Stantec

Memo

To:	Jason Canady and Wade Elliott City of Grants Pass	From:	Amy Broughton, Georgette Aronow Stantec
Subject:	City of Grants Pass Replacement Water Treatment Plant Project – Funding Options Overview	Date:	September 19, 2019

Executive Summary

The City of Grants Pass (City) is developing a replacement water treatment plant (RWTP). The existing plant is not adequately sized to meet projected demand, requires extensive repairs related to its advanced age, and is not seismically resilient. Significant capital will be required to construct the RWTP. The current estimate for the RWTP is greater than $80 million and the City does not have capital reserves to cover all of the anticipated RWTP costs. For this reason, the City has requested Stantec evaluate potential ways to fund or finance the project.

The City has planned to use revenue bond funding for the RWTP. The purpose of this memo is to present other viable sources of funding and financing for the RWTP that might supplement or eliminate the need for revenue bonds. There are advantages to issuing revenue bonds to fund the RWTP. Revenue bonds do not require an application, negotiation of a credit agreement, or onerous reporting and compliance requirements. Revenue bonds, however, have less attractive features. Revenue bonds have issuance costs (0.5%-3% of total bond), inflexible repayment terms (the issuer must begin repaying bond holder immediately after issuance), and often higher interest rates than rates from government loan programs. Long term revenue bonds also have shorter maturity than some government loan programs, resulting in higher annual debt service.

Many government funding and financing programs have been designed to support the unique funding needs of public water utilities and municipalities. Recognizing what municipal and water utilities need, the loans may offer flexible repayment terms to allow for more gradual rate increases and maturities that more accurately reflect the asset life of water infrastructure. Grant programs are designed to channel funding to disadvantaged communities with acute and urgent infrastructure needs. Representatives from government funding and financing programs offer assistance to identify and line up funding and financing.

However, these same government programs frequently have cumbersome and lengthy application cycles. With competitive programs, there is no guarantee application efforts will result in capital for the project. Also, if an applicant is successful, recipients of State and Federal grants or loans must agree to reporting and compliance requirements. Depending on the location and project, these can add significant costs – costs that might outweigh the benefits of lower rates, longer and more flexible terms, and grant funding. Though the Oregon Drinking Water State Revolving Fund does not, certain revolving loan programs available through state or federal agencies also charge administrative fees for managing the programs while the loan is outstanding, making the effective interest rates similar to what a municipality could achieve if they are a higher rated bond issuer.[1]

[1] The Oregon Clean Water State Revolving Fund (CWSRF) charges an annual administrative fee on SRF loans. The CWSRF administrative fee is calculated to be 0.5% of the remaining balance of the loan. The Oregon Drinking Water State Revolving Fund (DWSRF) does not charge a similar administrative fee.

This memo succinctly outlines funding programs and their key characteristics. The City may use this information to determine the appropriateness and attractiveness of different sources of capital. While some preliminary cost estimates and benefits are presented, a more comprehensive and project-specific cost benefit analysis would be recommended for any program or programs the City wishes to investigate further. A clear first step would be to have a “One-Stop” meeting with representatives from State and Federal agencies to ascertain more accurate funding capacities and terms.

Project Background & Overview

The City is currently in the planning phase of a replacement water treatment plant (RWTP) to replace its aging, earthquake vulnerable plant. The existing plant, nominally rated at 20 million gallons per day (MGD), is located on the north bank of the Rogue River in the City and is at risk of significant damage from a moderate earthquake. For the City of Grants Pass, the existing WTP, as the City’s sole source of water supply with no emergency backup, is the most critical facility in the water system. In addition, demand is projected to exceed the WTP’s 20 MGD capacity within the next decade. The City has engaged Stantec to provide Owner’s Representative services. Stantec has been assisting the City with several aspects of the project including site selection, cost estimating alternatives analysis and other services. This memo is part of this effort and looks at the potential ways to fund or finance the project.

The project is estimated to cost approximately $80.1 million, including property acquisition, planning, design, and construction. The City has cash-funded approximately $10 million of the RWTP and is anticipated to fund a total of $19.2 million on a pay as you go (PAYGO) basis by completion of the project as shown in **Table 1**.

Table 1. Estimated Funding Sources and Uses

Estimated Sources	
City Cash Funded (PAYGO)	$19,200,000
Other Funding/Funding Gap	*$60,900,000*
Total Sources	**$80,100,000**
Estimated Uses	
Owner's Rep. Services	$4,500,000
Property Acquisition and Development	$5,000,000
City Admin Costs	$2,000,000
PBD Phase 1	$5,000,000
PBD Phase 2 - Engineering and ESDCs	$3,500,000
PBD Phase 2 - WTP Construction	$54,900,000
PBD Phase 2 - Intake, RWPS, and Pipeline:	$5,200,000
Total Uses	**$80,100,000**

Source: Stantec “Water Treatment Plant Replacement Project Cost Analysis” Memo to Jason Canady, dated August 27, 2018

The City currently anticipates bond funding for the majority of the remaining costs. Previous analyses have assumed a $51 million revenue bond. **Figure 1** reflects those bonding assumptions and a $10 million funding gap**.** Given the overall funding needs of the City over the next decade, the City would also like to ensure that resources are leveraged in the most advantageous way for the City and its customers. As part of this effort, this memo explores other potential funding options, such as state and federal funding programs. Because the City has already analyzed the use of revenue bonds for the WTP Project, this memo will not explore that option.

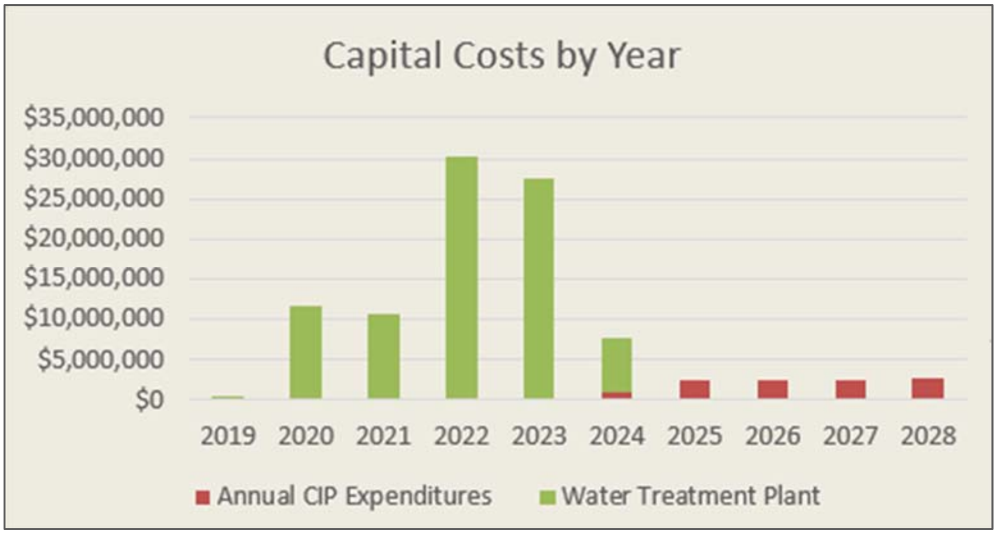

Figure 1. WTP Project Cost Forecast

Source: City of Grants Pass & FCS Group "Water and Stormwater Utility Rate Study Update" presentation October 15, 2018

Funding Options

The City of Grants Pass needs to secure capital for the Water Treatment Plant Replacement Project. Developing a strategic funding plan hinges on having a robust understanding of current funding sources, identifying and characterizing new funding sources, and comprehensively evaluating the applicability and attractiveness of those funding sources.

The City and the project are especially suitable to certain funding programs. The urgent need to replace the existing water treatment plant and the related threat to water supply position the project for several federal and state programs. The seismic resiliency of the replacement treatment plant may qualify the project for other, disaster resiliency-focused programs. In addition, according to its unemployment and income levels, Josephine County and Grants Pass are categorized as "distressed" at the state and federal level. The City can position the project for funding by effectively highlighting through outreach and applications the need for new infrastructure, the disadvantaged community that will be served by the RWTP, and the resiliency benefits of the project.

If alternative funding sources are to be leveraged, now is the time to apply. The maturity of the project, planning efforts to-date and thorough documentation can be leveraged to meet the desire of many program administrators to fund shovel-ready or almost shovel-ready projects. With the majority of construction costs for the RWTP projected for 2022 and 2023 and a year+ application process for many programs, the City is at a prime time for identifying programs, connecting with administrators and assembling appropriate project information. While some programs will reimburse previously incurred costs, compliance requirements can complicate that process. It is best to confirm funding prior to initiating the construction phase of the project.

The RWTP may be a strong contender for competitive funding programs and the application and award timing for most of those programs aligns with the RWTP. But what funding programs are the best fit? Evaluation criteria drives the assessment and comparison of potential funding options. These criteria weigh the qualitative risks and benefits associated with funding options, as well as the quantitative revenue and timing associated with each funding option. Key evaluation components include:

- Competitiveness – Provides a measure of how likely the City is to successfully compete for funding from the program
- Maximum Grant Award or Loan Amount - Determines the adequacy of the funding available to meet the needs of the WTP project
- Funding Terms – Evaluates the attractiveness of anticipated loan interest rate and maturity compared to bonding
- Application Costs – Considers the level of effort necessary to effectively compete for funding. Outlines the application requirements
- Compliance Costs – Assesses the costs of grant or loan management after the funding has been secured
- Timing – Overlays the likely timing of funding program disbursements with the project cash flow requirements

Importantly, all funding decisions will ultimately have an impact on the City's customers. Loan maturities, interest rates, grant management requirements, and repayment conditions - all of the direct and indirect costs - are ultimately reflected in the water customers' bill. For a drinking water provider with just under 10,500 customers, an $80 million project is significant and the debt service on a $60 million loan or revenue bond adds substantially to annual costs. Grants that reduce the need for financing and loan terms that allow for a more gradual rate increases or sculpted repayments are more attractive but can be more competitive. These characteristics should be taken into consideration when evaluating funding options.

The following narrative describes several programs to which the City may opt to apply. Applying for, negotiating, and complying with grant and loan programs takes time and money. Small grants can be competitive and have extensive application requirements even though they have little impact on filling the funding gap. Therefore, this memo is focused on programs with more substantial funding resources. A summary of the prioritized funding programs is provided in **Table 2**. Characteristics of programs are also presented in a table in the attached Funding Matrix.

Table 2. Potential RWTP Funding Programs

Program	Administrator/s
Drinking Water State Revolving Fund (DWSRF)	Oregon Health Authority (OHA) Oregon Infrastructure Finance Authority (IFA)
Water Infrastructure Finance and Innovation Act (WIFIA)	Environmental Protection Agency (EPA)
Pre-Disaster Mitigation Grant Program (PDM)	Oregon Office of Emergency Management (OEM) (Applicant) Federal Emergency Management Agency (FEMA)
Public Works Program	U.S. Economic Development Agency (EDA)
Special Public Works Program	Business Oregon IFA
Water Wastewater Program	Business Oregon IFA

Different Types of Funding Sources for Water Projects

Federal

Federal sources for water infrastructure projects serving a community the size of Grants Pass include the Environmental Protection Agency (EPA), the Federal Emergency Management Agency (FEMA), and the Economic Development Administration (EDA).

Programs through the Housing and Urban Development Authority (HUD), and the US Department of Agriculture (USDA) have not been included. The City already receives approximately $250,000/year through the HUD Community Development Block Grant (CDBG) entitlement program and is therefore ineligible for the competitive Oregon CDBG program. To be eligible for USDA Rural Water grants and loans, a community must have fewer than 10,000 individuals.

a. EPA: State Revolving Fund (SRF)

The most commonly used, federally capitalized funding program is the **Drinking Water State Revolving Fund (DWSRF), sometimes referred to as the Safe Drinking Water Revolving Loan Fund (SDWRLF)**. In the past, the City has leveraged the State Revolving Funding (SRF) to fund infrastructure projects.

The Oregon Safe Drinking Water SRF (DWSRF) program is managed by the Oregon Health Authority and the loans are managed by the Oregon Infrastructure Finance Authority (IFA), often referred to as Business

Oregon.[2] Oregon's primary DWSRF focus remains on projects that address drinking water public health risks and compliance issues while assisting systems serving economically-disadvantaged communities. By and large, the Oregon DWSRF supports very small and non-compliant systems. According to the 2019 Oregon DWSRF Intended Use Plan (IUP), 65% of total SRF assistance has been provided to systems supporting populations of less than or equal to 10,000. Over 63% of DWSRF assistance was provided to non-compliant systems. In 2019, the Priority Project List (PPL) presented in the IUP included 14 projects requesting a total over $25 million, all serving less than 10,000 people. The largest amount requested was $9,367,000 for the City of Lakeview. All projects were funded. In FY 2018, the Safe Drinking Water Fund provided just over $36 million in loans and forgivable loans.

Terms: Affordability and median household income impact the SRF terms. The DWSRF interest rates are between 80% of the Business Oregon direct rate and as low as 1%. As of August 27th, 80% of the direct rate was equal to 2.456%.[3] The term of the loan can be up to 30 years if the project results in rates in excess of the Oregon affordability rate. There are no administrative fees for the DWSRF and typically Oregon DWSRF funding includes a small, loan forgiveness component. This loan forgiveness is effectively a grant.

There is no limit on the size of an SDWSRF loan, but awards of $3 million and above must be reviewed by the IFA Board and awards of $6 million and above must be approved by the Oregon Drinking Water Advisory Council (DWAC). If additional funds are needed to complete projects, Oregon has the option of packaging DWSRF projects with other state infrastructure program funds, including bond funds from the Oregon Bond Bank.

The SRF application process involves multiple steps. The application steps are shown in **Figure 2 - DWSRF Application Process** below. Letters of Interest are accepted at any time, but quarterly review deadlines occur on March 15th, June 15th, September 15th, and December 15th.

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[2] Business Oregon is the State's Economic Development Agency. Business Oregon's Regional and Project Representatives provide outreach for many of the State's funding program.
[3] According to the 2019 IUP, the standard Oregon DWSRF rate is set quarterly to a rate of 80% of the Bond Buyer 20-Bond Index

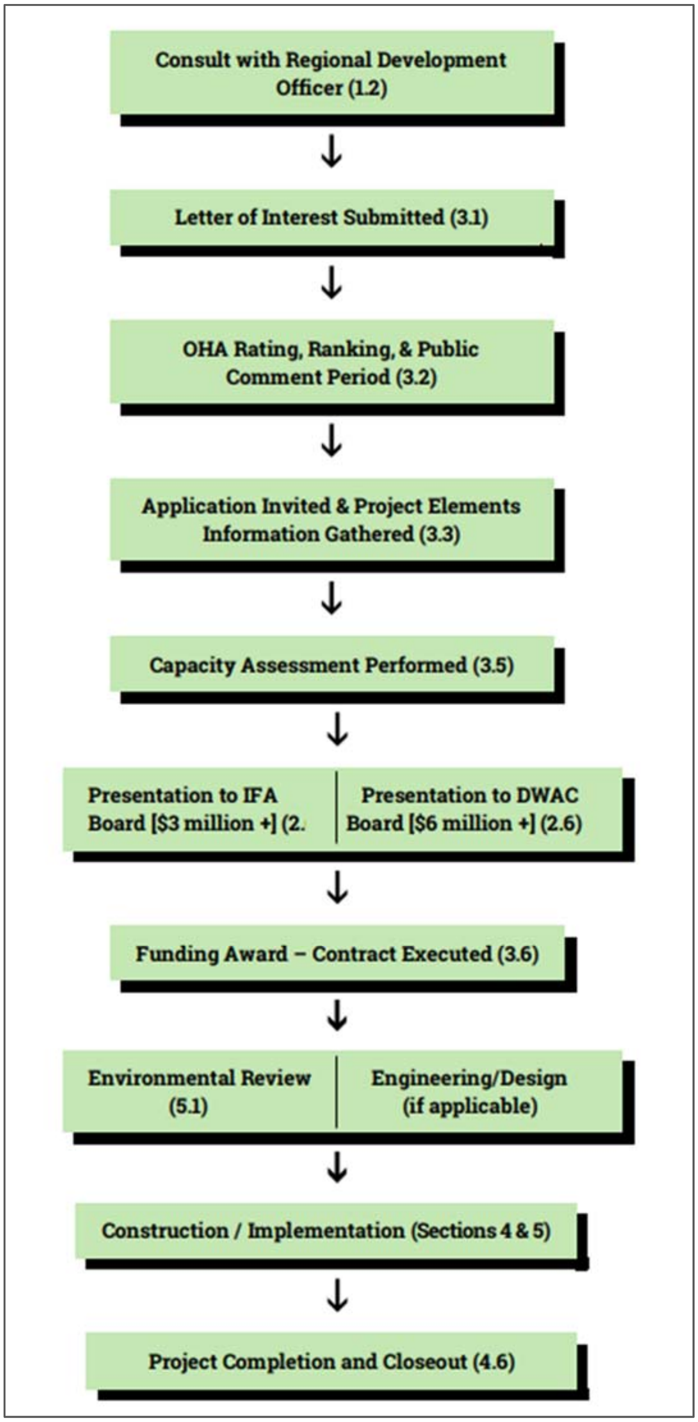


Figure 2. DWSRF Application Process

Source: Business Oregon Safe Drinking Water in Oregon: Program Guidelines and Applicant's Handbook for Federally Funded Safe Drinking Water Revolving Loan Fund, August 2018 (parenthesis refer to Guideline sections)

Application: The DWSRF application process involves an evaluation of the project, the City's capacity to deliver the project, and the City's ability to repay the DWSRF loan. While not especially cumbersome, the process can be time-consuming if project data is not well organized and effective lines of communication with the Oregon Health Authority and Business Oregon have not been established. Typically putting together an SRF application is estimated to be $10,000 - $25,000 in consultant fees[4]. A recommended first step in the application process is a consultation with a Business Oregon regional representative. In addition to the DWSRF, this representative can also inform a potential borrower or grant recipient of current opportunities through other Oregon and federal funding programs. Business Oregon offer a "One-Stop" meeting to provide broad funding perspective and multiple program eligibility considerations. This meeting may include several federal and state agencies.

An environmental review must be completed prior to any construction work on a DWSRF-funded project. The review process is overseen by OHA and will require some time and resources on the part of the City and their consultants. The environmental review is not expected to result in significant costs. If there are complicated environmental aspects to a project, this Environmental Review Process may have an impact on the project schedule.

Compliance: DWSRF borrowers are subject to Federal Cross-cutting Authorities and Oregon laws. Cross cutting requirements are those that are required by any entity that receives federal money. Davis Bacon (DB) wage rate requirements and American Iron and Steel (AIS) provisions apply to all DWSRF projects and depending on the location and nature of the project, may have a material impact on total project costs. In water projects, DB and AIS are commonly viewed as the most onerous of compliance requirements. In Oregon, the difference between the Oregon Bureau of Labor and Industries (BOLI) and the Davis Bacon prevailing wage rates is marginal. Davis Bacon does require monitoring, document management and record keeping. AIS impacts vary greatly by project. Though it is more difficult to predict material costs, a recent pipeline project in Oregon estimated AIS to have an impact of less than 5% on total project material costs. AIS would likely have less of an impact on the cost of a WTP. AIS also requires monitoring, document management and record keeping.

The costs of monitoring compliance through the project delivery supply chain are contingent on the project. Compliance costs are higher on projects with multiple phases and multiple contractor procurements. The DWSRF borrower must ensure contract language reflects these requirements and collect documentation to demonstrate compliance. Beneficiaries of most federal funding programs are subject to these compliance requirements. Therefore, if 50% of your project funding requires you to be compliant with these Federal Crosscutting Authorities, and it's possible to secure another 20% through a funding program with essentially the same requirements, the incremental increase in cost associated with the second program would be negligible.

b. EPA: Water Infrastructure Finance and Innovation Act (WIFIA)

WIFIA is a relatively new funding program that supports large water, wastewater, and stormwater infrastructure projects. Since program initiation in 2017, the WIFIA program has closed more than $2.8 billion in low interest loans. Two Oregon entities, the Tualatin Valley Water District (TVWD) and the City of Hillsboro closed WIFIA loans in August 2019. The loans equated to almost $640 million in funds for the Willamette Water Supply System ($388 million for TVWD and $251 million for the City of Hillsboro). The Cities of Beaverton, Portland and Sandy all submitted WIFIA Letters of Interest in 2019. Beaverton submitted for a Water Supply Improvement Program and Sandy submitted for Wastewater System Improvements.

The WIFIA program is administered by the EPA out of the Washington DC headquarters. Annually, the program is appropriated funds by Congress. The appropriation determines how much the program can lend.

[4] Assuming 80 to 200 hours of effort

In 2019, the Consolidated Appropriations Act provided enough credit subsidy for the WIFIA program to provide approximately $6 billion in credit assistance, an amount that is greater than the combined federal capitalization of the Clean Water and Safe Drinking Water SRF programs. There is a significant amount of funding available through WIFIA and, for this reason, the program is much less competitive than many other federal grant and loan programs.

WIFIA loans will only cover up to 49% of total project costs, so applicants must demonstrate a viable financial plan to cover all project costs. WIFIA funds may cover project costs previously incurred. Rehabilitation and replacement of aging infrastructure and resiliency are WIFIA priorities.

Terms: Unlike the DWSRF, WIFIA loan interest rates are not subsidized. The interest rate will be equal to or granter than the U.S. Treasury rate of a similar maturity at the date of closing. As a recent example of WIFIA loan rates, the 35-year TVWD loan had an interest rate of 2.39%. Because WIFIA is managing a large portfolio of low risk investments in water projects, the program is expected to offer lower rates than the municipal bond market. However, municipal bond rates are historically low at present and utilities and cities with high credit ratings currently have access to very low rates through the municipal bond market.

The WIFIA program does have some attractive characteristics compared to the bond market. For a WIFIA loan, a single fixed interest rate is established at closing even if the borrower receives multiple disbursements over several years. Loan repayment can be customized so repayment matches anticipated revenues and expenses for the life of the loan. A WIFIA borrower can defer all WIFIA payments up to 5 years after substantial completion and sculpt repayments to align with necessary rate increases or other debt obligations.[5] The loan can be up to 35 years after substantial completion. Though issuance costs may vary depending on the project, WIFIA administrators expect WIFIA issuance costs to be less than bond issuance costs for a similarly sized project. However, the cost of extra staff and consultant time related to the extensive WIFIA application process make the upfront issuance costs similar.

For the RWTP, a WIFIA loan may result in savings from lower financing costs over the life of the loan. The WIFIA program is in a position to offer the lowest possible tax-exempt interest rates. However, revenue bond interest rates are currently very low. When the City is ready to secure capital for the RWTP, the City may be in a position to get interest rates only slightly higher than WIFIA interest rates. Financing cost savings related to leveraging a WIFIA loan could be negligible. The more significant benefit for consideration may be WIFIA's flexible repayment option. Flexible repayment could allow the City to more gradually increase rates over the next decade to meet WTP project-related debt repayment obligations.

Application: To secure a WIFIA loan, the applicant must submit a Letter of Interest (LOI). There is no fee for submitting a LOI. Based on the review of the LOIs and the funding available, the WIFIA program invites prospective borrowers to apply. Creditworthiness, Project Readiness, and alignment with WIFIA priorities are key components of the LOI evaluation. WIFIA also takes into consideration geography (are funds being spread across the US?) and project type. The LOI selection is the only competitive part of the application process. Recent experience suggests it costs between $25,000 and $50,000 in consulting fees to develop a comprehensive LOI that positions the applicant to rapidly submit a complete application. Once a prospective borrower has been invited to apply, they are no longer competing for WIFIA funds. The complete application provides WIFIA with the information it needs to perform due diligence on the project and borrower. To effectively fund the application processing and due diligence, prospective borrowers are required to submit a check for $100,000[6] when they submit a complete application. The subsequent due diligence involves significant back and forth between the borrower and WIFIA program, followed by credit agreement negotiation

[5] Substantial completion is when the project has been fully constructed. This repayment flexibility means that with a maximum construction period of seven years, the WIFIA loan can effectively have a 42 year maturity.
[6] The application fee for small communities (not more than 25,000 individuals) is $25,000

and loan execution. Issuance fees for WIFIA loans are estimated to be between $250,000 and $500,000. In total, a $40 million WIFIA loan (approximately 49% of total project costs) could be expected to result in issuance and application fees of around $400,000.A high level review of the application process is shown in **Figure 3 - WIFIA Application Process.**

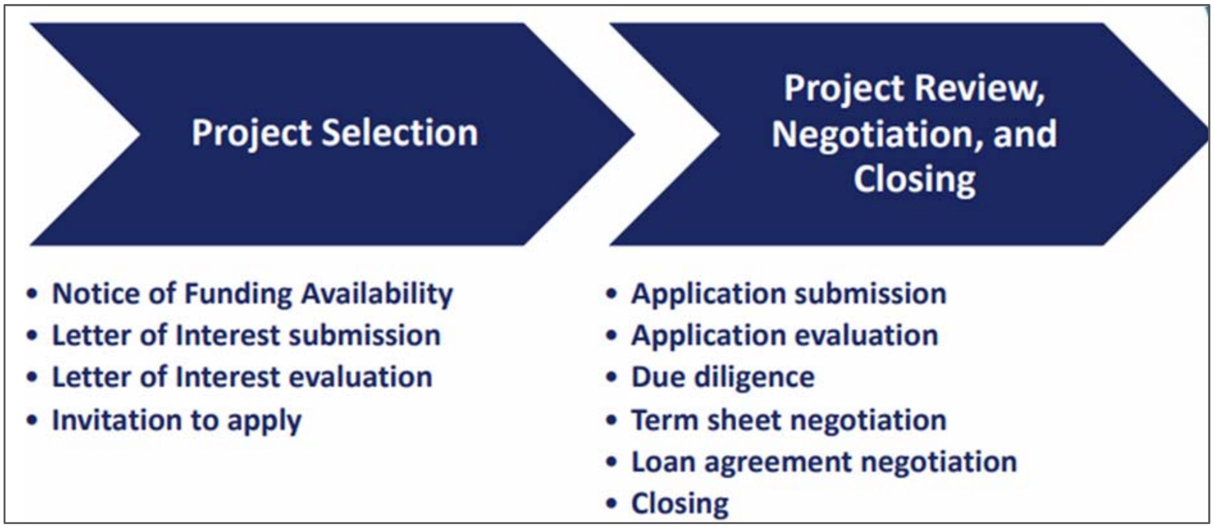


Figure 3. WIFIA Application Process

Source: Presentation "Overview of the WIFIA Program and 2019 Selection Round (4/17/2019)"

Timing: The entire process, from submitting an LOI to executing a credit agreement, can be expected to take about one year. Prospective borrowers can extend or contract this depending on when they need funds for their project. The next Notice of Funding Availability (NOFA) for WIFIA will likely be released in April of 2020. LOIs will probably be due in early July. Applicants will be notified they have been selected to apply in October and have up to one year to submit a complete application. Complete applications have been submitted as early as four months after selection, but could be submitted earlier. The due diligence and credit negotiation periods are contingent on the project, the borrower, and the WIFIA program.

Compliance: WIFIA and the DWSRF have similar federal compliance requirements. Therefore, if the City were to apply for WIFIA and DWSRF funding, a single compliance plan could cover all requirements. WIFIA borrowers must be compliant with NEPA, Davis Bacon, AIS and relevant federal authorities. There are compliance cost implications for borrowers that currently do not have compliant systems and processes. Schedule and total project cost may be negatively impacted by these federal requirements. After establishing a WIFIA compliance program, a borrower may be required to dedicate 25%+ of an employee's time to compliance.

However, monitoring and oversight by WIFIA is not particularly onerous as the program administrator's role is more a lender than a regulatory agency. WIFIA administrators want to demonstrate the value of the program and have an interest in keeping reporting and compliance costs low. Also, as the project enters its 4th year, WIFIA Compliance Plan templates are emerging that can expedite and reduce costs associated with compliance and reporting.

A good first step for evaluating the suitability of both a WIFIA and a DWSRF loan for the RWTP would be to estimate the cost implications of compliance relative to the cost savings associated with lower interest rates and other favorable loan terms.

c. FEMA: Pre-Disaster Mitigation Grants

Significant amounts of federal funding are regularly made available post-disasters. And while this makes up the lion's share of what is available through FEMA, there are FEMA programs to fund pre-disaster mitigation. A source of funding for non-flood related projects is FEMA's Pre-Disaster Mitigation Program (PDM). In FY19, PDM received $250M, the highest allocation in history. PDM will contribute up to $4 million in grant funding for construction projects. Going forward, the federal government is expected to continue to increase funding made available for pre-disaster mitigation.

The State is the "Applicant" for PDM grants. Local governments are eligible PDM sub-applicants and submit mitigation planning and project sub-applications to the State during the application cycle. Depending upon the number of state sub-applications and the project goals, the State decides whether to submit the sub-application. In Oregon, the relevant agency is the Office of Emergency Management. In 2018, Oregon's application included over $8 million requested funding. The largest sub-applicant request in 2018 was $4 million for the City of Reedsport Resilient Infrastructure.

Terms: PDM will fund up to 75% of project costs. While the maximum FEMA PDM grant is $4 million, grants are typically less than $3 million. If the project qualifies as small/disadvantaged, FEMA may contribute greater than 75% of project costs.

Application: In each sub-application, FEMA requires a Benefit-Cost Analysis (BCA) to validate cost effectiveness of proposed mitigation projects. BCA is the "method by which the future benefits of a hazard mitigation project are determined and compared to its costs." The end result is a Benefit-Cost Ratio (BCR), which is calculated by a project's total benefits divided by its total costs. Projects must have a BCA greater than one (1.0) to be competitive. In 2019, applications were due to FEMA January 31st. FEMA received 579 sub-applications from 90 applicants totaling $512.5 million. 359 PDM sub-applicants were identified for further review. In 2019, FEMA prioritized projects for small impoverished communities, projects that included a public-private partnership, and projects from a sub-applicant with a high FEMA-validated Building Code Effectiveness Grading Schedule (BCEGS) rating. Seismic resiliency has been a focus for Oregon for the last several years. The seismic resiliency of the RWTP and the demographic characteristics of the City may improve the competitiveness of a PDM application. Contacting the Oregon PDM point of contact would be a clear first step.

Timing: The Oregon Office of Emergency Management will begin soliciting PDM sub-applications in the Fall. It can take over a year for FEMA to announce awards. That being said, FEMA's engagement and disbursement practices are geared toward more immediate projects, where the realization of benefits associated with one component are not contingent on the construction of other components several years in the future. FEMA reimburses design and construction costs when the sub-applicant demonstrates the BCR (at 100% design and once construction bids have been submitted and evaluated). The projected benefits must be associated with the PDM-funded project once construction is complete. The BCR will be calculated based on the incremental resilience of the City's water supply.

Compliance: While sub-recipients must comply with federal laws, PDM does not include Davis Bacon or AIS requirements. With PDM, documentation, demonstration of BCA, and the reimbursement process can be cumbersome, especially if a recipient is going through the process for the first time.

d. EDA Public Works Program

EDA's Public Works program provides economically distressed communities and regions with comprehensive and flexible resources to address a wide variety of needs. EDA's investment priorities include Recovery & Resilience, Critical Infrastructure, Workforce Development & Manufacturing, Exports and Foreign Direct Investments and Opportunity Zones.

In FY 2018, EDA was appropriated $117.5 million for the Public Works program. The Program will continue to accept applications as long as there is funding available. The average size of a Public Works investment has been approximately $1.4 million and investments generally range from $600,000 to $3,000,000. Typically, EDA awards to between 80 and 150 Public Works projects a year. Funds are distributed as a reimbursement of costs.

Terms: Subject to the availability of funds, EDA may award grants or cooperative agreements to eligible applicants. All construction projects are expected to be completed within five years from the date of the award. Generally, the amount of an EDA award will not exceed 50% of the total project cost, based on the relative needs of the Region. Based on economic characteristics of Josephine County and the City of Grants Pass, the RWTP project could qualify for an EDA Public Works grant for up to 50% of the total project cost. As the project is estimated to cost $80 million and EDA awards a maximum of $3 million per grant, this is unlikely to be an issue. EDA directs interested parties to StatsAmerica to determine eligibility for funding. The Distress Criteria Statistical Report for Josephine County and census tracts within the City of Grants Pass are shown in **Figures 4 and 5**.

Distress Criteria Statistical Report

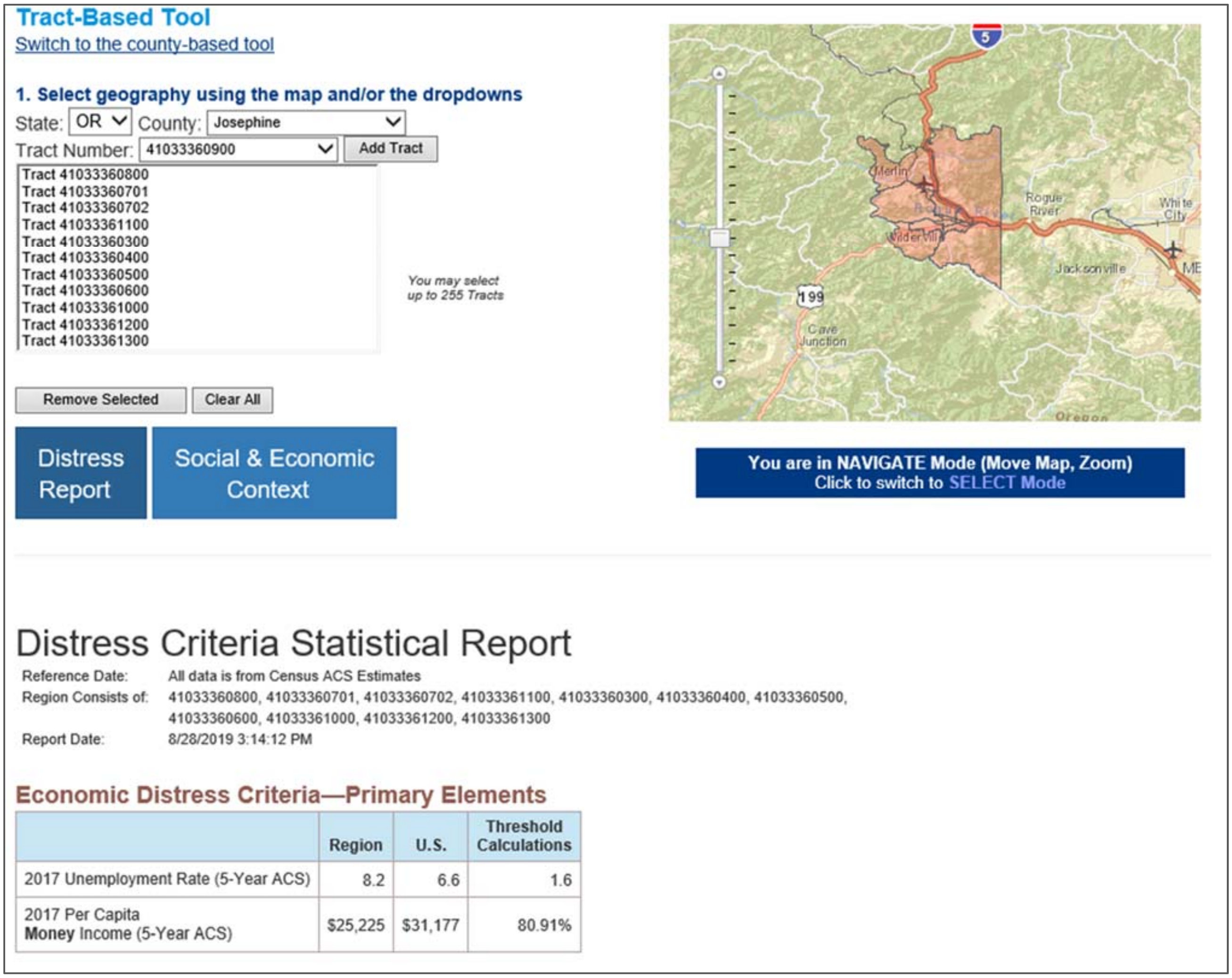
Reference Date: **06 / 2019 (All data elements refer to this date or earlier.)**
Region Consists of: Josephine Co. OR
Report Date: 8/28/2019 3:02:27 PM

Economic Distress Criteria—Primary Elements

	Region	U.S.	Threshold Calculations
24-month Average Unemployment Rate (BLS) period ending June 2019	5.47	3.94	1.53
2017 Per Capita **Money** Income (5-year ACS)	$24,349	$31,177	78.10%
2017 Per Capita **Personal** Income (BEA)	$38,896	$51,640	75.32%

Figure 4. Josephine County Statistical Report

Source: Stats America http://www.statsamerica.org/distress/distress.aspx



Distress Criteria Statistical Report

Reference Date: All data is from Census ACS Estimates

Region Consists of: 41033360800, 41033360701, 41033360702, 41033361100, 41033360300, 41033360400, 41033360500, 41033360600, 41033361000, 41033361200, 41033361300

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Economic Distress Criteria—Primary Elements

	Region	U.S.	Threshold Calculations
2017 Unemployment Rate (5-Year ACS)	8.2	6.6	1.6
2017 Per Capita Money Income (5-Year ACS)	$25,225	$31,177	80.91%

Figure 5. Grants Pass Census Tracts Statistical Report

Source: Stats America http://www.statsamerica.org/distress/distress.aspx

Application: The EDA Public Works program has a rolling application and the agency has made an effort in recent years to reduce the time period between submitting proposals and applications and receiving notification. As long as there is funding available, the EDA will consider projects. The application involves two phases: Phase 1, the Proposal Phase and; Phase 2, the Application Phase. The proposal will provide EDA general project information that allows EDA to determine whether the project meets basic technical criteria. The proposal form is not especially long and would not require extensive data gathering or time to complete. The Regional Office Proposal Review Committee (PRC) reviews the proposal and advises the applicant of the Phase 1 Determination within 30 calendar days of EDA's receipt of the proposal. If the proposal is determined to be responsive to the notice of funding opportunity (NOFO), the applicant is invited to submit a complete application. EDA will make a determination on an application within 60 days of receipt of the complete application.

Compliance: Compliance requirements for EDA are similar to the federal requirements for the DWSRF and WIFIA programs. Documentation is very important for this program as is a demonstration of investment impact. For example, an EDA Public Works grant awardee will be required to effectively demonstrate job creation and other economic impacts resulting from the project. Compliance and reporting requirements are onerous enough to discourage applicants seeking less than $1 million in grant funding. However, an applicant seeking the maximum award that is also leveraging other federal funding with similar compliance requirements could establish a single compliance approach that covers most of, it not all, compliance requirements.

State Programs

Overview: The State of Oregon manages a variety of funding programs that support infrastructure projects. State administrators give priority when funding technical assistance, programs and projects to rural areas determined to be economically distressed. In 2018, over 70% of Oregon projects listed in the Business Oregon Investments Report served rural community. Rural investments equated to over $375 million of the almost $420 million in Oregon incentives, grants, and loans. A recipient of a $60,000 grant from the Safe Drinking Water Fund, the City of Grants Pass was categorized as "rural" in the 2018 Investments Report.

Of the $420 million invested by the State in 2018, approximately $70 million is associated with programs relevant to the City's RWTP. The largest financing from those programs was a loan for $11.5 million to the Coos County Airport District through the Special Public Works Fund. In 2018, the City of Jefferson received a $4,985,000 loan through the Safe Drinking Water Fund.[7] Through the Infrastructure Finance Authority, water projects can secure loans of up to $10 million. Grants and forgivable loans for water projects, awarded to rural communities, often exceed $1 million.

The most promising of the State programs appears to be the Special Public Works Fund. This fund distributed over $24 million in 2018, much of that funding directed at water and wastewater projects. Though relatively small, the Water/Wastewater Fund could also be a source of funding. Relevant State programs are listed in **Table 3**. A graphic showing the overall process is in **Figure 6**.

Term: Relevant State programs offer grants, forgivable loans (essentially a grant) and loans. The Water/Wastewater and Special Public Works loans can be up to 25 years. The State leverages its creditworthiness to offer lower tax-exempt interest rates than the borrower would receive if they chose to issue revenue bonds. These rates are not subsidized but often, the State will offer a combination of a loan and a grant, effectively reducing the financing costs of the funding. The interest rates offered by the State would be comparable to WIFIA interest rates. The Special Public Works loans do not appear to have an annual administrative fee.

Application: Business Oregon regional representatives assist communities in applying for State funding. As referenced earlier in this document, the regional representatives will direct potential borrowers and grant applicants to appropriate funding sources. This assistance can eliminate some of the risk associated with applying for funding and potentially expedite the application process. The figure below outlines the application process.

Compliance Costs: Borrowers and grant awardees must comply with all applicable state laws, regulations and requirements, such as Oregon Prevailing Wage Rates, audit law, and procurement regulations. The Business Oregon regional project representative must be kept aware, in a timely fashion, of project progress and any material changes in terms of cost and schedule.

[7] The EPA-capitalized, DWSRF associated with the Safe Drinking Water Fund and the City of Jefferson loan is detailed above in this memo.

Table 3. 2018 Investments Relevant to City of Grants Pass RWTP - Oregon State Infrastructure Funding Programs

State Administered Program	2018 Financing/Funding Awarded
Brownfields Programs	$424,412
Governor's Strategic Reserve Fund	$3,854,000
Infrastructure Finance	$2,250,000
Safe Drinking Water Fund	$36,128,049
Special Public Works Fund	$24,678,934
Water/Wastewater Fund	$2,840,050
TOTAL	**$70,175,445**

Source: Business Oregon Investments Report 7/1/2017-6/30/2018

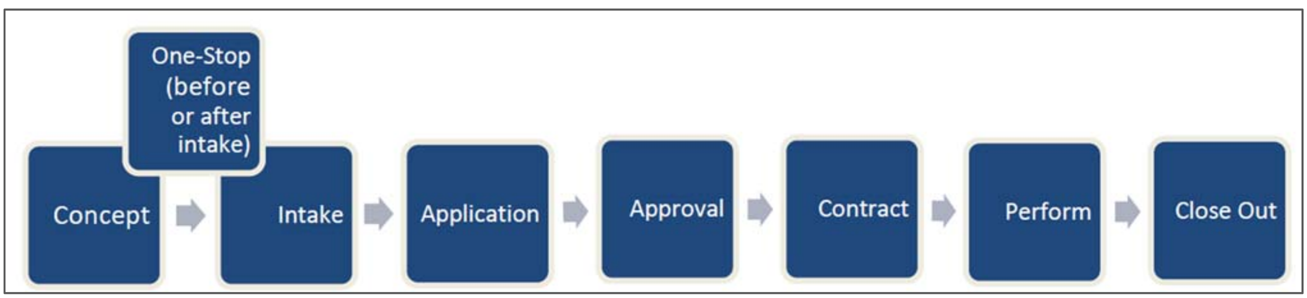

Figure 6: Oregon State Funding Programs High-Level Application Process

Source: Special Public Works Fund Application Handbook and Program Guidelines[8]

Timing: State programs are aspiring to notify applicants within ten days of receiving a complete application. Funds are made available on a reimbursement of costs basis.

While funding available through State programs is unlikely to provide adequate resources for the City's RWTP, it would be advisable to schedule a brief meeting with a Business Oregon regional representative to explore State options.

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[8] This Process is taken from the 2017 SPWF Handbook but the application process appears to be universal for programs associated with Business Oregon.

POTENTIAL NEXT STEPS

The City is fortunate to have multiple options for funding the RWTP. With a very strong credit rating, the City is in a position to issue revenue bonds to fill the anticipated funding gap. With revenue bonds, the advantage of leveraging a single source of funding with no additional state or federal compliance requirements is offset by issuance costs, potentially higher interest rates, and inflexible repayment terms. This memo provides information on multiple sources of funding allowing for an objective comparison of sources. The differences between the programs are also highlighted in the attached **Funding Matrix.** If the City chooses to pursue any of these alternative sources outlined in this memo, it would be beneficial to *quantify* the impact of pursuing and applying those funds. Doing so might include:

- Scheduling a “One Stop” meeting with State and Federal entities
- Assessing project-specific costs of federal crosscutter compliance
- Assessing project-specific benefits of financing

Evaluation Criteria Category	Evaluation Criteria	Notes for Review	Revenue Bonds	OBDD / Oregon Health Auth. Water Financing - DWSRF/SDWRLF	Water Infrastructure Finance and Innovation Act (WIFIA)	Federal Emergency Management Pre-Disaster Mitigation Grants (PDM)	Economic Development Agency (EDA) Public Works Program	Business Oregon IFA Special Public Works Fund (SPWF)
General/Overview			Revenue bonds are long term financings secured by the revenues (rates, etc.) generated by an enterprise (e.g., water, wastewater utilities). Typically used to fund public infrastructure and capital projects.	Financing for eligible drinking water infrastructure projects that address drinking water health and compliance issues.	Federally administered financing for eligible drinking water, stormwater, and wastewater projects.	Federal grants for Pre-Disaster mitigation projects.	EDA's Public Works program provides economically distressed communities and regions with financial resources to address a wide variety of needs	State loans and forgivable loans for a variety of public benefit projects, including water and wastewater projects.
Competitiveness			The City has a very strong credit rating and minimal debt. Bond rates are currently very low.	The Safe Drinking Water State Revolving Fund is primarily focused on non-compliant, small & disadvantaged communities. While the City qualifies as rural and disadvantaged, there are many communities that would likely get priority over Grants Pass.	Not too competitive. Funds requested through 2019 LOIs only exceeded funds available by $500M or 15%. Several of those that successfully submitted LOIs in past years have opted to not submit applications. Therefore, going forward, administrators will probably select more projects - meaning, those that submit LOIs will have 85%+ chance of being selected..	This is a highly competitive grant program.	This is a competitive grant program.	Like other State programs, this Fund is primarily focused on non-compliant, small & disadvantaged communities. While the City qualifies as rural and disadvantaged, there are many communities that would likely get priority over Grants Pass.
Maximum Grant Award or Loan Amount	Magnitude	This could be an average annual payment amount or a lump sum (e.g. grant). Moreover is the funding source enough to cover all or part of needs.	Constrained by the City's bonding capacity	Generally, up to $6 million per project, but can be more with review approval by the Oregon Drinking Water Advisory Council (DWAC). In 2019, the Priority Project List included 14 projects requesting a total of $25 million. Other Oregon funding programs can be leveraged to increase available DWSRF funding.	$5.5 billion in loan funding was available in 2019. WIFIA has executed loan agreements greater than $600 million. Compliance and issuance costs will have less of a cost impact on a larger loan than a smaller loans.	Up to $4 million per implementation project, but most projects are less than $3 million. In 2019, $250 million was made available for PDM grants	Nationally, the 2018 appropriation for the EDA Public Works Program was $117 million. The program offers up to $3 million in grant and loan funding for projects. The average has been $1.4 million.	In 2018, this fund distributed over $24 million. The largest financing from the Special Public Works Fund was $11.5 million.
	Duration	Perpetual revenue or specific duration (grant, tax, bond, special assessment, etc.)	Single issuance.	Typically a single disbursement.	Can receive multiple disbursements during project implementation. Project must be completed within 7 years of loan execution.	This is a grant. Project costs are reimbursed by FEMA.	This can be a combination of grants and loans. Funds are disbursed as project cost reimbursements.	This can be a combination of loans and forgivable loans.
Financing/Funding Terms	Repayment term		Typically 25 to 30 years, but generally cannot exceed the life of the assets being financed. Bond proceeds (revenue) placed in a bond escrow fund that can be drawn down as project costs are incurred. Term of the loan based on useful life of assets being funded (range of 15 to 30 years). Interest rates dependent on City's and utility's credit rating.	20 - 30 years, but not longer than the useful life of assets funded	The final maturity date of the WIFIA credit instrument must be the earlier of 35 years after substantial completion or the useful life of the project. This means, if construction is 7 years long and all WIFIA funding is received in the first year of construction, the effective term of the loan is 42 years.	N/A	Loan maturity is project-dependent.	Special Public Works loans can be up to 25 years but not longer than the useful like of the asset.
	Interest Rates		Based on market conditions at time of bond issuance	Ranges from 80% of the Business Oregon direct rate to as low as 1 % depending on MHI and monthly user rates	Essentially equal to the Treasury Rate of a similar term. WIFIA program adds one basis point to the SLGS daily rate with a maturity that is equal or greater than the weighted average life (WAL) of the WIFIA loan. The 30-year Treasury rate was 2.02% on August 23rd.	N/A	Typically equal to Treasury Rate of a similar term (NEED TO FIND INFO).	Ranges from 80% of the Business Oregon direct rate to as low as 1 % depending on MHI and monthly user rates
	Other terms			In some cases the DWSRF offers loan forgiveness (essentially a grant) for a portion of the loan	Repayment can be sculpted to suit gradual rate increases or repayment of other debt.			
Limitations	Funding Restrictions	Are there limitations to programs, activities, specific projects that can be funded	N/A	Projects that fall under Safe Drinking Water Act eligibility.	Drinking water projects that are eligible under the Safe Drinking Water Act. No more than 80% of total funding can come from federal sources (this does not apply to state administered SRFs). WIFIA loans will cover up to 49% of a project.	FEMA reimburses design and construction costs only when the subapplicant demonstrates the Benefit Cost Ratio (BCR). Typically this occurs at 100% design and once construction bids have been submitted and evaluated.	Funding is only available to economically distressed communities. More distressed communities may receive greater % of total project costs than less distressed communities. Income and unemployment are key measurements.	
	Spending Milestones	Are there specific spending milestones or expenditures that will need to be followed?	N/A	N/A	The project must be substantially complete within seven years of execution of the loan agreement.	The Period of Performance (PoP) for these grants is 36 months (3 years) from the Funding Selection Date.		
Application Details and Costs	Application Cycle	What is the expected timing of this round of the Program?	N/A	To apply, must submit a letter of interest (LOI), which are accepted quarterly. The Priority Project List in the Intended Use Plan was published in July 2019. The application process requires an environmental review by OHA. Disadvantaged and small communities get preference over larger, less economically distressed communities.	The applicant must submit a letter of interest (LOI). LOIs are accepted annually (July in 2018 and 2019). If the LOI is selected, the applicant is invited to submit a complete application and must do so within 1 year of being notified they have been selected.	The State is the Applicant and the City is the subapplicant. The Oregon Office of Emergency Management will determine which projects to submit in the application. The NOFO was published in the fall in 2018 with applications due January 31st. It can take FEMA more than 6 months to notify grantees. The program is competitive. In 2019, over $500 million was requested and only $250 million was available.	The EDA has a rolling application as long as funding is available. The application process involves two steps, a proposal followed by an application. EDA will make a determination on the application within 60 days of submission.	The State receives project information on a rolling basis.

Compliance	Personnel Requirements	Does this require staff dedicated to managing and executing the funding source?	Issuing revenue bonds typically requires bond counsel and a municipal financial advisor.	Additional resources may be required for federal compliance.	Additional resources may be required for WIFIA compliance.	Additional resources may be required to meet FEMA documentation and reporting requirements.	Additional resources may be required to meet compliance and economic impact reporting needs.	Additional resources may be required for State compliance.
	Data Management/Reporting Requirements	What reporting and data tracking requirements does this finding option present?	N/A	Federal compliance requirements are very similar to WIFIA and include Davis Bacon and American Iron and Steel.	Federal compliance requirements are very similar to SRF. Cost documentation for reimbursements require adequate accounting systems. The Borrower is required to submit quarterly progress reports to WIFIA.	Federal compliance requirements are not as stringent as with other federal programs.	Recipients of funding from this program must adhere to Federal Crosscutters like Davis Bacon and American Iron and Steel.	There are some State reporting requirements.
Program Resources	Administrator		N/A	Oregon Infrastructure Finance	EPA WIFIA	Oregon Office of Emergency Management	Economic Development Agency (EDA) (Business Oregon can be a contact)	Oregon Infrastructure Finance
				Marta Tarantsey (Regional Development Officer) (503) 856-2693	wifia@epa.gov	angie.lane@state.or.us	Seattle Regional Office	Marta Tarantsey (Regional Development Officer) (503) 856-2693
				Tawni Bean (Regional Project Manager) (503) 551-0957	Karen Fligger	(503-378-4660)	206-220-7660	Tawni Bean (Regional Project Manager) (503) 551-0957
					202-564-2992			
	Websites			https://www.oregon.gov/oha/PH/HealthyEnvironments/DrinkingWater/SRF/Pages/index.aspx	https://www.epa.gov/wifia	https://www.oregon.gov/oem/emresources/Grants/Pages/default.aspx	https://eda.gov/resources/economic-d	http://www.orinfrastructure.org/Infrastructure-Programs/SPWF/
				https://www.epa.gov/waterfinancecenter/effective-funding-frameworks-water-infrastructure		https://www.grants.gov/web/grants/search-grants.html	https://apply07.grants.gov/apply/opportunities/instructions/PKG00243521-instructions.pdf	
							https://apply07.grants.gov/apply/forms/readonly/ED_900_GA_1_1-V1.1.pdf	
							http://www.statsamerica.org/distress/tract_distress.aspx	
							https://www.oregon4biz.com/Publications/Distressed-List/	