MANAGEMENT COMMISSION
METROPOLITAN WASTEWATER

2005 FINANCIAL PLAN

OCTOBER, 2005

TABLE OF CONTENTS

INTRODUCTION AND PURPOSE	1
SCOPE AND METHODOLOGY	2
MWMC FINANCING HISTORY	4
TWENTY YEAR CIP NEEDS	7
FINANCING OPTIONS EVALUATION/ FINANCING STRATEGIES	8
MWMC FINANCIAL SOUNDNESS AND FUTURE FINANCING CAPABILITY	10
FINANCIAL MANAGEMENT POLICIES	11
TECHNICAL APPENDICES	19

Appendix I	"Credit Worthiness in The U.S. Public Wastewater Sector"	20
Appendix II	"Summary of Capital Financing Options"	29
Appendix III	"GFOA Recommended Financial Policies"	42
Appendix IV	"City Of Springfield Investment And Portfolio Policies"	45
Appendix V	"List of Acronyms"	53

INTRODUCTION AND PURPOSE

The 2005 Metropolitan Wastewater Management Commission (MWMC) Financial Plan updates goals and policies originally set forth in the 2003 MWMC Financial Master Plan. This Plan, in conjunction with municipal, State, and Federal law, is intended to guide the financial administration of the Eugene/Springfield Regional Wastewater Program (RWP) through the coming decade.

Financial administration of the RWP is directed toward achieving the following objectives as required by Section 3.f. of the MWMC Intergovernmental Agreement (IGA):

1. Establishing revenue adequacy to provide for long-term health and stability of the regional sewerage facilities through a program of monthly sewer user charges, and system development charges that are imposed uniformly throughout the service area to achieve full cost recovery;

2. Fully funding the needs for equipment replacement and major rehabilitation to address the long-term preservation of the Regional Sewerage Facility capital assets;

3. Fully funding a program of capital improvements to address capacity, regulatory and efficiency/effectiveness needs;

4. Ensuring equity between newly connected and previously connected users for their total contributions toward the Regional Sewerage Facilities;

5. Ensuring equity among various classes of users based on the volume, strength and flow rate characteristics of their discharges together with any other relevant factors identified by the Commission;

6. Ensuring efficient and cost-effective financial administration of the Regional Sewerage Facilities; and

7. Complying with applicable laws and regulations including those governing the establishment of user charges and the establishment of system development charges pursuant to ORS 223.297 et seq.

To address these objectives, this Financial Plan contains sections and appendices detailing the financing history of the MWMC, financing options for the future, and financial strategies and policies, and the Capital Financing Plan, a companion to this document, provides more detailed information on the Commissions' long-range Capital Improvement Projects and projected funding sources.

The financial policies and strategies in this plan provide guidance to the Commission and staff in daily operations, annual budgeting and rate setting, and decision-making when considering competing projects or revenue sources.

SCOPE AND METHODOLOGY

The scope of this plan addresses the long-term stewardship of the Regional Wastewater Facilities, as defined in the Intergovernmental Agreement. The 2005 Financial Plan builds on the foundation established by the 2003 Financial Plan. That previous plan was developed by a team of Eugene and Springfield RWP staff and senior-level financial analysts from the Lane Council of Governments (LCOG). It represented the first comprehensive effort to update MWMC's financial policies since 1992.

Major tasks undertaken in the 2003 Financial Plan included:

A. A review, re-evaluation and update of the issues that framed the 1992 MWMC Financial Master Plan;

B. An evaluation of the financial condition of the MWMC RWP and its preparedness to address future capital and operating financial needs; and

C. Development of financial policies to guide administration of MWMC finances and budgeting for a ten year period.

The foundation for the 2003 Financial Plan included:

A. Five, ten and twenty-year capital program projections (including Capital Improvement Plan, Major Rehab, and Equipment Replacement projections);

B. Long-term MWMC revenue and expenditure forecasts;

C. Government Finance Officers Association (GFOA) Recommended (Financial) Practices;

D. Comparative analyses with other similar utilities and industry standards, and;

E. A comparison of MWMC against national indicators of financial health in utilities, including those used by the major credit rating industries.

In 2004, the Commission completed and the Governing Bodies adopted the first comprehensive regional facilities plan since the original "208 plan", which formulated the designs of the original regional wastewater facilities. The 2004 MWMC Facilities Plan includes a twenty-year Project List, which will serve to guide MWMC's Capital Improvement Program through 2025. Over the twenty-year period, the plan calls for $144 million to $160 million (in 2004 dollars) in capital improvements to increase performance and capacity of the facilities to meet regulatory and community growth needs.

Implementation of this plan will require strategic use of long-term borrowing and careful management of revenues and reserves in order to maintain stable and competitive user rates. Therefore, the Commission's Financial Plan was re-evaluated and updated with the assistance of MWMC's financial advisors – Western Financial Group, and Bond Counsel – Preston, Gates & Ellis LLP. The scope of this update included:

A. An update of the financial planning objectives to clearly reflect the directives of the Governing Bodies (as stated in the MWMC IGA).

B. A general review to bring the information contained in the plan up to date;

C. A review of the policies by financial advisors and bond counsel to ensure adequacy and;

D. An update of the information pertaining to financing mechanisms suitable for MWMC's use.

MWMC FINANCING HISTORY

MWMC Formed In 1977

Prior to the 1970s, the cities of Eugene and Springfield operated separate sewage treatment systems. The passage of the Clean Water Act in 1972 required wastewater management to be done by communities on a regional, rather than local, basis as a prerequisite to qualify for Federal grant funding. As a result, Eugene, Springfield and Lane County formed the MWMC in 1977.

Relationship of the Regional Partners

MWMC was formed by Eugene, Springfield, and Lane County through an IGA in 1977 to provide wastewater collection and treatment services for the Eugene-Springfield metropolitan area. The MWMC is an "intergovernmental entity" as defined in the Oregon Revised Statutes (ORS 190).

The seven-member Commission is composed of members appointed by the Lane County Board of Commissioners (2) and the City Councils of Eugene (3) and Springfield (2). The three bodies appoint one member each from their respective Board or Council. In addition, Springfield and Lane County each appoint one citizen (non-elected) Commissioner, and Eugene appoints two.

Staffing and services needed to run and maintain the RWP have been provided in various ways over the years of MWMC's existence. Since 1983, the Commission has contracted with the cities of Eugene and Springfield for all staffing and services necessary to maintain and support the RWP. This arrangement is stipulated in the MWMC IGA. MWMC has no employees.

Through an intergovernmental services agreement, the City of Eugene provides staff and materials necessary to operate and maintain RWP facilities. Through the same agreement, the City of Springfield provides staff and materials necessary to perform the administration and to construct RWP capital projects. Both cities are compensated for actual costs by the MWMC. This division of duties has provided nearly seamless administration and operation of the RWP.

Lane County's partnership has involved participation on the Commission and providing support to the Lane County Metropolitan Wastewater Services District (CSD), which managed the proceeds and repayment of the RWP general obligation bonds issued to construct the RWP facilities. These bonds were repaid in full in 2002.

MWMC Facilities Construction

Construction of the MWMC Regional Wastewater Facilities (RWF) began shortly after MWMC was formed. The new facilities became operational in 1984, with most of the RWF projects being completed in the late 1980s. The primary sources of funding for the RWF projects were approximately $80 million in Environmental Protection Agency (EPA) grants. In May, 1978, voters authorized the issuance of $29.5 million in general obligation (GO) bonds by the Lane County Metropolitan Wastewater Service District (CSD) to fund the local share of the RWF. Environmental Protection Agency grants funded approximately $80 million in additional project costs. The GO bond authorization was issued in its entirety in four separate series of bonds sold between 1978 and 1982. A fifth series of bonds was issued in October 1989 for refinancing a portion of the CSD's Series 1980 and 1982 bonds. This refinancing resulted in approximately $615,000 in debt service savings. The GO bonds were retired in September, 2002.

Since the late 1980s, a number of projects have been completed using a combination of funds remaining from the GO bonds, user fee revenue, and system development charges (SDCs) CIP budgets were primarily composed of projects identified by the 1996 Eugene/Springfield Water Pollution Control Facility (WPCF) Master Plan, the Biosolids Master Plan, and the Wet Weather Flow Management Plan (WWFMP). The 1996 Master Plan provided an assessment of facilities improvements needed to enable regional wastewater treatment facilities to meet their intended design capacity and regulatory requirements, address system deficiencies, and improve safety and operational performance. The Biosolids Management Plan and the WWFMP resulted from recommendations included in the Master Plan. The Biosolids Management Plan remains the basis for most of the biosolids-related CIP projects.

The WWFMP, provided the basis for wastewater treatment facility performance improvements related to wet weather peak flow that were to be constructed over an eight to ten year period. In order to identify the impacts of these projects on other treatment facility processes, a Wet Weather Flow Pre-Design Project was initiated in FY 02-03. As work proceeded on the Pre-Design Project, it became apparent that, due to increased environmental performance required by the wastewater discharge permit and updated projections of population and capacity needed through 2025, a comprehensive facilities planning effort was needed. The 2004 MWMC Facilities Plan was a result of this effort and was adopted by the Commission and partner agencies in June of 2004.

The 2004 Facilities Plan revealed several process areas which are at or near capacity and identifies projects which will assure that all process areas will have sufficient capacity to meet the needs of current and future users through the year 2025. The 2004 Facilities Plan also identifies alternative future uses of the Seasonal Industrial Waste Facility and addresses possible regulatory compliance issues which may arise in the coming years.

MWMC User Rates

The MWMC's user fee system was developed and implemented in 1985. State and Federal regulations require that MWMC's system of charges and rates generate sufficient revenue to pay the total operation and maintenance costs necessary to fund the proper operation and maintenance (including replacement) of the treatment works. Annual allocations are made to an Equipment Replacement Reserve from user fee revenue. Funds from this reserve are used to pay for timely replacement of equipment that has an expected life of 5 to 20 years and a value of $10,000 to $200,000. User fee revenues are also used to fund capital projects.

MWMC System Development Charges

MWMC's original SDC, which was known as a Facilities Equalization Charge was first implemented in 1991. In today's terms, the Facilities Equalization Charge was a reimbursement SDC. In 1997, MWMC adopted a major revision to its SDC methodology. The new methodology included, in addition to the reimbursement SDC, an "improvement" SDC based upon a 5-year CIP. In 2004, MWMC completed a comprehensive update of its SDC methodology. The new methodology, adopted by the governing bodies, retains the reimbursement fee and bases the improvement fee on the 2004 Facilities Plan 20-Year Project List.

TWENTY-YEAR FINANCING NEEDS

MWMC maintains a Capital Improvements Program (CIP) and a Capital Financing Plan in order to facilitate short-term and long-term budgeting and rate making decisions. The revenue or fund forecast projects revenues available from user rates, SDCs, interest earnings and other miscellaneous income, and contains inflationary assumptions. The expenditure forecast is based on projected Operating budgets, with inflationary assumptions, and Capital budgets based on the 2004 Facilities Plan 20-Year Project List and projected equipment replacement and major rehabilitation needs.

A 5-year CIP is maintained and supports the long-range expenditure/revenue forecasting process. The 5-year CIP includes projects identified in the 2004 Facilities Plan 20-Year Project List. Projects remaining from the Facilities Master Plan (1997), the Biosolids Management Plan (1998), and the Wet Weather Flow Management Plan (WWFMP) (2000), were included in the 2004 Plan). In addition, projects are included that extend the life of the RWF and/or help meet new National Pollutant Discharge Elimination System (NPDES) permit requirements. The 5-year CIP is based upon engineering cost estimates and identifies funding for each project. The 2004 Facilities Plan 20-Year Project List contains budget level estimates of project costs (in 2004 dollars) and approximate timing of projects.

Over the past several years, since grant and GO bond proceeds have been exhausted, MWMC has met annual operating expenditure needs, including budgeted contributions to Capital Reserves (which fund the majority of the CIP) through user rate revenues. From 1996 through 2003 these revenue requirements were met with only modest increases to user rates over time. However, the combination of decreased per capita water consumption (through conservation programs and improved plumbing fixtures) increased operating expenses at greater than inflationary rates, and the estimated $144M - $160M (in 2004 dollars) in capital project costs associated with the facilities plan 20 year project list, has led to the need for significant increases in user rates. During the FY 04-05 budget development process, MWMC examined a number of user rate alternatives. The approved funding alternative raised user rates by 24 percent immediately with planned increases of 6 percent in fiscal years 05-06, 06-07, and 07-08. SDC's, another source of revenue to support the Capital Improvement Program also have increased and are currently anticipated to provide a portion of the funding for the projects in the 20-year project list.

FINANCING OPTIONS EVALUATION/ FINANCING STRATEGIES

Over the long term, MWMC must reinvest in infrastructure and equipment to maintain the value of existing assets and, when feasible, to prolong the useful life of those capital investments. The Commission must also ensure that the Regional Wastewater Facilities have capacity to keep pace with new development and meet regulatory requirements. How the Commission funds these investments is critical to the timing, scope, and cost of the MWMC CIP, and the stability of regional sewer user rates.

Based on the projected declines in Capital Reserves and user rate availability to fund capital programs over the next several years (assuming rate increases match inflation only), a capital financing strategy needs to be employed that will result in adequate funding without significant rate spikes and instability. Therefore, the most cost-effective mix of "pay-as-you go" and debt-financing strategies should be applied.

A comprehensive review of available financial tools, including an evaluation of their appropriateness to MWMC was conducted. Bonds, loans, grants, SDCs and user fee revenues are all common methods of funding capital projects in the wastewater industry. The type of financing a wastewater management agency would use in a given set of circumstances depends on the type of project, the size of the project, any statutory requirements and the financial health of the utility. In examining the available financing options, staff has tried to identify and segregate financial tools by the size of projects for which they are appropriate, administrative ease of implementation, degree of risk, customer equity, and cost.

After a thorough evaluation of funding opportunities for capital projects, the mechanisms described below were determined to be the most appropriate in the circumstances provided. A complete discussion and analysis of these financing tools is found in Appendix II.

Grants – Whenever possible, grant funding will be sought to pay for projects identified in the CIP.

User Fee Financing and System Development Charges – For short-lived assets and relatively small capital expenses, these pay-as-you-go options should be used. These revenues should be accumulated in and drawn from dedicated reserves to avoid significant impacts to user rates. If capital expenditures from these sources would cause significant changes in rates, other options will be explored.

Internal Loans – Internal borrowing from reserve funds is an excellent use of the Commission's cash resources for relatively small capital requirements and should be considered prior to seeking loans from outside sources unless depletion of reserves would put the RWP at risk of having insufficient cash to satisfy debt obligations or address unanticipated needs. Strategic use of internal borrowing from the equipment replacement reserve will allow the commission more control over the timing and sizing of debt issuance by providing temporary funds.

State Revolving Fund (SRF) or other Loans - Loans from outside sources, such as SRF loans are considered appropriate when it is not practical, in terms of timing, magnitude or equity, for the Commission to finance large capital projects on a pay-as-you-go basis.

Revenue Bonds – Revenue bonds also are considered appropriate when it is not practical, in terms of timing, magnitude or equity, for the commission to finance large capital projects on a pay-as-you-go basis.

Any incurrence of debt, whether a loan or a bond sale, should be timed and structured to ensure optimal rates and terms, by timing, phasing, and/or combining capital projects as appropriate. In all cases where debt is incurred, the projected life of the asset financed must meet or exceed the life of the debt instrument.

MWMC FINANCIAL SOUNDNESS AND FUTURE FINANCING CAPABILITY

Introduction

MWMC needs to use some form of debt financing in the near future to fund capital improvements included in the 2004 Facilities Plan. It is essential for the utility to have ready access to the capital financing markets in order to keep open various options for securing debt funding. Appendix I provides an overview and assessment of both qualitative and quantitative credit worthiness indicators used in the wastewater industry. For five of the primary quantitative measurements, the Appendix develops a 20-year future financial scenario for MWMC and then assesses MWMC's resulting financial ratios compared to national medians and credit rating industry guidelines.

Financial Soundness and Financing Capability

The financial industry uses a variety of financial ratios to quantify a utility's financial soundness. Examples of these financial ratios are:

- Operating ratio: Operating and maintenance expenses, divided by the total operating expenses,
- Net take-down ratio: Net revenues, divided by gross revenue and income,
- Interest coverage ratio: Net revenues, divided by interest requirements for the period,
- Debt service coverage ratio: Net revenues, divided by principal and interest requirements for the period, and
- Debt service safety margin ratio: Net revenues, less principal and interest requirements for the period, divided by gross revenue and income.

Appendix I describes a number of the most common financial ratios used. It is clear from the quantitative analysis in Appendix I that MWMC is positioned well financially. Both MWMC's current financial situation, with zero long-term debt, and the 20-year future debt-financing scenario result in performance on the quantitative measures that exceeds (in a good sense) the national medians and the financing industry's guidelines. MWMC's financial ratios perform very well under the scenarios analyzed. The future scenario evaluated in Appendix I assumes a level of debt that will allow fulfillment of MWMC's 20-year Project List. Even given that level of debt, the quantitative financial measures indicate that MWMC will have substantial remaining capacity to assume additional debt should that be necessary.

The qualitative measures assessed in Appendix I also indicate that MWMC is in a strong position with respect to its credit worthiness. MWMC's sound financial management, long-term financial forecasting and planning, stable operations and a host of other qualitative indicators all indicate that MWMC would perform extremely well in any assessment by a credit rating agency or other financial body.

FINANCIAL MANAGEMENT POLICIES

Introduction

The following policies are intended as guidance for the financial administration of the RWP. These policies address all areas of the Government Finance Officer's Association (GFOA) Recommended Financial Policies. When circumstances warrant, the Commission may waive one or more provisions as necessary. Such waivers shall not be considered a violation of the MWMC Financial Plan.

MWMC Financial Policies are grouped into the following categories:

- Financial Forecasting and Budgeting,
- Investment of Liquid Assets,
- Capital Planning and Financing,
- Sewer User Rates and SDC's, and
- Asset Management.

Financial Forecasting and Budgeting

Financial forecasts and budget policies are intended to guide the Commission in prudent financial forecasting and budget planning, and are included to ensure the financial security and bonding capacity of the RWP, as well as meeting minimum legal budget requirements. This set of policies also addresses the Commission's legal and contractual commitments regarding the use of sewer revenues to pay for sewer expenses.

Policy F1 The purpose of the RWP is to protect public health and safety and the environment by providing high quality wastewater management services to the Eugene/Springfield metropolitan area. The MWMC and the regional partners are committed to providing these services in a manner that is effective, efficient, and meets customer service expectations. In order to achieve its purpose, the Commission shall establish and maintain key outcomes upon which RWP work plans and budgets will be focused.

Discussion – Indicators of performance and targets shall be identified for each key outcome. Performance relative to identified targets shall be tracked over time, in order to determine whether the desired results have been achieved.

Policy F2 The Commission shall maintain annual budgets that balance operating expenses and transfers with user fees and other current operating revenue.

Discussion – Long-term financial stability can only be assured if each year's budget is fully funded and balanced. The budget is considered balanced when:

- Expected annual operating revenues meet anticipated operation and maintenance expenses,
- Budgeted capital outlays are funded in full from a combination of operating revenues, capital reserves, accumulated SDCs, and debt proceeds,
- Annual operating statements show a positive net income on a budgetary basis; and
- The debt service coverage ratio is at or above that required by any applicable bond covenants.

Policy F3 The Commission will monitor revenues and expenditures, and maintain a balanced budget through an appropriate combination of cost-saving measures, budget transfers, supplemental budgets and/or user rate adjustments as needed.

Policy F4 The Commission shall maintain a capital planning and financing system for use in preparing a multi-year CIP for consideration and adoption by MWMC and ratification by the partner agencies' governing bodies as a part of the Commission's budget process. This system shall include preparation of a rolling CIP (described in Policy C1) and a Capital Financing Plan (CFP).

Discussion - Each year, staff shall update its CFP based on the multi-year CIP and assumptions and projections related to increased operational requirements, inflation, and other cost factors. The CFP will support staff's analysis and development of revenue requirements, budgeted expenditures, and user charges. The CFP shall contain a ten-year projection of revenue requirements from all revenue sources, and resulting user rates needed to fund operating budgets, capital budgets, and debt service.

Policy F5 The Commission shall establish and maintain prudent minimum cash reserves, including, but not limited to Contingency Reserves and the reserves discussed below, as needed.

F5a) The Working Capital Reserve shall be sufficient to fulfill operating and capital cash flow needs. The Working Capital Reserve has been set at $200,000 for the City of Springfield and at $500,000 for the City of Eugene for many years. The reserves are sized to provide the cities with cash to pay expenses until the sewer user fees are received. The size of the reserve is reviewed annually and may be adjusted as needed to ensure that it is sufficient and that neither city experiences negative cash flow.

F5b) The Operating Reserve shall be maintained to minimize the impact of unanticipated revenue shortfalls. In the operating budget, the guideline for establishing the Operating Reserve when preparing annual budgets is 8% - 10% of the operating expenditure budget.

F5c) The Capital Reserve accumulates revenue to help fund capital projects (including major rehabilitation). The Capital Reserve is funded by annual contributions from user rates and is used to fund capital projects as determined through the annual budget process. In no year shall the Capital Reserve be allowed to fall below $1 million in the adopted budget.

F5d) The Equipment Replacement Reserve is intended to accumulate funds necessary to provide for the timely replacement or rehabilitation of equipment, and may also be borrowed against to provide short-term financing of capital improvements. An annual analysis is performed on the Equipment Replacement Reserve. The annual contribution is set so that all projected replacements will be funded over a 20-year period and at the end of the 20 year period, the reserve will contain replacement funds for all equipment projected to be in use at that time. Estimates used in the analysis include interest earnings, inflation rates and useful lives for the equipment.

F5e) A Rate Stability Reserve shall be maintained as necessary to protect ratepayers from volatility in user rates and to enhance credit-worthiness. The intent of a Rate Stability Reserve is to set aside funds to provide stable rates over a period of years.

Establishing user rates with an anticipated contribution to the Rate Stability Reserve smoothes out the financial impact of required rate increases on customers over time, and hedges against potential rate spikes when assumptions about the future prove to be incorrect. Revenue is allocated to the Rate Stability Reserve only after budgeted Operating Reserve and Capital Reserve transfer targets are met.

F5f) The Reimbursement SDC Reserve accumulates revenues derived from the "reimbursement fee" component of SDCs charged to new development along with accrued interest. Expenditures of these funds are limited to support capital projects and debt service payments in accordance with ORS 223.311.

F5g) Improvement SDC Reserve accumulates revenues derived from the "improvement fee" component of SDCs charged to new development along with accrued interest. Expenditures of these funds are limited to support capacity enhancement capital projects and debt service payments in accordance with ORS 223.311.

F5h) A Bond Reserve shall be sufficient to provide assurances to bond holders that adequate revenue coverage will be provided for future debt service payments.

F5i) The Rate Stabilization Reserve contains funds to be used at any point in the future when the net revenues are insufficient to meet the bond covenant coverage requirement. The Commission shall maintain the Rate Stabilization account as long as bonds are outstanding. Money in the Rate Stabilization account may be withdrawn at any time and used for any purpose for which gross revenues may be used. Earnings on the Rate Stabilization Account shall be credited to the sewer fund.

Discussion – Each reserve has specific sources and uses, and the order in which the reserves are accessed to meet operating and capital needs follows:

In the operating budget, in the event of a revenue shortfall, funds will first be transferred from the Rate Stability Reserve. If additional funds are necessary, the Operating Reserve will then be used. If additional funds are still needed, the budgeted transfer from the Operating Fund to the Capital Reserve will be reduced.

Funding for capital projects will come from a combination of SDC reserves, Capital reserves, and debt financing. During each year's budget process, staff will consider reserve levels, reporting requirements, arbitrage considerations and debt issuance costs associated with borrowed funds and cash flow needs and determine the specific funding source for each project in the budget.

Policy F6 MWMC funds are dedicated for the exclusive benefit of the RWP including operating expenses, debt service payments, and the associated capital program.

Investment of Liquid Assets

The liquid assets of the Metropolitan Wastewater Management Commission (MWMC) are managed by the City of Springfield, in the City's capacity as the MWMC's administrative agency.

As part of its MWMC administration functions, the City of Springfield manages MWMC funds in compliance with the **Springfield Investment and Portfolio Policies** (Appendix IV) as updated and amended from time to time. These policies are consistent with the local government investment requirements defined in Oregon Revised Statutes (ORS 294), and are substantially similar to the public funds investment policies of Eugene and Lane County.

Policy I1 Cash on hand that is not invested is kept in a local bank. Because the balance is usually in excess of the FDIC insured amount of $100,000, the bank must participate in the Oregon Certificate of Participation Collateral Pool. This protects depositors from loss in the event of bank failure.

Policy I2 MWMC funds are invested based on the following criteria: Safety, Legality, Liquidity, Diversity, and Yield. For purposes of investing, MWMC and Springfield funds are co-mingled, but are tracked separately.

Policy I3 For day-to-day investing purposes, the City of Springfield uses the State of Oregon Local Government Investment Pool (LGIP). The LGIP provides a modest rate of return with nearly immediate liquidity. In addition to the LGIP, the City of Springfield can invest in U.S. Treasury Obligations, U.S. Government Securities, Bankers' Acceptances, Corporate Bonds, Repurchase Agreements, Oregon and Local Government Obligations, Regional Debt Obligations, and Time Certificate of Deposits. With the exception of the LGIP, no more than 25% of the portfolio can be invested with any one financial institution, and there are limits to the amount that can be invested in any one type of instrument. For instance, a maximum of 25% of the portfolio can be invested in corporate bonds.

Discussion – Guidelines were created to ensure adequate liquidity. For instance, at least 10% of the short-term investments must be in instruments with a maturity of less than 30 days, 25% must mature within 90 days and, with certain exceptions, all investments in this portfolio must have a maturity date of 18 months or less. Longer maturities are allowed with approval of the Finance Director and when matched to a specific cash flow. The City of Springfield Finance Director also serves as the MWMC Chief Financial Officer.

The investment policy requires that internal controls for cash and investment activity be established and followed. The policy also requires that the financial condition of the broker/dealers and financial institutions involved in the investment program be reviewed annually and that monthly cash and investment reports be issued and reviewed to demonstrate compliance with the limits outlined in the policy (Appendix IV contains the full text of the City of Springfield Investment Policy).

Capital Planning and Financing

Capital planning and financing policies direct those necessary future capital improvements be identified together with the financial resources needed to complete them. These policies also direct that major capital costs be spread over time to stabilize user rates and to provide equity among current and future ratepayers for long-lived capital improvements.

Policy C1 The Commission shall maintain a capital planning and financing system for use in preparing a multi-year CIP for consideration and adoption by MWMC and ratification by the partner agencies' governing bodies as a part of the Commission's budget process. This system shall include preparation of a rolling CIP and a Capital Financing Plan (described in Policy F4).

Discussion – Each year, staff will prepare a 5-year CIP made up of new capital projects, major rehabilitation projects, and equipment replacement. The 2004 Facilities Planned 20-Year Project List, as updated from time to time, shall be a primary tool for long-range capital planning, along with the long-term list of major rehabilitation and equipment replacement needs, which are updated annually.

The CIP shall contain a comprehensive description of the capital projects, sources of funds, the timing of capital projects and the amount expected to be expended in each year for future operating and capital budgets.

Policy C2 The Commission shall establish and maintain a list of approved finance mechanisms.

Discussion – Appendix II contains the listing and discussion of approved financing mechanisms.

Policy C3 The Commission shall utilize debt service professionals and GFOA guidance to structure bond covenants.

Policy C4 Commission debt should be structured to match the expected useful life of the assets to be funded, preferably not to exceed 20 years, however recognizing there may be some instances where a longer period is warranted.

Policy C5 Long-term bonding shall be structured to maximize its cost effectiveness.

Policy C6 Before seeking to incur new debt, all available grant programs shall be evaluated for their potential to offset targeted program costs.

Policy C7 Consideration shall be given to the overall level of debt financing that can be sustained over the long-term given the size of the future capital programs, potential impacts on credit ratings, and other relevant factors such as intergenerational rate equity, overlapping debt, and the types of projects appropriately financed with long-term debt.

Policy C8 Consideration shall be given to competing demands for use of the community's overall debt financing capacity.

Policy C9 The Commission shall annually target at least 2% of the RWP asset value for capital reinvestment. This includes the amounts to be budgeted for major rehabilitation and equipment replacement, and includes regular scheduled maintenance and CIP.

Discussion – This will allow the target for annual infrastructure maintenance to increase as the size of the asset base increases.

Policy C10 The maximum bonded debt burden shall be determined by comparing the debt service to the user rate revenues. Budgeted debt service shall not exceed 25% of budgeted user rate revenue.

Sewer User Rates and System Development Charges

User rate and SDC policies are intended to guide the Commission in establishing annual rate structures and approving RWP capital improvement and operating budgets. User rate and SDC policies shall be directed towards achieving the requirements of IGA Section 3.f.1. - .7.

Policy R1 Monthly sewer user rates, which are the primary source of revenue for the RWP, are to be equitably allocated to all users based on a cost of service assessment that considers, among other factors, the volume, strength, and flow rate characteristics of their discharges.

Policy R2 New users of the RWP shall pay an SDC in conformity with the Commission's SDC methodology which is adopted consistent with State law. **Discussion –** "New users" means users produced from:

1. New connections to the existing collection system, including:
   a. new single family and multiple unit residential connections; and
   b. new commercial or industrial connections;
2. Expansions in activity from existing connections, including:
   a. conversion of residential units (single or multiple) to include additional users or equivalents, or both; and
   b. expansions in commercial or industrial activity; and
3. Septic to sewer conversions; and

Policy R3 Existing and new sewer users shall equitably contribute to recovering all costs associated with the RWP. To implement this policy, user rate and SDC methodologies will consider wastewater quantity, quality, and strength, consistent with State law.

Policy R4 MWMC rate structures shall be sufficient to fully fund reserves, comply with bond covenants and cover the costs of constructing, operating, rehabilitating, maintaining, and improving the MWMC assets, while maintaining an un-enhanced credit rating of A for the Commission's bonds.

Discussion – A rate sufficiency covenant is a standard provision in municipal utility bond contracts. The covenant requires that rates and charges be set at a level that is high enough to pay the costs of operating and maintaining the utility. The intent of this policy is to assure that MWMC rates and charges will be maintained at a level consistent with maintaining an un-enhanced credit rating of A for the Commission's bonds.

MWMC should strive to maintain rates and charges that provide sufficient financial flexibility to accomplish strategic objectives for long-term water and biosolids quality, customer satisfaction, and community support.

Policy R5 The Commission will attempt to adopt user rates that provide multi-year stability.

Discussion – A multi-year rate schedule establishes user rates that are applicable over several years. They may be the same each year, or change at some frequency. A Rate Stability Reserve shall be maintained to ensure that adequate funds are available to sustain the rate through completion of the rate cycle.

The General Manager shall prepare and submit to the Commission a report in support of the scheduled or proposed monthly sewer rates for the next year, including the following information:

- key financial assumptions such as inflation,
- bond interest rates,
- investment income,
- size and timing of bond issues,
- the considerations underlying the projection of future growth in residential customer equivalents,
- all key projections, including the annual projection of operating and capital costs, debt service coverage, cash balances, revenue requirements, revenue projections and a discussion of significant factors that impact the degree of uncertainty associated with the projections, and
- a discussion of the accuracy of the projections of costs and revenues from previous recent budgets.

Policy R6 Costs of existing and future capacity for new customers shall be recovered by SDCs that are based on the cost of existing and required new capacity in conformance with the Commission's SDC methodology.

Discussion – The Commission should periodically review the SDCs to ensure that equity is established between newly connected and previously connected users for their total contributions toward the Regional Sewerage Facilities.

Policy R7 Costs of services (direct and indirect) provided to any public or private organizations by the RWP shall be recovered through appropriate fees or charges.

Discussion – Historically, costs for administering the mobile waste hauler program were recovered through rates set on the basis of state-wide market comparison. In 2004, the Commission changed its policy and chose to escalate mobile waste hauler rates by the same rate as other user rates.

Asset Management

Asset management policies are intended to guide the Commission in protecting and safeguarding the investment in regional facilities and equipment. Capital assets shall be kept in sound working condition. Replacement, maintenance and rehabilitation shall be provided for, so that total system costs are minimized while reliable, high quality service and high water quality standards are maintained.

Policy A1 MWMC assets shall be insured for replacement value so that, in the event of a loss, plant and equipment could be restored to working condition.

Policy A2 The Commission shall maintain a fully-funded Equipment Replacement Reserve so equipment may be replaced or rehabilitated when needed, without creating volatility in the operating budget.

Policy A3 Equipment provided for by the Equipment Replacement Reserve shall include all rolling stock, all computer equipment and all other equipment with a historical cost between $10,000 and $200,000, a projected replacement cost between $10,000 and $200,000, and with a useful life expectancy of between one and up to 20 years.

Discussion – The equipment list shall be reviewed annually and estimates of replacement cost and life expectancy adjusted. The analysis shall make use of other estimates, such as inflation and available resources, such as interest earnings on the reserve balance.

Before equipment is replaced, an analysis shall be done to determine if it should be kept in use longer, rehabilitated to extend its life, replaced with similar equipment, or replaced with different equipment. Equipment that outperforms projections in useful life expectancy may be replaced with funds accumulated in the reserve.

Policy A4 Major Rehabilitation work shall be funded from the Capital Reserve and appropriated annually into a budget line item called Major Rehabilitation.

Policy A5 The Major Rehabilitation work shall be capitalized if it extends the useful life of the asset beyond the original estimate. If the Major Rehabilitation work does not extend the life of the asset, but enables the asset to reach its originally estimated useful life, then it will be considered major maintenance work and not capitalized.

TECHNICAL APPENDICES

APPENDIX I

CREDIT WORTHINESS IN THE U.S. PUBLIC WASTEWATER SECTOR

Background

The wastewater utility industry in the United States is very capital intensive. In addition to adding capacity necessary to accommodate population growth, sewer utilities must also reinvest in capital assets to extend the life of the facilities, and to maintain compliance with environmental and other regulatory requirements. Even the smallest wastewater utilities must spend millions to preserve, upgrade and expand their plant facilities.

In order to meet new and ongoing capital needs, it is essential for the wastewater utility industry to have access to capital financing markets.

In the 1970s and 1980s, Federal grants were available to build and upgrade facilities. For example, MWMC was awarded more than $80 million in Federal grants to construct the Eugene/Springfield wastewater facilities. In the years since, a significant portion of the wastewater industry's capital needs have been met using current revenues (also known as pay-as-you-go). However, recent data indicates bond financing is used extensively and may be growing. In a 1999 study, Moody's Investor Services reported that the median debt-to-fixed-assets ratio was roughly 33 percent. Simply put, the median wastewater utility had one third of all its assets carried as bonded debt. Other national gauges indicate that more than one half of *new* capital investment in the industry is funded through bond financing.

Demonstrating and maintaining credit worthiness in the eyes of the capital financing markets is critical to obtaining bond financing at the lowest possible interest rate. Establishing policies, practices and other terms of operation that confirm and enhance credit worthiness should be a primary goal of the *MWMC Financial Plan*, and guide the management of the utility.

Measuring Credit Quality

While capital debt may be structured in numerous ways, revenue bonds and general obligation bonds are the most common instruments used by the public sewer industry in the United States. For example, MWMC matched the Federal grant funds with $29.5 million in general obligation bonds to fully finance construction of the regional wastewater facilities.

When assessing the credit quality of a wastewater utility, there are numerous financial measures and other factors that are evaluated by the capital market. Public sewer utilities are generally viewed favorably by bond rating agencies and creditors, because they tend to be very stable with minimal risk of default. They are highly regulated, essential to the public good, and often operate with a natural monopoly. The regulatory bodies for wastewater utilities typically have the authority to establish user fees and charges necessary to cover debt obligations.

The industry, as a whole, has an extremely good credit history. However, individual wastewater utilities are still subject to close scrutiny when requesting large issues of capital debt. When assessing the credit quality of a wastewater utility, a bond rating agency will generally examine several specific areas, including:

- Financial ratios and other indicators of fiscal health,

- Management quality and practices,
- Non-financial system characteristics,
- Size of the customer base and other customer characteristics, and
- Local economic vigor and other community characteristics.

One of the leading credit rating agencies, Fitch IBCA, maintains the following detailed wastewater utility bond credit-worthiness checklist:

Fitch's "10 Cs" of Water/Sewer Bond Analysis

- Community Characteristics
  - Economic diversity.
  - Income and property wealth levels.
  - Population growth.
  - Potential for residential, commercial, or industrial sector volatility, including customer concentration.
  - Typically a key determinant for rating placement in the 'A', 'AA', or 'AAA' categories.
- Customer Base
  - Stability, growth or decline?
  - Effect on the capital program, rates, and financial flexibility.
  - Operating reliance on growth-sensitive fees derived from customer base growth.
- Capacity
  - Water supply sources.
  - Treatment facilities.
  - Collection, transmission, and distribution infrastructure.
  - Management, technological, and personnel capacity.
  - Regional demands on water supplies.
- Compliance with Environmental Laws and Regulations
  - Is the utility staying ahead, keeping up, or falling behind regulatory mandates?
  - Status of consent decrees or compliance litigation.
  - What developing regulations could affect the utility?
  - How much will meeting the regulations cost in the five- to ten-year timeframe?
- Capital Demands and Debt Policies
  - Costs of growth, regulations, and maintenance.
  - Impact of costs on rates.
  - Cost effects on financial flexibility.
  - Pay-as-you-go versus debt funding sources.
- Coverage and Financial Performance
  - Goals for annual financial performance.
  - Reasonableness of future budget assumptions.
  - Payment enforcement and account delinquencies.
  - Cause of past financial volatility, if any.
  - Policies to limit transfers to general fund are preferable.
- Cash and Balance Sheet Considerations
  - The less stable the operating environment, the larger the needed financial cushion.
  - Operating reserve levels.

    - Repair and replacement reserve levels.
    - Rate stabilization reserve levels.
    - Debt service reserve levels.
    - Unrestricted cash and investments.
    - Reserves for variable-rate fluctuations if the utility incurs variable-rate debt.

- Covenants
    - Annual debt service coverage of 1.2 times in rate covenants and/or additional bonds tests are typical.
    - Does the system regularly exceed typical covenant requirements?
    - If so, does it show strong prospects of continuing this trend?
    - Level of minimum credit protection provided if utility is likely to test or breach covenants.
- Charges and Rate Affordability
    - Do political leaders and utility officials regularly raise rates when needed? Is review by an outside entity required?
    - Affordability of rates for residential, commercial, and industrial classes.
    - Comparison of rates to those in nearby communities, and whether they affect the ability to raise rates when needed.
- "Crew" (Management)
    - Important for linking these credit features together.
    - Are management and administrative practices institutionalized, recognized by political leaders and management officials, and able to withstand personnel changes?
    - Have management and administrative practices withstood prior periods of operating volatility, if any?

Similar analysis frameworks are maintained by other credit rating agencies. For example, Standard and Poor's wastewater utility rating methodology incorporates two components:

1) The Business Profile (a qualitative analysis that looks at regulation, markets, operations, competitiveness, and management), and

2) The Financial Profile (a quantitative analysis that looks at profitability, capital structure, cash flow analysis, and financial flexibility).

Moody's (another credit rating agency) states their assessment covers four primary areas; Economy, Debt, Finances, and Administration/Management Strategies. They cite the following list of key rating factors in their August 1999 report *Rating Methodology: Analytical Framework for Water and Sewer System Ratings*:

• **System size and assessment base.** Larger systems can achieve economies of scale. Smaller systems may have more trouble raising revenues to meet large fixed costs.

• **Local economy and customer base.** Moody's looks for a diverse customer base to protect against the loss of a large customer. The system's ability to meet the needs of a growing economy and population is also analyzed.

• **Governance.** Operation by an independent board often counters the politicization that can impede efficiency.

• **Quality of management.** This is revealed in – among other things – adaptability to regulatory changes and financial constraints, track record of regulatory compliance, and sound staffing practices.

• **Strategic focus.** Moody's favorably considers multi-year capital improvement plans that include current and anticipated capital needs that cover asset maintenance, upgrades, and system expansions.

• **Rates, rate structure, and rate-making flexibility.** Moody's evaluates whether rates and revenues cover all financial commitments, with enough reserve for emergencies, and whether they are reasonable and affordable, which could affect asset maintenance and expansion of the user base.

• **Liquidity.** Moody's examines whether debt service coverage ratios include recurring and one-time charges. Systems with large, completed, and compliant capital improvement programs can afford narrower margins. Adequate excess revenues enable systems to cash-fund more of their capital needs.

The Qualitative Analysis

Many of the factors listed in the analytical frameworks outlined above are qualitative indicators; that is, they are not generally measurable. While credit rating agencies cannot readily compare qualitative measures against national benchmarks or averages, these indicators can and do provide general information about the characteristics credit agencies prefer to see in the utilities they rate highly, including:

- The presence of long-term financial forecasting and planning by the utility – MWMC typically projects revenues and expenses 10 years into the future during the annual budget process.
- Strength and diversity in the local economy and customer base, and other local socioeconomic characteristics – MWMC is the sole provider for wastewater services in the Eugene/Springfield Metropolitan area. The local economy has diversified in recent years.
- Regular financial reporting – Budget compliance reports are presented to the Commission monthly and audited financial statements are presented to the Commission annually.
- Attention to customer relations, including an open rate-setting process – MWMC always conducts a public hearing prior to budget adoption.
- An independent Board of Directors with seasoned management - The Commission is independent (not paid by or stockholders of the utility). Commission members are a combination of experienced, knowledgeable elected officials and citizen representatives. Commission members have staggered terms to protect the utility against periods of unseasoned leadership.
- Political will to increase rates when needed – The Commission has repeatedly demonstrated their will to increase rates when the need was demonstrated.
- Anticipation of capital requirements due to new regulations – MWMC staff work proactively with Federal and State personnel to keep well informed on upcoming new regulations. MWMC maintains a 20-year list of capital improvements that is reflective of anticipated new regulations.

- A comprehensive financial policy structure, including:
  - Established debt policies and practices
  - Established budgetary policies and practices
  - Established reserve policies and practices
- A CIP and other asset management tools that address system maintenance, upgrades and capacity enhancement – MWMC maintains 5-year, 10-year, and 20-year CIPs.
- Intergovernmental cooperation and coordination – The Commission has a goal of intergovernmental cooperation and has worked hard to maximize the benefits of that cooperation. MWMC is generally thought of as an example of successful intergovernmental cooperation.
- Healthy employee relations and sound staffing practices – Staff turnover is low. Staffing levels are reviewed annually. High qualification standards are required of all new personnel.
- Successful litigation history – MWMC has little in the way of litigation history but what there is has been successful.
- Exposure to growth-sensitive revenue sources – MWMC's major revenue source, user fees, is somewhat sensitive to conservation efforts, but is not growth sensitive. SDC revenue is growth sensitive. While this revenue plays an important role in MWMC capital financing, the greatest.
- Long-term operational capacity planning and creation – The Intergovernmental Agreement (IGA) under which MWMC was formed requires planning for new capacity to begin at the point 85 percent of present capacity is being used.
- Compliance with environmental laws and regulations – MWMC has an outstanding record of environmental compliance.

The common element of many of these qualitative factors is the capability of management and their practices and policies. Moody's states, "Management quality is a key aspect in the… assessment… and it is reflected in their financial operations and budgeting, capital improvement planning, construction management, and ability to operate and meet the demands of a changing regulatory, political and economic environment."

The Quantitative Analysis

Quantitative measures are performance factors that can be expressed in numbers or ratios. They are useful for comparing an agency with other agencies or with an objective standard. When assessing a sewer utility's credit worthiness, the quantitative measures focus primarily, but not exclusively, on financial indicators. Among the key quantitative factors are the following:

- Income statement and balance sheet components and ratios (see additional detail below),
- Previous bond ratings,
- Reserve levels,
- Rate structure, including rate competitiveness,
- Account and collections history,
- The level of overlapping debt in the user base (a measure of the total public debt load on the customer base in the community from all overlapping jurisdictions),
- Outstanding capital needs,

- Affordability (Example: Sewer service rates no more than 2 to 4 percent of local household income), and
- Non-debt equity in total plant assets and in capital projects to be financed.
  - ICBA Fitch states, "The proportion of equity should generally be at a minimum 15%-25%" and "the highest rated utilities often fund 50% or more of their capital requirements from pay-as-you-go sources."
  - Moody's states, "(We) view positively, balanced contributions from cash and debt." (i.e. roughly equal amounts of cash and debt).

Perhaps the most significant quantitative factors are the income statement and balance sheet components and ratios. These financial measures provide a uniform basis by which the credit rating agencies may assess the fiscal strength of a utility. Each major rating agency employs its own set of financial measurements; however, all share the same primary components. For example, Moody's *Municipal Enterprise Ratios*, which follow, are the measures Moody's employs when assigning bond ratings to municipal sewer systems.

<u>Moody's Municipal Enterprise Ratios</u>

Balance Sheet Components and Ratios

Net funded debt: Long-term debt (gross long-term debt plus the current portion of long-term debt) plus accrued interest payable, less the balance in both the debt service reserve fund and the debt service fund.

Net fixed assets: Fixed assets, less accumulated depreciation.

Working capital: Net current assets and net assets of all funds and accounts not devoted to debt service.

****Debt ratio (%):** Net funded debt, divided by the sum of net fixed assets, plus net working capital.

Income Statement Components and Ratios

Gross revenue and income: Operating revenue, plus non-operating revenue.

Operating and maintenance expenses: Operating and maintenance expenses, net of depreciation, amortization and interest requirements.

Net revenues: Gross revenue and income, less operating and maintenance expenses.

****Operating ratio (%):** Operating and maintenance expenses, divided by the total operating expenses.

****Net take-down (%):** Net revenues, divided by gross revenue and income.

****Interest coverage(x):** Net revenues, divided by interest requirements for the period.

****Debt service coverage (x):** Net revenues, divided by principal and interest requirements for the period.

****Debt service safety margin (x):** Net revenues, less principal and interest requirements for the period, divided by gross revenue and income.

***These five ratios are identified in the current (January 1992) MWMC Financial Master Plan as "credit quality indicators."*

Moody's has historically tracked national medians for several of these key ratios within the wastewater industry. In 1998-99, Moody's compiled U.S. wastewater industry financial ratio medians for five key ratios, but they have not, according to their staff, had the capacity to maintain that practice since that time. Nonetheless, the 1998-99 national medians still provide a good measure with which to compare those of MWMC.

The five ratios for which Moody's compiled national medians are:

- Operating Ratio (operating and maintenance expenses divided by total operating revenues)
- Net Take Down (net revenues divided by gross revenue and income)
- Debt Service Safety Margin (net revenues, less principal and interest requirements for year, divided by gross revenue and income)
- Debt Service Coverage (net revenue divided by principal and interest requirements for year)
- Debt Ratio (net funded debt, divided by the sum of net fixed assets, plus net working capital)

It is important to note that three of these ratios specifically take into account a utility's debt level, and all of the ratios can be significantly affected by the presence or lack of debt, the investment (or lack thereof) of the debt proceeds in the infrastructure plant, and the collection (or lack thereof) of revenues required to service the debt. Since MWMC currently carries no long-term debt, it would be misleading to compare MWMC's current ratios with the national medians.

To create a meaningful comparison, staff developed a 10-year scenario in early 2003, and assumed a level of bonded debt in order to calculate these five important ratios. The existing 10-year Capital Improvement Plan was used to estimate level of expected investment and the 10-year Financial Forecast was modified to incorporate debt service. The scenario makes the following assumptions:

- Beginning in FY 03/04, MWMC will obtain $22 million in bonded debt spread over 10 years. This, in combination with current revenues, would be sufficient to fund the projected capital improvement program over the 10-year horizon.
- Repayment of the debt would commence in FY 04/05.
- $2.2 million of debt would be obtained annually each year for ten years, at five percent interest for a 20-year term.
- Each year, $2 million of the debt proceeds would go directly to capital investment, $0.2 million would go to the Capital Reserve.
- The approximately $7 million in the Capital Reserve would be spent by FY 07/08, supplementing debt proceeds and current revenues. However, as noted above, the Capital Reserve would continue to be replenished.
- Over the 10-year horizon, approximately $55 million of MWMC's current revenues would be invested in capital improvements, while incurring the additional $22 million in debt (of which $2 million would accrue to the capital reserve over the 10-year time span).
- The ratio of actual expenditures to budgeted expenditures is projected at 95 percent (historically they have run at greater than 90 percent).

The resulting ratio comparisons are presented in the table below.

FISCAL YEAR	ESTIMATED FUTURE FINANCIAL RATIOS				
	Operating Ratio	Net Take Down	Debt Service Safety Margin	Debt Service Coverage	Debt Ratio
FY04	81.4%	38.3%	38.3%	N/A	2.0%
FY05	78.1%	40.1%	39.0%	36.6	3.6%
FY06	76.1%	41.0%	38.9%	19.4	5.1%
FY07	74.9%	41.7%	38.7%	13.6	6.3%
FY08	73.8%	41.9%	37.9%	10.5	7.1%
FY09	72.8%	41.6%	36.7%	8.5	7.6%
FY10	71.9%	41.8%	36.1%	7.3	8.6%
FY11	71.1%	41.8%	35.3%	6.4	9.5%
FY12	69.5%	43.5%	36.4%	6.1	10.2%
FY13	68.9%	44.1%	36.5%	5.8	10.9%
MOODY'S 1999 NATIONAL SEWER MEDIAN	59.3%	46.8%	15.2%	1.9	33.1%
MOODY'S 1999 NATIONAL SEWER STANDARD DEVIATION	18.4%	16.8%	16.9%	1.9	22.2%
RANGE -- PLUS or MINUS ONE STANDARD DEVIATION	77.7 - 40.9	63.6 - 30.0	32.1 - (1.7)	3.8 - 0.0	55.3 - 10.9

When comparing MWMC's projected ratios to the national median, it is clear MWMC's projected debt level is still comparatively very low over the 10 years. The strong influence of the outstanding debt level is clearly illustrated by the significant shifts shown in each ratio as additional debt is incurred annually. Note that in the tenth year, MWMC's Debt Ratio (the level of debt as a percentage of the utility's total net fixed asset value) is still only one-third the national median.

A summary assessment of the ratio comparisons shows that:

- **Operating Ratio -** MWMC's Operating Ratio remains higher than the national median throughout the scenario. This indicates MWMC is conservative in setting rates adequate to cover operating expenses, without generating excess revenue. It should also be noted that MWMC adequately funds reserves, and this aspect is not explicitly revealed by this ratio. Credit rating agencies look for adequate revenues primarily to fully cover operating needs and secondarily address debt service requirements. Accordingly, MWMC should keep in mind potential future debt service requirements adding to revenue requirements without infringing on the ability to comfortably meet operating requirements.

- **Net Take Down** - Of these five ratios, the Net Take Down ratio is perhaps the least influenced by MWMC's relatively low level of debt. Because of this, MWMC's net take down ratio is more closely aligned with the national median than any of the other ratios. The ratio is an indicator of the proportion of revenue remaining after all operating and maintenance expenses are deducted from gross revenues. MWMC's ratio increases over the 10-year horizon as the additional revenue realized from the debt proceeds is factored into the ratio.

- **Debt Service Safety Margin** - MWMC's debt service safety margin is well above the national median, primarily due to the assumed low level of debt. This indicates to the credit rating agencies that MWMC has more than adequate capacity to shoulder the level of debt assumed. A large "safety margin" exists to cover all requirements, even if there is a drop in revenue.

- **Debt Service Coverage –** Under the scenario, MWMC performs extremely well on this ratio, with estimated revenues more than capable of servicing the assumed debt level. Even in the tenth year of the scenario, MWMC's ratio is still nearly triple the national median. In other words, MWMC would need to incur three times the total debt load projected in year 10 of the scenario to approach the national median of this measure. In addition, this coverage ratio is a primary indicator to credit rating agencies of an agency's capacity to assume debt. Fitch's states that "for utilities in the most stable operating environments with a suitably diverse and healthy service area economy, *1.5x annual coverage* (emphasis added) . . . could be sufficient for" the highest bond ratings. This reflects the consistent view expressed by other credit rating agencies and providers that a debt coverage ratio between 1.5 and 2.0 is healthy.
- **Debt Ratio** - As mentioned earlier, at the national median of 33 percent, approximately one-third of the total fixed asset value of the industry is carried as debt (all capital assets, both pre-existing and new, net of depreciation). In the 10-year scenario, MWMC's debt ratio steadily increases as additional debt is incurred each year. Even so, in the final year of the scenario, MWMC's ratio is approximately 11 percent, or one-third the national median. Again, as with the Debt Service Coverage ratio, MWMC has ample room to incur debt while remaining within favorable ranges on the credit-worthiness measures.

Summary

MWMC currently enjoys a very favorable position based on the identified quantitative and qualitative measures. While the absence of long-term debt is a primary factor in this assessment, it is not the only one. Prudent planning and financial management are large contributors to the credit worthiness of the utility. The scenario presented shows that, even incurring the level of debt currently assumed to meet capital needs over the next ten years, MWMC would perform extremely well when compared to credit rating agency recommendations and the national medians for the industry.

This report is intended to summarize the more significant qualitative and quantitative measures a credit agency would use to assess the utility's credit worthiness, should MWMC seek to secure bond financing. This report is not meant to present a comprehensive assessment of the scrutiny MWMC would incur when pursuing debt, but can act as a valuable tool in identifying policies and practices where MWMC could bolster its standing in the eyes of potential creditors.

APPENDIX II

SUMMARY OF CAPITAL FINANCING OPTIONS

Introduction

This summary of capital financing options available to the Metropolitan Wastewater Management Commission (MWMC) has been prepared as part of the 2005 MWMC Financial Plan. This summary includes the following:

1. Identification of capital financing options available to MWMC,
2. Summary of the prevailing capital financing options use in the industry, and
3. A general description of the advantages and disadvantages of each capital financing option.

A large part of this summary is based on "Paying for Sustainable Environmental Systems *A Guidebook of Financial Tools* April 1999 Revision"; published by the Environmental Protection Agency. The discussion of capital financing practices in the wastewater industry is drawn from the 1999 Association of Municipal Sewerage Agencies (AMSA) Financial Survey.

Overview of Major Mechanisms for Capital Financing

There are two categories of capital financing mechanisms:

1. Debt Financing - The primary debt financing mechanisms available today are bonds and loans. Bonds and loans involve borrowing and require repayment; however, interest rates may be governmentally subsidized, in some cases.
2. Non-Debt Financing - The primary non-debt financing mechanisms are user rate revenue and SDC revenue. Non-debt financing can come from current revenues or revenues which have been accumulated over time in reserves.

Historically, wastewater agencies have utilized a variety of mechanisms to finance capital improvements. During the late 1970s and 1980s, significant Federal grant funds were available to support wastewater capital projects. Since then, grant funding has been dramatically reduced and currently is not a viable option for capital financing. The Federal grant program has been replaced by the State Revolving Fund (SRF) loans.

The current MWMC facilities were primarily constructed with $80 million in Federal grants and $29.5 million in voter approved general obligation bonds. The last significant Federal grants were received in the late 1980s. In recent years, the Commission has funded capital improvements using "pay-as-you-go" sources, such as user rates and SDCs.

Each form of capital financing serves distinct purposes and has certain limitations. The sections below provide a general overview of some financing tools.

BONDS

A bond is a written promise to repay borrowed money on a definite schedule at a specified rate of interest for the life of the bond--usually 15 to 30 years. State and local governments can repay this debt with taxes, fees, or other sources of governmental revenue. It is the source of repayment, or the type of collateral used, that defines the type of bond (e.g., general obligation bonds, revenue bonds, or hybrids). The tax-exempt nature of many government bonds attracts bondholders who are generally willing to accept a correspondingly lower rate of return on their investment than they would expect on a comparable commercial bond. As a result, bond financing can often provide State and local governments with low-interest capital.

Some State and local governments are required by statute to seek voter approval for certain types of bond issues (e.g. GO bonds). If achieving voter approval is difficult or time-consuming, State and local governments may consider issuing other types of bonds that do not require voter approval, or exploring other options for capital financing, even though interest costs may be higher. Some State and local governments have statutory limitations on the dollar amount and/or number of bonds that can be issued. Issuing bonds is a costly and time-consuming process, and requires sound legal and financial advice.

LOANS

A loan is the temporary provision of a specific amount of funds for an expenditure that must be repaid in a set amount time, typically with interest. The rate of interest is established prior to the loan.

Private loans, typically made by banks and other financial institutions, provide capital financing for a wide variety of infrastructure projects within a range of market interest rates. Typically, larger and more financially secure customers receive the best interest rates; however, environmentally risky projects, such as those involving hazardous waste, carry higher interest costs. Commercial loans are widely available and very flexible, but generally will have higher interest costs than tax-exempt bonds.

Government loan programs provide capital funds to a number of governments, non-profit organizations, and private businesses. Like grants, government loans are made with very specific goals in mind, often are accompanied by specific mandates, may be less than 100% of total project costs, and depend on legislative appropriation. Government loans often are made available at subsidized (lower than market) interest rates for projects that meet eligibility criteria, or may be interest-free (e.g., some SRF loans). Many government loan programs are targeted to small, economically distressed, and/or rural areas, which need the most assistance in acquiring project capital.

The SRF program is the largest government environmental infrastructure loan program available today, far surpassing other State loan programs. While the SRF program is funded by a Federal capitalization grant (like a block grant), it effectively operates as a State loan program.

Loans involve fewer and lower transaction costs than bonds, and may be acquired without voter approval. In addition, grants and loans from different sources may be co-mingled.

Government loans are subject to the availability of funds, and competition among borrowers can impact project timing. Such loans may carry governmental requirements, such as the prevailing wage provisions from the Davis-Bacon Act. Most Federal loans have complicated application procedures and deadlines.

Prevailing Capital Financing Practice in the Municipal Wastewater Industry

The 1999 AMSA Financial Survey indicates that revenue bonds are, by far, the most used debt instrument. Approximately 71 percent of outstanding municipal wastewater debt is in revenue bonds. In contrast, approximately 14 and 11 percent of outstanding debt is in State revolving funds and general obligation bonds, respectively. Other sources account for the remaining four percent of outstanding debt.

Table 1 provides a summary of the 1999 AMSA Financial Survey's results on the use of various revenue sources for capital purposes. The primary sources for all capital financing (replacement, acquisition, and expansion) were revenue bond proceeds, reserves, and user fees, constituting 71.5 percent of the revenue used for capital purposes.

Table 1 also summarizes the use of each source for each purpose. For example, revenue bonds were used to finance 47 percent of the capital expansion needs of municipal wastewater agencies across the U.S. Reserves were used to fund 40 percent of capital acquisition needs and 29.4 percent of capital replacement needs. A combination of revenue bond proceeds, reserves, and user fees funded 82.6 percent of capital replacement needs.

The 1999 AMSA Survey also indicates that more than 84 percent of capital improvements are expected to be funded through local sources (local sources include revenue bond proceeds, reserves, and user fees) between 1999 and 2003.

Table 1
Percentage of Capital Financing Purpose Funded by Source

	Capital Financing Purpose			
Revenue Source	**Capital Replacement**	**Capital Acquisition**	**Capital Expansion**	**Total Capital Finance Needs**
Revenue Bond Proceeds	27.8%	20.0%	47.2%	34.0%
Reserves	29.4%	40.0%	2.1%	20.6%
User Fees	25.4%	13.8%	11.1%	16.9%
State Revolving Fund Loans	4.0%	7.5%	13.9%	8.9%
Other Sources	4.0%	13.8%	6.3%	7.1%
GO Bond Proceeds	2.4%	1.3%	6.3%	3.7%
Federal Grants	0.8%	0.0%	8.3%	3.7%
Ad Valorem Taxes	4.8%	0.0%	0.0%	1.7%
Developer Contributions	0.0%	3.8%	2.1%	1.7%
State Grants	1.6%	0.0%	2.8%	1.7%
Total	100.0%	100.0%	100.0%	100.0%

Source: 1999 AMSA Financial Survey Table B-3a.

Note: "Other Sources" is an aggregation of Interest Earnings, Treatment Plant Hook-up Fees, Collections System Revenue, and Other from the AMSA Survey.

Detailed Description of Viable Capital Financing Mechanisms

This section is based on an assessment of the capital finance mechanisms identified in "Paying for Sustainable Environmental Systems *A Guidebook of Financial Tools* April 1999 Revision"; published by the EPA's Environmental Financial Advisory Board. Approximately 21 bond tools and 17 loan tools were reviewed for applicability to MWMC. In addition to the bond and loan tools, SDCs, user fee financing and grants were reviewed. There were 39 grant tools listed. However, as indicated above, none of these were found to be applicable or viable for use by MWMC at the present time.

This review, and subsequent review by MWMC's financial advisor, yielded the following 9 financing mechanisms for further consideration:

Debt Financing

1. Revenue Bonds
2. Revenue Obligations
3. State Revolving Funds - Clean Water Loans
4. Short-term Municipal Notes
5. Direct Source (Equipment) Financing Loans
6. Internal Borrowing

Non-Debt Financing

7. Systems Development Charges
8. User Fees (aka pay-as-you-go)
9. Grants

These mechanisms are described in more detail below. It should be noted that this review is not meant to eliminate other mechanisms from consideration for specific uses.

DEBT FINANCING INSTRUMENTS

Revenue Bonds

Description: A revenue bond is issued by a government to finance a specific project and is supported (repaid) by the revenue generated by the project, or from other non-property tax sources. Revenue bonds are secured by the net revenues of an enterprise system, a debt service reserve funds, and additional covenants. Net revenues are generally defined as gross revenues of the system less operating expenses.

In Oregon, issuers, upon adoption of a resolution or a non-emergency ordinance authorizing the issuance of bonds in accordance with ORS 288.805 to 288.945, may issue revenue bonds. The bonds are subject to referendum.

Actual Use: Nationally, revenue bonds now account for the clear majority of municipal bonds issued to finance water, sewer, and solid waste infrastructure. Because the bond payment is secured mainly by the revenue pledge, additional covenants and mortgages may be used. Feasibility studies may be required. Tax-exempt revenue bond interest rates are slightly higher than GO bonds, and even higher for taxable revenue bonds.

Potential Use: These bonds may finance construction of any public utility facility which generates future payments from its use, such as user fees, tolls, concession fees, and rental or lease-back payments.

Advantages: Revenue bonds can be issued fairly rapidly, and debt can be specifically structured to meet project needs. Level annual debt payments ensure that future as well as present users of the new facilities will pay, thus enhancing equity. Revenue bonds have grown in popularity because they are free from the requirements of GO bonds which must be approved by voters, are subject to debt ceiling limitations, and may carry other restrictions covering principal and interest repayments.

Limitations: Revenue bonds require debt service coverage, funding of a reserve, and other covenants.

Applicability: This is the most appropriate financing tool for MWMC. With the exception of "pay-as-you-go" financing, GO Bonds or subsidized state loans, revenue bonds generally offer the lowest interest rate. If the project being funded is popular, the risk of a referendum is low. Staff is also familiar and experienced with the administrative tasks common to revenue bonds.

Revenue Obligations

Description: ORS 271.390 authorizes Oregon governmental units to enter into contracts for the financing of real or personal property. These contracts may be called various names such as full faith and credit obligations, certificates of participation, financing agreements, revenue obligations, or other names that would describe the security provided. Given MWMC's revenues, a likely name for financings under this statute would be Revenue Obligations.

Revenue Obligations may be secured by a wide range of revenues and pledges. They may be secured solely by a mortgage on the property financed, or they can be secured by all revenues of the issuer. The more security that is provided, the lower is the interest cost. The issuer may pay the obligation out of all or any designated portion of the lawfully available revenues of the issuer.

In Oregon, issuers may issue Revenue Obligations without voter approval. If the repayment of the obligation is subject to annual appropriation, the obligation would not considered bonded indebtedness.

Actual Use: Revenue Obligations are widely used in Oregon to finance personal and real property.

Potential Use:. MWMC may issue Revenue Obligations via a bank placement, or if for some reason it does not wish to issue revenue bonds under the Uniform Revenue Bond Act.

Advantages: Revenue Obligations do not require voter approval, They are also not subject to a referendum.

Limitations: Some bond purchasers will not purchase "obligations," but only purchase "bonds". Revenue Obligations will likely carry a slightly higher cost than straight revenue bonds, even with the same level of security. Revenue Obligations that provide only a mortgage interest in the asset financed will be more expensive than typical Revenue Bonds. Obligations that are secured solely by a mortgage interest in the assets financed may only be used for financing buses, buildings, or other capital projects where a real asset exists that is suitable as collateral.

Applicability: Under most circumstances, it would be more advisable for MWMC to issue Revenue Bonds rather than Revenue Obligations.

Short-term Municipal Notes

Description: Short-term Municipal Notes are generally considered “bridge financing” providing short-term cash until a larger source of committed funds is received. They are often known by their acronyms, such as Bond Anticipation Notes (BANs), Grant Anticipation Notes (GANs) and Tax Anticipation Notes (TANs.) These instruments generally have maturities ranging from a few months to a few years, may have fixed or variable interest rates, and are issued in anticipation of a bond issue, grant proceeds, or tax collections.

Actual Use: State and local governments issue billions of dollars a year in “short-term municipals” of all types, to meet immediate capital needs for design and initial construction while waiting for long-term funding revenues. These short-term instruments are issued to fund many different activities. Examples include housing and urban renewal, water and wastewater project startups, transportation projects, school district operations, and temporary agency operating deficits caused by seasonal variations in tax collections.

Potential Use: Short-term municipals can be used to meet short-term gaps in project finance and operations when they occur, and until the final sources of funds become available.

Advantages: Short-term municipal bonds provide issuers with immediate funds for capital and operating needs.

Limitations: Short-term municipals generally require a take-out financing which results in higher financing costs and funding is temporary.

Applicability: Short term bonds could be an appropriate tool for MWMC under certain circumstances, however internal borrowing would generally be a preferable method for short-term financing.

Direct Source (Equipment) Financing Loans

Description: With direct source financing, the borrower receives equipment financing directly from the equipment vendor. This approach tends to streamline the borrowing process, simplifying documentation and minimizing intermediary involvement. In particular, it is not subject to the municipal securities disclosure requirements of Securities and Exchange Commission (SEC) Rule 15c2-12. Certain large equipment vendors have public finance arms which work with tax-exempt borrowers to design financing programs to meet specific equipment needs at tax-exempt interest rates, with flexible payment terms.

Actual Use: Equipment purchases are often accomplished with direct source financing (also sometimes called equipment financing). However, leasing has proven to be a very competitive alternative financing technique. The financed equipment is often the collateral for the loan.

Potential Use: Direct source financing could be used to acquire equipment needed for system operations.

Advantages: Because it eliminates underwriter and rating agency fees, printing costs, and time-consuming documentation and disclosure processes, direct source financing can reduce front-end and total costs.

Limitations: Direct source financing is not practical for major facility projects, which require larger dollar amounts and a longer repayment term.

Applicability: In certain circumstances, this would be an acceptable financing tool for MWMC, although much of the plant equipment is already provided for in the Equipment Replacement Reserve.

State Revolving Funds - Clean Water Loans

(General program descriptions are followed by *italicized descriptions of the specific State of Oregon CWSRF program*. Substantial additional detailed information on the Oregon program is available upon request.)

Description: Under Title 6 of the 1987 Clean Water Act, states receive Federal monies to capitalize Clean Water State Revolving Loan Fund (CWSRF) programs. States must provide a 20 percent match to the Federal funds. CWSRFs are authorized to make loans to localities to finance wastewater treatment facilities, nonpoint source pollution control activities and estuary program activities. Loans are made at low interest rates (zero percent to market rate) for up to 20 years. States can use loan funds to refinance previously executed debt obligations, guarantee local debt obligations, buy bond insurance for local debt obligations, or guarantee bonds issued by municipal and inter-municipal revolving funds. States may use up to four percent of the Federal funds for administrative costs. States may set the criteria for determining which municipalities can access the loans and other fund uses each year.

The CWSRF Loan Program offers below market interest rate loans to public agencies for planning, design and construction of three kinds of water pollution abatement projects:

1) wastewater collection, treatment, water reuse and disposal systems,
2) nonpoint source water pollution control projects, and
3) the development and implementation of management plans for federally designated estuaries.

Specific project types that may be eligible for CWSRF funds include:

- Wastewater system facility plans and studies
- Secondary treatment facilities
- Advanced wastewater treatment facilities
- Sludge disposal and management
- Interceptors, force mains and pumping stations
- Infiltration and inflow correction
- Major sewer replacement and rehabilitation
- Combined sewer overflow correction
- Collector sewers
- Stormwater control
- Estuary management

- Nonpoint source control

Loans are available at rates based on the municipal bond rate with an annual fee of 0.5% paid during a repayment period of up to twenty years. Interest rates charged on specific loans depend on the repayment term, and range from 25% of the average bond rate for a five year loan to 65% of the bond rate for a twenty year loan. To assist communities through the planning stages of a project, planning loans are offered at the lowest interest rate, with a five-year repayment period, and are not charged the annual fee. Communities must pledge loan security adequate to satisfy the CWSRF Loan Program, such as general obligation bonds, other general obligation pledges, or user charges.

LONG TERM PROGRAM GOALS

Goal #1: To protect public health and the waters of the state by offering financial assistance for water pollution control projects.

Goal #2: To provide financial support for water quality improvements to all waters of the State.

Goal #3: To administer the CWSRF to ensure its financial integrity, viability and perpetuity as a source of financial assistance.

SHORT TERM PROGRAM GOALS

Goal #1: To continue to maintain the revolving nature of the Fund and to maintain an active pace of disbursements in conjunction with the receipt of new funds and loan repayments.

Goal #2: To provide funding to local communities to the maximum extent possible within the constraints of sound financial management, law and regulation.

Goal #3: To increase the number of loans for both non-point source and estuary management projects.

Goal #4: To make the CWSRF loan program more accessible to a wider range of water quality projects statewide.

Goal #5: To continue our participation with other State and Federal programs in providing financial assistance to Oregon communities.

Projects that are ready to proceed are funded in priority order. Although allocating funds only to projects that are ready to proceed does result in some projects being funded ahead of higher priority projects, the high level of demand has continued to make the process competitive. All funded projects have been critical to the protection or restoration of water quality in Oregon.

Actual Use: All states have CWSRFs, and they increasingly are making loans for non-traditional wastewater projects. By mid-1997, fifteen states were funding nonpoint source pollution projects (including direct loans to farmers), six were funding stormwater projects, nine were funding landfill projects, five were funding septic system rehabilitation and replacement, six were funding estuary wetlands, stream restoration, and wellhead protection, many were funding sludge projects, and over half were funding combined sewer overflow projects. Some states have already used their own funds to finance revolving programs to assist localities with various capital projects. At least two states have made loans to acquire land or conservation easements to protect source water.

The Oregon State Revolving Fund Intended Use Plan – 2005 Update #2 proposes funding projects in the three areas listed above. The State's Priority List now includes 136 projects from 96 communities or district for a total of $318.9 million in requested funding. MWMC has one project ($3 million for acquisition of property for a dedicated biosolids land application site) pending on the priority list. The application for that project was originally submitted in 1999 and is currently ranked as priority number 92 out of the 136 projects.

Potential Use: States are starting to apply the revolving loan fund concept to other needs, such as biosolids reuse.
Advantages: The CWSRFs are able to provide localities with extremely low-interest loans at favorable terms. They can be considerably more flexible than commercial banks, as states can adjust interest rates and other loan terms to suit localities' ability to pay.
Limitations: The competition among applicants for access to revolving loan funds is intense in some states. Project costs can be increased, due to Federal "cross-cutting" requirements that apply in using CWSRF monies. Some small communities may not be able to afford any loan. Loan terms are currently limited to 20 years, although there have been legislative proposals to extend them to 30 years.
Applicability: This could be an appropriate financing tool for MWMC because it would be simpler to administer than a revenue bond and there would not be the requirements of a bond indenture to monitor. Availability of funds on a timely basis would be the biggest concern.

Internal Borrowing

Description: Internal borrowing occurs when funds are borrowed from a reserve account in another fund, department or agency of the local utility or government.

Potential Use: Internal fund borrowing is a viable option only if an analysis of the affected fund indicates sufficient funds are available and the use of these funds will not impact the fund's operations in the short term. Given those conditions, internal fund borrowing may be implemented for a variety of purposes.

Advantages:

1. Better financing rates are often obtained through internal borrowing, compared to borrowing from outside the organization or having third parties borrow on behalf of the utility.
2. Internal funds can be made available at low or no interest. They involve fewer transaction costs.
3. Funds are usually available when needed.
4. All savings are returned to the entity.
5. The entity can choose to do as much or as little external financing as required.
6. Riskier projects, or those that have lower rates of return, can still be funded from capital budgets.
7. With internal support and recognition for the work that needs to be done, it can be much easier to secure commitment, resources and support for internally funded work.

Limitations:

1. Using internal funds may delay or defer implementation of other projects.
2. Internal funds could be invested in financial vehicles that may provide a better rate of return.

3. Monitoring and verification of the savings and repayment schedule are needed.
4. Bond rating agencies may downgrade an entity's bond rating due to the presence of an "internal deficit."

Applicability: MWMC will make use of internal borrowing to provide interim financing for projects and allow the Commission to sell bonds at the optimum time, considering the current economic environment, interest rate and issue size.

NON-DEBT FINANCING INSTRUMENTS

Systems Development Charges

Description: SDCs, also known as Impact Fees, are fees collected by local governments to offset the costs of public improvements associated with new development. SDCs are not a tax. They are one-time fees collected for a specific purpose and, in Oregon, may only be used for capital improvements.

Actual Use: Under Oregon law, SDCs can be charged for capital improvements associated with a) water supply, treatment and distribution; b) wastewater collection, transmission, treatment and disposal; c) drainage and flood control; d) transportation; e) parks and recreation. Certain SDC revenues may only be expended on capacity-increasing capital improvements, while other SDC revenues may be used for capital improvements in general. An administrative fee may also be collected with SDCs and expended on the administration and accounting of the SDC program.

Potential Use: Other states allow collection of SDCs for schools, public safety (fire, police, emergency medical services) and other infrastructure and services. In the Oregon legislature, several attempts have been made over the past decade to expand the use of SDCs to one or more of these uses, but none have succeeded to date.

Advantages: New users of services purchase an increment of existing and new capacity. This results in enhanced equity between current and new users. It also reduces the cost burden on current users.

Limitations: SDCs do not provide capital much in advance of development. Capital improvements often add capacity that will be consumed over an extended period of years. SDC revenue is dependent on the rate of development which can be highly dependent on many factors and tends to fluctuate from year to year. SDCs are criticized for deterring development and increasing new housing costs, and resulting in interjurisdictional competition. Developers may pass on SDCs to residents. Communities may change their policy preferences depending on economic and political conditions, for example, implementing or discontinuing SDC exemptions/credits to stimulate or discourage development.

Applicability: SDC revenue is an important financing tool. Reimbursement SDC revenues may be expended for capital improvements in general. Improvement SDC revenues may be used on capacity-increasing capital improvements only.

User Fee Financing

Description: User Fee Financing is also known as "pay-as-you-go" financing. As the name implies, current revenues and reserves are used to fund the capital program, either in whole or in part.

Actual Use: This method has been the preferred mechanism for funding MWMC capital projects in the past 10 years.

Potential Use: User fee revenue can be used for virtually any legitimate MWMC purpose, including funding of operating expenses, capital expenses and debt service as allowed by law.

Advantages: Funding capital projects from user fee revenue avoids the cost, risk, and administrative complexity of debt financing. Current users directly support required infrastructure, creating no impact on future users or Commissions.

Limitations: Capital projects funded from user fee revenue must either be relatively small, or staged in small increments to avoid large spikes in user rates. Alternatively, reserves can be accumulated to fund a large project in the future. To a certain extent, MWMC rates can drive the capital improvement program, if this is the only funding option presented.

Applicability: User fee financing will continue to be an important financing tool for MWMC; however, to be most effective, it must be one of several options available to the Commission and used strategically.

Grants

Description: Grants are financial resources made available to utilities (or others) to fund specific desired activities or outcomes. Depending on the program, grants can be created to support operating or capital programs, or both. Wastewater grants are usually generated by State or Federal programs. Most require an application process, and some require a level of matching local funding.

Actual Use: MWMC relied heavily on Federal grants to build the current treatment plant and other facilities.

Potential Use: When funding is available, grants can be powerful tools in the hands of the granting agency. Grants can be used to provide incentives to local utilities to meet governmental standards or goals.

Advantages: Grants often provide the opportunity to leverage substantial capital resources with minimal local investment. When available, grants enable utilities to complete specific capital projects earlier than would otherwise be possible, leaving reserves and local funds for other ventures.

Limitations: Grants for wastewater-related projects have become appreciably less common in recent years. Grant funding can be unpredictable and requires significant administrative and reporting coordination. There can be strong competition among agencies for limited grant funds.

Applicability: Grant opportunities will be accessed whenever feasible. Grants are an important mechanism for MWMC to finance specific projects.

Summary

As has been demonstrated, there are a variety of options available in the market to finance capital projects. The type of financing a utility would use in a given set of circumstances depends on the type of project, the size of the project, any statutory requirements and the financial health of the utility.

In examining the available financing options, staff has tried to identify and segregate financial tools by the size of projects for which they are appropriate. Staff identified for elimination from consideration those tools that are most appropriate for utilities having insecure financial stability, as those devices usually carry greater costs and risk. It was reasoned MWMC would be able to obtain more favorable terms due to its financial strength. Lastly, staff has examined each tool for administrative ease of implementation. Elections, research, reporting, and auditing all add costs to any type of financing mechanism and, while these issues are not of paramount importance, they deserve consideration.

The following matrix outlines the mechanisms described in this appendix and provides important information about each device. Staff recommendations are included with each financing source.

	Eligible for Capital Expenses	Life Span of the Asset	Maximum Allowed (% or $)	Magnitude of Rate Impact	What is risk and how will it be managed?	Total Debt Burden/What is our Maximum threshold?	Time Equity	Other Considerations	Appropriate for MWMC?
Certificate of Participation	Yes	Usually greater than 15 years.	Varies, but usually large assets.	Potential rate impact, unless current rates can accommodate debt service.	Requires pledging of assets. Very risky. Requires positive action of future Commission.	Creates debt, but not bonded debt.	Spreads cost of assets over current users and future users.	Appropriate for cash-poor, asset-rich organizations.	No
General Obligation Bond	Yes, but only appropriate for long-lived assets.	More than ten years, preferably twenty or more.	No maximum	No rate impact. Shows up on property tax bills.	Low interest rates and low risk. No rate risk. Election risk.	Contributes to Bonded Debt Burden	Spreads cost of assets over current users and future users, but exempts certain users.	Requires voter approval. Property-tax exempt entities don't contribute (i.e. government, churches, hospitals) MWMC cannot propose independently.	Under some circumstances.
Tax Increment Bonds	Yes, but usually limited to capital benefiting a customer subset.	Usually ten to twenty years.	No maximum	No rate impact. Usually processed through property tax bills.	Risk is no increase in property values, leading to no increment for repayment.	Does not effect debt burden.	Current users subsidize future users.	Tax Increment Financing requires voter approval in Springfield. Can be administratively complex, and may be affected by Measure 47/50 limits.	No
Revenue Bonds	Yes, but only appropriate for long-lived assets.	More than ten years, preferably twenty or more.	Generally up to 50% of annual capital expense	Potential rate impact. Requires rates be sufficient to provide debt coverage ratio of 125%	Less risky if several revenue streams are pledged. Higher interest rate than GO bonds. Rates must rise to meet bond covenants.	Contributes to Bonded Debt Burden	Spreads cost of assets over current users and future users.	Requires voter approval or process through the URBA. MWMC cannot propose independently.	Yes
Asset-Backed Revenue Bonds	Yes.	Less than ten years.	Less than $5 million.	Potential rate impact, especially if User Fee revenue stream is pledged as collateral. Requires rates be sufficient to provide debt coverage ratio of 125%	Physical assets or revenue streams are pledged. Usually carry higher interest rates than standard revenue bonds. Rates must rise to meet bond convenants or risk losing collateral.	Contributes to Bonded Debt Burden	Spreads cost of assets over current users and future users.	Requires voter approval or process through the URBA. MWMC cannot propose independently. Usually most appropriate for smaller issues than standard revenue bonds, or for utilities with less secure financial footing.	No
Double-Barrel Revenue Bonds	Yes.	Less than ten years.	Less than $5 million.	Potential rate impact. Requires rates be sufficient to provide debt coverage ratio of 125%	Several revenue streams are pledged, usually including property taxes. Higher interest rate than GO bonds, but usually lower than standard revenue bonds.	Contributes to Bonded Debt Burden	Spreads cost of assets over current users and future users.	Requires voter approval. MWMC cannot propose independently. Usually most appropriate for smaller issues than standard revenue bonds, or for utilities with less secure financial footing.	No
Short-Term Municipal Notes/Bonds	Yes, but usually for short-term needs	Can be used for short or long-lived asset. Lifespan will dictate loan repayment vehicle.	Varies, based on ultimate financial tool.	Potential rate impact, unless current rates can accommodate debt service.	Risk is dependent on the security of the ultimate financing source. Interest rates will reflect this.	Creates debt, but not bonded debt.	Does not apply.	These tools are "bridge funding" to provide capital until funds are received from a pre-approved bond, grant or tax source. Generally interfund borrowing is preferred, if resources are available.	No
Special Assessment Bonds	Yes, but project benefits limited geographic area	Up to 15 years	Maximum dictated by economic conditions and project scope.	No rate impact. Shows up on property tax bills.	Can cause political problems, unless costs closely match benefits and there is public support.	Does not effect debt burden.	Current users subsidize future users.	Those who benefit most directly, pay; however, they sometimes pay more than they benefit. More appropriate for local than regional projects.	Not usually.
Direct Source (Equipment) Financing Loans	Usually equipment	1-5 years	Varies by cost of equipment, but usually modest.	Potential rate impact, unless current rates can accommodate debt service.	Requires pledging of asset financed	Creates debt, but not bonded debt.	Current users subsidize future users.	Good credit terms may make this attractive. One of many options to fund equipment.	No

APPENDIX III

GFOA Recommended Practice

<u>Adoption of Financial Policies (2001)</u>

<u>Background.</u> The National Advisory Council on State and Local Budgeting (NACSLB) has developed a comprehensive set of recommended budget practices. The recommendations have been endorsed by a number of key governmental associations, by academia and by labor groups associated with state and local governments. These practices and the associated framework outline a budget process that encompasses the broad scope of governmental planning and decision-making with regard to the use of resources. This work is recognized as one of the most important advances in governmental finance in decades. The Government Finance Officers Association (GFOA) has adopted a recommended practice endorsing the NACSLB practices and the associated framework. However, the policies included in this Recommended Practice are those considered fundamental to the budget process and relevant to the broadest number of jurisdictions.

The work of the NACSLB provides a framework for describing the overall budget process. The framework is organized around the four principles of the budget process:

- Establish Broad Goals to Guide Government Decision Making
- Develop Approaches to Achieve Goals
- Develop a Budget Consistent with Approaches to Achieve Goals
- Evaluate Performance and Make Adjustments

Each of these principles has additional elements that provide guidance for an effective budget process. Element #4, or Principle 2, Adopt Financial Policies, addresses the need for jurisdictions to establish policies to help frame resource allocation decisions.

<u>Recommendation</u>. The Government Finance Officers Association (GFOA) recommends that, at a minimum, financial policies in the following areas be developed by professional staff and formally adopted by the jurisdiction's governing board ***as well as the governing boards of those component units; state, provincial and municipal corporations and organizations; and other bodies under their jurisdiction.***

- Financial Planning Policies
- Revenue Policies
- Expenditure Policies

The jurisdiction's adopted financial policies should be used to frame major policy initiatives and be summarized in the budget document.

It is further recommended that these policies, along with any others that may be adopted, be reviewed during the budget process. Professional staff should review the policies to ensure continued relevance and to identify any gaps that should be addressed with new policies. The results of the review should be shared with the governing board during the review of the proposed budget.

Policy categories that should be considered for development, adoption and regular review are as follows:

Financial Planning Policies

These policies address both the need for a long-term view and the fundamental principle of a balanced budget. At a minimum, jurisdictions should have polices that support:

1. **Balanced Budget –** A jurisdiction should adopt a policy(s) that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs. (NACSLB Practice 4.5)
2. **Long-Range Planning –** A jurisdiction should adopt a policy(s) that supports a financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, programs and assumptions. (NACSLB Element 9, GFOA Recommended Practice)
3. **Asset Inventory –** A jurisdiction should adopt a policy(s) to inventory and assess the condition of all major capital assets. This information should be used to plan for the ongoing financial commitments required to maximize the public's benefit. (NACSLB Practice 2.2)

Revenue Policies

Understanding the revenue stream is essential to prudent planning. Most of these polices seek stability to avoid potential service disruptions caused by revenue shortfalls. At a minimum jurisdictions should have policies that address:

1. **Revenue Diversification –** A jurisdiction should adopt a policy(s) that encourages a diversity of revenue sources in order to improve the ability to handle fluctuations in individual sources. (NACSLB Practice 4.6)
2. **Fees and Charges –** A jurisdiction should adopt policy(s) that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided. (NACSLB Practice 4.2)
3. **Use of One-time Revenues –** A jurisdiction should adopt a policy(s) discouraging the use of one-time revenues for ongoing expenditures. (NACSLB Practice 4.4)
4. **Use of Unpredictable Revenues –** A jurisdiction should adopt a policy(s) on the collection and use of major revenue sources it considers unpredictable. (NASCLB Practice 4.4a)

Expenditure Policies

The expenditures of jurisdictions define the ongoing public service commitments. Prudent expenditure planning and accountability will ensure fiscal stability. At a minimum jurisdictions should have policies that address:

1. **Debt Capacity, Issuance, and Management –** A jurisdiction should adopt a policy(s) that specifies appropriate use for debt and identifies the maximum amount of debt and debt

service that should be outstanding at any time. (NACSLB Practice 4.3, 4.3a, GFOA Recommend Practices pp. 90-92)

2. **Reserve or Stabilization Accounts –** A jurisdiction should adopt a policy(s) to maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time gfpoaexpenditures. (NACSLB Practice 4.1)

3. **Operating/Capital Expenditure Accountability –** A jurisdiction should adopt a policy(s) to compare actual expenditures to budget periodically (e.g., quarterly) and decide on actions to bring the budget into balance, if necessary. (NACSLB Practice 7.2)

References

- National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A framework for Improved State and Local Government Budgeting.* GFOA, 1998.
- *A guide for Preparing a Debt Policy*, Patricia Tigue, GFOA, 1998.
- GFOA Recommended Practice. *"Setting of Government Charges and Fees"* (1996).
- "Elements of a Comprehensive Local Debt Policy," *Government Finance Review*, October 1994.
- "Developing Formal Debt Policies," *Government Finance Review*, August 1991.

APPENDIX IV

CITY OF SPRINGFIELD
INVESTMENT AND PORTFOLIO POLICIES
NOVEMBER 1997
Date of Last Adoption: 12/01/1997

SCOPE

This investment policy applies to all cash-related assets included within the scope of the City of Springfield's audited financial statements and held directly by the City. The City's portfolio, excluding bond proceeds, is currently $41 million. The average monthly balance of funds invested, excluding bond proceeds, is about $42.5 million.

Funds held in trust for the Pension Portfolios and deferred compensation funds for the Employees of the City of Springfield, which have separate rules, are excluded from these policies. In addition, funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the State of Oregon.

Funds will be invested in compliance with the provisions of, but not necessarily limited to the Oregon Revised Statutes (ORS), Chapter 294, other applicable statutes and this policy. Investment of any tax exempt borrowing proceeds and any related debt service funds will comply with the arbitrage restrictions in all applicable Internal Revenue Codes.

INVESTMENT OBJECTIVES

The City will limit investment activities in order to ensure safety, legality, liquidity, diversity, and yield:

- Safety: Preservation of capital and the protection of principal.
- Legality: Conformance with federal, state, and other legal requirements.
- Liquidity: Maintenance of sufficient liquidity to meet operating requirements.
- Diversity: Avoidance of imprudent credit, market, and speculative risk.
- Yield: Attainment of a market rate of return throughout all economic and fiscal cycles.

The City will not assume unreasonable investment risk to obtain investment income.

DELEGATION OF AUTHORITY

The Deputy Treasurer is the designated investment officer of the City of Springfield and is responsible for investment decisions, under review of the City of Springfield's Council. The day-to-day operation of the investment process program is handled by the Budget/Treasury section.

The investment officer is responsible for setting investment policy and guidelines subject to review and adoption by the City Council and, if required, review and comment by the Oregon Short-Term Fund Board. Further, the Deputy Treasurer is the portfolio manager and makes investments, under the general direction of the Finance Director, and is responsible for the day-to-day operations of the investment process which includes, but is not limited to, choosing what to buy or sell, from whom investments will be purchased, executing the buy/sell orders, producing necessary reports, and supervising staff. In addition to the active management of the investment portfolio, the Deputy Treasurer is responsible for the maintenance of other written administrative procedures consistent with this policy and the requisite compliance. To further optimize the total return of the investment portfolio, the Deputy Treasurer will administer an active cash management program, the goal of which will be to maintain historical cash flow information, i.e. debt service; payroll; revenue receipts; and extraordinary expenditures.

In order to optimize total return through active portfolio management, resources will be allocated to the Budget/Treasury's cash management program. This commitment of resources will include financial and staffing considerations.

PRUDENCE

The standard of prudence used by the investment officer and staff in the context of managing the overall portfolio shall be the prudent investor rule, which states: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

MONITORING AND ADJUSTING THE PORTFOLIO

The Deputy Treasurer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments and will adjust the portfolio accordingly.

If, due to unanticipated cash needs, the investment in any security type or financial institution exceeds the limitations in this policy, or if the credit rating of a security type or financial institution is lowered after an investment is purchased, the Deputy Treasurer is responsible for bringing the investment portfolio back into compliance as soon as practicable.

INTERNAL CONTROLS

The Deputy Treasurer will maintain a system of written internal controls which will be reviewed annually by the independent auditor or upon any extraordinary event, i.e. turn-over of key personnel, the discovery of any inappropriate activity. The controls will be designed to prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions.

PORTFOLIO DIVERSIFICATION

The City will diversify investments across maturities, security type and institution to avoid incurring unreasonable risks.

Except for the Local Government Investment Pool, no more than 25 percent of the City's total investment portfolio will be invested with a single financial institution.

Diversification by Instrument	*Maximum Percentage of Portfolio*
U.S. Treasury Obligations (Bills, notes, bonds, strips)	100%
State of Oregon Investment Pool	100%
U.S. Government Agency and Instrumentality Securities of Government Sponsored Corporations	50%
Time Deposit and Savings Account	50%
Bankers' Acceptances (BA's) Issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized rating organizations.	25%
Corporate Indebtedness A1 or AA or better by S & P; or P1 or Aa or better by Moody's, or an equivalent rating by any nationally recognized rating agency. ➩ **Oregon Issuers:** A1 or A or better by S & P; or P1 or Aa or better by Moody's, or an equivalent rating by any nationally recognized rating agency.	25%
Repurchase Agreements	25%
Oregon State and Local Obligations Obligations of the agencies and instrumentality's of the State of Oregon and its political subdivisions that have a long-term rating of A or better, or rated in the highest category for short-term municipal debt.	25%
Regional Debt Obligations Obligations of California, Idaho and Washington and political sub-divisions of those states if obligations carry a long-term rating of AA or better or are rated in the highest category for short-term municipal debt.	25%

Time Certificate of Deposit (TCD)

- **Commercial Banks** 25%
- **Savings and Loan Associations** 10%

Diversification by Institution

U.S. Government Agency and instrumentality Securities of Government Sponsored Corporations

No more than 20 percent of the total portfolio with any one security.

Bankers' Acceptances (BA's)

Issued by a qualified financial institution located and licensed to do business in Oregon; or a financial institution located in Washington, California or Idaho that is wholly owned by a bank holding company that owns a financial institution licensed to do business in Oregon. No more than 10 percent of the total portfolio with only one financial institution.

Corporate Indebtedness

Subject to a valid registration statement on file with the SEC or must be issued under section 3(a)(2) or 3(a)(3) of the Securities Act of 1933 (ORS 294.035(9)(a)). Must be issued by a commercial, industrial or utility business enterprise, or by a financial institution or bank holding company owning a majority interest in a qualified financial institution.

- **Oregon Issuer***:* Business enterprise or holding company headquartered in Oregon having more than 50 percent of its permanent work force, or tangible assets, in Oregon; or is issued by a holding company owning not less than a majority interest in a qualified financial institution as defined for bankers' acceptances.

No more than 5 percent of the total portfolio with any one corporate entity.

Time Certificate of Deposit (TCD)

FDIC or FSLIC insured to $100,000, and in accordance with ORS Chapter 295, the financial institution must hold with the Oregon Certification of Participation Collateral Pool eligible securities pledged to secure not less than 25% of the aggregate amount of the City's funds held in deposit, less the insured $100,000.

- ***Commercial Banks:*** No more than 15 percent of the total portfolio with any one financial institution.
- ***Savings & Loan Associations:*** No more than 10 percent of the total portfolio with any one institution.

Repurchase Agreements

A signed master repurchase agreement is required. Only treasury securities described in ORS 295.035 (1) shall be used in conjunction with the repurchase agreement. No more than 10 percent of the total portfolio with any one institution.

Oregon State and Local Obligations

No more than 20% of the total portfolio.

Regional Debt Obligations

No more than 20% of the total portfolio.

Time Deposit and Savings Accounts

FDIC or FSLIC insured to $100,000, and in accordance with ORS Chapter 295, the financial institution must hold with the Oregon Certification of Participation Collateral Pool eligible securities pledged to secure not less than 25% of the aggregate amount of the City's funds held in deposit, less the insured $100,000.

State of Oregon Investment Pool (LGIP)

With the exception of pass-through funds (in and out within 10 days), no more than the state annual maximum amount invested as detailed in ORS 294.810(2).

INVESTMENT MATURITY

Maturity limitations will depend upon whether the funds being invested are considered short-term or long-term funds. All funds will be considered short-term except those reserved for capital projects. Except for special situations, as directed by the Finance Director, investments will be limited to maturities not exceeding 18 months (ORS 294.135).

Short-Term Portfolio (under 18 months)

Funds considered short-term will be invested to coincide with projected cash needs, taking into account large routine expenditures (bond payments, payroll) as well as blocks of anticipated revenues. The primary objective is to avoid incurring the market risk associated with the forced liquidation of a security prior to its maturity date. Maturities in this category will be timed to comply with the following guidelines:

- Under 30 days 10% minimum
- Under 90 days 25% minimum
- Under 270 days 50% minimum
- Under One year 80% minimum
- Under 18 months 100% minimum

Commercial paper will have a maximum maturity of 270 days (ORS 294.035)

Long-Term Portfolio (over 18 months)

Instruments and diversification for the long-term portfolio shall be as for the short-term portfolio.

Maturities of over 18 months must be invested to coincide with a specific anticipated need (capital project funds, contractor payments, bond payment dates) and may be utilized with the approval of the Finance Director.

Unless matched to a specific cash flow (ORS 294.135), the City will not invest in securities maturing more than three years from the date of purchase. Investment of capital project funds will be timed to meet projected contractor payments.

COMPETITIVE SELECTION OF BIDS OR OFFERS

Before the City invests funds or sells securities prior to their maturity, competitive offers or bids need to be obtained. Ideally, bids or offers from three different sources should be obtained. Records will be kept of the investment transactions by completing the *Security Quote Form* - Exhibit One. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, offers or bids will be requested for instruments which meet the maturity requirement.

The City will accept the offer or bid which provides the best price within the maturity required and within the parameters of this policy.

QUALIFIED INSTITUTIONS

The investment officer will maintain a list of all security brokers/dealers and financial institutions which are approved for investment purposes or investment dealings. The City will limit all investment activities to the institutions on this list.

Written procedures and criteria for selection of financial institutions and securities dealers will be maintained by the investment officer. Securities dealers not affiliated with a bank are required to have an office in Oregon. Any firm is eligible to make application to provide investment services to the City, and will be added to the list if the selection criteria are met. Additions or deletions to the list will be made at the City's discretion.

At the request of the City, the firms performing investment services will provide their most recent financial statements or Consolidated Report of Conditions (call report) for review. The City will conduct an annual evaluation of each firm's credit worthiness to determine if it should remain on the list. Further, there should be in place, proof as to all the necessary credentials and licenses held by employees of the broker/dealers who will have contact with the City of Springfield as specified by but not necessarily limited to the National Association of Securities Dealers (NASD), Securities and Exchange Commission (SEC, etc.)

SAFEKEEPING AND COLLATERALIZATION

Purchased investment securities will be delivered by either Fed book entry, DTC, or physical delivery, and held in third party safekeeping - registered to the City of Springfield - with a designated custodian. The trust department of a bank may be designated as custodian for safekeeping securities purchased from that bank. The purchase and sale of securities will be on a delivery versus payment basis. The custodian shall issue a safekeeping receipt to the City listing the specific instrument, selling broker/dealer, issuer, coupon, maturity, cusip number, purchase or sale price, transaction date, and other pertinent information.

Demand and time deposits shall be collateralized through the state collateral pool as required by statute for any excess over the amount insured by an agency of the United States government.

The Deputy Treasurer is responsible for maintaining sufficient collateral with each financial institution.

Delivery versus payment will be required for all repurchase transactions and with the collateral priced and limited in maturity in compliance with ORS 294.035 (1). ORS 294.035 (11) requires repurchase agreement collateral to be limited in maturity to three years and priced according to percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board. On March 12, 1996, the OSTF Board adopted the following margins:

- US Treasury Securities 102%
- US Agency Discount and Coupon Securities 102%
- Mortgage Backed and Other 103%

ACCOUNTING METHOD

The City of Springfield shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

REPORTING REQUIREMENTS

The Deputy Treasurer will generate monthly reports for management purposes which will include an analysis of investments by financial institution, type of security, rate of interest and maturities. Any deviation from the Investment Guidelines must be authorized by the Finance Director.

INDEMNITY CLAUSE

The City will indemnify the investment officer, staff and city officials, from personal liability for losses that might occur pursuant to administering and while acting in accordance with this investment policy.

Staff acting in accordance with this policy and exercising due diligence, will not be held personally responsible for a specific security's credit risk, market price changes, or loss of principal if securities are liquidated prior to maturity, provided that these deviations and losses are reported as soon as practical and action is taken to control adverse developments.

PERFORMANCE EVALUATION

The performance of the City's portfolio will be measured against the performance of the "S & P Rated LGIP Index" as reported monthly in the Public Investor, a monthly subscription newsletter of the Government Finance Officers Association. The index is comprised of local government investment pools that are rated AAA or AA by Standard & Poor's and represents pools that strive to maintain a stable net asset value.

INVESTMENT POLICY ADOPTION

The investment policy will be reviewed by the Finance Committee and the Oregon Short-Term Fund Board, prior to being submitted to the City Council for adoption on an annual basis, in accordance with ORS 294.135a.

Adoption of this policy supersedes any other previous Council action or policy regarding the City's investment management practices.

APPENDIX V

ACRONYMS

AMSA	Association of Metropolitan Sewerage Agencies
BANs	Bond Anticipation Notes
CIP	Capital Improvement Program
COP	Certificates of Participation
CSD	County Service District
CWSRF	Clean Water State Revolving Fund
EPA	Environmental Protection Agency
ER	Equipment Replacement
GANs	Grant Anticipation Notes
GO	General Obligation (bonds)
IGA	Intergovernmental Agreement
I/I	Infiltration and Inflow
LCOG	Lane Council of Governments
MR	Major Rehabilitation
MWMC	Metropolitan Wastewater Management Commission
RWF	Regional Wastewater Facilities
RWP	Regional Wastewater Program
SDC	Systems Development Charge
SEC	Securities and Exchange Commission
SRF	State Revolving Fund
TANs	Tax Anticipation Notes
TIF	Tax Increment Financing
URBA	Unified Revenue Bond Act