

Memorandum

July 2, 2019

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 \$4,000,000—Safe Drinking Water Revolving Loan Fund Program for the City of Gold Beach, Raw Water Intake, Treatment Plant Improvements & Replacement of Portion of Main, No. 171-13632

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 Gold Beach is located on the Southern Oregon Coast in Curry County where the Rogue River flows into the Pacific Ocean, at an elevation of 50 feet. The city operates a municipal water system which serves 2,304 persons through approximately 1,634 connections. Gold Beach is considered rural and distressed.

Funding Request

Loan & Principal Forgiveness

Project Type

- Planning (technical)
- Design
- Construction

Project Background

The city of Gold Beach has an existing raw water intake and water treatment plant (WTP). The city previously had a lease on the property for the intake structure but purchased the property with a Special Public Works Fund loan in 2018.

In April 2016, the city completed a Water Master Plan (WMP) which was approved by the Oregon Health Authority, Drinking Water Services on January 27, 2017. The WMP identified a total of 32 recommended improvements, which were prioritized into three phases. In the first phase there were three water system elements that need to be addressed. The first is the existing WTP building, controls, and actuated valves inside the plant are nearing the end of their intended

design life. The proposed solution for the WTP is to update and upgrade the plant and provide a new SCADA system for the plant.

The second is the raw water intake structure. Currently the raw water intake from the Rogue River is capable of diverting water to the WTP, however the raw water intake has outdated as well as deteriorated components. The proposed solution for the raw water intake is to replace the pumps as well as the structure.

The third item is the distribution piping. Currently the water mainline servicing the city crosses under highway 101. The waterline is aging and since it is buried deeply under the highway, it is inaccessible to city staff. In the event of line failure, highway 101 may need to be closed to repair the line. The proposed solution is to provide a new looped waterline that parallels the existing line.

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 Oregon Health Authority—Drinking Water Services and submitted to Oregon Business Development Department. The city shall also complete construction, which will include, but is not limited to:

1. Improvements to the Raw Water Intake: a new pump control building; new pumps; controls; and piping from the intake to the water treatment plant.
2. Improvements to the Water Treatment Plant: installation of seismic protection elements to the entire plant; repair concrete floor slab; replacement of wood sill plates, metal siding, roof drains, valves and some undersized piping; installation of a new garage door, new chemical mixing pump, turbidity meters, air relief valves, new chemical storage facility (approximately 600 sf); and provide pipe supports, bracing, new spare treatment water pump, and ventilation and cooling for the chlorine room.
3. Installation of a new Water Treatment Plant Supervisory Control and Data Acquisition System (“SCADA System”), which includes integration of the existing water reservoirs into the SCADA System.
4. Replacement of Highway 101/Jerry’s Flat Road waterline south to 2nd street and Highway 101, which includes replacing the existing water lines with new ductile iron waterlines.
5. Work Plan: This project includes final design and construction, the estimated project completion is July 2021, a description of each primary activity and anticipated dates are provided in a table below.

Public Involvement Statement: The city has kept the community apprised of this project during its Council meetings. The project is also identified in the city’s adopted Water Master Plan.

Findings and Analysis

This project helps implement the following goals and objectives of Safe Drinking Water Revolving Loan Fund: to provide public water systems financing for planning, design, and construction projects that protect public health, ensure compliance with federal and state requirements, respond to an emergency, or generally improve water infrastructure resiliency (ORS 285A.213 and OAR 123-049)

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.

Program Findings & Compliance

1. Applicant eligibility: The city of Gold Beach is a “community water system” and therefore an eligible applicant per OAR 123-049-0010(3); also 123-049-0020(1) states “all community water system and nonprofit community water systems are eligible to apply for financing except those determined to be ineligible by the department because of prior performance.”
2. Project priority is high. The Oregon Health Authority awarded the project 40 points during the rating and ranking process; 15 points were given for Risk to Human Health & Health Protection, 10 points were given for compliance, 15 points for Drinking Water Source Protection.
3. Business Oregon has verified that the city of Gold Beach is not on the federal Suspension and Debarment list.
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	SWDRF	City of Gold Beach	Totals
Design/Engineering	\$560,200	\$172,900	\$733,100
Construction	\$2,931,100	\$864,400	\$3,795,500
Construction Contingency	\$452,700	\$116,625	\$569,325
Labor Standards	\$15,000	\$0	\$15,000
Project Management	\$15,000	\$0	\$15,000
Legal Fees	\$0	\$8,500	\$8,500
Environmental Review	\$0	\$5,000	\$5,000
Permitting and Regulatory Fees	\$0	\$20,000	\$20,000
Cultural Resource Report(s) and Monitoring	\$0	\$4,000	\$4,000
Pre-Award Engineering (design engineering and surveying)	\$26,000	\$0	\$26,000
Administration	\$0	\$66,280	\$66,280
Total	\$4,000,000	\$1,257,705	\$5,257,705

Proposed Work Plan

Activity	Date
Procure Engineer	September, 2019
Final Design Complete	January, 2020
Procure Labor Standards and Project Management	February, 2020
Bid Construction	April, 2020
Construction Start	June, 2020
Construction Complete	June, 2021
Project Closeout	July, 2021

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
SDWRLF—Loan, Public, Tax Exempt	\$3,470,000
SDWRLF—Principal Forgiveness, Public, Tax Exempt	\$500,000
Safe Drinking Water Revolving Loan Fund—Principal Forgiveness (Labor Standards)	\$15,000
Safe Drinking Water Revolving Loan Fund—Principal Forgiveness (Project Management)	\$15,000
Total	\$4,000,000

Source of Other Funds

Source of Other Funds (For other State funds, indicate loan/grant, etc.)	Amount
City of Gold Beach	\$1,257,705
None	\$0
Total	\$1,257,705

Financial Findings & Compliance

Repayment Source

The table on the following page shows historic revenue from the Applicant’s Water Reserve Fund for the last three audited fiscal years ending June 30, 2018, and fiscal year end June 30, 2019, budget.

Water Reserve Funds—City of Gold Beach

Performance Review	audited	audited	audited	Current FY budgeted
FY Ending June 30th	2016	2017	2018	2019
Beginning Fund Balance	263,553	164,896	244,813	280,281
Revenues				
Charges for Services	33,248	58,054	66,296	68,495
Operating Revenues	33,248	58,054	66,296	68,495
Interest and Miscellaneous	4,259	3,809	3,375	0
Loan Repayment	13,836	18,054	18,054	18,054
Total Non-Operating Revenues	18,095	21,863	21,429	18,054
Total Revenues	51,343	79,917	87,725	86,549
Expenditures				
Personal Services	0	0	0	0
Materials & Services	0	0	1,103	0
Total Operating Expenses	0	0	1,103	0
Net Operating Income	33,248	58,054	65,193	68,495
Capital Outlay	0	0	0	0
Debt Service	0	0	0	17,043
Total Expenses	0	0	0	17,043
Net Revenues	51,343	79,917	87,725	69,506
Net Transfers/Adjustments	(150,000)	0	(52,257)	(40,000)
Ending Fund Balance	164,896	244,813	280,281	309,787

The Reserve Fund was established for capital improvements and emergency needs. Revenues were set at a fixed amount charged to each connection. Revenues have increased in fiscal years 2017 & 2018 in preparation for debt service requirement as a result of land purchase for their water intake. The minimal amount of expenses are handled through the Water Utility fund and reimbursed with transfers out. Funds are also transferred out to the Capital Improvement Fund when needed. The loan payments received are from an inter fund loan to the Highway 101 Fund for a sewer line project. Those payments will end in 2024.

General Fund Summary

The table on the following page shows a performance review of the Applicant's General Fund for the last three audited fiscal years ending June 30, 2018.

General Fund—City of Gold Beach

Performance Review	audited	audited	audited
FY Ending June 30th	2016	2017	2018
Beginning Fund Balance	150,614	117,195	(30,322)
Revenues			
Property Taxes	614,476	618,203	641,905
Other Operating Revenues	305,093	405,287	410,239
Operating Revenues	919,569	1,023,490	1,052,144
Interest and Miscellaneous	57,232	25,519	60,639
Intergovernmental & Grants	36,367	37,100	48,788
Total Non-Operating Revenues	93,599	62,619	109,427
Total Revenues	1,013,168	1,086,109	1,161,571
Expenditures			
Personal Services	906,689	945,636	865,887
Materials & Services	492,626	404,468	637,776
Total Operating Expenses	1,399,315	1,350,104	1,503,663
Net Operating Income	(479,746)	(326,614)	(451,519)
Capital Outlay	0	369,016	57,285
Debt Service	0	12,166	12,166
Total Expenses	1,399,315	1,731,286	1,573,114
Net Revenues	(386,147)	(645,177)	(411,543)
Net Transfers/Adjustments	352,728	497,660	449,694
Ending Fund Balance	117,195	(30,322)	7,829

Although some of the General Fund expense are reimbursed from other funds, public safety expenses have been high and the council is looking at ways to increase revenues to bring the fund into a positive cash flow on a regular basis.

Debt Service Analysis

Net Revenues for Debt Coverage: The table on the following page reflects the Projected Net Revenues for the Applicant's Water Reserve 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 Gold Beach

PRO FORMA	Current	Projected				
	FY	2019	2020	2021	2022	2023
Year (ending June 30th)	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	280,281	331,733	401,090	549,547	257,004	465,461
Operating Revenues						
Reserve Charge	68,495	86,400	100,800	100,800	100,800	100,800
Debt Service Charge	0	0	86,400	172,800	259,200	331,200
Total Operating Revenues	68,495	86,400	187,200	273,600	360,000	432,000
Operating Expenses						
Operating Expenses	0	0	0	0	0	0
Total Operating Expenses	0	0	0	0	0	0
Debt Service						
Funds Avail for Debt Coverage	68,495	86,400	187,200	273,600	360,000	432,000
OBDD—B18003	17,043	17,043	17,043	17,043	17,043	17,043
IFA Proposed Loan	0	0	21,700	134,500	134,500	134,500
Total Debt Service	17,043	17,043	38,743	151,543	151,543	151,543
Debt Service Coverage Ratio	4.02	5.07	4.83	1.81	2.38	2.85
Other Activities						
Cash Avail After Debt Service	51,452	69,357	148,457	122,057	208,457	280,457
Loan Proceeds / Drawdowns	0	1,500,000	2,500,000			
Capital Outlay (OUT)		(1,500,000)	(3,000,000)	(914,600)		
Net Other Activity	0	0	(500,000)	(914,600)	0	0
Net Transfers IN (OUT)	0	0	500,000	500,000	0	0
Net Transfers & Adjustments	0	0	500,000	500,000	0	0
Ending Fund Balance	331,733	401,090	549,547	257,004	465,461	745,918
Avg. Rev's per EDU (calc)	\$4.76	\$6.00	\$13.00	\$19.00	\$25.00	\$30.00
Rate per EDU (app)	\$5.00	\$6.00	\$13.00	\$19.00	\$25.00	\$30.00
EDU's (app)	1,200	1,200	1,200	1,200	1,200	1,200
Connections (app)	1,634	1,644	1,654	1,664	1,674	1,684

The city plans to raise the reserve fee to \$6 July 1, 2019, and then \$7 the following year. In addition, the city will initiate a Debt Service Charge of \$6 per billable connection July 1, 2020. These fees are only charged to connections that are improved properties. Their projected increase to this fund will depend on any future project capital expenditures. These fees are in addition to any water usage that the customers pay.

Existing obligations and risks

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

Summary of Outstanding Debt Obligations—City of Gold Beach

Loan Source	June 30, 2018, Balance	Annual Debt Service	Payment Source	FF&C Pledged	Debt Priority	Maturity
Net Direct Debt						
OBDD–Y09001	\$885,878	\$73,242	Sewer Fund	Yes	N/A	2037
OBDD–B18003	\$365,800	\$17,043	Water Fund	Yes	Parity	2043
DEQ	\$3,875,000	\$250,000	Sewer Fund	No	N/A	2034
USDA-RD	\$3,899,392	\$162,204	Sewer Fund	No	N/A	2054
Total Self-Supporting Debt	\$9,026,070	\$502,489				

The OBDD loan was recently disbursed for land purchase and FYE 2018 was their first payment.

Underwriting standards

The Applicant meets 18 of the 20 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Unemployment Rate as a Percentage of State Avg. [164.0% is not < 110% standard]
- Percentage of Debt Retired in 10 Yrs [40.17% is not > 60% standard]

Applicant’s bond rating: The city of Gold Beach has no current bond rating.

Financial statement of program SDWRLF as of June 1, 2019

1. Available funds \$37,826,970
2. Remaining balance, if the project is approved, is \$33,826,970
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*
SDWRLF	\$4,000,000	\$530,000	\$3,470,000	1.0%	30	\$134,500
Total	\$4,000,000	\$530,000	\$3,470,000			\$134,500

* Rate is Business Oregon Minimum Loan rate for disadvantaged. Payment rounded to nearest \$100.

Financial Recommendation

Applicants under the SDWRLF program may qualify for Affordability Assistance and qualify for grants/forgivable loan, reduced interest rate and an extended repayment term. An Affordability Assistance Community is determined by the following criteria:

1. A community’s Median Household Income (“MHI”) is less than the State’s MHI of \$56,119 and,
2. The community’s Affordability Rate (MHI X 1.25% / 12) is lower than the actual monthly water rate per Equivalent Dwelling Unit (“EDU”). An EDU is one residential connection or up to the equivalent of 7500 gallons of usage, whichever is less.

The city of Gold Beach qualifies for Affordability Assistance due to their total projected user rate of \$44.57 (\$31.57 User Fee + \$13.00 Reserve Fee/Debt Service Fee) by completion date and their MHI of \$38,125 being below the state average and their affordability rate, which is \$39.71. The city's water user fee is adjusted annually based on the Municipal Cost Index published by the American City and County.

Financing is awarded in the amount of \$4,000,000, which is to be distributed as follows:

- \$3,470,000 SDWRLF Loan; 30-year term loan at a 1.0% interest rate.
- \$530,000 SDWRLF Forgivable Loan
 - **\$100,000**–All eligible projects up to 10% of Total Award not to exceed \$100,000, additionally
 - \$150,000–For a Health and Compliance project up to 20% of Total Award not to exceed \$150,000, additionally
 - \$250,000–Affordability Assistance qualified communities are eligible for up to 50% of Total Award not to exceed \$250,000, (Total forgivable loan cannot exceed \$500,000 or 50% of award)

Plus;

- **\$15,000**–Labor Standards Compliance
- **\$15,000**–Project Management

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 October 1, 2019. All accrued interest during the construction phase (estimated to be \$21,700) 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 June 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. The average life expectancy of the equipment for this project is expected to be in excess of 30 years.

Present value of the subsidized rate vs the Oregon Short Term Fund (2.40%) is \$712,283.

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 Water Reserve Fund 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 Water Reserve Fund 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. Affordability Rate.** If, at the Project Completion Date, the average monthly residential water rates for the water supplied by the Water System are not at or above the "affordability rate" of \$39.71 per 7,500 gallons, the amount due under the Forgivable Loan will not be forgiven. Further, the Financing Contract shall, at IFA's discretion and after notice to recipient, be modified as follows:
1. Interest shall accrue at the rate of Two and Eighty-Eight/100ths percent (2.88%) per annum.
- F. Parity.** The standard contract language default is "No Parity or Senior Debt."

This financial review is the financial portion of the Capacity Assessment. The Technical and Managerial portions of the assessment are included in a separate document.

List of Attachments: Financial Summary

Budget recommends that this award come from:

_____ Oregon Bond Bank

_____ Program Funds

David Barnett, Senior Finance Accountant (Budget)

Date

APPROVAL:

_____ 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.

_____ Infrastructure Finance Authority Board has discussed the proposed project and has concluded to approve the award with the following modifications:

Chris Cummings, Assistant Director, Economic Development

Board Meeting Date