

Council Business Meeting

September 6, 2022

Agenda Item	Water Revenue Bonds Authorizing Resolution	
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SUMMARY

Before Council is a request to approve an authorizing resolution for the issuance of water revenue bonds. In fall of 2021 the City was invited by the Environmental Protection Agency (EPA) to submit a formal loan application package for the Water Infrastructure Finance and Innovation Act (WIFIA) program to fund a majority of the new Water Treatment Plant Project. In order to move forward with financing the Water Treatment Plant Project through the WIFIA program, a revenue bond resolution is required. This is one of many required steps to be completed as part of submitting the final loan application to the EPA.

POLICIES, PLANS & GOALS SUPPORTED

City Council Goals:

- Prioritize Essential Services: Water
- Enhance Value Services: Emergency Preparedness, Economic Development, Water Conservation
- Develop current and long-term budgetary resiliency

Department Goals:

- Maintain existing infrastructure to meet regulatory requirements and minimize life-cycle costs
- Deliver timely life cycle capital improvement projects
- Maintain and improve infrastructure that enhances the economic vitality of the community
- Evaluate all city infrastructure regarding planning management and financial resources

PREVIOUS COUNCIL ACTION

- June 7, 2016 Business Meeting, Council approved a \$14,811,865 loan with the Oregon Infrastructure Finance Authority (IFA) for the design and construction of a new Water Treatment Plant. ([Minutes](#), [Staff Report](#))
- October 1, 2019 Business Meeting, Council approved a \$3,662,659 contract with HDR Engineering for the final design of the new Water Treatment Plant. ([Minutes](#), [Staff Report](#))
- October 15, 2019 Business Meeting, Council approved the preliminary engineering phase for the Dam Safety Improvement Project. ([Minutes](#), [Staff Report](#))
- May 18, 2021 Business Meeting, Council approved the final engineering phase for the Dam Safety Improvement Project. ([Minutes](#), [Staff Report](#))
- December 3, 2019 Business Meeting: Council approved engineering for the East and West Forks Transmission Line Rehabilitation project. ([Minutes](#), [Staff Report](#))
- July 5, 2022 Business Meeting, Council approved a resolution and associated contract to reduce the existing loan through the IFA in anticipation of moving forward with funding through the EPA. ([Staff Report](#))

BACKGROUND AND ADDITIONAL INFORMATION

The City submitted a letter of interest in summer of 2021 to the EPA for the WIFIA program in connection with the Water Treatment Plant Project. In fall of 2021 the City was formally invited by the EPA to submit a full loan application for the WIFIA program to fund a majority of the new water treatment plant project (reference attachment #3).

The City is currently working with the Finance Department, the City's Financial Advisor and Bond Counsel to develop the necessary loan application materials required of the WIFA program. The WIFIA program will fund up to 80% of the total project cost with the remainder of funding to come from other non-federal sources. The City is also currently working with the Infrastructure Finance Authority (IFA) on funding options for the remaining 20% through their Safe Water Drinking Revolving Fund Loan Program or through the Special Public Works Fund.

The authorizing resolution for water revenue bonds is one of many steps that needs to be accomplished as part of funding the Water Treatment Plant Project. The water revenue bond resolution was developed by Bond Counsel and reviewed by both the City's Legal Department and external Financial Advisor.

For context the water revenue bond resolution describes the requirement to provide public notice, sets the maximum amount of bonding, details that debt for bonding is secured by water system revenues, provides delegation to the City Manager and Finance Director or "designee" to sell bonds as required to support the projects, negotiate and enter into the final agreements, apply for credit ratings and finally it declares the intent to reimburse expenditures for the projects with revenues from the bonds.

Process Steps:

1. Develop and Approve Water Revenue Bond Resolution
2. Post Public Notice of Water Revenue Bond Resolution
3. Obtain Indicative Credit Rating and Preliminary Plan of Finance
4. Complete WIFIA Loan application
5. Submit Application to EPA
6. Develop water revenue and rate forecast
7. Finalize Plan of Finance and Obtain Final Credit Rating
8. Negotiate Final Terms and Conditions for Borrowing with EPA
9. Close Loan

In addition to funding a major portion of the Water Treatment Plant Project, the EPA is also supportive of potentially funding a portion of two additional water system projects that have a nexus with the Treatment Plant operations. These two additional projects include the East and West Forks Transmission Line Rehabilitation and the Dam Safety Improvement Project. Both projects are currently in the design phase and staff expects final design to be complete in early 2023. Staff will continue to work with Finance, Administration, and consultant staff to ensure the best financing route is selected to support the capital projects while minimizing rate impacts. The resolution before the Council authorizes water revenue bonds to be issued for the projects described therein and below under 'FISCAL IMPACTS' through the WIFIA program or through other borrowing vehicles.

WIFIA Background:

The WIFIA program offers federal loans with fixed interest rates based on U.S. Treasury rates and flexible financial terms. A single fixed interest rate is established at closing, based on the weighted average life of the loan and the comparable Treasury rate on the day of closing. (This is true for all loans/borrowers, regardless of credit rating.) A borrower may receive multiple disbursements over the course of project construction at the same fixed interest rate. Interest only accrues on disbursed funds, rather than the full balance of the loan.

Borrowers from the WIFIA program can customize their repayments to match their anticipated revenues and expenses for the life of the loan. Payments may be deferred up to 5 years after the project’s substantial completion. This flexibility provides borrowers with the time they may need to phase in rate increases to generate revenue to repay the loan. WIFIA loans may have a final maturity of up to 35 years after substantial completion of the project, allowing annual debt service requirements to be lower than other forms of financing with shorter terms. WIFIA loans can be combined with various funding sources, including rate revenues, revenue bonds, grants, and State Revolving Fund (SRF) loans.

FISCAL IMPACTS

Funds are appropriated in the current budget to complete the final engineering phase of the project and develop final plans, specifications, and cost estimates.

The EPA through the WIFIA program has set an initial borrowing amount of \$36 million for the water treatment plant project with the additional required to be obtained through the Infrastructure Finance Authority (IFA) or traditional borrowing. The EPA is aware that current financial conditions have led to project cost increases and they have the flexibility to increase the initial established amount as needed. City staff have discussed at length with Bond Counsel and the City’s Financial Advisor the amount to include as the maximum borrowing in the revenue bond resolution. Since the EPA is open to discussion about increasing the base amount to support the Water Treatment Plant Project and they are open to additional funding for the Forks Transmission Line Project and Dam Safety Improvement Project staff recommends setting a maximum amount of \$44,000,000. This will provide the maximum flexibility when it comes to obtaining the best financing options for three critical water system projects. As part of the funding package development with WIFIA and IFA, staff will continue to work with Administration, Financial Advisors, and Bond Counsel to obtain the best financial package available to support water system improvements.

*Water Treatment Plant Improvement 60% cost estimate: \$32.8 million (September 2020)

*note: Cost estimate did not include additional envision components recommended by Council, which were estimated to cost \$2.3 million. Cost estimate will be revised once 90% and 100% design iterations are completed.

East and West Forks Pipeline Rehabilitation 90% cost estimate: \$2.03 million (February 2021)

**Dam Safety Improvements 60% cost estimate: \$6.02 million (May 2022)

**Note: cost estimate includes rehabilitation to additional dam project features that can be done in a phased approach over time.

STAFF RECOMMENDATION

Staff recommends approval of the water revenue bond resolution in order to move forward with financing of the water treatment plant project.

ACTIONS, OPTIONS & POTENTIAL MOTIONS

I move to approve “A RESOLUTION OF THE CITY OF ASHLAND, OREGON AUTHORIZING THE ISSUANCE OF WATER REVENUE BONDS FOR WATER PROJECTS”.

REFERENCES & ATTACHMENTS

Attachment #1: Resolution No. 2022-0X

Attachment #2: PFM Memorandum – WIFIA program

Attachment #3: EPA Selection Notification Letter