

Memorandum

May 21, 2019

TO: Chris Cummings, Assistant Director, Economic Development
THRU: Ed Tabor, Programs & Incentives Manager
FROM: Ted Werth, Regional Project Manager, and Rich Rodriguez, Finance Officer
SUBJ: Funding Opportunity of \$4,505,934—Special Public Works Fund Program for Port of Cascade Locks, Industrial Building No. 5 (pFriem Brewing Company, LLC) No. 649-13573

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 Port of Cascade Locks, Cascade Locks, OR. Applicant is an ORS 777 port that owns and operates the Bridge of the Gods spanning the Columbia River between Oregon and Washington. The Port is on the Columbia River and offers boat moorage as well as upland properties in a rural and economically distressed area.

Funding Request

Loan

Project Type

- Planning (technical)
- Design
- Construction

SPWF Source

SPWF Development—Firm Business Commitment

Project Background:

The Port of Cascade Locks is applying for an SPWF loan of \$4,505,934 to build a 23,640-sf industrial building inside their Cascade Locks Business Park for lease to pFriem Family Brewers, an Oregon company based in Hood River, who is needing to expand their operations. The expansion is projected to create 12 new jobs (FTE) with an average annual wage of \$42,000. The project will allow pFriem to keep all their operations in Oregon as they have reached capacity for growth at their Hood River facility. The requested loan will be used to complete construction of the facility by January 31, 2020. pFriem will be investing a minimum of \$450,000 for tenant improvements and new equipment for the facility. Half of the new facility, when operational, will be used to produce small batch barrel aged beers, tripling the company's capacity in this area.

This fast-growing niche is one of pFriem's specialties and requires a climate-controlled environment that will be provided in the new facility. Once properly aged, this beer will be finished and bottled at the Cascade Locks facility. In addition to creating growth opportunities for a rural Oregon company the project will also create jobs in a distressed rural Oregon community.

Project Description:

Recipient will design and construct a 23,640-sf industrial building on Port of Cascade Locks property located at 1425 NE Columbia Gorge Way, Cascade Locks, Oregon, 97004. The recipient will use an engineer, licensed to work in Oregon, for the building design and will obtain all necessary permits for construction of the building and development of site improvements including, but not limited to paving, sidewalks, landscaping, and associated work items.

Work Plan:

This project is a design and construction project that is expected to be occupied by pFriem Family Brewers by early 2020. A description of each primary activity and anticipated completion dates are in the table provided in this report.

Job Creation Statement for Special Public Works Fund Projects:

The project is projected to create 12 FTE jobs with an average wage of \$42,000. Annual average wage (2017) in Hood River County is \$38,090.

Public Involvement Statement:

The Port has a current Strategic Business Plan that was previously approved by Business Oregon's ports review committee. The Port of Cascade Locks, on a generally annual basis, approves minor updates to the plan, a best-practices strategy recommended and encouraged by the department. This project is included in the Port's most recently updated Strategic Plan, approved at the January 3, 2019, public Port Commission Meeting. The updated plan was subsequently provided to Business Oregon. At that same meeting the Port Commission approved the submission of an application to Business Oregon for this project.

Findings and Analysis

This project helps implement the following goals and objectives of Business Oregon's 2018-2022 Strategic Plan: Priority 3—Cultivate Rural Economic Stability, Strategy 1—Enhance local economic development capacity in distressed rural communities.

Special Public Works Fund (ORS 285.B.413 (2)):

1. To provide financial or other assistance to enable municipalities to construct, improve and repair those facilities that are essential for supporting continuing and expanded economic activity by increasing traded sector jobs

Program Findings & Compliance

2. **Applicant eligibility:** The Port of Cascade Locks is an ORS 777 port district.
3. **Project priority:** Project priority is high in part because it will create and retain permanent jobs and promote economic development. The project is projected to create 12 new jobs (FTE) paying an average wage of \$42,000.
4. **Program monitoring:** Desktop monitoring for technical assistance, planning, design and site visit monitoring for construction activities.

5. **Pre-Award expenses:** Pre-award expenses for this project, as allowed in policy, are included as a separate line item in the Project Budget below.
6. **Compliance:** 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 project has been determined, complete per current ORS, to be eligible for funding.

Funding Recommendation

Budget Line Items	SPWF	Totals
Pre-Award Engineering/Architecture	\$306,135	\$306,135
Construction	\$2,932,021	\$2,932,021
Construction Contingency	\$400,000	\$400,000
Construction Management	\$75,000	\$75,000
Pre-Award—Permitting	\$131,360	\$131,360
Other—Site Improvements	\$358,418	\$358,418
Pre-Award Site Improvements	\$303,000	\$303,000
Total	\$4,505,934	\$4,505,934

Proposed Work Plan

Activity	Completion Date
Completion of preliminary design and MOU	December 20, 2018
Plan Review (City of Cascade Locks Planning Commission)	February 14, 2019
City of Cascade Locks Building Permit submission	April 30, 2019
Advertise for construction bids	April 10, 2019
Due date for bids	May 17, 2019
Construction contract signed	May 31, 2019
Begin Construction (6-8 months for completion)	June 3, 2019
Project Completion	February 15, 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
SPWF—Loan, Public, Taxable	\$4,505,934
Total	\$4,505,934

Source of Other Funds

Source of Other Funds (For other State funds, indicate loan / grant, etc.)	Amount
N/A	\$0
Total	\$0

Financial Findings & Compliance

The Port presents their primary financial statements as one enterprise Revenue Fund.

Repayment Source

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

Revenue Fund—Port of Cascade Locks

Performance Review	audited	audited	audited	Current FY budgeted
FY Ending June 30th	2016	2017	2018	2019
Beginning Fund Balance	1,572,655	1,171,202	1,576,584	2,009,544
Revenues				
Property Taxes	3,301	3,344	3,711	3,500
Other Operating Revenues	2,284,128	2,822,008	3,022,090	3,979,330
Operating Revenues	2,287,429	2,825,352	3,025,801	3,982,830
Interest and Miscellaneous	21,155	31,072	47,211	32,000
Other Non-Operating Revenues (inc. grants)	17,888	31,145	122,780	26,248
Total Non-Operating Revenues	39,043	62,217	169,991	58,248
Total Revenues	2,326,472	2,887,569	3,195,792	4,041,078
Expenditures				
Personal Services	778,868	869,400	1,092,815	1,105,788
Materials & Services	1,066,249	1,053,233	1,173,099	1,086,674
Total Operating Expenses	1,845,117	1,922,633	2,265,914	2,192,462
Net Operating Income	442,312	902,719	759,887	1,790,368
Capital Outlay	1,207,069	564,118	2,158,823	6,839,100
Debt Service	74,090	80,286	74,090	140,590
Total Expenses	3,126,276	2,567,037	4,498,827	9,172,152
Net Revenues	(799,804)	320,532	(1,303,035)	(5,131,074)
Net Transfers/Adjustments	398,351	84,850	1,735,995	6,287,003
Ending Fund Balance	1,171,202	1,576,584	2,009,544	3,165,473

A major source of revenue for the Port is toll revenue from the Bridge of the Gods. In 2018 bridge tolls represented about \$2.6 million in revenue, or approximately 88% of overall revenue. The Port maintains a unique and valuable position for its Columbia River crossing service in this area; the next closest river crossing is 21 miles away in Hood River. This relatively stable source of revenue is beneficial to the Port and provides a financial base the Port can use to expand into other revenue generating areas—beneficial to the local and regional economies.

In 2018 leases, rents, and fees were approximately \$199,000 representing about 5% of operating revenue. Property taxes in 2018 were \$3,700 or less than 1% of operating revenue.

Net operating income has been positive for the historical data presented above. This is indicative of prudent revenue and expenditure management. Negative Net Revenues are largely influenced by budgeted capital outlays.

Net transfers/adjustments in 2016 reflected a gain of \$398,351 for the sale of land and in 2018 included approximately \$1.5 million in loan proceeds.

The 2019 budget reflects approximately \$500,000 in additional toll bridge revenue and approximately \$110,000 in additional lease revenues. Budgeted 2019 capital expenditures include development activity, primarily new industrial building construction. Budgeted 2019 net Transfers/Adjustments includes loan proceeds.

In recent years the Port has been making strategic investments in their capital base, diversifying their revenue sources, which provide additional economic benefits to the area. These investments leverage the Port's proximity to both the Portland metro area and the Hood River area. Highlighted investments include:

7. In 2016 the Port invested \$1 million in industrial park improvements and construction of a commercial building in the Herman Creek Business Park. This building is fully leased out.
8. In 2018 the Port invested an additional \$1.8 million in two new buildings at Herman Creek Business Park. These buildings are totally leased out.

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Debt Service Analysis

Net Revenues for Debt Coverage: The following table reflects the Projected Net Revenues for the Applicant's Revenue Fund as provided with the Applicant's application and supplemental materials. 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—Port of Cascade Locks

PRO FORMA	Current FY			Projected		
Year (ending June 30th)	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	2,009,544	4,527,324	7,001,158	4,384,188	4,429,970	4,393,909
Operating Revenues						
Bridge Tolls	3,000,000	3,000,000	3,000,000	3,150,000	3,150,000	3,150,000
Leases, campground, docking, etc.	491,830	742,478	992,478	1,000,000	1,100,000	1,200,000
Total Operating Revenues	3,491,830	3,742,478	3,992,478	4,150,000	4,250,000	4,350,000
Operating Expenses						
Personal Services	1,105,788	1,192,430	1,228,203	1,265,049	1,303,000	1,342,090
Materials & Services	1,083,674	1,173,885	1,256,057	1,343,981	1,437,873	1,537,734
Total Operating Expenses	2,189,462	2,366,315	2,484,260	2,609,030	2,740,873	2,879,824
Debt Service						
Funds Avail for Debt Coverage	1,302,368	1,376,163	1,508,218	1,540,970	1,509,127	1,470,176
BizOR—L00005	17,860	17,860	17,860	17,860	17,860	17,860
BizOR—525194—Herm Creek #1	56,228	56,228	56,228	56,228	56,228	56,228
BizOR—K17001—Herm Creek #2 & 4	0	123,500	123,500	123,500	123,500	123,500
IFA Proposed Loan	0	87,500	347,600	347,600	347,600	347,600
Total Debt Service	74,088	285,088	545,188	545,188	545,188	545,188
Debt Service Coverage Ratio	17.58	4.83	2.77	2.83	2.77	2.70
Other Activities						
Cash Avail After Debt Service	1,228,280	1,091,075	963,030	995,782	963,939	924,988
Loan Proceeds / Drawdowns	1,888,000	4,800,000	5,000,000	0	0	0
Grant monies	6,500	4,656,500	0	0	0	0
Capital Outlay (OUT)	(605,000)	(8,073,741)	(8,580,000)	(950,000)	(1,000,000)	(1,000,000)
Net Other Activity	1,289,500	1,382,759	(3,580,000)	(950,000)	(1,000,000)	(1,000,000)
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	4,527,324	7,001,158	4,384,188	4,429,970	4,393,909	4,318,897

Bridge tolls, a revenue source the Port has exclusive rate setting authority, were increased in 2014. Toll revenues and bridge crossings have been on an increasing trend with the expanding economy. Toll revenue increased 12%, 37%, and 6.7% in 2016, 2017, and 2018 respectively. The Port is currently investing in advanced bridge toll collection technology intended to make toll collections more efficient.

Non toll revenues are also projected to increase. The primary contributor to this increase is the Port's Herman Creek Business Park which continues to expand via the construction of industrial buildings that are leased out to businesses.

The Port anticipates receiving grant monies in 2019 and 2020 for the design and construction of a biking and walking path on the Bridge of the Gods. This will provide a safe means to connect the Pacific Crest Trail between Oregon and Washington.

The Port has adopted an \$8.3 million ten-year maintenance and repair plan for the Bridge of the Gods working in cooperation with WSDOT and ODOT. Future appropriations will fund this maintenance and repair plan as work is performed. These expenditures are reflected in the Capital Outlay line in the proforma.

Stress Testing the Projections

The Port provided proforma indicates debt service coverage ratio (DSCR) will exceed 2.40. To stress this, the loss of revenue was calculated that would produce a DSCR of 1.20. That value was approximately \$887,000. This equates to approximately a 28% loss of bridge revenue, an unlikely scenario. Even if this scenario presented itself, the Port’s position to increase tolls could make up for unanticipated shortfalls. Given this, the risk of default on the loans is considered negligible.

Existing Obligations and Risks

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

Summary of Outstanding Debt Obligations						
Port of Cascade Locks						
Loan Source	June 30, 2018 Balance	Annual Debt Service	Payment Source	FF&C Pledged	Debt Priority	Maturity
Net Direct Debt						
Capital Lease #1	\$2,836	\$2,836	Revenue Fund	Yes	N/A	2019
Capital lease #2	\$2,328	\$2,328	Revenue Fund	Yes	N/A	2019
<i>Net Direct Debt</i>	\$5,164	\$5,164				
Self-Supporting Debt						
BizOR - L00005 - Land	\$115,434	\$17,860	Revenue Fund	Yes	Parity	2026
BizOR - 525194 - Herman Creek Bld. 1	\$709,195	\$56,228	Revenue Fund	Yes	Parity	2037
BizOR - K17001 - Herman Creek 2 & 4 *	\$1,888,000	\$123,500	Revenue Fund	Yes	Parity	2049
<i>Self-Supporting Debt</i>	\$2,712,629	\$197,588				
Gross Bonded Debt	\$2,717,793	\$202,752				

K17001 is in drawdown, balance above is shown as if fully drawn with annual debt service estimated

Financial Findings

The Lessee—pFriem Brewing Company, LLC

The department analyzed on a confidential basis the Lessee’s 2016 through 1Q2019 financial information. The information was evaluated by the department to be of high overall quality.

The Lessee’s financial data was consistent with the company’s position as a boutique brewer of craft beers; earnings before interest, tax, depreciation and amortization (EBITDA) were favorable and the company’s cash position appears well managed. The company has debt held by a well-known institution. At fiscal year-end 2018 the company had a line of credit with said institution, a portion of which remained available as undrawn. The 2018 financial statements stated the company was in compliance with all financial covenants with its lender.

The company was, prior, a beneficiary of Business Oregon’s Credit Enhancement Fund via a 2013 loan guarantee.

Underwriting Standards

The typical IFA financial indicators and Financial Summary page have not been included. Due to the applicant's functioning as a governmental enterprise, and lack of residential users it would not have provided an accurate picture of their credit worthiness. The prior presented historical financial information and the proforma are indicative the Port’s finances are responsibly managed. According to department policy the applicant does qualify for the recommended SPWF financing.

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

Financial statement of program SPWF as of May 5, 2019:

1. Available funds \$53,034,398
2. Remaining balance, if the project is approved, is \$48,528,464
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 quarters]	Est. Quarterly Payment*
	\$4,505,934	\$0	\$4,505,934	4.66%	80	\$86,900
Total	\$4,505,934	\$0	\$4,505,934			\$86,900

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

Financial Recommendation

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 1, 2019. All accrued interest during the construction phase (estimated to be \$87,500) will be due prior to or with the first principal and interest payment. The interest rate will be set at 4.66% for this phase. Construction is scheduled for completion by February 2020.

The second phase (Repayment Phase) will begin with constant quarterly payments of principal and interest sufficient to repay the outstanding principal balance, together with interest, within a 20-year period. The estimated first principal and interest payment due date is July 1, 2020. The loan can be prepaid in part or in full without penalty. The interest rate will be set at 4.66% for the repayment phase. The “Repayment Phase Loan Summary” table summarizes the repayment phase of the proposed financing.

Funding Recommendation and Conditions of Award

Conditions:

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

9. **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.
10. **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 Revenue Fund to pay all of the obligations owed by the Recipient to the State under the Financing Contract.
11. **Financial Covenants.** The Recipient shall charge rates and fees in connection with the operation of the enterprises within the Revenue Fund which, when combined with other gross revenues, are adequate to generate Net Revenues each fiscal year at least equal to one hundred twenty percent (120%) of the annual debt service due in the fiscal year on the Loan, any outstanding senior lien obligations, and any outstanding Parity Obligations.
12. **Lease Contract.** This award is conditional upon the Recipient executing a lease with pFriem Brewing Company, LLC. The Lease must be for a term of at least 20-years and must produce annual net revenues equal to or greater than 120% of the annual debt service on the recommended loan. Recipient shall provide copy of lease before funds are disbursed.
13. **Line of Credit Deed of Trust, Assignment of Rents, and Security Agreement.** The Recipient shall provide a security interest in real property located at 1425 NE Columbia Gorge Way, Cascade Locks, Oregon; Lot 3 Tax lot 02N08E0500305. The lien shall be secured by a line of credit deed of trust, assignment of rents, and security agreement document recorded in Hood River County and shall be with an Alta Title Policy. Closing shall be through an escrow company.
14. **Commercial Appraisal.** The Recipient shall provide to Business Oregon a commercial appraisal of the property and the improvements thereon. The appraisal shall be performed at the Applicant's cost. The appraisal valuation must be evaluated as being acceptable to Business Oregon based on loan to value and cost to build comparison before a contract is issued.
15. **Parity.** The standard contract language default is "No Parity or Senior Debt."

Instructions

1. Eligible Pre-Award Expenses incurred less than one year prior to award and totaling less than 20% of total project costs will be allowed for this project.

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