

Memorandum

March 9, 2018

TO: Chris Cummings, Assistant Director, Economic Development
THRU: Ed Tabor, Programs & Incentives Manager
FROM: Melisa Drugge, Lead Regional Development Officer; Mark Freeman, Regional Port Project Manager; Rich Rodriguez, Finance Officer
SUBJ: Amendment of Funding Opportunity of \$4,000,000– Special Public Works Program for Port of Morrow, Port of Morrow Wastewater, Project No. L16005

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. There may also be post approval follow-up instructions for staff.

Background

AMENDMENT RECOMMENDATION: On April 27, 2016, Business Oregon approved an award of \$12,618,567 from the Special Public Works Fund. The Recipient now requests an amendment to:

1. Increase the previously awarded loan for \$4,000,000 to a total of \$16,618,567. This increase is necessary because project requirements increased due to regulatory compliance issues and unforeseen measures needed to ensure safety and longevity of the project.
2. Change the source of funding from Business Oregon monies to Bond Bank with rate set at time of bond sale.
3. Establish new conditions of award.
4. Establish an interim rate of 1.70% retroactively from the date of original award.



Over the past 30 years, the Port of Morrow has emerged as an economic power in the state of Oregon. The port commissioned the FCS Group to conduct an analysis of the port's impact on the State. Their 12 December 2017 report cited port contribution of \$2.77 billion worth of economic output, over \$500 million in labor income and total employment of 8,452 jobs.

The port prepares available land for development which allows the port to market itself to a national and international clientele. Being able to deliver water to customers and handling wastewater from these customers is essential for economic development and to compete with other states or other countries.

The port is developing this wastewater system to comply with DEQ requirements, meet current development needs of industrial and agricultural users and prepare for future development. Moreover, this infrastructure will serve anticipated development at the former US Army Depot.

The outline of this design-build project is largely the same as described in 2016: installation of approximately 15 miles of wastewater distribution pipelines, construction of approximately five pump stations and construction of a storage pond requiring a dam safety review from the Oregon Water Resources Board. The port secured the dam safety permit from the Oregon Water Resources Board and all plans required ongoing DEQ approval. The port and DEQ worked together throughout the project with one outcome being additional work at increased costs.

The reasons for this increase cited by the port include and are not limited to: large unanticipated power related costs from the Umatilla Electric Cooperative, expanded capacity requirements for the pond, pond automation systems, and increased excavation costs.

Oregon's Water Resources Board dam safety review required pond automation systems, manifolds, additional buildings on site, liner and liner leak detection systems. DEQ required deeper than anticipated monitoring wells as well as a greater number of them.

In the case of the Umatilla Electric Cooperative, the original budgeted amount of \$60,000 increased to nearly \$849,000 because although there were transmission lines in the area, they were inadequate for the project and new infrastructure had to be constructed.

Once the design-build project was underway, costs associated with geotechnical work increased significantly. The site for the pond had not been finalized at the time of application. The eventual site choice for pond featured multiple soil types that had to be addressed to ensure the integrity of the pond as well as the integrity of the dam. This would require "double handling" which meant added work, an extended timeline and cost escalation.

Oregon's DEQ says the 80-acre site used for the pond will become part of the largest land application wastewater system in the state of Oregon. In order to ensure dam safety and integrity, a flood bypass channel had to be constructed to ensure flood waters would not affect the dam or wastewater.

In the case of these excavation costs, the originally budgeted for cost of \$775,000 went to nearly \$2.7 million because of the soil composition, soil "double handling" and DEQ project requirements.

In the case of DEQ required monitoring wells, the original estimate tripled to more than \$325,000 because DEQ required greater drilling depths as well as additional wells.

The project originally called for five pumps, but four were used in the final design at costs four times the original estimate. Though one less pump was used in the project, the potential savings were offset by using higher capacity pipe that could also handle higher pressures. The pumps would also be designed for automated operations.

By late 2017, the port noted costs were significantly exceeding budgeted amounts plus contingency. On 2 January 2018, the Port sent a letter to Business Oregon requesting the loan be increased by \$4,000,000.

The wastewater system seeks to promote a more efficient and innovative re-use of wastewater that also provides for the irrigation of port-owned lands. Farms in the area will benefit from this project as the port has collaborated with them to tie into the system for agricultural or industrial uses.

When completed, this project brings the port into compliance with DEQ rules and reduces risk related to a lack of wastewater capacity cited in the port's Strategic Business Plan. In the port's Strategic Business Plan, the project specifically addresses Goal 3 of their Capital Improvement Plan: "Fully develop and maintain additional water rights for future development activities." By extension, it also meets goals 2 and 4 of the Strategic Business Plan: "Goal 2: Fully develop the business and employment potential of the port's industrial properties and Goal 4: Maintain and develop utility services that efficiently and effectively support regional development and Port customers."

Recently, the port had to turn away a food processing company seeking to locate at the port due to a lack of wastewater capacity. The completed project will have approximately 40% additional capacity that could handle two or three new food processing companies.

Increased project costs have been absorbed by the port and their share is now estimated at \$3,119,152. The total budget cost is now anticipated to be \$19,737,719.

Should the IFA Board grant approval of the \$4,000,000 loan increase request to \$16,618,567, both the port and Business Oregon are desirous of placing the entire amount into the Bond Bank.

Financial Findings & Compliance

Any change to the financing of this project requires a financial analysis.

General Fund summary

The following table shows a performance review of the Applicant's General Fund for the last three audited fiscal years ending 2017.

General Fund—Port of Morrow

Performance Review	audited	audited	audited
FY Ending June 30th	2015	2016	2017
Beginning Fund Balance	500,701	808,033	750,241
Revenues			
Property Taxes	138,615	160,706	176,538
Other Operating Revenues	9,198	8,346	6,349
Operating Revenues	147,813	169,052	182,887
Interest and Miscellaneous	3,036	5,733	4,386
Bond Handling Charges	614,975	491,056	409,975
Total Non-Operating Revenues	618,011	496,789	414,361
Total Revenues	765,824	665,841	597,248
Expenditures			
Personal Services	197,761	408,775	333,040
Materials & Services	217,696	281,486	325,142
Total Operating Expenses	416,567	690,260	658,182
Net Operating Income	(267,644)	(521,208)	(475,295)
Capital Outlay	127,036	42,941	160,203
Debt Service	0	0	0
Total Expenses	542,492	733,201	818,385
Net Revenues	223,332	(67,360)	(221,137)
Net Transfers/Adjustments	84,000	9,568	46,432
Ending Fund Balance	808,033	750,241	575,536

While the ending fund balance has declined over the most recent three years, influenced by lower bond handling charges and increasing operating expenditures, the FYE 2017 ending fund balance represents an ample 116% of FYE 2017 expenditures less capital expenditures.

Repayment sources

Enterprise Fund

The following table shows historic revenue from the Applicant's Enterprise for the last three audited fiscal years ending June 30, 2017. As noted in the original approval, the Enterprise Fund is comprised of the following segment funds: Fresh Water, Discharge Water, East Beach Utility, SAGE Center, and Site Development Operations.

Enterprise Fund—Port of Morrow

Performance Review	audited	audited	audited
FY Ending June 30th	2015	2016	2017
Beginning Net Position	54,918,254	65,981,808	67,929,025
Revenues			
Charges for Services	10,628,352	12,811,625	12,179,074
Other Operating Revenues	3,129,609	5,199,755	8,444,788
Operating Revenues	13,757,961	18,011,380	20,623,862
Grant Revenue	11,525,830	1,742,304	3,576,616
Other Non-Operating Revenues	253,787	161,327	2,485,029
Total Non-Operating Revenues	11,779,617	1,903,631	6,061,645
Total Revenues	25,537,578	19,915,011	26,685,507
Expenditures			
Labor	3,163,982	5,855,224	7,480,212
Depreciation	4,131,471	4,937,398	5,160,122
Other Operating Expenses	4,380,983	4,715,104	4,264,325
Total Operating Expenses	11,676,436	15,507,726	16,904,659
Operating Income	2,081,525	2,503,654	3,719,203
Interest Expense	1,293,088	1,518,456	1,748,633
Other Non-operating Expense	4,500	941,612	41,235
Total Non-operating Expenses	1,297,588	2,460,068	1,789,868
Total Expenses	12,974,024	17,967,794	18,694,527
Change in Valuation	(1,500,000)	0	0
Change in Net Position	11,063,554	1,947,217	7,990,980
Adjustments accounting change	0	0	0
Ending Net Position	65,981,808	67,929,025	75,920,005

During FYE 2017 the ending net position grew by 11% from the prior year, suggestive of managed revenues and prudent expense controls. Note that even if FYE 2017 grant revenue was \$0, the ending net position would still increase by 6% from the prior year.

Debt service for this loan will rely on two segments within the Enterprise Fund, the Discharge Water segment and the Fresh Water segment. The following table shows the combined historical revenue and expenses for these segments for the three most recent fiscal years.

Discharge and Fresh Water—Net Position—Port of Morrow

Performance Review	audited	audited	audited
FY Ending June 30th	2015	2016	2017
Beginning Net Position	8,340,889	10,826,133	14,030,119
Revenues			
Charges for Services	7,298,028	8,532,233	8,045,425
Other Operating Revenues	192,517	213,060	320,054
Operating Revenues	7,490,545	8,745,293	8,365,479
Other Non-Operating Revenues	30,342	(90,618)	31,371
Total Non-Operating Revenues	30,352	(90,618)	31,371
Total Revenues	7,520,887	8,654,675	8,396,850
Expenditures			
Personal Services	1,585,949	1,628,023	1,503,910
Materials & Services	2,240,598	2,698,463	2,606,341
Total Operating Expenses	3,826,547	4,326,486	4,110,261
Net Operating Income	3,663,998	4,418,807	4,255,228
Depreciation	986,669	1,053,920	1,062,373
Debt Service	222,427	208,836	199,653
Total Expenses	5,035,643	5,579,242	5,362,277
Net Revenues	2,485,244	3,075,433	3,034,573
Net Transfers/Adjustments/Nonop exp	0	128,553	(3,733,612)
Ending Net Position	10,826,133	14,030,119	13,331,080

During FYE 2017, the port started construction on the treatment plant funded by this award. During this period, the port requested major tenants to curtail water usage during construction. This accounts for the 6% decline in charges for services in FYE 2017 from the prior year. Despite the revenue reduction, net revenue declined a modest 1% in FYE 2017 from the prior year suggestive of prudent expense controls.

During FYE 2017, the port reclassified assets within the Enterprise Fund with a net overall result of \$0. The reclassification did, however, result in a negative \$2.5 million adjustment in the Discharge Water segment and the Fresh Water segments, largely accounting for the decline in ending net position.

Debt service analysis

Net Revenues for Debt Coverage: The following table reflects the Projected Net Revenues for the Applicant's Discharge 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.

PRO FORMA	Current FY	Projected				
Year (ending June 30th)	2018	2019	2020	2021	2022	2023
Beginning Fund Balance	10,826,133	11,224,378	13,790,767	14,273,968	14,804,697	15,384,380
Operating Revenues						
Water and Discharge Revenue	8,410,000	8,552,300	8,922,169	9,189,834	9,465,529	9,749,495
Water Co-Generation Fixed Fee	75,100	75,100	75,100	75,100	75,100	75,100
Discharge pre-treatment fee	396,690	396,690	396,690	396,690	396,690	396,690
Total Operating Revenues	8,881,790	9,134,090	9,393,959	9,661,624	9,937,319	10,221,285
Operating Expenses						
Personal Services	2,518,100	2,593,643	2,671,452	2,751,596	2,834,144	2,919,168
Materials & Services	2,544,750	2,621,093	2,699,725	2,780,717	2,864,139	2,950,063
Total Operating Expenses	5,062,850	5,124,736	4,371,178	5,532,313	5,698,282	5,869,231
Debt Service						
Funds Avail for Debt Coverage	3,818,940	3,919,354	4,022,781	4,129,311	4,239,037	4,352,054
Existing Loan 1	509,362	509,362	509,362	509,362	509,362	509,362
IFA Proposed Loan	0	388,500	1,003,500	1,003,500	1,003,500	1,003,500
Total Debt Service	509,362	897,862	1,512,862	1,512,862	1,512,862	1,512,862
Debt Service Coverage Ratio	7.50	4.37	2.66	2.73	2.80	2.88
Other Activities						
Cash Avail After Debt Service	3,309,578	3,021,492	2,509,919	2,616,449	2,726,175	2,839,192
Loan Proceeds/Drawdowns	11,362,375	5,122,584	0	0	0	0
Capital Outlay (OUT)	(14,217,859)	(5,550,000)	(2,000,000)	(2,060,000)	(2,121,800)	(2,185,454)
Other Non-operating Activity	31,371	32,312	33,281	34,280	35,308	36,368
Net Other Activity	(2,834,1130)	(395,104)	(1,966,719)	(2,025,720)	(2,086,492)	(2,149,086)
Net Transfers IN (OUT)	(77,220)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
Adjustments	0	0	0	0	0	0
Net Transfers & Adjustments	(77,220)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
Ending Net Position	11,224,378	13,790,767	14,273,978	14,804,697	15,384,380	16,014,486

Existing obligations and risks

The table below reflects the applicant's debt service requirements as of their last audit. Also incorporated in the table (indicated with an asterisk), is the September 28, 2017 issuance that occurred after the audit. The 2017 Series A was new money while 2017 Series B refunded 2013 taxable bonds and Series 2017 Series C refunded 2013 tax-exempt bonds. The outstanding amounts on the 2013 bonds and their debt service payments were adjusted to reflect data in the 2017 Offering Statement.

Industrial development bonds (no-commitment debt) are presented as a note towards the bottom of this document.

Summary of Outstanding Debt Obligations—Port of Morrow

Loan Source	June 30, 2017 Balance	Annual Debt Service	Payment Source	Maturity
Enterprise Port Revenue Bonds				
2011A Issue	\$2,630,904	\$589,313	Site Development	2021
2013A Issue*	\$4,870,000	\$780,304	Site Development	2025
2013 FFC Issue*	\$5,060,000	\$94,032	Discharge and Site	2032
2014 FFC Issue	\$7,245,00	\$592,850	Warehousing	2034
2016 FFC Issue	\$14,380,000	\$1,175,000	Net Revenue Warehouse	2037
2017 Series A FFC Issue*	\$10,935,000	\$565,291	Taxes, net revenues	2037
Enterprise Notes Payable				
Special Public Works #3 L97005	\$43,979	\$43,979	Site Development	2018
Special Public Works #4 B01005	\$924,495	\$66,506	Discharge	2022
Special Public Works #5 W03004	\$4337,451	\$68,300	Site Development	2025
Special Public Works #6 W03005	\$491,620	\$52,885	Site Development	2030
Special Public Works #7 L07003	\$1,650,213	\$139,459	E Beach Utility	2034
Special Public Works #8 X13003	\$4,539,828	\$286,521	Discharge	2040
Special Public Works #9 L16005	\$11,362,375	\$758,160	Discharge & Water	2042
Enhanced Capital A	\$3,131,000	\$34,504	Site Development	2040
Enhanced Capital B	\$709,000	\$7,813	Site Development	2040
Self-Supporting Debt	\$67,770,865	\$5,354,917		
Gross Bonded Debt	\$932,060,865	\$5,254,917		

Rated Public Debt

The port enjoys a Standard and Poor's 'A-' rating on the port's September 28, 2017, bond issuance;

- \$10.9 million Full Faith and Credit 2017 Series A (taxable),
- \$4.9 million Full Faith and Credit Refunding 2017 Series B (taxable), and
- \$5.1 million Full Faith and Credit Refunding 2017 Series C (tax-exempt)

The 'A-' rating is indicative the port has adequate capacity to meet its financial commitments. The refunding components of the 2017 issuance are indicative the port actively manages its debt portfolio, and should be viewed positively.

Note

The below table presents the Applicant’s Industrial Development Bonds (no-commitment debt). The Port of Morrow issues industrial development revenue bonds to finance construction of industrial facilities within the port District which it leases to industrial users by direct financing type leases. The bonds are not a liability or contingent liability of the Port of Morrow, or a lien on any of its properties or revenues other than the industrial facilities for which they were issued.

Port of Morrow

Loan Source	June 30, 2017, Balance
Industrial Development Bonds	
Idaho Power bond fund	\$4,360,000
PGE 1998A	\$23,600,000
Threemile Canyon farms 2001A	\$10,000,000
Threemile Canyon farms 2001A	\$10,000,000
Bonneville Power Administration	\$84,740,000
Bonneville Power Administration	\$193,075,000
Bonneville Power Administration	\$97,790,000
Kodiak Carbonic	\$4,685,000
Bonneville Power Administration	\$320,995,000
Bonneville Power Administration	\$115,085,000
Net IDB Bonds	\$864,290,000

Underwriting standards

The Applicant meets 13 of the 15 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Percentage of debt retired in 10 Yrs. [59.83% is not > 60% standard]
- Top 10 Ratepayers as % of Revenues (3-yr. avg.) [24.12% is not < 15% standard]

Aspects of Amended Financing Structure and conditions of Award

The SPWF amended loan will be structured in two phases. Until state revenue bonds are sold, an interim loan will be used for the first phase, Construction Phase, and will accrue interest on actual funds disbursed. All accrued interest during the construction phase (estimated to be approximately \$388,500), will be due prior to or with the first principal and interest payment. The interim loan interest rate will be set at 1.70%. Construction is scheduled for completion a period not to exceed 2.5 years.

An Oregon Bond Bank loan is recommended for the second phase, Repayment Phase, and will begin with constant annual payments of principal and interest sufficient to repay the outstanding principal balance, together with interest, within a 25-year period. The estimated first principal and interest payment due is December 1, 2019. The interest rate is estimated to be 3.46% for the repayment phase. The exact rate will be known when bonds are sold. The “Repayment Phase Loan Summary” table below, summarizes the repayment phase of the proposed financing.

Conditions of Award

All existing conditions of are still applicable.

- A. **General Fund 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 Loan Agreement and the Note. The Loan Agreement and the Note 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 and Wastewater System and Enterprise Fund to pay all of the obligations owed by the Recipient to the state under the **Loan Agreement and Note.**
- C. **Financial Covenants.** The Recipient shall charge rates and fees in connection with the operation of the Fresh Water and Discharge Wastewater 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%) of the annual debt service due in the fiscal year on the Loan, any outstanding senior lien obligations, and any outstanding Parity Obligations.
- D. **Easements/Farm Management Plan.** The Recipient will have all the easements and farm management plan in place prior to first draw.

Due to the size of this award, the outstanding Business Oregon loans to the port, and the anticipated concentration in the Bond Bank the port will occupy special conditions are merited. These conditions are identified below.

- 1. **Annual Debt Service Coverage Reporting** Not more than 90 days after each fiscal year end the Applicant shall provide certification the 1.20 debt service coverage for the most recently concluded fiscal year was satisfied and provide a projection of the debt service coverage for the current budget year.
- 2. **Public Debt Ratings** The Applicant shall report to Business Oregon within five working days after any change in rating by a ratings agency or a withdrawal of a rating by a ratings agency.

Funding Recommendation

Item	Amount Awarded	Amount Requested by Amendment*	Total Amended Award
Loan; bond, tax-exempt	\$12,618,567	\$4,000,000	\$16,618,567
Grant	\$0	\$0	\$0
Total Business Oregon Funds	\$12,618,567	\$4,000,000	\$16,618,567
Other Funds—Port Equity	\$0	\$0	\$3,119,152
Total Project Cost	\$0	\$0	\$19,737,719

*Complete this column if the amendment will increase or decrease the approved award.

Instructions

1. Substitute prior Business Oregon Contract and Loan agreements issued under initial award that specified internal funding.
2. Issue new Interim Bond Bank Financing Contract and Loan agreements.
3. Retroactively credit Applicant’s account for difference in rate between the initial contract and the interim rate.

List of Attachments

1. Previous Award Staff Recommendation
2. 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>
Budget recommends that this award come from: Bond Bank	

<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.

 X 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