



STAFF REPORT

Meeting Type: City Council
Meeting Date: June 17, 2024
From: Jenny Coker, Public Works Director
Subject: Ordinance 2024-15: Authorizing Wastewater Revenue Bonds (WIFIA Loan Agreement)

DECISION TO BE MADE:

Whether to adopt an ordinance to fund Sandy Clean Waters program.

PURPOSE / OBJECTIVE:

This ordinance delegates authority to staff to issue bonds to pay for wastewater system improvement projects. A resolution will follow the ordinance after at least 30 days to approve the form of the WIFIA 1 Loan Agreement which provides the terms under which the City will issue wastewater bonds under the authority of the ordinance in an approximate amount of \$24,738,640, plus additional amounts to pay capitalized interest.

BACKGROUND / CONTEXT:

The Sandy Clean Waters Program (SCWP) is completing a series of wastewater system improvement projects to bring operations of the City's wastewater collection, treatment, and discharge facilities into compliance with federal and state effluent discharge regulations. The current SCWP project involves repair/replacement/maintenance projects to improve reliability of the existing wastewater treatment facility; planning and permitting for a new Sandy River outfall; design and construction of collection system improvements; and program management and project management of planning, design, permitting, and construction activities. The SCWP scope will be finalized after the Wastewater Facilities Plan Amendment is completed, reviewed and approved by City Council and EPA/DEQ.

The SCWP is funded by multiple sources, including an EPA congressionally directed Grant, the ARPA Grant, the full faith and credit bond for sewer lateral repairs, SRF Loan#1, SRF Loan #2, by SRF Loan #3, and by the proposed WIFIA revenue bonds.

WIFIA bonds are expected to be issued in two sets, this first set to complete projects at the WWTP, Collection System, and permitting and investigation work for the Sandy River Outfall. The final financing package will come from a second WIFIA loan package, that cannot be issued until environmental investigation work is completed for the Sandy River Outfall in this current bond package.

Different funding sources have different restrictions, for instance, no permitting work associated with Tickle Creek or Sandy River may be paid for by SRF loans but can be paid for by WIFIA funds.

Table 1 summarizes the Clean Waters Program Wastewater Improvements Financing Package plans.

The total cost of the program is not yet known, as the Facility Plan Amendment is still underway.

With the WIFIA 1 loan package, the City will have secured approximately \$109 million in grants and low interest loan funds, of which \$79 million is remaining. Currently, the City is prioritizing spending the grant funding on Consent Decree investigative requirements, comprehensive capacity analysis required to continue to unlock more ERUs, maintaining permit compliance, and increasing capacity at both collection system and WWTP pinch points. SRF loan three is being held for the major WWTP upgrade which will begin once the Facility Plan Amendment is approved.

Table 1: Sandy Clean Waters Program Wastewater Improvements Current and Proposed Financing

Project	Loan/Grant	Lender	Status	Loan/Grant Amount	Funds Remaining	Project Phase
WWTP Facility Reliability/Expansion Improvements, Outfall to Sandy River, Collection System Improvements	SRF Loan R80491 See Note 1	Oregon DEQ	Complete	\$799,425	\$0	Facility Planning
	Full Faith and Credit Bond		Complete	\$1,695,000	\$0	Private Laterals Basins 2/8 and 6/7
	SRF Loan 2 R80492	Oregon DEQ	Complete	\$20,700,000	\$966,000	Design and Construction Phase 1A
	ARPA Grant	Business Oregon	Complete	\$14,700,000	\$7,500,000	Planning, Design, Construction
	EPA Grant	EPA	Complete	\$1,000,000	\$536,785	Design, Construction MH Grouting, CCTV inspections
	SRF Loan 3 R80493 See Note 2	Oregon DEQ	Design Funding Secured	\$7,300,000 [\$46,000,000]	\$46,000,000	Design and Construction WWTP expansion
	Revenue Bond	WIFIA (US EPA)	In Process	\$24,738,640	\$24,738,640	Design and Construction Collections, WWTP and Sandy River Planning/Permitting

	Revenue Bond TBD See Note 3	WIFIA (US EPA)	TBD	TBD	TBD	All other items needed, Sandy River Outfall construction
Total Financing Package to Date				\$109,633,065	\$79,741,425	

Table Notes

Note 1: R80491 was secured and expended for facility planning work that was completed prior to the start of Sandy Clean Waters Program (SCWP) and will not be utilized to fund SCWP improvements. It is included in this table as one of the debts that is secured by wastewater revenues, as are the other loans listed in the table.

Note 2: DEQ has authorized R80493 for a total loan amount of \$46,000,000, of which to date \$7,300,000 has been approved. DEQ has stated its intent to approve the remaining amount of the loan when the City has completed its planning and identified the scope of the remaining improvements. This amount is being held for upgrades to the Sandy WWTP.

Note 3: After the update to the Wastewater Facilities Plan October 2019 is completed, City anticipates applying for a second WIFIA loan to complete SCWP funding.

KEY CONSIDERATIONS / ANALYSIS:

The funding package for this project involves loans that will be repaid over time from wastewater system rate revenue.

Although the interest rate on the currently proposed WIFIA loan is a market rate, the WIFIA program offers other critical features that significantly reduce the impact of that debt repayment obligation on ratepayers.

- First, unlike standard revenue bonds where the full bond amount is delivered and starts accruing interest upon issuance, interest costs on the WIFIA loan will be accrued more slowly because it is set up to be disbursed over time on a reimbursement basis as expenses are incurred. Closing of this loan is anticipated by July 2024, but disbursement of the funds will take place over multiple years and is not expected to occur until 2025 and 2026.
- Second, the WIFIA program allows for the commencement of loan repayment to be deferred up to 5 years after substantial completion of the project in 2028. For this loan, that means that the 30-year repayment period is not expected to commence until late 2033.

Accrued interest on the deferred payments is added to the loan amount (referred to as “capitalized interest”). The combination of those two features allows increases in wastewater rates to be phased in over a longer period and spreads the impact of those rate increases over what is expected to be a larger customer base over time.

Because DEQ has designated SRF Loan #2 as being state-funded, the City’s WIFIA application has designated a portion of those loans (\$7,569,728) to satisfy the WIFIA requirement for a non-federal match.

BUDGET IMPACT:

WIFIA is offering a loan in the maximum amount of loan draws of \$24,738,640, with payments over a 30-year period starting in 2033. The interest rate will be established on the date of closing, calculated at the interest rate on closing day for a 30-year Treasury bond plus one basis point. The Authorized Representative will determine the final rate, along with other terms of the wastewater bonds under the authority granted in the Ordinance. Repayment is made from wastewater water rate revenues and is included in the rate model.

RECOMMENDATION:

Staff recommends approval of Ordinance 2024-15.

SUGGESTED MOTION LANGUAGE:

"I move to approve Ordinance 2024-15."

LIST OF ATTACHMENTS / EXHIBITS:

- Ordinance 2024-15