

# MEMORANDUM

June 21, 2018

**TO:** Chris Cummings, Assistant Director, Economic Development  
**THRU:** Ed Tabor, Programs & Incentives Manager  
**FROM:** Becky Bryant, Regional Project Manager  
 Rich Rodriguez, Finance Officer  
**SUBJ:** Funding Opportunity of \$5,530,000—Safe Drinking Water Revolving Loan Fund Program for City of North Plains, Reservoir & Pump Station Improvements, Portfol Client-Deal # 217-13320

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.

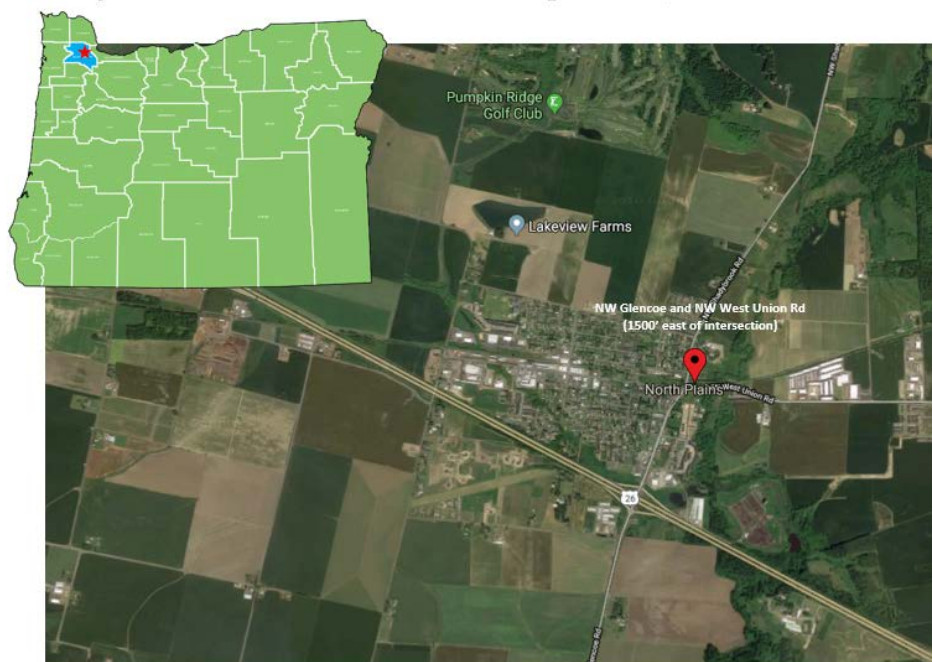
## Background

**Applicant:** The city of North Plains is located in Washington County. The city has a 2017 Certified Population Estimate of 2,980. The city of North Plains is considered Urban and non-distressed.

**Funding Request:**  
 Loan & Principal  
 Forgiveness

**Project Type:**  
 Planning (technical)  
 Design  
 Construction

City of North Plains: Reservoir & Pump Station, 217-13320



## **Project Background**

The city of North Plains storage capacity is limited due to substantial growth within the last few years. The current wholesale water agreement with the Joint Water Commission (JWC) requires the city to maintain a three day supply at all times. The current storage is meeting the agreement requirements at this time, but the city will be in violation with construction of approximately 700 homes in the near future.

The construction of a new two million gallon pre-stressed concrete reservoir and pump station and implementation of a new Supervisory Control and Data Acquisition (SCADA) control system will provide for water storage needs through the 25 year Master Plan period, based upon the JWC agreement for required water storage.

## **Project Description:**

The Recipient will design and construct a 2 Million-Gallon reservoir, with approximate dimensions of 110-foot diameter and 30 foot water depth. An on-site 1200 gpm capacity pump station will be installed that contains standby power generation. The City will install a SCADA system to ensure the best information about the water system usage and identify the best times to purchase water from the Joint Water Commission (JWC) and to run pumps in the most efficient manner.

## **Work Plan**

It is anticipated that the project will be completed by March 31, 2021. The project will be completed in a design and a construction phase. See Project Work Plan table included in this report.

## **Public Involvement Statement**

The project has been discussed at multiple City Council meetings due to the need of purchasing property.

## **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 (ORS 285A.213 and OAR 123-049).

## **Program Findings & Compliance**

1. Applicant eligibility: As referenced in OAR 123-049-0020, all community water systems and nonprofit water systems are eligible to apply for financing except those determined to be ineligible by the department because of prior nonperformance.
2. Project compliance: This project is to construct required improvements to ensure the city will stay in compliance with their agreement with the Joint Water Commission (JWC).

3. Project priority is medium. The project has been reviewed by the Oregon Health Authority and has been placed on the Project Priority List for "General Infrastructure and Resiliency Projects."
4. This project will be subject to the standard on-site monitoring procedures for a design and construction project.
5. This project is traditional and will not require special approval (outside of IFA Board approval) or a waiver.
6. 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 North Plains Water Fund**

<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	1,042,737	1,468,131	2,468,608
<b><u>Revenues</u></b>			
Charges for Services and other	1,338,504	1,707,698	1,739,095
Other Operating Revenues	0	0	0
<b>Operating Revenues</b>	<b>1,338,504</b>	<b>1,707,698</b>	<b>1,739,095</b>
Interest and Miscellaneous	5,697	13,856	22,393
Other Non-Operating Revenues	0	0	0
<b>Total Non-Operating Revenues</b>	<b>5,697</b>	<b>13,856</b>	<b>22,393</b>
<b>Total Revenues</b>	<b>1,344,201</b>	<b>1,721,554</b>	<b>1,761,488</b>
<b><u>Expenditures</u></b>			
Personal Services	92,528	237,956	241,774
Materials & Services	138,111	346,240	369,826
<b>Total Operating Expenses</b>	<b>230,639</b>	<b>584,196</b>	<b>611,600</b>
<b>Net Operating Income</b>	<b>1,107,865</b>	<b>1,123,502</b>	<b>1,127,495</b>
Capital Outlay	34,332	0	717,491
Debt Service	134,332	134,332	134,332
Total Expenses	399,303	718,528	1,463,423
<b>Net Revenues</b>	<b>944,898</b>	<b>1,003,026</b>	<b>298,065</b>
Net Transfers/Adjustments	(519,504)	(2,549)	36,204
<b>Ending Fund Balance</b>	<b>1,468,131</b>	<b>2,468,608</b>	<b>2,802,877</b>

Total revenues have shown consistent growth along with increasing ending fund balances. The 2017 ending balance stands at a generous 485% of operating expenditures. In February 2018, a subsequent audit event, the City Council agreed to pay off the Water Fund’s Safe Drinking Water Revolving Loan from the existing cash balance in anticipation of the upcoming water reservoir project.

**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 and fiscal year 2018 budget.

**City of North Plains General Fund**

<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	842,549	856,271	906,804
<b><u>Revenues</u></b>			
Property Taxes	385,890	376,512	416,444
Other Operating Revenues	432,932	528,669	626,809
<b>Operating Revenues</b>	<b>818,822</b>	<b>905,181</b>	<b>1,043,253</b>
Interest and Miscellaneous	11,148	10,335	20,149
Other Non-Operating Revenues	192,141	212,332	309,505
<b>Total Non-Operating Revenues</b>	<b>203,289</b>	<b>222,667</b>	<b>329,654</b>
<b>Total Revenues</b>	<b>1,022,111</b>	<b>1,127,848</b>	<b>1,372,907</b>
<b><u>Expenditures</u></b>			
Personal Services	1,018,366	641,833	751,546
Materials & Services	468,029	437,280	409,819
<b>Total Operating Expenses</b>	<b>1,486,395</b>	<b>1,079,113</b>	<b>1,161,365</b>
<b>Net Operating Income</b>	<b>(667,573)</b>	<b>(173,932)</b>	<b>(118,112)</b>
Capital Outlay	0	0	0
Debt Service	0	0	0
Total Expenses	1,486,395	1,079,113	1,161,365
<b>Net Revenues</b>	<b>(464,284)</b>	<b>48,735</b>	<b>211,542</b>
Net Transfers/Adjustments	478,006	1,798	8,624
<b>Ending Fund Balance</b>	<b>856,271</b>	<b>906,804</b>	<b>1,126,970</b>

Total 2017 revenue increased by \$245,059 (or +22%) from the prior year while expenditures increased by \$82,252 (or +8%). The city has experienced population growth the last several years, expanding by 34% from 2010 to 2017. The city stated that because of the lag between the time when property is developed and when the city realizes property tax revenue, there should be significant increases in property taxes in the next few years. The 2017 ratio of ending fund balance to operating expenses was an ample 97%.

## Debt service analysis

Net Revenues for Debt Coverage: The following 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 North Plains Summary of Revenues, Expenditures, and Debt Service Coverage

PRO FORMA Year (ending June 30th)	Current FY		Projected			
	2018	2019	2020	2021	2022	2023
Beginning Fund Balance	2,802,877	2,292,949	2,100,209	2,579,962	2,872,543	3,141,582
<b>Operating Revenues</b>						
Charges for Services	1,285,656	1,370,000	1,461,333	1,558,756	1,662,673	1,773,517
<b>Total Operating Revenues</b>	<b>1,285,656</b>	<b>1,370,000</b>	<b>1,461,333</b>	<b>1,558,756</b>	<b>1,662,673</b>	<b>1,773,517</b>
<b>Operating Expenses</b>						
Personal Services	335,028	445,885	474,654	505,509	538,620	574,169
Materials & Services	235,042	217,200	196,060	205,863	216,156	226,964
Other - Water Purchases	189,674	200,000	235,333	276,909	325,829	383,393
<b>Total Operating Expenses</b>	<b>759,744</b>	<b>863,085</b>	<b>906,047</b>	<b>988,281</b>	<b>1,080,605</b>	<b>1,184,526</b>
<b>Debt Service</b>						
Funds Avail for Debt Coverage	525,912	506,915	555,286	570,475	582,068	588,991
BizOR - S03013	134,332	0	0	0	0	0
BizOT Proposed Loan	0	0	275,100	275,100	275,100	275,100
<b>Total Debt Service</b>	<b>134,332</b>	<b>0</b>	<b>275,100</b>	<b>275,100</b>	<b>275,100</b>	<b>275,100</b>
<i>Debt Service Coverage Ratio</i>	3.92	N/A	2.02	2.07	2.12	2.14
<b>Other Activities</b>						
<b>Cash Avail After Debt Service</b>	<b>391,580</b>	<b>506,915</b>	<b>280,186</b>	<b>295,375</b>	<b>306,968</b>	<b>313,891</b>
Loan Proceeds / Drawdowns	0	0	5,530,000	0	0	0
Capital Outlay (OUT)	(149,672)	(800,375)	(5,971,732)	(516,216)	(555,379)	(490,636)
Other Non-Operating - Grant	0	0	130,000	0	0	0
Loan S03013 payoff	(817,798)	0	0	0	0	0
Other Non-Operating - SDC Revenue	40,719	98,720	500,000	500,000	500,000	500,000
Other Non-Operating - Interest	27,968	22,000	31,299	33,422	37,450	44,700
Other Non-Operating - Equipment replaceent transfers	(2,725)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
<b>Net Other Activity</b>	<b>(901,508)</b>	<b>(699,655)</b>	<b>199,567</b>	<b>(2,794)</b>	<b>(37,929)</b>	<b>34,064</b>
Net Transfers IN (OUT)	0	0	0	0	0	0
Adjustments	0	0	0	0	0	0
<b>Net Transfers &amp; Adjustments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Ending Fund Balance</b>	<b>2,292,949</b>	<b>2,100,209</b>	<b>2,579,962</b>	<b>2,872,543</b>	<b>3,141,582</b>	<b>3,489,537</b>
<b>Avg. Rev's per EDU (calc)</b>	\$81.91	\$81.84	\$81.78	\$81.80	\$81.79	\$81.83
<b>Rate per EDU (app)</b>	\$81.89	\$81.81	\$81.81	\$81.81	\$81.81	\$81.81
<b>EDU's (app)</b>	1,308	1,395	1,489	1,588	1,694	1,806
<b>Connections (app)</b>	1,223	1,366	1,500	1,600	1,700	1,800

**Existing obligations and risks**

The following table reflects the applicant’s debt service requirements.

**City of North Plains Summary of Outstanding Debt Obligations**

Loan Source	June 30, 2017 Balance	Annual Debt Service	Payment Source	Full Faith & Credit Pledged? Y/N	Maturity
<b>Net Direct Debt</b>					
LOCAP Series 2011A (FF&C pledge)	\$220,000	\$21,388	Urban Renewal	Y	2031
<i>Net Direct Debt</i>	<b>\$220,000</b>	<b>\$21,388</b>			
<b>Self-Supporting Debt</b>					
BizOR - S03013	\$909,295	\$134,332	Water Fund	Y	2024
<i>Self-Supporting Debt</i>	<b>\$909,295</b>	<b>\$134,332</b>			
<b>Gross Bonded Debt</b>	<b>\$1,129,295</b>	<b>\$155,720</b>			

As a subsequent audit event, the City payed off the Safe Drinking Water Revolving Loan balance in February 2018 from the existing cash balance in anticipation of the upcoming water reservoir project. This represents a pro-active debt management approach and is viewed favorably.

**Underwriting standards**

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

- Number of Connections (mry) [1,130 is not > 1,500 standard]
- Top 10 Taxpayers as % of Total Tax Collections [16% is not < 15% standard]

**Applicant’s bond rating**

The city’s LOCAP Series 2011A (FF&C pledge) Certificates of Participation are not rated.

**Financial statement of program**

The 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. A disbursement schedule will be submitted as required by contract documents.
4. All existing Business Oregon loans paid as agreed.

**Project Repayment Phase Loan Summary**

Type	Award Amount	Grant Amount	Total Loan Amount	Interest Rate*	Amortized [in years]	Est. Annual Payment*
SDWRLF	\$5,530,000	\$130,000	\$5,400,000	2.99%	30	\$275,100
<b>Total</b>	<b>\$5,530,000</b>	<b>\$130,000</b>	<b>\$5,400,000</b>			<b>\$275,100</b>

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

### Funding Budget Recommendation

Budget Line Items	SDWRLF	Applicant	Other	Totals
Design / Engineering	\$0	\$700,000	\$0	\$700,000
Construction	\$4,950,000	\$500,000	\$0	\$5,450,000
Construction Contingency	\$550,000	\$0	\$0	\$550,000
Labor Standards	\$15,000	\$0	\$0	\$15,000
Land, Easements, ROW	\$0	\$650,000	\$0	\$650,000
Ground Improvements	\$0	\$500,000	\$0	\$500,000
Project Management	\$15,000	\$0	\$0	\$15,000
<b>Total</b>	<b>\$5,530,000</b>	<b>\$2,350,000</b>	<b>\$0</b>	<b>\$7,880,000</b>

### Proposed Work Plan

Activity	Date
Engineer Procurement	October 31, 2018
Preliminary Design	December 31, 2018
Award & Construction Contracting	March 31, 2019
Construction	January 31, 2021
Project Completion	March 31, 2021
Project Closeout	June 30, 2021

### Business Oregon Funds

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

Source	Amount
Safe Drinking Water Revolving Loan Fund Loan, Public, Tax-Exempt	\$5,400,000
Safe Drinking Water Revolving Loan Fund Forgivable Loan, Public, Tax-Exempt	\$130,000
<b>Total</b>	<b>\$5,530,000</b>

Source of Other Funds (For other state funds, indicate loan/grant, etc)	Amount
Applicant	\$1,700,000
Joint Water Commission	\$650,000
<b>Total</b>	<b>\$2,350,000</b>

## Staff's Recommendation

Applicants under the SDWRLF program may be determined to be eligible for Disadvantaged Assistance and Affordability Assistance. Disadvantaged Assistance qualifies for an extended repayment term of up to 30 years while Affordability Assistance qualifies for a forgivable loan and interest rate reduction. These criteria are:

Disadvantaged Assistance is available when at project completion the projected water rate is above community's Affordability Rate (MHI X 1.25% / 12) per Equivalent Dwelling Unit ("EDU"). An EDU is one residential connection or up to the equivalent of 7,500 gallons of usage, whichever is less.

Affordability Assistance is available when the community's Median Household Income ("MHI") is less than the state's MHI and the user rate per EDU at project completion is more than the Affordability Rate. Communities eligible for Affordability Assistance may also receive Disadvantaged Assistance.

The city's anticipated rate/EDU at the end of the project is \$81.81 which is above the city's affordability rate of \$75.17 making the city eligible for Disadvantaged Assistance. Because the city's MHI of \$72,159 is above the state MHI of \$53,270 the city is ineligible for Affordability Assistance.

Financing is awarded in the amount of \$5,530,000, to be distributed as follows:

- \$5,400,000 SDWRLF Loan; 30 year term at a 2.99% interest rate.
- \$130,000 SDWRLF Forgivable Loan.
  - \$100,000—All eligible projects up to 10% of Total Award not to exceed \$100,000, 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) 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 \$174,900) will be due prior to or with the first principal and interest payment. The interest rate will be set at 2.99% for this phase. Construction is scheduled for completion by March 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 twenty year period. The estimated first principal and interest payment due date is December 1, 2020. The loan can be prepaid in part or in full without penalty. The interest rate will be set at 2.99% 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 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. Parity.** The standard contract language default of "No Parity or Senior Debt."

**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: Not applicable.

List of Attachments

Financial Summary