

Council Business Meeting

September 20, 2022

Agenda Item	Authorizing Resolution Water Revenue Bonds	
From	Scott Fleury, PE	Public Works Director
Contact	Scott.fleury@ashland.or.us	541-552-2412

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. 2022-29

Attachment #2: PFM Memorandum – WIFIA program

Attachment #3: EPA Selection Notification Letter

RESOLUTION NO. 2022-29

**A RESOLUTION OF THE CITY OF ASHLAND, OREGON AUTHORIZING THE
ISSUANCE OF WATER REVENUE BONDS FOR WATER PROJECTS**

THE CITY OF ASHLAND, OREGON FINDS:

A. The City of Ashland, Oregon (the “City”) is authorized to issue revenue bonds for a public purpose under ORS 287A.150 and related statutes (the “Act”). Revenue bonds issued under the Act may be payable from all or any portion of the water revenues of the City.

B. The City may authorize revenue bonds under the Act by publishing a notice describing the revenue bonds. Unless at least five percent of the City’s electors sign and file a petition to refer the bonds to an election within sixty days after the notice is published, the City may issue the revenue bonds described in the notice.

C. It is financially feasible and in the best interests of the City to authorize the issuance of revenue bonds under the Act in order to provide for capital improvements to the City’s water system, including but not limited to water treatment plant improvements, east and west forks transmission line rehabilitation, and dam safety improvements (collectively, the “Water Projects”).

D. It may be desirable to issue revenue bonds to finance the Water Projects under one or more financing structures, including as water revenue bonds to the federal government through the Environmental Protection Agency (EPA) Water Infrastructure Finance and Innovation Act (WIFIA) lending program.

E. Prior to the issuance of the water revenue bonds, the City may incur certain capital expenditures with respect to the Water Projects from available moneys of the City and wishes to declare its official intent to reimburse itself for any such expenditures from the proceeds of water revenue bonds authorized by this resolution.

THE CITY OF ASHLAND RESOLVES:

Section 1. Revenue Bonds for Water Projects Authorized.

- a) The City hereby authorizes the issuance of not more than Forty-Four Million Dollars (\$44,000,000) in aggregate principal amount of revenue bonds. The proceeds of the revenue bonds may be used to finance costs of Water Projects, pay capitalized interest, fund bond reserves for the revenue bonds, and to pay costs related to the issuance of the revenue bonds. The revenue bonds shall be issued and sold in accordance with the Act.
- b) The bonds authorized by this resolution shall be special obligations of the City that are payable solely from water system revenues and related amounts that the City pledges to pay the bonds.

Section 2. Notice; Procedure.

In accordance with ORS 287A.150, the bonds authorized by Section 1 of this resolution may not be sold, and no purchase, finance, or loan agreement for those bonds may be executed until at least sixty (60) days after publication of the Notice of Revenue Bond Authorization in substantially the form which is attached to this resolution as Exhibit A (the “Notice”). The City shall cause that notice to be published promptly after adoption of this resolution. The Notice shall specify the last date on which petitions may be submitted, and shall be published in at least one newspaper of general circulation within the boundaries of the City in the same manner as are other public notices of the City.

If the City receives petitions for an election, containing valid signatures of not less than five percent (5%) of the City’s electors, by the date indicated in the Notice, not to exceed 60 days from date of publication of notice, the question of issuing the bonds shall be placed on the ballot at the next lawfully available election date and no bonds may be sold until the question of issuing the bonds is approved by a majority of the electors of the City who vote on that question.

Section 3. Delegation.

The City may sell and issue the Water Bonds, as defined below, as soon as permitted by ORS 287A.150. The City designates the City Manager, Finance Director, Public Works director, or a designee of any of those officials (each a “City Official”) to act on behalf of the City, and without further action by the City Council, to:

- a) Issue the revenue bonds authorized by this resolution (the “Water Bonds”) in one or more series, which may be sold at different times.
- b) Subject to the limits of this resolution, establish the final principal amounts, lien status, maturity schedules, interest rates, redemption terms, and other terms for each series of Water Bonds.
- c) Issue the Water Bonds as short or intermediate term bonds to provide interim financing for Water Projects and enter into lines of credit or similar documents which permit the City to draw Water Bond proceeds over time.
- d) Participate in the preparation of, authorize the distribution of, and deem final the preliminary and final official statements and any other disclosure documents for each series of the Water Bonds, as applicable.
- e) Either publish a notice of sale, receive bids and award the sale of that series to the bidder complying with the notice and offering the most favorable terms to the City, or select one or more underwriters or lenders and negotiate the sale of that series with those underwriters or lenders and execute and deliver a bond purchase agreement or other document in connection with such sale, including a sale of a series of Water Bonds with the EPA.
- f) Seek the consent of the Oregon Business Development Department (“OBDD”) and comply with the provisions of the loans outstanding with the OBDD so that

the Water Bonds may be issued with a lien on net revenues that is equal or superior to the lien that secures the OBDD loans.

- g) Draft and approve the terms of, and execute and deliver, one or more bond declarations which pledge the revenues of the City's water system to particular series of Water Bonds, contain covenants regarding the operation of the water system and the levels of water system fees and charges that the City must impose, describe the terms of the Water Bonds that are issued under that bond declaration, and describe the terms under which future obligations may be issued on a parity with those Water Bonds.
- h) Enter into covenants that are designed to obtain more favorable terms for the City, including covenants required by the EPA's WIFIA lending program.
- i) Make contributions to bond reserve accounts that the City Official determines are desirable and determine the reserve requirement, if any, for each series of the Water Bonds.
- j) Apply for one or more credit ratings on any series of Water Bonds, as necessary.
- k) Issue any qualifying series of Water Bonds as "tax-exempt bonds" bearing interest that is excludable from gross income under the Internal Revenue Code of 1986, as amended (the "Code") and enter into covenants for the benefit of the owners of those series to maintain the excludability of interest on those series from gross income under the Code.
- l) Designate any qualifying series of Water Bonds as "qualified tax-exempt obligations" pursuant to section 265(b)(3) of the Code, if applicable.
- m) If the federal government approves subsidy payments or tax credits for municipal bonds and those subsidies or tax credits are estimated to reduce the net debt service payments for the Water Bonds, issue any series of Water Bonds as eligible for those federal subsidies or tax credits, and enter into related covenants to maintain the eligibility of such series of Water Bonds for those subsidies or tax credits.
- n) Issue any series of Water Bonds as "taxable bonds" bearing interest that is includable in gross income under the Code.
- o) Execute any documents and take any other action in connection with the Water Bonds which the City Official finds will be advantageous to the City.

Section 4. Declaration of Intent to Reimburse.

The City hereby declares its official intent to reimburse itself with the proceeds of the Water Bonds for any expenditures on the Water Projects paid prior to the issuance of the Water Bonds. This declaration is adopted as official action of the City in order to comply with United States Treasury Regulation 1.150-2.

Section 5. Effective Date.

This resolution shall take effect upon signing by the Mayor.

This resolution was duly PASSED and ADOPTED this _____ day of _____, 2022.

_____, City Recorder

SIGNED AND APPROVED this ___th day of _____, 2022.

By _____
Julie Akins, Mayor

Reviewed as to form:

Douglas M. McGeary, City Attorney

Exhibit A
Resolution _____
Notice of Revenue Bond Authorization

NOTICE IS HEREBY GIVEN that the City of Ashland, Oregon (the “City”) adopted Resolution _____ on _____, 2022, authorizing the issuance of revenue bonds in one or more series to finance costs of capital improvements to the City’s water system, including but not limited to water treatment plant improvements, east and west forks transmission line rehabilitation, and dam safety improvements (collectively, the “Water Projects”).

The bonds described in this notice are expected to be paid from water system revenues. The bonds will not be general obligations of the City, and neither the authorization nor issuance of the bonds described in this notice will authorize the City to levy any taxes.

The City hereby authorizes the issuance of not more than Forty-Four Million Dollars (\$44,000,000) in aggregate principal amount of revenue bonds. Bond proceeds will be used solely to pay for costs of the Water Projects and costs related to the issuance of the bonds, and may also be used to pay capitalized interest and fund debt service reserves.

If written petitions requesting an election on the issuance of the bonds, signed by not less than five percent (5%) of the City's electors, are filed with the City on or before [_____], (60 days after the notice publication date), the question of issuing the bonds shall be placed on the ballot at the next legally available election date.

The City’s offices are located at _____, and a copy of the resolution authorizing the bonds is available from the City Manager’s Office at that address. The bonds will be issued and sold under ORS 287A.150 and related statutes; this Notice is published pursuant to ORS 287A.150(4).



DRAFT

Memorandum

To: Scott Fleury and Brynn Morrison, *City of Ashland*
From: Duncan Brown and Maggie Marshall, *PFM Financial Advisors LLC*
Date: July 15, 2022
Re: Water Treatment Plant – WIFIA Loan

pfm

650 NE Holladay St.
Suite 1600
Portland, OR 97232

pfm.com

PFM Financial Advisors LLC (“PFM”) serves as municipal advisor to the City of Ashland, Oregon (the “City”). As an SEC-registered municipal advisor, PFM has a fiduciary responsibility to our clients – we are required to provide financial advice and recommendations to the City that are in its best interest.

The City has requested that PFM provide this memo in order to address the City’s proposed loan with the U.S. Environmental Protection Agency (“EPA”) under the Water Infrastructure Finance and Innovation Act (“WIFIA”). The proposed WIFIA loan would finance up to 80% of the estimated costs of the City’s anticipated new water treatment plant. This memo will address the following considerations:

- 1.) Why borrow money for a project?
- 2.) Benefits of the WIFIA program vs. traditional borrowing
- 3.) Choice of security for WIFIA loan
- 4.) Key steps in the WIFIA loan process

Why borrow money for a project?

In most states (including Oregon), it is common for cities, counties, special districts, and state agencies to borrow money to fund all or a portion of the cost of necessary capital projects. This is particularly true of large, “generational” projects: the greater the project cost, the longer the useful life of the asset, and the more time-sensitive the project delivery, the more benefit that can be derived from debt financing (vs. funding a project with cash on hand). Debt financing large projects provides several advantages vs. cash funding, including:

- 1.) “Inter-generational equity”: the taxpayers/ratepayers that pay for a project also benefit from that project. (If a project is funded from cash – i.e., taxes or rate revenues built up over time – then residents may pay for a project but not necessarily benefit from its ultimate construction.)
- 2.) Lower tax / rate impact: spreading the cost of a project over a 20-30 year bond issue has a less pronounced impact on a government’s tax or utility



- rate structure than if a government attempts to build up a comparable cash balance over 5-10 years (or less).
- 3.) Less susceptibility to project cost fluctuations: Debt financing is typically secured around the same time project costs are finalized. Building up a cash balance with which to fund a project necessarily involves uncertainty regarding the ultimate project cost.
 - 4.) Less political risk: Building up a cash balance over 5 years, 10 years, or an even longer period of time requires consistent dedication to the project and funding approach over multiple iterations of the governing body.

In Oregon, most local governments traditionally borrow money through bonds sold to the public, bonds sold directly to a commercial bank, and/or various State loan programs. (The City's water fund currently has debt associated with publicly-offered bonds and loans from the State's Safe Drinking Water Revolving Fund). It is important to note that regardless of the terminology (i.e., "bond" or "loan") or purchaser of the debt (the investing public, a commercial bank, or the State of Oregon), the obligation is the same. In other words, whether a municipality sells bonds or enters into a state loan, it is borrowing money under the same relevant Oregon Revised Statutes.

Benefits of the WIFIA program

A WIFIA loan is fundamentally a bond issued directly to the EPA. However, the WIFIA program does have several structural elements that compare favorably to traditional, publicly-offered bonds.

Unlike certain loan programs administered by the State of Oregon, WIFIA is not a subsidized program; that is, it does not purport to offer "below-market rates." The interest rate for a WIFIA loan is based on U.S. Treasury rates on the day that the loan is closed (calculated based on the weighted average life of the loan), plus 0.01%. (For example, a loan with a weighted average life of 20 years would have an interest rate based on the 20-year Treasury rate plus 0.01% as calculated on the day of closing.)

In recent years, Treasury interest rates have been so low as to be very attractive relative to tax-exempt municipal bond rates. That dynamic, however, has begun to shift over the past several months, as global interest rates have risen dramatically. The table below compares the 20-year U.S. Treasury rate as of July 14th against a 20-year tax-exempt bond index:

20-Year U.S. Treasury	20-Year BVAL ¹
3.38%	2.84%

¹ "BVAL" is shorthand for the Bloomberg Valuation municipal bond index.



Importantly, however, pricing for WIFIA loans is formulaic and consistent for all borrowers, regardless of credit rating. (The BVAL index shown above is a high-grade “AAA” index; borrowers with credit ratings below AAA would expect to pay higher interest rates on their municipal bonds.) Additionally, WIFIA loans are priced at par, meaning the interest rate set at closing is the effective rate through maturity. Municipal bonds are often structured with nominal interest rates (coupons) greater than their underlying interest rates (yields). The yields on such bonds are calculated to the bonds’ first call date (typically 10 years), and if such bonds are not refinanced at that point, the effective yield will be greater than originally calculated. (For instance, the 2.84% rate shown above would translate to 3.67% on a yield-to-maturity basis.)

Another major structural benefit of the WIFIA program is the ability to lock an interest rate at closing, but “draw down” loan proceeds as needed, accruing interest only on drawn proceeds (rather than the full balance of the loan). (This is similar to most State loan programs.)

Lastly, the interest rate for a WIFIA loan can be “reset” if interest rates decline after closing, to the benefit of the borrower. This can only be done once, and only if no loan proceeds have been disbursed. However, several WIFIA borrowers in Oregon have re-executed WIFIA loans at lower rates after closing.

Interest rate and other structural benefits are summarized in the table below:

	Publicly-Sold Municipal Bonds	Commercial Bank Loan	WIFIA Loan
<i>Interest Rate(s)</i>	<ul style="list-style-type: none"> Fixed, based on investor interest on day of sale Includes credit spread Premium bonds typically priced on a “yield to call” basis 	<ul style="list-style-type: none"> Fixed, based on bank’s cost of capital at (or near) closing Includes credit spread Priced at par (nominal rate = underlying rate) 	<ul style="list-style-type: none"> Fixed, based on applicable U.S. Treasury rate at closing plus 0.01% No credit spread Priced at par
<i>Maximum Size</i>	Determined by borrower	Determined by borrower (but many banks have meaningful credit limits)	Up to 80% of estimated project cost ²
<i>Draw-Down</i>	No	Varies by bank; typically no longer than 18-24 months	Yes, for duration of project construction

² For communities with population <25,000 (including the City).



	Publicly-Sold Municipal Bonds	Commercial Bank Loan	WIFIA Loan
<i>Maximum Term</i>	Typically 30 years	Typically 20 years (though many banks can only provide 10-15 year financing)	35 years after substantial completion of the project
<i>Principal/Interest Structure</i>	Some ability to defer principal (interest-only period)	Some ability to defer principal (interest-only period)	<ul style="list-style-type: none"> • Substantial ability to “sculpt” principal • Interest may be deferred (compounded) up to five years
<i>Prepayment</i>	Typically after 10 years	Varies by bank – some banks can provide significant flexibility	Any time (minimum \$100,000 increments)
<i>Disclosure Document (Prospectus) Required?</i>	Yes	No	No
<i>Credit Rating Required?</i>	Yes	No	Yes

A potential drawback with the WIFIA program is the focus on and oversight of the project itself, which is somewhat different than municipal bonds and bank loans. (Most public investors and commercial banks focus more on the borrower’s ability to repay the debt, and are otherwise less concerned with project delivery / timing.) WIFIA loans also come with significant federal “cross-cutter” regulatory requirements (e.g., Davis-Bacon prevailing wage requirements; American Iron and Steel Act; etc.), similar to other federal funding source (e.g., grants). In many cases, however, municipalities may already be subject to many of these requirements by virtue of other funding sources or state/local regulations.

Choice of security

In Oregon, cities that issue debt for water utility projects (payable from revenues of the water system) typically include one of two security pledges:

- 1.) Net revenues of the water system (i.e., total revenues less operating and maintenance expenses), or
- 2.) Full faith and credit of the city (i.e., its general fund and authority to levy regular property taxes).

In both cases, debt service is paid from revenues of the water utility, but only in one case do creditors have a legal claim to those revenues. (Where cities pledge their full faith and credit instead, the situation is somewhat akin to a



home mortgage, in which the loan is repaid from the income of the homeowner(s), but the security is the home itself.)

Cities often take the second approach for matters of convenience (the documentation is more straightforward), and because it allows them to pool multiple unrelated projects/funds into a single financing. (The City has used this approach on several occasions, including its most recent sale of publicly-offered debt in 2013.) A full faith and credit pledge can also be more creditworthy (i.e., receive a higher credit rating) than a pledge of water system revenues, though this is not universally true and depends on the specifics of each city and its water utility.

Additionally, State loan programs (including the Safe Drinking Water Revolving Fund) typically require both pledges (i.e., an explicit pledge of water system revenues and a supplemental pledge of the City's full faith and credit).

The City will need to consider which approach to take in connection with its proposed WIFIA loan. The WIFIA loan program can accept either approach to security, so long as the loan otherwise meets the program's requirements (e.g., investment-grade credit rating, demonstrated ability to pay debt service).

While a full faith and credit pledge would be simplest in terms of documentation – and could rely on the City's existing "Aa3" general fund rating – there would be no advantage in terms of "pooling" other projects (outside the water fund), as the WIFIA loan would be limited to the water treatment plant and related pipeline projects. Should it pursue a standalone pledge of water system revenues, the City would need to craft a distinct set of financial covenants and apply for a new credit rating unique to the water utility; however, there would be no interest rate impact if the water-specific credit rating were lower than the City's general fund rating (as the interest rate for a WIFIA loan is formulaic and not dependent on specific credit rating).

The City should also consider the risk inherent in using the general fund to secure water system debt (i.e., the risk that the general fund may ultimately be called upon to pay debt service if water system revenues are insufficient). While such a scenario is very unlikely, the risk is certainly larger in a \$45 million transaction than in a \$4.5 million transaction. Additionally, the optics of such an approach may be as meaningful as the risk itself.

Key steps in a WIFIA loan

As noted above, a WIFIA loan is, at its core, a bond issue sold directly to the EPA. In most cases, this means that the only formal action required of the Council to adopt an authorizing [resolution/ordinance] for the bonds, delegating authority to one or more staff members to execute the transaction within certain parameters (e.g., maximum size) – very similar to what it would do for any other



type of debt financing. It is common for such authorization to be adopted during the application stage of the loan – given the time and expense required with preparing such application – though it is not strictly required by the application.

A summary of the WIFIA loan process is shown in the table below:

	Timing	Activities
<i>Submit Letter of Interest</i>	<i>Completed</i>	
Draft and submit application	Within one year of EPA providing invitation to apply (i.e., by October 26, 2022)	<ul style="list-style-type: none"> • Establish preliminary plan of finance (including choice of security) • Obtain indicative credit rating • Submit application fee • Authorizing [resolution/ordinance] adopted by City Council • Draft bond declaration or financing agreement drafted by bond counsel
Loan negotiation and documentation	Up to seven months	<ul style="list-style-type: none"> • Draft and finalize WIFIA loan agreement • Finalize bond declaration / financing agreement • Finalize plan of finance (size and amortization structure of loan) • Obtain final credit rating • Finalize environmental / regulatory review
Close loan		<ul style="list-style-type: none"> • Interest rate finalized • Designated representative executes relevant documents
Post-closing		<ul style="list-style-type: none"> • Submit requisition requests for reimbursement as available/necessary • Provide periodic financial and project reporting to EPA

We hope you find this memo useful and look forward to discussing its contents with you.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

October 26, 2021

Mr. Kevin Caldwell
Senior Project Manager
City of Ashland Public Works
20 E Main St.
Ashland, OR 97520

Subject: City of Ashland Selection Notification

Dear Mr. Caldwell,

Thank you for submitting your Water Infrastructure Finance and Innovation Act (WIFIA) letter of interest for the FY 2021 Selection Round. We have reviewed these materials and are very pleased to inform you that the 7.0 MGD Water Treatment Plant Project has been selected to submit an application for a loan for up to \$36,000,000 or not to exceed 80 percent of total eligible project costs.

We will soon be reaching out to you to schedule an initial pre-application meeting to discuss the WIFIA underwriting process in greater detail. Kevin McDonald will be the primary point of contact for this transaction and is available by e-mail at mcdonald.kevin@epa.gov or by phone at 202-566-1486 to answer any immediate questions you may have.

In addition, the WIFIA program will be hosting a webinar for all selected prospective borrowers to provide an overview of the WIFIA application process and walk through the [application form](#) on December 7th at 2:00 pm EST. We encourage your participation and will send you a meeting invitation with more details soon. Please forward it to all members of your team, including contractors, who will have a role in the WIFIA application process.

Once we receive your complete application, the WIFIA team will commence underwriting your transaction. Receipt of a WIFIA loan remains subject to negotiation of an agreement on terms and conditions satisfactory to the Agency as well as the project's compliance with Federal requirements, including the National Environmental Protection Act (NEPA), American Iron and Steel requirements, Flood Plain Management Standards, and the Davis-Bacon Wage Act. Selected prospective borrowers may request to increase their loan amount during the application process. Loan increase requests will be reviewed on a case-by-case basis and are subject to the availability of funding.

Based on your submitted letter of interest, we expect to receive your application by March 28, 2022. If timing for your application and/or project construction has changed, please notify your underwriter as soon as possible.

EPA is planning its announcement of the FY 2021 selections and will coordinate with your organization on this press release. Until then, the announcement of the selection of your project for a WIFIA loan is embargoed. Please do not share this information externally. If you have questions regarding communicating your selection or would like to coordinate your announcement with EPA, please contact Karen Fligger at fligger.karen@epa.gov or 202-564-2992.

We look forward to working with you on this project.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jorianne Jernberg".

Jorianne Jernberg
Director, WIFIA Program