

MEMORANDUM

January 13, 2021

TO: Edward Tabor, Program and Incentives Manager, Economic Development
THRU: Melisa Drugge, Regional Development Manager
FROM: Arthur Chaput, Regional Project Manager
Dennis Knight, Finance Officer
SUBJ: Funding Opportunity of \$1,640,000 Water/Wastewater Financing Program for City of Chiloquin, "Wastewater Treatment Plant Replacement", No. 140-14301

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: Chiloquin is a small, rural, distressed community on Highway 97 in central Klamath County, Oregon.

Per the 2019 American Community Survey (ACS)–Census Bureau, the City of Chiloquin is approximately 50% White and 47% American Indian. 12% of the City is Hispanic or Latino. Median Household Income is \$32,426, and 37% of the community lives below the poverty line.

Given the small size of the City of Chiloquin and the design of the American Community Survey, the margin of error for many ACS estimates is significant.

Funding Request: Loan & grant

Project Type:

- Planning (technical)
- Design
- Construction

Project Background

The goal of this project is to satisfy the terms of the City's 2007 Mutual Agreement and Order (MAO) with the Oregon Department of Environmental Quality (DEQ). This MAO required Chiloquin to undertake a number of steps to improve wastewater collection and treatment, of which this project is the final piece. The MAO was issued because the City's wastewater treatment plant—which was constructed in 1976 and discharges into the Williamson River—is

unable to meet the terms of its National Pollutant Discharge Elimination System (NPDES) Permit, particularly Total Suspended Solids (TSS) discharge limits.¹

The City evaluated the feasibility of upgrading and repairing the existing treatment system, and estimated that the capital costs of such upgrades would be significantly (approximately half) the cost of constructing a new lagoon-based treatment plant. However, they also estimated that ongoing annual Operations, Maintenance, and Replacement (OM&R) costs for an upgraded plant would be two- to two-and-a-half times higher than for an entirely new, lagoon-based system. Given that the new plant is likely to remain in operation for decades, the City determined that a new plant was in its financial best interests.

A new, lagoon-based plant presents another opportunity: Environmental regulations for river discharge tend to become more stringent over time, and there is no guarantee that improving the old plant will satisfy future regulations. Converting to a new, lagoon-based plant, which will not discharge into the river, helps “future-proof” City operations.

Chiloquin’s wastewater treatment system serves approximately 735 residents and several commercial establishments.

Project Description:

The City of Chiloquin will construct a new, 2-cell facultative lagoon treatment, storage, and effluent reuse facility on City-owned land along Oregon Highway 422. Treated effluent will be pumped to a 10-acre storage lagoon and then, during appropriate times of the year, land-applied via pivot irrigation onto a 36-acre field upon which the City intends to grow native vegetation.

The old treatment plant will be decommissioned and abandoned, save for a new screening station to be installed at the existing lift station.

All work will be conducted according to DEQ-approved plans and specifications, under the supervision of an Oregon-licensed engineer. Final design and environmental review work is being completed under Community Development Block Grant project #P18003, and should be complete Q1 2021.

Work Plan: This is a phased work plan and the table (page 4) details the city’s proposed approach.

Public Involvement Statement: Design of this project has been funded by CDBG, which requires multiple public hearings to seek citizen engagement. CDBG will require another public hearing prior to applying for construction-phase funding. Furthermore, City Council has had multiple lively debates about which method of treatment plant improvement to pursue, including discussions of user rate changes following the City’s One Stop meeting.

¹ The current treatment plant has other flaws, too, in addition to its inability to meet permit requirements: 1. It cannot be taken off-line for maintenance; 2. It was not designed to remove phosphorous, which is required under current rules; 3. The current headworks screening system is insufficient; and, 4. The plant has exceeded its useful life.

Findings and Analysis

This project helps implement the goal 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))”. This project also aligns with Business Oregon’s Strategic Plan goal of cultivating rural economic stability.

Program Findings & Compliance

1. Applicant eligibility: The city of Chiloquin is a city and meets the applicant eligibility requirements defined in OAR 123-043-0035(1)
2. Project compliance: This project will allow the city to achieve and maintain compliance with a variety of wastewater discharge rules. Specifically, the City is operating under MAO number WQ/M-ER_06-245, issued for failure to meet effluent discharge treatment requirements. This MAO was issued February 2007, and required the City to take several interim steps (plant improvements, studies and planning, final design) before either upgrading or replacing its treatment plant. This project is the final step in achieving compliance and exiting the MAO.
3. Project priority is (high).
4. Program suggestions and/or monitoring: This project is dual-funded with CDBG and so Department staff will ensure compliance with both CDBG and W/W regulations. On-site monitoring and regular desktop monitoring is recommended.
5. List past comparable approvals for non-traditional projects: This project is not atypical, except that small city projects don’t often involve three funding sources. This has however happened, notably with Nyssa Y13008 and Antelope Y20001. Close coordination with DEQ will be important, but dual-funded BizOR/DEQ projects happen regularly, for instance with Irrigon P17005.
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.

Funding Recommendation

Budget Line Items	IFA Source: Water Wastewater (this project)	IFA Source: CDBG (to be secured)	DEQ	Totals
Construction Engineering and AIS* Compliance	\$0	\$290,000	\$0	<u>\$ 290,000</u>
Construction	\$1,640,000	\$1,140,000	\$1,300,000	<u>\$ 4,080,000</u>
Construction Contingency	\$0	\$410,000	\$0	<u>\$ 410,000</u>
Labor Standards Compliance Monitoring*	\$0	\$20,000	\$0	<u>\$ 20,000</u>
Grant Administration	\$0	\$35,000	\$0	<u>\$ 35,000</u>
Legal Fees	\$0	\$5,000	\$0	<u>\$ 5,000</u>
Total	\$ 1,640,000	\$1,900,000	\$ 1,300,000	<u>\$ 4,840,000</u>

*Application did not include labor standards funding or AIS Compliance. Added as a result of conversations RPM had with applicant 1/12/2021. Documentation saved in project file.

Proposed Work Plan

Activity	Date
Final Design Complete, including DEQ approval of plans (to be complete prior to incurring costs on this award)	4/01/2021
DEQ Application, award	6/01/2021
CDBG Application, award	7/31/2021
Procurement of construction contractor	8/31/2021
Construction start	9/31/2021
Construction 50%, project monitoring	7/31/2022
Construction completion, closeout	12/31/2022

Source of Business Oregon Funds (Indicate Loan/Grant/Principal Forgiveness, Bond, Private or Public, and Taxable or Tax Exempt)	Amount
Water/Wastewater (this staff recommendation)–Loan, Public, Tax Exempt	\$890,000
Water/Wastewater – Grant, Public, Tax Exempt	\$750,000
CDBG Construction (to be applied for in 2021, after securing Water/Wastewater and DEQ funds)	\$1,900,000
Total	<u>\$ 3,540,000</u>

Source of Other Funds (For other State funds, indicate loan/grant, etc.)	Amount
Department of Environmental Quality–\$500,000 grant, 30yr, 1.45% (estimated–to be secured spring 2021)	\$1,300,000
	\$0
Total	<u>\$1,300,000</u>

Financial Findings & Compliance

Repayment source

The table below shows historic revenue from the Applicant's Sewer Fund for two audited fiscal years ending June 30, 2019, the unaudited statement for fiscal year end June 30, 2020 and fiscal year 2020-21 budget.

Sewer Fund
City of Chiloquin

Performance Review	audited	audited	unaudited	budgeted
FY Ending June 30th	2018	2019	2020	2021
Beginning Fund Balance	33,564	52,972	66,287	95,780
Revenues				
Charges for Services	166,646	171,799	176,834	180,000
Other Operating Revenues	0	0	185	1,500
Operating Revenues	166,646	171,799	177,019	181,500
Interest and Miscellaneous	11	404	125	200
Klamath Tribe Reimbursement	67,330	4,958	4,958	4,958
Total Non-Operating Revenues	67,341	5,362	5,083	5,158
Total Revenues	233,987	177,161	182,102	186,658
Expenditures				
Personal Services	95,477	110,666	106,488	109,101
Materials & Services	114,144	68,222	50,801	58,500
Total Operating Expenses	209,621	178,888	157,289	167,601
Net Operating Income	(42,975)	(7,089)	19,730	13,899
Capital Outlay	0	0	10,362	9,000
Debt Service	4,958	4,958	4,958	4,958
Total Expenses	214,579	183,846	172,609	181,559
Net Revenues	19,408	(6,685)	9,493	5,099
Net Transfers/Adjustments	0	20,000	20,000	20,000
Ending Fund Balance	52,972	66,287	95,780	120,879

The increased amount in Klamath Tribe in 2018 was including a draw from the new DEQ loan. Service charge revenue experienced a steady increase while expenses actually decreased. The review for the three years shows good management.

General Fund summary

The following table shows a performance review of the Applicant's General Fund for the last two audited fiscal years ending June 30, 2019, the unaudited statement for fiscal year end June 30, 2020 and fiscal year 2020-21 budget.

General Fund
City of Chiloquin

Performance Review	audited	audited	unaudited	budgeted
FY Ending June 30th	2018	2019	2020	2021
Beginning Fund Balance	45,272	(53,423)	(66,449)	(66,035)
Revenues				
Property Taxes	116,233	130,512	140,072	140,000
Other Operating Revenues	39,229	38,626	31,999	40,200
Operating Revenues	155,462	169,138	172,071	180,200
Interest and Miscellaneous	103,711	4,868	14,237	3,150
Intergovernmental	1,725	46,666	27,561	25,900
Total Non-Operating Revenues	105,436	51,534	41,798	29,050
Total Revenues	260,898	220,672	213,869	209,250
Expenditures				
Personal Services	74,989	63,442	97,879	103,126
Materials & Services	96,678	78,395	79,152	54,550
Total Operating Expenses	171,667	141,837	177,031	157,676
Net Operating Income	(16,205)	27,301	(4,960)	22,524
Capital Outlay	100,926	4,861	25,424	6,000
Debt Service	0	0	0	0
Total Expenses	272,593	146,698	202,455	163,676
Net Revenues	(11,695)	73,974	11,414	45,574
Net Transfers/Adjustments	(87,000)	(87,000)	(11,000)	40,000
Ending Fund Balance	(53,423)	(66,449)	(66,035)	19,539

The City had maintained a positive fund balance up to the fiscal year end 2018. However the large transfers out have created a negative fund balance. Due to CPA council, they have changed their procedures which will reverse that trend. The transfers out was for the purpose of supporting other funds. Overall the City has managed the funds in a positive manner.

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.

Summary of Revenues, Expenditures, and Debt Service Coverage						
Chiloquin						
PRO FORMA	Current FY		Projected			
Year (ending June 30th)	2021	2022	2023	2024	2025	2026
Beginning Fund Balance	95,780	109,546	112,839	116,026	127,967	146,521
Operating Revenues						
Charges for Service	180,000	185,994	192,188	198,587	205,200	211,356
Interest & Misc.	1,500	1,900	1,900	1,900	1,900	1,900
Klamath Tribe Reimbursement	5,158	5,200	5,200	5,200	5,200	5,200
Total Operating Revenues	186,658	193,094	199,288	205,687	212,300	218,456
Operating Expenses						
Personal Services	109,101	109,101	109,101	85,000	85,000	85,000
Materials & Services	58,500	58,500	58,500	10,000	10,000	10,000
Total Operating Expenses	167,601	167,601	167,601	95,000	95,000	95,000
Debt Service						
Funds Avail for Debt Coverage	19,057	25,493	31,687	110,687	117,300	123,456
OBDD - L00011	4,958	4,958	4,958	4,958	4,958	4,958
DEQ	11,333	17,242	17,242	17,242	17,242	17,242
DEQ	0	0	0	33,046	33,046	33,046
IFA Proposed Loan	0	0	6,300	34,500	34,500	34,500
Total Debt Service	16,291	22,200	28,500	89,746	89,746	89,746
<i>Debt Service Coverage Ratio</i>	<i>1.17</i>	<i>1.15</i>	<i>1.11</i>	<i>1.23</i>	<i>1.31</i>	<i>1.38</i>
Other Activities						
Cash Avail After Debt Service	2,766	3,293	3,187	20,941	27,554	33,710
Loan Proceeds / Drawdowns	0	3,221,871	1,610,935	0	0	0
Capital Outlay (OUT)	(9,000)	(3,221,871)	(1,610,935)	(9,000)	(9,000)	(9,000)
Net Other Activity	(9,000)	0	0	(9,000)	(9,000)	(9,000)
Net Transfers & Adjustments	20,000	0	0	0	0	0
Ending Fund Balance	109,546	112,839	116,026	127,967	146,521	171,231
Avg. Rev's per EDU (calc)	\$47.77	\$49.20	\$50.68	\$52.20	\$53.77	\$55.21
Rate per EDU (app)	\$44.33	\$46.00	\$48.00	\$49.00	\$50.00	\$51.00
Connections (app)	314	315	316	317	318	319

The City has maintained a consistent trend of raising user rates since a resolution in 2005. That trend will continue for the next several years. It is believed that when this project is complete the overall expenses will dramatically decline. Two of the above loans will drop off beginning in fiscal year 2027.

Existing obligations and risks

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

Summary of Outstanding Debt Obligations						
Chiloquin						
Loan Source	June 30 2020	Annual Debt	Payment Source	FF&C	Debt	Maturity
	Balance	Service		Pledged	Priority	
OBDD - SPWF L00011	\$63,611	\$9,916	Utility Fund	Yes	Parity	2027
DEQ	\$75,390	\$17,242	Sewer Fund	No	Subordinate	2027
OBDD - SDWRLF S17021	\$342,000	\$13,300	Water Fund	No	N/A	2050
OTIB	\$133,168	\$12,379	Water Fund	No	N/A	2032
Self-Supporting Debt	\$614,169	\$52,837				

The OBDD loan (L00011) is split 50/50 between the water fund and the sewer fund. The DEQ loan was just recently fully disbursed and full payments will begin in fiscal year 2022. The OBDD–SDWRLF (S17021) is still in disbursement and the first payment date is December 1, 2023.

COVID-19 Pandemic Response

Covid 19 hasn’t impacted their day to day operations concerning our water and sewer bills and account receivables. Most customers are paying as usual and those that are sometimes late are still often late. There have been a few that have lost their jobs and felt they couldn’t pay, but they referred them to Klamath and Lake Community Action Services that had financial assistance for situations such as this. Those residents were able to get the help they needed.

Underwriting standards

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

- Unemployment Rate as a Percentage of State Avg. [111.69% is not < 110% standard]
- Per Capital Income as Percentage of State Avg. [79.87% is not > 85% standard]
- Number of Connections. [343 is not > 1,500 standard]
- General Fund Balance as a % of Expenses. [-32.5% is not > 3% standard]
- Top 10 Taxpayers as % of Total Tax Collections. [16.93% is not < 15% standard]

The table on the following page shows the top 10 taxpayers and reflects that Centurylink is a heavy weighted taxpayer but is a stable company and shouldn’t give any concern for continued revenue.

Top Ten Taxpayers	2020
Centurylink	\$7,646
Pacificorp	\$3,426
Union Pacific RR	\$3,198
Scanlan Kevin	\$2,025

Top Ten Taxpayers	2020
Severlin James	\$1,670
Prewitt Jill	\$1,520
Great Spirit Church	\$1,101
Caldwell Steven	\$1,049
Chocktoot Properties	\$1,045
Furseth Dale	<u>\$1,028</u>
Total	\$23,708

Risk Analysis Summary:

The City of Chiloquin has operated, for the better part, on a marginal basis but has managed to overall operate successfully. The City, on projects like this, needs as much financial support as they can get to meet the needs of the community.

Applicant's bond rating The applicant does not have bonds rated by a nationally recognized ratings agency; (Moody's, S&P, etc).

Financial statement of program W/W, as of January 3, 2021.

1. Available funds \$18,798,136
2. Remaining balance, if the project is approved, is \$17,158,136
3. 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/W	\$1,640,000	\$750,000	<u>\$890,000</u>	1.0%	30	\$34,500
Total	<u>\$1,640,000</u>	<u>\$750,000</u>	<u>\$890,000</u>			<u>\$34,500</u>

*Rate is Business Oregon minimum allowable rate. Payment rounded to nearest \$100.

Financial Recommendation

On loans of this size OBDD has typically gone to the bond bank to fund the loan portion. However, because of the financial status of the community it is felt that it is best to finance this portion of the overall project as Water/Wastewater and totally under the disadvantaged structure.

Applicants under the Water/Wastewater 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 W/W program, 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.

Based on 2019 American Community Survey data, the MHI for city of Chiloquin was \$32,426 (54.6% of Statewide MHI) indicating an indexed (1.25%) affordability rate of \$33.78 per Equivalent Dwelling Unit (EDU) per month. The city's current sewer user charge \$44.33 on a flat rate basis, and will increase at 3% each year for the next several years, which is well above the indicated affordability rate. Because the city is classified as disadvantaged we are recommending a grant of \$750,000 and a loan of \$890,000 at a subsidized rate of 1.0% for a term 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 July 1, 2021. 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 1.0% for this phase. Construction is scheduled for completion by December 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, 2023 . 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.

The present value of the interest rate subsidy is based on a current direct rate of 2.38% and the subsidized rate of 1.0% is \$156,516.

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. All amounts due under this Contract are 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 the Oregon DEQ in the amount of \$1,300,000 and the Business Oregon (CDBG program) which must be received before funds are disbursed. Recipient shall provide copy of award letter as evidence of award.

Instructions

Not applicable

List of Attachments

1. Financial Summary

Budget recommends that this award come from Oregon Bond Bank Program Funds

/s/ David Barnett 2/1/2021

David Barnett Date
Senior Finance Accountant (Budget)

APPROVAL:

X Approve project and recommendation as submitted

Approve project and recommendation with the following modifications:

/s/ Chris Cummings 2/1/2021
Chris Cummings, Assistant Director Date
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.

Infrastructure Finance Authority Board has discussed the proposed project and has concluded to approve the award with the following modifications:

Chris Cummings, Assistant Director Board Meeting Date
Economic Development