

# MEMORANDUM

March 15, 2021

**TO:** Chris Cummings, Assistant Director, Economic Development  
**THRU:** Ed Tabor, Program & Incentives Manager  
**FROM:** Tawni Bean, Regional Project Manager  
Dennis Knight, Finance Officer  
**SUBJ:** Amendment of Funding Opportunity of \$5,853,565 – Safe Drinking Water Revolving Loan Fund Program for the City of Sutherlin, Nonpareil Water Treatment Plant Improvements, Project No. S19026

Please accept this memorandum for the *Oregon Infrastructure Finance Authority* (IFA) for funding assistance award amendment. Business Oregon's (statutorily and by rule referred to as *Oregon Business Development Department*) staff administers the IFA. This memorandum will provide a request review, findings and analysis, and staff's recommendation for requested action. There may also be post approval follow-up instructions for staff.

## BACKGROUND

AMENDMENT RECOMMENDATION: On June 21, 2019, the Infrastructure Finance Authority Board at Business Oregon approved an award of \$3,937,773, from the Safe Drinking Water Revolving Loan Fund. Project is scheduled to be completed by September 15, 2022, no funds have been disbursed to-date. The Recipient now requests an amendment to:

1. Increase the previously awarded loan by \$1,915,792, as shown in the table below. This increase is necessary because the scope of work changed due to the retrofit nature of the project, as the plant was further evaluated, as well as bids came in higher than expected.
2. Revise the scope of work with this:
  - Intake building improvements, including new air compressor, new actuated valve, electrical improvements and radio telemetry system.
  - Raw water pump station improvements, including new pumps, new controls, new canopy, new concrete slab, and new fence and gate.
  - Intake vault improvements, including new magnetic flow meter and new static mixer.
  - Clarifier improvements, including sand blasting and coating, lead paint removal/disposal, new walkway, new tube settlers, electrical improvements, new valves, new sludge wasting valve and flow meter.

- Filter system improvements, new underdrain system, new air scour system (blowers, piping, valves) and canopy over them, new media, new piping, new valves, electrical improvements, new instrumentation, and other appurtenances.
- Main Water Treatment Plant improvements, new electrical room with new control panels and Motor Control Center.
- Other improvements entail installation of new pumps for flow meter, treated water and potable water (which includes a new pressure tank); installation of a new treated water flow meter with access hatch; install chemical feed systems; installation of new backwash basins; installation of streaming current monitor and associated systems; installation of a new SCADA control system; and site improvements, fencing, and yard piping.

**Funding Recommendation**

Budget Line Items	SDWRLF	Other Funds	Totals
Design / Engineering	\$471,580	\$250,000	\$721,580
Construction	\$4,810,485	\$0	<u>\$4,810,485</u>
Construction Contingency	\$481,500	\$0	<u>\$481,500</u>
Labor Standards	\$15,000	\$0	<u>\$15,000</u>
Project Management	\$15,000	\$0	<u>\$15,000</u>
Legal Fees	\$30,000	\$0	<u>\$30,000</u>
Permitting and Regulatory Fees	\$30,000	\$0	<u>\$30,000</u>
<b>Total</b>	<b><u>\$5,853,565</u></b>	<b><u>\$250,000</u></b>	<b><u>\$6,103,565</u></b>

	Amount Awarded	Amount Requested by Amendment*	Total Amended Award
Safe Drinking Water Revolving Loan Fund – Loan, Public, Tax Exempt	\$ 3,557,773	\$1,915,792	\$5,473,565
Safe Drinking Water Revolving Loan Fund – Principal Forgiveness	\$380,000	\$ 0	\$380,000
<b>Total Business Oregon Funds</b>	<b>\$3,937,773,</b>	<b>\$1,915,792</b>	<b>\$5,853,565</b>
City of Sutherlin	\$250,000	\$ 0	\$250,000
<b>Total Project Cost</b>	<b>\$4,187,773</b>	<b>\$1,915,792</b>	<b>\$6,103,565</b>

\* Complete this column if the amendment will increase or decrease the approved award.

**FINANCIAL ANALYSIS:**

**Repayment source**

The table below shows historic revenue from the Applicant’s Water Fund for the last four audited fiscal years ending June 30, 2020.

<b>Water Fund</b>
<b>City of Sutherlin</b>

<b>Performance Review</b>	<b>audited</b>	<b>audited</b>	<b>audited</b>	<b>audited</b>
<b>FY Ending June 30th</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Beginning Fund Balance	232,464	347,164	244,608	462,199
<b><u>Revenues</u></b>				
Charges for Services	2,001,274	2,069,591	2,189,557	2,203,317
System Development Charges	1,976	10,127	11,082	4,199
<b>Operating Revenues</b>	<b>2,003,250</b>	<b>2,079,718</b>	<b>2,200,639</b>	<b>2,207,516</b>
Interest and Miscellaneous	36,377	31,692	29,701	29,712
Other Non-Operating Revenues	0	0	0	0
<b>Total Non-Operating Revenues</b>	<b>36,377</b>	<b>31,692</b>	<b>29,701</b>	<b>29,712</b>
<b>Total Revenues</b>	<b>2,039,627</b>	<b>2,111,410</b>	<b>2,230,340</b>	<b>2,237,228</b>
<b><u>Expenditures</u></b>				
Personal Services	943,200	981,400	1,001,028	1,018,690
Materials & Services	356,727	357,566	377,331	386,580
<b>Total Operating Expenses</b>	<b>1,299,927</b>	<b>1,338,966</b>	<b>1,378,359</b>	<b>1,405,270</b>
<b>Net Operating Income</b>	<b>703,323</b>	<b>740,752</b>	<b>822,280</b>	<b>802,246</b>
Capital Outlay	0	0	9,390	0
Debt Service	0	0	0	0
Total Expenses	1,299,927	1,338,966	1,387,749	1,405,270
<b>Net Revenues</b>	<b>739,700</b>	<b>772,444</b>	<b>842,591</b>	<b>831,958</b>
Net Transfers/Adjustments	(625,000)	(875,000)	(625,000)	(625,000)
<b>Ending Fund Balance</b>	<b>347,164</b>	<b>244,608</b>	<b>462,199</b>	<b>669,157</b>

Fiscal year 2019 experienced a greater revenue increase due to new connections and rate increase. The large transfers out are shared between their Water Debt Fund and Water Capital Improvement Fund.

## General Fund summary

The table on the following page shows a performance review of the Applicant's General Fund for the last four audited fiscal years ending June 30, 2020.

<b>General Fund</b>
<b>City of Sutherlin</b>

<b>Performance Review</b>	<b>audited</b>	<b>audited</b>	<b>audited</b>	<b>audited</b>
<b>FY Ending June 30th</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Beginning Fund Balance	1,852,445	2,286,718	2,836,120	3,611,089
<b><u>Revenues</u></b>				
Property Taxes	2,715,157	2,808,881	2,937,087	3,109,998
Other Operating Revenues	594,258	586,283	622,924	604,414
<b>Operating Revenues</b>	<b>3,309,415</b>	<b>3,395,164</b>	<b>3,560,011</b>	<b>3,714,412</b>
Interest and Miscellaneous	94,852	89,505	155,996	182,444
Intergovernmental	611,010	494,460	509,089	557,986
<b>Total Non-Operating Revenues</b>	<b>705,862</b>	<b>583,965</b>	<b>665,085</b>	<b>740,430</b>
<b>Total Revenues</b>	<b>4,015,277</b>	<b>3,979,129</b>	<b>4,225,096</b>	<b>4,454,842</b>
<b><u>Expenditures</u></b>				
General Government	1,623,981	1,552,382	1,575,357	1,700,306
Public Safety	2,515,667	2,568,349	2,870,359	3,243,303
<b>Total Operating Expenses</b>	<b>4,139,648</b>	<b>4,120,731</b>	<b>4,445,716</b>	<b>4,943,609</b>
<b>Net Operating Income</b>	<b>(830,233)</b>	<b>(725,567)</b>	<b>(885,705)</b>	<b>(1,229,197)</b>
Capital Outlay	373,589	383,971	210,311	654,432
Debt Service	217	0	0	0
Total Expenses	4,513,454	4,504,702	4,656,027	5,598,041
<b>Net Revenues</b>	<b>(498,177)</b>	<b>(525,573)</b>	<b>(430,931)</b>	<b>(1,143,199)</b>
Net Transfers/Adjustments	932,450	1,074,975	1,205,900	1,194,700
<b>Ending Fund Balance</b>	<b>2,286,718</b>	<b>2,836,120</b>	<b>3,611,089</b>	<b>3,662,590</b>

Total revenues and total expenses showed steady increases and with net transfers in, ending fund balances showed continual increases.

## Debt service analysis

Net Revenues for Debt Coverage: The table on the following page 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.

**Summary of Revenues, Expenditures, and Debt Service Coverage**

**City of Sutherlin**

Pro Forma                                      Current FY                                      Projected

<b>Year (ending June 30th)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Beginning Fund Balance	354,148	8,082,947	13,028,006	13,683,986	14,126,389	14,614,990

**Operation Revenues**

Charges for Service	2,203,317	2,357,378	2,428,099	2,500,942	2,575,970	2,653,249
SDC Charges	4,199	10,000	10,000	10,000	10,000	10,000
Interest & Misc.	29,712	35,000	35,000	35,000	35,000	35,000
<b>Total Operating Revenues</b>	<b>2,237,228</b>	<b>2,402,378</b>	<b>2,473,099</b>	<b>2,545,942</b>	<b>2,620,970</b>	<b>2,698,249</b>

**Operation Expenses**

Personal Services	1,018,690	1,040,060	1,060,800	1,080,040	1,100,660	1,125,000
Materials & Services	386,580	395,300	402,190	410,240	418,450	426,800
<b>Total Operating Expenses</b>	<b>1,405,270</b>	<b>1,435,360</b>	<b>1,462,990</b>	<b>1,490,280</b>	<b>1,519,110</b>	<b>1,551,800</b>

**Debt Service**

<b>Funds Avail for Debt Coverage</b>	<b>831,958</b>	<b>967,018</b>	<b>1,010,109</b>	<b>1,055,662</b>	<b>1,101,860</b>	<b>1,146,449</b>
Revenue Bonds	172,374	172,374	172,374	172,374	172,374	172,374
USDA-RD	179,486	179,486	179,486	179,486	179,486	179,486
OBDD SPWF B07005	49,299	49,299	49,299	49,299	49,299	49,299
OBDD SDWRLF S19026 (this project original award)	0	20,800	137,900	137,900	137,900	137,900
IFA Amendment	0	0	74,200	74,200	74,200	74,200
<b>Total Debt Service</b>	<b>401,159</b>	<b>421,959</b>	<b>613,259</b>	<b>613,259</b>	<b>613,259</b>	<b>613,259</b>
<b>Debt Service Coverage Ratio</b>	<b>2.07</b>	<b>2.29</b>	<b>1.65</b>	<b>1.72</b>	<b>1.80</b>	<b>1.87</b>

**Other Activities**

<b>Cash Avail After Debt Service</b>	<b>430,799</b>	<b>545,059</b>	<b>396,850</b>	<b>442,403</b>	<b>488,601</b>	<b>533,190</b>
Loan Proceeds / Drawdowns	3,649,000	2,200,000	4,565	0	0	0
Capital Outlay (OUT)	3,649,000	2,200,000	254,565	0	0	0
<b>Net Other Activity</b>	<b>7,298,000</b>	<b>4,400,000</b>	<b>259,130</b>	<b>0</b>	<b>0</b>	<b>0</b>
<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>8,082,947</b>	<b>13,028,006</b>	<b>13,683,986</b>	<b>14,126,389</b>	<b>14,614,990</b>	<b>15,148,180</b>
<b>Avg. Rev's per EDU (calc)</b>	<b>\$50.18</b>	<b>\$53.17</b>	<b>\$54.02</b>	<b>\$54.89</b>	<b>\$55.79</b>	<b>\$56.71</b>
<b>Rate per EDU (app)</b>	<b>\$55.00</b>	<b>\$55.00</b>	<b>\$55.00</b>	<b>\$55.00</b>	<b>\$55.00</b>	<b>\$56.00</b>
<b>EDU's (app)</b>	<b>3,715</b>	<b>3,765</b>	<b>3,815</b>	<b>3,865</b>	<b>3,915</b>	<b>3,965</b>
<b>Connections (app)</b>	<b>2,983</b>	<b>3,033</b>	<b>3,083</b>	<b>3,133</b>	<b>3,183</b>	<b>3,233</b>

Rate increases are actually tied to the consumer price index (CPI) but for the pro-forma a 3% increase was used and expenses were factored at a 2% annual increase.

### Existing obligations and risks

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

<b>Summary of Outstanding Debt Obligations</b>
<b>City of Sutherlin</b>

Loan Source	30-Jun-20 Service	Annual Debt	Payment Source	Pledge Type	Maturity
<b>Loan Source</b>	<b>30-Jun-20</b>	<b>Annual Debt Service</b>	<b>Payment Source</b>	<b>Pledge Type</b>	<b>Maturity</b>
<b>Net Direct Debt</b>					
2005 GO Bond	\$260,000	\$58,000	Bond Repay Fund	FF&C	2024
2012 Refunding Bonds	\$255,000	\$77,345	Bond Repay Fund	FF&C	2024
2017 ODOT Note	\$505,000	\$35,570	Revenue Fund	Other	2031
<i>Net Direct Debt</i>	<b>\$1,020,000</b>	<b>\$170,915</b>			
<b>Self-Supporting Debt</b>					
Revenue Bonds	\$1,175,000	\$172,374	Water Fund	Revenue Pledge	2028
USDA-RD	\$4,153,906	\$179,486	Water Fund	Revenue Pledge	2055
OBDD - SPWF B07005	\$483,228	\$48,299	Water Fund	Revenue Pledge	2032
OBDD - WWF Y15001	\$2,087,234	\$145,259	Sewer Fund	Revenue Pledge	2038
<i>Self-Supporting Debt</i>	<b>\$7,899,368</b>	<b>\$545,418</b>			
<b>Gross Bonded Debt</b>	<b>\$8,919,368</b>	<b>\$716,333</b>			

### Underwriting standards

The Applicant meets 17 of the 20 applicable indicators in the attached Financial Summary. The following indicators are not met:

- Per Capita Income as Percentage of State Avg. [80.5% is not > 85% standard]
- Revenue Debt Per Capita (mry) [\$725 is not < \$650 standard]
- Percentage of Debt Retired in 10 Years [48.17% is not > 60% standard]

**Applicant's bond rating** Sutherlin has no current bond rating.

**Financial statement of program** SDWRLF as of February 7, 2021

1. Available funds \$36,627,217
2. Remaining balance, if the project is approved, is \$34,711,425

3. All existing Business Oregon loans are paid as agreed

Project Repayment Phase Loan Summary

Type	Award Amount	Principal Forgiveness	Total Loan Amount	Interest Rate*	Amortized in years	Est. Annual Payment*
SDWRLF	\$3,937,773	\$380,000	\$3,557,773	1.0%	30	\$137,900
SDWRLF	\$1,915,792	\$0	\$1,915,792	1.0%	30	\$74,200
<b>Total</b>	<b>\$5,853,565</b>	<b>\$380,000</b>	<b>\$5,473,565</b>			<b>\$212,100</b>

\*Rate is OBDD Minimum Loan rate for Disadvantaged. Payment rounded to nearest \$100.

**Funding Recommendation and Conditions of Award**

Applicants under the SDWRLF program may be determined to be a Disadvantaged Community and qualify for forgivable loan, reduced interest rate and an extended repayment term.

The City of Sutherlin qualifies as a Disadvantaged Community due to their projected user rate of \$55.00 by completion date, their MHI of \$36,054 being below the state average and their affordability rate, which is \$37.56, is below their user rate. However, their original award exhausted the allowable principal forgiveness and this amended amount will be awarded as loan only.

Financing is amended in the amount of \$1,915,792 which is to be distributed as follows:

- \$1,915,792 SDWRLF Loan; 30 year term loan at a 1.0% interest rate.

**The present value of the interest rate subsidy is based on a current SDWRLF rate of 1.7% and the subsidized rate of 1.0% is \$521,570.**

**FINANCIAL CONDITIONS:**

**Conditions will be consistent with the original loan awarded.**

Recipient to provide an updated disbursement schedule.

**List of Attachments**

1. Original or Previous Award Staff Recommendation

