

**CITY OF PHILOMATH
Water System Master Plan,
Philomath, Oregon**

Section 7

**Recommended Capital Improvement Priorities and
Implementation Plan**

SECTION 7 RECOMMENDED CAPITAL IMPROVEMENT PRIORITIES & IMPLEMENTATION PLAN

7.1. General Prioritization Criteria

As summarized in the previous sections, the water system has a number of deficiencies which inhibit the City's ability to provide the required flows to many areas. Some of these deficiencies are more critical than others. In order to assist the City in the planning and scheduling the construction of needed improvements, the improvements recommended in previous sections are grouped as Priority 1, Priority 2 and Priority 3 as outlined below.

When prioritizing the improvements a number of factors are considered. These include the severity of the shortcoming, cost, and benefit of each project. This allows the identification of high benefit to cost projects. These projects are scheduled for earlier construction, while less critical, lower value projects are delayed until a later time. This process makes the best use of available construction funds, and identifies areas where improvements may be delayed until they become a necessary component of development thus properly placing construction costs on the benefited development rather than on the whole community.

- **Priority 1** (Near Term Improvements) – These are the projects representing existing system deficiencies (currently needed to resolve compliance issues and to meet existing and near future projected flows) or problem areas needing immediate attention. It is recommended that Priority 1 improvements be accomplished as soon as practical considering financing, construction time and timing associated with other related projects.
- **Priority 2** (Vital Future Improvements) - These are improvements which will be needed in the future to meet anticipated future development conditions and design flows. Although not critical at this time, they should be considered as improvement projects which will be upgraded to Priority 1 at some time in the future.
- **Priority 3** (Long Term Improvements/Possible Future Need) - These improvements are needed to improve system reliability or to convey future design flows if land develops to zone intensities. While important, they are not considered to be critical at the present time. If possible, these improvements should be incorporated into other improvement projects to allow for concurrent construction. Developers may also construct them with the utility construction associated with the development.

Each of the projects was examined and assigned a priority for implementation according to the criteria described hereafter.

7.1.1 Project Prioritization Criteria

The following criteria were used by the City to evaluate individual projects and alternative capital improvement programs for the water system. Each of the projects and alternative capital improvement programs was examined and rated according to the following criteria.

- Existing Size vs. Needed Size/Flows Required. Comparisons were made between the size of the existing components and the proposed replacement components, compared to the need for additional flows which will be provided by the proposed improvements. The relative increase in the size and available flows were compared to needed flows and assigned values of high, medium and low.
- Structural Damage/End of Useful Life/Existing Deficiencies. Projects to replace damaged components or components which have reached the end of their useful life and no longer function as designed were assigned a higher priority.
- City Priority. Projects identified by City engineering and maintenance personnel to be high priority for implementation due to operations or maintenance problems.
- Anticipated Time Until Projected Demand Increases. The anticipated timeframe for the development of land within the area served by the proposed improvements was considered. Projects which will be required sooner due to increased demands from anticipated or currently approved developments were given higher priority.
- Capital Costs. Capital costs of the projects were considered, including the costs of implementing a project, such as surveying, design, permitting, construction, legal fees and administration. Costs for acquisition of land and/or easements were not included. Projects which will need to be constructed by developers in conjunction with proposed or currently approved developments were given a lower priority than projects which may be largely the responsibility of the City.

7.1.2 Ranking of Recommended Improvements

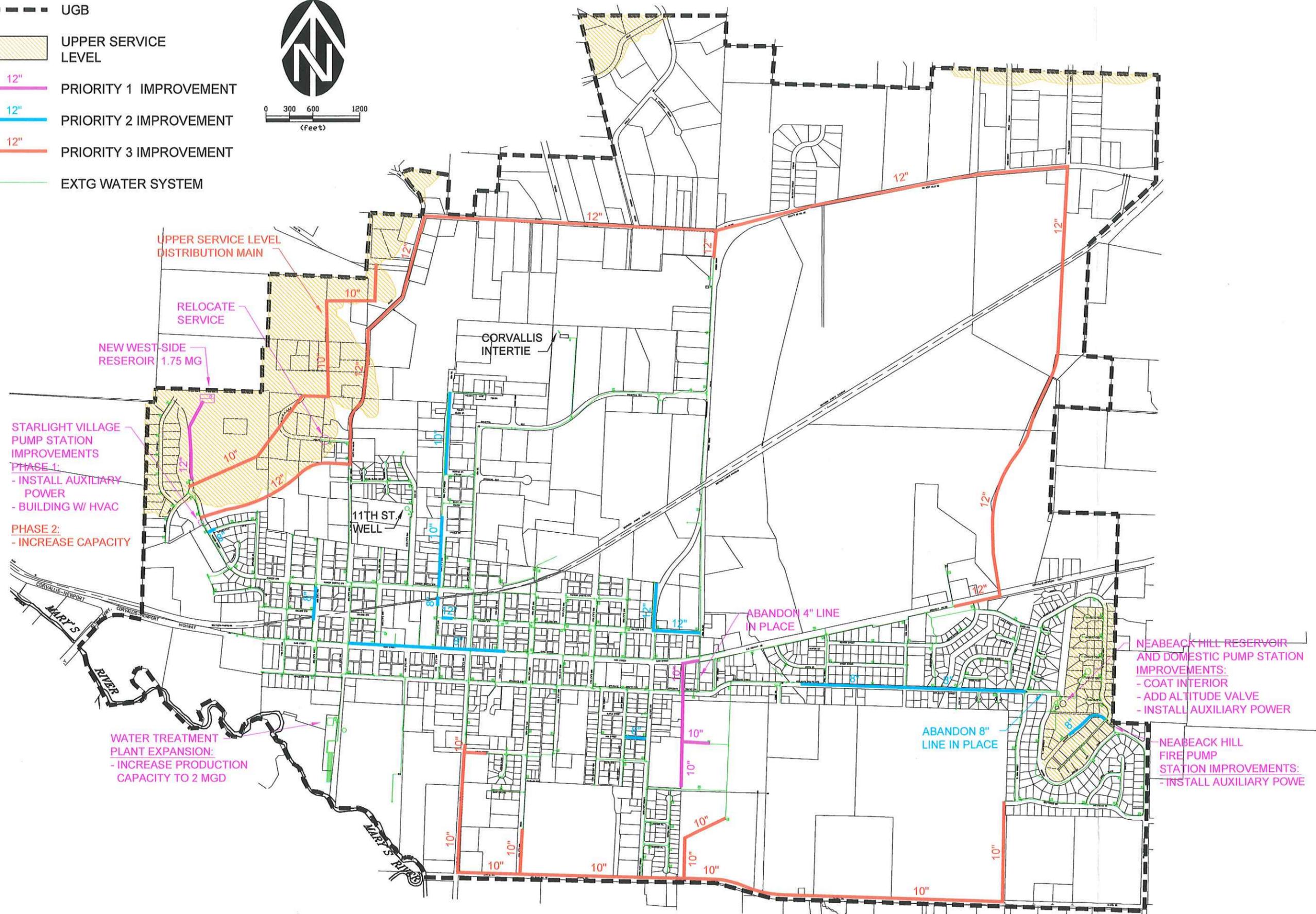
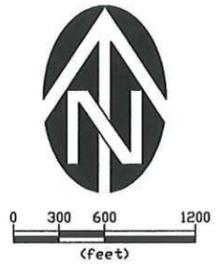
Using the above criteria, the projects identified in **Section 6** were ranked. The individual projects are listed together with their priority in **Table 7-1**. Where appropriate the improvements listed in **Table 7-1** are shown in **Figure 7-1**.

**TABLE 7-1
RECOMMENDED PROJECT PRIORITIES**

Project	Priority	Recommended Project Budget*
Obtain Additional Early Water Rights	1	\$50,000
Water Management and Conservation Plan	1	\$20,000
Water Treatment Plant Expansion	1	\$3,252,000
1.75 MG West Side Reservoir	1	\$2,835,000
Dampier Street Waterline (Pioneer St. to West Side Reservoir)	1	\$142,000
Neabeack Hill Reservoir Improvements	1	\$245,000
Starlight Village Pump Station Phase I Improvements	1	\$268,000
Neabeack Hill Fire Pump Station Aux Power Improvements	1	\$146,000
Marylin Drive Service Relocation	1	\$4,000
20 th Street Waterline Extension (Main to Applegate)	1	\$74,000
High School Site Waterline Extension (Applegate to end)	1	\$183,000
Priority 1 Subtotal		\$7,001,000
Ash Street Waterline Extension (19 th to 18 th)	2	\$29,000
Main Street Waterline Replacement (9 th to 14 th)	2	\$234,000
Applegate Street Waterline Replacement (Newton Creek Bridge to 30 th Street)	2	\$292,000
Canberra Waterline Extension (connect to 12" in Pioneer)	2	\$4,000
College Street Waterline Extension (12 th to 13 th)	2	\$26,000
12th Street (Pioneer to College)	2	\$12,000
8th Street (Main to Pioneer)	2	\$51,000
College Street (19th to 20th)	2	\$80,000
19th Street (College to End)	2	\$78,000
12th Street (Monroe to Houser)	2	\$121,000
12th Street (Pioneer to Grant)	2	\$104,000
Benton View Drive Waterline Extension	2	\$61,000
Water Master Plan Update	2	\$40,000
Priority 2 Subtotal		\$1,132,000
Starlight Village Pump Station Phase II Improvements	3	\$470,000
Upper Service Level Transmission Main (Pioneer Street to end)	3	\$532,000
Middle School Site Waterline Extension	3	\$129,000
North Arterial Transmission Main		
Pioneer Street to 9th Street	3	\$291,000
9th Street to Hills Road	3	\$439,000
Hills Road to Existing System in Green Road	3	\$543,000
Green Road to Boulevard Street	3	\$588,000
Boulevard Street to Corvallis-Newport Highway	3	\$861,000
South Arterial Transmission Main		
13th Street to Chapel Drive	3	\$225,000
Chapel Drive to 19th Street (Including 15th Street)	3	\$283,000
19th Street to Southwood Drive	3	\$576,000
Priority 3 Subtotal		\$4,937,000
GRAND TOTAL		\$13,070,000
*Costs are 2004 dollars and assume dry weather construction. ENR 20 Cities Index = 6956 (March 2004)		

LEGEND

- UGB
- UPPER SERVICE LEVEL
- 12" PRIORITY 1 IMPROVEMENT
- 12" PRIORITY 2 IMPROVEMENT
- 12" PRIORITY 3 IMPROVEMENT
- EXTG WATER SYSTEM



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CITY OF PHILOMATH
 2004 WATER MASTER PLAN
**RECOMMENDED WATER SYSTEM
 IMPROVEMENT PRIORITIES**
 FIGURE
 7-1
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7.2. Recommended Capital Improvement Plan

All priority 1 and priority 2 projects should be included in the Water System Capital Improvements Plan. The City should plan on undertaking all of these projects at some point during the planning period. The City should aggressively work toward implementing the priority 1 improvements early in the planning period. A recommended schedule for the priority 1 improvements is included below. The remaining priority 2 improvements may be implemented as funding becomes available. However, the City should plan to complete the projects before the end of the planning period. From **Table 7-1**, the total budget for the priority 1 and priority 2 improvements is \$8,133,000.

The priority 3 improvements are largely driven by growth in the community. As such, a significant portion of the costs for these improvements is likely to be borne by private developers.

7.3. Water System Funding Issues

As a general rule, small communities are not able to finance major water system improvements without some form of government funding, such as low interest loans or grants. It is anticipated that the funding for the recommended capital improvement plan outlined herein will be from multiple sources, including systems development charges (SDC's), monthly user fees, as well as state and federal grant and loan programs. The following section outline the major local and State/Federal funding programs which may be available for these projects. A recommended financing strategy will then be presented.

7.3.1 Annual Operation & Maintenance Costs

Annual Operation and Maintenance (O&M) costs are recurring costs typically funded through user rates. **Table 7-2** presents City's annual O&M costs for the 2004-2005 fiscal year.

Item	2003-04 Budget
Personal Services	\$278,583
Materials & Services	\$288,081
Capital Improvements	\$17,000
Debt Service	\$32,511
Transfers	\$109,700
Contingency	\$25,000
TOTAL	\$750,875

It is worthwhile to consider the effects of the recommended improvements on O&M costs. The recommended improvements include treatment plant upgrades, an additional reservoir, upgrades to the City's pumping facilities, and distribution system

improvements. The distribution system improvements are likely to have only a minor impact on the operation of the system. On the other hand, the treatment plant, pump station, and reservoir improvements will increase the mechanical complexity of the City's water system. Therefore, the City should anticipate increased operation and maintenance cost as these facilities are constructed.

It is likely that the existing staffing level will be sufficient to operate the recommended priority 1 and priority 2 improvements. Therefore, the need for a dramatic increase in the personal services component of the budget does not seem likely. The new improvements will increase the number of mechanical systems that must be maintained. Therefore equipment maintenance and replacement costs will likely increase. Chemical usage costs will also increase as water production increases. As such, an increase in the materials and services component of the budget should be expected as the recommend improvements are constructed.

7.3.2 Local Funding Sources

To a large degree, the type and amount of local funding used for the water system improvements will depend on the amount of grant funding obtained and the requirements of any loan funding. Local revenue sources for capital improvements include ad valorem taxes (property taxes), various types of bonds, water user fees, connection fees, and system development charges (SDC). Local revenue sources for operating costs include ad valorem taxes and water user fees. The following sections discuss the local funding sources and financing mechanisms that are most commonly used for the type of capital improvements presented in this study.

7.3.2.1 Existing Debt Service

As of January 1, 2005 the Water Fund will have a total of \$408,154 in outstanding debt. The debt is comprised of two loans. Both loans are with the Oregon Economic and Community Development Department (OECDD). The first loan was used for the construction of the 1.25 mg water reservoir. This loan was issued in December 1992 and has an unpaid balance of \$200,854. The second loan was used for the construction of the chlorine contact chamber at the water treatment plant. This loan was issued in September 1995 and has an unpaid balance of \$207,300. **Table 7-3** includes a listing of the remaining repayment schedule for both loans.

**TABLE 7-3
WATER FUND DEBT**

Fiscal Year Beginning	Water Reservoir		Contact Chamber		Total Principal	Total Interest	Total
	Principal	Interest	Principal	Interest			
July 2005	20,199	12,313	0	0	20,199	12,313	32,512
July 2006	21,437	11,074	4,969	13,475	26,406	24,549	50,955
July 2007	22,751	9,760	5,293	13,151	28,044	22,911	50,955
July 2008	24,146	8,366	5,637	12,808	29,783	21,174	50,957
July 2009	25,626	6,885	6,003	12,441	31,629	19,326	50,955
July 2010	27,197	5,314	6,393	12,051	33,590	17,365	50,955
July 2011	28,864	3,647	6,809	11,635	35,673	15,282	50,955
July 2012	30,634	1,878	7,251	11,193	37,885	13,071	50,956
July 2013			16,369	10,721	16,369	10,721	27,090
July 2014			17,432	9,658	17,432	9,658	27,090
July 2015			18,566	8,524	18,566	8,524	27,090
July 2016			19,772	7,318	19,772	7,318	27,090
July 2017			21,058	6,032	21,058	6,032	27,090
July 2018			22,426	4,664	22,426	4,664	27,090
July 2019			23,884	3,206	23,884	3,206	27,090
July 2020			25,438	1,653	25,438	1,653	27,091
	200,854	59,237	207,300	138,530	408,154	197,767	605,921

7.3.2.2 User Fees/Connection Fees

User fees are typically the sole source of revenue to finance water system operation and maintenance. User fees are monthly charges to all residences, businesses, and other users that are connected to the water distribution system. These fees are established by the City Council and may be modified as needed to account for changes in O&M costs, need for new improvements, etc. The monthly charges are typically based on a user classification (i.e., single family dwelling, multiple family dwelling, school, commercial, etc.), as well as the amount of water consumed as measured at the water meter. A breakdown of the user fees is presented in **Section 4**. As shown in **Section 4**, the average monthly user charge is approximately \$33.14 for a single family residence.

7.3.2.3 System Development Charge (SDC) Revenues

A system development charge (SDC) is a fee collected by the City as each piece of property is developed. SDCs are used to finance necessary capital improvements and municipal services required by the development. SDCs can be used to recover the capital costs of infrastructure required as a result of the development. As established in ORS 223, an SDC has two principal elements, the reimbursement fee and the improvement fee. Fees are collected at issuance of building permits. It is important to note that operation,

maintenance, and replacement costs cannot be financed or repaid by SDC revenues.

The reimbursement portion of the SDC is the fee for buying into existing or under construction capital facilities. The reimbursement fee represents a charge for utilizing excess capacity in an existing facility which was paid for by someone else. The revenue from this fee is typically used to pay back existing loans for improvements.

The improvement portion of the SDC is the fee designed to cover the costs of capital improvements which must be constructed to provide an increase in capacity.

The City currently assesses both reimbursement and improvement water SDC fees based on water meter size. Based on the assumption that a standard 3/4-inch meter is used to serve a typical residential unit, the 3/4-inch meter SDC was used as an Equivalent Dwelling Unit (EDU). As of the later part of 2003 the improvement fee was \$1,224 per EDU and the reimbursement fee was \$525 per EDU.

For the purposes of the funding analysis, it was assumed that SDC collection will be related directly to population growth as projected in **Section 2**. The projected population increase over the next planning period is 3,265 (i.e., 7,365 in 2029). This is approximately 1,205 new EDUs over the planning period. At \$1,749 per EDU, SDC fees should generate just over \$2,107,000 over the planning period. By comparing this to the projected costs for the recommended capital improvements, it is clear that the current SDC fee structure is insufficient to fund the recommended improvements. Therefore, it is strongly recommended that the City reevaluate their SDC fee schedule.

7.3.2.4 Capital Construction (Sinking) Fund

Sinking funds are often established as a budget line item to set aside money for a particular construction purpose. A set amount from each annual budget is deposited in a sinking fund until sufficient revenues are available to complete the project. Such funds can also be developed from user fee revenues or from SDCs. The City does have a capital reserve fund that is intended to finance certain identified improvements and repairs. The City's existing Capital Improvement Plan (CIP) shows an expenditure of \$1,000,000 in the 2008-09 fiscal year for water treatment plant upgrades. Based on the analysis presented herein, the recommended project budget for the treatment plant upgrades is \$3,252,000. The CIP also includes an expenditure of \$1,250,000 for the West Side Reservoir during the 2015-16 fiscal year. The analysis presented in **Section 6** shows that the City currently lacks adequate storage capacity and that the new reservoir should be constructed as soon as possible. The recommended project budget for the West Side Reservoir is

\$2,835,000. Clearly the current CIP is not structured in accordance with the recommendations included herein. Therefore, the City should review and revise the CIP as appropriate. A revision will likely require a substantial increase in appropriations to the Capital Construction Fund if the recommended improvements are to be implemented.

7.3.2.5 General Obligation Bonds

One traditional way to fund municipal water projects is through the sale of municipal general obligation (GO) bonds. These are the most often used form of local financing for large scale utility improvements benefiting a major portion of the City. GO bonds utilize the City's basic taxing authority and are retired with property taxes based on an equitable distribution of the bonded obligation across the City's assessed valuation. General obligation bonds are normally associated with the financing of facilities which benefit an entire community and must be approved by a majority vote of the City's voters.

General obligation bonds are backed by the City's full faith and credit, as the City must pledge to assess property taxes sufficient to pay the annual debt service. This portion of the property tax is outside the State constitutional limits which limit property taxes to a fixed percentage of the assessed value. The City may use other sources of revenue including water user fee revenues to repay the bonds. If it uses other funding sources to repay the bonds, the amount collected as taxes is reduced commensurately.

The general procedure followed when financing water system improvements with GO bonds is typically as follows.

- Determination of the capital costs required for the improvement.
- An election by the voters to authorize the sale of bonds.
- The bonds are offered for sale.
- The revenue from the bond sale is used to pay the capital costs associated with the project(s).

GO bonds can be "revenue supported," wherein a portion of the user fee is pledged toward repayment of the bond debt. The advantage of this method is that the need to collect additional property taxes to retire the bonds is reduced or eliminated. Such revenue supported GO bonds have most of the advantages of revenue bonds, plus lower interest rate and ready marketability.

The primary disadvantage of GO bond debt is that it is often added to the debt ratios of the City, thereby restricting the flexibility of the municipality to issue debt for other purposes.

7.3.2.6 Revenue Bonds

These are similar to GO bonds, except they rely on revenue from the sales of the utility (i.e., user fees) to retire the bonded indebtedness. The primary security for the bonds is the City's pledge to charge user fees sufficient to pay all operating costs and debt service. Because the reliability of the source of revenue is relatively more speculative than for GO bonds, revenue bonds typically have slightly higher interest rates.

The general shift away from ad valorem property taxes makes revenue bonds a frequently used option for payment of long term debt. Many communities prefer revenue bonding, because it insures that no additional taxes are levied. In addition, repayment of the debt obligation is limited to system users since repayment is based on user fees.

One advantage with revenue bonds is that they do not count against a City's direct debt. This feature can be a crucial advantage for a municipality near its debt limit. Rating agencies evaluate closely the amount of direct debt when assigning credit ratings. There are normally no legal limitations on the amount of revenue bonds which can be issued. However, excessive issue amounts are generally unattractive to bond buyers because they represent high investment risks.

Under ORS 288.805-288.945, City's may elect to issue revenue bonds for revenue producing facilities without a vote of the electorate. Certain notice and posting requirements must be met and a sixty (60) day waiting period is mandatory.

The bond lender typically requires the City to provide two additional securities for revenue bonds which are not required for GO bonds. First, the City must set user fees such that the net projected cash flow from user fees plus interest will be at least 125% of the annual debt service (a 1.25 debt coverage ratio). Secondly, the City must establish a bond reserve fund equal to maximum annual debt service or 10% of the bond amount, whichever is less.

7.3.2.7 Improvement (Bancroft) Bonds

Improvement (Bancroft) bonds are an intermediate form of financing that is less than full-fledged GO or revenue bonds. This form of bonding is typically used for so-called Local Improvement Districts, or LIDs.

Improvement bonds are payable from the proceeds of special benefit assessments, not from general tax revenues or user fees. Such bonds are issued only where certain properties are recipients of special benefits not occurring to other properties. For a specific improvement, all property within

the designated improvement City is assessed on the same basis, regardless of whether the property is developed or undeveloped. The assessment is designed to divide the cost of the improvements among the benefited property owners. The manner in which it is divided is in proportion to the direct or indirect benefits to each property. The assessment becomes a direct lien against the property, and owners have the option of either paying the assessment in cash or applying for improvement bonds. If the improvement bond option is taken, the City sells Bancroft Improvement Bonds to finance the construction, and the assessment is paid over 20 years in 40 semi-annual installments plus interest.

The assessments against the properties are usually not levied until the actual cost of the project is determined. Since the determination of actual costs cannot normally be determined until the project is completed, funds are not available from assessments for the purpose of paying costs at the time of construction. Therefore, some method of interim financing must be arranged.

The primary disadvantage to this source of revenue is that the development of an assessment District is very cumbersome and expensive when facilities for an entire City are contemplated. Therefore, this method of financing should only be considered for discrete improvements to the distribution system where the benefits are localized and easily quantified.

7.3.2.8 Certificates of Participation

Certificates of Participation are a form of bond financing that is distinct from revenue bonds. While it is more complex and typically has a higher interest rate than revenue bonds, it is a process controlled by the City Council, and it does not have to be referred to the voters, which can result in a significant time savings.

7.3.2.9 Ad Valorem Taxes

Ad valorem property taxes were often used in the past as a revenue source for public utility improvements. Historically, ad valorem taxes were the traditional means of obtaining revenue to support all local governmental functions. Ad valorem taxation provided a means of financing that reached all property owners that benefit or can potentially benefit from the water system, whether the property was developed or not. The construction costs for the project were shared proportionally among all property owners based on the assessed value of each property. Ad valorem taxation, however, is less likely to result in individual users paying their proportionate share of the costs as compared to their benefits.

7.3.3 State & Federal Grant & Loan Programs

Several state and federal grant and loan programs are available to assist municipalities finance water system improvements. Philomath, with a median household income of \$41,461 (based on 2000 census), is considered a low/moderate income community and would therefore be eligible for many programs. The primary sources of funding available for water system financing are Rural Development Administration (RDA), Special Public Works Fund (SPWF), the Water/Wastewater (W/W) Financing Program and the Community Development Block Grant (CDBG).

7.3.3.1 Rural Utility Service

The Rural Utility Service (RUS) provides federal loans and grants to rural municipalities, counties, special districts, Indian tribes, and not-for-profit organizations to construct, enlarge, or modify water treatment and distribution systems and wastewater collection and treatment systems. Preference is given to projects in low-income communities with populations below 10,000.

Borrowers of RDA loans must be able to demonstrate the following:

- Monthly user rates must be at or above the "state wide average." of \$40-\$43 per month.
- They have the legal authority to borrow and repay loans, to pledge security for loans, and to operate and maintain the facilities and services.
- They are financially sound and able to manage the facility effectively.
- They have a financially sound facility based on taxes, assessments, revenues, fees, or other satisfactory sources of income to pay for all facility costs including O&M and to retire indebtedness and maintain a reserve.

The maximum loan term is 40 years but the finance term may not exceed statutory limitations on the agency borrowing the money or the expected useful life of the improvements. The reserve can typically be funded at 10 percent per year over a ten year period. Interest rates for RUS loans vary based on median household income (MHI).

7.3.3.2 Special Public Works Fund

The Oregon Economic and Community Development Department (OECDD) administers the SPWF program. The SPWF is a lottery-funded loan and grant program that provides funding to municipalities, counties, special districts, and public ports for infrastructure improvements to support industrial/manufacturing and eligible commercial economic development. Eligible commercial means commercial activity that is marketed nationally or internationally and attracts business from outside Oregon. Funded projects

are usually linked to a specific private sector development and the resulting direct job creation (i.e., firm business commitment), of which 30% of the created jobs must be "family wage" jobs. The program also funds projects build infrastructure capacity to support industrial/manufacturing development where recent interest by eligible business(s) can be documented.

The SPWF is primarily a loan program, although grant funds are available based on economic need of the community. Although the maximum loan term is 25 years, loans are generally made for 20-year terms. The maximum loan amount for projects funded with direct SPWF money is \$11 million.

7.3.3.3 Bond Bank Program

The Bond Bank program, administered by OECDD, attempts to lower the cost of issuing debt by pooling small revenue bond issues from many communities into one large revenue bond issue. It uses lottery proceeds to write-down financing costs, and to improve the debt/equity ratio on projects. The interest rate for repayment of funds is typically around 6 percent, with up to a 25 year term.

7.3.3.4 Water/Wastewater Financing Program

OECDD also administers the W/W Financing Program, which gives priority to projects that provide system-wide benefits and help communities meet the Clean Water Act or the Safe Drinking Water Act standards. It is intended to assist local governments which have been hard hit with state and federal mandates for public drinking water systems and wastewater systems. In order to be eligible for this program, the system must be out of compliance with federal or state rules, regulations or permits, as evidenced by issuance of Notice of Non-Compliance by the appropriate regulatory agency. The funded project must be needed to meet state or federal regulations. Priority is given to communities under economic distress.

Similar to the SPWF, the W/W Financing Program is primarily a loan program, although grant funds are available in certain cases based on economic need of the community. Although the maximum loan term is 25 years, loans are generally made for 20-year terms. The maximum loan amount for projects financed with bond funds is \$10 million.

7.3.3.5 Community Development Block Grant

The OECDD administers the CDBG, but the funds are from the U.S. Department of Housing and Urban Development (HUD), so all federal grant management rules apply to the program. The federal eligibility standards are strict. There are two subcategories of Public Works projects eligible for funding, "Public Water and Wastewater," and "Public Works for New Housing." Only the former is considered in this discussion.

Based on the 2000 Census 54.5% of the population of Philomath falls into OECDD's Low/Mod income category. Therefore Philomath is eligible for grant funding. One of the requirements to receive CBDG funds is that the monthly user rate is equal to or greater than 1.37% of the median household income. For Philomath this equates to a minimum monthly user rate of \$47.33. Therefore in order for Philomath to qualify for grant funds rates must be increased.

Grants are available for critically needed construction, improvement, or expansion of publicly owned water and wastewater systems for the benefit of current residents. Generally, projects must be necessary to resolve regulatory compliance problems identified by state and/or federal agencies.

The program separates projects into three parts. Grants are available for:

- Preliminary Engineering and Planning Projects

Generally, these grants fund preparation or update of Water System Master Plans and Wastewater Facility Plans, as required by the Oregon Department of Environmental Quality or Oregon Health Division. In addition, funds for grant administration and preparation of a final design funding application can be included in the project budget. All plans produced with grant funds must be approved by the appropriate regulatory agency. Grants of up to \$10,000 can also be made for problem identification studies to delineate problems and corrective measures, as required by a regulatory agency.

- Final Design and Engineering Projects

Final design and engineering, bid specifications, environmental review, financial feasibility, rate analysis, grant administration, and preparing a construction funding application are all eligible project activities. The final design, plans and specifications must be approved by the appropriate regulatory agency before a grant will be awarded.

- Construction Projects

These grants fund construction and related activities, grant administration and land/permanent easement acquisition.

OECDD has established an evaluation system that gives priority to projects that provide system-wide benefits. The overall maximum grant amount per water or wastewater project is \$750,000 (including all planning, final engineering, and construction). The project cannot be divided locally into phases with the expectation of receiving more than one \$750,000 grant. In

order to qualify for grant funding under this project, the water user rates must be at or above statewide averages.

7.3.3.6 Safe Drinking Water Revolving Loan Fund

The SDWRLF program is administered by OECDD with assistance from OHD and provides loans to cities, counties, special districts, and Indian tribes to construct, expand or rehabilitate water treatment, distribution and storage improvements which are needed to comply with the Safe Drinking Water Act (i.e., to protect the public health).

Interest rates on loans are about 80% of the general obligation bond rate. However, there are additional financing costs and annual service fees which increase the effective rates. The maximum loan amount per project is \$4,000,000. The maximum loan term is 20 years except for disadvantaged communities, which may have loan terms up to 30 years, provided the loan term does not exceed the useful life of the facility being constructed.

7.3.3.7 Water Development Loan Fund

The WD Loan Fund is administered by the Oregon Water Resources Department. This program provides loans to municipal water suppliers with under 30,000 population for projects including drinking water systems. These loans are available with up to 30-year terms.

7.3.4 Funding Recommendations

As explained above grant funding will require a user rate to be at least \$47.33 per month. The current City water rates are well below the monthly statewide average based on typical flow rates and should be increased as soon as possible. A reevaluation of the City's SDC fee structure is also recommended.

As available grant funding on public works projects has decreased in the last several years, it will be incumbent upon the City to aggressively pursue grant funding. The first step in this process is to schedule a "one stop meeting" with Oregon Economic Development Department (OEDD) and the preparation of applicable funding applications as soon as possible.

However, with or without outside assistance, we believe the improvements recommended as Priority 1 projects are essential to the City. The single most important project is the construction of the West Side Reservoir. A close second, is the water treatment plant expansion. We recommend the City pursue construction of Priority 1 improvements at the earliest possible time.

7.4. Recommended Implementation Schedule

Given the magnitude of the recommended Priority 1 improvements, and the number of steps that must precede construction, we recommend the City pursue construction during 2009. This will allow time for preparation and review of a pre-design report, arranging for funding for design and construction drawings, detailed cost estimating, arranging a funding package for construction. We recommend these efforts be timed such that bid opening takes place in late winter-early spring 2009 to take advantage of the more competitive bidding environment usually prevalent at that time of year. Construction should be scheduled to start in late spring to provide the best weather for construction.

TABLE 7-4 PROPOSED IMPLEMENTATION SCHEDULE (Priority 1 Projects – 2009 Construction)	
Milestone	Date
PHASE I	
Submit Draft Water Master Plan to OHD & City	5/15/05
Receive Comments from OHD & City	7/15/05
Submit Final Master Plan to OHD & City	9/01/05
OHD Approval of Final Master Plan	10/01/05
City Adopts Final Master Plan	10/15/05
Perform Rate Study & SDC Analysis	1/01/06
Update CIP	6/01/06
Implement New User Rates and SDC's	7/01/06
Conduct Funding Meeting with OECD and RUS	1/01/07
Submit Funding Applications	3/01/07
Finalize Funding Package	5/01/07
PHASE II	
Select Design Consultant Prepare Predesign Reports	6/01/07
Submit predesign report to OHD, OECD & City	9/01/07
OHD, OECD & City approval of predesign report	11/01/07
Funding for Detailed Design Secured	12/01/07
Start Final Design of Recommended Improvements	1/01/08
Complete Final Design of Recommended Improvements	10/01/08
OHD, OECD & City Approval of Plans & Specifications	12/01/08
Advertise for Construction Bids	1/01/09
Receive Construction Bids	2/01/09
Award Contracts	2/15/09
Start Construction	4/1/09
Complete Construction of Recommended Improvements	12/31/09