

# MEMORANDUM

July 2, 2018

**TO:** Chris Cummings, Assistant Director, Economic Development

**THRU:** Ed Tabor, Programs & Incentives Manager

**FROM:** Carolyn Meece, Regional Development Officer

Dennis Knight, Finance Officer

**SUBJ:** Funding Opportunity of \$1,100,000– Water/Wastewater Financing Program for City of Cascade Locks, Wastewater System Improvement, No. 138-13242

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

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### Applicant:

The city of Cascade Locks is located on the western edge of Hood River County, approximately one hour east of Portland along Interstate 84.

### Cascade Locks: Wastewater System Improvements, 138-13242



**Funding Request:**

Loan & grant

**Project Type:**

Planning (technical)

Design

Construction

**Project Background:**

The Wastewater Facilities Plan (Plan) has been developed to provide the city of Cascade Locks with a plan to address deficiencies in the wastewater treatment facility and the collection system and to comply with the National Pollutant Discharge Elimination System (NPDES) permit. The city's main lift station is in need of upgrading. The solution is to repair and rehabilitate the identified collection system deficiencies. The current system is approximately 19 years old. Components of the 1998 facility are near the expected 20-year life span and need replacing. With advancements in technologies, (synthetic lubrication for example) as well as installation of enhanced monitoring and control systems, it is anticipated that the life span will extend to 30 years. The city has had issues in the past and continues to have problems with maintaining consistent compliance with the NPDES Permit. Without making identified improvements to the current system, the city will likely continue to violate the conditions of the NPDES Permit. The recommended improvements will allow consistent compliance with the conditions of the NPDES Permit. Total project cost is \$5,349,850; USDA Rural Development will be covering the bulk of the expense of this project. Business Oregon will provide \$1,100,000 of the total cost.

**Project Description:**

As part of the Wastewater Facilities Plan, completing the necessary collections improvements and upgrades to the main lift station are high priority recommendations. Wastewater Treatment facility improvements include addition of grit removal system at the existing headworks, upgrades to the existing sequencing batch reactor activated sludge system (aeration, mixing and decanting), repair of the effluent flow control system, replacement of the ultraviolet light disinfection system, addition of a pH adjustment system, adding a sludge thickening system to better manage the residual solids, and upgrades to the electrical, controls and instrumentation.

**Work Plan:**

Final design, environmental review, and agency approval is expected to be completed by the end of November 2019. The city will go out to bid and award project in early 2020 with construction expected to be completed at the end of the Summer 2020; Water/Wastewater funds will pay for final engineering and early construction efforts, even though the total project is not expected to be completed until 2022.

### **Public Involvement Statement:**

At the August 28, 2017, Cascade Locks City Council meeting, the Council took action to adopt the Plan and during that same meeting, the Council selected to pursue funding to complete all of the recommended improvements identified in the Plan.

### **Findings and Analysis**

This project helps implement the following goals and objectives of the Water/Wastewater Financing Program (WWFP) as well as Agency and Regional Goals and Priorities:

- Program goals:  
Water/Wastewater Financing Program: to provide funding to municipalities to assist in complying with the Clean Water and Safe Drinking Water acts (OAR 123-043-0035 (1)).
- Business Oregon Strategic Imperatives:  
Invest in rural communities to enable economic prosperity.
- Regional Priorities:  
This project falls within the North Central Regional Solutions territory. This region has listed a focus on infrastructure as a regional priority.

### **Program Findings & Compliance**

1. Applicant eligibility: The city is a municipal entity and meets the requirement of an eligible applicant as defined in Oregon Administrative Rule (OAR 123-043-0035 (1)) for the Water/Wastewater Financing Program.
2. Project compliance: On June 27, 2013, the city entered into a Mutual Agreement and Order # WQ/M-ER-13-163 Hood River County, from Department of Environmental Quality (DEQ).
3. Project priority is high. The city must comply with the MOU entered into along with DEQ.
4. Program suggestions: Site visit monitoring for construction projects.
5. 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 Sewer Fund for the last three audited fiscal years ending June 30, 2017.

<b>Sewer Fund</b>			
<b>City of Cascade Locks</b>			
<b>Performance Review</b>	<b>audited</b>	<b>audited</b>	<b>audited</b>
<b>FY Ending June 30th</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Beginning Fund Balance	174,237	191,250	192,357
<b><i>Revenues</i></b>			
Charges for Services	358,461	375,235	388,554
Other Operating Revenues	0	0	0
<b>Operating Revenues</b>	<b>358,461</b>	<b>375,235</b>	<b>388,554</b>
Interest and Miscellaneous	11,558	31,448	60,897
<b>Total Non-Operating Revenues</b>	<b>11,558</b>	<b>31,448</b>	<b>60,897</b>
<b>Total Revenues</b>	<b>370,019</b>	<b>406,683</b>	<b>449,451</b>
<b><i>Expenditures</i></b>			
Personal Services	32,181	35,190	39,260
Materials & Services	172,620	209,175	212,119
<b>Total Operating Expenses</b>	<b>204,801</b>	<b>244,365</b>	<b>251,379</b>
<b>Net Operating Income</b>	<b>153,660</b>	<b>130,870</b>	<b>137,175</b>
Capital Outlay	2,572	3,500	4,735
Debt Service	77,710	77,711	77,711
Total Expenses	285,083	325,576	333,825
<b>Net Revenues</b>	<b>84,936</b>	<b>81,107</b>	<b>115,626</b>
Net Transfers/Adjustments	(67,923)	(80,000)	(100,287)
<b>Ending Fund Balance</b>	<b>191,250</b>	<b>192,357</b>	<b>207,696</b>

Revenues experienced a healthy growth over the three years that were reviewed and while expenses also increased, the overall net revenues remained strong. The sewer fund appears to be well managed. A substantial portion of the transfers goes to the Capital Reserve 08 Fund, which accumulates funds for fixed asset additions.

## General Fund Summary

The following table shows a performance review of the Applicant's General Fund for the last four audited fiscal years ending June 30, 2017.

<b>General Fund</b>				
<b>City of Cascade Locks</b>				
<b>Performance Review</b>	<b>audited</b>	<b>audited</b>	<b>audited</b>	<b>audited</b>
<b>FY Ending June 30th</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Beginning Fund Balance	86,300	111,926	192,600	252,680
<b><i>Revenues</i></b>				
Property Taxes	196,225	209,978	222,179	218,263
Other Operating Revenues	196,731	169,574	306,335	323,894
<b>Operating Revenues</b>	<b>392,956</b>	<b>379,552</b>	<b>528,514</b>	<b>542,157</b>
Interest and Miscellaneous	119,947	4,069	9,832	4,704
Intergovernmental	32,432	32,362	32,056	34,469
<b>Total Non-Operating Revenues</b>	<b>152,379</b>	<b>36,431</b>	<b>41,888</b>	<b>39,173</b>
<b>Total Revenues</b>	<b>545,335</b>	<b>415,983</b>	<b>570,402</b>	<b>581,330</b>
<b><i>Expenditures</i></b>				
Personal Services	168,866	173,328	208,972	216,749
Materials & Services	144,735	130,020	132,798	141,315
<b>Total Operating Expenses</b>	<b>313,601</b>	<b>303,348</b>	<b>341,770</b>	<b>358,064</b>
<b>Net Operating Income</b>	<b>231,734</b>	<b>76,204</b>	<b>186,744</b>	<b>184,093</b>
Capital Outlay	0	623	0	1,324
Debt Service	0	0	0	0
Total Expenses	313,601	303,971	341,770	359,388
<b>Net Revenues</b>	<b>231,734</b>	<b>112,012</b>	<b>228,632</b>	<b>221,942</b>
Net Transfers/Adjustments	(206,108)	(31,338)	(168,552)	(200,923)
<b>Ending Fund Balance</b>	<b>111,926</b>	<b>192,600</b>	<b>252,680</b>	<b>273,699</b>

The General Fund also appears to be well managed with a positive net revenue in each of the three years reviewed.

### Debt service analysis

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

<b>Summary of Revenues, Expenditures, and Debt Service Coverage</b>						
<b>City of Cascade Locks</b>						
<b>PRO FORMA</b>	<b>Current FY</b>	<b>Projected</b>				
<b>Year (ending June 30th)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Beginning Fund Balance	207,696	175,775	190,834	203,220	219,467	280,471
<b>Operating Revenues</b>						
Water Sales	400,000	442,800	456,000	469,700	546,045	562,066
User fees	20,000	20,000	20,000	20,000	20,000	20,000
<b>Total Operating Revenues</b>	<b>420,000</b>	<b>462,800</b>	<b>476,000</b>	<b>489,700</b>	<b>566,045</b>	<b>582,066</b>
<b>Operating Expenses</b>						
Personal Services	38,930	40,975	43,152	45,471	47,943	50,340
Materials & Services	222,280	229,055	242,750	250,271	258,087	267,120
<b>Total Operating Expenses</b>	<b>261,210</b>	<b>270,030</b>	<b>285,902</b>	<b>295,742</b>	<b>306,030</b>	<b>317,460</b>
<b>Debt Service</b>						
<b>Funds Avail for Debt Coverage</b>	<b>158,790</b>	<b>192,770</b>	<b>190,098</b>	<b>193,958</b>	<b>260,015</b>	<b>264,606</b>
Revenue Bonds	77,711	77,711	77,711	77,711	77,711	77,711
USDA Proposed Loan	0	0	0	0	0	115,600
IFA Proposed Loan	0		0	0	11,900	21,300
<b>Total Debt Service</b>	<b>77,711</b>	<b>77,711</b>	<b>77,711</b>	<b>77,711</b>	<b>89,611</b>	<b>214,611</b>
<b>Debt Service Coverage Ratio</b>	<b>2.04</b>	<b>2.48</b>	<b>2.45</b>	<b>2.50</b>	<b>2.63</b>	<b>1.23</b>
<b>Other Activities</b>						
<b>Cash Avail After Debt Service</b>	<b>81,079</b>	<b>115,059</b>	<b>112,387</b>	<b>116,247</b>	<b>161,004</b>	<b>49,995</b>
Loan Proceeds / Drawdowns	0	500,000	500,000	3,000,000	1,200,000	0
Capital Outlay (OUT)	(13,000)	(500,000)	(500,000)	(3,000,000)	(1,200,000)	0
Other Non-Operating Activity	0	0	0	0	0	0
<b>Net Other Activity</b>	<b>(13,000)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net Transfers IN (OUT)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Adjustments	0	0	0	0	0	0
Net Transfers & Adjustments	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
<b>Ending Fund Balance</b>	<b>175,775</b>	<b>190,834</b>	<b>203,220</b>	<b>219,467</b>	<b>280,471</b>	<b>230,466</b>
<b>Avg. Rev's per EDU (calc)</b>	<b>\$54.64</b>	<b>\$60.00</b>	<b>\$61.19</b>	<b>\$62.43</b>	<b>\$72.00</b>	<b>\$73.42</b>
<b>Rate per EDU (app)</b>	<b>\$45.40</b>	<b>\$60.00</b>	<b>\$60.00</b>	<b>\$60.00</b>	<b>\$70.00</b>	<b>\$70.00</b>
<b>EDU's (app)</b>	<b>610</b>	<b>615</b>	<b>621</b>	<b>627</b>	<b>632</b>	<b>638</b>
<b>Connections (app)</b>	<b>443</b>	<b>447</b>	<b>451</b>	<b>455</b>	<b>459</b>	<b>463</b>

### 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 Cascade Locks					
Loan Source	June 30, 2017 Balance	Annual Debt Service	Payment Source	Full Faith & Credit Pledge Y/N	Maturity
<b>Net Direct Debt</b>					
Digger Derrick - 2016 Lease	\$41,396	\$18,145	General Fund	N	2020
<i>Net Direct Debt</i>	<b>\$41,396</b>	<b>\$18,145</b>			
<b>Self-Supporting Debt</b>					
Sewer Revenue Bonds	\$598,155	\$77,711	Sewer Fund	N	2032
<i>Self-Supporting Debt</i>	<b>\$598,155</b>	<b>\$77,711</b>			
<b>Gross Bonded Debt</b>	<b>\$639,551</b>	<b>\$95,856</b>			

The lease is secured by equipment. The Revenue Bond will be in a superior position to OBDD.

### Underwriting standards

The Applicant meets 18 of the 20 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Number of Connections. [443 is not > 1,500 standard]
- Top 10 Taxpayers as % of Total Tax Collections. [16.79% is not < 15% standard]

**Applicant’s bond rating:** The city does not have a current bond rating as of this date.

Financial statement of program WWFP as of July 1, 2018

1. Available funds \$14,613,151
2. Remaining balance, if the project is approved, is \$13,513,151
3. All existing Business Oregon loans paid as agreed.
4. Present Value of the subsidized rate (1.0%) vs. the Oregon Short Term Fund (2.10%) is \$79,197.

## Project Repayment Phase Loan Summary

Payment rounded to nearest \$100.

Type	Award Amount	Grant Amount	Total Loan Amount	Interest Rate	Amortized [in years]	Est. Annual Payment*
WWFP	\$1,100,000	\$550,000	\$550,000	1.0%	30	\$21,300
Total	\$1,100,000	\$550,000	\$550,000			\$21,300

## Funding Budget Recommendation

Budget Line Items	WWFP	USDA-RD	Totals
Design / Engineering	\$550,000	\$311,000	\$861,000
Construction	\$550,000	\$3,307,850	\$2,857,850
Construction Contingency	\$0	\$386,000	\$386,000
Legal Fees/Services	\$0	\$25,000	\$25,000
Environmental Review	\$0	\$35,000	\$35,000
American Iron and Steel Certification	\$0	\$10,000	\$10,000
Bond Counsel (bond authority and related costs)	\$0	\$20,000	\$20,000
Archeological Report	\$0	\$20,000	\$20,000
Cultural Resource Report(s) and Monitoring	\$0	\$35,000	\$35,000
Permit and Regulatory Fees	\$0	\$15,000	\$15,000
Funding Acquisition	\$0	\$30,000	\$30,000
Total	\$1,100,000	\$4,249,850	\$5,349,850

## Proposed Work Plan

Activity	Date
Environmental Review complete, including public notice ( <i>SDWRLF design/construction projects</i> )	November 2019
Procure Engineer, Labor Standards Compliance Specialist, et cetera ( <i>depending on capacity, include or not</i> )	November 2019
Final Design Complete, including OHA/DEQ approval of plans	November 2019
Construction 50%	Spring 2020
Construction Complete	Summer 2020
Project Closeout	Fall 2022

## Business Oregon Funds

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

Source	Amount
WWFP—Loan, Public, Tax Exempt	\$550,000
WWFP – Grant	\$550,000
Total	\$1,100,000

## Other Funds

Source	Amount
USDA Rural Development	\$4,249.850.00
Total	\$4,249.850.00

## Staff's Recommendation

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

To determine a sewer system's Disadvantaged Community status under the WWFP, the IFA compares the Affordability Rate (AR) of the community to the average monthly sewer rate per Equivalent Dwelling Unit (EDU) and must be below the State MHI average. For grants, they must exceed the AR by 115% and be below the State MHI.

Based on 2016 American Community Survey data, the MHI for city of Cascade Locks was \$32,443 (60.9% of Statewide MHI) indicating an indexed (1.25%) affordability rate of \$33.79 per Equivalent Dwelling Unit (EDU) per month. The city's current sewer user charge for a 7,500-gallon water use is \$45.40 and it is project to be at approximately \$70.00 at project completion, which will be well above the indicated affordability rate. Because the city is classified as disadvantaged we are recommending a grant of \$550,000 and a loan of \$550,000 at a subsidized rate of 1.0% for a term of 30 years. The improvements being financed have an estimated useful life in excess of 30 years.

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 October 1, 2018. All accrued interest during the construction phase (estimated to be \$11,900) 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 November 2022.

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, 2022. 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 Wastewater 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 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%) 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. Additional Award.** This award is conditional upon the Recipient receiving an award from USDA Rural Development in the amount of \$4,249,850 which must be received prior to any disbursements. Recipient shall provide copy of award letter as evidence of award.

### **Instructions**

Not Applicable

### **List of Attachments**

Financial Summary