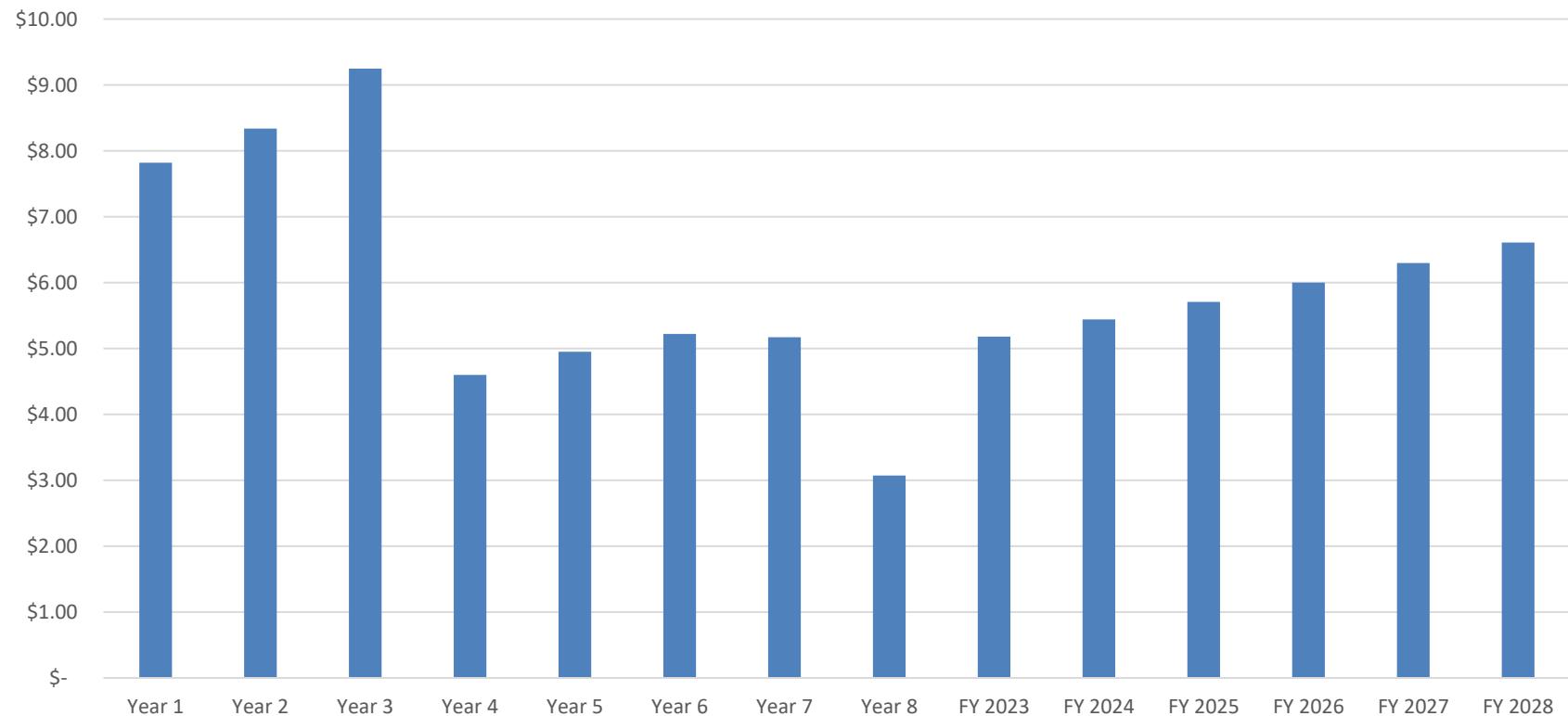
New borrowing with 5% per year rate increases

- With 5% annual rate increase after current 8-year plan is complete we are able to :
 - Meet Debt covenants through forecast period
 - Will need to reduce FY 2022 transfer to Capital Reserve from \$2,000,000 to \$1,250,000 and will increase each year thereafter to restore \$2 million or more by FY 2025
 - Our General Fund ending balance continues to meet our 90-day requirement throughout the forecast period

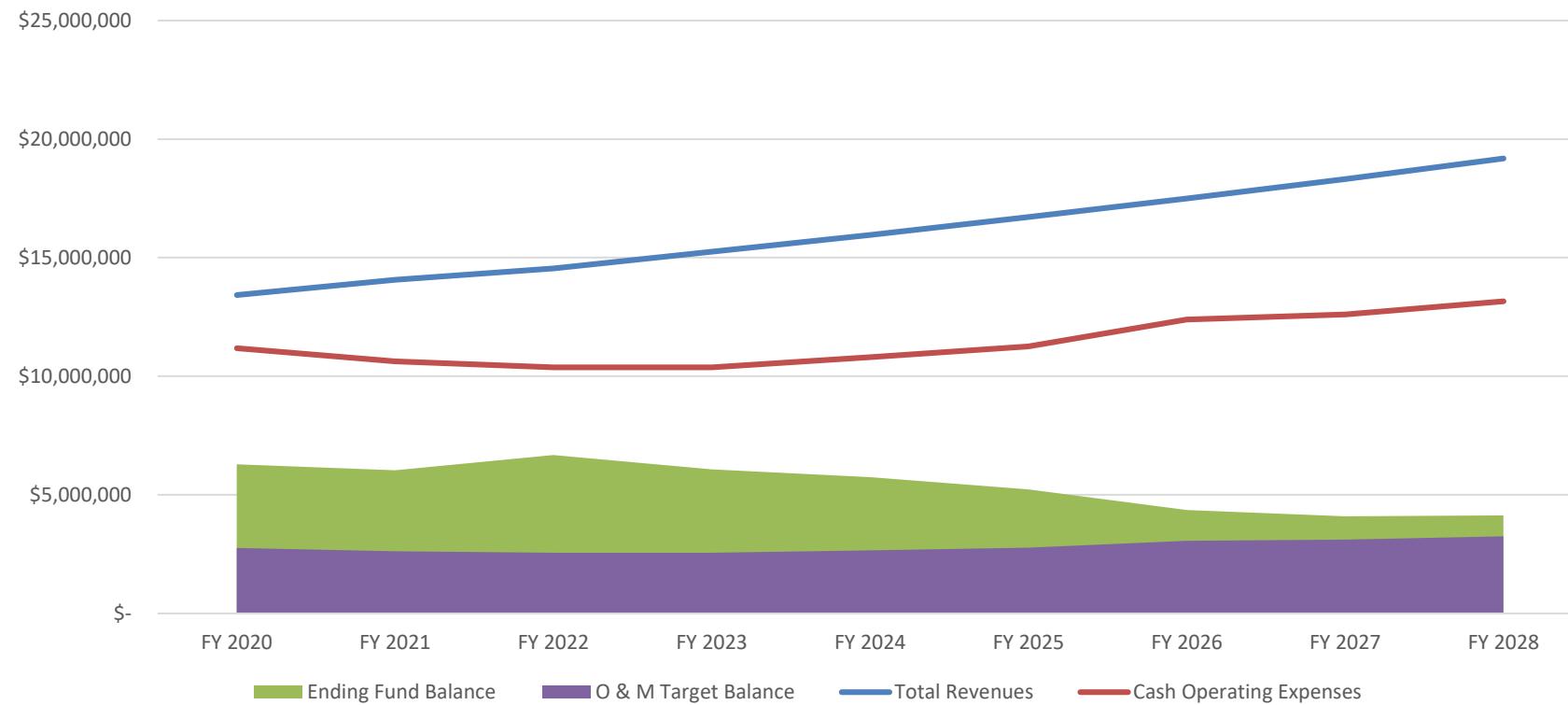
Annual Rate Increases – % Increase from prior year on Average Customer Bills



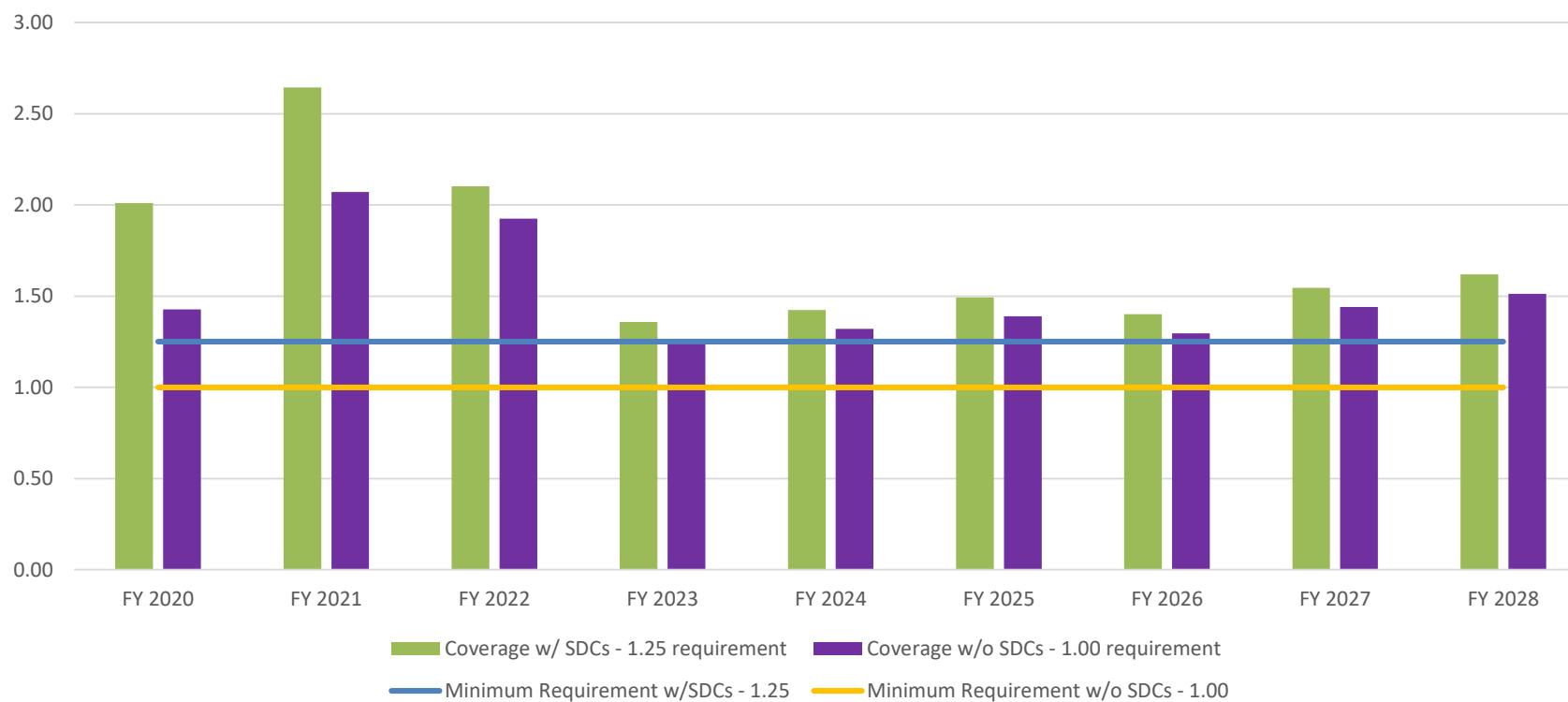
Annual Rate Increases – \$ Increase from prior year on Average Customer Bills



5% Annual Rate Increases – Impact on Ending Fund Balance and Reserve Requirements



5% Annual Rate Increases – Impact on Debt Covenants



Board Guidance:

- Are there questions about the assumptions and how they impact the covenants, ending fund balances and operational spending?
- Recognizing the need for annual rate increases to fund Capital Improvements (including debt service) is there additional information you need to see?
- Some of these costs have the potential to be shared with neighboring agencies. What are your thoughts or concerns regarding partnering within the region with those that would also benefit from these projects?