

MEMORANDUM

May 21, 2021

TO: Chris Cummings, Assistant Director, Economic Development
THRU: Melisa Drugge, Regional Development Manager
FROM: Matthew Mattia, Regional Project Manager
Rich Rodriguez, Finance Officer
SUBJ: Funding Opportunity of \$4,030,000 – Safe Drinking Water Revolving Loan Fund Program for City of The Dalles, The Dalles Municipal Watershed Dog River Pipeline Replacement Project, No. 256-13368

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 The Dalles is the county seat of Wasco County, located along the Columbia River and I-84, in the north central part of the state of Oregon. The Dalles has a population of 14,735 persons and is considered a rural, non-distressed area by Business Oregon. The U.S. Census Department's 2018 American Community Survey reveals the city is approximately 1% Black, 1% American Indian and Alaska Native, 1% Asian, 1% Pacific Islander, 18% Hispanic/Latino, and 90% White (numbers may not sum to 100%).

Funding Request: Loan & Principal Forgiveness

Project Type:

- Planning (technical)
- Design
- Construction

Project Background: The Dog River Pipeline is a 3.5 mile raw-water transmission pipeline, which currently diverts up to eight million gallons of water per day from the Dog River watershed to the South Fork Mill Creek watershed as part of the city of The Dalles water system. The Dog River Pipeline was originally constructed of wood staves in the 1800s or early 1900s, but a portion was replaced with steel in 1974. The pipeline is located in the Mt. Hood National Forest near Brooks Meadow, to the southwest of the Wicks Water Treatment Plant. Since the pipeline is located on federal land it is governed by a Special Use Permit issued by the US Forest Service. The pipeline currently carries 54% of the city's annual municipal water supply and is an essential component of the city's water system. The pipeline is deteriorated, leaking, and at risk of catastrophic failure.

It currently leaks approximately one million gallons per day at peak flows. Failure of the pipeline would result in loss of the city's highest-quality and largest-quantity water source, which is critical to meeting the community's needs for a safe, adequate and reliable water supply.

The project will replace the entire Dog River Pipeline, which will increase capacity from 8 million gallons per day (MGD) to 17 MGD to meet future municipal water demands. The new pipe will have a 24" diameter. The engineering design phase will evaluate acquisition and construction costs for pipe materials, such as ductile iron pipe, PVC, HDPE, or other options consistent with industry standards for raw water municipal water supply systems. The project budget was originally developed assuming use of ductile iron pipe, which has the highest materials cost, but is expected to be the most appropriate in the narrow 25' corridor. The city's Water System Master Plan recommended that the entire pipeline, including the newer steel section, be replaced at the same time. It is anticipated that the new pipeline will have a service life of 100 years.

Water metering systems used to measure the amount of water diverted from Dog River for municipal uses will also be improved as part of the project. The project will voluntarily (since not required by state or federal regulations) install fish screens on the pipeline intake and fish passage structures where none currently exist in Dog River. Screening and passage systems will be constructed, installed and operated consistent with Oregon Department of Fish and Wildlife (ODFW) guidance. The existing pipeline has an intake facility that includes a diversion weir (short dam) that extends across Dog River and diverts water into the intake for the pipeline. The city's water right allows it to divert all the water in Dog River when needed. However, with this project the city will provide bypass flows for aquatic species past its intake and diversion weir during the critical months of August, September and October, thereby allowing that water to flow down Dog River to East Fork Hood River. Finally, an arch culvert will also be installed on the unimproved Forest Service road where vehicles currently ford the Brooks Meadow Creek, which causes stream damage and increased stream turbidity. The project will provide needed water utility infrastructure reliability/efficiency and significant environmental and socio-economic benefits.

Project Description: Recipient will replace (final design and construction) the 3.5 mile Dog River pipeline with a new 24- inch diameter pipe to increase water capacity from 8 million gallons per day (MGD) to 17 MGD. The project will install fish screens on the pipeline intake, fish passage structures, and flow metering systems. It will also provide bypass flows for aquatic species during the critical months of August, September and October. Finally, recipient will install an arch culvert on an unimproved Forest Service road where vehicles currently ford a small stream, causing stream damage and increased turbidity.

Work Plan: This project includes final design and construction, the estimated project completion is November 2023, a description of each primary activity and anticipated dates are provided in a table below.

Public Involvement Statement: Project has been discussed in numerous public city council meetings and has been presented to the Mid-Columbia Economic Development Commission, which identified it as its highest priority project for at least three years. USFS twice publicly scoped the project in 2011 and 2016, published a draft environmental assessment for public comment, and published a draft decision notice for public objection before issuing a final

decision. Direct discussions also occurred with the Confederated Tribes Warm Springs fisheries staff.

FINDINGS AND ANALYSIS

This project helps implement the following goals and objectives:

- Safe Drinking Water Revolving Loan Fund: to provide public water systems financing for planning, design, and construction projects that protect public health, ensure compliance with federal and state requirements, respond to an emergency, or generally improve water infrastructure resiliency (ORS 285A.213 and OAR 123-049).
- Business Oregon Strategic Plan Priority “Cultivate Rural Economic Stability”
 - Strategy: Connect rural communities to urban markets through targeted infrastructure investments
- The project is identified as the highest priority project for funding by the Mid-Columbia Economic Development Commission and was the 3rd highest priority project on the Regional Project Priority list of the Mid-Columbia Comprehensive Economic Development Strategy in March 2017 and is a part of its Infrastructure Strategy to, “address water and wastewater constraints to economic development and to increase economic resiliency.”

Program Findings & Compliance

1. Applicant eligibility: As referenced in OAR 123-049-0020, all community water systems and nonprofit non-community water systems are eligible to apply for financing except for those determined to be ineligible by the department because of prior non-performance.
2. Project priority is (high).
3. Program suggestions and/or monitoring: standard on-site monitoring for construction.
4. 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.
5. During the completeness review process, Oregon Health Authority has verified that the water system is not on the federal Suspension and Debarment list.

Funding Recommendation

Budget Line Items	IFA Source	Other Funds	Totals
Design / Engineering	\$300,000	\$1,522,442	\$1,822,442
Construction	\$3,700,000	\$2,793,624	\$6,493,624
Construction Contingency	\$0	\$649,362	\$649,362
Labor Standards	\$15,000	\$0	\$15,000
Project Management	\$15,000	\$3,432	\$18,432
Permitting and Regulatory Fees	\$0	\$94,268	\$94,268
Total	\$4,030,000	\$5,063,128	\$9,093,128

Proposed Work Plan

Activity	Date
Final Design Complete	December 2021
Permits/Award Construction Contract	March 2022
Construct Staging Areas/Remove Trees from Construction Corridor	October 2021
Install Arch Culvert on Brooks Meadow Creek Crossing	September 2022
Construct New Pipeline	November 2023
Install Fish Screen/Passage System	November 2023
Project Closeout	February 2024

Source of Business Oregon Funds (Indicate Loan/Grant/Principal Forgiveness, Bond, Private or Public, and Taxable or Tax Exempt)	Amount
Loan – Public, Tax Exempt	\$3,500,000
Principal Forgiveness – Public, Tax Exempt	\$530,000
Total	\$4,030,000

Source of Other Funds (For other State funds, indicate loan / grant, et cetera)	Amount
City Funds	\$4,063,128
Oregon Water Resources Department (OWRD)	\$1,000,000
Total	\$5,063,128

Financial Findings & Compliance

Repayment source

The table below shows historic revenue from the Applicant’s Water and Water Capital Reserve funds for the last three audited fiscal years ending June 30, 2020 and fiscal 2021 budget.

Water Fund and Water Capital Reserve Fund	
The Dalles	current FY

Performance Review	audited	audited	audited	budgeted
FY Ending June 30th	2018	2019	2020	2021
Beginning Fund Balance	6,592,639	5,889,061	7,150,896	6,094,545
<i>Revenues</i>				
Charges for Services	5,816,093	5,595,075	5,694,578	5,708,600
Other Operating Revenues	4,428	4,059	4,428	4,428
Operating Revenues	5,820,521	5,599,134	5,699,006	5,713,028
Interest and Miscellaneous	114,223	347,004	299,629	117,635
Other Non-Operating Revenues	1,110,611	115,552	62,786	13,070,287
Total Non-Operating Revenues	1,224,834	462,556	362,415	13,187,922

Performance Review	audited	audited	audited	budgeted
Total Revenues	7,045,355	6,061,690	6,061,421	18,900,950
<i>Expenditures</i>				
Personal Services	2,058,927	2,154,266	2,225,931	2,441,081
Materials & Services	771,709	806,568	838,122	1,224,879
Total Operating Expenses	2,830,636	2,960,834	3,064,053	3,665,960
Net Operating Income	2,989,885	2,638,300	2,634,953	2,047,068
Capital Outlay	3,272,209	392,237	1,370,297	17,986,777
Debt Service	238,379	238,379	238,378	238,379
Total Expenses	6,341,224	3,591,450	4,672,728	21,891,116
Net Revenues	704,131	2,470,240	1,388,693	(2,990,166)
Net Transfers/Adjustments	(1,407,709)	(1,208,405)	(2,445,044)	(2,818,248)
Ending Fund Balance	5,889,061	7,150,896	6,094,545	286,131

Historic funds balances have been robust, averaging > 2x of operating expenses. The majority of the fund balances have been in the Water Capital Reserve Fund (\$5.2 million in 2020). The reserve fund is for upgrades and expansion of the water systems and related debt service. The budgeted 2021 ending fund balance is reflective of the city's planned funding for and associated capital investment in the water system as well as the city's 'budget to zero' methodology.

General Fund summary

The following table shows a performance review of the Applicant's General Fund for the last three audited fiscal years ending 2020 and fiscal year 2021 budget.

General Fund	
The Dalles	current FY

Performance Review	audited	audited	audited	budgeted
FY Ending June 30th	2018	2019	2020	2021
Beginning Fund Balance	2,597,679	3,303,092	4,146,617	4,731,055
<i>Revenues</i>				
Property Taxes	3,072,708	3,232,736	3,406,868	3,138,389
Other Operating Revenues	2,052,109	2,129,714	2,119,290	2,100,371
Operating Revenues	5,124,817	5,362,450	5,526,158	5,238,760
Interest and Miscellaneous	267,198	315,878	208,657	263,911
Other Non-Operating Revenues	1,762,205	1,952,264	1,999,383	1,904,617
Total Non-Operating Revenues	2,029,403	2,268,142	2,208,040	2,168,528
Total Revenues	7,154,220	7,630,592	7,734,198	7,407,288

Performance Review	audited	audited	audited	budgeted
<i>Expenditures</i>				
Personal Services	4,785,172	5,135,379	5,215,776	5,639,290
Materials & Services	2,423,071	2,619,452	2,692,586	2,360,155
Total Operating Expenses	7,208,243	7,754,831	7,908,362	7,999,445
Net Operating Income	(2,083,426)	(2,392,381)	(2,382,204)	(2,760,685)
Capital Outlay	139,883	97,590	121,677	177,600
Debt Service	0	0	0	0
Total Expenses	7,348,126	7,852,421	8,030,039	8,177,045
Net Revenues	(193,906)	(221,829)	(295,841)	(769,757)
Net Transfers/Adjustments	899,319	1,065,354	880,279	1,094,046
Ending Fund Balance	3,303,092	4,146,617	4,731,055	5,055,344

The ending fund balance has been growing over time reflecting an increase in financial flexibility. The last three years average ratio of ending fund balance to operating expenses was approximately 53%, the underwriting criteria for this metric is greater than 3%. These data are indicative of prudent revenue and expense management by the city resulting in ample reserves.

Debt service analysis

Net Revenues for Debt Coverage: The following 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						
The Dalles						
PRO FORMA	Current FY		Projected			
Year (ending June 30th)	2021	2022	2023	2024	2025	2026
Beginning Fund Balance	6,095,503	7,526,579	8,804,846	5,983,880	7,876,334	10,002,518
Operating Revenues						
Charges for Services	5,708,600	6,049,023	6,174,421	6,421,398	7,063,538	7,346,080
Lab and water service connection fees	90,000	90,000	90,000	90,000	90,000	90,000
Rentals, watershed fees, etc.	7,006	12,630	12,000	12,000	12,000	12,000
Total Operating Revenues	5,805,606	6,151,653	6,276,421	6,523,398	7,165,538	7,448,080
Operating Expenses						
Personal Services	2,441,081	2,533,051	2,596,377	2,661,286	2,727,818	2,796,014
Materials & Services	1,224,879	1,126,298	1,171,349	1,218,203	1,266,932	1,317,609
Total Operating Expenses	3,665,960	3,659,349	3,767,726	3,879,489	3,994,750	4,113,623
Debt Service						
Funds Avail for Debt Coverage	2,139,646	2,492,304	2,508,695	2,643,909	3,170,788	3,334,457
Revenue Bonds - 2018 - Water portion	502,974	503,524	503,436	502,711	501,349	504,548
Superior Revenue Bond Total Debt Service	502,974	503,524	503,436	502,711	501,349	504,548
Superior Revenue Bonds Debt Service Coverage Ratio	4.25	4.95	4.98	5.26	6.32	6.61
Funds Avail for Debt Coverage After Revenue Bonds	1,636,672	1,988,780	2,005,259	2,141,198	2,669,439	2,829,909
BizOR - SDW & SDW ARRA - SZ9010	238,378	238,378	238,378	238,378	238,378	238,378
FF&C Bonds - 2008 - Water Portion	59,932	59,774	59,469	0	0	0
FF&C Bonds - 2009 - Water Portion	32,970	33,245	33,474	33,477	33,426	33,320
IFA Proposed Loan	0	0	0	42,400	135,600	135,600
Parity Total Debt Service	331,280	331,397	331,321	314,255	407,404	407,298
Parity Debt Service Coverage Ratio	4.94	6.00	6.05	6.81	6.55	6.95
Other Activities						
Cash Avail After Debt Service	1,808,366	2,160,907	2,177,374	2,329,654	2,763,384	2,927,159
Loan Proceeds / Drawdowns	1,000,000	4,000,000	0	0	0	0
Capital Outlay (OUT)	(1,563,800)	(5,000,000)	(5,110,700)	(537,200)	(737,200)	(700,000)
Other Non-Operating Activity	186,510	117,360	112,360	100,000	100,000	100,000
Net Other Activity	(377,290)	(882,640)	(4,998,340)	(437,200)	(637,200)	(600,000)
Net Transfers IN (OUT)	(775,759)	(692,750)	(720,460)	(749,278)	(779,249)	(810,419)
Adjustments	0	0	0	0	0	0
Net Transfers & Adjustments	0	0	0	0	0	0
Ending Fund Balance	7,526,579	8,804,846	5,983,880	7,876,334	10,002,518	12,329,677
Avg. Rev's per EDU (calc)	\$38.21	\$39.69	\$39.70	\$40.45	\$42.32	\$43.13
Rate per EDU (app, adjusted)	\$55.30	\$55.30	\$55.30	\$55.30	\$55.30	\$55.30
EDU's (app)	12,663	12,916	13,174	13,438	14,110	14,392
Connections (app)	4,573	4,617	4,661	4,705	4,749	4,794

In September 2014 a water utility rate increase of 10% became effective as authorized by resolution. Later, in December 2014, the city revised that rate increase to an annual 5% increase each year from FY 2016 through 2021.

As a class, the city's 516 commercial water connections exceed the consumption of the city's residential users. Because of growing water sales and associated growing revenues the slated rate increases, while authorized, were not implemented.

The city is prudently provisioning cash derived from the Water Fund to finance future capital improvements. In FY2027 \$10,050,000 in fund balance is expected to be drawn down. This is the planned replacement of two finished water transmission pipelines, one 12-inch and the other 14-inch diameter, for the 7.5 miles from the city's water treatment plant to the city's urban service area. The project is identified as the last project to be completed under the city's current Water Master Plan. The Water Master Plan is scheduled to be updated in FY2021-22 which will identify additional projects to be completed over the next 20 years.

Existing obligations and risks

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

Summary of Outstanding Debt Obligations						
The Dalles						
Loan Source	June 30, 2020 Balance	Annual Debt Service	Payment Source	FF&C Pledged	Debt Priority	Maturity
Net Direct Debt						
FF&C Bonds - 2008 - Capital Projects	\$509,376	\$184,666	Unrestricted funds	Yes	N/A	2023
FF&C Bonds - 2009 - URA Portion	\$5,730,000	\$805,887	URA Tax Increment	Yes	N/A	2031
FF&C Bonds - 2009 - Street LID Portion	\$747,270	\$13,950	LID Charges	Yes	N/A	2031
<i>Net Direct Debt</i>	\$6,986,646	\$1,004,503				
Self-Supporting Debt						
Revenue Bonds - 2018 - Wtr n WWtr	\$9,224,516	\$1,341,300	Water and Wastewater Funds	No	Superior	2032
FF&C Bonds - 2008 - Wastewater Portion	\$165,312	\$59,932	Wastewater Fund	Yes	N/A	2023
FF&C Bonds - 2009 - Wastewater Portion	\$50,715	\$7,055	Wastewater Fund	Yes	N/A	2023
FF&C Bonds - 2008 - Water Portion	\$165,312	\$59,932	Water Fund	Yes	N/A	2031
FF&C Bonds - 2009 - Water Portion	\$237,015	\$32,970	Water Fund	Yes	N/A	2031
BizOR - 2014 - SDW & SDW ARRA - SZ9010	\$2,692,739	\$238,378	Water Fund	Yes	Parity	2034
<i>Self-Supporting Debt</i>	\$12,535,609	\$1,739,567				
Gross Bonded Debt	\$19,522,255	\$2,744,070				

The 2018 Revenue bonds refunded earlier Water and Wastewater Revenue bonds and funded additional wastewater projects. Of the seven long-term obligations above, five will be paid off in 10 years or less.

COVID-19 Pandemic Response

The COVID-19 pandemic and its associated economic shutdown, created a crisis in the community. The city made a solid decision to cut work crews and have many employees work from home. The city did a tug-o-war between health of individuals and the health of the City, this causing projects being delayed. The city adjusted the budget for the economic downfall. Transient room tax dollars have declined by an estimated \$150,000 for FY2020-21. The city created small grants to help small businesses and individuals. The city provided financial assistance in the form of utility rate relief to hard-hit restaurants and fitness clubs totaling \$30,711. The city suspended water service turn-offs for non-payment as part of its COVID-19 response program. Fuel-sales based revenues for transportation system operations and maintenance are projected to be \$207,789 less than budgeted for FY2020-21.

Underwriting standards

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

- External Revenues as % of Total Revenues (3 yr. Avg.) [25% is not <20% standard]
- Net Direct Debt Service to General Fund Revenues (mry) [13% is not <5% standard]
- Revenue Debt Per Capita (mry) [\$846 is not <\$650 standard]
- Top 10 Ratepayers as % of Revenues (3 yr. avg.) [28% is not <15% standard]
- Top 10 Taxpayers as % of Total Tax Collections [23% is not <15% standard]

RISK ANALYSIS SUMMARY:

The city’s financial condition can be characterized as having ample reserves providing it with financial flexibility. With the location of new data centers in the city, positive longer-term economic benefits can be expected to accrue to the city and the local community.

Top 10 tax payer and system users failing underwriting indicators

Top Ten Taxpayers	
Top Ten Taxpayers	Amount 2020
BNSF Railway	\$ 164,538
Union Pacific Railroad Co	\$ 134,663
Century link	\$ 110,358
Northern Wasco PUD	\$ 105,634
Gas Transmission NW Corp	\$ 55,825
Metropolitan Life Insurance Co	\$ 42,042
Design LLC	\$ 40,510
Orchard View Farms Inc	\$ 38,201
Charter Communications	\$ 35,686
Cascade Square LLC	\$ 46,690
Total	\$ 774,148

The Top 10 tax payers are dominated by the railroads and utilities. It is unlikely these entities will leave the area and place tax revenue at risk.

System's Ten Largest Customers		
Customer Name:	Annual Water Revenue Received by System	% of Total Annual Revenue received by System
Design LLC	\$642,510	11%
Oregon Cherry Growers	\$364,021	6%
Mid Columbia Medical Ctr	\$156,039	3%
School District 21	\$124,765	2%
Whiting Turner	\$ 110,001	2%
Northern Oregon Correction	\$67,683	1%
Veterans Care Center	\$61,491	1%
Shilo Inn	\$ 60,052	1%
City of The Dalles	\$50,163	1%
The Springs at Mill Creek	\$ 46,325	1%
Total	\$ 1,683,050	29%

The Top 10 water system user is dominated by Design LLC, an entity controlled by Google. Google invested some \$1.8 billion for new data centers in the area and it is unlikely this user will leave in the near to mid-term.

Applicant's bond rating The applicant's 2009 full faith and credit bonds have an underlying rating of 'AA' by Standard and Poor's with a stable outlook. This rating is indicative of high quality and subject to very low credit risk. (The city's 2018 Revenue Bond was privately placed and unrated).

Financial statement of program SDWRLF as of 25 April 2021

1. Available funds 37,173,940
2. Remaining balance, if the project is approved, is \$33,143,940
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*
SDWRLF	\$4,030,000	\$530,000	\$3,500,000	1.00%	30	\$135,600
Total	\$4,030,000	\$530,000	\$3,500,000			\$135,600

Payment rounded to nearest \$100.

FINANCIAL RECOMMENDATION

Applicants under the SDWRLF program may be determined eligible for Affordability Assistance and qualify for grants/forgivable loan, reduced interest rate and an extended repayment term. A community is determined for Affordability Assistance by the following criteria:

1. A community's Median Household Income ("MHI") is less than the State's MHI of \$51,243 and,
2. The community's Affordability Rate ($MHI \times 1.25\% / 12$) is lower than the actual monthly water rate per Equivalent Dwelling Unit ("EDU"). An EDU is one residential connection or up to the equivalent of 7500 gallons of usage, whichever is less.

The city of The Dalles qualifies for Affordability Assistance due to their projected user rate of approximately \$55.30 by completion date and their first principal and interest payable to Business Oregon.

1. The Median Household Income is based on the 2018 American Community Survey data. The city's MHI is \$48,711; and,
2. The community's Affordability Rate ($\$48,711 \times 1.25\% / 12$, equaling the Affordability Rate of \$50.74.) per EDU.

Financing is awarded in the amount of \$4,030,000 which is to be distributed as follows:

- \$3,500,000 SDWRLF Loan; 30 year term loan at a 1.00% interest rate
- \$530,000 SDWRLF Forgivable Loan as presented below
 - **\$100,000** - All eligible projects up to 10% of Total Award not to exceed \$150,000, additionally
 - **\$400,000** - All Communities eligible for Affordability Assistance up to 50% of Total Award not to exceed \$500,000, additionally (Total Principal Forgiveness not exceed 50%)
 - **\$15,000** - Labor Standards Compliance
 - **\$15,000** - Project Management Assistance

The proposed loan will be structured in two phases. The first phase design and construction will accrue interest on actual funds disbursed, estimated first disbursement will be in June 30, 2021. All accrued interest during the construction phase (estimated to be \$42,400 will be due prior to or with the first principal and interest payment. The interest rate will be set at 1.00% for this phase. Construction is scheduled for completion by November 2023.

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, 2024 . The loan can be prepaid in part or in full without penalty. The interest rate will be set at 1.00% for the

repayment phase. The "Repayment Phase Loan Summary" table summarizes the repayment phase of the proposed financing.

The present value of the subsidized interest rate 1.00%, vs the current IFA Direct Loan rate 2.57% is \$687,781.

Funding Recommendation and Conditions of Award

Conditions:

Based upon the preceding 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. **Additional Award.** This award is conditional upon the Recipient receiving an award from the Oregon Water Resources Department in the amount of \$1,000,000 which must be received before funds are disbursed. Recipient shall provide copy of award letter as evidence of award.
- E. **Affordability Rate.** If, at the Project Completion Date, the average monthly residential water rates for the water supplied by the Water System are not at or above the "affordability rate" of \$50.74, then \$400,000 of the amount due under the Forgivable Loan will not be forgiven. Further, the Financing Contract shall, at IFA's discretion and after notice to Recipient, be modified as follows: Interest shall accrue at the rate of one and 70/100ths percent (%) per annum.

concluded to approve the award with the following modifications:

Chris Cummings, Assistant Director
Economic Development

Board Meeting Date