



City of Tigard

FACT SHEET: Water Revenue Bonds

Overview

In August 2008, the cities of Lake Oswego and Tigard formally endorsed a partnership agreement for sharing drinking water resources and costs. Lake Oswego's existing water facilities will be upgraded and upsized to serve customers in both communities. Both cities want to keep water affordable for their customers and sharing the cost does that. Tigard Water Service Area customers in Tigard, Durham, King City, and Tigard Water District benefit by finally gaining ownership of a drinking water source, instead of continuing to purchase water from Portland.

Funding sources for the Partnership project include "revenue bonds" issued by Lake Oswego and Tigard to be repaid over the years by customers' monthly water charges and SDCs (systems development charges) paid by all new development. Both Lake Oswego and Tigard are increasing water rates and SDCs to pay for the project to meet bond requirements.

Revenue Bond Primer

Revenue bonds are secured solely by utility system revenues (rather than tax dollars). Operating revenues must be sufficient to repay the bonds after the system's ongoing operations and maintenance costs are covered. These are called "net revenues".

Net Revenues

Net revenues must be sufficient to pay the debt service (interest and principal payments) at the time the bonds are issued. They cannot rely on future actions by the City to raise rates. Also, net revenues must be more than just enough to pay the debt service.

Coverage

To account for contingencies, such as reduced revenues due to the loss of large users or reduced demand through conservation efforts, bond holders require the City to collect more revenues than needed to pay ongoing costs plus debt service. This cushion amount is called "coverage". The lower the amount of excess net revenues there are after paying debt service, the less credit worthy the credit markets consider the revenue bonds.

Credit Rating

Interest rates on bonds vary according to the "credit rating" of the issuing agency. If net revenues are just sufficient to pay the debt service, this is called a 1 times debt service coverage. Debt service coverage ratios are tied directly to ratings: the higher the coverage ratio, the higher the credit rating and the lower the interest rate. Tigard revenue bonds are aimed at earning an "A" rating. Ratings are based on a number of factors, with coverage a main feature. Tigard's current financial forecast calls for a minimum coverage of 1.15 times debt service.

Other Utilities

Larger water utilities typically have ongoing capital construction programs. This portion of their budgets is not considered operating revenue and therefore adds to the coverage. In Tigard's situation, the projected Partnership project costs dwarf Tigard's other capital spending so other construction does not contribute a meaningful amount to coverage. Financing costs must be repaid almost entirely by new revenues.

Size and Timing

The size and timing of bond sales is driven by capital costs and the need to have money in time to pay for construction. Higher rates need to be in place at the time the long-term bonds are issued.

Reserve Fund

Tigard must also hold in reserve at least one full year's debt service as a backup security – known as a “debt service reserve fund”. The reserve fund ensures that money is available in case of a debt default. This reserve can be used to make the final payments on the bonds.

Cost Savings

A goal of Tigard's Financial Plan is to recommend the bond issuance strategy that assures the best long-term savings for customers. This requires a balance between bond structures, higher credit rating (lower interest cost), and higher coverage (higher user rates in early years).

Learn More

For more information on the Tigard Water Financial Plan contact John Goodrich, Utility Division Manager at 503-718-2609 or johng@tigard-or.gov or visit www.tigard-or.gov/water.