

MEMORANDUM

November 2, 2018

TO: Chris Cummings, Assistant Director, Economic Development
THRU: Ed Tabor, Programs & Incentives Manager
FROM: Shanna Bailey, Regional Project Manager
Rich Rodriguez, Finance Officer
SUBJ: Funding Opportunity of \$1,500,000—Water/Wastewater Financing Program for Prairie City, Fairman Wells Water System Connection, No. 228-13379

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 Prairie City is located in Grant County. The city has a 2017 certified population of 915. The city is considered both rural and distressed.

Funding Request: Loan & grant

Project Type:

- Planning (technical)
- Design
- Construction

Project Background: The city of Prairie City, Oregon, has an ongoing and worsening problem with insufficient water supply to meet the most basic needs of the population.

In 2008 and 2009, the city completed construction of a slow sand filtration system to meet water supply regulations related to enhanced treatment of water supplied by the city's existing Dixie Creek infiltration galleries. The city's supply sources continued to decrease in productivity. In 2011, the city constructed Well No. 3 north of the slow sand filter site.

The city's water conditions worsened in 2017 and 2018. In response to the diminishing water supply situation, the city had the well pump set deeper in the well which did not increase water production. On June 26, 2017, an electrical storm damaged the electronic controls for the city's system. During the summer of 2017 the city instituted water use restrictions. During the summer of 2018, the city's water supply capacity was not enough to meet community needs.

Due to severe drought conditions, on August 6, 2018 the mayor of Prairie city declared a water supply emergency and imposed mandatory restrictions on water use. On August 9, 2018, the city had less than 4 feet of water in their approximately 30-foot tall water reservoir, which is insufficient to provide adequate water pressure and fire protection. These conditions are likely the result of a low snowpack and ongoing drought. With the community declaring a water supply emergency; water was hauled from John Day in August and September to meet basic water supply needs.

Given predicted decreasing snow pack in the watershed that feeds the city's infiltration galleries it is unlikely the city's current water system can meet long-term supply needs. The city needs additional water supply that is less susceptible to drought to allow for municipal water use and fire protection throughout the year.

The city proposes connection to two wells drilled near Faiman springs in 2006. Connecting the city to these wells has been determined to be the fastest and least expensive solution to address the city's immediate and long-term water needs. The city has received a groundwater permit from the Oregon Water Resources Department and approval from the Department of Human Services—Drinking Water Program to connect these wells to the city's water system.

Project Description: The recipient shall install a new pump station at the existing Faiman wells; install a new power line to the pump station; make improvements to existing access road to nearby power lines and the Faiman well site; install an approximately two mile long water transmission main line from the pump station to the existing piping near the city's sand filter system; and install a sodium hypochlorite chlorination system in the pump station.

Work Plan: The project is scheduled to be completed by August 2019. See Proposed Work Plan on page nine for details.

Public Involvement Statement: The city has held public meetings to discuss the need to evaluate their water system.

Findings and Analysis

This project and financing are consistent with Business Oregon's Strategic Plan priority to "Cultivate Rural Economic Stability." Sufficient water supply is essential to many city businesses including restaurants/diners, hotel and lodging facilities, assisted living facility, and of course the clean drinking water needs of the city's citizens.

This project helps implement the following goals and objectives of the 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)). In addition, this project meets Regional Solutions Team (RST) Regional Priorities of Water Management and Development.
Program Findings & Compliance

1. Applicant eligibility: The city of Prairie City is an eligible applicant as defined in (ORS) 285B.410 (9) and Oregon Administrative Rule 213-043-0041(1) for the Water/Wastewater Financing Program.
2. Project is not a compliance project and the water system design and construction will provide a new water source, assisting the city in meeting OHA regulations and basic community water supply needs.
3. Project priority is high. The design and construction will identify any deficiencies within the city of Prairie City water system.
4. Program monitoring: desktop monitoring conducted approximately halfway through the project.
5. Pre-award costs have been authorized. Budget line-items and authorized costs include: Design and Engineering \$77,000, Electrical Installations \$90,000, Permits and Regulatory Fees \$55,000, and Land Acquisition \$30,000. Total pre-award requests are limited to no more than 20% of the total cost of the project or \$300,000.
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, and budgeted fiscal year 2018.

Water Fund–City of Prairie City

Performance Review	audited	audited	audited	budgeted
FY Ending June 30th	2015	2016	2017	2018
Beginning Fund Balance	81,628	70,470	60,738	36,306
Revenues				
Charges for Services	262,016	259,673	268,275	262,883
Other Operating Revenues	0	0	0	0
Operating Revenues	262,016	259,673	268,275	262,883
Interest and Miscellaneous	515	3,898	639	50,500
Other Non-Operating Revenues	0	0	0	13,000
Total Non-Operating Revenues	515	3,898	639	63,500
Total Revenues	262,531	263,571	268,914	326,383
Expenditures				
Personal Services	108,050	108,205	111,452	114,145
Materials & Services	59,847	59,531	77,690	128,779
Total Operating Expenses	167,897	167,736	189,142	242,924
Net Operating Income	94,119	91,937	79,133	19,959
Capital Outlay	4,400	3,831	13,694	382
Debt Service	101,392	101,736	90,510	98,100
Total Expenses	273,689	273,303	293,346	341,406
Net Revenues	(11,158)	(9,732)	(24,432)	(15,023)
Net Transfers/Adjustments	0	0	0	100,000
Ending Fund Balance	70,470	60,738	36,306	121,283

The city has not increased water rates for a number of years, and downward trend in the ending fund balance is reflective of this. In 2018 the city took a \$100,000 bank loan to fund emergency expenditures for water needs of the community, this included trucking water in from John Day and deepening a well. Proceeds from the loan is shown on the transfers/adjustments line.

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 budgeted fiscal year 2018.

General Fund—City of Prairie City

Performance Review	audited	audited	audited	budgeted
FY Ending June 30th	2015	2016	2017	2018
Beginning Fund Balance	308,953	363,241	352,363	345,637
Revenues				
Property Taxes	151,574	151,584	150,897	164,232
Other Operating Revenues	56,164	72,894	76,364	73,015
Operating Revenues	207,738	224,478	227,261	237,247
Interest and Miscellaneous	28,730	28,306	35,925	1,000
Other Non-Operating Revenues	21,267	19,529	23,547	7,000
Total Non-Operating Revenues	49,997	47,835	59,472	8,000
Total Revenues	257,735	272,313	286,733	245,247
Expenditures				
Personal Services	301,251	339,145	368,125	336,174
Materials & Services	175,053	165,556	154,451	165,020
Total Operating Expenses	476,304	504,701	522,576	501,194
Net Operating Income	(268,566)	(280,223)	(295,315)	(263,947)
Capital Outlay	0	0	0	7,816
Debt Service	0	0	0	0
Total Expenses	476,304	504,701	522,576	509,010
Net Revenues	(218,569)	(232,388)	(235,843)	(263,763)
Net Transfers/Adjustments	272,857	221,510	229,117	241,161
Ending Fund Balance	363,241	352,363	345,637	323,036

The city has maintained a relatively consistent ending fund balance. This is indicative of prudent revenue and expense controls. The unaudited 2018 ending fund balance to operating expense ratio was an ample 76%.

Debt service analysis

Net Revenues for Debt Coverage: The following table reflects the Projected Net Revenues for the Applicant’s Water Fund as provided with the Applicant’s application and supplemental information.

Summary of Revenues, Expenditures, and Debt Service Coverage						
City of Prairie City						
PRO FORMA	Current FY			Projected		
Year (ending June 30th)	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	31,406	39,366	96,370	141,641	187,727	234,636
Operating Revenues						
Charges for Services, Overage charges, other op	316,700	340,400	343,102	345,831	348,587	351,371
Operating transfers in: cell towers 2/ea	33,000	33,000	33,000	33,000	33,000	33,000
Total Operating Revenues	349,700	373,400	376,102	378,831	381,587	384,371
Operating Expenses						
Personal Services	114,143	111,500	112,615	113,741	114,879	116,027
Materials & Services	128,779	78,000	78,780	79,568	80,363	81,167
Total Operating Expenses	242,922	211,660	191,395	193,309	195,242	197,194
Debt Service						
Funds Avail for Debt Coverage	106,778	161,740	184,707	185,522	186,345	187,177
BisOR S01007	89,100	89,100	89,100	89,100	89,100	89,100
Bank of Eastern Oregon	9,336	9,336	9,336	9,336	9,336	9,336
IFA Proposed Loan	0	6,300	41,000	41,000	41,000	41,000
Total Debt Service	98,436	104,736	139,436	139,436	139,436	139,436
<i>Debt Service Coverage Ratio</i>	<i>1.08</i>	<i>1.54</i>	<i>1.32</i>	<i>1.33</i>	<i>1.34</i>	<i>1.34</i>
Other Activities						
Cash Avail After Debt Service	8,342	57,004	45,271	46,086	46,909	47,741
Loan Proceeds / Drawdowns	300,000	1,200,000	0	0	0	0
Capital Outlay (OUT)	(300,382)	(1,200,000)	0	0	0	0
Other Non-Operating Activity	0	0	0	0	0	0
Net Other Activity	(382)	0	0	0	0	0
Net Transfers IN (OUT)	0	0	0	0	0	0
Adjustments	0	0	0	0	0	0
Net Transfers & Adjustments	0	0	0	0	0	0
Ending Fund Balance	39,366	96,370	141,641	187,727	234,636	282,377
Avg. Rev's per EDU (calc)	\$66.23	\$70.08	\$69.80	\$69.69	\$69.43	\$69.33
Rate per EDU (app)	\$50.25	\$57.67	\$57.67	\$57.67	\$57.67	\$57.67
EDU's (app)	440	444	449	453	458	462
Connections (app)	512	517	522	528	533	538

To the extent necessary, the Applicant plans on using newly available lease revenue from cellular radio towers in the city as an operating transfer in to facilitate achieving the required debt service coverage. This reduces the burden of water rates on the community. The city also plans to implement several new and incremental revenue sources including: a new base water rate of at least \$7, net increase in overage fees, and a net increase in the transient rate structure (i.e., recreational vehicles).

Existing obligations and risks

The following table reflects the applicant's debt service requirements as of their last audit, adjusted to reflect a 2018 \$100,000 obligation to Bank of Eastern Oregon. This Bank of Eastern Oregon obligation was undertaken primarily for emergency water system needs of the community due to extreme drought (water hauling, etc.).

Summary of Outstanding Debt Obligations						
City of Prairie City						
Loan Source	June 30, 2017 Balance	Annual Debt Service	Payment Source Pledged	FF&C Pledged	Debt Priority	Maturity
Net Direct Debt						
Bank of Eastern Oregon	\$100,000	\$9,336	None	Yes	N/A	2033
<i>Net Direct Debt</i>	\$100,000	\$9,336				
Self-Supporting Debt						
BizOR - S01007 - Water/Wastewater	\$1,574,925	\$88,955	Water Fund	Yes	Parity	2039
DEQ Loan Payable sewer improvements	\$304,474	\$80,197	Wastewater Fund	No	N/A	2040
<i>Self-Supporting Debt</i>	\$1,879,399	\$169,152				
Gross Bonded Debt	\$1,979,399	\$178,488				

Not reflected in the city's 2017 audit is a \$1.3 million USDA funded sewer project that has not commenced with funding. Of which the payment Source will be the city's Wastewater Fund. The city opted to fund pre-award expenses available under this award with a \$300,000 four month interim loan with Bank of Eastern Oregon.

Underwriting standards

The Applicant meets 10 of the 18 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Total Tax Collection Rate (3 yr. Avg.) [93% is not >95% standard]
- Number of Connections (mry) [512 is not >1,500 standard]
- Debt Service Coverage Ratio (mry) [-0.08 is not >1.20 standard]
- Top 10 Ratepayers as % of Revenues (mry) [20% is not <15% standard]
- Assessed Value Annual Growth Rate since 2000 [1% is not >3% standard]
- Population Growth Rate - since 2000 [-1% is not >0% standard]
- Unemployment Rate as Percentage of State Avg. (mry) [230% is not <110% standard]
- Per Capita Income as Percentage of State Avg.(mry) [78% is not >85% standard]

The number of demographic indicators not met is consistent with the current Business Oregon classification of Grant County as distressed. Debt service was not met because the city has not been consistently raising rates to match rising expenditures and reduced revenue due to drought.

Applicant's bond rating: The city does not have bonds rated by a national ratings agency (e.g., Moody's, S&P).

Financial statement of program Water/Wastewater Financing Program as of 28 October 2018:

1. Available funds \$16,178,405.
2. Remaining balance, if the project is approved, is \$14,678,405.
3. Disbursements will begin shortly after contract execution.
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*
W/WW	\$ 1,500,000	\$ 550,000	\$ 950,000	1.76%	30	\$ 41,000
Total	\$ 1,500,000	\$ 550,000	\$950,000			\$ 1,500,000

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

Funding Recommendation

Budget Line Items	WWFP	Totals
Design & Engineering **	\$ 110,000	\$ 110,000
Construction	\$ 1,000,000	\$ 1,000,000
Construction Contingency	\$ 100,000	\$ 100,000
Pre award: Electrical Installations **	\$ 90,000	\$ 90,000
Pre award: Permits and Reg. Fees **	\$ 55,000	\$ 55,000
Pre award: Land Acquisition **	\$ 30,000	\$ 30,000
Legal	\$ 5,000	\$ 5,000
Construction Management	\$110,000	\$ 110,000
Total	\$ 1,500,000	\$ 1,500,000

** Authorized costs for pre award costs not to exceed 20% or \$300,000

Proposed Work Plan

Activity	Date
Project site survey	Oct 2018
Easement acquisition	Nov 2018
Design engineering and permitting	Feb 2019
Bid and Award project	March 2019
Begin Construction	April 2019
Supply wells online/operational	July 2019
Finalize Construction & Project Close-out	August 2019

Source of Business Oregon Funds (Indicate Loan/Grant/Principal Forgiveness, Bond, Private or Public, and Taxable or Tax Exempt)	Amount
W/WW Loan—Public, Tax Exempt	\$950,000
W/WW Grant—Public, Tax Exempt	\$550,000
Total	\$ 1,500,000

Source of Other Funds (For other state funds, indicate loan/grant, etc.)	Amount
None	\$0
	\$0
Total	\$0

Staff's Recommendation

Applicants under the W/WW program may be determined to be a Disadvantaged Community and qualify for reduced interest rates, an extended repayment term, and grant monies. These are determined by the following criteria:

- A. To be identified as a Disadvantaged Community under the program the community's Median Household Income (MHI) must be below the State MHI average and the monthly water rate per Equivalent Dwelling Unit (an EDU is one residential connection or up to the equivalent of 7500 gallons of usage, whichever is less) must be above the Community's Affordability Rate (AR, calculated as $MHI \times 1.25\% / 12$). A Disadvantaged Community may receive reduced interest rate and a longer repayment period.

- B. A Disadvantaged Community may be eligible for grant monies if, after the maximum interest rate subsidy and the maximum loan repayment terms have been applied, the average monthly water rate per EDU exceeds 115% of the AR by the end of the project.

Applying the above criteria for this Applicant:

- 1) Based on 2016 American Community Survey data, the MHI for the city is \$41,417 which is below the State MHI of \$53,270. The water rate per EDU of \$57.67 by the end of the project is above community's Affordability Rate ($\$41,417 \times 1.25\% / 12$) of \$43.14. These qualify the community as Disadvantaged with a reduced interest rate of 1.76% and loan term of 30 years.

- 2) The city's projected water rate per EDU by the end of the project is \$57.67 which is above the 115% AR rate of \$49.61. This qualifies the project for a recommended \$550,000 grant award.

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 March 1, 2019. All accrued interest during the construction phase (estimated to be \$6,300) will be due prior to or with the first principal and interest payment. The interest rate will be set at 1.76% for this phase. Construction is scheduled for completion by August, 2019.

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, 2020. The loan can be prepaid in part or in full without penalty. The interest rate will be set at 1.76% for the repayment phase. The "Repayment Phase Loan Summary" table summarizes the repayment phase of the proposed financing.

The present value of the interest rate subsidy on the loan is approximately \$61,550 (2.25% rate available from treasury vs. the subsidized 1.76% rate on the loan for 30 years.)

Prairie City has applied for a \$1 million Emergency Community Water Assistance Grant from USDA. There was some uncertainty about the availability of funding leading up to the application. If the city is successful, funding will not be available until March 2019.

Funding Recommendation and Conditions of Award

Based upon the following analysis, the award recommended above will be subject to the IFA's 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. Pledge of Cell Tower Lease Revenues as Source of Repayment.** The Recipient will be required to grant to the state a security interest in and irrevocably pledge its cell tower lease revenues to pay the obligations owed by the Recipient to the state under the Financing Contract.
- D. 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 and operating transfers in, 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.
- E. Loan Extinguishment.** Subsequent to the reimbursement of authorized pre-award expenses under this award, and prior to further draws under this award, the Recipient shall provide evidence the \$300,000 interim loan has been extinguished.
- F. Successful USDA Grant Award.** In the event of a successful USDA Emergency Community Water Assistance Grant award, Recipient shall 1) repay outstanding Business Oregon loan balance and 2) use any remaining USDA grant funding to repay Business Oregon's grant.

Instructions: None

List of Attachments

Financial Summary

Budget recommends that this award come from: [] Oregon Bond Bank [X] Program Funds

Signature on File _____

David Barnett
Senior Finance Accountant (Budget)

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:

Signature on File _____

Edward Tabor
Programs & Incentives Manager

APPROVAL:

Approve project and recommendation as submitted.

Approve project and recommendation with the following modifications:

Signature on File _____

Chris Cummings, Assistant Director
Economic Development

The IFA Board shall consider loans over \$2,999,999, 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