



CITY OF OREGON CITY

Staff Report

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To: City Commission
From: Public Works Director John M. Lewis, PE
Finance Director, Matt Zook

Agenda Date: 06/21/2023

SUBJECT:

Resolution No. 23-16, a Resolution of the City of Oregon City, Oregon Authorizing Full Faith Credit Borrowing for Water System Improvements

STAFF RECOMMENDATION:

Approve Resolution No. 23-16 authorizing full faith credit borrowing of the City of Oregon City, Oregon for water system improvements.

EXECUTIVE SUMMARY:

On November 2, 2021, the voters of Oregon City approved Measure 3-576 authorizing the City to borrow up to \$38 million for water system improvements. On December 3, 2021, EPA announced Oregon City was invited to apply for a loan under the Water Infrastructure Finance and Innovation Act (WIFIA). On September 13, 2022, the City Commission directed staff to pursue a WIFIA loan. On October 25 2022, the City submitted its WIFIA loan application and has negotiated the terms of the loan. Closing of the loan is scheduled for July 20, 2022. Prior to closing, the City needs to pass the attached Resolution authorizing the borrowing and delegating authority to City staff to take action to finalize and enter into the WIFIA loan and related bond.

BACKGROUND:

The City has over \$81 million dollars of water infrastructure improvements identified in its Water Master Plan, with \$38 million identified within the first 5 years.

Increases in Water System Development Charges (SDC) and water rates would be necessary to fund all these improvements. Water rate increases required to fully fund the City's infrastructure needs exceed the 3% annual limit set by City Charter, requiring voter approval. Borrowing money was identified as a way to finance major

improvements and minimize the water rate increase necessary above the 3% limit. Borrowing also required voter approval.

In November 2021, the City Commission placed two ballots before the voters of Oregon City:

- Measure 3-567 – Authorized the City to borrow funds for water system improvements.
- Measure 3-578 – Authorized a temporary water rate increase above the 3% annual Charter limit.

Measure 3-567 was passed by voters, authorizing the City to borrow up to \$38 million. Measure 3-578 did not pass, limiting the annual water rate increase to 3% in accordance with the City Charter.

Without a rate increase above the 3% annual Charter limit, the City's ability to fund capital improvements on our infrastructure is limited as the majority of the current rate revenue goes to maintenance of our existing system.

With borrowing in mind as an infrastructure solution, the City submitted a Letter of Interest for a WIFIA loan in June 2021. On October 27, 2021, the City received notice from the United States Environmental Protection Agency that its Letter of Interest was selected, and the City was invited to apply for a WIFIA Loan (a form of which is attached to Resolution No. 23-16).

This program provides low-interest, long-term loans for qualifying water infrastructure projects packages of \$20 million or more. Funding for the project package comes from a combination of federal dollars and applicant revenues meeting the following parameters:

- Maximum loan amount is 49% of eligible WIFIA project package costs*
- Matching funds make up the balance of WIFIA project package costs:
 - Rate revenue
 - Water SDC revenue
 - ARPA grant funds*

*Up to 80% of the project can receive federal funding in the form of loan and grants.

This program offers unique and flexible financing terms. In addition to having a low fixed-interest rate, other key aspects of the program are:

- **Customized Repayment Schedule:** Allowing flexibility to match applicant's anticipated revenues.
- **Loan Repayment Period:** Up to 35 years to repay the loan.
- **Deferred Payments:** Payments may be deferred up to 5 years after the project's substantial completion.

- **WIFIA Loans Combined with other Funding Sources:** WIFIA loans can be combined with other loans, bonds, debt, grants.

The City of Oregon City has received \$8.3 million dollars of American Rescue Plan Act (ARPA) grant funds. In the current biennium budget, the City has allocated \$5.6 million of these funds toward water system improvement projects made available from the ARPA funding and is reflected in our financial plan. These funds can be used as matching funds for the WIFIA loan.

While the full water CIP cannot be supported without a rate increase, significant work can be completed if the City pursues this federal funding option.

On February 8, 2022, City staff presented at a City Commission Work Session a short-term CIP implementation plan and strategy that utilized available revenues and borrowed money to tackle some of its highest priority work. In addition to existing budgeted projects, staff identified a short-term CIP implementation plan, focusing on projects that address the City's aging system rehabilitation and replacement needs, cybersecurity, and improvements needed in the Upper Zone where the existing water system is struggling to convey enough water to serve current demands.

The total estimated cost for the projects presented was \$24 million dollars. To complete this work with the 3% annual rate limit, borrowing money through the WIFIA loan program and use of ARPA dollars is needed.

At the February work session, the City Commission confirmed its interest in pursuing a WIFIA loan and requested that proposed projects provide a benefit to existing customers.

At the September 13, 2022, work session, staff presented a \$28 million dollar WIFIA loan package which would fund identified priority projects through WIFIA, and the City Commission confirmed interest to pursue a WIFIA loan.

On October 25, 2022, the City submitted its WIFIA loan application for the "Oregon City Rehabilitation, Resiliency and Improvement Projects (WIFIA ID-N21143OR). Over the past 8 months, City staff has worked with the WIFIA team to develop the WIFIA loan package. As part of the environmental review for the loan processing, archeological work is required, resulting in unanticipated project costs. Project costs also exceeded the original planned budget and planned 15% contingency. The WIFIA team recommended increasing the authorized loan amount to provide the City flexibility in borrowing more than the originally planned approximately \$14 million, if needed. Based on estimated archeological costs and escalation seen in recent projects, a revised loan package was developed totaling approximately \$33 million. This revised amount increases the authorized loan amount to approximately \$16 million. By increasing the authorized loan amount, the City can borrow up to that amount but is not obligated to do so. The City will only pay interest on the amount borrowed.

This program will allow the City to make significant improvements in its water infrastructure, providing a more resilient, reliable water supply to its customers. In recent years, we have only been able to fund an average of \$3.7 million of water capital improvements in our biennium budget with 68% of the water fund required for operation and maintenance of the water system. With this program, we will be able to fund more capital improvements, beginning with our current biennium budget which allocates \$9.6 million toward needed improvements. Work covered by this program is planned for substantial completion in 2030. During this period, regular updates will be provided to EPA as well as the City Commission. Informing our community of how their vote helped to make this possible will be an important message to convey.

Closing for this loan is scheduled for July 20, 2023.

OPTIONS:

1. Approve Resolution No. 23-16 as requested.
2. Approve Resolution No. 23-16 with specific modifications.
3. Deny Resolution No. 23-16. If the Commission chooses to deny the Resolution, staff requests direction on how to proceed.

BUDGET IMPACT:

Amount: Based on the financial model, \$17 million initial City funds and \$16 million in WIFIA loan principal to be repaid by the City, including approximately \$11-\$14 million anticipated in interest

FY(s): Approximately FY 23-24 through FY 29-30 for project completion

Funding Source(s): Water Rates, Water SDCs, and funding made available through ARPA