

**CITY OF COOS BAY CITY COUNCIL**  
**Agenda Staff Report**

MEETING DATE	AGENDA ITEM NUMBER
April 5, 2016	

TO: Mayor Shoji and City Councilors

FROM: Jennifer Wirsing, Wastewater Project Engineer

THROUGH: Rodger Craddock, City Manager *RC*  
Jim Hossley, Public Works Director *JH*

ISSUE: Consideration of Approval of SRF Point Source and Non-Point Source Loan Agreements

**BACKGROUND:**

Staff presented an information only presentation of the terms of the Department of Environmental Quality (DEQ) Clean Water State Revolving Fund (SRF) loan agreement on March 15, 2016 (See attached for staff report). The loan agreements consist of two separate documents; the Point Source (Plant 2) loan agreement and the Non-Point Source (Sponsorship Option) loan agreement. The City Council directed staff to move forward with a 20-year loan agreement including the sponsorship option. The City's attorney, Mr. Nathan McClintock, has reviewed both agreements and "did not see anything out of the ordinary or which causes him concern".

The City is under a mutual agreement order (MAO) and mandated by DEQ to update the existing Wastewater Treatment Plant 2 facility. Staff has completed the Facility Planning, Value Analysis, Pre-Design, Value Engineering for WWTP 2, Final Design, and environmental approvals. Council approved a Zero Cost contract with the CMGC Mortenson Construction to commence forward with the bid packages for the project. At this time, the council should consider entering into a loan agreement for the Point Source and Non-Point Source projects.

**ADVANTAGES:**

City staff recommends entering into the SRF Point Source and Non-Point Source loan agreements with DEQ because DEQ has provided favorable interest rates, provided a mechanism to complete non-point source projects without impacting the ratepayers, and they have stated that they have the lending capability to fund the entire project. By applying for the SRF Point Source Loan, the City can complete the construction of Plant 2 and work toward removing the MAO.

**DISADVANTAGES:**

Other than some of the extra requirements due to the federal source of the SRF loan funds, staff sees no disadvantage.

**BUDGET IMPLICATIONS:**

The Wastewater Treatment Project loan agreement provided by DEQ is for \$19.6M based on the City's consulting engineer's estimate from two years ago. This is the amount that was submitted in the original SRF application submitted in 2014. Per our CMGC's conservative estimate of \$26.1M, additional funds may be required. DEQ is aware of this situation and has instructed staff to submit an addendum after the original loan agreement is processed and approved. By that time, it is anticipate that the bidding will be complete and the contractors estimate will be revised into a guaranteed maximum price. The Non-Point Special Option Projects loan agreement is for \$2.2M.

**ACTION REQUESTED:**

If it pleases Council, adopt Resolution 16-07 to authorize and approve the SRF loan agreement for financing the Wastewater Treatment project for an amount not to exceed \$26.1M, and adopt Resolution 16-08 to authorize and approve the SRF loan agreement for financing Non-Point Source Special Option projects for an amount not to exceed \$2.2M.

**CITY OF COOS BAY CITY COUNCIL**  
**Agenda Staff Report**

<b>MEETING DATE</b> March 15, 2016	<b>AGENDA ITEM NUMBER</b>
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TO: Mayor Shoji and City Councilors

FROM: Jim Hossley, Public Works Director

THROUGH: Rodger Craddock, City Manager

ISSUE: Discussion – Terms of Clean Water State Revolving Fund Loan Agreement

**BACKGROUND:**

City staff has received a draft Clean Water State Revolving Fund (SRF) loan agreement from the Oregon Department of Environmental Quality (DEQ). The agreement is for a loan to pay for the construction of the new Wastewater Treatment Plant #2 (WWTP2). The City first applied for the loan in April 2014, however processing of the loan application has been on hold during the environmental review. The reasons for seeking the SRF loan are:

- A favorable interest rate that is at least half of what the City could get from the private market.
- The City won't have to start debt service payback on the loan until the project construction is complete.
- A 20 or 30 year loan repayment schedule, as opposed to 10 years on the private market.

DEQ has a program, called the Sponsorship Option, whereby SRF loan recipients are loaned an additional 1% in funds (approximately \$2M in our case) to do various stormwater quality projects. To incentivize loan recipients to do Sponsorship Option (S/O) projects, DEQ lowers the interest rate (to 1% in our case) for the entire WWTP2 project loan so that debt service payments for the WWTP2 project plus the S/O projects are the same amount as if we only borrowed funds for WWTP2 alone at the current 2% interest rate. Staff included S/O projects in our original loan application. These projects include creating a stormwater management plan and stormwater ordinance, restoration in Chicksees Creek, 6<sup>th</sup> Avenue culvert and upstream drainage restoration, North Empire drainage swale, First Creek restoration, green infrastructure improvements for: the Empire Fire Station and Ed Lund Park, downtown parking, centralized garbage Facilities, and development of a pet waste management education and outreach program. The City isn't obligated to do all the S/O projects, and has the life of the loan to complete them. If after signing the loan, the City decides not to do any S/O projects, the interest rate reverts back to the 2% for the actual amount borrowed.

The length of SRF loans has typically been 20 years, as that is the life expectancy of most infrastructure. While most of the concrete infrastructure to be constructed with the new WWTP2 will remain functional for much more than 20 years, portions of the plant may need to be expanded to increase capacity and will require refurbishment, replacement, or repair in approximately 20 years. SRF loan terms of 30 years have recently been allowed. The bi-annual debt service payments are lower for 30 year loans versus 20 year loans; however the sum of the total payments is significantly more. The interest rates are also different. Interest on the 20 year loan is 2.01% without the S/O projects and 1% with S/O. The interest rate for the 30 year loan is 2.5% without the S/O projects and 1.7047% with S/O. Staff recommends Council consider the 20 year term over the 30 year term for the loan.

The original source of the DEQ SRF loan funds is the federal government. While there are many advantages to the terms of the SRF loans, the federal origins add to the complexity of other terms in the loan agreement including contracting, environmental review, and expenditure tracking requirements. Some of the other terms of the SRF loan agreement include:

- The WWTP2 project must be completed within 5 years of execution of the loan agreement.
- The City shall provide the necessary resources for adequate operation, maintenance and replacement of WWTP2.
- The City shall not allow the private use of WWTP2 (a private firm cannot own or lease WWTP2).
- Debt service coverage factor requirement of 105% multiplied by the debt service payments due in that fiscal year.
- The City must review its wastewater rates annually and adjust them to ensure adequate funds to pay debt service and future debt service coverage requirements.
- The City will have a loan reserve requirement equal to one-half of the average annual debt service based on the final repayment schedule.
- The City must create a segregated Loan Reserve Account held in trust for the benefit of DEQ. The City would grant DEQ a security interest in and irrevocably pledge the Loan Reserve Account to pay the amounts due under the loan agreement.
- The City shall insure the new WWTP2 adequately to protect DEQ's interest.
- There are several audit requirements.
- The City must make a Disadvantage Business Enterprise (DBE) good faith effort to promote fair share awards to various DBE's.
- The City must prepare certain manuals, reports and certifications during the construction phase.
- All contracts and subcontracts awarded for the WWTP2 project shall comply with Davis-Bacon wage requirements and Oregon prevailing wage rates for public works projects.
- The City is required to pay DEQ an annual fee of 0.50% of the remaining loan principle balance.

#### **ADVANTAGES:**

The SRF loan interest rates along with 20-year or 30-year loan payback period are

better than other loan sources. The loan provides the City the needed funds to construct the project. The City Council has been steadily raising rates to ensure that the City has adequate revenues to meet the SRF loan's debt service and debt service coverage requirements

**DISADVANTAGES:**

Other than some of the extra requirements due to federal source of the SRF loan funds, none.

**BUDGET IMPLICATIONS:**

At this time, staff is seeking direction from the Council. No expenditure approval is being requested. The draft loan agreement provided by DEQ is for \$19.6M based on the City's consulting engineer's estimate from two years ago. Thus the four (4) DEQ supplied amortization tables attached to this report assume a \$19.6M loan. There are two tables for a 20-year loan; one is for the WWTP2 project only, and one for the WWTP2 and S/O projects combined. Two (2) similar tables for a 30-year loan term are also included. The final loan agreement will come to the City Council at a future meeting for approval. The final loan agreement amount will per our CMGC's conservative estimate is \$26.1M.

**ACTION REQUESTED:**

If it pleases the Council, provide staff with preferred loan terms related to repayment time, 20 years or 30 years, and if the City should receive sponsorship option funds or not. Staff recommends Council direct staff to prepare a final loan agreement with a 20-year payback period and include the sponsorship option funds.

**ATTACHMENTS:**

Four amortization tables

**City of Coos Bay**

**Resolution 16 – 07**

**A RESOLUTION AUTHORIZING AND APPROVING A STATE REVOLVING FUND LOAN AGREEMENT TO FINANCE A WASTEWATER TREATMENT FACILITIES PROJECT.**

WHEREAS, the City of Coos Bay has applied for a revenue secured loan in the amount of \$19,636,876 which has been approved by the Oregon Department of Environmental Quality (DEQ) State Revolving Loan Fund (SRF) program pursuant to OAR Section 340-054-0065(2) for the purpose of financing the wastewater facilities projects (Project); and,

WHEREAS, the revenue secured loan has been approved at One and 00/100 percent (1.00%) per annum; provided that if the Project or any part thereof is not completed in accordance with the terms of this Agreement, the interest rate shall be Two and 00/100 percent (2.00%) per annum, retroactive to the date of this Agreement.

WHEREAS, the DEQ SRF program requires an annual fee of 0.5% of the outstanding loan amount (as determined prior to the posting of the payment due on that date) to be paid during the repayment period commencing with the second payment date and annually thereafter; and,

WHEREAS, the Project requires a loan reserve requirement of \$386,560; and

WHEREAS, the loan will end no later than (a) twenty (20) years after the earlier of the completion date or the estimated completion date set forth in loan documents ARTICLE 3(A)(10) or (b) September 1, 2037, whichever date is earlier; and,

WHEREAS, an interest-only payment will be due within six months after the estimated project completion date set forth in ARTICLE 3(A)(10) and thereafter semi-annual payments of principal and interest in accordance with the loan agreement; and,

WHEREAS, the City of Coos Bay grants to DEQ a security interest in and irrevocably pledges its net operating revenues to secure payment of and to pay the amounts due under the loan agreement; and,

WHEREAS, as a condition of the loan, the City of Coos Bay debt service coverage requirement provides the City shall maintain wastewater rates and charge fees in connection with the operation of the facility that are adequate to generate net revenues in each fiscal year sufficient to pay (i) all debt service (excluding debt service on the loan), (ii) all other financial obligations imposed in connection with prior lien obligations, and (iii) an amount equal to the debt service coverage factor of 105% multiplied by the debt service payments due under the loan agreement in that fiscal year.

NOW, THEREFORE, BE IT RESOLVED, the City Council of the City of Coos Bay authorizes and approves of the SRF loan agreement for financing the Projects. The City Council authorizes and approves the establishment and funding of a designated reserve account to meet the loan reserve requirements and establishes the loan reserve.

The foregoing resolution was duly adopted by the City Council of the City of Coos Bay, Coos County, Oregon, this 5th day of April, 2016.

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Crystal Shoji, Mayor

Attest:

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Susanne Baker, City Recorder

**City of Coos Bay**

**Resolution 16 – 08**

**A RESOLUTION AUTHORIZING AND APPROVING A STATE REVOLVING FUND LOAN AGREEMENT TO FINANCE NON-POINT SOURCE SPECIAL OPTION PROJECTS.**

WHEREAS, the City of Coos Bay has applied for a revenue secured loan in the amount of \$2,200,000 which has been approved by the Oregon Department of Environmental Quality (DEQ) State Revolving Loan Fund (SRF) program pursuant to OAR Section 340-054-0065(2) for the purpose of financing the sponsorship option, Stormwater Management Plan, Riparian Restoration, Low impact urban rain gardens projects (Project); and,

WHEREAS, the revenue secured loan has been approved at One and 00/100 percent (1.00%) per annum; provided that if the Project or any part thereof is not completed in accordance with the terms of this Agreement, the interest rate shall be Two and 00/100 percent (2.00%) per annum, retroactive to the date of this Agreement.

WHEREAS, the DEQ SRF program requires an annual fee of 0.5% of the outstanding loan amount (as determined prior to the posting of the payment due on that date) to be paid during the repayment period commencing with the second payment date and annually thereafter; and,

WHEREAS, the sponsorship option requires a loan reserve requirement of \$115,895; and

WHEREAS, the loan will end no later than (a) twenty (20) years after the earlier of the completion date or the estimated completion date set forth in loan documents ARTICLE 3(A)(10) or (b) February 1, 2041, whichever date is earlier; and,

WHEREAS, an interest-only payment will be due within six months after the estimated project completion date set forth in ARTICLE 3(A)(10) and thereafter semi-annual payments of principal and interest in accordance with the loan agreement; and,

WHEREAS, the City of Coos Bay grants to DEQ a security interest in and irrevocably pledges its net operating revenues to secure payment of and to pay the amounts due under the loan agreement; and,

WHEREAS, as a condition of the loan, the City of Coos Bay debt service coverage requirement provides the City shall maintain wastewater rates and charge fees in connection with the operation of the facility that are adequate to generate net revenues in each fiscal year sufficient to pay (i) all debt service (excluding debt service on the loan), (ii) all other financial obligations imposed in connection with prior lien obligations, and (iii) an amount equal to the debt service coverage factor of 105% multiplied by the debt service payments due under the loan agreement in that fiscal year.

NOW, THEREFORE, BE IT RESOLVED, the City Council of the City of Coos Bay authorizes and approves of the SRF loan agreement for financing the Projects. The City Council authorizes and approves the establishment and funding of a designated reserve account to meet the loan reserve requirements and establishes the loan reserve.



The foregoing resolution was duly adopted by the City Council of the City of Coos Bay, Coos County, Oregon, this 5th day of April, 2016.

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Crystal Shoji, Mayor

Attest:

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Susanne Baker, City Recorder