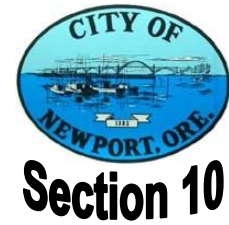


# Financing and Rate Analysis



## 10.1 Financial Impacts

Public facilities improvements are often expensive and have a significant financial impact on a community. The impact varies depending on the size of the project to be undertaken, the size of the community, the funding scenario, the amount of existing debt that a community is carrying, and other factors.

Most communities are unable to finance major infrastructure improvements without some form of financial assistance. This assistance often comes from governmental funding agencies, lending institutions, or other means.

This section will provide some background and information on financial issues related to funding a project in Newport. Each project or group of projects will require its own funding approach. As such, it would be impossible to develop a funding strategy for the entire CIP at this time. Therefore, this section will seek to provide more general information to support the planning in the master plan and provide the City with information about the City's financing and potential funding sources for future reference.

## 10.2 Existing Water Rate Structure

The City's existing rate structure includes a base rate and consumption rate for various meter sizes. Rates vary based on meter size, water used, and the location of the water customer (inside or outside the City Limits). This section shall provide a summary of the existing user rates and charges in the City of Newport at the time this study was completed. The information may be required for various funding applications and reviews by funding agencies.

### 10.2.1 Connection Fees

The City of Newport charges various connection fees to defray some of the costs associated with connecting new customers to the system. The following connection fees applied to new customers as of November 2008.

**Table 10.2.1 – Connection Fee Summary**

Size of Service	Connection Fee
5/8" x 3/4"	\$1,420
1"	\$1,575
Larger than 1"	Actual cost plus 10%

In addition to the above fees, a fee of \$1,540 for cutting and repairing asphalt streets is charged where applicable.

Additional charges for System Development Charges are typically added for new water service connections at the time the building permit is issued. However, it is important to understand that SDCs are not connection fees and are related to compensation for reserved capacity in the system. A discussion on SDCs in Newport is provided in Section 8 of this Plan.

### 10.2.2 Water User Rates – General Rates

General rates apply to Newport water customers, located within the City Limits. Table 10.2.2 summarizes the water rates for the general Newport water customers.

**Table 10.2.2 – General Water Use Rates**

Connection (Meter) Size	Threshold Usage Value	Minimum Usage Charge	Cost Per 1,000 Gallons (Tier 1)
5/8" x 3/4"	1,000 gal	\$12.85	\$2.30
1"	3,000 gal	\$17.65	
1 1/4" x 1 1/2"	6,000 gal	\$25.90	
2"	14,000 gal	\$44.40	
3"	23,000 gal	\$66.40	
4" or over	41,000 gal	\$110.25	

Based on these rates, the average (based on 7,500 gallon average water use in Oregon per funding agency guidelines) user rate in Newport, for a typical (5/8" x 3/4") residential meter is \$27.80. This average rate is lower than the statewide average that is used by funding agencies to determine if a community qualifies for specific funding programs. Based on the actual system average of 4,600 gallons per month (see Section 6.1.4) the average monthly residential bill is around \$21.13.

### 10.2.3 Rates For Outside Customers

The City of Newport provides water to a number of customers located outside their current water service boundary and some outside the City Limits. The City recently reached an agreement with the Seal Rock Water District to take over service responsibility to a number of customers in the southern portion of the system. Some of the new customers are within the City Limits; others are outside the City Limits.

As property taxes (via GO Bonds) and other funding mechanisms have been used in the past to fund projects in Newport, the location of a customer can affect the amount of money the customer contributes to the water fund based on their property taxes. Therefore, the City has special rates for customers outside of the “general” service area. The table below summarizes the rates for these customers.

**Table 10.2.3 – Outside Customer Water Use Rates**

Connection (Meter) Size	Threshold Usage Value	Minimum Usage Charge	Cost Per 1,000 Gallons (Tier 1)
5/8" x 3/4"	1,000 gal	\$24.45	\$4.40
1"	3,000 gal	\$33.35	
1 1/4" x 1 1/2"	6,000 gal	\$46.40	
2"	14,000 gal	\$81.80	
3"	23,000 gal	\$120.80	
4" or over	41,000 gal	\$200.20	

As shown in Table 10.2.3, customers located outside the City Limits of Newport are charged a higher rate than customers located within the City.

### 10.3 Water System Budget and Financial Summary

The City of Newport has operated a water system for over 60 years. They have proven to be capable of maintaining and effectively managing the physical facilities of system as well as the water fund and financial operations of the system.

The purpose of this section is to provide a brief summary of the current picture for the City of Newport water system. Detailed information on the budget can be obtained from the City’s finance department.

**Table 10.3.1 – City of Newport Water Fund Budget Summary**

Description	Actual 2005-06	Actual 2006-07	Actual 2007-08	2008-09 Budget
Beginning Balance*	\$ 107,190	\$ 93,565	\$ 121,122	\$ 475,217
Total Revenues (+)	\$ 1,239,765	\$ 1,693,483	\$ 2,008,899	\$ 2,102,790
Total Expenditures (-)	(\$ 1,325,053)	( \$ 1,599,908)	(\$ 1,918,917)	(\$ 2,578,007)
Ending Balance	\$ 75,902	\$ 187,140	\$ 211,104	\$ 475,217 (est)

\*Note: Beginning balance adjusted through the regular audit process to account for various factors through generally accepted accounting principles.

Table 10.3.1 illustrates that the City’s water system is operating in the “black” and is financially healthy.

### 10.4 Potential Funding Sources

There are a number of potential funding sources for which the City could look to for funding assistance and support when undertaking public water system improvements. These sources include local, state, federal, private and public alternatives. This section will seek to provide a brief description of some of the potential funding sources that may be of use to the City of Newport. This section should not be considered as a comprehensive resource for all potential funding sources.

#### 10.4.1 Local Funding Sources

Local funding sources include all funding sources that utilize the local community as “the bank” or fund provider. A brief summary of various potential funding sources is provided below.

**General Obligation Bonds.** General obligation or GO bonds are municipal bonds that are “backed” by the full faith and credit of the issuer. GO bonds are generally repaid through an increase in property taxes. For a community such as Newport, the GO bonds can be an attractive option as the property tax payments are tax deductible, are not based on water use, and are collected whether a customer occupies the home full or part time. GO bonds guarantee a stable and consistent stream of revenue. As they are considered a lower risk investment, the interest rates on GO bond issues is generally lower than other alternatives. GO bonds require voter approval for issuance.

**Revenue Bonds.** Revenue bonds differ from GO bonds in that they are repaid through a municipality’s revenue stream or by user rates. The full faith of the issuer is not behind revenue bonds; therefore, the interest rate on revenue bonds is generally higher than GO bonds. One advantage of revenue bonds is that they do not require voter approval.

**System Development Charges.** SDCs are charged to new customers to retire investments required to provide capacity for new customers to join the system. The City of Newport currently utilizes an SDC program to collect revenues from new customers to aid in upsizing facilities for growth. The disadvantage of using SDCs for infrastructure investment include that the revenue stream from SDCs varies with the economy and with the development market. As such, it is not reliable. Also, projects

often have to be funded through other means as SDCs are often not collected until after an improvement is constructed. This requires interim or bridge funding that can often not be retired by SDCs in a timely manner. It is also important to understand that financial institutions, including public funding agencies, do not loan against SDCs.

**Local Improvement Districts.** LIDs are appropriate funding mechanisms for projects that benefit a limited and defined area. LIDs work well when the required improvements benefit a limited number of users and do not provide a system wide benefit or a benefit to a larger group of customers. Under an LID, improvement costs are distributed to customers based on a defensible methodology.

**Local Loan Centers.** Some agencies have found that they can obtain reasonable loans in a timely manner from local banking institutions for which the community has a relationship. The banks often require less administration and paperwork than public funding programs and often offer competitive interest rates.

#### 10.4.2 State Funding Programs

The State of Oregon offers various programs for funding public water system projects. The various programs offer grants, loans, and combinations of the two. A brief summary of the state programs complete with information about where more information can be obtained for each program is provided below.

The most efficient way to obtain feedback from the state funding agencies and determine funding availability, terms, and requirements is to schedule a “one-stop” meeting with the funding agencies. The agencies will attend this “round table” style meeting and discuss the City’s project needs and be able to make offers as to the funding that may be available through their individual programs.

##### **Safe Drinking Water Revolving Loan Fund (Department of Human Services, DWP)**

The Oregon Department of Human Services, Drinking Water Program offers a funding program that is funded through grants from the EPA. The grants are used to fund a revolving loan fund that offers low interest loans to water providers. Interest rates vary depending on the circumstances in the community but can be as low as 1% for low income communities. In some cases, the program offers a “principal forgiveness” element that resembles a grant of up to \$250,000. Information on the SDWRLF program can be found at <http://www.oregon.gov/DHS/ph/dwp/srlf.shtml> or by calling 971-673-0422.



##### **Oregon Community Development Block Grant (CDBG)**

The Oregon Economic and Community Development Department administers a grant program for public water systems with funding originating from the US Department of Housing and Urban Development. Funding through this grant program is generally in the forms of grants of \$1-million and under and is focused on communities meeting specific low income standards. Grants can be used for planning, design, and construction of new facilities. Information on the CDBG program can be found at <http://econ.oregon.gov/ECDD/CD/index.shtml> or by calling OECD at 503-986-0123. Based on typical qualification requirements, it is unlikely that the City of Newport will qualify for a CDBG. However, this can be confirmed through a one-stop meeting or by calling OECD.

## Water/Wastewater Fund

OECD has another resource for funding water and wastewater improvement projects simply known as the water and wastewater fund. The program offers grants and loans and combination awards. Being in a non-compliance status is required to qualify for this program. As the City of Newport is not currently out of compliance or not likely to be in the near future, they will not likely qualify for this program.

Additional information on this funding program can be found at

<http://www.oregon.gov/ECDD/CD/program/wtrww.shtml> or by calling 503-986-0123.

## Oregon Water Resources Department Water Development Loan Fund

The Oregon Department of Water Resources offers the Water Development Loan Fund that can be used by to develop water resources, implement fish protection measures, and other water related projects. The program issues bonds for the loans. This fund may be a resource for Newport as they seek to solve their long-term water supply issues. Additional information on the loan fund can be found at

[http://www.wrd.state.or.us/OWRD/mgmt\\_wdlp.shtml](http://www.wrd.state.or.us/OWRD/mgmt_wdlp.shtml) or by calling 503-986-0900.

### 10.4.3 Federal Funding Programs

The federal government provides support to state and local agencies in many forms. Some of the state programs discussed above receive their funding from federal resources. Other programs are available directly through federal agencies. A brief description of these federal resources is provided below.

#### Rural Development (USDA)

The USDA Rural Development (RD) offers a variety of grant and loan programs to aid water and wastewater systems as they upgrade and implement infrastructure improvements. Grants, loans, and other support are available through RD. The amount of assistance available and terms varies on a case by case basis. The most effective means of determining if RD funding is appropriate for a community is to schedule a 1-stop meeting through OECD. An RD representative will attend and will provide details on their programs. Several programs are available through RD including the following:



- Water and Waste Disposal Loans and Grants
- Technical Assistance and Training Grants (TAT)
- Solid Waste Management Grants
- Emergency Community Water Assistance Grants
- Circuit Rider Assistance

Additional information on the funding programs available through RD can be found at <http://www.usda.gov/rus/water/program.htm#rural%20water> or by calling (503) 414-3303.

## 10.5 Funding Plan

As the end of this planning effort neared, the City began to formulate a funding plan to fund the Priority 1 Projects which are considered to be the most critical projects on the CIP. This section shall provide a brief description of the funding plan for the highest priority projects and for the other priority project groups in the CIP.

### 10.5.1 Priority 1 Projects Funding Plan

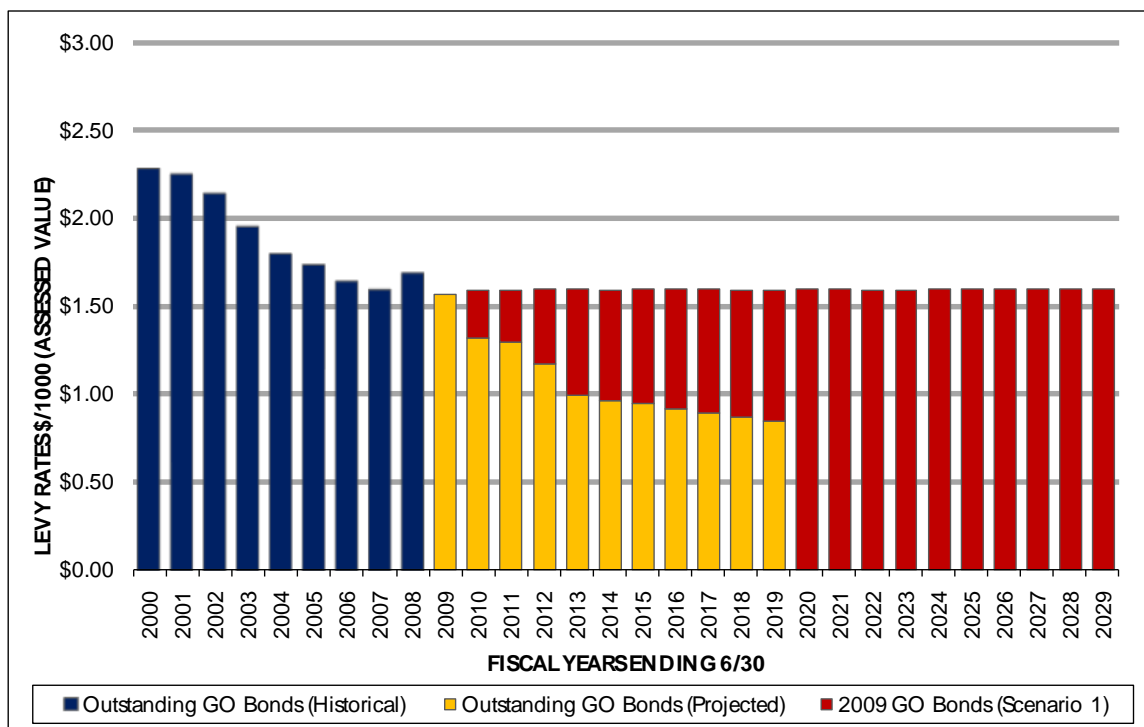
After some discussion with the Water System Task Force, the preference for funding the Priority 1 projects was through a GO bond. The City has had good experiences with GO bond funding and felt that it would be a good alternative for this group of projects.

With planning scheduled for completion in 2008, timing allowed the City to file papers and put a measure on the November 2008 general election ballot (Measure 21-124). The nearly \$16-million measure would fund the majority of the Priority 1 projects and be repaid through property taxes.

The major selling points of utilizing a GO bond to fund the Priority 1 Projects in Newport include:

1. The funding applied to property taxes is IRS tax deductible.
2. The City has a good credit rating and a favorable debt to income ratio making them a good candidate for selling municipal bonds.
3. In the next few years, the City will retire some old infrastructure bonds. This will allow new bonds to be sold without increasing property taxes. This will allow the work to be completed without a noticeable impact to customers over existing tax rates. Figure 10.5.1 below illustrates the existing and proposed bonds and their impact on tax payers.

**Figure 10.5.1 – Bond Projections for the City of Newport**



The planned funding scenario will allow the City to complete a significant amount of work and improve several critical infrastructure elements while having no significant impact on rate or tax payers in the system.

### **10.5.2 Funding for Additional Projects and Priorities**

Priority 2 and 3 projects will be undertaken as funding availability and need dictates. Funding alternatives for later projects will vary and should be determined on a case-by-case basis. Combinations of loans, grants, SDCs and LIDs along with capital improvement projects using water revenues will certainly be part of the funding scheme for future projects.

As the City prepares to undertake other projects and project priorities in the future, planning and costs should be updated for inflation and market changes and a one-stop meeting should be scheduled to determine what funding programs are available, the availability of grants, and other funding assistance.