

TSCC Budget Review 2017-18

Valley View Water

1. Introduction to the District

Valley View Water District serves a four square mile residential area in Southwest Multnomah County. The District is nestled between the City of Portland and Washington County.

The Valley View Water District is a water storage and distribution district. It is governed by five uncompensated board members elected to four-year terms.



- The District serves 373 water customers and 27 customers of the City of Portland's Water Bureau that are connected to the District's distribution system.
- The District purchases its water from the City of Portland under a 20-year contract.
- Day-to-day operational services are provided by Tualatin Valley Water District (TVWD) under a contract begun in 2001 and extended to July, 2019.
- The reservoir and much of the water distribution lines have been recently upgraded.

Valley View Water	2014-15	2015-16	2016-17	2017-18
Assessed Value in Millions	\$194.0	\$202.0	\$208.6	
Real Market Value (M-5) in Millions	\$268.7	\$298.1	\$307.7	
Property Tax Rate Extended: Operations	\$1.1339	\$1.0893	\$1.0546	
Measure 5 Loss	\$0	\$0	\$0	
Number of Employees (FTE's)	0	0	0	

2. History

Valley View Water District originally provided fire service and water service to its customers. In 1995, the Board authorized the annexation of the District into the Tualatin Valley Fire and Rescue District and now only provides water service.

The District has a history of well-managed finances and infrastructure upgrades. It has balanced the use of its three revenue sources: water rate revenues, debt proceeds, and property taxes.

Historically the district has levied a dollar amount of property taxes rather than its full rate. In 2017-18 it has budgeted to levy the full rate (\$1.7389 per \$1,000 Assessed Value). This will generate 50% more tax revenue for the district. The discussion below will elaborate on the purpose of that increase.

Based on a 2000 system master plan, the District completed four capital improvement projects in the 2003-04, 2008-09, 2011-12, and 2014-15 fiscal years. The first three projects were main water line rehabilitations or replacements/ upsizing, and the most recent project was rehabilitation of the District's storage reservoir. The District uses debt financing and reserve draw-down for these projects.

The District reports that it has decreased its water loss from 9% to 5% as a result of these repairs and upgrades.

3. Strategic Plan/Performance Objectives

With the major line replacements completed, the District's next goal is to replace its secondary distribution lines. These are 4" and 6" lines that need to be upsized to meet current fire flow standards. The District plans to pay-as-you-go for the majority of these lines, with some use of debt as needed. This will occur in the next ten to 12 years period.

The District's second objective is partially fund replacement of the water reservoir in event of earthquake damage. Its goal is to reserve \$750,000 to \$1 million to ensure that funding will be available should its water reservoir be damaged.

A significant event has had a major impact on the district's budget planning. The district is located in an area of steep terrain. In 2016 a landslide on private property encroached on the district's water main right of way. The hillside remains unstable and a threat to the main. The district is working with the property owner to stabilize the hillside. The district is conducting engineering studies of the slide area and a cost sharing arrangement has been discussed with the property owner. The 2017-18 budget includes \$500,000 for this work. This increased expense is funded by the increase in property taxes, a reserve drawdown, and a planned contribution from the property owner.

4. Budget in Total

The District's 2017-18 budget is \$1.9 million, an increase of \$0.5 million from this year. The increase is caused by the expense of the landslide mitigation project. But for the landslide project, the budget is right in line with historical revenue and spending patterns.

Valley View Water District				
Total Requirements, All Funds (\$000)				
	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
Personnel Services	\$ -	\$ -	\$ -	\$ -
Materials and Services	225	253	289	805
Capital Outlay	183	15	332	348
Debt Service	158	158	158	158
Contingencies	-	-	620	600
Ending Fund Balance	<u>876</u>	<u>991</u>	<u>14</u>	<u>14</u>
Total Requirements	\$ 1,442	\$ 1,417	\$ 1,413	\$ 1,925

Valley View Water District				
Total Resources, All Funds (\$000)				
	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
Beginning Fund Balance	\$ 918	\$ 876	\$ 896	\$ 1,014
Property Taxes	213	209	212	336
Water Sales	293	314	288	306
System Development Charges	12	7	12	12
Other	<u>5</u>	<u>11</u>	<u>5</u>	<u>256</u>
Total Resources	\$ 1,442	\$ 1,417	\$ 1,413	\$ 1,925

The district has no personnel services costs. It contracts out administration and accounting functions to the Board Chair. This is duly noted as a related party transaction in the annual audit. Water billing and operations functions are contracted out to Tualatin Valley Water District.

The district balances the costs of operating, maintaining, and upgrading its system between current and future customers. Current system customers pay for:

- System operation and the cost of water (via water rates). The district keeps that revenue and those expenditures balanced (see graph below).
- Debt service on past system improvements (via property taxes earmarked for debt service).
- Smaller capital improvement projects (via earmarked property taxes).
- Future capital projects (any surplus revenue is added to fund balance).

The use of debt financing assures that future customers will pay their share of today's improvements (see section 7 below).

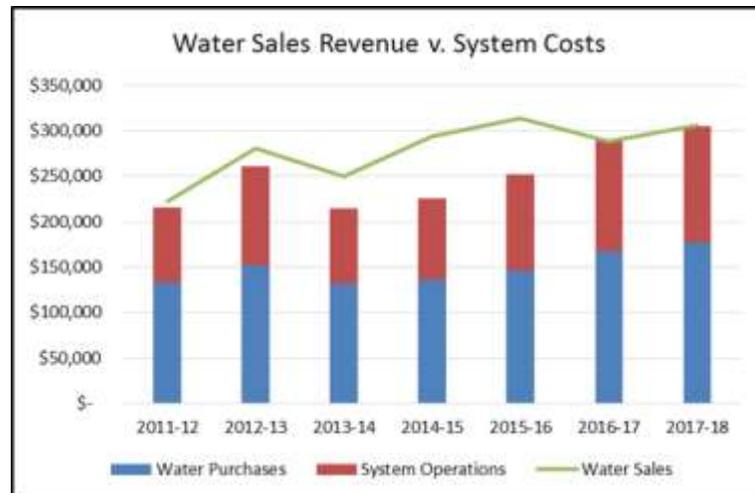
5. Analysis of General Fund

The District has only two funds. General Fund is not significantly different from the information above on all funds. The following chart summarizes the General Fund financial trends.

Valley View Water District General Fund Summary (\$'000)				
	2014-15	2015-16	2016-17	2017-18
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>
Beginning Fund Balance	\$ 867	\$ 812	\$ 825	\$ 928
Revenues	512	533	505	898
Expenditures	566	426	697	1,213
Contingency	0	0	620	600
Ending Fund Balance	\$ 812	\$ 920	\$ 14	\$ 13

Historically, property taxes and water sales account for 99% of General Fund revenues. The district has set its water rates to cover operating costs and its property tax rate to cover debt service¹ and some capital costs. Any resulting surplus goes to fund balance. The district uses fund balance drawdowns to pay for projects.

The chart to the right shows how the district matches rate revenues to system costs.



The District purchases its water from the City of Portland. The City usually raises the cost of water annually and for the most part, Valley View has absorbed these increases with smaller increases in its rates.

Portland is increasing Valley View's cost of water by 6% in 2017-18 and the District will increase its rates by 6.2% to cover that increase and some inflationary pressures on system operations.

Purchased Water Annual Rate Increases	
2011-12	12.3%
2012-13	13.3%
2013-14	-12.8%
2014-15	4.1%
2015-16	6.6%
2016-17	14.5%
2017-18	6.0%

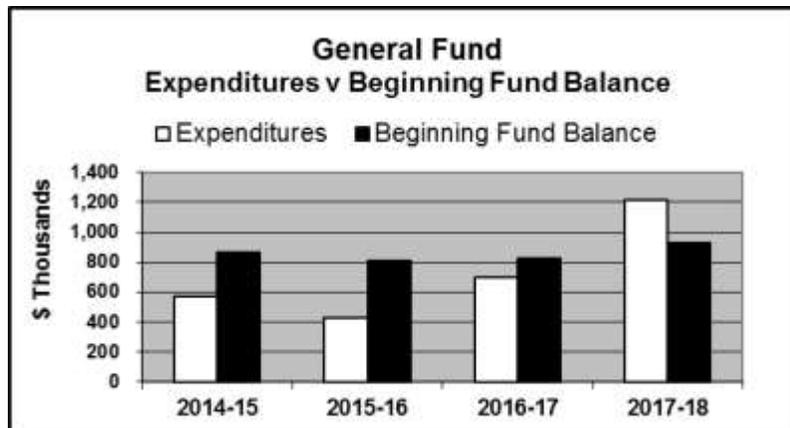
¹ The district's loans are full faith and credit loans from the state. They are not general obligation debt. But the district uses its permanent levy taxes to pay the debt service.

The chart to the right shows the history of City of Portland wholesale water rate increases.

The 2017-18 includes two revenue increases to help offset the costs of the landslide mitigation project: a \$250,000 contribution from the property owner and a \$120,000 increase in property taxes. The latter increase will be created by levying the full property tax levy of \$1.7389 per \$1,000 Assessed Value. A portion of the tax revenue will be used to replenish reserves used on the landslide project this year and a portion will be used to build up the reserve for future landslide project costs.

Historically, the district has maintained a fund balance in excess of operating expenditures. The fund balance to expenditure ratio will fall below 100% next year, but only because of increased expenditures due to the landslide project.

Valley View Water District General Fund Beginning Fund Balance				
	2014-15 Actual	2015-16 Actual	2016-17 Budget	2017-18 Budget
Beginning Fund Balance	\$ 867	\$ 812	\$ 825	\$ 928
Percent of Gen Fund Exp:	153%	191%	118%	76%



The General Fund's fund balance is unreserved (there are no third party or statutory restrictions on it) but the district has informally reserved it for a future reservoir replacement project.

6. Analysis of Other Funds

The only other fund is a Systems Development Fund, which has a \$99k budget for 2017-18. The Fund tracks receipt of systems development fees. The fees are used to fund system improvements. No projects have been expensed in this fund for the last three years.

7. Debt Status

The District has three long-term loans from the State of Oregon. The original issue total is \$2.2 million. The total outstanding at June 30, 2016 was \$1.5 million. Annual debt service (P&I) is \$158k. The loans are staggered to end in 2022, 2030, and 2032. The proceeds of the debt were used to fund water system replacement and improvement projects between 2003 and 2011. The three loans have true interest costs of 3.38%, 4.11%, and 4.36%. Annual Debt Service costs are consistent to the term of each loan.

Valley View Water	6-30-14	6-30-15	6-30-16	6-30-17 Est.
Debt Outstanding	\$1,709,433	\$ 1,621,708	\$ 1,530,368	\$ 1,435,330
Debt Service Payments	\$ 157,786	\$ 157,786	\$ 157,786	\$ 157,786

8. Is Budget in Sync with Strategic Plan/Performance Objectives?

By completing major system upgrades over the last decade and a half, the District has achieved its goals. In so doing, it has kept its budget balanced while building a reserve for future improvements (the reservoir replacement project).

9. Budget Law Compliance

Yes	No	Compliance Issue
✓		1. Did district meet publication requirements?
✓		2. Do resources equal requirements in every fund?
N/A		3. Does the G.O. Debt Service Fund show only principle and Interest payments
✓		4. Are contingencies shown only in operating funds?
✓		5. Did budget committee approve the budget?
✓		6. Did Budget committee set the levy?
✓		7. Does audit show the district was in compliance with budget law?

10. Highlights of 2017-18 Budget

- The District's 2017-18 budget is \$1,925k, an increase of \$512k from this year.
- The district budget includes \$500,000 for a landslide mitigation project.
- Because of the landslide project, the district is levying the full permanent rate in 2017-18, increasing property taxes by 50% (\$120,000)
- The District is building a fund balance that will be used to offset half of the costs of replacing its reservoir.
- Water rates are maintained at a level to cover cost of water and system operations and will require a 6.2% increase in the 2017-18 budget.
- The District has completed the bulk of the water system upgrades called for in its water master plan.