

Memorandum

March 1, 2018

TO: Chris Cummings, Assistant Director, Economic Development
THRU: Ed Tabor, Programs & Incentives Manager
FROM: Shanna Bailey, Regional Project Manager
 Dennis Knight, Finance Officer
SUBJ: Funding Opportunity of \$ 7,229,000—Safe Drinking Water Revolving Loan Program for City of Hines, Hines Water System Improvements, No. #180-13191

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

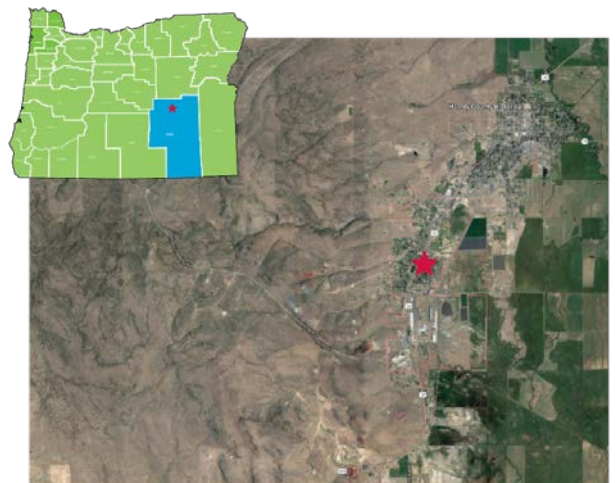
Applicant: City of Hines located in Harney County. The city has a 2016 certified population of 1,560. The city is considered both rural and distressed

Funding Request: Loan & Principal Forgiveness

Project Type:

- Planning (technical)
- Design
- Construction

Hines: Hines Water System Improvements, #180-13191



Project Background: The city has identified water system improvements to meet current and long-term needs. A 2017 Water System Master Plan (WSMP) evaluated the system and recommended improvements for water supply, storage, and distribution to meet fire flow requirements, increase storage capacity, and update aging distribution elements. Both the city's existing water storage reservoirs are in poor condition and should be replaced. The distribution system is largely made up of original 2-inch steel lines installed with the original system in the early 1930s. The project includes preliminary and final engineering as well as construction of the selected improvements described in the WSMP. The proposed solution includes improvements to the city's supply, storage, and distribution systems. Selected improvements are outlined in the state-approved WSMP with Oregon Health Authority.

Project Description: The city will procure an engineer licensed in the state of Oregon to complete preliminary and final design and construction for this project. Supply improvements include replacing the Wells No. 2 and 3, well pump motors and pump station buildings, installing well transducers, providing a backup generator and security fencing at Well No. 3, and improving electrical, controls, and telemetry. Water storage improvements include removing an existing elevated reservoir, constructing a new 800,000-gallon reservoir, and making improvements to the existing bolted steel reservoir. Water distribution improvements include new lines that provide enhanced looping, circulation capabilities, and replace undersized main lines, as well as improvements that will provide adequate fire flows.

Work Plan: The work will be completed in two phases, design and construction. The attached Work Plan Table on page 7 below includes the project activities and the anticipated completion dates.

Public Involvement Statement: The city has held several public meetings discussing this project throughout the planning stages over the last two years.

Findings and Analysis

This project helps implement the following goals and objectives of providing funding to municipalities for publicly-owned facilities that support economic and community development in Oregon:

- 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).*
- Statewide planning goals #6 Air, water and land resources quality, #9 economic development, and #11 public facilities and services.

Program Findings & Compliance

1. City of Hines is an eligible applicant as defined in ORS 198.010.
2. This is not a compliance driven project.
3. Project priority is high. SD-17-174 was rated (15 points) and ranked (18th) by Oregon Health Authority and the project is classified as a "Health, Compliance, Consolidation Project".
4. A desktop and a standard on-site monitoring procedure is suggested for the project.
5. Pre-agreement Costs have been authorized, with no guarantee of reimbursement. Costs include: Preliminary Design and Construction Engineering \$200,000; Environmental Assessment \$30,000; Cultural Resources Report \$50,000; and Legal Fees \$15,000. Invoices incurred before funding may be requested, for these budget line-items, for no more than \$295,000.
6. This project is found to be compliant with applicable department policies, rules and statutes.

Financial Findings & Compliance

Repayment source

The table below shows historic revenue from the Applicant's Water and Sewer Fund for the last three audited fiscal years ending June 30, 2017 and fiscal year end 2018 budget. The revenues and expenses were broken down within the Fund and only the water portion is listed below.

Enterprise Fund—City of Hines

Performance Review	audited	audited	audited	budgeted
FY Ending June 30th	2015	2016	2017	2018
Beginning Fund Balance	1,072,456	1,093,452	1,165,869	1,245,500
Revenues				
Charges for Services	193,570	271,450	298,729	311,271
Other Operating Revenues	8,513	1,873	9,108	9,400
Operating Revenues	202,083	273,323	307,837	320,671
Interest and Miscellaneous	1,106	423	1,500	2,000
Grant	0	0	0	20,000
Total Non-Operating Revenues	1,106	423	1,500	22,000
Total Revenues	203,189	273,746	309,337	342,671
Expenditures				
Personal Services	84,300	97,358	85,696	85,316
Materials & Services	101,177	87,455	79,453	88,031
Total Operating Expenses	185,477	184,813	165,149	173,347
Net Operating Income	16,606	88,510	142,688	147,324
Capital Outlay	0	0	48,041	108,207
Debt Service	16,516	16,516	16,516	18,813
Total Expenses	201,993	201,329	229,706	300,367
Net Revenues	1,196	72,417	79,631	42,304
Net Transfers/Adjustments	19,800	0	0	50,000
Ending Fund Balance	1,093,452	1,165,869	1,245,500	1,337,804

In September of 2015 the city raised water rates which is reflected in the, almost 40%, increase in revenues in fiscal year end 2016. Expenses have been well managed resulting in improved net revenues in the past couple of years.

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, 2017, and fiscal year end 2018 budget.

General Fund—City of Hines

Performance Review	audited	audited	audited	budgeted
FY Ending June 30th	2015	2016	2017	2018
Beginning Fund Balance	174,116	147,979	198,786	219,697
Revenues				
Property Taxes	327,951	322,024	338,285	345,300
Other Operating Revenues	233,227	296,398	274,109	284,890
Operating Revenues	561,178	618,422	612,394	630,190
Interest and Miscellaneous	9,626	40,005	5,645	5,100
Intergovernmental & Grants	82,923	50,027	90,343	83,253
Total Non-Operating Revenues	92,549	90,032	95,988	88,353
Total Revenues	653,727	708,454	708,382	718,543
Expenditures	no data	no data	no data	no data
Personal Services	459,907	419,647	410,648	471,957
Materials & Services	193,285	197,319	217,127	239,264
Total Operating Expenses	653,192	616,966	627,775	711,221
Net Operating Income	(92,014)	1,456	(15,381)	(81,031)
Capital Outlay	18,672	0	42,606	83,637
Debt Service	0	11,781	13,090	13,100
Total Expenses	671,864	628,747	683,471	807,958
Net Revenues	(18,137)	79,707	24,911	(89,415)
Net Transfers/Adjustments	(8,000)	(28,900)	(4,000)	(35,000)
Ending Fund Balance	147,979	198,786	219,697	95,282

Debt service analysis

Net Revenues for Debt Coverage: The attached table 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—City of Hines

PRO FORMA	Current FY	Projected				
Year (ending June 30th)	2018	2019	2020	2021	2022	2023
Beginning Fund Balance	1,283,000	1,353,304	1,460,635	1,627,254	1,790,008	1,827,003
Operating Revenues						
Primary Revenue Source	320,671	326,000	391,000	454,000	497,000	509,850
Total Operating Revenues	320,671	326,000	391,000	454,000	497,000	509,850
Operating Expenses						
Personal Services	85,316	100,278	103,287	106,385	109,577	112,864
Materials & Services	88,031	90,078	92,781	95,564	98,431	101,384
Total Operating Expenses	173,347	190,356	196,068	201,949	208,008	214,248
Debt Service						
Funds Avail for Debt Coverage	147,324	135,644	194,932	252,051	288,992	295,602
US Bank 1/2 pmt	16,516	16,516	16,516			
OBDD V15017 1/2 pmt	2,297	2,297	2,297	2,297	2,297	2,297
IFA Proposed Loan	0	0	0	77,500	240,200	240,200
Total Debt Service	18,813	18,813	18,813	79,797	242,497	242,497
Debt Service Coverage Ratio	7.83	7.21	10.36	3.16	1.19	1.22
Other Activities						
Cash Avail After Debt Service	128,511	116,831	176,119	172,254	46,495	53,105
Loan Proceeds / Drawdowns		2,160,000	5,039,000			
Capital Outlay (OUT)	(108,207)	(2,168,000)	(5,047,000)	(8,000)	(8,000)	(8,000)
System Replacement Reserves		(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Net Other Activity	(108,207)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)
Net Transfers IN (OUT)	50,000					
Net Transfers & Adjustments	50,000	0	0	0	0	0
Ending Fund Balance	1,353,304	1,460,635	1,627,254	1,790,008	1,827,003	1,870,608
Avg. Rev's per EDU (calc)	\$36.46	\$37.06	\$44.45	\$51.61	\$56.50	\$57.96
EDU's (app)	733	733	733	733	733	733
Connections (app)	696	696	696	696	696	696

*Under the debt payments, the ½ pmt refers to half of the payment coming from the water operation and half of the payments coming from the sewer operation.

Existing obligations and risks

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

Summary of Outstanding Debt Obligations—City of Hines

Loan Source	June 30, 2017 Balance	Annual Debt Service	Payment Source	Maturity
Net Direct Debt				
US Bank, Capital Lease	\$13,091	\$13,091	General Fund	2018
Net Direct Debt	\$13,091	\$13,091		
Self-Supporting Debt				
US Bank	\$93,198	\$33,033	Water/Sewer Fund	2020
OBDD—W/W—V15017	\$30,000	\$4,593	Water/Sewer Fund	2024
DEQ	\$871,543	\$111,176	Sewer Fund	2027
Self-Supporting Debt	\$994,741	\$148,802		
Gross Bonded Debt	\$1,007,832	\$161,893		

The Business Oregon and US Bank loans are both water/sewer pledged loans. The US Bank loan was a prior Business Oregon loan but was refinanced in August 2012 and is in a prior position to the Business Oregon loans. All Business Oregon loans have been paid as agreed.

Underwriting standards

The Applicant meets 15 of the 20 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Unemployment Rate as a Percentage of State Avg. [111.36% is not < 110% standard]
- Population Growth Rate—since 2000. [-0.22% is not > 0% standard]
- Assessed Value Annual Growth Rate since 2000. [2.38% is not > 3% standard]
- Accounts Receivable (3 yr. avg.) [17.84% is not < 15% standard]
- Number of Connections. [696 is not > 1,500 standard]

Applicant's bond rating No bond rating available.

Financial statement of program SDWRLF as of February 18, 2018.

1. Available funds \$41,968,093
2. Remaining balance, if the project is approved, is \$34,739,093
3. Disbursements will begin approximately 6 months after contract execution.

Project Repayment Phase Loan Summary

Type	Award Amount	Grant Amount	Total Loan Amount	Interest Rate*	Amortized [in years]	Est. Annual Payment*
SDWRLF	\$ 7,229,000	\$1,030,000	\$6,199,000	1.0%	30	\$240,200
Total	\$7,229,000	\$1,030,000	\$6,199,000			\$240,200

*Payment rounded to nearest \$100.

Funding Recommendation

Budget Line Items	SDWRLF	Totals
Preliminary, Design and Construction Engineering	\$ 1,035,000	\$ 1,035,000
Construction—Storage	\$ 1,753,000	\$ 1,753,000
Construction—Distribution Lines	\$ 2,801,000	\$ 2,801,000
Construction—Pump Stations	\$ 819,000	\$ 819,000
Construction Contingency	\$ 471,000	\$ 471,000
Easements	\$ 60,000	\$ 60,000
Environmental Assessment	\$ 30,000	\$ 30,000
Cultural Resource Report(s) and Monitoring	\$ 150,000	\$ 150,000
Legal Fees	\$ 50,000	\$ 50,000
Project Administration	\$ 15,000	\$ 15,000
Labor Standards	\$ 15,000	\$ 15,000
Permitting (1200-C, ODOT, County, etc.)	\$ 15,000	\$ 15,000
Reporting and Regulatory Fees	\$ 15,000	\$ 15,000
Total	\$ 7,229,000	\$ 7,229,000

Proposed Work Plan

Activity	Date
Begin Final Design	June 2018
Final Design Complete, including OHA approval of plans	March 2019
Permitting, Environmental, and Cultural Resources Reports—completed	March 2019
Bid and Award Construction Contract	May 2019
Completion of Construction of Water System Improvements	October 2020
Project completion	December 2020

Source of Funds

(For Business Oregon funds indicate Loan/Grant/Principal Forgiveness, Bond, Private or Public, and Taxable or Tax Exempt)

Source of Business Oregon Funds	Amount
Safe Drinking Water Revolving Loan Fund—Loan (Public—Tax Exempt)	\$6,199,000
Safe Drinking Water Revolving Loan Fund—Forgivable Loan	\$1,000,000
Safe Drinking Water Revolving Loan Fund—Forgivable Loan (Labor Standards)	\$ 15,000
Safe Drinking Water Revolving Loan Fund—Forgivable Loan (Project Management)	\$ 15,000
Total Business Oregon Funds	\$7,299,000
Source of Other Funds (For other state funds, indicate loan/grant, etc.)	
None	\$0
Total Other Funds	\$0

Staff’s Recommendation

Applicants under the SDWRLF program may be determined to be a Disadvantaged Community and qualify for grants/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 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 Hines qualifies as a Disadvantaged Community due to their projected user rate of \$56.50 by completion date and their MHI of \$38,587 being below the state average and their affordability rate, which is \$40.19.

Financing is awarded in the amount of \$7,229,000, which is to be distributed as follows:

- \$6,199,000 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 1.85% is \$706,752 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 June 2018. All accrued interest during the construction phase (estimated to be \$77,500) 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 2020.

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.

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 Revenues 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 \$40.19 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 Seventy Four/100ths percent (2.74%) 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. **Water Rights.** Prior to disbursement of funds for construction activities the Recipient shall deliver documentation satisfactory to Business Oregon demonstrating that the Recipient is working with the Oregon Water Resources Department to pursue inclusion of Wells No. 1, 2, and 3 as additional points of appropriation to groundwater right G-13686.
- G. **Additional approvals prior to contract execution.** This will remain a conditional approval until the Drinking Water Advisory Committee has reviewed and provided written approval.

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.

Instructions: None

List of Attachments

- 1. Financial Summary

Recommend Approval:

<u>Signature on file</u>	<u>3/24/2018</u>
Regional Project Manager	Date

<u>Signature on file</u>	<u>3/24/2018</u>
Public Finance Officer	Date

<u>Signature on file</u>	<u>3/24/2018</u>
Regional Development Officer	Date

<u>Signature on file</u>	<u>3/24/2018</u>
Program Policy Coordinator	Date

Budget recommends that this award come from: Program Funds

<u>Signature on file</u>	<u>3/24/2018</u>
Senior Finance Accountant (Budget)	Date

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:

<u>Signature on file</u>	<u>3/24/2018</u>
Programs & Incentives Manager	Date

APPROVAL:

We respectfully request your approval on the subject application.

Recommend approval of the project as submitted

Recommend approval of the project with the following modifications:

Signature on file _____

Chris Cummings, Assistant Director, Economic Development

3/24/2018 _____

Date

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.

Chris Cummings, Assistant Director, Economic Development

Board Meeting Date