

MEMORANDUM

February 1, 2021

TO: Chris Cummings, Interim Director
THRU: Melisa Drugge, Regional Development Manager
FROM: Matthew Mattia, Regional Project Manager
Janna Graham, Finance Officer
SUBJ: Funding Opportunity of \$10,083,000–Special Public Works Fund Program for Sunrise Water Authority, Administration & Field Operations Facility, No. 4754-14266

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

The Sunrise Water Authority (SWA) is a public utility serving drinking water to approximately 50,000 residents in the City of Happy Valley, parts of the City of Damascus, and surrounding areas of unincorporated Clackamas County. The SWA service area covers about 22.5 square miles and is located within the Portland Metro Area, SE of the City of Portland, east of I-205, and is considered urban, non-distressed. The City of Happy Valley has a race/ethnicity profile of 75% White, 17.6% Asian, 0.8% Black, 0.6% Native American, and 6.5% Hispanic. The race/ethnicity profile for the City of Damascus is 88.6% White, 3.8% Asian, 0.6% Black, 2.5% Native American, and 6.4% Hispanic.

Funding Request: Loan

Project Type:

- Planning (technical)
- Design
- Construction

SPWF Source: SPWF Other

Project Background:

The Sunrise Water Authority's existing administration and field operations buildings were built over 50 year ago and are located in a dense urban, residential area that is no longer zoned for its primary purpose. Moreover, the existing facility is undersized and lacks adequate space to properly support present and future operations. Sunrise Water Authority (SWA) currently serves about 16,500 connections, with more than 90% of its customers being single family residences and they expect to add more than 10,000 additional connections over the next 20 years.

In 2004, SWA purchased property to build a new administrative and field operations facility, located at SE Armstrong Cir & SE 172nd Ave Happy Valley, OR. The new facility will be the first of many future tenants within the City of Happy Valley's new Employment Center (EC) Zone. SWA has completed their preliminary plans and they are ready to move forward with the final design and construction. The estimated construction cost is \$15,000,000. Sunrise is looking for a \$10,083,000 loan in support of the construction of the new facility.

Project Description: Recipient will design and construct a new public works administrative and field operations facility. The property is already owned by the recipient and preliminary design includes a new 13,400 sq. ft. administrative building, 11,000 sq. ft. shop and covered storage, fueling station, vehicle wash facility and material storage area.

Work Plan: The project is scheduled to be "shovel ready" by June 1, 2021 and be completed by December, 2022; a description of each primary activity and anticipated dates are provided in the table below.

Public Involvement Statement: The Sunrise Water Authority Board of Commissioners had a public meeting on the project on December 16, 2020 and the design for the building was approved formally in the budget process in spring of 2020.

FINDINGS AND ANALYSIS

This project helps implement the following goals and objectives:

Special Public Works Fund (ORS 285.B.413 (2)):

- 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 by increasing traded sector jobs.

Program Findings & Compliance

1. Applicant eligibility: The Sunrise Water Authority is an eligible municipality per OAR 123-042-0020(16).
2. Project compliance: Not compliance related.
3. Project priority is high.
4. Program suggestions and/or monitoring: standard on-site monitoring procedure for the construction projects.
5. 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- SPWF	Other Funds	Totals
Design / Engineering	\$0	\$1,300,000	\$1,300,000
Construction	\$10,000,000	\$3,500,000	\$13,500,000
Construction Contingency	\$0	1,500,000	1,500,000
Legal Fees	\$0	\$0	\$0
Construction Management	\$0	\$450,000	\$450,000
Bond Issuance Fee	\$83,000	\$0	\$83,000
Total	\$10,083,000	\$6,750,000	\$16,833,000

Proposed Work Plan

Activity	Date
Preliminary Design, retained FFA Architects	Nov 30, 2020
Design/Permitting	Jul 31, 2021
Bid/Contractor Selection/Award	Sep 30, 2021
Construction	Oct 31, 2022
Project Closeout	Dec 15, 2022

Source of Business Oregon Funds (Indicate Loan/Grant/Principal Forgiveness, Bond, Private or Public, and Taxable or Tax Exempt)	Amount
Special Public Works Fund (SPWF)–Loan, Public, Bond, Tax Exempt (interim IFA funds-Taxable)	\$10,083,000
Total	\$10,083,000

Source of Other Funds (For other State funds, indicate loan/grant, etc.)	Amount
Sunrise Water Authority Cash on Hand	\$6,750,000
Total	\$6,750,000

Financial Findings & Compliance

Repayment source

The table below shows historic revenue from the Applicant’s General and Revenue Bond Reserve Fund for the last three audited fiscal years, and the most current unaudited, ending June 30, 2020.

General and Revenue Bond Reserve Funds
Sunrise Water Authority

Performance Review	audited	audited	audited	unaudited
FY Ending June 30th	2017	2018	2019	2020
Beginning Fund Balance	13,940,964	16,849,611	20,721,165	14,562,493
Revenues				
Charges for Water Services	9,227,066	10,392,884	10,832,677	10,429,892
Operating Revenues	9,227,066	10,392,884	10,832,677	10,429,892
Interest and Miscellaneous	120,363	330,760	590,161	305,553
Sales of Assets	13,409	5,720	16,160	30,335
Total Non-Operating Revenues	133,772	336,480	606,321	335,888
Total Revenues	9,360,838	10,729,364	11,438,998	10,765,780
Expenditures				
Personal Services	2,216,726	2,472,912	2,708,461	2,966,436
Materials & Services	3,789,030	3,766,152	4,171,587	4,131,644
Total Operating Expenses	6,005,756	6,239,064	6,880,048	7,098,080
Net Operating Income	3,221,310	4,153,820	3,952,629	3,331,812
Capital Outlay	1,194,413	3,845,285	9,267,622	1,070,270
Debt Service	2,155,000	1,777,200	1,786,800	1,788,800
Total Expenses	9,355,169	11,861,549	17,934,470	9,957,150
Net Revenues	5,669	(1,132,185)	(6,495,472)	808,630
Net Transfers/Adjustments	2,902,978	5,003,739	336,800	(4,029,474)
Ending Fund Balance	16,849,611	20,721,165	14,562,493	11,341,649

The table above includes both the General Fund and Revenue Bond Reserve Fund. The latter was incorporated in this analysis due to the system debt, and some miscellaneous income being represented there.

Sunset Water Authority built two reservoirs and had a major pipeline replacement in 2019, reflected in the large capital outlay figure.

Water revenues increased in 2018 due to a rate increase. In 2019 based on warmer weather and many commercial users utilizing water for irrigation, revenues were higher. They resumed anticipated levels in 2020.

Transfers are primarily moving funds in and out of a separate System Development Charge (SDC) Fund. They have used SDC funds for debt service in recent years. Their most recent (2020) transfer out, is in preparation to retire their 2014 revenue refunding bonds.

Debt service analysis

Net Revenues for Debt Coverage: The table below reflects the Projected Net Revenues for the Applicant's General and Revenue Bond Reserve Funds 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						
Sunrise Water Authority						
PRO FORMA	Projected					
Year (ending June 30th)	2021	2022	2023	2024	2025	2026
Beginning Fund Balance	14,800,000	14,177,000	8,433,000	7,834,800	7,049,800	8,069,800
Operating Revenues						
Charges for Water Services	10,500,000	11,025,000	11,576,000	12,155,000	12,762,000	13,400,000
Interest & Miscellaneous	510,000	500,000	500,000	500,000	500,000	500,000
Total Operating Revenues	11,010,000	11,525,000	12,076,000	12,655,000	13,262,000	13,900,000
Operating Expenses						
Personal Services	3,688,000	3,872,000	4,066,000	4,269,000	4,483,000	4,707,000
Materials & Services	4,772,000	4,939,000	5,112,000	5,290,000	5,476,000	5,668,000
Total Operating Expenses	8,460,000	8,811,000	9,178,000	9,559,000	9,959,000	10,375,000
Debt Service						
Funds Avail for Debt Coverage	2,550,000	2,714,000	2,898,000	3,096,000	3,303,000	3,525,000
Revenue Refunding Bonds 2014	1,698,000	1,698,000	1,698,000	1,698,000		
IFA Proposed Loan	FALSE	FALSE	148,200	483,000	483,000	483,000
Total Debt Service	1,698,000	1,698,000	1,846,200	2,181,000	483,000	483,000
<i>Debt Service Coverage Ratio</i>	1.50	1.60	1.57	1.42	6.84	7.30
Other Activities						
Cash Avail After Debt Service	852,000	1,016,000	1,051,800	915,000	2,820,000	3,042,000
Loan Proceeds / Drawdowns		10,000,000				
Capital Outlay (OUT)	(1,475,000)	(16,760,000)	(1,650,000)	(1,700,000)	(1,800,000)	(1,900,000)
Other Non-Operating Activity						
Net Other Activity	(1,475,000)	(6,760,000)	(1,650,000)	(1,700,000)	(1,800,000)	(1,900,000)
Net Transfers IN (OUT)						
Net Transfers & Adjustments	0	0	0	0	0	0
Ending Fund Balance	14,177,000	8,433,000	7,834,800	7,049,800	8,069,800	9,211,800
Avg. Rev's per EDU (calc)*	\$49.20	\$50.68	\$52.28	\$53.94	\$55.68	\$57.49
Rate per EDU (app)*	\$43.00	\$45.00	\$47.00	\$50.00	\$52.50	\$55.00
EDU's (app)	18,650	18,950	19,250	19,550	19,850	20,150
Connections (app)	16,500	16,750	17,000	17,250	17,500	17,750

*The difference between Avg. Rev's per EDU (calc) and Rate per EDU (app) above, is attributed to commercial revenue influence.

The Water Authority plans to retire the 2014 Revenue Refunding Bonds in 2021. For this loan analysis that payment obligation is reflected through 2024, when it is due to retire. As demonstrated, the Debt Service Coverage Ratio (DCR) is adequate to service both the 2014 Revenue Refunding Bonds as well as this debt, if there were to be overlap.

The beginning fund balance in the borrower’s proforma is based on cash in the bank as of July 31, 2020 in lieu of the ending fund balance of the 2020 CAFR.

The proforma reflects intended, not yet adopted, rate increases of approximately 5% per year. Their most recent rate increases were in 2015 and provided for increases thru 2018.

Existing obligations and risks

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

Summary of Outstanding Debt Obligations						
Sunrise Water Authority						
Loan Source	June 30 2020	Annual Debt	Payment	FF&C	Debt	Maturity
	Balance	Service	Source	Pledged	Priority	
Net Direct Debt						
General Obligation Bonds	\$0	\$0	General Fund			2000
LTGO Bonds	\$0	\$0	Revenue Fund			2000
<i>Net Direct Debt</i>	\$0	\$0				
Self-Supporting Debt						
Revenue Refunding Bonds 2014	\$5,953,372	\$1,788,800	Revenue Fund	No	Superior	2024
Other Self-Supporting Bonds	\$0	\$0	Revenue Fund			2000
<i>Self-Supporting Debt</i>	\$5,953,372	\$1,788,800				
Gross Bonded Debt	\$5,953,372	\$1,788,800				

The Water Authority has demonstrated conservative use of debt. They appear to plan and self-fund most projects. Their revenue bonds do not have a FF&C pledged, but will be in a superior lien position to our loan until it is paid off in the next couple of years.

COVID-19 Financial Impact Statement:

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions in the U.S., accelerating during the first half of March, as federal, state and local governments react to the public health crisis, creating significant uncertainties in the U.S. economy. This situation is rapidly changing, and additional impacts may arise that we are not aware of currently. While the disruption is currently expected to be temporary, there is uncertainty around the duration. The ultimate impact of the pandemic on the results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time.

In April 2020, shut-offs were suspended due to COVID-19. As of June 30, 2020, there were 281 shut-offs suspended for COVID-19 total \$39,701.

Underwriting standards

The Applicant meets 10 of the 10 applicable indicators in the attached Financial Summary.

RISK ANALYSIS SUMMARY: Sunrise Water Authority has demonstrated good fiscal management. They are formed as an Authority vs. District. Being an Authority eliminates the ability of surrounding cities to induct customers away from the Authority, thus reducing financial risk and lending strength to repayment.

Applicant’s bond rating The Sunrise Water Authority currently has a Standard & Poor’s AA rating. This rating is indicative of strong loan repayment potential and financial stability.

Financial statement of program SPWF, as of January 3, 2021

1. Available funds 28,200,118
2. Remaining balance, if the project is approved, is \$18,117,118
3. Recipient has no existing loans with Business Oregon.

Project Repayment Phase Loan Summary

Type	Award Amount	Grant Amount	Total Loan Amount	Interest Rate**	Amortized [in years]	Est. Annual Payment*
SPWF	\$10,083,000	\$0	\$10,083,000	2.52%	30	\$483,000
Total	\$10,083,000	\$ 0	\$10,083,000			\$483,000

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

FINANCIAL RECOMMENDATION

The applicant and project qualifies for a SPWF Bond Bank loan of \$10,083,000. This includes the \$83,000 bond bank issuance fee.

The proposed SPWF loan will be structured in two phases. Until state revenue bonds are sold, an interim loan will be used for the first phase, Construction Phase, and will accrue interest on actual funds disbursed, estimated first disbursement is October 1, 2021. All accrued interest during the construction phase (estimated to be approximately \$148,200), will be due prior to or with the first principal and interest payment. The interim loan interest rate will be set at 0.75%. Construction is scheduled for completion by October 31, 2022. Interim financing is typically limited to, but not to exceed, 3 years. Even though the project may be completed prior to that time, these terms will be extended, if necessary, until the state revenue 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, 2023. The interest rate is estimated to be at 2.52% for the repayment phase. The exact rate will be known when bonds are sold. The

“Repayment Phase Loan Summary” table above, summarizes the repayment phase of the proposed financing.

Present value of the subsidized rate vs the Oregon Short Term Fund

For a loan slated to go to the bond bank, there is no present value calculation necessary. Interest charged will be at the Interim rate, a net even cost of funds. This rate continues until bonds are sold and the permanent rate set at bond sale. This is not a subsidized rate.

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 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 is “No Parity or Senior Debt”. (For future debt; this does not pertain to their existing senior debt).

List of Attachments

- 1. Financial Summary

Budget recommends that this award come from [X] 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
Economic Development

Board Meeting Date