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AGENDA DATE: June 8, 2010

To: Board of County Commissioners

Department: Commissioners Business

Presented By: Jeff Spratz, County Administrator
Ron Bittler, Springfield Environmental Services/MWMC General Manager
Peter Ruffier, Eugene Wastewater Division Director

Title: IN THE MATTER OF RATIFYING THE FY 10-11 REGIONAL WASTEWATER PROGRAM BUDGET AND CAPITAL IMPROVEMENTS PROGRAM AS APPROVED BY THE METROPOLITAN WASTEWATER MANAGEMENT COMMISSION (MWMC)

I. PROPOSED MOTION

MOVE APPROVAL OF THE ATTACHED BOARD ORDER RATIFYING THE FY 10-11 METROPOLITAN WASTEWATER MANAGEMENT COMMISSION (MWMC) REGIONAL WASTEWATER PROGRAM BUDGET AND CAPITAL IMPROVEMENTS PROGRAM (CIP) AS PRESENTED.

II. ISSUE OR PROBLEM

As provided for in the Intergovernmental Agreement (IGA), Lane County, the City of Eugene, and the City of Springfield, as governing bodies, must ratify the annual MWMC Budget and Capital Improvements Program.

III. DISCUSSION

A. Background

Board ratification of the MWMC Regional Wastewater Program (RWP) Budget and Capital Improvements Program (CIP) occurs on an annual basis, as provided for in the MWMC IGA that was first adopted in 1977 by Lane County and the cities of Springfield and Eugene.

B. Analysis

The FY 10-11 RWP Budget and Capital Improvements Program (the budget document) was approved by the MWMC on April 9, 2010. The MWMC convened three budget work sessions and a public hearing prior to adopting the Budget and CIP. The FY 10-11 Budget funds all operations, administrative services, and capital projects planned for the RWP collection and treatment facilities. The CIP outlines and describes the capital projects planned for the next five years. In accordance with the IGA, MWMC contracts with the City of Eugene for operations and maintenance services, and with the City of Springfield for administrative services. The attached budget document provides regional program and budget summaries as well as detailed budgets for the services provided by Eugene and Springfield. The budget

document also provides information about how the RWP activities are driven by MWMC-established goals and how they are coordinated.

The FY 10-11 RWP Budget and CIP must be approved by MWMC and ratified by Lane County, Eugene, and Springfield, and then finally adopted by MWMC, prior to the beginning of the next fiscal year (July 1, 2010). The Eugene City Council ratified the Budget and CIP on May 10, 2010, and the Springfield City Council will ratify the Budget and CIP through its adoption of the City of Springfield Budget on June 21, 2010.

C. Alternatives

1. Ratify the MWMC FY 10-11 RWP Budget and CIP as adopted by MWMC.
2. Request that MWMC modify the FY 10-11 RWP Budget and CIP and refer it back to MWMC for reconsideration.

D. Timing

If the Board elects to pursue Alternative 2, the specific request needs to be forwarded to MWMC immediately in order to provide time for MWMC reconsideration and redistribution to the governing bodies for their consideration.

IV. IMPLEMENTATION/FOLLOW UP

If the Board ratifies the Budget document as recommended, no further action is necessary. However, as noted above, if the Board elects to pursue Alternative 2, the specific request needs to be forwarded to MWMC for consideration. A special MWMC meeting would then be convened to consider any modifications requested by the Board. Following MWMC reconsideration, the Budget would be referred once again to the Board, Eugene, and Springfield for reconsideration. The IGA provides for a mediation process if agreement on the Budget document cannot otherwise be achieved.

V. ATTACHMENTS

Attached is the FY 10-11 RWP Budget and CIP document, as approved by MWMC on April 9, 2010.

Metropolitan Wastewater Management Commission



partners in wastewater management

MEMORANDUM

DATE: May 26, 2010

TO: Board of Lane County Commissioners

FROM: Ron Bittler, MWMC General Manager
Tim Schuck, Environmental Services Supervisor

SUBJECT: RESPONSES TO COMMISSIONER'S REQUESTS FOR INFORMATION RELATED TO RATIFICATION OF THE METROPOLITAN WASTEWATER MANAGEMENT COMMISSION (MWMC) FY 10-11 REGIONAL WASTEWATER PROGRAM BUDGET AND CAPITAL IMPROVEMENTS PROGRAM (CIP).

ISSUE

On May 19th, staff presented the MWMC FY 10-11 Regional Wastewater Program Budget and Capital Improvement Program (CIP) to the Board for consideration. Board ratification of the document is an annual obligation under the MWMC intergovernmental agreement (IGA). Board members asked a series of questions and requested that additional information be brought back for further consideration prior to Board action on the Budget and CIP. A follow-up meeting to discuss the additional action is scheduled for June 8, 2010. Responses to each of the expressed areas of concern or questions are provided below.

DISCUSSION

QUESTION 1: CONSIDERATION OF ADMINISTRATIVE CUTS FOR THE FUTURE FISCAL YEAR 11-12 MWMC BUDGET.

A question was raised at the May 19th Board of Commissioners meeting indicating that MWMC should consider making both substantive and symbolic cuts from its administrative budget in future years in an effort to support a "flat" budget and minimize increases to rates. The specific request from the Board was for MWMC to evaluate a budget cut scenario of 20% and a two-thirds reduction in administrative staff for next year's proposed fiscal year 2011-2012 Budget.

Background and Discussion

The IGA establishes the authority for, which the MWMC is to construct, operate, maintain and finance the Regional Sewerage Facilities in accordance with the MWMC's Operation, Maintenance and Administrative Services Agreement and Financial Plan. Contained in Section 3, Specific Functions, of the IGA, the MWMC is responsible, among other obligations, to set rates and amounts that the MWMC determines are appropriate to adequately fund the actions necessary to perform the MWMC's functions as defined by the IGA. Because MWMC has no employees, MWMC has entered into contracts with Eugene and Springfield with respect to certain operation, maintenance and administrative services. Administrative services are provided to MWMC by the City of Springfield on a cost reimbursement basis pursuant to a contract that specifies the nature

and scope of services to be provided. No profit is paid to the City for providing the services. Thus, MWMC cannot unilaterally reduce the scope of services. The primary responsibilities of Springfield include construction management of the regional facilities, long-range facilities planning, and financial services. The construction management staff makes up 76% of the total Springfield Administrative staff.

The service agreement further provides Springfield with the authority to expand and contract its level of service to MWMC as necessary to provide an effective administrative service for the Regional Wastewater Program. As mentioned during the May 19th meeting, the Springfield administrative services budget was reduced by \$328,200, which included a reduction of 2.95 FTE and related materials and services cuts to reflect the reduced CIP for fiscal year 2010-2011, which represents a 8.5% overall reduction as compared to the 2009-2010 fiscal year Budget.

In the mid-1990s, the MWMC and Regional Wastewater Program staff worked together to identify five key outcome areas within, which to focus annual work plan and budget priorities. One of the five key outcomes is to "Achieve and maintain fiscal management that is effective and efficient." This outcome requires careful review and adjustments of the workload, staffing and budget annually, as was demonstrated by the dramatic reduction proposed for fiscal year 2010-2011. Springfield will continue to adjust (increase or decrease), when necessary, its level of administrative services to MWMC as dictated by changes in workload demands and capital project schedules. This is a normal budgetary consideration and obligation as set forth by the IGA.

Should the County's representative to the MWMC wish to bring this issue to the MWMC during next year's budget preparation, staff would be very willing to participate in such a discussion. However, the contemplated two-thirds reduction in Springfield staffing is not possible. Draconian reductions to the services Springfield is required to perform for MWMC under the IGA and Service Agreement would compromise the bond covenants, which is not permissible under the IGA.

QUESTION 2: EXPLANATION OF USER RATE IMPACTS FROM THE LOSS OF REVENUE RELATED TO THE HYNIX CLOSURE.

Background and Discussion

Hynix built its facility in 1996 and paid System Development Charges to connect to the sewer system. Hynix began production of semiconductors in 2007 and the first four years Hynix was in mass production, the Regional Wastewater rates remained flat with no rate increase from 1997 through 2001. The Regional Wastewater rates increased by 5% during fiscal year 2001-2002, which was primarily driven by inflationary adjustments. There were no rate increases for fiscal year 2002-2003 and a 7% inflationary adjustment in 2003-2004.

The MWMC Facilities Plan was developed in 2004 and the plan detailed \$144 million (in 2004 dollars) in upgrades to the Regional Water Pollution Control Facility (WPCF) over the next 20 years. These improvements provide for peak wet weather flows and compliance with environmental performance requirements through 2025. This required a significant first year rate increase in fiscal year 2004-2005 of 24%, necessary to establish reserves and rates to borrow funds to pay for the 2004 Facilities Plan upgrades and the financial plan called for future rate increases to fund future debt and to cover inflation. In fiscal year 2005-2006, user rates increased 6% again to adjust for inflation.

The IGA between the cities of Eugene, Springfield and Lane County, require MWMC to maintain a Bond Rating of at least "A." In order to achieve this rating the net revenues (revenues minus operating expenses) must be 125% of the debt service payment for parity debt. The MWMC successfully issued its first bond in the amount of \$47.3 million to begin to pay for the 2004 MWMC Facilities Plan. Later that year, the MWMC Facilities Plan was re-costed to adjust for inflation and

to reflect accelerating construction (steel and concrete) costs. At that time, the projected costs to complete the plan increased from \$144 million to \$195 million. In fiscal year 2007-2008, user rates again increased by 8% to continue on the path of establishing adequate revenues for the next bond issuance scheduled for fiscal year 2008-2009. A second revenue bond of \$50.7 million was issued in fiscal year 2008-2009, and user rates were increased 11% to provide minimum revenue necessary to issue the bond.

In July of 2008, Hynix announced plans to close its West Eugene facility. Staff calculated that the closure would result in lost revenue to the regional wastewater program of about \$820,000 for the remainder of fiscal year 2008-2009 and a loss of approximately \$1,025,000 annually in future years. Hynix was MWMC's single largest customer and contributed almost 5% of the total annual revenue. The loss of this revenue affected MWMC's ability to meet bond covenant requirements for the \$50 million bond to be issued in 2008 and the future borrowing required to support the approved Regional Wastewater Capital Improvement Program. MWMC was forced to make an interim rate increase of 7% to accommodate for the Hynix revenue loss with an effective date of December 1, 2008. To date, no additional interim rate increases have been necessary, due to the Hynix closure or the loss of any other significant user.

Due to a downturn in economic development within the service area, MWMC anticipated a loss of almost \$1.1 million in system development charge revenue in fiscal year 2009-2010. This loss of revenue added to the requirement to meet the (1.25) net revenue, to debt service ratio, for future bond issuance and created a user rate increase of 18% in fiscal year 2009-2010.

During the fiscal year 2009-2010 rate discussion, it was forecasted that the 2010-2011 rate increase would be 10%. However, because of a number of factors, which included an aggressive project management approach, and a favorable bidding climate, numerous capital projects came in under the engineer's estimates. This in turn allowed the bond issuance to be delayed. By delaying the bond issuance as well as a reduced operating budget, allowed MWMC to lower the user rate increase from the anticipated 10% to 5% for fiscal year 2010-2011.

REQUESTED ACTION

The Board of Commissioners is requested to ratify the FY 10-11 MWMC Budget and CIP either by approval of the Board Order included in the Board's May 19th meeting agenda packet or the revised Board Order included with this memo as Attachment A.

