

Memorandum

January 10, 2018

TO: Chris Cummings, Assistant Director, Economic Development
THRU: Ed Tabor, Programs & Incentives Manager
FROM: Mary Baker, Regional Project Manager; Dennis Knight, Finance Officer
SUBJ: Amendment #1 Funding Opportunity of \$1,400,000—Safe Drinking Water Revolving Loan Fund Program for City of Chiloquin’s Water System Design/Construction Project, Project No. S17021

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

Amendment Recommendation

On April 28, 2017, Business Oregon approved an award (Project S17021) of \$930,000 from the Safe Drinking Water Revolving Loan Fund (SDWRLF) to the city of Chiloquin (city). The Recipient now requests an amendment to:

1. Increase the previously awarded forgivable loan by \$425,000 and loan by \$975,000 for a total of increase of \$1,400,000, as shown in the table below. Background information and necessity for this increase:

Business Oregon’s S17021 award to the city consists of \$930,000 (\$342,000 loan at 1% for 30 years and \$588,000 of principal forgiveness), which is matched with \$34,500 of city funds and \$265,000 of Indian Health Services funds. For a total project cost of \$1,229,500, which will be used to retain a professional engineer to complete construction documents and to provide construction management of: rehabilitation and incorporation of the Airport Well into the water system; reconstruction of Well#1; a redundant water main to serve the west side; and, replacement of the water meters throughout the entire distribution system.

On August 18, 2017, the Oregon Water Resources Department (OWRD) and the Klamath Tribes (Tribes) advised the city that since the Klamath Basin Reclamation Act is no longer in effect, the subsequent Upper Basin Agreement will be null and void in a few days. When this happens the subsequent authority of Oregon Administrative Rule Division 690-009-0040, allowing exception for surface water impact for wells within 1 mile of the Williamson and Sprague Rivers will also be null and void. Meaning, that when the Tribes make a “call” on their water right, which has a priority date of “time immemorial,” the city will have to cease using Well#1 and would not be able to utilize the airport well in the future because the wells are within 1 mile of the river.

After multiple City Council work sessions and consultation with the OWRD, the city has come to the conclusion that the only solution is to relocate their primary water source outside of the one mile buffer from the Sprague and Williamson Rivers. The city engineer has determined that the estimated project budget will increase to \$2,629,500 of which the city is requesting an increase of \$1,400,000 from the SDWRLF program.

2. The revised project will entail a new well drilled to a depth of 1,300 feet and 7,500 feet of new 10" PVC transmission main from the new well to the distribution system. The Airport Well rehabilitation will be removed from the project. The remainder of the original project scope will remain as previously identified.

Financial Analysis

Repayment source

The table below shows historic revenue from the Recipient's Water Fund for the last three fiscal years ending June 30, 2016, and fiscal year 2017 budget. Fiscal years 2014 & 2015 were audited and 2016 is unaudited.

Water Fund—City of Chiloquin

Performance Review	audited	audited	unaudited	budgeted
FY Ending June 30th	2014	2015	2016	2017
Beginning Fund Balance	1,215,409	1,232,154	1,251,204	1,252,216
Revenues				
Charges for Services	136,324	152,965	142,440	128,750
Other Operating Revenues	0	0	814	1,700
Operating Revenues	136,324	152,965	143,254	130,450
Interest and Miscellaneous	4,764	2,997	8,521	1,530
Intergovernmental	4,958	4,958	20,750	30,000
Total Non-Operating Revenues	9,722	7,955	29,271	31,530
Total Revenues	146,046	160,920	172,525	161,980
Expenditures				
Personal Services	73,776	73,725	81,529	83,019
Materials & Services	23,146	30,766	73,373	68,864
Total Operating Expenses	96,922	104,491	154,902	151,883
Net Operating Income	39,402	48,474	(11,648)	(21,433)
Capital Outlay	0	0	4,232	14,500
Debt Service	12,379	12,379	12,379	12,379
Total Expenses	109,301	116,870	171,513	178,762
Net Revenues	36,745	44,050	1,012	(16,782)
Net Transfers/Adjustments	(20,000)	(25,000)	0	(20,000)
Ending Fund Balance	1,232,154	1,251,204	1,252,216	1,215,434

Fiscal years 2016 and 2017 Intergovernmental revenues reflect funds received and expected to be received from a \$60,000 Water Master Plan Grant. Material Services reflects increases from the expense of the study. The revenues budgeted for 2017 is a conservative number and is the typical approach the City likes to take. The transfers out goes into a Capital Replacement Fund.

General Fund summary

The following table shows the combined historic Schedule of Receipts, Expenses, and Changes in the General Fund Balance from the city of Chiloquin’s last three years statements ending FYE June 30, 2016, and their fiscal year 2017 budget. Fiscal years 2014 & 2015 were audited and 2016 is unaudited.

General Fund—City of Chiloquin

Performance Review	audited	audited	unaudited	budgeted
FY Ending June 30th	2014	2015	2016	2017
Beginning Fund Balance	93,483	93,879	84,612	126,659
Revenues				
Property Taxes	118,456	108,803	107,640	106,571
Other Operating Revenues	33,431	34,052	37,766	33,500
Operating Revenues	151,887	142,855	145,406	140,071
Interest and Miscellaneous	4,854	29,389	742	8,100
Intergovernmental	8,727	19,762	18,511	20,000
Total Non-Operating Revenues	13,581	49,151	19,253	28,100
Total Revenues	165,468	192,006	164,659	168,171
Expenditures				
Personal Services	48,544	56,622	56,666	67,203
Materials & Services	68,290	69,538	65,946	83,950
Total Operating Expenses	116,834	126,160	122,612	151,153
Net Operating Income	35,053	16,695	22,794	(11,082)
Capital Outlay	3,260	45,113	0	13,000
Debt Service	0	0	0	0
Total Expenses	120,094	171,273	122,612	164,153
Net Revenues	45,374	20,733	42,047	4,018
Net Transfers/Adjustments	(44,978)	(30,000)	0	(70,000)
Ending Fund Balance	93,879	84,612	126,659	60,677

Debt Service analysis

Net Revenues for Debt Coverage: The table reflects the Projected Net Revenues for the Recipient’s Water Funds as provided with the Recipient’s application. It reflects adequate net revenues necessary to provide the required 1.2 coverage ratio. The community has been notified that rates will increase by approximately \$10 in 2018, 3% in 2019, 10% in 2020 and then 3% again in 2021. Expenses are projected to increase at two percent per year over the five year projection.

Summary of Revenues, Expenditures, and Debt Service Coverage—City of Chiloquin

PRO FORMA	Current FY	Projected				
Year (ending June 30th)	2017	2018	2019	2020	2021	2022
Beginning Fund Balance	1,252,216	1,249,934	1,281,245	1,306,537	1,301,293	1,299,634
Operating Revenues						
Water Charges	130,450	180,134	185,441	203,985	210,100	210,100
Other Revenue	31,530					
Total Operating Revenues	161,980	180,134	185,441	203,985	210,100	210,100
Operating Expenses						
Personal Services	83,019	84,680	86,370	88,100	89,860	91,660
Materials & Services	68,864	36,864	37,600	38,350	39,120	39,900
Total Operating Expenses	151,883	121,544	123,970	126,450	128,980	131,560
Debt Service						
Funds Avail for Debt Coverage	10,097	58,590	61,471	77,535	81,120	78,540
OTIB	12,379	12,379	12,379	12,379	12,379	12,379
IFA Proposed Loan	0	0	4,400	51,000	51,000	51,000
Total Debt Service	12,379	12,379	16,779	63,379	63,379	63,379
Debt Service Coverage Ratio	<i>0.82</i>	<i>4.73</i>	<i>3.66</i>	<i>1.22</i>	<i>1.28</i>	<i>1.24</i>
Other Activities						
Cash Avail After Debt Service	(2,282)	46,211	44,692	14,156	17,741	15,161
Reserves		(14,900)	(19,400)	(19,400)	(19,400)	(19,400)
Net Other Activity	0	(14,900)	(19,400)	(19,400)	(19,400)	(19,400)
Net Transfers IN (OUT)						
Net Transfers & Adjustments	0	0	0	0	0	0
Ending Fund Balance	1,249,934	1,281,245	1,306,537	1,301,293	1,299,634	1,295,395
Avg. Rev's per EDU (calc)	\$38.46	\$42.77	\$44.03	\$48.43	\$49.88	\$49.88
Rate per EDU (app)	\$31.68	\$42.00	\$43.26	\$44.56	\$45.89	\$47.27
EDU's (app)	351	351	351	351	351	351
Connections (app)	314	314	314	314	314	314

Existing obligations and risks

The Recipient has debt service requirements as of their last audit. The Business Oregon payments are paid through a contract that obligates the Klamath Indian Tribe to make these payments.

Summary of Outstanding Debt Obligation—City of Chiloquin

Loan Source	June 30, 2016, Balance	Annual Debt Service	Payment Source	Maturity
Self-Supporting Debt				
OBDD L00011	\$95,786	\$9,916	Utility Fund	2027
OTIB	\$176,275	\$12,379	Water Fund	2032
Gross Debt	\$272,061	\$22,295		

Business Oregon debt has been paid as agreed.

Underwriting standards

The Applicant meets 15 of the 19 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Unemployment Rate as a Percentage of State Avg. (137.78% is not < 110% standard)
- Per Capital Income as Percentage of State Avg. (80.43 is not > 85% standard)
- Assessed Value Per Capita (mry) (2.53% is not > 3% standard)
- Number of Connections (343 is not > 1,500 standard)

Applicant's bond rating: No bond rating available.

Financial statement of program: SDWRLF as of December 31, 2017

2. Available funds \$51,227,484
3. Remaining balance, if the project is approved, is \$49,827,484

Project Repayment Phase Loan Summary

Type	Award Amount	Forgivable Loan	Total Loan Amount	Interest Rate	Amortized [in years]	**Est. Annual Payment*
SDWRLF	\$930,000	\$588,000	\$342,000	1.0%	30	\$13,300
SDWRLF	\$1,400,000	\$425,000	\$975,000	1.0%	30	\$37,700
Total	\$2,330,000	\$1,013,000	\$1,317,000			\$51,000

** Actual payment will likely be different. Payment rounded to nearest \$100. Construction Period Interest is expected to be paid prior to or with the 1st scheduled P&I payment date.

Type	Amount Awarded	Amount Requested by Amendment	Total Amended Award
SDWRLF Loan	\$342,000	\$975,000	\$1,317,000
SDWRLF Forgivable Loan	\$588,000	\$425,000	\$1,013,000
Total IFA Funds	\$930,000	\$1,400,000	\$2,330,000
Other Funds	\$299,500	\$ 0	\$299,500
Total Project Cost	\$1,229,500	\$1,400,000	\$2,629,500

Staff Recommendation

Applicants under the SDWRLF program may be determined to be a Disadvantaged Community and qualify for forgivable loan, reduced interest rate, and an extended repayment term. A Disadvantaged Community is determined by the following criteria:

1. A community's Median Household Income ("MHI") is less than the state's MHI of \$51,243 (if MHI is above the State average the user rate needs to be 1.5 times the Affordability Rate); and,
2. The community's Affordability Rate (MHI X 1.25% / 12) is lower than the actual monthly user 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 Chiloquin qualifies as a Disadvantaged Community due to their projected user rate of approximately \$49.00 by completion date and their first principal and interest payable to Business Oregon.

1. The Median Household Income is based on the 2015 American Community Survey data. The city's MHI is \$28,393; and,
2. The community's Affordability Rate (\$28,393 X 1.25% / 12, equaling the Affordability Rate of \$29.58.).

Financing was awarded last spring in the amount of \$930,000, which is to be distributed as follows:

- \$342,000 SDWRLF Loan; 30 year term loan at a 1.00% interest rate as a Disadvantaged Community
- \$588,000 SDWRLF Forgivable Loan
 - **\$93,000**—All eligible projects up to 10% of Total Award not to exceed \$250,000, additionally
 - **\$186,000**—For a Health and Compliance project up to 20% of Total Award not to exceed \$250,000, additionally
 - **\$279,000**—All Disadvantaged Communities are eligible for up to 50% of Total Award not to exceed \$500,000, additionally (Total Principal Forgiveness not exceed 60%)
 - **\$15,000**—Labor Standards Compliance
 - **\$15,000**—Project Management Assistance

This amended award increases the amount by \$1,400,000 and is to be awarded as follows:

- \$975,000 (combined \$1,317,000) SDWRLF Loan; 30 year term loan at a 1.00% interest rate as a Disadvantaged Community

The present value of the subsidy rate when compared to the short term treasury rate of 1.7% is \$125,495 for the 30 year term.

- \$425,000 (combined \$1,013,000) SDWRLF Forgivable Loan
 - **\$140,000 (combined \$233,000)** All eligible projects up to 10% of Total Award not to exceed \$250,000, additionally
 - **\$64,000 (combined \$250,000)** For a Health and Compliance project up to 20% of Total Award not to exceed \$250,000, additionally
 - **\$221,000 (combined \$500,000)** All Disadvantaged Communities are eligible for up to 50% of Total Award not to exceed \$500,000, additionally (Total Principal Forgiveness not exceed 60%)

Financing Structure

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 April 2018. All accrued interest during the construction phase (estimated to be \$4,400) 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 December 1, 2018.

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, 2019. 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.

Funding Recommendation and Conditions of Award

Financial 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 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 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 \$29.58 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 Thirty Three/100ths percent (2.33%) per annum.
 2. The annual payments shall be adjusted to an amount to fully amortize the then outstanding balance of each Loan by the 19th anniversary of the Repayment Commencement Date, on which date any amounts outstanding under each Loan shall be due and payable in full.

E. Parity. The standard contract language default is “No Parity or Senior Debt.”

Special Condition Revisions

With the elimination of the Airport Well from the scope of work, the two special conditions identified within Section 5, B(5), and B(6) that pertain specifically to the Airport Well are no longer necessary and need to be eliminated from the scope of work. The Oregon Health Authority—Drinking Water Services (OHA-DWS) staff reviewed this request and determined that the following 2 conditions need to be inserted into the amendment:

1. Prior to construction of the new well and piping, the city shall deliver proof, from the Oregon Water Resources Department (OWRD) of its authorized water right to use the new well for community/municipal use.
2. The city shall contact Oregon Health Authority—Drinking Water Services (OHA-DWS) and provide the required plan review information for approval prior to drilling the new well. A copy of OHA-DWS written plan review must be submitted to Business Oregon.

List of Attachments

Original or Previous Award Staff Recommendation, Financial Summary