

Memorandum

Enter Today's Date

TO: Chris Cummings, Assistant Director, Economic Development
THRU: Ed Tabor, Programs & Incentives Manager
FROM: Matthew Mattia, Regional Project Manager, and Rich Rodriguez, Finance Officer
SUBJ: Funding Opportunity of \$1,500,000—Water/Wastewater Financing Program for City of La Pine, Wastewater System Improvements, Project No. 981-12797

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 La Pine is located in southern Deschutes County, about 30 miles southwest of the City of Bend, along Highway 97. The city has a population of 1,840 and is classified as a rural and distressed community by Business Oregon.

Funding Request

Loan & grant

Project Type

- Planning (technical)
- Design
- Construction

Project Background:

The city of La Pine completed a Wastewater System Study Update (WWSS) in 2016. The WWSS evaluated the overall wastewater system, including the collection, treatment, and disposal systems, as well as the existing system's ability to meet its future needs.

The Cagle and Glenwood Acres neighborhoods are located within the city limits of La Pine but are not currently served by the city's wastewater system. These areas use septic tanks and drainfields for each residence, which has contributed to high nitrate levels and groundwater contamination in the surrounding areas. Southern Deschutes County has porous, sandy soils with shallow groundwater aquifers and connecting these neighborhoods to the city's wastewater system is a critical opportunity to remove a potential source of groundwater contamination. The city has worked with various regulatory agencies, including the Oregon

Department of Environmental Quality, for many years to address these health and safety concerns. According to the WWSS, with the addition of the Cagle and Glenwood Acres areas and the projected 20-year city population growth, the city's wastewater system will not have the capacity to properly dispose of the treated wastewater in the future and remain in compliance with its Water Pollution Control Facility (WPCF) Permit without making improvements to the system.

The city of La Pine primarily uses a gravity wastewater collection system that drains to several lift stations. Pressure sewer lines then transport the wastewater from the lift stations to a lagoon Wastewater Treatment Facility (WWTF). The majority of the city's wastewater collection system was completed in the late 1980s with a major system expansion in 2004. The WWSS evaluated several alternatives to meet its 2035 projected capacity needs, including the addition of the Cagle and Glenwood areas, and it was determined that the most cost effective approach was to plant 210 acres of hay crop for irrigation and build a new storage lagoon with a total storage capacity of 22 million gallons. There are also additional improvements to the collection and treatment systems that are necessary for the wastewater system to properly serve the entire city of La Pine. The city of La Pine received Community Development Block Grant (CDBG) funds through Business Oregon for the design of the recommended improvements and this work is nearing completion. The proposed improvements would include \$1,500,000 in Infrastructure Finance Authority (IFA) Water/Wastewater Financing Program funds, \$1,000,000 from the Oregon Department of Environmental Quality Long-term Financing, \$8,699,500 from the U.S. Department of Agriculture Rural Development, and \$1,633,000 from the city of La Pine. Additional project budget information is provided in the tables below.

Project Description:

The recipient will make improvements to the wastewater collection, treatment, and disposal systems to properly serve its residents for the next 20-year period, including the addition of the Cagle and Glenwood Acres areas. Water/Wastewater Financing Program funds will be used entirely for construction costs. The construction will include, but is not limited to:

1. Wastewater Collection System Improvements: Replace septic tanks and add large diameter piping from septic tanks to collection lines and construct three lift stations to convey wastewater to the existing Wickiup Lift Station, which will pump wastewater to the WWTF.
2. Wastewater Treatment Facility (WWTF) Improvements: Replace the existing septage receiving station with a new unit to provide a safe and sanitary working environment for staff members.
3. Wastewater Disposal System Improvements: Relocate and expand the irrigation area to approximately 210 acres of city-owned land east of the existing WWTF and construct a 22-million-gallon storage lagoon.

Work Plan:

The project construction is scheduled to be completed by December 2021; a description of each primary activity and anticipated dates are provided in the attached table.

Public Involvement Statement:

The city conducted multiple public open houses for this project and the city council passed a resolution in support of the project. DEQ created a local citizen steering committee that met for three years to recommend affordable solutions to protect groundwater in this area.

Findings and Analysis

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)). This project aligns with Business Oregon’s Strategic Plan priority to cultivate rural economic stability.

Program Findings & Compliance

1. Applicant eligibility: The city of La Pine 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 enable the city to remain in compliance with its Water Pollution Control Facility (WPCF) Permit.
3. Project priority is high.
4. Program suggestions and/or monitoring: Standard on-site monitoring procedure for the 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

Budget Line Items	W/W	Other Funds	Totals
Construction	\$1,500,000	\$9,136,000	\$10,636,000
Construction Contingency	\$0	\$1,064,000	\$1,064,000
Land Acquisition	\$0	\$50,000	\$50,000
Legal Fees	\$0	\$20,000	\$20,000
Construction Management	\$0	\$720,000	\$720,000
USDA Funding Application	\$0	\$7,500	\$7,500
Interest, Environmental, Operation & Maintenance Manual	\$0	\$335,000	\$335,000
Total	\$1,500,000	\$11,332,500	\$12,832,500

Proposed Work Plan

Activity	Date
Advertise, Bid, and Award	December 2019
Construction—Start	January 2020
Construction—50% Complete	December 2020
Construction Complete	December 2021
Project Closeout	March 2022

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	\$750,000
Water Wastewater Fund—Grant, Public, Tax Exempt	\$750,000
Total	\$1,500,000

Source of Other Funds

Other Funds	Amount
Oregon Department of Environmental Quality Long-term Financing (\$1,000,000 loan with \$500,000 of principal forgiveness)	\$1,000,000
U.S. Department of Agriculture Rural Development (\$5,000,000 loan and \$3,699,500 grant)	\$8,699,500
City of La Pine	\$1,633,000
Total	\$11,332,500

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Financial Findings & Compliance

Repayment Source

The table below shows historic revenue from the Applicant's Sewer Fund for the last three audited fiscal years ending June 30, 2018 and fiscal year 2019 budget.

Sewer Fund—La Pine

Performance Review	audited	Audited	audited	current FY budgeted
FY Ending June 30th	2016	2017	2018	2019
Beginning Fund Balance	832,776	859,787	605,874	747,407
Revenues				
Charges for Services	536,301	572,825	604,208	625,000
Other Operating Revenues	5,853	6,919	460	0
Operating Revenues	542,154	579,744	604,668	625,000
Interest and Miscellaneous	0	0	0	2,000
Other Non-Operating Revenues	13,000	0	241,763	1,095,500
Total Non-Operating Revenues	13,000	0	241,763	1,097,500
Total Revenues	555,154	579,744	846,431	1,722,500
Expenditures				
Personal Services	184,832	314,882	307,576	197,965
Materials & Services	178,311	303,775	296,726	330,341
Total Operating Expenses	363,143	618,657	604,302	528,306
Net Operating Income	179,011	(38,913)	366	96,694
Capital Outlay	0	0	0	1,245,000
Debt Service	0	0	0	0
Total Expenses	363,143	618,657	604,302	1,773,306
Net Revenues	192,011	(38,913)	242,129	(50,806)
Net Transfers/Adjustments	(165,000)	(215,000)	(100,596)	(250,000)
Ending Fund Balance	859,787	605,874	747,407	446,601

The presented historical Sewer Fund charges for service have shown an increasing trend, which is a positive factor suggestive of active rate management. In 2018 there was recognition of a sewer infrastructure grant, shown above as non-operating revenue.

The Sewer Fund budget reflects a 10% rate increase effective on July 1, 2018. This is the last of three consecutive years of rate increases in preparation of new debt service once several large capital projects are completed. Grant funding is anticipated in 2019 and is associated with expenditures for ongoing engineering design for the slated construction 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–La Pine

Performance Review	audited	Audited	audited	Current FY budgeted
FY Ending June 30th	2016	2017	2018	2019
Beginning Fund Balance	515,089	496,772	580,861	558,446
Revenues	No data	No data	No data	No data
Property Taxes	263,207	272,940	287,671	292,000
Other Operating Revenues	263,783	300,341	364,297	341,100
Operating Revenues	526,990	573,281	651,968	633,100
Interest and Miscellaneous	12,621	10,360	9,955	14,000
Other Non-Operating Revenues	86,099	31,274	28,700	60,000
Total Non-Operating Revenues	98,720	41,634	38,655	74,000
Total Revenues	625,710	614,915	690,623	707,100
Expenditures	No data	No data	No data	No data
Personal Services	71,010	54,255	82,456	101,530
Materials & Services	181,009	138,301	210,187	184,498
Total Operating Expenses	252,019	192,556	292,643	286,028
Net Operating Income	274,971	380,725	359,325	347,072
Capital Outlay	0	0	0	259,000
Debt Service	43,008	42,270	41,395	45,000
Total Expenses	295,027	234,826	334,038	590,028
Net Revenues	330,683	380,089	356,585	117,072
Net Transfers/Adjustments	(349,000)	(296,000)	(379,000)	(238,500)
Ending Fund Balance	496,772	580,861	558,446	437,018

The presented historical General Fund operating revenue shown above has an increasing trend as does the ending fund balance. This is a credit positive factor.

The 2019 budget reflects an increase of 0.4 full time equivalent staff member, capital investments in city hall as well as a new vehicle for staff use. Despite the budgeted partial spend down of fund balance, the ending fund balance represents 74% of annual expenses, the Business Oregon underwriting criteria for this metric is greater than 3%, thus the projected ending fund balance is ample.

Summary of Revenues, Expenditures, and Debt Service Coverage—La Pine

PRO FORMA	Current FY		Projected			
Year (ending June 30th)	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	747,407	556,101	576,601	629,851	801,075	956,799
Operating Revenues						
Charges for services	515,000	530,400	546,400	684,000	704,500	725,700
Septage reception fees	110,000	113,000	116,700	120,200	123,800	127,600
Miscellaneous	2,000	2,100	2,150	2,200	2,300	2,350
Total Operating Revenues	627,000	645,500	665,250	806,400	830,600	855,650
Operating Expenses						
Personal Services	197,965	200,000	206,000	212,200	218,500	225,100
Materials & Services	330,341	200,000	206,000	212,200	218,500	225,100
Other Operating Expenses	0	0	0	0	0	0
Total Operating Expenses	528,306	400,000	412,000	424,400	437,000	450,200
Debt Service						
Funds Avail for Debt Coverage	98,694	245,500	253,250	382,000	393,600	405,450
USDA Loan, for this project	0	0	0	231,909	231,909	231,909
ODEQ Loan, for this project	0	0	0	21,867	21,867	21,867
IFA Proposed Loan	0	0	0	7,000	34,100	34,100
Total Debt Service	0	0	0	260,776	287,876	287,876
Debt Service Coverage Ratio	N/A	N/A	N/A	1.46	1.37	1.41
Other Activities						
Cash Avail After Debt Service	98,694	245,500	253,250	121,224	105,724	117,574
Loan Proceeds / Drawdowns	3,927,333	3,927,333	3,927,333	0	0	0
Capital Outlay (OUT)	(3,977,333)	(3,977,333)	(3,977,333)	50,000	50,000	50,000
Other Non-Operating Activity	(15,000)	0	0	0	0	0
Net Other Activity	(65,000)	(50,000)	(50,000)	50,000	50,000	50,000
Net Transfers IN (OUT)	(225,000)	(175,000)	(150,000)	0	0	0
Adjustments	0	0	0	0	0	0
Net Transfers & Adjustments	(225,000)	(175,000)	(150,000)	0	0	0
Ending Fund Balance	556,101	576,601	629,851	801,075	956,799	1,124,373
Avg. Rev's per EDU (calc)	\$49.25	\$50.70	\$52.25	\$50.30	\$51.81	\$53.37
Rate per EDU (app)	\$40.45	\$41.66	\$42.92	\$42.66	\$43.94	\$45.27
EDU's (app)	1,061	1,061	1,061	1,336	1,336	1,336
Connections (app)	607	607	607	882	924	924

The city reports septage reception fees, a component of the fund's operating revenue, can be expected to increase over time because this area of Deschutes County continues to expand along with the demand for septage service. The improved wastewater system will be more capable of handling this demand.

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 La Pine						
Loan Source	June 30, 2018 Balance	Annual Debt Service	Payment Source	FF&C Pledged	Debt Priority	Maturity
Net Direct Debt						
GO Certificates of Participation - 2011A	\$415,000	\$40,520	General Fund	Yes	Parity	2033
<i>Net Direct Debt</i>	\$415,000	\$40,520				
Self-Supporting Debt						
WA Federal Bnk - USDA Water Rev Bond Refi	\$2,287,560	\$193,068	Water Fund	No	N/A	2031
Crescent Creek Sewer SDC - Deschutes County	\$804,317	\$0	SDC Payments	No	N/A	2062
<i>Self-Supporting Debt</i>	\$3,091,877	\$193,068				
Gross Bonded Debt	\$3,506,877	\$233,588				

The Certificates of Participation were issued as part of the Local Oregon Capital Assets Program, a pooled financing program.

The Crescent Creek SDC loan from the county has no fixed repayments, and the loan is forgivable after 50 years.

Not reflected in the city's 2018 audit is a Safe Drinking Water loan approved by the IFA Board June 2, 2017. The loan is still in drawdown.

Underwriting Standards

The applicant meets 9 of the 14 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Net Direct Debt Service to General Fund Revenues (mry) [6% is not <5% standard]
- Percentage of Debt Retired in 10 Yrs. [48% is not >60% standard]
- Number of Connections (mry) [610 is not >1,500 standard]
- Top 10 Taxpayers as % of Total Tax Collections [17% is not <15% standard]
- Unemployment Rate as Percentage of State Avg. (mry) [114% is not <110% standard]

Top Ten Taxpayers	2018
Priday, Richard & Sandra	\$7,745
Liberty Oregon 97 LLC	\$7,840
Bi-Mart Corporation	\$5,781
Pinehoof LLC et al	\$5,433
CenturyLink Property Tax	\$5,451
La Pine ALF LLC	\$4,849
Jean G Leroux Rev Living Trust	\$4,165
Altra LLC	\$3,141
Wylie J Compton Revocable Trust et al	\$3,078
Truax Corporation	\$2,800
Total	\$50,282

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. Water Wastewater Fund as of May 5, 2019

1. Available funds \$ 18,340,052
2. Remaining balance, if the project is approved, is \$ 16,840,052
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*
	\$1,500,000	\$750,000	\$750,000	1.00%	30	\$34,100
Total	\$1,500,000	\$750,000	\$750,000			\$34,100

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

Financial Recommendation

Applicants under the W/W 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 \$33,462 which is below the State MHI of \$56,119. The calculated water rate per EDU of \$42.66 by the end of the project is above community's Affordability Rate ($\$33,462 \times 1.25\% / 12$) of \$34.86. 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 \$42.33 which is above the 115% AR rate of \$40.08. This qualifies the project for a recommended \$750,000 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 January 2020. All accrued interest during the construction phase (estimated to be \$7,000) 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 December 2022.

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, 2022. 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 \$ 141,743 (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 will be subject to the IFA's standard utility loan contract which will include but not be limited 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. Additional Award. This award is conditional upon the Recipient receiving an award from USDA and the Oregon DEQ in the amount of \$9,699,500, which must be received before funds are disbursed. Recipient shall provide copy of award letters as evidence of award.
- H. Parity. USDA and ODEQ have agreed to be on parity with IFA for this loan. The standard contract language default is "No Parity or Senior Debt."

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