

## Memorandum

January 10, 2018

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**TO:** Chris Cummings, Assistant Director, Economic Development  
**THRU:** Ed Tabor, Programs & Incentives Manager  
**FROM:** Michelle Bilberry, Regional Project Manager; Dennis Knight, Finance Officer  
**SUBJ:** Funding Opportunity of \$3,200,000—Safe Drinking Water Revolving Loan Fund Program for City of Detroit, Distribution System Replacement, Portfol Client-Deal #918-12992

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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.

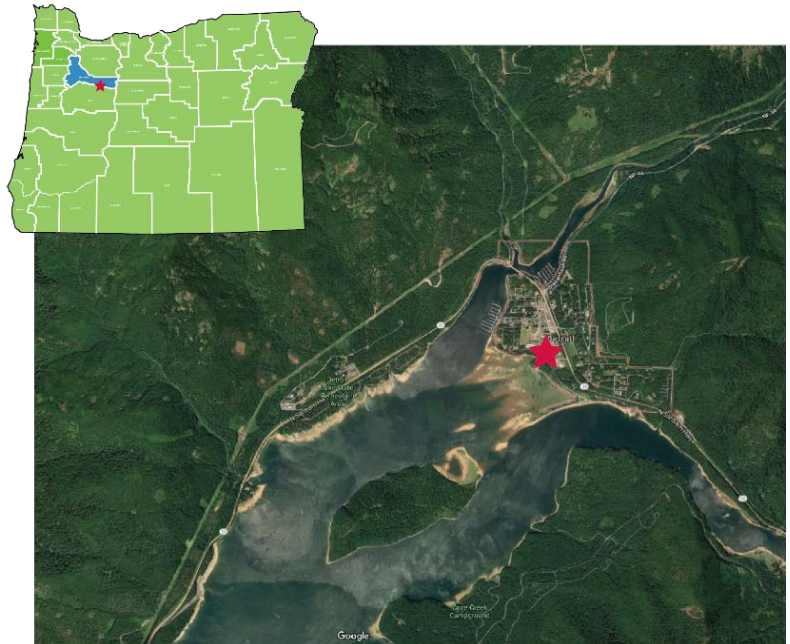
### Background

#### Applicant

The city of Detroit, located 50 miles east of Salem in Marion County and adjacent to Detroit Lake, is considered both rural and distressed. The city was greatly dependent upon the timber industry in the early days, but now the local economy is primarily driven by recreational activities and the city experiences a high rate of seasonal fluctuation, more than 70% of homes are second homes.

The city's drinking water system has 386 connections of which 369 are residential; serves a population of approximately 210 permanent residents and an additional 800 part-time residents on the weekends and during the summer.

City of Detroit #918-12992



#### Funding Request

Loan & Principal Forgiveness

#### Project Type

- Planning (technical)
- Design
- Construction

## **Project**

### **Background**

A significant portion of the distribution system for the city was constructed when the city was moved to its current location due to construction of the Detroit Dam in 1952. The aging and deteriorating distribution water lines are prone to significant leaks and the most recent water audit estimates up to 40% of unaccounted water is due to leaks, there is also concern that leaking water lines can be a source of contamination.

Since the city finalized its Water Master Plan in May 2009 and completed the Priority 1 projects, the city is ready to address the distribution system. The proposed solution would be the replacement of waterlines, which have been identified as the worst for leakage. Approximately 10,000 feet of pipe throughout the city, of various diameters up to 12-inch, have been selected as priority for replacement, the project will also include installation of control and isolation valves and new pressure reducing valves.

### **Project Description**

Recipient will replace approximately 10,000 lineal feet of water mains throughout the city, as identified in the Water Master Plan dated May 2009; improvements will also include control and isolation valves and pressure reducing valves.

**Work Plan:** Construction is expected to be complete in the fall of 2019, a description of each primary activity and anticipated dates are provided in the attached table.

**Public Involvement Statement:** City Staff and the Water Commissioner provide monthly updates of the water system during City Council meetings; there has been significant discussion and City Council approval to proceed with the proposed distribution system improvements; during the August City Council meeting, the discussion revolved around the proposed improvements, estimates of loan repayment will cost each water account approximately \$14.81 per month, and that water rates would increase gradually until construction completion to cover the additional debt.

### **Findings and Analysis**

This project helps implement the following goals and objectives:

- 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)

### **Program Findings & Compliance**

1. Applicant eligibility: the city of Detroit 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 systems and nonprofit non-community water systems are eligible to apply for financing except those determined to be ineligible by the department because of prior nonperformance.

2. Project priority is high. The Oregon Health Authority awarded the project 42 points during the rating and ranking process; 15 points were given for Risk to Human Health & Health Protection, 15 points for Drinking Water Source Protection, 5 points for Community Affordability and 7 points for Cost Effectiveness.
3. Program suggestions and/or monitoring: standard desktop plus site visit monitoring for construction project.
4. 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.

## Financial Findings & Compliance

### Repayment source

The table below shows historic revenue from the Applicant's Water and Water Reserve Fund combined for the last three audited fiscal years ending June 30, 2016, and fiscal year 2017 budget.

#### Water & Water Reserve Fund–Detroit

Performance Review	audited	Audited	audited	budgeted
FY Ending June 30 <sup>th</sup>	2014	2015	2016	2017
Beginning Fund Balance	86,336	91,648	98,395	109,799
<b>Revenues</b>				
Charges for Services	242,901	241,912	245,825	241,600
Other Operating Revenues	1,320	2,050	1,103	1,000
<b>Operating Revenues</b>	<b>244,221</b>	<b>243,962</b>	<b>246,928</b>	<b>242,600</b>
Interest and Miscellaneous	179	180	250	170
Grants	0	625	0	0
<b>Total Non-Operating Revenues</b>	<b>179</b>	<b>805</b>	<b>250</b>	<b>170</b>
<b>Total Revenues</b>	<b>244,400</b>	<b>244,767</b>	<b>247,178</b>	<b>242,770</b>
<b>Expenditures</b>				
Personal Services	102,419	105,009	111,230	115,622
Materials & Services	60,894	71,688	51,879	68,666
<b>Total Operating Expenses</b>	<b>163,313</b>	<b>176,697</b>	<b>163,109</b>	<b>184,288</b>
<b>Net Operating Income</b>	<b>80,908</b>	<b>67,265</b>	<b>83,819</b>	<b>58,312</b>
Capital Outlay	17,095	2,543	13,885	29,618
Debt Service	58,580	58,580	58,580	58,580
Total Expenses	238,988	237,820	235,574	272,486
<b>Net Revenues</b>	<b>5,412</b>	<b>6,947</b>	<b>11,604</b>	<b>(29,716)</b>
Net Transfers/Adjustments	(100)	(200)	(200)	(200)
<b>Ending Fund Balance</b>	<b>91,648</b>	<b>98,395</b>	<b>109,799</b>	<b>79,883</b>

The past three years have seen a fairly level revenue stream while personal services saw a consistent increase. Materials and services has fluctuated due to maintenance cost. In 2015, several line breaks needed repair and in 2017 the city budgeted for higher costs in preparation for this project. The city maintained a positive net revenues each year except for budget year 2017 which expected a high capital outlay.

### 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, 2016, and fiscal year 2017 budget.

#### General Fund—Detroit

<b>Performance Review</b>	<b>audited</b>	<b>Audited</b>	<b>audited</b>	<b>budgeted</b>
<b>FY Ending June 30th</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Beginning Fund Balance	18,730	24,448	26,934	42,516
<b>Revenues</b>				
Property Taxes	52,093	53,923	56,748	58,777
Other Operating Revenues	46,162	43,517	47,160	51,339
<b>Operating Revenues</b>	<b>98,255</b>	<b>97,440</b>	<b>103,908</b>	<b>110,116</b>
Interest and Miscellaneous	66	78	95	58
Other Non-Operating Revenues	6,698	6,194	6,662	2,900
<b>Total Non-Operating Revenues</b>	<b>6,764</b>	<b>6,272</b>	<b>6,757</b>	<b>2,958</b>
<b>Total Revenues</b>	<b>105,019</b>	<b>103,712</b>	<b>110,665</b>	<b>113,074</b>
<b>Expenditures</b>				
Personal Services	33,638	34,241	37,362	42,302
Materials & Services	41,113	35,785	39,726	50,673
<b>Total Operating Expenses</b>	<b>74,751</b>	<b>70,026</b>	<b>77,088</b>	<b>92,975</b>
<b>Net Operating Income</b>	<b>23,504</b>	<b>27,414</b>	<b>26,820</b>	<b>17,141</b>
Capital Outlay	0	0	0	5,819
Debt Service	0	0	0	0
Total Expenses	74,751	70,026	77,088	98,794
<b>Net Revenues</b>	<b>30,268</b>	<b>33,686</b>	<b>33,577</b>	<b>14,280</b>
Net Transfers/Adjustments	(24,550)	(31,200)	(17,995)	(20,000)
<b>Ending Fund Balance</b>	<b>24,448</b>	<b>26,934</b>	<b>42,516</b>	<b>36,796</b>

## Debt Service analysis

Net Revenues for Debt Coverage: The following table reflects the Projected Net Revenues for the Applicant's Water Fund only as provided with the Applicant's application. It reflects adequate net revenues necessary to provide the required 1.20 debt service coverage ratio.

### Summary of Revenues, Expenditures, and Debt Service Coverage—Detroit

<b>PRO FORMA</b>	<b>Current FY</b>	<b>Projected</b>				
<b>Year (ending June 30th)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Beginning Fund Balance	<b>109,769</b>	<b>109,671</b>	<b>113,986</b>	<b>190,693</b>	<b>256,822</b>	<b>285,901</b>
<b>Operating Revenues</b>						
Service Charges	241,600	252,000	328,195	336,894	372,500	381,812
Other Fees	1,000	1,000	1,000	1,000	1,000	1,000
Interest	170					
<b>Total Operating Revenues</b>	<b>242,770</b>	<b>253,000</b>	<b>329,195</b>	<b>337,894</b>	<b>373,500</b>	<b>382,812</b>
<b>Operating Expenses</b>						
Personal Services	115,622	117,215	119,560	121,950	124,390	126,877
Materials & Services	68,666	72,890	74,348	75,835	77,351	78,898
Other Operating Expenses						
<b>Total Operating Expenses</b>	<b>184,288</b>	<b>190,105</b>	<b>193,908</b>	<b>197,785</b>	<b>201,741</b>	<b>205,775</b>
<b>Debt Service</b>						
<b>Funds Avail for Debt Coverage</b>	<b>58,482</b>	<b>62,895</b>	<b>135,287</b>	<b>140,109</b>	<b>171,759</b>	<b>177,037</b>
OBDD Loan	58,580	58,580	58,580	58,580	58,580	58,580
IFA Proposed Loan	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,400</b>	<b>84,100</b>	<b>84,100</b>
<b>Total Debt Service</b>	<b>58,580</b>	<b>58,580</b>	<b>58,580</b>	<b>73,980</b>	<b>142,680</b>	<b>142,680</b>
<b>Debt Service Coverage Ratio</b>	1.00	1.07	2.31	1.89	1.20	1.24
<b>Other Activities</b>						
<b>Cash Avail After Debt Service</b>	<b>(98)</b>	<b>4,315</b>	<b>76,707</b>	<b>66,129</b>	<b>29,079</b>	<b>34,357</b>
Loan Proceeds / Drawdowns		1,000,000	2,200,000			
Capital Outlay (OUT)		(1,000,000)	(2,200,000)			
<b>Net Other Activity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net Transfers IN (OUT)						
Net Transfers & Adjustments	0	0	0	0	0	0
<b>Ending Fund Balance</b>	<b>109,671</b>	<b>113,986</b>	<b>190,693</b>	<b>256,822</b>	<b>285,901</b>	<b>320,258</b>
<b>Avg. Rev's per EDU (calc)</b>	\$42.77	\$43.65	\$55.53	\$55.87	\$60.32	\$60.53
<b>Rate per EDU (app)</b>	\$45.00	\$45.00	\$55.00	\$55.00	\$60.00	\$60.00
<b>EDU's (app)</b>	<b>473</b>	<b>483</b>	<b>494</b>	<b>504</b>	<b>516</b>	<b>527</b>
<b>Connections (app)</b>	<b>386</b>	<b>396</b>	<b>407</b>	<b>417</b>	<b>429</b>	<b>440</b>

The city has prepared the community for a substantial increase in rates over the next five years in order to make the needed system upgrades. They have projected the personal and material service expenses to grow each at 2% per year over the next five years. The city is aware of the potential draining of Detroit Lake by the Federal Government and is working on possible scenarios to work through any difficulties as a result. If the increased connections are affected then increased rates may result.

**Existing obligations and risks**

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

**Summary of Outstanding Debt Obligation–Detroit**

Loan Source	June 30, 2016 Balance	Annual Debt Service	Payment Source	Maturity
<b>Self-Supporting Debt</b>				
OBDD - SDWRLF S09010	\$1,335,568	\$58,580	Water Fund	2044
TCF Finance	\$19,284	\$6,958	Equipment	2019
<b>Gross Debt</b>	<b>\$1,354,852</b>	<b>\$65,548</b>		

The OBDD loan is the only water pledged loan and 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:

- Percentage of Debt Retired. [36.35% is not > 60% standard]
- Number of Connections (mry). [386 is not > 1,500 standard]
- Revenue Debt per Capita (mry).[ \$6,360 is not < \$650 standard]
- Population Growth—since 2000. [-1.29% is not > 3% standard]

**Applicant’s bond rating:** No bond rating available.

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

1. Available funds \$51,227,484
2. Remaining balance, if the project is approved, is \$48,027,484

**Project Repayment Phase Loan Summary**

Type	Award Amount	Grant Amount	Total Loan Amount	Interest Rate	Amortized [in years]	Est. Annual Payment*
SDWRLF	\$3,200,000	\$1,030,000	<b>\$2,170,000</b>	1.0%	30	\$84,100
<b>Total</b>	<b>\$3,200,000</b>	<b>\$1,030,000</b>	<b>\$2,170,000</b>			<b>\$84,100</b>

**Funding Recommendation**

Budget Line Items	Business Oregon Funds	Other Funds	Totals
Design/Engineering	\$522,000	\$0	\$522,000
Construction	\$2,583,000	\$0	\$2,583,000
Project Management	\$80,000	\$0	\$80,000
Labor Standards	\$15,000	\$0	\$15,000
<b>Total</b>	<b>\$3,200,000</b>	<b>\$0</b>	<b>\$3,200,000</b>

### Proposed Work Plan

Activity	Date
Procure Engineer, Labor Standards Compliance Specialist, et cetera	March 1, 2018
Environmental Review complete, including public notice	March 1, 2018
Final Design Complete, including OHA approval of plans	June 1, 2018
Construction 50% Complete	March 1, 2019
Construction Complete	September 1, 2019
Project Closeout	October 1, 2019

### Source of Business Oregon Funds

(Indicate Loan/Grant/Principal Forgiveness, Bond, Private or Public, and Taxable or Tax Exempt)

Source	Amount
Safe Drinking Water Revolving Loan Fund Program—Loan, Public, Tax Exempt	\$2,170,000
Safe Drinking Water Revolving Loan Fund Program—Forgivable Loan	\$1,000,000
Safe Drinking Water Revolving Loan Fund Program—Forgivable Loan (Labor Standards)	\$15,000
Safe Drinking Water Revolving Loan Fund Program—Forgivable Loan (Project Management)	\$15,000
<b>Total</b>	<b>\$3,200,000</b>

Source of Other Funds	Amount
None	\$0
<b>Total</b>	<b>\$0</b>

### 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 (unless the water rate is 1.5 times the Affordability Rate); and,
2. The community's Affordability Rate ( $MHI \times 1.25\% / 12$ ) 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 Detroit qualifies as a Disadvantaged Community due to their projected user rate of \$60.00 by completion date, their MHI of \$44,792 being below the state average and their affordability rate, which is \$46.66.

Financing is awarded in the amount of \$3,200,000, which is to be distributed as follows:

- \$2,170,000 SDWRLF Loan; 30 year term loan at a 1.0% interest rate.

The present value of the subsidy rate when compared to the short term treasury rate of 1.7% is \$206,777 for the 30 year term.

- \$1,030,000 SDWRLF Forgivable Loan
  - **\$250,000**—All eligible projects up to 10% of Total Award not to exceed \$250,000, additionally
  - **\$250,000**—For a Health and Compliance project up to 20% of Total Award not to exceed \$250,000, additionally
  - **\$500,000**—All Disadvantaged Communities are eligible for up to 50% of Total Award not to exceed \$500,000, additionally
  - **\$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 July 1, 2018. All accrued interest during the construction phase (estimated to be \$15,400) 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 October 2019.

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, 2020. 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**

#### **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 \$46.66 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 Twelve/100ths percent (2.06%) 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.”
- F. Technical & Managerial Capacity Review.** Oregon Health Authority letter dated September 22, 2017 states “the Technical and Managerial Capacity review has been completed and OHA-DWS recommends the following deficiency be made a condition of the loan: Correct unprotected cross-connection at treatment plant identified as a significant deficiency during most recent water system survey.”

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 and the results are listed above in Condition F.

**Recommend Approval:**

Signature on file  
Regional Project Manager

Signature on file  
Public Finance Officer

Signature on file  
Regional Development Officer

Signature on file  
Program Policy Coordinator

Budget recommends that this award come from: Program Funds

Signature on file  
Program Policy Coordinator

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**Management Action**

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:

\_\_\_\_\_

Signature on file  
Programs & Incentives Manager

Approval—We respectfully request your approval on the subject application.

Approve project and recommendation as submitted.

Approve project and recommendation with the following modifications:

\_\_\_\_\_

Signature on file  
Chris Cummings, Assistant Director, Economic Development

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**IFA Board Approval**

The IFA Board shall consider loans over \$3,000,000, 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.

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Chris Cummings, Assistant Director, Economic Development

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Board Meeting Date

**List of Attachments**

Financial Summary, Board Action Request Memo