

Deana Sheriff

From: Catherine Carella <CatherineC@sgm-inc.com>
Sent: Tuesday, May 14, 2024 11:38 AM
To: Randy Harris; Deana Sheriff
Cc: fkjome@mtnvillage.org; daranyi@rmi.net; Chad Hill
Subject: Project Needs Assessment (PNA) Review Letter Response
Attachments: Norwood Water Commission - Project Needs Assessment Review Letter 5.14.2024.pdf

Good morning Randy and Deana,

Although it's not PNA approval, we received a response from CDPHE! The status of comment responses is summarized below. Let's work together to submit a complete response as soon as possible.

Engineering Comments:

- 1) Section 3.5 Operator Certification. The sixth pressure zone is a small zone above the WTP that serves fewer than 15 taps by pumping from the WTP storage tanks to the Reed Tank. The 10,000-gallon Reed tank provides the static pressure to this 6th pressure zone. Provide Figure 4-1 Tap Location map from the 2020 Water Master Plan update.
- 2) Section 7.1 – Alternatives. SGM will provide an estimate of O&M costs for each alternative. The only complexity is that the proposed alternatives 1 and 2 (construction of a redundant transmission line) will have higher O&M costs because NWC must continue fixing line breaks on the existing transmission main.

Environmental Comments:

- 1) Preparation of an Environmental Assessment (EA) will be required. We were expecting this determination. No response needed.

Financial Comments:

- 1) BIL Review. BIL eligibility is pending clarification of legal status. Response needed from legal counsel.
- 2) NWC needs to indicate in writing if BIL funding is requested. SGM recommends requesting BIL funding (50% principal forgiveness) for this project. There are additional requirements (Build America Buy America) that are associated with BIL funding that we would be happy to discuss with you.
- 3) Financial Criterion #F-2. NWC is aware that rates will need to increase to meet the loan requirements. No response needed.
- 4) Legal status. Response needed from legal counsel.
- 5) Disadvantaged Community (DAC) status is pending clarification of legal status. No response needed.

I know NWC is working with Steve Johnson and possibly Rob Pierce to provide CDPHE with an opinion on the legal status of the NWC. I plan to attend tonight's board meeting via Zoom to discuss the PNA status and next steps.

Thank you!

Catherine Carella, PE
Design Engineer IV



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May 14, 2024

Finn Kjome
Norwood Water Commission
PO Box 528
1670 Naturita St.
Norwood, CO 81423

Re: Norwood Water Commission Drinking Water Revolving Fund (DWRF)
Project Needs Assessment (PNA) Review Letter
DWRF Project No.141941D-I, San Miguel County
PWSID No. CO0157500

Dear Finn:

The Water Quality Control Division (Division) has reviewed the Drinking Water Revolving Fund (DWRF) PNA prepared by SGM, Inc., and dated February 2024 for the Norwood Water Commission. Further information is required prior to approval. Please submit written responses to all comments listed in the sections below.

General PNA Review Comments

- No general PNA review comments.

Engineering Section Review Comments

Please provide a written response to the following comments.

- **Section 3.5 - Operator Certification:** Section 3.5 of the PNA requires the applicant to define whether the system operators have adequate operator certification levels for the proposed project as defined by Regulation 100 Water and Wastewater facility Operators Certification Requirements (Regulation 100). The submitted PNA form identifies that the current operator in responsible charge has a certification level of Class “2” for water distribution systems, but the PNA also indicates that the distribution system includes six pressure zones. Per Section 100.8.2 of Regulation 100, a distribution system with six or more pressure zones would be classified as a Class “3” water distribution system (i.e., assuming all of the pressure zones serve at least 15 service connections). Based on the information provided, please discuss the system’s ability to meet the operator certification requirements.
- **Section 7.1 - Alternatives:** Section 7.1 of the PNA requires the applicant to provide capital cost estimates and annual operation and maintenance (O&M) costs for each alternative. The PNA includes capital cost estimates for each alternative, but does not appear to include O&M costs. Since some of the alternatives rely on maintaining the existing transmission main and installing a new main, while others involve replacing the existing transmission main, the alternatives could present varying O&M costs. Please provide annual O&M costs for each alternative including items such as line repairs, exercising valves, pressure reducing valve maintenance, etc., and discuss how these costs were used in justifying the selected alternative.

Final Environmental Determination

- The Preliminary Environmental Determination included in the Pre-Qualification Review Letter dated May 30, 2023 requires a preparation of an Environmental Assessment (EA).



Final environmental determination and associated conditions will be included in the PNA Approval letter.

Financial Analysis Comments

- An updated financial analysis has been completed by DOLA and is attached to this memo. Please review the memo for important notes and recommendations.

Bipartisan Infrastructure Law (BIL) Principal Forgiveness Eligibility Review:

- The DOLA analyst reviewed the applicant's eligibility for BIL principal forgiveness based on the eligibility criteria outlined in the 2024 DWRP Intended Use Plan. As described in the attached DOLA memo, until the legal questions are resolved, it is not possible to determine whether the project qualifies for principal forgiveness. If the project did qualify for principal forgiveness, it would not be a guarantee of funds and may be subject to prioritization, potential caps, and availability of funds. The determination of potential eligibility for principal forgiveness made at the July 26, 2023 pre-qualification meeting is suspended until the legal questions are resolved. Once the legal questions are resolved and if the applicant is eligible for principal forgiveness, the determination made at the prequalification meeting would stand and be effective for 18-months from the date of the determination. If the loan application is received after 18-months from the date of the determination, the eligibility must be re-evaluated at that time using current criteria.
- Confirmation of applicant's request for BIL funding is required and will be used to evaluate the loan package, including the amount of BIL principal forgiveness the applicant may be eligible for at loan application. **Please provide a written response indicating if Norwood Water Commission requests BIL funding.**

Technical, Managerial and Financial (TMF) Review:

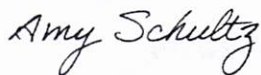
The TMF components were evaluated and the following issues are unresolved and will need to be included in the loan agreement to be resolved prior to project completion:

- Financial Criterion #F-2: The NWC should be prepared to raise rates as needed to meet loan requirements.
- The Town's water enterprise is an enterprise, but the documents do not define exactly what the Norwood Water Commission is. There are no statutory references identifying it as the Town water board or a water authority, or any other independent entity. At this point in order to move forward with the SRF program, we need you to consult with the Town's/Norwood Water Commission's general counsel to get advice on what type of legal entity Norwood Water Commission is.
- BIL/DAC eligibility will be determined after the applicant confirms details about the system ownership/borrower.

This letter does not guarantee the award of funds. Award of funds is subject to meeting technical and SRF requirements, and approval by the Authority Board of Directors. Availability and terms of funding for both BIL and base program SRF funds are subject to change at any time.

Questions or clarifications can be directed to me via telephone at 303-691-4945, or via e-mail at amy.schultz@state.co.us.

Sincerely,



Amy Schultz
Project Manager
SRF - Infrastructure Unit
Water Quality Control Division

ec: Tony Daranyi - Norwood Water Commission Representative

Deana Sheriff - Town of Norwood, Town Manager
Lauren Kirn - Mountain Village Representative
Catherine Carella - SGM, Inc., Consulting Engineer
Andrea Sestokas - WQCD ES Engineer
Peter Dieterich - DOLA Representative
Kevin Carpenter-Authority Representative
Ana Ruiz - Project Manager, WQCD SRF
Margaret Talbott - Unit Manager, WQCD SRF
Alex Hawley - Unit Manager, WQCD SRF

Attachment:
DOLA Financial Analysis



MEMORANDUM

To: Amy Schultz, WQCD Grants and Loans Unit
Cc: Ian Loffert and Kevin Carpenter, CWRPDA
From: Peter Dieterich, Division of Local Government
Date: May 1, 2024
Re: DWRP PNA Review, and Technical, Managerial and Financial (TMF) Review Findings for the Norwood Water Commission (NWC)

We had previously reviewed the materials associated with the NWC's DWRP Pre-Qualification application. Following the NWC's submission of the project needs assessment, DOLA has been in communication with the NWC to further clarify certain details about the statutory classification of the NWC and how said classification may impact its eligibility within the SRF program. Prior to proceeding, the NWC must get a legal opinion about what type of entity (government, non-government, etc.) they are, because this will determine who the borrower of the proposed loan will be and what types of SRF benefits they might receive.

DOLA typically determines the disadvantaged community status for potential borrowers at the project needs assessment phase. However, determination will occur after the aforementioned legal questions are clarified and resolved.

TMF

Based on the TMF capacity criteria of the DWRP program, we found the following mandatory financial requirement needing follow up by the Norwood Water Commission.

Financial Criterion #F-2: The NWC should be prepared to raise rates as needed to meet loan requirements.

Financial Analysis Update:

The NWC's finances are strong, with low debt per capita and a healthy operating and current ratio. While the project costs rose significantly since the prequalification, from \$461,000 to \$8,669,000, the NWC saw revenue increases as well in 2022. This was in large part due to an increase in tap fee revenue, \$288,000, as compared to an average of roughly \$25,000 the previous four years.

The below analysis assumed a loan request of \$3,349,500, the amount estimated in the NWC's submitted documents, with a 20-year loan term and estimated 3.25% interest rate.

- Based on 2022 financials, the projected coverage ratio is 130% with tap fee revenue and no projected increases would be necessary. Without tap fee revenues, the coverage ratio drops to 28% and additional annual revenue of approximately \$231,706, or \$23.99 per tap per month, is projected to be needed to meet the 110% debt coverage ratio requirement.





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Division of Local Government

- A loan amount equal to project cost of \$8,669,000 is estimated to require a rate increase of \$35.60 per tap per month including tap fee revenue, and \$65.41 without tap fee revenue.

WITH 50% FORGIVENESS INCLUDED

Please contact us if we can provide additional information.



Deana Sheriff

From: Catherine Carella <CatherineC@sgm-inc.com>
Sent: Thursday, May 2, 2024 8:12 AM
To: Deana Sheriff; daranyi@rmi.net; fkjome@mtnvillage.org; Randy Harris
Cc: Chad Hill; Lauren Kirn
Subject: NWC Transmission Main project check-in
Attachments: DWRF Loan Application Blank.pdf

Good morning NWC,

I'm writing to touch base on the Redundant Transmission Main project. I anticipated the Project Needs Assessment (PNA) would have been approved by CDPHE by now (submitted on February 1, 2024). However, we are still waiting on correspondence from CDPHE regarding the PNA review, final environmental determination, and financial analysis before moving forward with design and loan application. SGM is not actively working on this project other than responding to questions from CDPHE and NWC. There are several items that NWC can be thinking about now to gear up for this project:

1. **Schedule.** Per CDPHE's requirements, the State Revolving Fund loan application is due 18 months after the Pre-Qualification meeting, which occurred on August 14, 2023. CDPHE may offer some leeway on the schedule given their lengthy PNA review, but NWC should tentatively plan on a February 2025 loan application submittal. The following requirements must be met prior to submitting a loan application:
 - a. PNA Approval; Submission of EA or Submission of completed CatEx agency coordination; Public Meeting (30-days public notice) to discuss project scope, financials, and summary of EA findings; Submission of Basis of Design Report; Submission of Final Plans & Specifications, and Bond Counsel approval. Attached is a blank SRF loan application for your reference.
 - b. SRF loan applications typically take about three months to execute. The construction project can go out to public bid while the loan application is being processed.
2. **Environmental Assessment.** All field work (environmental surveys, land survey, subsurface utility investigations) should be performed this season as soon as possible. While we don't know if an EA will be required, we believe it will be required because of proposed new disturbances. The EA is a critical path item because it must be completed, approved by all review agencies, and discussed in a public meeting prior to loan application submittal.
3. **Other Funding Sources.** NWC and SGM can be strategizing other funding sources now to help offset the projected water rate increases.
4. **Water Rates.** Along those lines, NWC and SGM can be further developing the 20-year cash flow analysis and developing a public involvement process.
5. **Stakeholder Coordination.** Depending on the final alignment, we observed approximately seven private ditch crossings and 2 miles of Right-of-Way permitting. NWC and SGM could walk the alignment now and begin coordinating with ditch companies, utility providers, and San Miguel County on permits and construction requirements.

We are looking forward to kicking off this project and are thinking critically about the timeline. I have a draft proposal for engineering services that I will send you next week for review. The scope of the environmental requirements is the main item that is unclear to us and CDPHE will need to clarify.

As always, feel free to reach out if you have any questions! Thank you!

Catherine Carella, PE
Design Engineer IV