

Memorandum

May 28, 2019

TO: Chris Cummings, Assistant Director, Economic Development
THRU: Ed Tabor, Programs & Incentives Manager
FROM: Shanna Bailey, Regional Project Manager, and Rich Rodriguez, Finance Officer
SUBJ: Funding Opportunity of \$ 1,480,000—Water/Wastewater Financing Program for City of Fossil, Wastewater System Improvements, No. 167-13538

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 Fossil (city) is located in Wheeler County. The city has a 2017 certified population of 475. The city is considered both rural and distressed.

Funding Request

Loan & grant

Project Type:

- Planning (technical)
- Design
- Construction

Project Background:

The city of Fossil has experienced operational challenges with their municipal wastewater system. Excess infiltration and inflow (I/I) and lift station limitations have resulted in collection system overflows. These overflows of raw untreated sewage have impacted Butte Creek. The Oregon Department of Environmental Quality (DEQ) is aware of the discharge situation and is working with the city to move towards a solution, as reflected in a DEQ letter dated January 15, 2019. This past March 2019 the city has experienced a flooding event. With the high I/I and the current lift station conditions, an overflow into Butte Creek occurred. The city reported this event and DEQ is in the process of assessing enforcement actions.

The city recently completed a Wastewater Facilities Plan (WWFP) which evaluated their entire wastewater system and identified existing deficiencies, long-term system needs, and a plan for addressing all the city's municipal wastewater system challenges to achieve and maintain compliance with all applicable regulations. The WWFP recommended completion of the proposed collection system improvements.

Project Description:

The city shall procure an engineer licensed in the state of Oregon to design and complete a collection system, lift station, and chlorination system improvements.

I/I work:

- Approximately 1,000 feet of Washington Street between 3rd Street and Highway 19.
- Approximately 1,000 feet of Adams Street between 1st and 5th Streets.
- Approximately 300 feet of 3rd Street between Adams and Washington Streets.
- Approximately 1,550 feet of 1st Street between W. Broadway and Adams Street.

I/I areas to be inspected, cleaned, and reevaluated as part of the project include:

- 550 feet of Washington
- Street south of Highway 19
- 700 feet of Jay Street (between 3rd and 5th Streets).

Other Facility Improvements

- Lift Station No. 1 improvements, which include replacement of pumps to increase capacity; improvements to the electrical controls, building, and backup power availability; and the addition of a crane for removing pumps
- Chlorination system improvements

Work Plan:

The project is scheduled to be completed by late 2020; a description of each primary activity and anticipated completion dates are provided in the attached table.

Public Involvement Statement:

The city holds regular city council meetings at which they have discussed this project. Three work sessions were held on this project, throughout the development of the city's 2018 WWFP.

Findings and Analysis

The project meets the Water/Wastewater Financing Program (W/W) goal of **providing funding to municipalities to assist in complying with the Clean Water and Safe Drinking Water acts (OAR 123-043-0035 (1))**. In addition, this project helps implement goals and objectives of Greater Eastern Oregon Regional Solutions team regional priorities and Statewide Planning Goals (1. Citizen involvement, 2. Land Use planning, and 6. Air, Water, and Land Resources Quality). This project aligns with Business Oregon's Strategic Plan to invest in rural communities to enable economic prosperity.

Program Findings & Compliance

1. Applicant eligibility: The city is considered an eligible applicant for the W/W Projects under applicant as defined in Oregon Revised Statutes 285B.410(9) and Oregon Administrative Rule 123-043-0041(1); municipalities with populations of less than 15,000 persons.
2. Project compliance: On January 15, 2019, the city obtained a letter from the DEQ supporting construction improvements proposed within the city’s approved WWFP. The city had an overflow event in March 2019, being sent to DEQ enforcement.
3. Project priority is high; the city is proactively operating and continuing to maintain their wastewater facility system.
4. Program monitoring: On-site monitoring for design and construction projects.
5. Pre-award costs have been authorized. Budget line-items and authorized costs include: Design and Engineering \$40,000. Total pre-award request are limited to no more than 20% of the total cost of the project or \$40,000.
6. 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

| Budget Line Items | W/W | Totals |
|-------------------------------|---------------------|---------------------|
| Engineering Design* | \$ 204,000 | \$204,000 |
| Construction | \$ 1,104,000 | \$ 1,104,000 |
| Construction Contingency | \$ 114,000 | \$ 114,000 |
| Land Acquisition | \$ 5,000 | \$ 5,000 |
| Environmental Review | \$ 10,000 | \$ 10,000 |
| Archaeological Report | \$ 15,000 | \$ 15,000 |
| Cultural Resource Monitoring | \$ 15,000 | \$ 15,000 |
| Regulatory Agency Review Fees | \$ 3,000 | \$ 3,000 |
| Legal | \$ 10,000 | \$ 10,000 |
| Total | \$ 1,480,000 | \$ 1,480,000 |

* Pre-award expenses are authorized up to \$ 40,000 under the design engineering line item

Proposed Work Plan

| Activity | Date |
|---|---------------|
| Engineer procurement and begin Design | August 2019 |
| Complete project design | December 2019 |
| Advertise, bid, and award construction contract | February 2020 |
| Project Construction—begin | April 2020 |
| Project Construction—completion | October 2020 |
| Project Close-out | December 2020 |

Source of Business Oregon Funds

| 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 | \$740,000 |
| Water Wastewater Fund—Grant, Public, Tax Exempt | \$740,000 |
| Total | \$ 0 |

Source of Other Funds

| Source of Other Funds (For other state funds, indicate loan / grant, et cetera) | Amount |
|---|---------------|
| None | \$0 |
| Total | \$ 0 |

Financial Findings & Compliance

Repayment Source

The table below shows historic revenue from the Applicant's Sewer and Wastewater Debt Funds for the last three audited fiscal years ending June 30, 2018, and fiscal year 2109 budget.

Sewer and Wastewater Debt Funds—City of Fossil

| Performance Review | Audited | audited | audited | Current FY budgeted |
|---------------------------------------|----------------|----------------|----------------|------------------------------------|
| FY Ending June 30th | 2016 | 2017 | 2018 | 2019 |
| Beginning Fund Balance | 184,097 | 218,338 | 249,241 | 232,030 |
| Revenues | | | | |
| Charges for Services | 120,582 | 123,613 | 121,165 | 120,000 |
| Other Operating Revenues | 0 | 0 | 0 | 1,000 |
| Operating Revenues | 120,582 | 123,613 | 121,165 | 121,000 |
| Interest and Miscellaneous | 304 | 540 | 895 | 900 |
| Other Non-Operating Revenues | 0 | 0 | 0 | 0 |
| Total Non-Operating Revenues | 304 | 540 | 895 | 900 |
| Total Revenues | 120,886 | 124,153 | 122,060 | 121,900 |
| Expenditures | | | | |
| Personal Services | 33,993 | 38,678 | 66,957 | 50,700 |
| Materials & Services | 21,327 | 24,267 | 42,009 | 74,500 |
| Total Operating Expenses | 55,320 | 62,945 | 108,966 | 125,200 |
| Net Operating Income | 65,262 | 60,668 | 12,199 | (4,200) |
| Capital Outlay | 0 | 0 | 0 | 22,000 |
| Debt Service | 16,305 | 16,305 | 16,305 | 16,389 |
| Total Expenses | 71,625 | 79,250 | 125,271 | 163,589 |
| Net Revenues | 49,261 | 44,903 | (3,211) | (41,689) |
| Net Transfers/Adjustments | (15,020) | (14,000) | (14,000) | (14,000) |
| Ending Fund Balance | 218,338 | 249,241 | 232,030 | 176,341 |

The historical operating revenue has shown a fairly level trend. In 2018 expenditures were elevated because of work expended on a facilities plan. The 2019 budget has elevated expenditures due to preparation of the work plan for this project, an Aquifer study, and a \$50,000 paving project.

General Fund Summary

The following table shows a performance review of the Applicant’s General Fund for the last three audited fiscal years ending June 30, 2018, and fiscal year 2019 budget.

General Fund–City of Fossil

| Performance Review | audited | audited | audited | Current FY budgeted |
|-------------------------------------|----------------|----------------|----------------|------------------------------------|
| FY Ending June 30th | 2016 | 2017 | 2018 | 2019 |
| Beginning Fund Balance | 503,809 | 516,748 | 339,936 | 358,969 |
| Revenues | | | | |
| Property Taxes | 83,436 | 82,003 | 90,528 | 96,235 |
| Other Operating Revenues | 52,229 | 55,793 | 29,561 | 31,235 |
| Operating Revenues | 135,665 | 137,796 | 120,089 | 127,470 |
| Interest and Miscellaneous | 9,403 | 11,287 | 39,670 | 10,510 |
| Other Non-Operating Revenues | 11,211 | 12,359 | 12,111 | 12,420 |
| Total Non-Operating Revenues | 20,614 | 23,646 | 51,781 | 22,930 |
| Total Revenues | 156,279 | 161,442 | 171,870 | 150,400 |
| Expenditures | | | | |
| Personal Services | 13,417 | 18,912 | 17,536 | 23,150 |
| Materials & Services | 64,965 | 91,572 | 84,907 | 118,140 |
| Total Operating Expenses | 78,382 | 110,484 | 102,443 | 141,290 |
| Net Operating Income | 57,283 | 27,312 | 17,646 | (13,820) |
| Capital Outlay | 7,264 | 36,118 | 8,700 | 20,500 |
| Debt Service | 0 | 0 | 0 | 0 |
| Total Expenses | 85,646 | 146,602 | 111,143 | 161,790 |
| Net Revenues | 70,633 | 14,840 | 60,727 | (11,390) |
| Net Transfers/Adjustments | (57,694) | (191,652) | (41,694) | (46,694) |
| Ending Fund Balance | 516,748 | 339,936 | 358,969 | 300,885 |

Operating revenue has shown an increasing trend. In 2017 the city established a separate fund for the ambulance service and transferred out funds that had accumulated in the General Fund to the new fund. Elevated expenditures in 2018 include the Heritage walking path, city sidewalks, and various repairs and maintenance on city equipment.

Debt Service Analysis

Net Revenues for Debt Coverage: The following table reflects the Projected Net Revenues for the Applicant's Sewer and Wastewater Debt Funds as provided with the Applicant's application and supplemental material. 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 Fossil

| PRO FORMA | Current FY | | Projected | | | |
|--------------------------------------|-------------------|----------------|------------------|----------------|----------------|----------------|
| Year (ending June 30th) | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Beginning Fund Balance | 232,030 | 229,918 | 227,392 | 280,399 | 285,493 | 290,325 |
| Operating Revenues | | | | | | |
| Charges for Services | 121,493 | 122,000 | 155,000 | 163,500 | 165,900 | 168,500 |
| Other Revenue Source 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Revenue Source 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Operating Revenues | 121,493 | 122,000 | 155,000 | 163,500 | 165,900 | 168,500 |
| Operating Expenses | | | | | | |
| Personal Services | 50,700 | 52,221 | 23,788 | 55,401 | 57,063 | 58,775 |
| Materials & Services | 50,000 | 51,000 | 52,000 | 53,000 | 54,000 | 55,000 |
| Other Operating Expenses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Operating Expenses | 100,700 | 103,221 | 75,788 | 108,401 | 111,063 | 113,775 |
| Debt Service | | | | | | |
| Funds Avail for Debt Coverage | 20,793 | 18,779 | 79,212 | 55,099 | 54,837 | 54,725 |
| USDA Sewer RUS92-04 | 16,305 | 16,305 | 16,305 | 16,305 | 16,305 | 16,305 |
| IFA Proposed Loan | 0 | 0 | 4,900 | 28,700 | 28,700 | 28,700 |
| Total Debt Service | 16,305 | 16,305 | 21,205 | 45,005 | 45,005 | 45,005 |
| Debt Service Coverage Ratio | 1.28 | 1.15 | 3.74 | 1.22 | 1.22 | 1.22 |
| Other Activities | | | | | | |
| Cash Avail After Debt Service | 4,488 | 2,474 | 58,007 | 10,094 | 9,832 | 9,720 |
| Loan Proceeds / Drawdowns | 296,000 | 888,000 | 296,000 | 0 | 0 | 0 |
| Capital Outlay (OUT) | (302,600) | (893,000) | (301,000) | (5,000) | (5,000) | (5,000) |
| Other Non-Operating Activity | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Other Activity | (6,600) | (5,000) | (5,000) | (5,000) | (5,000) | (5,000) |
| Net Transfers IN (OUT) | 0 | 0 | 0 | 0 | 0 | 0 |
| Adjustments | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Transfers & Adjustments | 0 | 0 | 0 | 0 | 0 | 0 |
| Ending Fund Balance | 229,918 | 227,392 | 280,399 | 285,493 | 290,325 | 295,045 |
| Avg. Rev's per EDU (calc) | \$29.26 | \$29.38 | \$37.12 | \$39.04 | \$39.50 | \$40.00 |
| Rate per EDU (app) | \$32.74 | \$32.74 | \$32.74 | \$32.74 | \$32.74 | \$32.74 |
| EDU's (app) | 346 | 346 | 348 | 349 | 350 | 351 |
| Connections (app) | 287 | 287 | 289 | 290 | 291 | 292 |

The city has planned for rate increases to accommodate service on the long-term debt associated with this project.

Existing obligations and risks

The following table reflects the applicant’s debt service requirements as of their last audit.

| Summary of Outstanding Debt Obligations | | | | | | |
|---|-----------------------|---------------------|--|--------------|---------------|----------|
| City of Fossil | | | | | | |
| Loan Source | June 30, 2018 Balance | Annual Debt Service | Payment Source | FF&C Pledged | Debt Priority | Maturity |
| Net Direct Debt | | | | | | |
| USDA Water RUS91-07 - UTGO | \$605,128 | \$36,694 | Property taxes levied for debt service | No | N/A | 2047 |
| <i>Net Direct Debt</i> | \$605,128 | \$36,694 | | | | |
| Self-Supporting Debt | | | | | | |
| BizOR - L03001 | \$28,237 | \$7,855 | Industrial Park Revenues | Yes | N/A | 2022 |
| USDA Sewer RUS92-04 | \$190,894 | \$16,305 | Sewer Revenue | Yes | Superior | 2035 |
| <i>Self-Supporting Debt</i> | \$219,131 | \$24,160 | | | | |
| Gross Bonded Debt | \$824,259 | \$60,854 | | | | |

In 2018 the city paid off two Business Oregon loans early from the proceeds of the sale of industrial park property.

Underwriting standards

The applicant meets 10 of the 19 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Net Direct Debt Per Capita (mry) [1,274 is not <1,000 std.]
- Net Direct Debt Service to General Fund Expenses (mry) [33% is not <20% standard]
- Net Direct Debt Service to General Fund Revenues (mry) [21% is not <5% standard]
- Percentage of Debt Retired in 10 Yrs. [31% is not >60% standard]
- Net Direct Debt to Assessed Value (mry) [3% is not <2% standard]
- Number of Connections (mry) [294 is not >1,500 standard]
- Debt Service Coverage Ratio(mry) [0.80 is not >1.20 standard]
- Top 10 Taxpayers as % of Total Tax Collections [30% is not <15% standard]
- Per Capita Income as Percentage of State Avg.(mry) [77% is not >85% standard]

The number of demographic indicators not met is consistent with the current Business Oregon classification of Wheeler County as distressed. Debt service was not met because the city has not been consistently raising rates to match rising expenditures.

| Top Ten Taxpayers | 2018 |
|-----------------------------------|------------------|
| CenturyTel of Eastern OR | \$10,887 |
| Fossil Elderly Housing Commission | \$5,246 |
| McNeill, Joseph & Christina | \$1,720 |
| Lyle, William & Kimberly | \$1,492 |
| Holly, Marsha | \$1,461 |
| Painted Hills Natural Beef | \$1,438 |
| RSR Fossil Properties LLC | \$1,378 |
| Wright Chevrolet | \$1,328 |
| Hankins, Jon & Shelly | \$1,067 |
| Wade, Ronald & Tina | \$1,059 |
| Total | \$ 27,076 |

Applicant's bond rating: The city does not have debt rated by a national ratings agency (e.g., Moody's, S&P).

Financial statement of program WWF as of May 5, 2019

1. Available funds \$18,340,052
2. Remaining balance, if the project is approved, is \$16,860,052
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* |
|--------------|--------------|--------------|-------------------|-----------------|----------------------|----------------------|
| WWF | \$1,480,000 | \$740,000 | \$ 740,000 | 1.00% | 30 | \$28,700 |
| Total | \$ 0 | \$ 0 | \$ 0 | | | \$ 0 |

** Rate is Business Oregon Direct Loan rate for current quarter, subsidized.
 Payment rounded to nearest \$100.

Financial Recommendation

Applicants under the W/WW program may be determined to be a Disadvantaged Community and qualify for reduced interest rates, an extended repayment term, and grant monies. These are determined by the following criteria:

- A. To be identified as a Disadvantaged Community under the program the community's Median Household Income (MHI) must be below the State MHI average and the monthly water rate per Equivalent Dwelling Unit (an EDU is one residential connection or up to the equivalent of 7500 gallons of usage, whichever is less) must be above the Community's Affordability Rate (AR, calculated as $MHI \times 1.25\% / 12$). A Disadvantaged Community may receive reduced interest rate and a longer repayment period.
- B. A Disadvantaged Community may be eligible for grant monies if, after the maximum interest rate subsidy and the maximum loan repayment terms have been applied, the average monthly water rate per EDU exceeds 115% of the AR by the end of the project.

Applying the above criteria for this Applicant:

1. Based on 2017 American Community Survey data, the MHI for the city is \$28,250 which is below the State MHI of \$56,119. The water rate per EDU of \$39.29 by the end of the project is above community's Affordability Rate ($\$28,250 \times 1.25\% / 12$) of \$32.21. These qualify the community as Disadvantaged with a reduced interest rate of 1.00% and loan term of 30 years.
2. The city's projected water rate per EDU by the end of the project is \$39.29 which is above the 115% AR rate of \$37.04. This qualifies the project for a recommended \$740,000 grant award.

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 August 15, 2019. All accrued interest during the construction phase (estimated to be \$4,900) will be due prior to or with the first principal and interest payment. The interest rate will be set at 1.00% for this phase. Construction is scheduled for completion by October 2020.

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 1.00% for the repayment phase. The "Repayment Phase Loan Summary" table summarizes the repayment phase of the proposed financing.

The present value of the interest rate subsidy on the loan is approximately \$139,853. (2.50% rate available from treasury vs. the subsidized 1.00% rate on the loan for 30 years.)

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.

- D. **Subordinate lien position.** The proposed loan will have Business Oregon in a subordinate lien position with USDA on net Wastewater System Revenue for this loan transaction.

Instructions: None

List of Attachments: Financial Summary

Budget recommends that this award come from:

Oregon Bond Bank

Program Funds

David Barnett, Senior Finance Accountant (Budget)

Date

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:

Edward Tabor, Programs & Incentives Manager

Date

APPROVAL:

We respectfully request your approval on the subject application.

Approval project and recommendation as submitted

Approval project and recommendation with the following modifications:

Chris Cummings, Assistant Director, Economic Development

Date

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