



Where Life is Sweet

Mayor and Members of the City Council
STAFF REPORT
For the Meeting of November 14, 2022

Title/Subject

Resolution #2242- Authorizing the City of Hermiston to apply for a Clean Water State Revolving Loan Fund (CWSRF) loan from the Oregon Department of Environmental Quality for the South Hermiston Urban Renewal Area's Sewer Main Project in the amount of \$2,947,000.

Summary and Background

This project will install approximately 5,300 linear feet of new 8" PVC gravity sewer main from the intersection of OR207 and Gettman Road in Hermiston to the south. This project is anticipated to serve 1,350 new housing units currently planned on a 353 acre site within Hermiston City Limits in the southwest quadrant of the City. Many conversations with potential developers centered around the prohibitive costs associated with sewer extension.

As a result of many years of discussion and planning with property owners and home builders, City Council adopted the South Hermiston Urban Renewal Area (SHURA) Plan on October 24, 2022. One of the upfront projects outlined in the plan is development of this sewer main, and pledging future newly created property tax revenue toward repayment of debt to construct it.

Since the SHURA has very little borrowing capacity due to its currently undeveloped state, the City of Hermiston will borrow the funds on behalf of the SHURA, with an agreement for SHURA to pledge incremental tax revenue to go to the City.

Staff has been in contact with Oregon DEQ about accessing CWSRF loans for this project since the Spring, and has received positive feedback about the likelihood of approval. Additionally, DEQ staff indicated that it is likely that, due to the size and benefit of this project, that it will max-out the "forgivable" portion of a CWSRF loan. This has the potential to eliminate \$500,000 from the principal owed. However, for purposes of planning, City Staff is conservatively proceeding with the assumption of borrowing and repaying the full \$2.947M loan

It is anticipated that, upon award of the loan (and hopefully associated grant), that design work will begin in the Spring of 2023, with construction occurring in late 2023 or early 2024. However, due to the longer lead-time associated with the drinking water portions of the SHURA, it is not anticipated that completed homes will begin to be seen within the SHURA until approximately 2025.

Adoption of Resolution 2242 authorizes City Staff to submit application for this loan, and to accept an execute loan offers substantially similar to what is presented in the application.

Tie-In to Council Goals

7. Fund infrastructure improvements to support new housing and enhance livability

Fiscal Information

The SHURA is a Public-Private-Partnership with Monte Vista Homes. The intention is that the City and Monte Vista will Cover the annual debt service for the SHURA until such time that the SHURA’s revenues can cover the full annual debt service. The SHURA Plan was deliberately very conservative in it’s assumptions of development speed and velocity; with an assumption of only an average of 20 homes per year, and that, due to the timing of Tax Roll certification and tax payment, that large SHURA revenue wouldn’t begin until 2029.

Even with that assumption, you can see that the first year of homes hitting the tax rolls would completely cover the anticipated annual loan payment for this item of work.

	2023	2024	2025	2026	2027	2028	2029
City’s Loan Payment*	\$ 75,177	\$ 74,431	\$ 73,663	\$ 72,872	\$ 71,967	\$ 71,218	\$ -
Developer’s Loan Payment*	\$ 75,177	\$ 74,431	\$ 73,663	\$ 72,872	\$ 71,967	\$ 71,218	\$ -
SHURA Payment	0	\$ 1,491	\$ 3,028	\$ 4,610	\$ 6,420	\$ 7,918	\$ 252,168

**Assumed 30 year loan for full amount (no ‘forgiveness’) at 3%. Final terms to be determined with DEQ staff.*

The source of City funding in the initial years is from the Utility Fund; which has adequate revenue to cover this annual amount in it’s entirety.

It is also worthy of pointing out that stimulating the development of additional housing units at a rate of only 20 units per year is estimated to generate an additional \$312,000 in Sewer System Development Charges alone within 10 years of houses being completed. Additionally, this would generate an additional \$623,000 in monthly sewer base charges alone within 10 years of houses being completed. Therefore the SDC revenue alone will easily cover the Utility Fund’s cost upfront over the life of all 1,300 housing units getting built-out.

Alternatives and Recommendation

Alternatives

- Adopt Resolution 2242
- Reject Resolution 2242
- Request Changes

Recommended Action/Motion

- Motion to approve Resolution 2242 as presented.

Submitted By:

Mark Morgan