



BOARD OF COUNTY COMMISSIONERS

PUBLIC SERVICES BUILDING
2051 KAEN ROAD | OREGON CITY, OR 97045

February 11, 2015

City of Oregon City
Attn: City Commission
625 Center Street
Oregon City, OR 97045

Dear Oregon City Commissioners:

Thank you to former Mayor Neeley for his letter of December 19, 2014 about the Tri-City Service District governance. It appears that the County and City may not have the same understanding as to the history and rationale in regard to the delivery for wastewater treatment services. In engaging the issue, we would like to share our understanding of the reasons for formation of the Tri-City Service District (District), the current issues facing the District, and opportunities for conversation around these and other issues.

History

In 1977, the Oregon Department of Environmental Quality (DEQ) issued a building moratorium to Oregon City and Gladstone, and warned West Linn that it would face a similar restriction in less than two years, if sewer improvements were not made. Prior to this each of the cities owned and operated its own sewage treatment plant. Oregon City's was located along 99E near Clackamette Park.

The leadership of the cities during that time found that mutual investment in a business such as wastewater treatment was the most economically viable response to the moratoriums. An initial plan to form a District, including a substantial unincorporated rural area, was proposed to the County and put to a public vote, which failed. After additional consideration, the three cities proposed that the District include only their incorporated boundaries. The modified arrangement was put to a vote of the future ratepayers of those cities and passed in 1980, with the County Commission to act as the governing body.

The District was then able to leverage that vote of support to obtain Clean Water Act grants that paid approximately 75% of the construction costs of the Tri-City Wastewater Treatment Plant (Plant). The remainder of the construction costs was paid by users of the system. In lieu of direct rates, the District was able to issue a general obligation bond that crossed the three cities' jurisdictional boundaries. The construction bond was the equivalent of approximately \$12 per household per month for the next 20 years, and was paid off in 2001. Since the District's inception in 1980, direct rates have only paid for operational expenses and minor asset replacement.

Current Issues

The infrastructure constructed in 1980 was substantial and the District leveraged the federal grant money to maximize value to the residents of the three cities. The Plant has held sufficient capacity to support the steady growth of the three cities, and leased space to Clackamas County Service District No. 1 (CCSD#1) beginning in 1999 for a profit, allowing the District's revenue generated from ratepayers to go below the District's current operating costs. Continued growth in all three cities, with Oregon City experiencing the highest rate of growth, has now used up the original solids handling design capacity of the Plant.

CCSD#1 has invested at least \$89 million including constructing its own treatment train in 2011 and bought into the equity of the Plant through a one-time payment of \$4,000,000, which was used to subsidize district rates for the last several years. While Oregon City has shared concerns over the rate of growth for user fees, it is only in the last fiscal year that the District reached break-even status for its operational expenses. The current rate does not support capital projects.

The District does have pressing capital needs. The current demands on the Plant have put the Plant over capacity from a solids handling standpoint. To mitigate the capacity issues, in 2012 the District shifted its solids processing operations to a higher-risk strategy that has had limited success. Although less than originally envisioned, the Plant is still experiencing operational challenges caused by the stressed systems. District staff, recognizing the issue, briefed the District advisory committee (which includes representation from each partner city) regarding the possible need to adjust the phasing of the capital improvement plan to address the overloading of the solids handling infrastructure. It appears that this briefing gave rise to Oregon City's concerns, as articulated in Mayor Neeley's letter—namely the possibility of rate increases and the desire for more control over that decision.

Continuing the Conversation

As the conversation moves forward, there are two key concepts that we believe should be discussed:

1. The capital needs driving the concerns are the same despite the governance structure. The federal government is no longer offering grants for this type of construction, which means future capital replacement and improvements will have to be paid by the users of the system through rates or a general obligation bond.
2. The original goal during the formation of the District—that wastewater is an economy of scale endeavor that leaves each city substantially better off over time by investing together—remains a key driver for our conversation. This issue has been exacerbated by the expense of the large infrastructure necessary to meet the requirements of the Clean Water Act.

The constituent members of the District and CCSD#1 jointly agreed to form a Regional Wastewater Treatment Capacity Advisory Committee to address exactly the issues facing the District and CCSD#1 today. Members of the Board of County Commissioners, with the support of staff, intend to bring forward these issues to that Regional committee and seek input on the best path forward. Part of our proposed conversation would include the possibility, but not the mandate, that the District consider a mutual investment strategy with CCSD#1 to minimize the rate impact to our shared constituents.

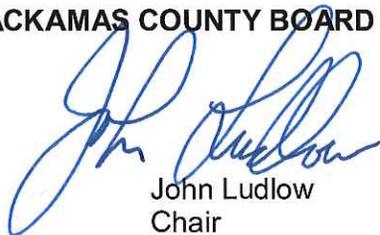
Members of the Board of County Commissioners have expressed openness to revisions to the advisory committee membership, scope and nature of input. If there is a shared desire by both Gladstone and West Linn, the Board would be willing to explore the optimal way to ensure that decisions are made for the benefit of the affected ratepayers. However, that conversation may need to run either parallel to or after the conversation regarding the pressing infrastructure needs once again facing the three cities, namely avoiding a moratorium.

We look forward to working with the representatives of the three cities and the partnering cities & stakeholders of CCSD#1 in finding a mutually agreeable way to address our shared needs, ensuring we protect human health and the environment by providing effective water quality services.

Thank you.

Sincerely,

CLACKAMAS COUNTY BOARD OF COMMISSIONERS



John Ludlow
Chair



Jim Bernard
Commissioner



Paul Savas
Commissioner



Martha Schrader
Commissioner



Tootie Smith
Commissioner

cc: Cities of Gladstone and West Linn