

# MEMORANDUM

July 2, 2018

**TO:** Chris Cummings, Assistant Director, Economic Development  
**THRU:** Ed Tabor, Programs & Incentives Manager  
**FROM:** Michelle Bilberry, Regional Project Manager  
 Janna Graham, Finance Officer  
**SUBJ:** Funding Opportunity of \$5,530,000—Safe Drinking Water Revolving Loan Fund Program for City of Coburg, Water System Improvements, No. 142-13313, SD 16-49

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 Coburg is a historic small town in Lane County located along I-5 a few miles north of the Eugene-Springfield area; the city is considered rural and distressed according to Business Oregon data.

**Funding Request:** Loan & Principal Forgiveness

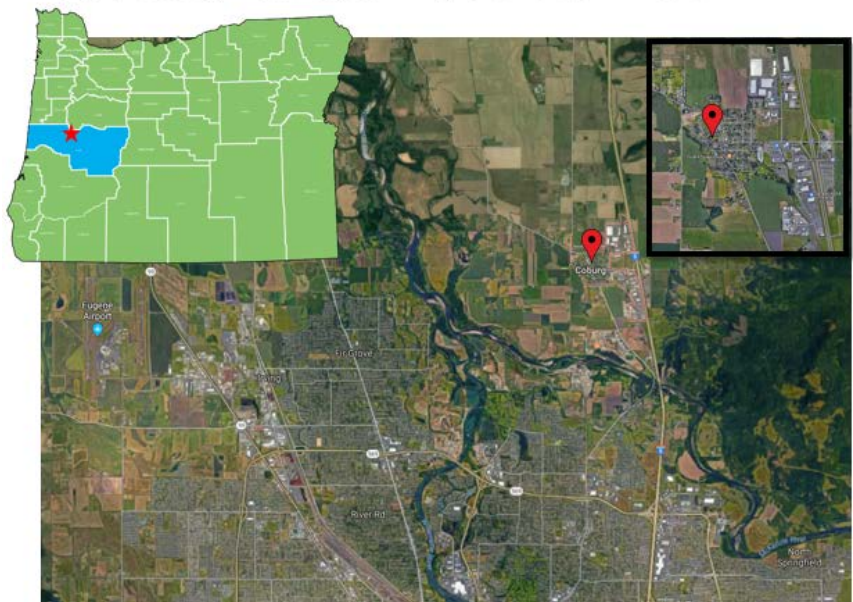
**Project Type:**

- Planning (technical)
- Design
- Construction

**Project Background:**

The city of Coburg’s current population is 1,200, due to its close proximity to the Eugene/Springfield metro area and the recent UGB expansion of 106 acres of property on the east side Interstate 5, projections estimate the city population doubling by 2025 and possibly reaching 4,000 by 2035 (Coburg Water Master Plan 2016). Adequate water capacity is needed to serve the expected population and industrial/employment growth.

City of Coburg: Water System Improvements, 142-13313



The city of Coburg's jurisdiction is situated on both the east and west side of Interstate 5. The east side is currently served by a privately operated non-community water system that has taste and odor issues as well as a history of Coliform bacteria contamination; the west side is served by two municipal wells which are extremely close together, have elevated nitrate levels and lack redundancy; these two wells are the city's sole source for water.

The 2016 Coburg Water System Master Plan (WMP) identifies the establishment of a third well as a system priority; the WMP also identifies the following activities as high priority and will be included as part of this project:

Source: drilling and development of Well #3 to be located on Roberts Road site including the purchase of 2 acres of property; replacement of pump control valves and installation of a surge anticipator valve at Well #1; well rehabilitation and maintenance at Wells #1 and #2.

Pump Station: construction of a pump station at Well #3, installation of pump control valves at Wells #1 and #2; the pump station at Well #3 will reduce the need for the semi-continuous pumping of Wells #1 and #2 and similar usage of the booster pump located at the site of the existing 0.5 MG reservoir tanks, reducing energy usage by the city.

Transmission: Bore under I-5 and install a 12" transmission line that will connect the city land east of I-5 and the new 0.75 MG reservoir storage tank with Well #3 and the existing (west of I-5) water infrastructure.

Distribution: Temporary removal of 6" and 12" AC pipe from the existing distribution to perform burst and crush test to determine the condition of the distribution system; installation of new distribution lines connecting unserved city properties.

Storage: An elevated 0.75 MG reservoir and reservoir transmission main will be constructed on the east side of I-5; this storage will be connected to the new Well #3 and the existing water infrastructure on the west side of I-5. The additional storage capacity is necessary due to the current 400,000-gallon storage deficit and a growing population that will further increase daily demands; the additional storage will also increase the amount of emergency supply and fire storage capacity for the city.

### **Project Description:**

The Recipient will complete the water system improvements as outlined in the "City of Coburg Water Master Plan Update, dated 2016, prepared by 4B Engineering and Consulting," proposed improvements include drilling and development of an additional well; rehabilitation of the 2 existing wells; construction of a pump station at the new well; installation of a transmission line connecting the areas on the east and west side of I-5; installation/replacement of water distribution lines; and a 750,000 gallon reservoir.

## **Work Plan**

The project is a multi-year design and construction project expected to be complete in December 2021, the anticipated dates are provided in the proposed work plan table.

## **Public Involvement Statement:**

The proposed water system improvements have been discussed at multiple city council meetings, and the city passed Resolution #2018-06 on April 10, 2018 identifying the expansion of water infrastructure as a priority and authorizing the submittal of applications for funding.

## **Findings and Analysis**

This project helps implement the following goals and objectives of the 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.

## **Program Findings & Compliance**

1. Applicant eligibility: As referenced in OAR 123-049-0020, all community water systems and nonprofit non-community water systems are eligible to apply for financing except for those determined to be ineligible by the department because of prior nonperformance.
2. Project priority is high. The Oregon Health Authority awarded the project 43 points during the rating and ranking process and the project is #11 on the most recent Project Priority List. Extending city services to the east side of I-5 will provide clean drinking water for property owners within the Coburg city limits that are currently on private wells with contamination problems and ensure clean drinking water for current and future residents of the city.
3. Program suggestions and/or monitoring: standard construction on-site monitoring procedure for the 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 Fund for the last three audited fiscal years ending June 30, 2017.

### City of Coburg Water Fund

<b>Performance Review</b>	<b>audited</b>	<b>audited</b>	<b>audited</b>
FY Ending June 30th	2015	2016	2017
Beginning Fund Balance	198,208	332,684	580,125
<b>Revenues</b>			
Charges for Services	662,252	755,978	808,169
Other Operating Revenues	0	0	0
Operating Revenues	662,252	755,978	808,169
Interest and Miscellaneous	38,194	8,889	36,369
Other Non-Operating Revenues	0	0	0
Total Non-Operating Revenues	38,194	8,889	36,369
Total Revenues	700,446	764,867	844,538
<b>Expenditures</b>			
Personal Services	59,988	0	0
Materials & Services	90,884	89,314	113,734
Total Operating Expenses	150,872	89,314	113,734
Net Operating Income	511,380	666,664	694,435
Capital Outlay	15,000	19,961	0
Debt Service	220,832	224,807	219,290
Total Expenses	386,704	334,082	333,024
Net Revenues	313,742	430,785	511,514
Net Transfers/Adjustments	(179,266)	(183,344)	(200,343)
<b>Ending Fund Balance</b>	<b>332,684</b>	<b>580,125</b>	<b>891,296</b>

Revenues have steadily risen, primarily due to an increased number of users, both residential and industrial, and has resulted in a growing Ending Fund Balance. Transfers out are primarily to the General Fund for administrative costs, including Personal Services. Beginning in 2016 Personal Services is fully paid via transfer to the General Fund.

## 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.

### City of Coburg General Fund

<b>Performance Review</b>	<b>audited</b>	<b>audited</b>	<b>audited</b>
FY Ending June 30th	2015	2016	2017
Beginning Fund Balance	(514,274)	(365,925)	392,360
<b>Revenues</b>			
Property Taxes	459,974	583,595	616,871
Other Operating Revenues	413,057	428,494	600,332
Operating Revenues	873,031	1,012,089	1,217,203
Interest and Miscellaneous	37,286	30,351	19,385
Other Non-Operating Revenues	64,952	72,360	99,826
Total Non-Operating Revenues	102,238	102,711	119,211
Total Revenues	975,269	1,114,800	1,336,414
<b>Expenditures</b>			
Personal Services	849,924	752,330	886,281
Materials & Services	429,443	645,713	778,259
Total Operating Expenses	1,279,367	1,398,043	1,664,540
Net Operating Income	(406,336)	(385,954)	(447,337)
Capital Outlay	13,424	37,840	41,479
Debt Service	0	41,546	41,546
Total Expenses	1,292,791	1,477,429	1,747,565
Net Revenues	(317,522)	(362,629)	(411,151)
Net Transfers/Adjustments	465,871	1,120,914	515,397
<b>Ending Fund Balance</b>	<b>(365,925)</b>	<b>392,360</b>	<b>496,606</b>

The General Fund was operating in the negative due to the Water, Sewer and Street fund not paying their portion of administrative costs incurred to the General Fund. The city did a look back between 2008 and 2014 to calculate the amount that was due to the General Fund. Those amounts were available in full, in the three funds, and then transferred to the General Fund in 2016, to correct accounting/bookkeeping practices. This is now an annual ongoing method and as demonstrated above, the corrective actions are resulting in a positive and growing Ending Fund Balance.

## 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.

**City of Coburg Summary of Revenues, Expenditures, and Debt Service Coverage**

PRO FORMA	Current					
	FY	Projected				
Year (ending June 30th)	2018	2019	2020	2021	2022	2023
Beginning Fund Balance	891,296	652,371	538,290	524,705	1,018,404	1,358,931
Operating Revenues						
Charges for Service	860,000	896,000	931,840	969,114	1,007,878	1,048,113
Total Operating Revenues	860,000	896,000	931,840	969,114	1,007,878	1,048,113
Operating Expenses						
Personal Services	82,879	91,838	157,091	116,574	121,237	126,087
Materials & Services	103,268	127,718	119,318	111,963	153,684	141,274
Total Operating Expenses	186,147	219,556	276,409	228,537	274,921	267,361
Debt Service						
Funds Avail for Debt Coverage	673,853	676,444	655,431	740,577	732,957	780,752
Existing Loan IFA B01003	98,772	98,772	98,772	98,772	98,772	98,772
Existing Loan IFA G01001	89,924	89,924	89,924	89,924	89,924	89,924
IFA Proposed Loan	0	0	0	55,400	184,100	184,100
Total Debt Service	188,696	188,696	188,696	244,096	372,796	372,796
Debt Service Coverage Ratio	3.57	3.58	3.47	3.03	1.97	2.09
Other Activities						
Cash Avail After Debt Service	485,157	487,748	466,735	496,481	360,161	407,956
Loan Proceeds / Drawdowns		875,000	1,500,000	1,500,000	1,000,000	125,000
Capital Outlay (OUT)	(680,000)	(1,025,000)	(1,500,000)	(1,500,000)	(1,000,000)	(125,000)
Net Other Activity	(680,000)	(525,000)	(200,000)	100,000	100,000	375,000
Net Transfers IN (OUT)	(258,070)	(404,815)	(416,959)	(429,468)	(442,352)	(455,623)
SDC Fees	281,023	332,318	139,762	332,328	324,422	356,810
Net Transfers & Adjustments	22,953	(72,497)	(277,197)	(97,140)	(117,930)	(98,813)
Ending Fund Balance	719,406	609,657	599,195	1,098,536	1,440,767	2,124,910
*Avg. Rev's per EDU (calc)	\$102.53	\$97.99	\$96.34	\$96.03	\$95.88	\$95.88
*Rate per EDU (app)	\$63.65	\$63.65	\$63.65	\$63.65	\$63.65	\$63.65
EDU's (app)	699	762	806	841	876	911
Connections (app)	500	535	595	605	625	650

\*The Calculated Average Revenues per EDU Rate, is higher than the Rate per EDU primarily due to the number of commercial users.

Note: To reflect an accurate DCR, Personal Services are demonstrated in the more traditional area of the proforma vs. grouped in with transfers which is how they are actually paid.

The increased Personal Services in 2020 stem from an anticipated additional FTE. This FTE will spend the majority of time in water the first year, but will be utilized in water and other areas the next few years. Materials & Services fluctuate based on anticipated short-term asset/equipment replacements. SDC's vary over the term of the proforma based on a number of known and expected developments.

The city does not currently plan to raise user rates to accommodate this loan payment, due to the following factors:

- Development/growth over the next 5 years (more customers paying in)
- IFA loan B01003 pays off in 2023, coupled with an anticipated increasing fund balance starting in 2021 could assist debt service until 2023, when the loan pays off

### Existing obligations and risks

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

#### City of Coburg Summary of of Outstanding Debt Obligations

Loan Source	June 30, 2017 Balance	Annual Debt Service	Payment Source/Pledged	Full Faith & Credit Pledged? Y/N	Maturity
<b>Net Direct Debt</b>					
Summit Bank Mortgage City Hall	\$623,357	\$41,549	General Fund/DOT	N	2024
Net Direct Debt	\$623,357	\$41,549			
<b>Self-Supporting Debt</b>					
City of Coburg Water Rev Bond 1999	\$55,000	\$27,860	Water Fund	Pd. as of 6/2018	2019
DEQ R23041	\$730,723	\$59,892	Sewer Fund/URA	N	2035
DEQ R23042	\$8,478,273	\$659,035	Sewer Fund/URA	N	2035
DEQ R23044	\$1,298,268	\$88,083	Sewer Fund/URA	N	2036
USDA Revenue Bond 39009	\$2,931,785	\$145,980	Sewer/URA/LID/SDC	N	2055
USDA Revenue Bond 39010	\$2,931,785	\$145,980	Sewer/URA/LID/SDC	N	2055
IFA B01003	\$483,692	\$98,772	Water Fund	Y	2023
IFA G01001	\$640,774	\$89,924	Water Fund	Y	2026
Self-Supporting Debt	\$17,550,300	\$1,315,526			
<b>Gross Bonded Debt</b>	<b>\$18,173,657</b>	<b>\$1,357,075</b>			

Currently, the only debt with water revenues pledged are also Business Oregon loans and would be on parity with this loan. They are also the only debt currently with a full faith and credit pledge.



## Underwriting standards

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

- Percentage of Debt Retired in 10 Yrs [43.94% is not >60% standard]
- Number of Connection [535 is not >1,500 standard]
- Revenue Debt Per Capita (mry) [\$1,087 is not <\$650 standard]
- Top 10 Taxpayers as % of Total Tax Collections [37.37% is not <15% standard]
- Top 10 Ratepayers as % of Revenues (mry) [15.89% is not <15% standard]

**Applicant's bond rating:** The city does not currently have a bond rating.

Financial statement of program SDWRLF, as of July 1, 2018

1. Available funds \$28,939,655
2. Remaining balance, if the project is approved, is \$23,409,655, remaining fund balance if both Coburg and North Plains are approved, is \$17,879,655.
3. All existing Business Oregon loans paid as agreed.
4. Present Value of the subsidized rate (1%) vs. the Oregon Short Term Fund (2.10%) is \$683,974.

### Project Repayment Phase Loan Summary

Type	Award Amount	Forgivable Loan Amount	Total Loan Amount	Interest Rate*	Amortized [in years]	Est. Annual Payment*
SDWRLF	\$5,530,000	\$780,000	\$4,750,000	1.00%	30	\$184,100
<b>Total</b>	<b>\$5,530,000</b>	<b>\$780,000</b>	<b>\$4,750,000</b>			<b>\$184,100</b>

\*Rate is Business Oregon Disadvantaged Direct Loan rate for current quarter. Payment rounded to nearest \$100.

## Funding Recommendation

Budget Line Items	SDWRLF	City of Coburg	Totals
Planning	\$0	\$120,000	\$120,000
Design / Engineering	\$450,000	\$300,000	\$750,000
Construction	\$4,280,000	\$200,000	\$4,480,000
Construction Contingency	\$320,000	\$80,000	\$400,000
Labor Standards	\$15,000	\$0	\$15,000
Project Management	\$15,000	\$0	\$15,000
Land Acquisition	\$450,000	\$100,000	\$550,000
Administration, Legal, Survey	\$0	\$200,000	\$200,000
<b>Total</b>	<b>\$5,530,000</b>	<b>\$1,000,000</b>	<b>\$6,530,000</b>

## Proposed Work Plan

Activity	Date
Procure Engineer, Labor Standards Compliance Specialist, and Project Manager	September 2018
Environmental Review complete, including public notice	January 2019
Final Design Complete, including OHA approval of plans	September 2019
Construction 50% Complete	March 2021
Construction Complete	September 2021
Project Closeout	December 2021

Source of Business Oregon Funds	Amount
Safe Drinking Water Revolving Loan Fund—Loan, Non Bond, Public, Tax Exempt	\$4,750,000
Safe Drinking Water Revolving Loan Fund—Forgivable Loan, Tax Exempt	\$750,000
Safe Drinking Water Revolving Loan Fund—Forgivable Loan—Labor Standards	\$15,000
Safe Drinking Water Revolving Loan Fund—Forgivable Loan—Project Management	\$15,000
<b>Total</b>	<b>\$5,530,000</b>

Source of Other Funds	Amount
City of Coburg	\$1,000,000
<b>Total</b>	<b>\$1,000,000</b>

## Staff's 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 \$53,270.
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 Coburg qualifies as a Disadvantaged Community due to the following.

1. The Median Household Income is based on the 2016 American Community Survey data. The city of Coburg's MHI is \$51,394; and,
2. The community's Affordability Rate (\$51,394 X 1.25% / 12, equaling the Affordability Rate of \$53.54). The estimated water rate at project completion is \$63.65.

Financing is awarded in the amount of \$5,500,000 plus \$30,000, which is to be distributed as follows:

- \$4,750,000 SDWRLF Loan; 30 year term at a 1.00% interest rate.
- \$780,000 SDWRLF Forgivable Loan.
  - \$250,000—All eligible projects up to 10% 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—All eligible Project Management costs, not to exceed \$15,000, additionally
  - \$15,000—All eligible Labor Standards Compliance costs, not to exceed \$15,000

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 August, 2018. All accrued interest during the construction phase (estimated to be \$55,400 will be due prior to or with the first principal and interest payment. The interest rate will be set at 1.00% for this phase. Construction is scheduled for completion by December, 2021.

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, 2022. The loan can be prepaid in part or in full without penalty. The interest rate will be set at 1% 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 will be subject to the standard utility loan contract which will include but not be limited 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 \$53.54 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 Ninety Nine/100ths percent (2.99%) 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. Project Special Conditions.** Oregon Health Authority (OHA) completed the Technical and Managerial Capacity assessment of the water system and notified Business Oregon on 6/12/18 of the following loan condition: "quantify leakage;" a subsequent email with James MacPherson, OHA Region 2 Plan Review Coordinator, defines this as the city entering into an MOU with the Fire Department (with a condition to record volume of water used which will allow the Public Works Department to track usage and monitor system wide leakage).

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 resulting special condition is included above.

Instructions: N/A

List of Attachments  
Financial Summary