

RESOLUTION NO. 624

A RESOLUTION OF THE CITY OF WILSONVILLE, OREGON, AUTHORIZING THE ISSUANCE OF WATER SYSTEM REVENUE BONDS FOR A TOTAL OF NOT TO EXCEED \$2,500,000, AND PROVIDING FOR PUBLICATION OF NOTICE.

The City Council of the City of Wilsonville, Oregon (the "City"), finds:

A. The City finds that it is financially feasible and in its best interests to improve, repair and construct new wells, a new reservoir and transmission lines for the City's water system (the "Project").

B. The City is authorized to finance the Project by issuing revenue bonds pursuant to Oregon's Uniform Revenue Bond Act (ORS 288.805 to 288.945) (the "Act").

C. The cost of the Project, including bond issuance costs and debt service reserves, is estimated to be not more than \$2,500,999,

D. The City has caused to be prepared a plan showing that the City's estimated net Project revenues are sufficient to pay the estimated debt to be incurred by the City under the revenue bond issue authorized by this resolution. The plan is attached to this resolution as Exhibit "A", titled "Report on Financing Alternatives for Water System Improvements".

The City Council of the City of Wilsonville, Oregon, resolves:

Section 1. Revenue Bonds Authorized. There are hereby authorized to be issued no more than \$2,500,000 in principal amount of the City's Water System Revenue Bonds, Series 1987. Prior to selling the bonds, the City Council shall establish by resolution:

A. Whether the bonds shall be sold at public competitive bid sale or private negotiated sale;

B. The maximum discount to be allowed upon sale of the bonds;

C. The schedule for bond principal repayment;

D. The terms under which additional bonds may be issued;

E. The terms by which bonds may be redeemed prior to maturity;

F. The amount of any reserves to be established for the bonds and the manner in which the reserves shall be funded;

G. The covenants which the City will make with bondowners regarding operation of the Project;

H. Whether all or only a portion of the Project revenues shall be pledged to payment of the bonds;

I. Whether the Project revenues shall be held

by a trustee, and if they are so held, the trustee's duties; and

J. Any other terms, conditions or covenants regarding the bonds, the Project or the Project revenues which are necessary or desirable to effect the sale of the bonds.

Section 2. Notice; Procedure.

A. No bonds may be sold, and no purchase agreement for the bonds may be executed, until the time has passed for filing petitions as described in the Notice of Revenue Bond Authorization, which is attached to the resolution as Exhibit "B" (the "Notice"). The Notice shall be published in at least one newspaper of general circulation in the City in the same manner as are other public notices of the City.

B. If petitions for an election, containing valid signatures of not less than five percent (5%) of the City's electors, are received within the time indicated in the Notice, the question of issuing the bonds shall be placed on the ballot at the next legally available election date. If such petitions are received, no bonds may be sold until this resolution and the question of issuing the bonds is approved by a majority of the electors of the City who vote on that question.

C. The bonds shall be issued and sold in accordance with the Act.

Section 3. Bonds Payable Solely from Revenues. The bonds shall not be general obligations of the City, nor a charge

EXHIBIT "B"

NOTICE OF REVENUE BOND AUTHORIZATION

NOTICE IS HEREBY GIVEN that the City Council of the City of Wilsonville, Oregon (the "City"), adopted Resolution No. _____ on July 6, 1987, authorizing the issuance of water system revenue bonds. The bonds will be issued to finance the improvement, repair and construction of new wells, a new reservoir and transmission lines for the City's water system (the "Project").

The City Council may establish by subsequent resolution all terms, conditions and covenants regarding the bonds, the Project revenues which are necessary or desirable to effect the sale of the bonds.

The City estimates that the bonds will be issued in a principal amount of not more than \$2,500,000; bond principal and interest are expected to be paid from Project revenues. The bonds will not be general obligations of the City, nor a charge upon its tax revenues, but will be payable solely from the Project revenues which the City pledges to the payment of the bonds.

If written petitions, signed by not less than five percent (5%) of the City's electors, are filed at the Office of the City Recorder on or before September 14, 1987, the questions of issuing the revenue bonds shall be placed on the ballot at the next legally available election date.

The Office of the City Recorder is located at 30000 S. W. Town Center Loop East, Wilsonville, Oregon 97070.

The resolution authorizing the bonds is available for inspection at the Office of the City Recorder.

The bonds will be issued and sold under the Uniform Revenue Bond Act (ORS 288.805 to 288.945); this Notice is published pursuant to ORS 288.815(6).

BY ORDER OF THE CITY COUNCIL OF THE
CITY OF WILSONVILLE, OREGON.

upon its tax revenues, but shall be payable solely from the Project revenues which the City pledges to payment of the bonds pursuant to ORS 288.825(1) and the resolution to be adopted by the City pursuant to Section 1 of this resolution.

ADOPTED by the Council of the City of Wilsonville, Oregon, at a regular meeting thereof this 6th day of July 1987, and filed with the Wilsonville City Recorder this same date.

William E Stark

WILLIAM E. STARK, Mayor

ATTEST:

Vera A. Rojas

VERA A. ROJAS, City Recorder

SUMMARY of Votes:

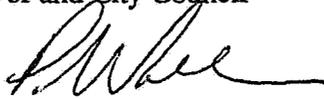
| | |
|--------------------|------------|
| Mayor Stark | <u>AYE</u> |
| Councilor Gardiner | <u>AYE</u> |
| Councilor Braymen | <u>AYE</u> |
| Councilor Clarke | <u>NAY</u> |
| Councilor Edwards | <u>AYE</u> |

CITY OF WILSONVILLE

MEMO

TO: Honorable Mayor and City Council

FROM: Pete Wall
City Manager



SUBJECT: Resolution - Water Revenue Bonds

DATE: July 1, 1987

This resolution is the first step in the issuance of water revenue bonds for water system improvements. After approval of the resolution, citizens have a 60-day period in which to refer the issuance of revenue bonds to the voters. A successful petition for a referendum would require the signatures of not less than 5% of the eligible voters in the city. The resolution requires a future resolution detailing the aspects of the actual sale. If the 60 days pass without a referendum, the city would then be authorized to issue the bonds in accordance with state law.

The resolution refers to Exhibit A which is the report entitled "Report on Financing Alternatives for Water System Improvements." That report was previously distributed to the Council.

The highlights of that report indicate that water revenue bonds are the best financing source for the improvements. The report recommends from a financial standpoint that the projects which should be completed under the revenue bond proceeds are as follows:

- A new 2-3 million gallon water storage reservoir
- Three new wells
- 9600' of water main line improvements

The projects were identified in the master water plan as extremely important projects for the city's water system if we are to continue to provide high quality water in sufficient quantities to meet the city's needs over the next several years.

The revenue bonds pledge revenues from the city's water utility to retire the debt. These improvements will cause the city's water rates to increase. The recommended increases are 50% in 1988, 5% in 1989, and 5% in 1990. No further increases are expected to be needed in the future to retire this debt. Wilsonville's water rates are presently considerably lower than most other water providers in the area. With the increases, our rates will be somewhat higher than the present average, although we don't know what other water suppliers will do with their rates over the next few years.

The construction projects planned will serve the city's needs for a long period of time. They will improve our ability to provide water service, fire protection, and allow for the future growth of the city. None of these improvements are luxuries; they are basic, needed facilities which will insure present and future residents of a high quality city water utility.

pw:lb

City of
Wilsonville, Oregon

Report on
Financing Alternatives
for Water System Improvements



Oregon Bank
Public Finance Group

June 24, 1987



June 24, 1987

Mr. Pete Wall
City Administrator
City of Wilsonville
P.O. Box 220
Wilsonville, Oregon 97070

Dear Mr. Wall:

Oregon Bank Public Finance is pleased to submit this report to the City of Wilsonville on long-term financing alternatives for proposed water system capital improvements. Oregon Bank Public Finance has prepared this report at the request of the City pursuant to the Bank's role as financial advisor and underwriter to the City.

The report is presented in five sections:

- I. Introduction and Background
- II. Proposed Improvements and Overview of Financing Alternatives
- III. Analysis of General Obligation Bonded Debt Financing
- IV. Analysis of Water System Revenue Secured Bonds
- V. Recommendations

Section I provides a brief background on the development of the City's water system. Section II summarizes the proposed short-term capital improvements needed to cover the next five years of growth and discusses the generally available means of financing those improvements.

Section III analyses the option of issuing general obligation bonds to finance the proposed capital improvements. Section IV analyses the option of issuing revenue bonds backed only by water system revenues. Section V offers our recommendations. The report is accompanied by appropriate exhibits.

Oregon Bank Public Finance thanks the City of Wilsonville
for the opportunity to be of service in analysing the
City's financial needs.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Daniel Anderson", written in black ink.

Daniel Anderson
Vice President - Public Finance

CITY OF WILSONVILLE, OREGON
REPORT ON FINANCING ALTERNATIVES
FOR WATER SYSTEM IMPROVEMENTS

June 24, 1987

Prepared by
Oregon Bank Public Finance

City of Wilsonville

Financing Alternatives for Water System Improvements

EXECUTIVE SUMMARY

- o The City of Wilsonville faces the imminent need for major improvements to its municipal water system. In addition, the City faces ongoing requirements for water system expansions as the City continues to grow.
- o Compared to other "A" rated cities, the City of Wilsonville has a significantly higher volume of general obligation debt outstanding. Continued reliance on general obligation debt to finance major public infrastructure improvements is likely to adversely impact the City's credit rating.
- o The City's use of general obligation bonded debt should be rationed to only those public projects that have little or no capacity to be self-funding through user fees. The City must develop alternative sources of financing for infrastructure improvements that may be self-funding.
- o Revenue bonds are feasible as a source of financing for the proposed water system improvements. Water system rate increases of 50-55% in 1988 and an additional 5% - 15% in 1989 and 1990 will be required in order to adequately provide for revenue bond debt service.
- o The water system revenue bond issue should be structured to cover the entire cost of the proposed near-term water system improvements. Because of the uncertainty surrounding the future of system development charges and the unknown timing of collecting delayed assessments, the bond issue should be large enough to provide adequate project financing without reliance upon those less certain, secondary sources. If and when these other secondary funding sources are collected, the resulting cash balances should be applied to reduction of revenue bond debt service requirements.
- o The City should proceed to issue the necessary revenue bonds as soon as feasible for two reasons: 1) tax exempt rates are still attractively low; 2) the current system's capacity is strained, particularly during the high demand summer season.

SECTION I

Introduction and Background

A. Introduction

The City of Wilsonville faces the need to make both immediate and ongoing improvements to its municipal water system. Original construction and subsequent improvements have been funded by a combination of grants, system connection charges, and City-issued general obligation debt.

In light of the ongoing need for water system expansion, the City desires to determine if the cost of system expansion and operation can be self-funding. To the extent that both capital improvements and operating costs may be funded by system revenues, the City will be able to maintain lower property tax rates and save its general obligation bonding capacity for other critical public projects.

This report focuses on financing only these earliest improvements, while maintaining flexibility in future financings.

B. The Current Water System

The present City of Wilsonville water system consists of five wells (one of which is capped), a 2.2 million gallon steel reservoir and a .75 million gallon concrete reservoir, and a system of transmission lines and meters. The system can be characterized as being in a good state of repair with transmission lines showing very little leakage.

All water is supplied by wells drilled into the basalt aquifers beneath Wilsonville. Water quality is good but the water is quite hard. Both the quality of water and the hardness condition worsen when the wells are pumped vigorously during periods of high demand. The water is not treated because it exceeds Federal standards for quality.

While the existing system is in generally good repair, it operates at or near its seasonal supply capacity. Additionally, elements of the distribution system are vulnerable to disruption because several key lines are "dead-ended" rather than "looped". The City's engineering consultant has projected that additional wells will be needed as early as the summer of 1987. The additional demand forecasted for the Coca Cola Bottling plant alone will severely tax the current system's supply capacity. (see Wilsonville Water System Plan, November 1986, by Westech Engineering).

C. Growth Projections

Since incorporation in 1969, the City's population has grown at a compound annual rate of approximately ten percent. Even during the recent recession when small communities throughout Oregon suffered flat or declining populations, the City of Wilsonville continued to grow at the rate of seven percent. Assessed value of the City has risen from \$10.8 million to over \$400 million in the past 15 years.

Present projections for population growth indicate seven percent annual growth continuing over the next two decades. Given these assumptions, the estimated population of Wilsonville in 2006 will be 19,500, or four times the current population.

Average daily demand for water has increased even more rapidly than resident population over the past decade as significant new commercial and industrial users have connected to the City system. During peak periods of system demand, reservoir holdings have dropped to levels which the City's engineering consultant characterizes as "dangerously low". Given even modest growth in the next few years, the water system will be unable to deliver adequate service to all users without additions to its sourcing, distribution and storage capabilities.

SECTION II

Proposed Improvements and Overview of Financing Alternatives

In 1986, the City's consulting engineer, Westech Engineering, analyzed both the long and short-term development needs of the City's water system and proposed a ten year system improvement plan with an estimated cost in 1986 dollars of \$3.77 million. Slightly over half (52%) of the total improvement plan expenditures were designated as "near-term" and would require funding during the next three to four years. Regardless of the validity of long-term growth projections and the eventual need for water system capital expenditures to support this growth, the certainty of near-term growth and the observed seasonal taxing of system capacity support Westech's recommendation to implement the proposed near-term improvements to the current water system.

A. Proposed Near-Term Improvements

The suggested general improvements envisioned over the next four years are as follows:

- A new 2-3 million gallon reservoir;
- three new wells;
- transmission line extensions and improvements.

The new reservoir is necessary for additional storage capacity and to allow for periodic maintenance on the existing reservoir. The new wells are necessary to provide additional supply. The new transmission lines provide for additional service and for "looping" of some lines that are currently dead-ended.

B. Estimated Project Costs

The following schedule is condensed from the Westech report of November 1986. This schedule estimates construction costs by fiscal year over the next four years.

City of Wilsonville

Estimated Cost of Near Term Water System Improvements
by Fiscal Year

| <u>FY</u> | <u>Cost</u> | <u>Projects</u> |
|-----------|----------------------|---|
| 1987-88 | \$1,276,350 | Construct reservoir, develop new well, construct new pipelines. |
| 1988-89 | 245,000 | Develop second well, renovate existing reservoir. |
| 1989-90 | 447,750 | Construct new pipeline, develop new well |
| 1990-91 | - 0 - | No capital additions anticipated |
| | ----- \$1,969,100 | Near-term projects total |

C. Alternative Funding Mechanisms

The Westech report identified the following general sources of funds to complete the near-term system improvements identified above:

City of Wilsonville

Estimated Funding Sources for Near-Term Water System Improvements

| | | |
|------------------------|-------------|-------|
| Connection Fees / LIDs | \$412,250 | (21%) |
| Delayed Assessments | 212,925 | (11%) |
| Net Bonded Debt | 1,343,925 | (68%) |
| | ----- | |
| | \$1,969,100 | |

Principal characteristics of these funding sources are as follows:

Water Connection Fees. Westech estimates that \$412,250 (about 21% of total project costs) will be paid "upfront" as water connection fees by developers. Connection fees are one time charges made to new users of a public facility as a condition of access to that facility. The City of Wilsonville's water connection fees have two components:

1) the fees are designed to cover the actual marginal cost of providing and installing the new customer's meter; and

2) the fees are intended to charge back a portion of the one time costs associated with major utility system capacity increases to those new system users whose additional requirements necessitated the increase in system capacity.

The second portion of the fee is called a system development charge (SDC). Currently, this SDC component is approximately 36% of gross water connection fees. Seventy percent of these funds are designated by city ordinance to contribute to water system related general obligation bond debt service. The remaining 30% flows to the water system development reserve fund.

Cash raised through connection fees/SDCs also serves to reduce the volume of debt which a municipal utility operator must issue to finance capacity additions. Reduced debt issuance generally produces less levered, more conservative public entity balance sheets. To the extent that periodic user fees are relied upon to meet periodic debt service obligations, reduced debt issuance will also be associated with lower user fees.

A city's legal ability to collect "up front" SDCs is currently threatened by HB 2785, a bill being considered in the 1987 Oregon Legislative Assembly. The bill, sponsored by the Homebuilder's Association, would prevent municipalities from assessing SDCs directly to the developer or homebuyer at the time of connection to the municipal utility. If the bill becomes law, Wilsonville and other cities would no longer be able to collect SDCs from developers and the role of debt financing of public utilities would likely expand.

Delayed Assessments. Westech estimates that another \$213 thousand (11%) of the total project cost can be recovered from delayed assessments. Delayed assessments are a financing mechanism wherein a municipal utility operator postpones charging a connection fee, SDC, or similar fee for a period of time after the onset of service delivery. Often, the delay is linked to a planned development timetable or to a change in ownership of the serviced or benefited property.

Delayed assessments, of course, do not reduce the cost of the project which they finance. Consequently, the delayed assessment itself must be financed during the period of the delay. This is often most easily accomplished by combining this financing with other debt issued in conjunction with the project and then treating the delayed assessment as a special source of debt service monies for the common financing vehicle.

Local Improvement Districts or "LIDs" can also be used to finance utility system improvements, especially where the improvements are focused in a geographically defined area. LID formation carries with it a requirement that the local government provide long-term financing to property owners in the LID. LID financing commonly involves the issuance of general obligation bonded debt by the municipal utility provider.

As we point out in Part III below, the development needs of the City of Wilsonville are large relative to the City's ability to support general obligation debt without diminution of its credit rating. Accordingly, we believe that the use of LIDs should be discouraged where the desired utility improvements can be financed using other mechanisms which do not depend on general obligation debt issuance.

Bonded Debt. Westech has identified bonded debt as the residual source of financing for the proposed system upgrades. While the cost of the system improvements can be estimated with relative precision, connection fees/SDCs and other funding sources are dependent upon the business decisions of land developers, the state of the local economy and other factors not subject to significant precision in estimation. Consequently, system improvements which must be funded solely from connection fees and similar sources may themselves be subject to substantial imprecision as to the timing of their implementation.

To the extent that the City is unwilling to adjust the timing of expenditures for system improvements to fit the realized pattern of connection fee and SDC collections, delayed assessments and other non-bonded debt resource collections, it must rely on a more predictable financing source to accomplish project construction objectives. Bonded debt is the financing source of choice under these circumstances.

Once project cost estimates are known, bonded debt is sold to raise the difference between project costs and cash on hand. The bonds can be retired from a variety of sources including system revenues and property taxes. Additionally, SDCs, delayed assessments and other less predictable resources can be applied to bonded debt service as these resources become available.

In Parts III and IV, we discuss various types of bonded debt and project the impact of the several types of bonds on the alternative resources which may be committed to the debt's retirement.

Because the legal authority to charge SDCs is currently in question and because deferred assessments must themselves be financed, we assume that the entire estimated near term project cost, \$1,969,100 will be financed with bonded debt. Additionally, we assume that bond issuance expenses will be funded out of bond proceeds. Accordingly, the required bond issue is sized at approximately \$2,000,000 for projection purposes.

SECTION III

Analysis of General Obligation Bonded Debt Financing

While bonded debt will likely serve as the City's chosen residual financing mechanism for near-term improvements to the water system, several alternative structures for that bonded debt are available. These include property tax supported general obligation bonds, revenue supported general obligation bonds, and revenue supported bonds. In this section we assess the likely economic and legal impact of general obligation financing of the City of Wilsonville's water system improvements.

A. Characteristics of General Obligation Bonds

General obligation bonds ("GOs") obligate the issuer to the bonds' repayment from any legally available resource including property tax levies unlimited as to rate or amount. Property taxes are, in fact, the most commonly utilized resource for general obligation bonded debt service. With the exception of bonds sold in conjunction with local improvement district financing, GOs can only be sold after receiving voted authority to do so from the issuer's electors.

General obligation bonds have the advantage of carrying the lowest interest rates. Holding all other factors constant, the interest rate advantage of general obligation bonds over their revenue bond counterparts translates to an approximate 5% annual debt service cost savings. In addition, the municipality avoids restrictive bond covenants usually associated with revenue bonds that may dictate how certain municipal functions must be managed.

B. Assessing the Economic Limits to General Obligation Bonding Capacity

An issuer's economic ability to service new general obligation debt from property taxes is not unlimited. Any new issue must be considered in the context of the local political climate and other competing claims on property tax payers. These other claims on property tax payers include tax supported operating needs of both the issuer and overlapping jurisdictions as well as the support requirements of pre-existing tax supported debt and likely future debt issuance needs.

A commonly utilized method for evaluating the relative magnitude of a general obligation debt service burden is to look at the burden in relation to the jurisdiction's population and the market value of the real property on which taxes may be levied for support of the issue. We begin the exercise by estimating the City of Wilsonville's net direct and overlapping debt, giving effect to the proposed water bond debt and other identified general obligation financing plans of the City:

City of Wilsonville

Estimate of Prospective General Obligation Debt Burden

| | |
|--|--------------|
| Existing gross bonded debt | \$6,500,000 |
| Add: | |
| 1987 Library / Parks Bonds | 2,250,000 |
| 1987 Water bonds (this issue) ¹ | 2,000,000 |
| LID #6 Bancroft Bonds | 1,000,000 |
| | ----- |
| Estimated gross bonded debt | 11,750,000 |
| Deduct: | |
| Self supporting Bancroft debt | 5,500,000 |
| | ----- |
| Estimated net direct debt | 6,250,000 |
| Add: | |
| Overlapping net direct debt | 4,000,000 |
| | ----- |
| Estimated net direct and overlapping debt | \$10,250,000 |

1) Includes underwriter's discount and issuance expenses

The principal estimated values from the table above can now be compared to the assessed (market) value of real property located within the City (\$400 million) and to the City's population (4,200):

City of Wilsonville

Projected Debt Ratios

| | <u>Per Capita</u> | <u>% AV</u> |
|-------------------------------|-------------------|-------------|
| Gross bonded debt | \$2,798 | 2.94% |
| Net direct debt | 1,488 | 1.56 |
| Net direct & overlapping debt | 2,440 | 2.56 |

In the table below, these ratios for the City of Wilsonville are compared to their counterparts from other Oregon jurisdictions and to the mean ratios calculated by Moody's Investor Service for cities of under 10,000 population to obtain a perspective on the ratios' relative values. A second set of ratios for City of Wilsonville is included to illustrate how projected ratio values would decline if the water bonds were sold as revenue backed securities.

City of Wilsonville and other Oregon Jurisdictions

Comparative Debt Ratios
in

Dollars Per Capita / Percent Assessed Value

| <u>City (rating)</u> | <u>Gross Bonded</u> | <u>Net Direct</u> | <u>Net & OL</u> |
|------------------------------|---------------------|-------------------|---------------------|
| Wilsonville ¹ (A) | \$2,798 / 2.9% | \$1,488 / 1.6% | \$2,440 / 2.6% |
| Wilsonville ² (A) | 2,321 / 2.4 | 1,012 / 1.1 | 1,964 / 2.1 |
| Portland (Aaa) | 324 / 1.0 | 223 / 0.7 | 354 / 1.1 |
| Tigard (A) | 246 / 0.5 | 127 / 0.3 | 1,015 / 2.2 |
| Corvallis (A) | 886 / 3.4 | 219 / 0.8 | 352 / 1.3 |
| Springfield (Baal) | 586 / 2.4 | 586 / 2.4 | 882 / 3.7 |
| Moody's mean ratios | NA / NA | 638 / 2.2 | 1,037 / 3.7 |

NOTES:

- 1) Assumes water bonds sold as tax supported general obligations
- 2) Assumes water bonds sold as revenue bonds w/o GO pledge

The data presented above clearly illustrate the fact that the City of Wilsonville's general obligation debt load is high compared to that of other "A" rated jurisdictions. While the projected GO debt burden would be reduced by structuring the water system financing as a revenue bond, the relative level of GO debt burden would remain significantly above that of other "A" rated Oregon jurisdictions.

Clearly, the City has a need to plan carefully for future uses of its limited general obligation bonding capacity if it wishes to avoid a credit rating downgrade and attendant increases in financing costs. In general, we recommend that the City attempt to limit future general obligation financings to those projects which are unlikely to be self-supporting from user charges such as the proposed Library / Parks bond issue or situations where the City has a statutory obligation to provide general obligation financing, i.e. local improvement districts.

C. Assessing Legal Limits to General Obligation Bond Issuance

A city's ability to issue general obligation bonds is also constrained by several statutory debt limitations. The Oregon Revised Statutes ("ORS") restrict city issuance general obligation bonded debt such that total outstandings can not exceed 3.00% of true cash value (ORS 287.004). The statutory debt limit does not apply to general obligation debt issued to finance municipal utilities when that debt is self-supporting. Local improvement district general obligation "Bancroft" bonding limitations are fixed under separate, non-concurrent statutory authority.

In the table below we present calculations of the City of Wilsonville's legal debt margin for self-supporting and non-self supporting general obligation water system bonds.

City of Wilsonville

Alternative Debt Margin Calculations

| | | |
|--|---------------|--------|
| Assessed Value (TCV) | \$400,000,000 | |
| Debt limit (3% of TCV) | 12,000,000 | (100%) |
| Deduct: | | |
| Outstanding water & sewer bonds | 1,665,000 | |
| 1987 Library / Parks bonds | 2,250,000 | |
| | ----- | |
| Remaining GO capacity before 1987 water bonds | 8,085,000 | (67%) |
| Deduct: | | |
| Non-self-supporting 1987 water bonds | 2,000,000 | |
| | ----- | |
| Remaining GO capacity after non-self-supporting 1987 water bonds | 6,085,000 | (51%) |

As the above table illustrates, the City of Wilsonville faces no near-term statutory restrictions on its ability to finance water system expansion from the sale of general obligation debt. However, this observation in no way detracts from those advanced in section B above regarding economic limits to general obligation bonding capacity.

D. Property Tax Effect

If the City chose to issue general obligation debt to finance the proposed water system improvements, we can estimate the tax rate effects for the first year of debt service. Assuming a 20 year, "A" rated issue with approximately level annual debt service, the first year tax rate effects would be:

| | |
|----------------------------------|---------|
| Tax rate/\$1000 Assessed Value | \$ 0.56 |
| Additional Tax on \$70,000 house | \$39.22 |

E. Recommendation

Although the City does not face imminent statutory restrictions on its general obligation bonding capability, continued usage of that authority will eventually place serious economic constraints on the City's ability to raise money in the tax exempt markets. A ratings downgrade and the accompanying higher interest rates will prove costly to the City and its taxpayers.

Additionally, the City continues to grow at a rate that will require ongoing public infrastructure improvements. These improvements will require significant levels of bonded debt support. The city must plan carefully how that bonded debt is rationed between general obligation bonds and some form of revenue-backed securities.

Given the relatively high nature of the City's general obligation debt load, we recommend that the City develop alternative means of financing any municipal project which may be self-supporting from user fees. General obligation financing should be limited to public projects unlikely to support substantial user fees or where the City is legally required to offer bonding capability.

Part IV

Analysis of Water System Revenue Secured Bonds

In this section we begin by describing the general characteristics of municipal revenue bonds. We then briefly examine the recent financial operating history of the City's water system to determine if current rates generate sufficient revenue to support new revenue debt. Finally, we describe the likely structure of a revenue bond issued to finance the near-term improvements to the City's water system, and project financial operating results (including required water rate increases for the water system) assuming issuance of the revenue bonds.

A. Principal Characteristics of Revenue Bonds

Revenue bonds are similar to private sector corporate debt in that they are primarily secured by a pledge of the revenues of a particular system or project. The pledge of revenues to debt service can be made on a net or a gross basis. In some instances, revenues unrelated to the project being financed are also pledged as supplemental security. On occasion, a security interest in real property assets is taken as additional security for the financing.

A critical distinguishing feature of revenue bonds in the public sector is that they will always be issued without a security pledge of the issuer's basic taxing power. Under Oregon law, the sale of municipal revenue bonds does not require prior voted approval of the issuer's electorate.

Municipal water and sewer systems are often good candidates for revenue bond financing because of the relatively inelastic nature of demand for these services, short of wholesale abandonment of a locality by its resident population.

Because revenue bonds are generally considered a riskier investment than a general obligation bond, interest rates associated with revenue bonds tend to be somewhat higher than those associated G.O. debt. Also, revenue bond covenants call for maintenance of a debt service reserve or some other means of credit enhancement (for example, a line of credit). A debt service reserve funded from bond proceeds increases the necessary size of the issue.

Finally, because revenue bonds are financially and legally more complex than general obligation debt, the cost of issuing revenue bonds is somewhat higher.

B. Credit Analysis of Municipal Revenue Bonds

Because they do not ultimately trace their security to their issuer's ability to tax, revenue bonds are much more closely examined at the time of their issuance by underwriters, rating agencies and other key players in the debt issuance process.

The analysis of a new revenue bond will focus on economic and legal factors which are viewed as determining the likelihood that the bonds will be serviced in a complete and timely manner. Economic analysis will be concerned with the historical and prospective operating history of the system. This analysis will include not only balance sheet and income statement analysis, but investigation of the physical condition of the system and the capabilities of its management.

Legal analysis will involve a review of the bonds' indenture, a complex contractual document between the bond issuer and bond holders. Among other things, the bond indenture will specify how funds flow through the system's accounts and usually will legally require rate adjustments if net revenues available for debt service fall below specified levels.

C. Recent Financial Operations of the Wilsonville Water System

As we indicated in B above, the issuance of revenue bonds will involve a review of historical financial operating history of the system for which the bonds are being issued. In Exhibits 1 and 2, we have provided a restatement of the City of Wilsonville's water system's financial activity on a single "stand alone" enterprise fund basis. Both income statement and balance sheet data are provided. An examination of the five year income statement data presented in Exhibit 1 indicates that net system revenue has averaged \$96 thousand per year but fluctuated by + / - 35% about this average value. A substantial portion of the variation is attributable to annual variations in water system connection fees.

In Part II above, we estimated that a \$2 million (approximately) bond issue would be required to finance near-term water system improvements. If the bond is structured as a thirty year issue and sells at an effective interest rate of 8.00%, annual debt service requirements will be approximately \$167 thousand. This value is about 1.75 times the average water system net income of the past five years, suggesting that some rate increase will be necessary if the new water system debt is to be retired from charges for service.

D. Sizing the Required Revenue Bond

In Part II we identified bonded debt as the residual provider of project funding. We also noted that two of the identified funding sources for the proposed near-term water system improvements, connection fees/SDC collections and deferred assessments, were subject to some uncertainty as to the timing of their collection because they depended on future private sector business decisions and may be subject to adverse legislative developments. Accordingly, the required revenue bond will be sized to provide full project funding from bond proceeds alone. This will allow the project to go forward on a timely basis, free from disruptions induced by the factors identified here. We do assume that projected SDCs will be collected and, once collected, applied to a partial early redemption of (then) excess construction funds.

We also assume that a portion of the bond's interest expense corresponding to the cost of financing not-yet-collected SDCs will be capitalized and added to the issue's required size. Finally, we assume the bond issue will fund a one year debt service reserve and all issuance expenses of the bonds. Taking all these factors into account, a \$2,260,000 bond issue results. The sizing is most easily understood in terms of a Sources and Uses of funds schedule:

City of Wilsonville

Near-Term Water System Improvements Project

Estimated Schedule of Sources and Uses of Project Funds

SOURCES

| | |
|--------------------------|-------------|
| Water Revenue Bonds, par | \$2,260,000 |
| Underwriter's discount | (33,900) |
| Connection fees / SDCs | 412,250 |

| | |
|----------------------|-------------|
| Net Sources of Funds | \$2,638,350 |
|----------------------|-------------|

USES

| | |
|----------------------------|-------------|
| Cost of Improvements | \$1,969,100 |
| Capitalized Interest | 65,960 |
| Early Redemption (partial) | 410,000 |
| Issuance Expense | 30,000 |
| Debt Service Reserve | 163,290 |

| | |
|---------------------|-------------|
| Total Uses of Funds | \$2,638,350 |
|---------------------|-------------|

Bond proceeds and all other project resources would be deposited in a construction escrow. All project expenditures, connection fees-related capitalized interest, connection fee-related partial early bond redemptions, and the debt service reserve would be funded from the escrow. Exhibit 3 estimates construction escrow funds flows for the fiscal years ending June 30, 1988 - 1991.

E. Assumptions for Financial Projections

To derive a set of projected financial statements, several assumptions were required. These included:

- Previously issued general obligation water bonds will continue to receive an annual contribution to their debt service from water system operating revenues. The annual contribution formula stipulates that approximately 25% of gross connection fees be designated for general obligation bond debt service.
- The fiscal year ended June 30, 1986 was representative in terms of the system's operating income and expenses and may be used as a base for subsequent projections.
- Total system subscriber count will grow at a 5% compound annual rate.
- Gross water connection fees are assumed to grow by the annual inflation rate from a beginning base of the average of the previous five years' fees.
- System variable operating expenses (personnel, materials and services) will grow at a compound annual rate given joint rate of growth in system subscribers and an assumed 5% inflation rate.
- Customer deposits and accounts receivable will grow at a compound annual rate given joint rate of growth in system subscribers and water system rates.
- New fixed asset additions to the system are depreciated using the straight line method over 40 years.
- Water system revenue bonds will be structured to produce approximately constant annual debt service requirements over a 30 year horizon.

Finally, we assume that the revenue bond indenture will require that the City fix water system rates to maintain a 1.35 : 1 minimum coverage ratio between net operating income available for revenue bond debt service and the annual debt service requirement itself. A "coverage ratio" requirement of this general sort will be a key feature of the City's first revenue bond.

For planning purposes, actual coverage ratios are typically targeted well above their legal minimum value. Thus, in operating the projection model, we treat the required coverage ratio as a constraint and specify periodic annual rate increases sufficient to produce average coverage ratios of approximately 2.0 : 1. Moody's published mean coverage ratio for water systems is 2.21.

F. Projected Operating Results

In Exhibit 4 and 5, we project water system income statements and balance sheets for fiscal years ending June 30, 1987 - 1991, the period associated with projected near-term improvements to the water system. The Exhibits indicate that, with assumed rate increases in FY 1988 - 1990, the water system will be able to meet all operating expenses and provide approximately 2.0 : 1 coverage of the annual debt service requirements associated with revenue bond issuance.

Exhibit 4 indicates that system operating revenue will increase from \$359 thousand in FY 1987 to \$788 thousand in FY 1991. System net income is projected to rise from \$95 thousand to \$293 thousand over the same period. Unreserved retained earnings increase to approximately \$1.8 million by FY 1991.

Exhibit 5 details projected changes in the system's balance sheet which will result from the sale of revenue bonds. Note that the system improvements approximately double the size of the balance sheet and there is a substantial increase in cash balances associated with the depreciation of the new assets and higher levels of retained net earnings. Finally, note that undisbursed escrowed construction monies will also create significant liquid asset balances during FY 1988 and 1989.

G. Required Water Rate Increases

The viability of the revenue bond financing projected above relies on certain growth rate assumptions in both the general customer base and the water rates. These assumptions included a 5% compound annual growth rate in the customer base and rate increases of 50% in FY 1988 and 5% in both FY 1989 and 1990.

Required water rate increases are affected by the rate of growth in the customer base. In the table below we indicate required water rate increases in FY 1988 - FY 1990 for several different rates of customer growth:

City of Wilsonville

Required Water Rate Increases for 2:1 Coverage Ratio
vs. Rates of Customer Base Growth

| Annual Growth Rate | (--Rate Increase in FY--) | | |
|--------------------|---------------------------|------|------|
| | 1988 | 1989 | 1990 |
| 0% | 55% | 0% | 15% |
| 3 | 50 | 5 | 10 |
| 5 (base case) | 50 | 5 | 5 |
| 7 | 50 | 5 | 5 |
| 10 | 50 | 0 | 10 |

We believe that the required water rate increases are viable for two key reasons:

- 1) The current water system rates are quite low relative to neighboring jurisdictions;
- 2) Demand for water is relatively inelastic and the current state of the water system will not support growth or peak seasonal demands forecast for calendar year 1987.

The first reason suggests that a rate increase, or series of increases, would not put Wilsonville at a competitive disadvantage with other Portland metro area jurisdictions. Exhibit 6 presents a survey of current area water rates. Exhibit 7 presents the estimated effects on residential customers of the proposed base case rate increases, assuming required increases are structured to impact all system subscribers proportionately.

While rate increases are never popular, the water system is a monopoly with a virtually unlimited (within a reasonable context) ability to charge whatever rate is necessary to support the system and provide for required improvements.

H. Future Revenue Bond Financings

The water system's ability to self-fund its capital improvements through revenue bond debt issues would be an important breakthrough in the City's financial history. The apparent need for ongoing and increasingly expensive water system additions argues strongly in favor of establishing such a means of self-funding those improvements at this time.

In particular, the City's consulting engineer cites the need for a major water treatment facility within two decades. Such a facility, whether constructed solely by the City, or in a regional cooperative effort, will require substantial public resources. The City must begin planning now for that eventuality. The discipline that revenue bonds can bring to the City's water system financing should prove an additional advantage as the City faces continued capital improvement needs.

The successful financing of the currently identified near-term improvement needs with water revenue bonds would go a long way toward facilitating future system improvements.

Additional revenue bonds must, of course, be issued in respect of the covenants contained in any outstanding bonds. We would propose that the present issue's indenture provide for the City's ability to issue additional parity lien bonds after an initial period, say 3 - 5 years, when the ability to service revenue bonds has been established.

SECTION V

Recommendations

Oregon Bank recommends that the City of Wilsonville begin immediate planning for a revenue bond issue to be sold in the late summer of 1987. We make this recommendation for three primary reasons:

- 1) The City faces both an immediate and an ongoing need for water system improvements;
- 2) A new source of capital improvement funding is needed if the City is to avoid overburdening its general obligation bonding capacity;
- 3) Water system revenue bonds could be supported through reasonable growth rates and rate increases.

Clearly, the City is facing a situation where revenue bond funding must be seriously considered. The extra cost and complexity of such issues is more than offset by the advantages of self-funding the capital improvement costs. The water rate increases which are required to provide for revenue bond debt service appear reasonable compared to neighboring jurisdictions. The inelastic nature of demand for water assures the system that prices increases will have marginal impact on demand.

We believe the City faces an opportunity to initiate a vital new source of funding for capital improvements to its water system, while protecting the City's scarce general obligation bonding capacity.

Issue Design

Oregon Bank recommends that the City issue enough revenue bonds to cover the entire cost of the near-term water system improvements. Because of the uncertainty surrounding the future of SDCs and the unknown timing associated with delayed assessments, the bond issue should be large enough to provide adequate project financing without reliance upon those less certain, secondary sources. If and when these secondary funding sources are collected, the resulting cash balances should be applied to reduction of revenue bond debt service requirements.

The water system revenue bonds should be covered by net water system revenues equal to two times the average annual debt service on the bonds. Although this coverage ratio is higher than what is likely to be legally mandated in the bond covenants, prudent water system and debt management call for such a ratio. Maintaining such coverage will require rate increases of approximately 50% in 1988 and 5-10% in 1989 and 1990, depending on rate of new customer growth.

As the City's financial advisor, Oregon Bank is prepared to assist the City in deciding whether to offer the issue competitively or on a negotiated basis, and if negotiated, to assist in the selection of an underwriter.

In addition, Oregon Bank will assist in the analysis of the water system and suggest appropriate changes that would make the revenue bonds more attractive to investors.

Timing

The City should proceed with issuance of the revenue bonds as soon as feasible for two compelling reasons: first, current tax exempt interest rates are still relatively attractive, offering municipalities some of the lowest available financing costs in six years; second, the improvements to the water system appear to be relatively urgent with the system's delivery capacity to be severely tested this summer.

CITY OF WILSONVILLE

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS

WATER FUND

FY ended June 30,

| | 1982 | 1983 | 1984 | 1985 | 1986 | CARC: |
|--|----------|----------|---------|----------|-----------|---------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| OPERATING REVENUES | | | | | | |
| Charges for services | 223,356 | 221,530 | 234,487 | 253,450 | 285,766 | 6.35% |
| Water Connection Fees | 18,031 | 11,183 | 68,913 | 70,461 | 73,845 | N/A |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 241,387 | 232,713 | 303,400 | 323,911 | 359,611 | 10.48% |
| OPERATING EXPENSES | | | | | | |
| Personal services | 83,022 | 54,391 | 55,524 | 79,240 | 118,910 | 9.40% |
| Materials and services | 73,152 | 68,043 | 106,331 | 129,517 | 78,707 | 1.85% |
| Depreciation | 52,487 | 50,026 | 52,020 | 61,682 | 66,439 | 6.07% |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 208,661 | 172,460 | 213,875 | 270,439 | 264,056 | 6.06% |
| Operating Income (loss) | 32,726 | 60,253 | 89,525 | 53,472 | 95,555 | 30.72% |
| NON-OPERATING REVENUE (EXPENSE) | | | | | | |
| Interest Income | 43,708 | 42,116 | 41,534 | 38,119 | 25,328 | -12.75% |
| Interest Expense | (14,913) | (2,026) | (1,093) | (7,412) | 0 | N/A |
| Misc. Rev (exp) | (292) | (17,691) | (34) | 0 | 751 | N/A |
| Contribution to G.O. debt service | (32,352) | (4,537) | (2,814) | (17,340) | (18,581) | N/A |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total Non-operating Income | (3,849) | 17,862 | 37,593 | 13,367 | 7,498 | N/A |
| Net Income (loss) | 28,877 | 78,115 | 127,118 | 66,839 | 103,053 | 37.44% |
| RETAINED EARNINGS, July 1 | 364,236 | 393,113 | 471,228 | 598,346 | 665,185 | |
| RETAINED EARNINGS, June 30 | 393,113 | 471,228 | 598,346 | 665,185 | 768,238 | 18.23% |
| Restatement, June 30, 1986 | | | | | 320,000 | |
| Operating transfers | | | | | (18,581) | |
| RETAINED EARNINGS, June 30, 1986 as restated and adjusted for operating transfers | | | | | 1,069,657 | |

EXHIBIT 2

CITY OF WILSONVILLE

STATEMENT OF FINANCIAL CONDITION

WATER FUND

| | Actual 1984 ----- | Actual 1985 ----- | Actual 1986 ----- |
|--|-------------------------|-------------------------|-------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Investments | 372,196 | 433,322 | 236,750 |
| Accounts Receivable | 55,489 | 38,027 | 45,519 |
| Due from Other Funds | 22,089 | 14,837 | 30,061 |
| Inventories | 15,048 | 19,442 | 23,296 |
| | ----- | ----- | ----- |
| Total Current Assets | 464,822 | 505,628 | 335,626 |
| Fixed Assets | | | |
| Land | 18,594 | 18,594 | 18,594 |
| Water System | | | |
| Plant in place @ cost | 2,322,920 | 2,430,935 | 2,760,120 |
| Accumulated Depreciation | (390,371) | (452,053) | (518,492) |
| Construction Escrow | 0 | 0 | 0 |
| | ----- | ----- | ----- |
| Net Fixed Assets | 1,951,143 | 1,997,476 | 2,260,222 |
| | ----- | ----- | ----- |
| Total Assets | 2,415,965 | 2,503,104 | 2,595,848 |
| | ===== | ===== | ===== |
| LIABILITIES AND FUND EQUITY | | | |
| Short term liabilities | | | |
| Rev. Bond Payable, Current | 0 | 0 | 0 |
| Accounts Payable | 3,137 | 9,177 | 12,216 |
| Refundable Deposits | 1,870 | 1,400 | 1,650 |
| Deferred Compensation Payable | 2,080 | 1,262 | 1,262 |
| | ----- | ----- | ----- |
| | 7,087 | 11,839 | 15,128 |
| Long term liabilities | | | |
| Revenue Bonds Payable | 0 | 0 | 0 |
| Debt Service Reserve | 0 | 0 | 0 |
| | ----- | ----- | ----- |
| Net Term Liabilities | 0 | 0 | 0 |
| | ----- | ----- | ----- |
| Total Liabilities | 7,087 | 11,839 | 15,128 |
| Fund Equity | | | |
| Customers/Subdividers | 708,021 | 708,021 | 708,021 |
| Municipality | 708,329 | 727,418 | 727,418 |
| Retained Earnings: reserved | 75,997 | 83,985 | 139,247 |
| Retained Earnings: unreserved | 916,531 | 971,841 | 1,006,034 |
| | ----- | ----- | ----- |
| Total Fund Equities | 2,408,878 | 2,491,265 | 2,580,720 |
| | ----- | ----- | ----- |
| Total Liabilities and Fund Equities | 2,415,965 | 2,503,104 | 2,595,848 |
| | ===== | ===== | ===== |

CITY OF WILSONVILLE

CONSTRUCTION ESCROW FUNDS FLOWS

| | Est. 1988 <u> </u> | Est. 1989 <u> </u> | Est. 1990 <u> </u> | Est. 1991 <u> </u> |
|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Revenue Bonds Par | 2,260,000 | | | |
| Cost of Issue | (30,000) | | | |
| Discount | (33,900) | | | |
| Net Bond Proceeds to Escrow | 2,196,100 | | | |
| Beginning Escrow Balance | 2,196,100 | 1,051,270 | 1,021,040 | 0 |
| Scheduled SDC Contribution | 164,500 | 247,750 | 0 | 0 |
| Other External Sources | 0 | 0 | 0 | 0 |
| Total Sources of Funds | 2,360,600 | 1,299,020 | 1,021,040 | 0 |
| Cost of Project | 1,276,350 | 245,000 | 447,750 | 0 |
| Capitalized Interest, net | 32,980 | 32,980 | 0 | 0 |
| Transfer to 3yr Call | 0 | 0 | 410,000 | 0 |
| Transfer to DS Reserve | 0 | 0 | 163,290 | 0 |
| Ending Escrow Balance | 1,051,270 | 1,021,040 | 0 | 0 |
| Total Uses of Funds | 2,360,600 | 1,299,020 | 1,021,040 | 0 |

CITY OF WILSONVILLE

PROJECTED WATER SYSTEM FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

| | Actual 1984 | Actual 1986 | Est. 1987 | Est. 1988 | Est. 1989 | Est. 1990 | Est. 1991 |
|--|----------------|------------------|------------------|------------------|------------------|------------------|------------------|
| OPERATING REVENUES | | | | | | | |
| Charges for services | | 285,766 | 300,054 | 495,090 | 571,828 | 660,462 | 726,508 |
| Water Connection Fees | | 73,845 | 50,911 | 53,457 | 56,130 | 58,936 | 61,883 |
| Total Operating Revenues | | 359,611 | 350,966 | 548,547 | 627,958 | 719,398 | 788,391 |
| OPERATING EXPENSES | | | | | | | |
| Personal Services | | 118,910 | 137,341 | 158,629 | 183,216 | 211,615 | 222,196 |
| Materials and services | | 78,707 | 90,907 | 104,997 | 121,272 | 140,069 | 147,072 |
| Depreciation | | 66,439 | 74,669 | 76,794 | 108,702 | 114,827 | 126,021 |
| Total Operating Expenses | | 264,056 | 302,916 | 340,420 | 413,190 | 466,511 | 495,289 |
| Operating Income (loss) | | 95,555 | 48,049 | 208,127 | 214,768 | 252,887 | 293,102 |
| NON-OPERATING REVENUE (EXPENSE) | | | | | | | |
| Interest Income | | 25,328 | 22,573 | 141,032 | 162,241 | 114,114 | 141,864 |
| Interest Expense | | 0 | 0 | 0 | 0 | 0 | 0 |
| Misc. Rev. (exp) | | 751 | 0 | 0 | 0 | 0 | 0 |
| Contribution to G.O. debt service | | (18,581) | (12,728) | (13,364) | (14,032) | (14,734) | (15,471) |
| Revenue Bond D.S. | | 0 | 0 | (167,770) | (167,770) | (164,331) | (164,331) |
| Total Non-operating Income (loss) | | 7,498 | 9,845 | (40,102) | (19,561) | (64,951) | (37,938) |
| Net Income (loss) | | 103,053 | 57,894 | 168,025 | 195,207 | 187,937 | 255,164 |
| UNRESERVED RETAINED EARNINGS, July 1 | | 665,185 | 1,006,034 | 1,063,928 | 1,231,953 | 1,427,160 | 1,615,096 |
| UNRESERVED RETAINED EARNINGS, June 30 | | 1,006,034 | 1,063,928 | 1,231,953 | 1,427,160 | 1,615,096 | 1,870,260 |
| Coverage Ratio | | NA | NA | 2.00 | 2.16 | 2.14 | 2.55 |
| ASSUMPTIONS | | | | | | | |
| Water Rate Increase (X) | | NA | 0X | 50X | 5X | 5X | 0X |
| Connection Fee Increase (X) | | NA | 0X | 0X | 0X | 0X | 0X |
| Growth in Subscriber Count (X) | | NA | 5X | 10X | 10X | 10X | 10X |
| Inflation Rate (X) | | NA | 5X | 5X | 5X | 5X | 5X |

CITY OF WILSONVILLE

PROJECTED WATER SYSTEM FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL CONDITION

| | Actual 1984 | Actual 1985 | Actual 1986 | Est. 1987 | Est. 1988 | Est. 1989 | Est. 1990 | Est. 1991 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| ASSETS | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and Investments | 372,196 | 433,322 | 236,750 | 282,158 | 711,631 | 1,006,977 | 1,263,139 | 1,610,004 |
| Accounts Receivable | 55,489 | 38,027 | 45,519 | 47,795 | 78,862 | 91,085 | 105,203 | 115,724 |
| Due from Other Funds | 22,089 | 14,837 | 30,061 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| Inventories | 15,048 | 19,442 | 23,296 | 23,992 | 34,755 | 36,821 | 40,597 | 40,597 |
| Total Current Assets | 464,822 | 505,628 | 335,626 | 383,945 | 855,247 | 1,164,883 | 1,438,939 | 1,796,325 |
| Fixed Assets | | | | | | | | |
| Land | 18,594 | 18,594 | 18,594 | 18,594 | 18,594 | 18,594 | 18,594 | 18,594 |
| Water System | | | | | | | | |
| Plant in place @ cost | 2,322,920 | 2,430,935 | 2,760,120 | 2,845,120 | 4,121,470 | 4,366,470 | 4,814,220 | 4,814,220 |
| Accumulated Depreciation | (390,371) | (452,053) | (518,492) | (593,161) | (669,954) | (778,657) | (893,484) | (1,019,505) |
| Construction Escrow | 0 | 0 | 0 | 0 | 1,051,270 | 1,021,040 | 0 | 0 |
| Net Fixed Assets | 1,951,143 | 1,997,476 | 2,260,222 | 2,270,553 | 4,521,380 | 4,627,447 | 3,939,330 | 3,813,309 |
| Total Assets | 2,415,965 | 2,503,104 | 2,595,848 | 2,654,499 | 5,376,627 | 5,792,331 | 5,378,269 | 5,609,634 |
| LIABILITIES AND FUND EQUITY | | | | | | | | |
| Short term liabilities | | | | | | | | |
| Rev. Bond Payable, Current | 0 | 0 | 0 | 0 | 167,770 | 164,331 | 164,331 | 164,331 |
| Accounts Payable | 3,137 | 9,177 | 12,216 | 12,827 | 13,468 | 14,142 | 14,849 | 15,591 |
| Refundable Deposits | 1,870 | 1,400 | 1,650 | 1,733 | 2,859 | 3,302 | 3,813 | 4,195 |
| Deferred Compensation Payable | 2,000 | 1,262 | 1,262 | 1,325 | 1,391 | 1,461 | 1,534 | 1,611 |
| | 7,007 | 11,839 | 15,128 | 15,884 | 185,488 | 183,235 | 184,527 | 185,727 |
| Long term liabilities | | | | | | | | |
| Revenue Bonds Payable | 0 | 0 | 0 | 0 | 2,220,000 | 2,195,000 | 1,755,000 | 1,730,000 |
| Debt Service Reserve | 0 | 0 | 0 | 0 | 0 | 0 | (163,290) | (163,290) |
| Net Term Liabilities | 0 | 0 | 0 | 0 | 2,220,000 | 2,195,000 | 1,591,710 | 1,566,710 |
| Total Liabilities | 7,007 | 11,839 | 15,128 | 15,884 | 2,405,488 | 2,378,235 | 1,776,237 | 1,752,437 |
| Fund Equity | | | | | | | | |
| Customers/Subdividers | 708,021 | 708,021 | 708,021 | 708,021 | 872,521 | 1,120,271 | 1,120,271 | 1,120,271 |
| Municipality | 708,329 | 727,418 | 727,418 | 727,418 | 727,418 | 727,418 | 727,418 | 727,418 |
| Retained Earnings: reserved | 75,997 | 83,985 | 139,247 | 139,247 | 139,247 | 139,247 | 139,247 | 139,247 |
| Retained Earnings: unreserved | 916,531 | 971,841 | 1,006,034 | 1,063,928 | 1,231,953 | 1,427,160 | 1,615,096 | 1,870,260 |
| Total Fund Equities | 2,408,878 | 2,491,265 | 2,580,720 | 2,638,614 | 2,971,139 | 3,414,096 | 3,602,032 | 3,857,196 |
| Total Liabilities and Fund Equities | 2,415,965 | 2,503,104 | 2,595,848 | 2,654,499 | 5,376,627 | 5,792,331 | 5,378,269 | 5,609,634 |

COMPARATIVE WATER SYSTEM RATES

Metropolitan Area Residential Customers*
using rates effective 7/1/87

Volume related charges for a two month period
if monthly usage is:

| DISTRICT | 700 c. f. /mo | 900 c. f. /mo | 1200 c. f. /mo | Other** | |
|---|---------------|---------------|----------------|----------|----------|
| | | | | SDC | Meter |
| WILSONVILLE \$3.00 flat / mo +.55 / 100 cf | \$13.70 | \$15.90 | \$19.20 | \$0.00 | \$360.00 |
| WILSONVILLE Estimated 87-88 charges with 50% rate increase | \$20.55 | \$23.85 | \$28.80 | | |
| BEAVERTON \$7.00 flat / mo + \$.60 / 100 cf | \$22.40 | \$24.60 | \$28.40 | \$305.00 | \$620.00 |
| WOLF CREEK HIGHWAY \$8.64 flat / 2 mos + \$.89 / 100 cf | \$21.10 | \$24.65 | \$30.00 | \$800.00 | \$250.00 |
| TIGARD WATER DISTRICT 1st 800 @ \$10 (2 mos) + \$.95 / 100 cf | \$15.70 | \$19.50 | \$25.20 | \$0.00 | \$775.00 |
| PORTLAND \$2.25 / mo flat + \$.69 / 100 cf | \$14.16 | \$16.92 | \$21.06 | \$150.00 | \$580.00 |
| ROCKWOOD 1st 700 cf @ \$10 (2 mos) + \$.87 / 100 cf | \$16.09 | \$20.44 | \$24.79 | \$100.00 | \$275.00 |
| HAZELWOOD 1st 800 cf @ \$5.64 (2 mos) + \$.70 / 100 cf | \$9.84 | \$12.64 | \$16.84 | \$0.00 | \$500.00 |
| METZGER WATER DISTRICT 1st 400 cf @ \$5.50 (2 mos) + \$.95 / 100 cf | \$16.00 | \$19.80 | \$25.50 | \$370.00 | \$575.00 |
| Average: all rates | \$15.94 | \$19.07 | \$23.45 | | |
| Standard Deviation | \$3.92 | \$4.19 | \$4.80 | | |

* Average residential customer assumed to use either 5/8" or 3/4" meter

** SDC and meter connection charges not strictly comparable because
of various methods of classification within each district

Sources: Contact with each jurisdiction

CITY OF WILSONVILLE

ESTIMATED EFFECTS OF WATER RATE CHANGES

| Water Amount | Current rate structure | Proposed 1988 (+ 50 %) | Proposed 1989 (+ 5 %) | Proposed 1990 (+ 5 %) |
|-----------------|---------------------------|------------------------------|-----------------------------|-----------------------------|
| Flat Rate | \$3.00 | \$4.50 | \$4.73 | \$4.96 |
| Rate / 100 cf | \$.55 / 100 cf | \$.83 / 100 cf | \$.87 / 100 cf | \$.92 / 100 cf |

Estimated Volume related charges for a two month period
if monthly usage is:

| | 700 cf / mo | 900 cf / mo | 1200 cf / mo |
|---------------|-------------|-------------|--------------|
| Current rates | \$13.70 | \$15.90 | \$19.20 |
| 1988 | \$20.55 | \$23.85 | \$28.80 |
| 1989 | \$21.58 | \$25.04 | \$30.24 |
| 1990 | \$22.66 | \$26.29 | \$31.75 |

Prepared by Oregon Bank Public Finance

Run Date: 26-Jun-87