

Infrastructure Finance Authority Board Meeting

April 6, 2018

Salem, Oregon

Attendance

Members Present: Niki Iverson, City of Hillsboro; Kristin Retherford, City of Salem; Pat Clancy, Public Financial Management, Inc.; Jim Bellet, representing counties; Laura Lockwood-McCall, Oregon State Treasurer's Office; Andrea Klaas, Port of The Dalles (phone); and Rep. Karin Power (phone)

Staff Present: Ed Tabor, Program and Incentives Manager; Scott Fairley, Business Development Officer; Melisa Drugge, Business Development Officer; Tom Rowley, Business Development Officer; Mark Freeman, Regional Program Manager; John Saris, Business Finance Manager; Rich Rodriguez, Finance Officer; Janna Graham, Finance Officer; David Barnett, Senior Finance Accountant, and Suzy Miller, Executive Assistant

Guests: Judy Erwin, city administrator, City of Hines; Brandon Mahon, engineer, Anderson, Perry & Associates (phone); Eileen Hendricks, Port of Morrow; Mark Patton, Port of Morrow; Deb Lamberth Oregon Health Authority; Adam DeSample, Oregon Health Authority; Lisa Mittelsdorf, Port of Morrow (phone); Gary Neal, Port of Morrow (phone)

Chair Iverson called the meeting to order at 10:00 a.m.

Welcome, Introductions, Minute Approval

Chair Iverson welcomed everyone and introductions were made.

Public Comment

None.

Review of Proposed Meeting Minutes (Audio Index 1:55)

Action: Chair Iverson called for a motion to approve the February 2, 2018, minutes.

Pat Clancy moved to approve the minutes.

Jim Bellet seconded the motion.

Vote: Passed

City of Hines (Audio Index 2:10)

Scott Fairly introduced representatives from the city of Hines who gave a presentation on the project and the community it serves. The city is seeking \$7,229,000 from the Safe Drinking Water Revolving Loan fund program, comprised of a \$6,199,000 loan at 1.00% for 30 years, and a \$1,030,000 forgivable loan, to design and construct improvements to the city's water system. The city qualifies as a Disadvantaged Community due to their projected user rate of \$56.50 by the completion date, their below state average MHI of \$38,587, and affordability rate of \$40.19.

Judy Erwin and Brandon Mahon addressed the board about the concerns of the recent system, the need for the improvements, and the rate increase. They city started preparing residents two years ago about the need for improvements through public outreach with mailing notifications, and public meetings. Rate increases started at the beginning of the year; residential rates were increased \$4 per billing cycle every two months, until November of 2019. At that time, the city will institute the tiered rates for usage.

In 1930, the city was incorporated, the Hines Lumber Company was constructed, and the original water system built consisting of a well, the elevated reservoir and a two-inch distribution piping system, most still intact/in use today. Brandon talked about the existing water system, covering supply, storage and the distribution system. There are four wells for supply; three are active and used regularly. The fourth well is connected but used for emergency purposes only; its water rights will be transferred to another well in the future. For storage within the system, the city utilizes two different storage reservoirs—the bolted steel reservoir (600,000 gal. capacity); built mid-90's, and the elevated steel reservoir (250,000 gal. capacity), constructed in 1930.

Overall the infrastructure quality and condition of the supply is fair; available supply compared to the city's demands are adequate; and there are no water quality violations. However, wells #2 and #3 pump motors and buildings are in poor condition; the SCADA (Supervisory Control and Data Acquisition), telemetry, and controls are in poor condition; unable to determine depth of water in the wells; and no backup power generation. Currently, the quantity of available storage is 850,000 gallons. From the design criteria within the master plan, the city has recommended nearly 1.4 million gallons, in order to provide operating equalization, emergency and fire reserve storage. The quality and condition of the bolted steel reservoir is poor, but the elevated reservoir is in decent shape; the main concern is the foundation.

Brandon reviewed the preliminary cost estimates, and the financial analysis. The city has estimated \$600,000 for supplies of new improvements, \$1.5 for storage, and \$2.5+M for the distribution system. Brandon added there's an additional \$30,000 that was not included in the final number (\$15,000 labor standards and \$15,000 for project management channels). He also noted how the affordability rate has changed over time, from a year ago, due to the demographics of the community. The city completed a water rate study (reviewed the project, required debt service, evaluated different rate structures) to determine the necessary rate adjustments, based on the funding package that was developed from the One Stop meeting. The city is currently in the process of developing an RFP for design services for the proposed improvements.

Questions and Comments: (Audio Index 7:30)

Jim asked for a better understanding of the water rights for the wells; he read the staff rec as some wells do not have waters rights. Brandon explained there are three main wells the city utilizes, all of which are certificated. The fourth well is permitted, and will be certificated within the next couple of weeks. In the master plan it was noted that the fourth well pumps, at times, a higher amount of water than specified on the certificate. The city is currently in the process of completing a water rights transfer.

Kristin asked if sewer funds were being used, referencing the notation (page 5 Debt Payment) regarding half the payment coming from water and the other sewer operations. Judy confirmed no sewer funds were being used. Follow up question asked pertaining to contractors and the climate in Hines as contractors are becoming very busy around the state which increase project

costs. Is the city is experiencing the same, and is the cost estimate conservative enough. Brandon indicated with a project of this magnitude, there will be competitive bids, most from outside of the area. Cost estimates have increased based on contractor availability, but they tried to mitigate by making cost estimates realistic, but in a conservative fashion. In the 2017 master plan, costs were inflated by about 5% per year for a three year period knowing the need for the funding.

Pat Clancy asked for clarification regarding the 20-year horizon water plan, with a 30-year finance plan; as well as, the match of land horizon versus the amortization of the debt. His concern: will there be water resources available for the last 10 years, and are there any limitation concerns of the planning horizon? Brandon followed, in statue they plan for a 20-year period, even though, often times, financing will go on longer. You pay for infrastructure beyond the planning period; however, the life of the infrastructure will be well beyond 50 years. By the time the 30-year financing is over, the infrastructure will still have life in it. Brandon has no concerns about the planning horizon, population has been projected out 20 years, and the Portland State University, Population Research Center actually indicated a negative growth in Hines. He feels the city will have more than adequate storage capabilities once the project is complete.

Board note: possible policy discussion: state's 20-year planning horizon and 30-year loans.

Jim Bellet asked about the future, and the anticipation of no additional connections. His concern has to do with how stagnant the population has been in the past, and currently. Many people (younger generation) are moving out of the Midwest to the city. He asked if any future plans are being discussed or worked on. Judy indicated the city was given a grant to study and bring in fiber optics to increase tele-commuting; there's a new economic development contractor whose focus is employee retention and entrepreneurship; businesses are continuing to come in, as well as new housing development.

Action: Chair Iverson called for a motion.

Laura Lockwood-McCall moved to approve an award of \$7,229,000 in Safe Drinking Water Revolving Loan fund program funding to the city of Hines, comprised of a \$6,199,000 loan at 1.00% for 30 years and a \$1,030,000 forgivable loan, to design and construct above mentioned improvements to the city's water system.

Jim Bellet seconded the motion.

Vote: Passed

Port of Morrow (Audio Index 41:22)

Mark Freeman, introduced representatives from the Port Morrow, Eileen Hendricks, Mark Patten, Lisa Mittelsdorf, and Gary Neal, who gave an overview of the project before the board. The port's request is for an amendment to the current SPWF loan of \$12,618,567, for an additional \$4,000,000, for a total loan of \$16,618,567. If approved, this project would be placed in a future Bond Bank sale. This project came before the board two years prior, but has since faced cost increases. The project is nearing completion of a Department of Environmental Quality (DEQ) mandated wastewater system that serves existing and future customers of the port, the surrounding area, and future developments at the US Army Depot.

Mark Patton commentated a video viewed by the board on the project. The original design was for one pond; now two: the large pond holds 300M gallons of wastewater and the small 150M gallons. There is a 90-foot dam at the bottom, with a bypass on the left hand side in case of flooding. There are 15 miles or 80,000 feet of pipe; the size of the pond is approx. 88 acres. The existing industrial land property available is about 1,200 acres; 1,000+ from the depot, and the port is working with some clients to add another 200 acres of property, for potential development.

The port became out of compliance with DEQ due to a major customer's expansion between 2014-2015, and the port's water use increased 34%; then 9% after that. New customers coming in tell the port their water needs; most are usually within a fraction of that information; however, this was an unusual situation and the port found themselves out of compliance on wastewater. The water source is wastewater from the industrial plants; the original water is from permitted water wells that goes to the industrial plant; then to the port. The port added 5,000 acres to their land application system in hopes of bringing back production into the rotation with more crops.

Discussion took place around what the parity would look like for IFA given the \$16 million would be taken off the Business Oregon business side, and over to the IFA side. With some of the information provided (and not provided) in the materials, it was confusing to figure out what the parity would be on the loan, as well as the total annual debt service. After further discussion, and pulling of additional documentation, it was determined \$2.6M is above, and the \$67M is what IFA would be on parity with. The annual debt service would be about \$1M.

Board suggestion: pertaining to the parity discussion, some improvements to the coverage table are needed, to incorporate all debt. Adding a side note on the table to show what is senior, what's on parity and then what's subordinate would be very helpful. Pat added, what he would like to see is readiness of the organization, its operating expenses to pay; any debt that has a priority payment above the payments that all loans have.

Action: Chair Iverson called for a motion.

Pat Clancy move to approve amending the \$12,618,667 existing Special Public Works loan to the Port of Morrow by (a) increasing loan amount to \$16,618,567, an increase of \$4,000,000, (b) changing the source of funding from Business Oregon monies to Bond Bank funding with rate set at time of bond sale, (c) establishing new conditions for the loan, and (d) establishing an interim rate of 1.70% retroactively from date of original award and until bonds are sold.

Laura Lockwood-McCall seconded the motion.

Vote: Passed

Oregon Health Authority (OHA)—Rating and Ranking (Audio Index 1:43:25)

Adam DeSample and Deb Lambert gave a presentation on the inner workings of the rating and ranking process that OHA goes through for projects. They covered some federal requirements, what OHA does for the rating/ranking portion of the rating, with examples from Douglas County for the Health/Compliance/Consolidation portion, and the city of Jackson for General Infrastructure and Resilience. Started in 1996, the Safe Drinking Water Act (SDWA), was created to help bridge the financial gap for small and/or disadvantaged public water systems who need affordable funding for efforts to protect public health, and efforts to attain, maintain or regain compliance with SDWA requirements. The primary focus is on protecting public health; a project needs to address risk to human health, compliance with the act and there has to be some affordability criteria.

When a project first comes in, they are reviewed for eligibility; passed on to technical staff where a preliminary rating is done. Adam reviewed the rating form guidance: From the letter of interest being submitted outlining the project and identifying any issues—to the rating (scoring) and ranking. There are 6 criteria: Risk to Human Health & Health Protection (i.e., Risks that are Acute, Chronic, less than A or C); Compliance with SDWA; Consolidation or Partnership of Two or More Systems; Drinking Water Source Protection; Community Affordability; and Cost Effectiveness. A meeting is held thereafter with the rating team for the final outcome to be published on the agency's webpage for a 30-day public comment period. The EPA gives states a lot of flexibility; there are federal requirements, but there's a lot of flexibility to make adjustments.

Adam responded to various questions and comments:

Information on communities that may have a high nitrate situation is gathered from an online database. You can go on any public water system that OHA regulate to obtain the information. However, private wells are not captured; and water districts are a different situation. You have to be an eligible public water system, to be considered for drinking water state revolving funds.

If you are private and a community water system, with a population over 25, and/or have 15 more service connections and deliver water year round, you can be private. But if you're a non-community system, a school, hospital, you have to be considered nonprofit. This is where we work with Business Oregon on making sure they are registered as a nonprofit through the Secretary of State. Private systems are a little bit riskier and does raise some concerns.

The grant cap is directly tied to the projects. It's a once a year process, with rating and ranking done quarterly. Water systems can submit at any time. Projects cannot stay on the priority list any more than two years from the approval of the intended use plan. The intended use plan is part of our capitalization grant. It explains how we intend to spend the money on projects. Oregon Health Authority works together with Business Oregon on determining which projects will move forward, and have funds committed. The intention is to fund everything but the reality is, some projects get on the list that are just not ready to proceed; we offer assistance if needed, however. An entity can reapply to get back on the list. EPA always wants to make sure Business Oregon and OHA are ensuring that, the top projects are targeted first, and that's the goal.

There's been one time OHA has come close to shutting down a system for none compliance, but the court appointed a special master who took the water system over until things could get resolved. Our compliance and enforcement folks are involved in making sure that safe drinking water is delivered, and if not, they're going to keep pounding them.

Bond Bank Update (Audio Index 2:15:40)

Ed updated the board on the bond bank. Scheduled close date is set for April 10. It was a great experience working through the process and all the steps with Larry Groth, Chip Pierce, and Carol McCoog. Pricing took place a couple weeks ago, and worked out very favorable. Our refunding borrowers are going to see around an 11% saving, with our new money borrowers seeing an interest rate around 3.5%. Ed also pointed out that Moody's upgraded the agency's rating from Aa3 to Aa2. Going forward, this bond sale provides the department with millions of dollars to recapitalize our program.

SPWF Committee Update (Audio Index 1:04.40)

The committee has been working their way through a number of issues, but broad in range. Some examples are extending the term of loans to a 40 years, including fees to apply as part of the loans; reducing the amount of grants and capping them off at 50%, and offering them as loans instead of grants; changing the point at which subsidies are made to the loans, in terms of a more distressed community. At this time, there is no consensus on any particular item. There needs to be clarification on what the committee product will be and how it will be delivered. Staff is still considering what that product will be. Pat also shared his concerns about the lack of attendance when it comes to having a “consensus” of the entire group to move recommendations forward.

Kristin asked if the committee is looking at internal operations within Business Oregon; is staff overhead being charged to the fund. Ed confirmed it is not. Chair Iverson indicated she would like to have a conversation about our programs, as staff can’t advocate with the legislature but members can. Ed added there would not be any changes made without coming to the board first. The idea was to attack early on some of the items that may need statutory changes. We are looking at charging fees, but those things take time. The board continued discussion on the topic. The committee will definitely keep the board informed.

Director’s Report (Audio Index 2:19:50)

Award Flexibility—Ed led a discussion with the board to gain their guidance on, previously reviewed infrastructure board approvals and bringing them back for board approval when increasing the amendment. Staff suggested a dollar amount of 300,000 or 10%, whichever is greater. Some were not comfortable with *whichever is greater*, they would prefer *whichever is lower*, a threshold amount was suggested too; however, some felt it would be too open-ended. Staff will review prior practices, and put together suggestions for the board’s review.

SPWF Audit—The agency had one material finding based on an overstatement of liability of around \$18 million. It was an accounting entry error; it has been corrected and since restated.

Other Business

Next Meeting to be held June 1, 2018, at Oregon Manufacturing Innovation Center (OMIC), Scappoose, Oregon. The meeting will start at a later time to allow for travel time.

Chair Iverson adjourned the meeting at 12:30 p.m.

Approved by:

Signature on file
Niki Iverson, Chair
Infrastructure Finance Authority Board

6/1/2018
Date

Signature on file
Chris Cummings, Assistant Director
Business Oregon

6/1/2018
Date