

# Memorandum

February 1, 2019

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**TO:** Chris Cummings, Assistant Director, Economic Development  
**THRU:** Ed Tabor, Programs & Incentives Manager  
**FROM:** Tawni Bean, Regional Project Manager  
Dennis Knight, Finance Officer  
**SUBJ:** **Funding Opportunity of \$1,443,736—Water/Wastewater Financing Program for City of Glendale, Wastewater Treatment Plant Influent Pump Station and Collection System Improvements—Final Design & Construction, No. 170-1344**

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Please accept this memorandum for the *Oregon Infrastructure Finance Authority* (IFA) for funding assistance. Business Oregon's (statutorily and by rule referred to as *Oregon Business Development Department*) staff administers the IFA. This memorandum will provide an application review, findings and analysis, and staff's recommendation for requested action. There may also be post approval follow-up instructions for staff.

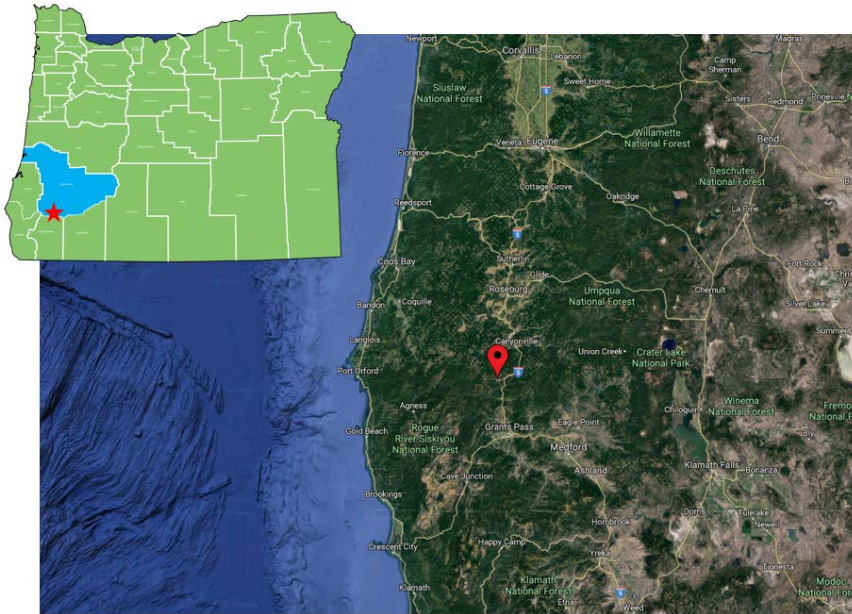
## **Background**

**Applicant:** The city of Glendale is located in Douglas County, about 25 miles north of Grants Pass off of I-5. The city has a population of 875 and is classified as a rural and distressed community by Business Oregon.

**Funding Request:** Loan & grant

**Project Type:**

- Planning
- Design
- Construction



**Project Background:** The city of Glendale has a significant problem with high levels of Inflow and Infiltration (I&I) within its sewer collection system. As a result, they have had difficulty meeting discharge requirements. The existing wastewater treatment plant influent pump station does not meet redundancy requirements and is at the end of its service life. In order to address the needed system updates the city entered into a Mutual Agreement Order (MAO) with the Department of Environmental Quality (DEQ) which requires specific projects to be addressed.

It was previously proposed to replace the existing wastewater plant but it has been determined that the plant is not the issue. The plant meets and exceeds any permit limits except in extreme wet weather. Addressing the I&I and making pump station improvements was determined to be the best option to meet the MAO with DEQ. Once the improvements have been completed and the city monitors the wet weather flows, and if no issues arise, the MAO will be satisfied.

**Project Description:** The recipient will, with the assistance of a professional engineer licensed in Oregon, prepare final design plans, which will include specifications and construction documents that must be approved by Business Oregon and the Department of Environmental Quality. The construction will include, but is not limited to:

1. Collection System Improvements—this will include point and lateral repairs; full pipe replacement; root removal and liner installations; cross connection repairs; and manhole repairs and cleanout cap replacement.
2. Influent Pump Station Improvements—demolition of existing infrastructure; site preparation; two geyser pumps with railing systems; two air supply and blowers; two self-priming pumps; 6" & 10" DI force mains; electrical control upgrades; level transducer and floats; new wet well lid; landscape restoration; and headworks bypass of overflow.

**Work Plan:** The project includes design and construction activities, a description of each primary activity and anticipated dates are provided in a table below.

**Public Involvement Statement:** The city has had multiple city council meetings to discuss the project as well as costs associated with it.

**Findings and Analysis**

This project aligns with Business Oregon’s Strategic Plan. This project meets the Priority of “Cultivate Rural Economic Stability.” The key performance measure (KPM) that will capture the Department’s investment is KPM9-Number of community capital construction financing projects that assist with future economic development.

This project helps implement the following goals and objectives of Water Wastewater Financing Program: **to provide funding to municipalities to assist in complying with the Clean Water and Safe Drinking Water acts (OAR 123-043-0035 (1))**

**Program Findings & Compliance**

1. Applicant eligibility: The city of Glendale is a municipal entity and meets the requirements of an eligible applicant as defined in OAR 123-043-0035(1).
2. Project compliance: The improvements for this project will keep the city in compliance with the current DEQ MAO scheduled improvements.
3. Project priority is high: The city of Glendale is currently not meeting their discharge requirements of the current permit.
4. Program suggestions and/or monitoring: standard on-site monitoring for a construction project.
5. This project is found to be compliant with applicable department policies, rules and statutes. The programmatic and financial sections of the Eligibility Checklist have been completed and the application has been determined per current ORS to be eligible for funding.

**Funding Recommendation**

<b>Budget Line Items</b>	<b>WWF</b>	<b>Other</b>	<b>Other</b>	<b>Totals</b>
Design/Engineering	\$193,122	\$0	\$0	\$193,122
Base Mapping, Plan Preparation and Surveying – Pre-Award	50,000			
Construction	\$1,014,195	\$0	\$0	\$1,014,195
Construction Contingency	\$101,419	\$0	\$0	\$101,419
Legal Fees	\$25,000	\$0	\$0	\$25,000
Pre-Design Report (PER)– Pre-Award	\$40,000	\$0	\$0	\$40,000
Permitting and Regulatory Fees/Surveying	\$20,000	\$0	\$0	\$20,000
<b>Total</b>	<b>\$1,443,736</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,443,736</b>

### Proposed Work Plan

Activity	Date
Pre-design Phase	3/2019
Complete Draft Final Design Documents	6/2019
DEQ and OBDD review and approval of Final Design Documents	7/2019
Construction Bid	9/2019
Construction	2/2021
Closeout	4/2021

Source of Business Oregon Funds (Indicate Loan/Grant/Principal Forgiveness, Bond, Private or Public, and Taxable or Tax Exempt)	Amount
Water/Wastewater Fund – Loan, Public, Tax Exempt	\$721,868
Water/Wastewater Fund – Grant, Public, Tax Exempt	\$721,868
	\$0
<b>Total</b>	<b>\$1,443,736</b>

Source of Other Funds (For other State funds, indicate loan/grant, et cetera)	Amount
	\$0
<b>Total</b>	<b>\$0</b>

## Financial Findings & Compliance

### Repayment source

The table below shows historic revenue from the applicant's Sewer Fund for the last two audited fiscal years ending June 30, 2017, unaudited fiscal year ending June 30, 2018.

#### Sewer Fund—City of Glendale

<b>Performance Review</b>	<b>audited</b>	<b>audited</b>	<b>Unaudited</b>
<b>FY Ending June 30th</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Beginning Fund Balance	40,212	62,231	150,796
<b>Revenues</b>			
Charges for Services	209,608	266,250	280,150
Other Operating Revenues	4,130	3,358	5,500
<b>Operating Revenues</b>	<b>213,738</b>	<b>269,608</b>	<b>285,650</b>
Interest and Miscellaneous	13	0	0
Intergovernmental & Insurance Claim	30,853	48,000	43,700
<b>Total Non-Operating Revenues</b>	<b>30,866</b>	<b>48,000</b>	<b>43,700</b>
<b>Total Revenues</b>	<b>244,604</b>	<b>317,608</b>	<b>329,350</b>
<b>Expenditures</b>			
Personal Services	81,107	60,324	93,556
Materials & Services	131,152	156,065	162,143
<b>Total Operating Expenses</b>	<b>212,259</b>	<b>216,389</b>	<b>255,699</b>
<b>Net Operating Income</b>	<b>1,479</b>	<b>53,219</b>	<b>29,951</b>
Capital Outlay	28,479	30,807	30,323
Debt Service	34,847	34,847	34,847
Total Expenses	275,585	282,043	320,869
<b>Net Revenues</b>	<b>(30,981)</b>	<b>35,565</b>	<b>8,481</b>
Net Transfers/Adjustments	53,000	53,000	0
<b>Ending Fund Balance</b>	<b>62,231</b>	<b>150,796</b>	<b>159,277</b>

Revenues took a healthy increase in fiscal year 2017 due to an increase in user rates. Personal services had a drop in expenses in 2017 due to a position being eliminated but salary increases and a new part time position in 2018 brought expenses back up. Materials and Services expense has experienced a steady increase.

**General Fund summary**

The table below shows a performance review of the applicant's General Fund for the last three fiscal years ending June 30, 2018.

**General Fund–City of Glendale**

<b>Performance Review</b>	<b>audited</b>	<b>audited</b>	<b>Unaudited</b>
<b>FY Ending June 30th</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Beginning Fund Balance	118,637	139,163	170,356
<b>Revenues</b>			
Property Taxes	127,949	131,475	131,330
Other Operating Revenues	63,135	66,291	84,070
<b>Operating Revenues</b>	<b>191,084</b>	<b>197,766</b>	<b>215,400</b>
Interest and Miscellaneous	1,243	10	10
Intergovernmental	24,474	8,178	8,400
<b>Total Non-Operating Revenues</b>	<b>25,717</b>	<b>8,188</b>	<b>8,410</b>
<b>Total Revenues</b>	<b>216,801</b>	<b>205,954</b>	<b>223,810</b>
<b>Expenditures</b>			
Personal Services	101,395	86,931	95,668
Materials & Services	93,880	87,830	92,114
<b>Total Operating Expenses</b>	<b>195,275</b>	<b>174,761</b>	<b>187,782</b>
<b>Net Operating Income</b>	<b>(4,191)</b>	<b>23,005</b>	<b>27,618</b>
Capital Outlay	0	0	21,756
Debt Service	0	0	0
Total Expenses	195,275	174,761	209,538
<b>Net Revenues</b>	<b>21,526</b>	<b>31,193</b>	<b>14,272</b>
Net Transfers/Adjustments	(1,000)	0	0
<b>Ending Fund Balance</b>	<b>139,163</b>	<b>170,356</b>	<b>184,628</b>

Both total revenues and total expenses has varied up and down over the years reviewed and due to good management controls they have always maintained a positive net revenue.

**Debt service analysis**

Net Revenues for Debt Coverage: The table on the following page reflects the Projected Net Revenues for the Applicant’s Sewer Fund only as provided with the Applicant’s application. It reflects more than adequate net revenues necessary to provide the required 1.20 debt service coverage ratio.

**Summary of Revenues, Expenditures, and Debt Service Coverage  
City of Glendale**

<b>PRO FORMA</b>	<b>Current FY</b>		<b>Projected</b>			
<b>Year (ending June 30th)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Beginning Fund Balance	159,277	117,300	142,691	176,428	187,075	214,261
<b>Operating Revenues</b>						
Service Charges	280,000	304,668	336,684	357,864	382,044	406,224
Interest and Misc.	3,500	17,200	16,400	1,700	1,700	1,700
Grant	30,000	0	0	0	0	0
<b>Total Operating Revenues</b>	<b>313,500</b>	<b>321,868</b>	<b>353,084</b>	<b>359,564</b>	<b>383,744</b>	<b>407,924</b>
<b>Operating Expenses</b>						
Personal Services	96,630	96,630	98,000	100,000	102,000	104,000
Materials & Services	175,000	175,000	178,500	182,070	185,711	189,425
<b>Total Operating Expenses</b>	<b>271,630</b>	<b>271,630</b>	<b>276,500</b>	<b>282,070</b>	<b>287,711</b>	<b>293,425</b>
<b>Debt Service</b>						
Funds Avail for Debt Coverage	41,870	50,238	76,584	77,494	96,033	114,499
OBDD Y 11001	34,847	34,847	34,847	34,847	34,847	34,847
IFA Proposed Loan	0	0	6,000	28,000	28,000	28,000
<b>Total Debt Service</b>	<b>34,847</b>	<b>34,847</b>	<b>40,847</b>	<b>62,847</b>	<b>62,847</b>	<b>62,847</b>
Debt Service Coverage Ratio	1.20	1.44	1.87	1.23	1.53	1.82
<b>Other Activities</b>						
Cash Avail After Debt Service	7,023	15,391	35,737	14,647	33,186	51,652
Capital Outlay (OUT)	(89,000)	(60,000)	(62,000)	(64,000)	(66,000)	(68,000)
<b>Net Other Activity</b>	<b>(89,000)</b>	<b>(60,000)</b>	<b>(62,000)</b>	<b>(64,000)</b>	<b>(66,000)</b>	<b>(68,000)</b>
Net Transfers IN (OUT)	40,000	70,000	60,000	60,000	60,000	60,000
<b>Net Transfers &amp; Adjustments</b>	<b>40,000</b>	<b>70,000</b>	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>
<b>Ending Fund Balance</b>	<b>117,300</b>	<b>142,691</b>	<b>176,428</b>	<b>187,075</b>	<b>214,261</b>	<b>257,913</b>
Avg. Rev's per EDU (calc)	\$64.83	\$66.56	\$73.01	\$74.35	\$79.35	\$84.35
Rate per EDU (app)	\$63.00	\$69.00	\$74.00	\$79.00	\$84.00	\$89.00
EDU's (app)	403	403	403	403	403	403
Connections (app)	379	379	379	379	379	379

Revenues are projected to increase on average of 7.4% over the next six years while expense are only projected to increase by 2% per year. Even if costs increase slightly more than their projections, they have adequate room for any increase. There has been some community involvement with projected rate increases but no resolutions have been passed yet.

**Existing obligations and risks**

**Summary of Outstanding Debt Obligations  
City of Glendale**

Loan Source	June 30, 2018 Balance	Annual Debt Service	Payment Source Pledged	FF&C Pledged	Debt Priority	Maturity
<b>Self-Supporting Debt</b>						
OBDD - SDWRLF - S99007	\$123,521	\$9,487	Water Fund	Yes	N/A	2032
OBDD - W-W Y02006	\$261,168	\$27,523	Water Fund	Yes	N/A	2028
OBDD - W-W Y11001	\$480,992	\$34,847	Sewer Fund	Yes	Parity	2035
<b>Gross Bonded Debt</b>	<b>\$865,681</b>	<b>\$71,857</b>				

**Underwriting standards**

The Applicant meets 15 of the 20 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Unemployment Rate as a Percentage of State Avg. [134.88% is not < 110% standard]
- Per Capital Income as Percentage of State Avg. [81.67% is not > 85% standard]
- Assessed Value Annual Growth Rate since 2000 [2.38% is not > 3% standard]
- Top Ten Ratepayers as % of Revenues (mry) [24.4% is not < 15% standard]
- Number of Connections (mry) [379 is not > 1,500 standard]

**City of Glendale  
System's Ten Largest Customers**

Customer Name:	Annual Water Revenue Received by System	% of Total Annual Revenue received by System
Hillside Vill. Apart.	\$20,580	4%
Swanson Group	\$40,319	7%
Glendale Elementry	\$13,380	2%
Glendale H. S.	\$18,547	4%
Mill Creek Apart. #1	\$6,436	1%
Mill Creek Apart. #2	\$8,601	2%
Carlillie Apart.	\$5,671	1%
Nano's Restaurant	\$2,567	1%
Glenway Superstore	\$2,998	1%
Washing Well Lndry	\$3,749	1%
<b>Total</b>	<b>\$122,848</b>	<b>24%</b>

**Applicant's bond rating** Glendale has no recent bond rating available.



**Financial statement of program WWFP as of March 3, 2019.**

1. Available funds \$19,736,894
2. Remaining balance, if the project is approved, is \$18,293,158
3. All existing Business Oregon loans paid as agreed

**Project Repayment Phase Loan Summary**

Type	Award Amount	Grant Amount	Total Loan Amount	Interest Rate*	Amortized [in years]	Est. Annual Payment*
WWFP	\$1,443,736	\$721,868	\$721,868	1.00%	30	\$28,000
Total	\$1,443,736	\$721,868	\$721,868			\$28,000

\* Rate is minimum of Business Oregon disadvantaged community rate. Payment rounded to nearest \$100.

**Financial Recommendation**

Applicants under the WWF program may be determined to be a Disadvantaged Community and qualify for grants, reduced interest rate and an extended repayment term. A Disadvantaged Community is determined by the following criteria:

To determine a water system’s Disadvantaged Community status under the WWF program, the IFA compares the Affordability Rate (AR) (MHI X 1.25%/12) of the community to the average monthly water rate per Equivalent Dwelling Unit (EDU) and must be below the State MHI average. For grants, they must exceed the AR by 115% and be below the State MHI.

Based on 2016 American Community Survey data, the MHI for city of Glendale was \$33,350 (66.36% of Statewide MHI) indicating an indexed (1.25%) affordability rate of \$36.82 per Equivalent Dwelling Unit (EDU) per month. The city’s current sewer user charge for a 7,500-gallon water use is \$63.00 and it is project to be at approximately \$89.00 at project completion, which will be well above the indicated affordability rate. Because the city is classified as disadvantaged we are recommending a grant of \$721,868 and a loan of \$721,868 at a subsidized rate of 1.0% for a term of 30 years. The estimated useful life of the improvements is 40+ years.

The proposed loan will be structured in two phases. The first phase (Construction Phase) will accrue interest on actual funds disbursed, estimated first disbursement will be in April 1, 2019. All accrued interest during the construction phase (estimated to be \$6,000) will be due prior to or with the first principal and interest payment. The interest rate will be set at 1.0% for this phase. Construction is scheduled for completion by April 2021.

The second phase (Repayment Phase) will begin with constant annual payments of principal and interest sufficient to repay the outstanding principal balance, together with interest, within a 30-year period. The estimated first principal and interest payment due date is December 1, 2021 . The loan can be prepaid in part or in full without penalty. The interest rate will be set at 1.0% for the repayment phase. The “Repayment Phase Loan Summary” table summarizes the repayment phase of the proposed financing. Present value of the subsidized rate (1.0%) vs the Oregon Short Term Fund (2.5%) is \$136,426.

## **Funding Recommendation and Conditions of Award**

### **Conditions:**

Based upon the following analysis, the award recommended above should be subject to the following conditions:

- A. Full Faith and Credit Pledge.** The recipient will be required to pledge its full faith and credit and taxing power within the limitations of Article XI, Sections 11 and 11 b, of the Oregon Constitution to pay the amounts due under the Financing Contract. The Financing Contract shall be payable from all legally available funds of the Recipient.
- B. Pledge of Net Revenues as Source of Repayment.** The recipient will be required to grant to the State a security interest in and irrevocably pledge its Net Revenues of the Recipient's Wastewater System to pay all of the obligations owed by the Recipient to the State under the Financing Contract.
- C. Financial Covenants.** The Recipient shall charge rates and fees in connection with the operation of the Wastewater System which, when combined with other gross revenues, are adequate to generate Net Revenues each fiscal year at least equal to one hundred twenty (120%) percent of the annual debt service due in the fiscal year on the Loan, any outstanding senior lien obligations, and any outstanding Parity Obligations.

### **Instructions**

Pre-award costs up to \$90,000 to complete base mapping and plan preparation; surveying; and the Influent Pump Station Pre-Design Report.

### **List of Attachments**

Financial Summary

Budget recommends that this award come from: [ ] Oregon Bond Bank [X] Program Funds

Signature on file \_\_\_\_\_ 3/21/2019 \_\_\_\_\_  
David Barnett  
Senior Finance Accountant (Budget)

**RECOMMENDATION:** We respectfully request your recommendation on the subject application.

- Recommend approval of the project as submitted.
- Recommend approval of the project with the following modifications:

Signature on file \_\_\_\_\_ 3/21/2019 \_\_\_\_\_  
Edward Tabor  
Programs & Incentives Manager

**APPROVAL:**

- Approve project and recommendation as submitted.
- Approve project and recommendation with the following modifications:

Signature on file \_\_\_\_\_ 3/21/2019 \_\_\_\_\_  
Chris Cummings, Assistant Director  
Economic Development

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The IFA Board shall consider *loans* over \$2,999,999, *grants* over \$500,000 and Safe Drinking Water forgivable loans over \$750,000 for approval. The Drinking Water Advisory Committee shall consider Safe Drinking Water projects over \$6,000,000.

This project exceeds the regular approval dollar amount.

Infrastructure Finance Authority Board has discussed the proposed project and has concluded to approve the award.

\_\_\_\_\_  
Chris Cummings, Assistant Director  
Economic Development

\_\_\_\_\_  
Board Meeting Date