

MEMORANDUM

November 6, 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 \$5,000,000—Special Public Works Fund Program for City of Seaside, School Campus Water Tank Design & Construction, No. 880-13421

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 Seaside is located in Clatsop County. The city has a 2017 population of 6,620 and is rural and distressed.

Funding Request: Loan

Project Type:

- Planning (technical)
- Design
- Construction

SPWF Source: SPWF Other

Project Background: In November 2016 the Seaside School District voters passed a \$99.7 million bond to move three schools outside of the tsunami evacuation zone: Broadway Middle School, Seaside High School and Gearhart Elementary. These schools serve students between Arch Cape and the Gearhart-Warrenton border.

The bond costs approved by votes did not include water infrastructure costs, however this water project was identified as a future capital infrastructure project in the city's 2005 Water Master Plan Update. An additional reservoir is needed to supply safe drinking water to not only the new school campus, but also private residences and the Providence Seaside Hospital. Providence Seaside Hospital is a 25-bed critical access facility and the only hospital in Seaside.

The design/construction project will build a new 2-million-gallon water tank on the eastern edge of the property located at 23000 Spruce Drive. The subject property is in an area located above the pressure zone and near the location of the new school campus. A booster pump station will also be constructed on the property and will support future development in the area, including a future expansion of Providence Seaside Hospital. The school campus project has an occupancy date of summer/fall 2020, making timing for an award a very important factor in this project.

Project Description: The recipient will construct a new 2-million-gallon water reservoir at 23000 Spruce Drive. A new pump station will also be constructed on the school campus site and connections that move water to neighborhoods north and south of the campus will be added to improve water pressure and reliability in this area.

Work Plan: The project includes design and construction. The project is estimated to be completed by July 15, 2020 and project completion is expected to be completed by September 30, 2020.

Public Involvement Statement: The community has held several meetings concerning the relocation of the schools out of the tsunami zone and the additional infrastructure needed to serve the new schools. The community passed a bond in 2016 to construct the new school campus.

Findings and Analysis

This project aligns with Business Oregon's Strategic Plan. This project meets the Priority of "Cultivate Rural Economic Stability" and the Strategy of "Enhance local economic development capacity in distressed rural communities." The key performance measure (KPM) that will capture the Department's investment is KPM 9-Number of community capital construction financing projects that assist with future economic development.

This project helps implement the following goals and objectives of the Special Public Works Fund:

Special Public Works Fund: to provide financial or other assistance to enable municipalities to construct, improve and repair those facilities that are essential for supporting continuing and expanded economic activity (ORS 285.B.413 (2))

Program Findings & Compliance

1. Applicant eligibility: The city of Seaside is an eligible applicant of the Special Public Works Fund as defined in OAR 123-042-0020(16) "municipality."
2. Project compliance: This is not a compliance related project.
3. Project priority is high. Community development need is high because this is part of a community resiliency project to move three public schools outside of the tsunami evacuation zone.
4. This project will be subject to the standard on-site monitoring procedures for a design and construction project.
5. This is a traditional project and will not require special 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 and budgeted fiscal year 2018.

The city has historically paid the debt service on the 2012 unlimited tax general obligation (UTGO) full faith and credit (FF&C) water refunding bonds by transferring funds out of the Water Fund. The below table has been adjusted from the city provided data by presenting the debt service of the UTGO bonds on the debt service line along with a corresponding reduction in the transfer out line. This provides increased visibility of overall debt serviced by the Water Fund with no effect on the ending fund balance.

Water Fund				
City of Seaside				
Performance Review	audited	audited	audited	budgeted
FY Ending June 30th	2015	2016	2017	2018
Beginning Fund Balance	1,565,291	1,948,541	2,124,293	2,774,044
Revenues				
Charges for Services	2,102,589	2,174,509	2,171,502	2,168,000
Other Operating Revenues	0	0	0	0
Operating Revenues	2,102,589	2,174,509	2,171,502	2,168,000
Interest and Miscellaneous	7,785	15,290	26,525	34,000
Other Non-Operating Revenues	14,855	0	49,509	0
Total Non-Operating Revenues	22,640	15,290	76,034	34,000
Total Revenues	2,125,229	2,189,799	2,247,536	2,202,000
Expenditures				
Personal Services	636,850	638,311	605,231	732,664
Materials & Services	461,276	425,958	410,246	526,600

Total Operating Expenses	1,098,126	1,064,269	1,015,477	1,259,264
Net Operating Income	1,004,463	1,110,240	1,156,025	908,736
Capital Outlay	127,232	134,767	47,012	455,000
Debt Service	264,781	266,706	267,881	263,981
Total Expenses	1,490,139	1,465,742	1,330,370	1,978,245
Net Revenues	635,090	724,057	917,166	223,755
Net Transfers/Adjustments	(251,840)	(548,305)	(267,415)	(282,452)
Ending Fund Balance	1,948,541	2,124,293	2,774,044	2,715,347

The Water Fund ending fund balance has expanded from \$1,948,541 in 2015 to a projected \$2,715,347 in 2018, an increase of about 41%. This is indicative of prudent fiscal management.

General Fund Summary

The following table shows a performance review of the Applicant's General Fund for the three audited fiscal years ending June 30, 2017, and budgeted fiscal year 2018.

Performance Review	audited	audited	audited	budgeted
FY Ending June 30th	2015	2016	2017	2018
Beginning Fund Balance	550,795	281,160	589,693	881,255
Revenues				
Property Taxes	3,117,560	3,427,056	3,508,436	3,665,371
Other Operating Revenues	565,517	621,566	683,186	881,964
Operating Revenues	3,683,077	4,048,622	4,191,622	4,547,335
Interest and Miscellaneous	42,990	41,428	42,437	18,000
Other Non-Operating Revenues	86,418	97,152	19,058	42,564
Total Non-Operating Revenues	129,408	138,580	61,495	60,564
Total Revenues	3,812,485	4,187,202	4,253,117	4,607,899
Expenditures				
Personal Services	876,797	923,473	923,484	1,129,662
Materials & Services	561,098	465,223	544,238	577,015
Total Operating Expenses	1,437,895	1,388,696	1,467,722	1,706,677
Net Operating Income	2,245,182	2,659,926	2,723,900	2,840,658
Capital Outlay	160,434	38,505	31,053	95,000
Debt Service	264,781	267,310	270,531	265,008
Total Expenses	1,863,110	1,694,511	1,769,306	2,066,685
Net Revenues	1,949,375	2,492,691	2,483,811	2,541,214
Net Transfers/Adjustments	(2,219,010)	(2,184,158)	(2,192,249)	(2,352,095)
Ending Fund Balance	281,160	589,693	881,255	1,070,374

The General Fund ending balance exhibits an increasing trend, indicative of sound financial management.

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 and supplemental information. It reflects more than adequate net revenues necessary to provide the required 1.20 debt service coverage ratio.

Summary of Revenues, Expenditures, and Debt Service Coverage

PRO FORMA	Current FY		Projected			
Year (ending June 30th)	2019	2020	2021	2022	2023	2024
Beginning Fund Balance	2,774,044	3,325,565	3,740,468	3,879,692	4,014,283	4,143,765
Operating Revenues						
Charges for services	2,348,603	2,390,471	2,433,158	2,476,685	2,521,063	2,566,314
UTGO Water Bonds 2007 - ad-valorem taxes	368,700	368,700	394,850	406,238	416,925	426,944
Total Operating Revenues	2,717,303	2,759,171	2,828,008	2,882,923	2,937,988	2,993,258
Operating Expenses						
Personal Services	620,513	639,128	658,302	678,051	698,393	719,345
Materials & Services	527,804	543,639	559,947	576,746	594,048	611,869
Total Operating Expenses	1,148,317	1,182,767	1,218,249	1,254,797	1,292,441	1,331,214
UTGO Water Bonds 2007 - debt service	368,700	368,700	394,850	406,238	416,925	426,944
Debt Service						
Funds Avail for Debt Coverage	1,200,286	1,207,704	1,214,909	1,221,888	1,228,622	1,235,100
LTGO 2012 Refunding Bonds	265,006	265,881	266,606	267,181	278,681	271,681
IFA Proposed Loan	0	23,600	295,100	295,100	295,100	295,100
Total Debt Service	265,006	289,481	561,706	562,281	573,781	566,781
Debt Service Coverage Ratio	4.53	4.17	2.16	2.17	2.14	2.18
Other Activities						
Cash Avail After Debt Service	935,280	918,223	653,203	659,607	654,841	668,319
Loan Proceeds / Drawdowns	2,500,000	2,500,000	0	0	0	0
Capital Outlay (OUT)	(2,590,725)	(2,700,000)	(200,000)	(200,000)	(200,000)	(200,000)
Other Non-Operating Activity	0	0	0	0	0	0
Net Other Activity	(90,725)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Net Transfers IN (OUT)	(293,034)	(303,320)	(313,979)	(325,016)	(325,359)	(344,440)
Adjustments	0	0	0	0	0	0
Net Transfers & Adjustments	(293,034)	(303,320)	(313,979)	(325,016)	(325,359)	(344,440)
Ending Fund Balance	3,325,565	3,740,468	3,879,692	4,014,283	4,143,765	4,267,644
Avg. Rev's per EDU (calc)	\$61.22	\$61.96	\$63.30	\$64.32	\$65.34	\$66.36
Rate per EDU (app)	\$41.00	\$45.10	\$45.10	\$45.10	\$45.10	\$45.10
EDU's (app)	3,699	3,711	3,723	3,735	3,747	3,759
Connections (app)	3,699	3,711	3,723	3,735	3,747	3,759

Tax revenue and debt service on the 2007 Unlimited Tax General Obligation (UTGO) voter approved water bonds is shown because of the de facto rate subsidy it provides to water system users.

As discussed prior, debt service of the 2012 LTGO refunding bonds is shown on the debt service line along with a corresponding reduction in the transfer out line. This is more reflective of the totality debt serviced by the Water Fund.

Existing obligations and risks

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

Summary of Outstanding Debt Obligations						
City of Seaside						
Loan Source	June 30, 2017 Balance	Annual Debt Service	Payment Source Pledged	FF&C Pledged	Debt Priority	Maturity
Net Direct Debt						
UTGO Water Bonds - 2007	\$3,310,000	\$368,700	ad-valorem taxes	No	N/A	2027
LTGO FF&C Water Refunding Bonds - 2012	\$3,960,000	\$265,006	All Available	Yes	N/A	2037
<i>Net Direct Debt</i>	\$7,270,000	\$633,706				
Self-Supporting Debt						
Wastewater Revenue Bonds - 2011	\$4,025,000	\$362,813	Wastewater Fund	No	N/A	2031
Transient Lodgings Revenue Bonds - 2018	\$15,000,000	\$1,138,894	Transient Lodgings Tax	No	N/A	2037
BizOR - 2002 - L15008	\$764,795	\$22,439	Wastewater Fund	Yes	N/A	2042
<i>Self-Supporting Debt</i>	\$19,789,795	\$1,524,146				
Gross Bonded Debt	\$27,059,795	\$2,157,852				

Underwriting standards

The Applicant meets 12 of the 20 applicable indicators in the attached Financial Summary. The following indicators are not met:

Net Direct Debt Service to General Fund Revenues (mry)	[5% is not <5% standard]
Net Direct Debt Service to General Fund Revenues (mry)	[9% is not <5% standard]
Percentage of Debt Retired in 10 Yrs.	[47% is not >60% standard]
Net Direct Debt to Assessed Value (mry)	[3% is not <2% standard]
Revenue Debt Per Capita (mry)	[\$2,907 is not <\$650 std.]
Accounts Receivable (3 yr. avg.)	[29% is not <15% standard]
Top 10 Ratepayers as % of Revenues (mry)	[31% is not <15% standard]
Assessed Value Per Capita (mry)	[\$17,812 is not >\$20,000 std]

The city of Seaside is unique in several favorable ways. The city has a high summer seasonal population of upwards to 30,000 and an estimated average population of 10,000 despite the estimated 2017 actual population of 6,620. These seasonal visitors contribute substantially to the economy and to the city’s revenue base. The city is home to a large Worldmark timeshare complex with many housing units. Because of the Worldmark timeshare complex, the Top 10 Ratepayers, Top 10 Taxpayers, and accounts receivable metrics are unlike other municipalities.

While the department’s guideline is that an Oregon Bond Bank loan is made to a local government that fails no more than five applicable indicators, the uniquely favorable attributes of the city coupled with the fact the city enjoys investor grade ratings on its publicly issued debt (see table immediately following) are indicative the city is a suitable Oregon Bond Bank candidate.

Applicant's bond rating: The applicant's bond ratings are shown in the table1 below.

Issuance	Ratings Agency	Date	Rating
Transient Lodgings Revenue Bonds–2018	Moody's	3/1/2018, most recent surveillance 6/1/2018	A3
LTGO FF&C Water Refunding Bonds–2012	Moody's	2/15/2017, most recent surveillance 6/1/2018	A1
Wastewater Revenue Bonds–2011	Moody's	9/6/2011, most recent surveillance 8/24/2018	A3
UTGO Water Bonds–2007	Unrated	N/A	N/A

Moody's obligations rated 'A' are judged to be upper-medium grade and are subject to low credit risk.

Financial statement of program SPWF, as of October 28, 2018

1. Available funds \$20,853,516.
2. Remaining balance, if the project is approved, is \$15,853,516.
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*
	\$5,000,000	\$0	\$5,000,000	4.17%	30	\$295,100
Total	\$5,000,000	\$ 0	\$5,000,000			\$295,100

* Rate is OBDD Indicative Loan rate for current quarter. Actual rate will be Oregon Bond Bank bond rate at time of bond sale.

Funding Recommendation

Budget Line Items	SPWF	CDBG	Local Funds	Totals
Design / Engineering	\$0	\$0	\$779,619	\$779,619
Construction	\$5,000,000	\$0	\$310,000	\$5,310,000
Construction Contingency	\$0	\$0	\$0	\$ 0
Total	\$5,000,000	\$ 0	\$1,089,619	\$6,089,619

¹ Data obtained from Municipal Securities Rulemaking Board (MSRB) [EMMA website](#)

Proposed Work Plan

Activity	Date
Final Design Complete, including OHA/DEQ approval of plans	April 15, 2019
Construction Bid	May 30, 2019
Construction Complete	July 15, 2020
Project Closeout	September 30, 2020

Source of Business Oregon Funds (Indicate Loan/Grant/Principal Forgiveness, Bond, Private or Public, and Taxable or Tax Exempt)	Amount
Special Public Works Fund, Oregon Bond Bank, Public, tax-exempt	\$5,000,000
	\$0
Total	\$5,000,000

Source of Other Funds (For other State funds, indicate loan / grant, et cetera)	Amount
City of Seaside	\$1,089,619
	\$0
Total	\$1,089,619

Staff's Recommendation

The proposed loan will be structured in two phases. Until Oregon Bond Bank bonds are sold, an interim bond loan will be used for the first phase, construction phase, and will accrue interest on actual funds disbursed, estimated first disbursement will be in July 15, 2019. All accrued interest during the construction phase (estimated to be \$23,600) will be due prior to or with the first principal and interest payment. The interest rate will be set at 2.25% for this phase. Construction is scheduled for completion by July, 2020. Interim financing is typically limited to, but not to exceed, 2.5 years. Even though the project may be completed prior to that time, these terms will be extended, if necessary, until the Oregon Bond Bank bonds are sold.

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 30 year period. The estimated first principal and interest payment due is December 1, 2020. The interest rate is estimated to be at 4.17% for the repayment phase.

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.

List of Attachments

Financial Summary

Budget recommends that this award come from: Oregon Bond Bank 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