

Memorandum

July 1, 2019

TO: Chris Cummings, Assistant Director, Economic Development
THRU: Ed Tabor, Programs & Incentives Manager
FROM: Michelle Bilberry, Regional Project Manager
Dennis Knight, Finance Officer
SUBJ: Amendment of Funding Opportunity of \$3,830,000—Safe Drinking Water Revolving Loan Fund Program for Luckiamute Domestic Water Cooperative—Water System Improvements, Project No. R18002

Please accept this memorandum for the Oregon Infrastructure Finance Authority (IFA) for funding assistance award amendment. Business Oregon's (statutorily and by rule referred to as Oregon Business Development Department) staff administers the IFA. This memorandum will provide a request review, findings and analysis, and staff's recommendation for requested action.

Background

Amendment Recommendation

On August 22, 2017, Business Oregon approved an award of \$380,000 from the Safe Drinking Water Revolving Loan Fund program to Luckiamute Domestic Water Cooperative (Luckiamute) for "Well #5 and Transmission Line" to connect Well #5 to the existing water system and add treatment.

In April 2019, Luckiamute requested a substantial increase in funding for a comprehensive system-wide improvement project, Business Oregon staff consulted with Oregon Health Authority (OHA) and it was determined the best option would be to amend the existing project versus starting the application process over; per OHA "Nitrate levels seem to be a chronic issue for the water system, they're consistently above the alert level of 5" and the proposed solution will alleviate the water quality issues.

Background:

During the final design phase there were some concerns due to the distance from the existing wells, pumps, and treatment facilities as well as some opposition from surrounding properties of the new Well #5 site with regard to the location of the chemical treatment building and the storage of chlorine at the site.

It also became clear that a rehabilitation and upgrade of the existing chemical treatment facilities located at the site containing Well #1, #2, and #4 would be necessary in the coming years, so after consultation with the engineering firm and outside consultants it was determined that having a centralized holding, mixing and treatment facility rather than three separate sites would give a greater consistency to the quality of the water, allow Luckiamute to store more water for system pressure control, and reduce overall facilities cost and maintenance over time.

The change in scope will eliminate the need to construct a new treatment facility at Well #5, and the storage of chemicals so remotely from the larger, more secure sites. In addition, even with a higher "up-front" cost, joining all of the wells into a common distribution hub will enhance site and water safety and system reliability for at least the next 30 years.

The recommendation to amend includes:

1. Increase the previously awarded amount by \$3,830,000, as shown in the tables below.
2. Add the following elements to the scope of work:
 - a. New electrical building at the site of Well #1, #2, and #4
 - b. New 500,000-gallon mixing water storage tank at the centralized treatment site (located at the site of Well #3), to blend water from the various source wells
 - c. New variable frequency drives or new pumps at Wells #1, #2, #3, and #4; necessary as a result of the lower head conditions that will result from pumping water into the mixing water tank rather than directly into the distribution system
 - d. New chemical feed systems for chlorine addition and pH adjustment at the centralized treatment site (located at the site of Well #3)
 - e. New high service pump station to pump water from the storage tanks into the distribution system
 - f. New building to house the chemical feed equipment and high service pumps (items d and e)
 - g. New pipeline to convey finished water from the centralized treatment site to the distribution system
3. Remove the following element from the original scope of work:
 - a. A treatment building will be built at Well #5
4. Change the name of the project from "Well #5 and Transmission Line" to "Water System Improvements".
5. Extend the required project completion date to February 28, 2021.

Funding Recommendation

Amended Budget Line Items	SDWRLF	Luckiamute	Totals
Design / Engineering	\$0	\$760,000	\$760,000
Construction	\$3,800,000	\$0	\$3,800,000
Construction Contingency	\$380,000	\$0	\$380,000
Labor Standards	\$15,000	\$0	\$15,000
Project Management	\$15,000	\$0	\$15,000
Legal Fees	\$0	\$10,000	\$10,000
Permitting and Regulatory Fees	\$0	\$10,000	\$10,000
Total	\$4,210,000	\$780,000	\$4,990,000

	Original Award	Amount Requested by Amendment	Total Amended Award
SDWRLF—Loan (Private—Taxable)	\$312,000	\$3,380,000	\$4,142,000
SDWRLF—Forgivable Loan	\$38,000	\$0	\$38,000
SDWRLF—Forgivable Loan (Labor Standards)	\$15,000	\$0	\$15,000
SDWRLF—Forgivable Loan (Project Management)	\$15,000	\$0	\$15,000
Total Business Oregon Funds	\$380,000	\$3,830,000	\$4,210,000
Other Funds	\$145,000	\$635,000	\$780,000
Total Project Cost	\$525,000	\$4,465,000	\$4,990,000

Financial Analysis

Repayment Source

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

Water Funds—City of Luckiamute Domestic Water Coop.

Performance Review	audited	audited	audited	current FY budgeted
FY Ending June 30th	2016	2017	2018	2019
Beginning Fund Balance	428,996	558,331	736,463	1,003,851
Revenues				
Charges for Services	710,247	735,554	794,505	823,332
Special Assessment Fees	127,440	127,790	128,240	128,520
Operating Revenues	837,687	863,344	922,745	951,852
Interest and Miscellaneous	7,263	9,848	26,134	1,600
Other Non-Operating Revenues	58,137	39,775	66,300	58,100
Total Non-Operating Revenues	65,400	49,623	92,434	59,700
Total Revenues	903,087	912,967	1,015,179	1,011,552
Expenditures				
Personal Services	295,167	279,689	261,211	287,494
Materials & Services	374,201	350,762	382,196	416,594
Total Operating Expenses	669,368	630,451	643,407	704,088
Net Operating Income	168,319	232,893	279,338	247,764
Capital Outlay	0	0	0	0
Debt Service	104,384	104,384	104,384	104,384
Total Expenses	773,752	734,835	747,791	808,472
Net Revenues	129,335	178,132	267,388	203,080
Net Transfers/Adjustments	0	0	0	0
Ending Fund Balance	558,331	736,463	1,003,851	1,206,931

Revenues showed a consistent increase over the years reviewed with a greater increase in fiscal year 2018 due to a greater number of connections. Expenses have been reduced over the past few years but conservatively budgeted for an increase in 2019. The special assessment revenue helps offset debt payments.

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 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
Luckiamute Domestic Water Coop.**

PRO FORMA	Current FY		Projected			
Year (ending June 30th)	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	1,133,114	1,336,194	1,555,480	1,673,856	1,736,612	1,800,868
Operating Revenues						
Water Charges	823,332	844,800	857,500	874,650	883,400	896,650
SDC, Hook Up & Misc Fees	59,700	60,000	60,000	60,000	60,000	60,000
Special Assessment Fee	128,520	130,000	145,500	145,500	145,500	145,500
Total Operating Revenues	1,011,552	1,034,800	1,063,000	1,080,150	1,088,900	1,102,150
Operating Expenses						
Personal Services	287,494	290,370	293,270	296,200	299,160	302,150
Materials & Services	416,594	420,760	424,970	429,210	433,500	437,835
Total Operating Expenses	704,088	711,130	718,240	725,410	732,660	739,985
Debt Service						
Funds Avail for Debt Coverage	307,464	323,670	344,760	354,740	356,240	362,165
USDA-RD	33,056	33,056	33,056	33,056	33,056	33,056
OBDD – SDWRLF – S06008	71,328	71,328	71,328	71,328	71,328	71,328
OBDD - SDWRLF - R18002	0	0	4,200	14,000	14,000	14,000
IFA Proposed Loan	0	0	117,800	173,600	173,600	173,600
Total Debt Service	104,384	104,384	226,384	291,984	291,984	291,984
Debt Service Coverage Ratio	2.95	3.10	1.52	1.21	1.22	1.24
Other Activities						
Cash Avail After Debt Service	203,080	219,286	118,376	62,756	64,256	70,181
Loan Proceeds / Drawdowns	0	500,000	4,490,000	0	0	0
Capital Outlay (OUT)	0	(500,000)	(4,490,000)	0	0	0
Net Other Activity	0	0	0	0	0	0
Net Transfers & Adjustments	0	0	0	0	0	0
Ending Fund Balance	1,336,194	1,555,480	1,673,856	1,736,612	1,800,868	1,871,049
Avg. Rev's per EDU (calc)	\$62.72	\$64.12	\$64.84	\$65.90	\$66.32	\$67.07
Rate per EDU (app)	\$53.00	\$55.00	\$55.00	\$55.00	\$55.00	\$55.00
EDU's (app)	1,094	1,098	1,102	1,106	1,110	1,114

The Luckiamute Domestic Water Cooperative increased rates effective January 1, 2019, and plan to again increase them in January 2020. They have a number of users that consume more than 10,000 gallons at times during the year and their rate structure charges for all water without a ceiling amount. Therefore, the revenue EDU calculation above only calculates on a 7,500-gallon basis and is why it reflects a higher user rate. The Cooperative plans to increase the special assessment \$14 per connection in fiscal year 2020/21. The OBDD loan R18002 has not disbursed any funds yet.

Existing obligations and risks

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

Summary of Outstanding Debt Obligations– Luckiamute Domestic Water Coop.

Loan Source	June 30, 2018, Balance	Annual Debt Service	Payment Source	FF&C Pledged	Debt Priority	Maturity
Self-Supporting Debt						
USDA-RD	\$387,205	\$33,056	Water Fund	Yes	Superior	2040
OBDD–SDWRLF–S06008	\$539,806	\$71,328	Water Fund	Yes	Parity	2027
Gross Debt	\$927,011	\$104,384				

The OBDD loan has been paid as agreed and is also secured by personal property:

Underwriting standards

The Applicant meets 12 of the 14 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Per Capita Income as Percentage of State Avg. [76.44% is not > 85% standard]
- Number of Connections (mry) [1,090 is not > 1,500 standard]

Applicant’s bond rating: Luckiamute Domestic Water Cooperative 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 \$33,996,970

Financial Recommendation

The Luckiamute Domestic Water Cooperative does not qualify as Disadvantaged, refer to the original staff recommendation to award. The rate will coincide with the original award of 2.15% but this loan will be for a 30-year (120 quarters) term. The original loan will be amended from the original 20-year (80 quarters) to a 30-year (120 quarters) term also.

Had Luckiamute gone through the LOI (Letter of Interest) process, they would have qualified for the All Eligible Projects 10% (max. \$100,000) and Health/Compliance Projects 20% (max. \$150,000) principal forgiveness for a total \$250,000. By going with an amended award to their first application their interest savings (2.80% is the current SDWRLF rate) is \$318,445 over the 30-year period.

Project Repayment Phase Loan Summary

Type	Award Amount	Principal Forgiveness	Total Loan Amount	Interest Rate*	Amortized in quarters	Est. Annual Payment*
SDWRLF	\$380,000	\$68,000	\$312,000	2.15%	120	\$14,000
SDWRLF (Increase)	\$3,830,000	\$0	\$3,830,000	2.15%	120	\$173,600
Total	\$4,210,000	\$68,000	\$4,142,000			\$187,600

* Rate is OBDD Direct Loan rate for prior loan. Payment rounded to nearest \$100.

Funding Recommendation and Conditions of Award

Consistent with the table above, staff recommend an award of \$4,210,000 in Safe Drinking Water Revolving Loan Fund Program funding to Luckiamute, comprised of a new total \$4,142,000 loan at 2.15% for 30 years and a \$68,000 (original) forgivable loan to construct water system improvements. **Conditions will be consistent with the original loan awarded.**

List of Attachments: Financial Summary and R18002 Luckiamute Original Staff Recommendation

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