SECTION 8
FUNDING SYSTEM REVIEW

General

This section discusses potential appropriate funding mechanisms that are available, as well as describe the potential financial impacts of implementing the recommended improvements. The funding sources that are generally available include outside funding assistance through grants and loans, local funding mechanisms supported by storm drainage system fees, and system development charges levied on new development to pay for the growth component of recommended capital improvements.

Outside Funding Assistance

Several outside funding programs provide assistance to qualifying communities to finance capital improvements. Each funding program has its own particular prerequisites and requirements. These assistance programs promote such goals as aiding economic development, benefiting areas of low to moderate income families, and providing for specific community improvement projects.

- *Rural Utilities Service (RUS) Water and Waste Disposal Program* – The Water and Waste Disposal (WWD) program provides both loans and grants to rural communities (with 10,000 people or fewer) for drinking water, wastewater, solid waste, and storm drainage projects. Funds may be used to install, repair, improve, or expand rural water or wastewater disposal facilities.

- *Oregon Special Public Works Fund* – This state program provides financing to local governments for infrastructure improvements to support local economic development and create new jobs locally, especially family wage jobs. Storm drainage systems are listed among the eligible infrastructure projects to receive funding. The Fund is primarily a loan program. Grants can be awarded, up to the program limits, based on job creation or on a financial analysis of the applicant's capacity for carrying debt financing. The total loan amount per project cannot exceed $15 million. Loans are generally made for 20-year terms, but can be extended to 25 years under special circumstances.

- *Oregon State Water/Wastewater Fund* -- The purpose of this program is to provide financing for the design and construction of public infrastructure needed to ensure compliance with the Safe Drinking Water Act or the Clean Water Act. Eligible activities include reasonable costs for construction improvement or expansion of drinking water, wastewater or storm drainage systems. To be eligible a system must have received, or is likely to soon receive, a Notice of Non-Compliance by the appropriate regulatory agency, associated with the Safe Drinking Water Act or the Clean Water Act. Projects also must meet other state or federal water quality statutes and standards. Criteria include projects that are necessary to ensure that municipal water, storm drainage and wastewater systems comply with the Safe Drinking Water Act or the Clean Water Act.

- *Economic Development Administration Public Works Grant Program* – This federal program is aimed at projects that directly create permanent jobs or remove impediments to job creation.

Much of the undeveloped land within the study area is zoned commercial and industrial. Thus, there appears to be some opportunity to obtain outside financing from programs related to the creation of jobs and economic development. Also, the income level within the City appears to be generally lower than the average for Oregon, increasing the possibility of participating in income-related funding programs such as grants or low-interest loans. At this time, the City's stormwater system is not creating compliance issues with respect to the Safe Drinking Water or Clean Water Acts.

Local Funding Through System Development Charges

A system development charge (SDC) is a fee collected as each piece of property is developed. The SDC is used to finance the necessary capital improvements and municipal services required by the development. Such a fee can be used to recover the capital costs of infrastructure.

The Oregon Systems Development Charges Act was passed by the 1989 Legislature (HB 3224) and governs the requirements for system development charges effective July 1, 1991. Two types of charges are permitted under this act: 1) improvement fees, and 2) reimbursement fees. SDCs charged before construction are considered improvement fees and are used to finance capital improvements to be constructed. After construction, SDCs are considered reimbursement fees and are collected to recapture the costs associated with capital improvements already constructed or under construction. A reimbursement fee represents a charge for obtaining excess capacity in an existing facility paid for by others.

Under the Oregon Systems Development Charges Act, methodologies for deriving improvement and reimbursement fees must be documented and available for review by the public. A capital improvement plan must also be prepared that lists the capital improvements that may be funded with improvement fee revenues, and the estimated cost and timing of each improvement. Revenue from the collection of SDCs can only be used to finance specific items listed in a capital improvement plan. SDCs cannot be assessed on portions of the project paid for with grants from outside funding agencies.

Local Funding Sources

Local storm drainage improvements are commonly required as part of any new development or redevelopment. These costs are typically born partially or fully by the developer. Local funding of City-initiated storm drainage system improvements are often financed through general funding. Smaller projects are funded from reserves, while larger projects are normally financed. The municipal bond market is the source of most loans for municipalities in the United States, including Oregon. The municipal bond market will purchase one of several types of bonds from the City: general obligation bonds or improvement (Bancroft) bonds are the most typically used bonds for storm drainage improvements. The types of bonds differ in how the City arranges for and secures the debt, and are discussed in more detail below.

Fee-in-lieu-of Charges for On-Site Detention

Fee-in-lieu-of charges are sometimes considered for storm drainage detention considerations. They are used to give developers the option of either constructing an on-site detention facility, or paying the fee into a fund specifically set up for constructing a regional detention facility to serve multiple properties. The intent of the fee is to encourage development of larger regional detention facilities over on-site detention facilities. Local funding to construct the regional facility must be available to ensure the facility is built when development needs it, which can be difficult to manage in smaller communities where the necessary cash flow is not always available.

Storm Drainage System Fees

The City of Sheridan collects a nominal monthly storm drainage fee, currently $3.50 per residential household. This is a common practice and is intended to help finance routine system cleaning, maintenance and upkeep. This fee currently generates more than $40,000 annually.

Debt Financing

General Obligation Bonds

General obligation (G.O.) bonds are backed by the City's full faith and credit, as the City must pledge to assess a portion of the user fee, backed by property taxes, sufficient to pay the annual debt service. This tax is beyond the State's constitutional limit of $10/$1,000 of assessed value.

Oregon Revised statutes limit the maximum bond term to forty (40) years. The realistic term for which G.O. bonds should be issued is fifteen (15) to twenty (20) years.

Financing of storm drainage system improvements by G.O. bonds is usually accomplished by the following procedure:

- Determination of the capital costs required for the improvement.
- An election by the voters to authorize the sale of bonds.
- The bonds are offered for sale.

- The revenue from the bond sale is used to pay the capital costs associated with the project(s).

General Obligation bonds are preferable to revenue bonds in matters of simplicity and cost of issuance. Since the bonds are secured by the power to tax, these bonds usually command a lower interest rate than other types of bonds. General obligation bonds lend themselves readily to competitive public sale at a reasonable interest rate because of their high degree of security, their tax exempt status, and public acceptance.

These bonds can be revenue-supported wherein a portion of the user fee is pledged toward payment of the debt service. Using this method, the need to collect additional property taxes to retire the bonds is eliminated.

General obligation bonds are normally associated with the financing of facilities that benefit an entire community and must be approved by a majority vote.

The disadvantage of G.O. bond debt is that it is often added to the debt ratios of the underlying municipality, thereby restricting the flexibility of the municipality to issue debt for other purposes. Furthermore, G.O. bond authorizations must be approved by a majority vote and often necessitate extensive public information programs.

Improvement Bonds

Improvement (Bancroft) bonds can be issued under an Oregon law called the Bancroft Act. These bonds are an intermediate form of financing that is less than full-fledged G.O. or revenue bonds, but is quite useful especially for smaller issues or for limited purposes.

An improvement bond is payable only from the receipts of special benefit assessments, not from general tax revenues. Such bonds are issued only where certain properties are recipients of special benefits not occurring to other properties. For a specific improvement, all property within the improvement area is assessed on an equal basis, regardless of whether it is developed or undeveloped. The assessment is designed to apportion the cost of improvements, approximately in proportion to the afforded direct or indirect benefits, among the benefited property owners. This assessment becomes a direct lien against the property, and owners have the option of either paying the assessment in cash or applying for improvement bonds. If the improvement bond option is taken, the municipality sells Bancroft improvement bonds to finance the construction, and the assessment is paid over 20 years in 40 semi-annual installments with interest. Cities and special districts are limited to improvement bonds not exceeding three percent of true cash value.

With improvement bond financing, an improvement district is formed, the boundaries are established, and the benefited properties and property owners are determined. The City usually determines an approximate assessment, either on a square foot or a front-foot basis. Property owners are then given an opportunity to object to the project assessments. The assessments against the properties are usually not levied until the actual cost of the project is determined. Since this determination is normally not possible until the project is completed, funds are not available from assessments for the purpose of making monthly payments to the contractor. Therefore, some method of interim financing must be arranged, or a pre-assessment program, based on the estimated total costs, must be adopted. Commonly, warrants are issued to cover debts, with the warrants to be paid when the project is complete.

The primary disadvantage to this source of revenue is that the property to be assessed must have a true cash value at least equal to 50 percent of the total assessments to be levied. As a result, a substantial cash payment is usually required by owners of undeveloped property. In addition, the development of an assessment district is very cumbersome and expensive when facilities for an entire community are contemplated. In comparison, G.O. bonds can be issued in lieu of improvement bonds, and are usually more favorable.

Potential Financial Impacts of Improvement Program

As presented in Section 7, the total costs for the recommended capital improvements through the end of the 20-year study period are estimated at approximately $6,920,000. An annual increase of roughly 5% should be applied to this estimate for future budgeting purposes. As discussed in this section, a number of funding options available to help finance the recommended improvements. The various funding options include potential impacts to storm drainage system fees, SDC rates, and/or tax rates, depending on which options are implemented.

It is recommended that the City complete a comprehensive financial evaluation and update system development charges and storm drainage system fees as appropriate to implement storm drainage system improvement recommendations presented herein.