

APPENDIX F
FINANCING PROJECT
IMPLEMENTATION

FINANCING PROJECT IMPLEMENTATION

CORUNNA DAM PROJECT

INTRODUCTION

This section will describe several existing possibilities for financing a Corunna Dam redevelopment project. Financing options are arranged into two groups: monies that could be used to repair the existing facility; and monies that could be used to retrofit the dam for hydroelectric generation. Appendix D of this feasibility study concludes that the Corunna Dam project is neither economically nor financially feasible given conventional financing sources. However, in accordance with the DOE loan agreement, alternative financing mechanisms such as grant and low interest loan funds were reviewed to analyze the possibility of combining such monies with conventional financing to make the project economically practicable. The following section therefore describes a variety of financing mechanisms which are applicable to the dam project. Prior to reviewing these funding mechanisms, however, it must be noted that given the current ongoing reorganization of the federal budget, appropriations and eligibility requirements for many of these programs are uncertain and subject to change. Given these parameters, it would be difficult for Corunna to secure alternative financing through one of these programs. If such funding were secured from a single source, it would not provide enough additional monies to make the project economically feasible. At this time, it would require an improbable combination of a variety of grant monies to make the hydropower retrofitting project feasible.

The financing alternatives described in this section range from private investment to Federal government funding. Potential state monies are briefly discussed; however, given the current problems of the Michigan economy, state financing can be described as unlikely. A presentation of the financing options Corunna may want to investigate follows.

FUNDS TO RETROFIT DAM FOR HYDROELECTRIC GENERATION

U.S. Department of Agriculture

Community Facilities Loans

One of the more promising programs for funding the Corunna dam project may be the U.S.D.A. Farmers Home Administration Community Facilities Loan program. The FmHA is authorized to make loans to develop community facilities for public use in rural areas. Community facilities eligible under the program include the construction, extension, and improvement of recreational areas, community buildings, industrial parks, access ways, utility extensions and other facilities that provide essential services to rural residents. Due to recent legislation passed in October of 1980, hydroelectric generation facilities, related connecting systems, and supplemental structures for other rural electrification may be considered for Community Facilities loans where the area is not eligible for Rural Electrification Administration financing.

Eligible loan purposes would include the restoration of deactivated dams and hydroelectric generators, enlargement of existing plants, and the construction of new facilities. Activities would include the financing of generating facilities and of transmission lines to the nearest practical point of an existing distribution system. The project must be intended for public use in rural areas and towns that do not exceed 20,000 persons. Borrowers must be unable to obtain needed funds from other sources at reasonable rates and terms. The project must be based on taxes, assessments, revenues, fees or other sources of money sufficient to pay for the operation, maintenance and retirement of the debt. The proposed project must be consistent with existing comprehensive community development plans, and comply with federal, state, and local laws.

All loans will be secured to adequately protect the interest of the U.S. Government. Bonds or notes pledging taxes, assessments, or revenues will be accepted as security if they meet statutory requirements. A mortgage may also be taken on real and personal property when state laws permit. The current interest rate on Community Facilities loans is 5% on the unpaid principal. The maximum term on all loans is 40 years.

A major objective of the Community Facilities program is to serve as a "lender of last resort" and to step in when rural areas are unable to obtain needed funds at reasonable rates and terms. Thus, in making application for loans it is essential to document past attempts to secure alternative financing. It is also advisable to firmly establish the applicant's ability to meet loan payments and to secure private market credit for future needs. The City of Corunna will need to demonstrate that if they can secure this type of loan, the dam project will be economically feasible and that it will have a substantial beneficial impact on the surrounding area. Competition for these loans is stiff, and the adjudication of proposals is strict. Any proposal for FmHA financing must be well researched and meticulously presented.

All FmHA grants and loans are made through the county FmHA office; thus, that office should serve as initial contact point:

Ms. Sharon Parsons
FmHA County Supervisor
Shiawassee County
1767 South M-52
Owosso, MI 48867
(517) 723-8261

Most county supervisors are agricultural specialists, however, so it is probable that district or state officials will have more current and specialized information about the Community Facilities program.

All applicants applying for federal assistance under this program must request state and regional clearinghouse comments by submitting a copy of the AD-621 and appropriate narrative statement to state and regional clearinghouses.

STATE CLEARINGHOUSE

Office of Intergovernmental Relations
Department of Management and Budget
Lewis Cass Building - Second Floor
Lansing, MI 48913
(517) 373-8286

REGIONAL CLEARINGHOUSE

Genessee, Lapeer, Shiawassee Planning
and Development Commission
Executive Director: Robert Graham
1602 W. 3rd Street
Flint, MI 48504
(313) 766-8593

After the A-95 reviews have been completed, the applicant may make a preapplication to the FmHA. The material required for the preapplication includes:

1. Completed and executed Form AD-621, Preapplication including project narrative.
2. State Clearinghouse (A-95) Comments.
3. Regional (A-95) Clearinghouse Comments.
4. Form FmHA 449-10, "Applicants Environmental Impact Evaluation."
5. Latest Audit Report.
6. Existing sketch or site plan for facility.

Preapplications for the loan program can be obtained from the Shiawassee County FmHA Office. (See address on preceding page.) After review by the District office, the preapplication will be sent on to the FmHA state director. The state director will notify the applicant as to eligibility, availability of funds, and whether an application should be filed.

Farmers Home Administration Industrial Development Grants

The FmHA is authorized to make grants to facilitate the development of private business enterprises in rural areas or cities. Funds may be used to finance industrial sites that will result in the development of private business enterprises. Grant monies may be used for the acquisition and development of land, the construction of buildings, plants, equipment, access streets and roads, parking areas, utility and service extensions, refinancing, and fees.

This program may be applicable to the Corunna Dam if the City of Corunna wants to include an industrial development component in their project. Due to lower cost of electricity associated with a hydroelectric dam, the dam area may be conducive to industrial development. New industry in the area would mean economic development and increasing job opportunities for area residents.

Forms for preapplication to the program are available through the FmHA county office (Form AD-621). Applicants will be required to submit data in support of their project before formal application is made. Materials required include:

1. Completed and executed Form AD-621, Preapplication.
2. State Clearinghouse (A-95) Comments.
3. Regional and/or Metropolitan Clearinghouse Comments.
4. Form FmHA 449-10, "Applicants Environmental Impact Evaluation."
5. Site plan or map showing project area.
6. Documentation on funds from other sources that will be used for this project.
7. An opinion from the local attorney as to the legal organization of the City. This opinion should include the date of organization. The attorney should cite specific statutes authorizing the City to apply for, accept, and disburse funds provided by a Federal agency. The attorney should also state the specific purpose for which the grant funds are to be used. The City of Corunna should instruct the attorney to attach all items cited (i.e. Charter) to the opinion.
8. Project Narrative. Include information regarding jobs to be saved or created.

After determining the order of funding priorities, FmHA will tentatively determine eligibility and request applicants to submit formal applications. Applications will be processed in the FmHA District office. Applications are subject to A-95 review. An environmental impact assessment is required for this program.

U.S. Department of Labor

Comprehensive Employment and Training Act (CETA)

A program that could provide funding for a portion of the labor needed for dam redevelopment is a Department of Labor CETA project. CETA youth programs provide local agencies with a vehicle for employing young people in meaningful, constructive activities, as well as training them to be competitive in the labor market. They can be aided in overcoming disadvantages and preparing for the long-term demands of the working world. Since it is unclear which mechanisms or services are most effective for solving the problems causing youth unemployment, the youth programs are meant to test a variety of approaches so that greater knowledge and understanding can be developed. The youth programs are also intended to provide immediate benefits for youth in the form of direct employment and related career training or education services. A CETA program at the Corunna Dam would provide training in the construction trades for unemployed or underemployed low-income

youth. Depending on the particular CETA youth program, a portion of the CETA funds may be available for materials and supplies for the dam project.

If the City of Corunna decides to pursue this alternative, they will want to stress increasing youth unemployment and decreasing opportunities for youth job training. According to the Michigan Employment Security Commission, (MESC) as of March 1981, the total unemployment rate for the Flint SMSA, which includes Corunna, was 16.5%. Projections for Fiscal Year 1982 indicate that the unemployment rate of 16-19 year olds will be an astounding 27.0%. The corresponding figure for 16-19 year olds statewide is 19.0%; indicating that youth unemployment in the Flint SMSA is substantially above state averages. Data listing youth unemployment projections by age, sex, and race was not available for the Flint SMSA. However, the statewide unemployment figures for non-white youth aged 16-19 was 35.0%. Given the 8% differences between the projected Flint SMSA youth unemployment rate and the statewide youth unemployment rate, one could anticipate that the unemployment figure for non-white youth in Flint would be substantially greater than 35%. These statistics demonstrate that there is a clear need for more employment and training programs in the area.

The City of Corunna will want to coordinate with the Genessee, Lapeer, Shiawassee, Flint (GLSF) Consortium prime sponsor in working out the feasibility of a CETA program for the dam project. Prime sponsors are responsible for the administration of all CETA programs within their jurisdiction. The entire dam project planning process will be affected by the plans, priorities, deadlines, funding levels, commitments, and target population designated by that prime sponsor. Programs should, therefore, be developed in cooperation with the prime sponsor from the beginning. By doing so, chances for receiving funding will be increased because the requirements of the prime sponsor can be addressed more precisely and problems can be avoided. The prime sponsor for the City of Corunna area is:

GLSF CONSORTIUM
Bruce Graebner
Consortium Director
708 Root Street - Rm. 323
Flint, MI 48503
(313) 766-7390

U.S. Department of Housing and Urban Development (HUD)

Community Development Block Grants - Small Cities (CDBG)

Community Development funds are not specifically designed for hydropower redevelopment projects. However, innovative grant seekers may be successful in procuring funds for applicable projects. The availability of Community Development funds will depend in large measure on the ability of the project initiators to develop a comprehensive and innovative approach to redevelopment. Such an approach can accomplish more than power site renovation; a successful endeavor might include blight elimination, recreational facility development, economic development, labor training, and employment. Community Development funding may be explored if the dam renovation becomes part of an energy component of a community's comprehensive development plans.

The Community Development Block Grant (CDBG) Small Cities program is administered through the Community Planning and Development Division of the Department of Housing and Urban Development (HUD). The Small Cities grant program is a discretionary competition intended to complement the CDBG entitlement grant program. The objective of Small Cities program is to:

- support realistic and attainable strategies for expanding low and moderate income housing opportunities.
- reduce the concentration of low-income housing.
- provide increased economic opportunity for low and moderate-income persons.
- correct insufficiencies in public facilities which affect the public health or safety, particularly of low and moderate-income persons.

Small Cities grants may be either single purpose grants or comprehensive grants. Single purpose grants are designed to fund an activity or a group of activities intended to correct certain community development need. Comprehensive grants must address a substantial portion of the community's development needs, involve two or more activities bearing a relationship to each other, have beneficial impact, and be developed through an assessment of the community's development, housing, and economic needs. Comprehensive grants may be submitted for either single-year or multi-year funding.

Activities eligible for funding under Small Cities include the rehabilitation of certain public works projects and economic development activities. Grants are highly competitive for this program, thus the project will have to be written to show substantial positive effects on persons of low and moderate-income levels, affect public facilities threatening public health and safety, increase housing opportunities, and stress the benefits of local energy production and conservation.

In order to comply with the emphasis of this grant program on housing, Corunna should include a housing development component in their plans for the dam area. A housing project has the additional advantage of potential use for the electricity to be produced. A housing development for elderly low and moderate-income persons would probably be rated the highest of any possible housing.

In addition, Corunna should document that if less expensive electricity were available in the dam area, there would be increased economic opportunity for low and moderate income families. Decreased electricity rates and increased electrical capacity would enhance the desirability of the area for business and industry, leading to increased job opportunities for area residents.

If the dam were to be redeveloped, there would certainly be increased construction activity in the area. A case can be made for the benefits that would accrue to the community as a result of this increased activity. Presently, the Corunna area is largely rural with a substantial portion of low and moderate-income families, and is experiencing increasing unemployment rates. The current unemployment rate in the Flint Standard Metropolitan Statistical Area (FSMSA) was 13.7% in December, 1980—up from 9.1% in December, 1979. Dam construction in the area would draw in workers from both Flint and Owosso. Construction employment opportunities in these areas are needed according to the Michigan Employment Security Commission's third and fourth quarter 1980 reports. The ratio of job applicants to job openings for construction workers in the Grand Rapids area presents a poor employment picture as shown in Table I below.

All Structural Work Occupations	41.85
Cement Mason	44.00
Construction Worker I	51.56

These statistics enable Corunna to make a credible case for their need of federal assistance to aid unemployment problems.

If Corunna were to apply for CDBG Small Cities Funding, the best strategy would be to apply for a multi-year comprehensive grant. Currently, for non-metropolitan areas within an area office jurisdiction, 65 - 75% of CDBG Small Cities funds are reserved for comprehensive grants. HUD may also make a commitment of up to 3 years for a comprehensive grant program - the three-year funding period being better suited to a long-term project such as a hydro redevelopment. Corunna will then have to draw up a tight comprehensive program consisting of several activities, including the expansion of housing opportunities, increased employment opportunities, removal of blighted conditions, and increased economic development opportunities.

Preapplications for the CDBG Small Cities grant program are to be submitted to the appropriate HUD area office (in this case Detroit) and shall consist of:

1. Standard form 424.
2. Program narrative statement including a description of the applicant's community development problems and needs which are to be served by the program:
 - a. Whether the program benefits low and moderate-income persons, aids in the prevention and elimination of blight, or meets other community development needs having a particular urgency.
 - b. A description of the program to be carried out, estimates of the costs of proposed activities including, if applicable, other sources of federal funding.
 - c. Information that demonstrated the impact that the proposed program will have.
 - d. An analysis of the amount of funds to be used to benefit low and moderate-income persons including the number of persons served, the number of persons of low and moderate incomes, how low and moderate-income persons are served, and the nature of the benefits.
3. A certification assuring citizen compliance.
4. A map of the applicant's jurisdiction, including:
 - a. Census tracks.
 - b. The location of proposed activities with the boundaries of areas in which activities will be concentrated.

- c. The location of areas with minorities, including the number and percent of total population.
 - d. The location of areas with low and moderate-income persons showing the number and percent of total population.
5. If the applicant has received prior assistance, an assessment of performance under prior grants.

Preapplications will be rated and scored on the following factors. The maximum score possible for non-metropolitan applicants is 945.

	<u>Points</u>
(1) Need—absolute number of poverty persons	75
(2) Need—percent of poverty persons	75
(3) Program factor—impact of the proposed program	400
(4) Benefit to low and moderate-income persons	200
(5) Outstanding performance:	
Housing	100
Local equal opportunity efforts	50
(6) Areawide Housing Opportunity Plan (AHOP). (metropolitan applicants only)	50
(7) State's rating	25
(8) Energy conservation or production	20

For more site specific information, and to begin preapplication procedures, Corunna should contact the Detroit HUD office:

Richard Paul
 Director of Community Planning
 and Development Division
 McNamara Federal Building
 Michigan Avenue - 17th Floor
 Detroit, MI 48226
 (313) 226-4343

SMALL HYDROELECTRIC POWER PROJECT FEASIBILITY STUDIES

One of the federal options for financing a portion of the licensing and approvals for the dam project is the U.S. Department of Energy (DOE) low interest loan program. A DOE loan could cover up to 90% of the cost of the licensing and approvals necessary for the project. The loan payback would not exceed 10 years, with repay-

ment commencing on the fourth anniversary of the loan. The payback amount would be 1/7 of the principal and accrued interest. The interest rate of the loans will be the current discount or interest rate for water resources planning projects under Section 80 of the Water Resources Development Act of 1974. This rate has been established at 7 3/8 percent for the Federal Government's 1981 fiscal year ending September 30, 1981. The discount rate is presently permitted to change no more than 1/4 percent from one year to the next, and will probably increase in future years. Regulations limit the loans to a maximum of \$50,000.

The feasibility study for the Corunna dam was funded through this program. Contacts with DOE should stress any additional funds secured to improve the program's economics, the positive potential of the dam site, its renewable energy appropriate technology status, and the potential for increasing local energy self reliance in the area.

In order to apply, the City of Corunna should contact the Region V DOE office:

U.S. Department of Energy
175 W. Jackson Boulevard
Room A-333
Chicago, IL 60604
(312) 353-8565 Hugh Gardner

Application requirements for the loan include financial, scheduling, and other background information in support of the application. Other information needed includes:

1. The amount of the loan requested.
2. A description of the major tasks required to obtain the license, proposed schedule for completing each major task, estimates of each major task cost, and the share of the costs borne by the applicant.
3. A brief description of the applicant, including history and the experience the municipality has had with projects of this nature.
4. Financial statements, including sources of revenue and a balance sheet.
5. Descriptions of any other federal financial assistance expected to be applied for or already obtained in connection with the project.
6. A list of key people who will be involved in the licensing effort with their responsibilities and qualifications.
7. Documentation of the applicant's authority to undertake the proposed activities and a copy of the municipality's charter.
8. The status of any application to the FERC for a preliminary permit, license, or exemption; and status of any other applications for federal, state, or local approvals of the project.

Corunna should have this information accessible from their previous application for a feasibility loan. In addition, the licensing loan application will require:

1. A copy of the complete feasibility study.
2. Any other information the Secretary of Energy may require to consider the request for a loan.

The Secretary of Energy will give licensing loans priority over application for feasibility study loans as licensing loan applications must be based on completed feasibility studies and, therefore, are closer to putting power on line.

To determine the priority given to the licensing loan application, the Secretary of Energy may take into account the factors which include:

1. The potential of the hydroelectric power project to save oil or gas.
2. The likelihood that the project will reach completion relatively quickly.
3. The need for substantial revision of the application to achieve compliance with this regulation.
4. The disparity between the size of the loan sought and the contemplated project.
5. Any evident substantial environmental implication.

FUNDS TO REPAIR THE CORUNNA DAM

U.S. Department of Energy

Appropriate Energy Technology Grants

Through regional offices, the U.S. Department of Energy administers an appropriate energy technology grant program designed to encourage the research and development of energy related small-scale technologies. Three types of grants are available: concept development grants; technology development grants; and demonstration grants. Individuals, small businesses, local agencies, nonprofit organizations, and institutions are eligible to apply for grants under this program. According to DOE, projects which are selected must be small in scale; conserve non-renewable energy; use renewable resources; be simple to install, operate, and

maintain; use local labor and local resources; and be environmentally sound.

A demonstration grant under this program can make an award of up to \$50,000 to test a technology under operating conditions to show that it is commercially applicable and technically, economically, and environmentally sound. In order to set up an arrangement whereby Corunna could benefit from this grant program, the city would find a hydro technology that needs field testing and would set up an agreement with the inventor. The Corunna dam could be offered as a demonstration site for research on new ultra low-head turbines or other electric generating systems. It is possible that some of the funding for the demonstration could be used to effect repairs on the dam.

Under DOE Region V, this program is known as the Midwest Appropriate Technology Small Grants Program. Grants are made yearly with solicitations held in the spring. For more information about the program, contact:

Ms. Roberta Dalton
U.S. Department of Energy
175 W. Jackson Blvd.
Chicago, IL 60604
(312) 972-2067

U.S. Department of the Interior

Land and Water Conservation Fund Grants

A federal program that may provide a portion of funding for the development of outdoor recreational facilities around the dma site and possibly some monies for dam reconstruction is the Land and Water Conservation Fund grant program. The Land and Water Conservation Fund is a federal department of the Interior program that is administered through the U.S. Parks Service. The objective of the program is to provide financial assistance to the states to aid in the acquisition and development of outdoor recreational areas. Monies are available on a 50-50 matching basis. In Michigan, the funds are directed through the state Department of Natural Resources.

To be eligible to receive funds, the area must have local recreational plans. Acquisition and development monies may be used for a wide range of outdoor recreational projects such as picnic areas, campgrounds, bike trails, and support facilities such as roads and water supply. Facilities must be open to the general

public. The construction of basic rather than more elaborate facilities will be favored.

This program has recently been affected by the proposed federal budget cuts. If the proposed cuts are passed, in Fiscal Year 1982, there will be no more funding for the Land and Water Conservation Grant program. However, according to Washington D.C. contacts, there are still several million dollars in unencumbered monies at the state level. The City of Corunna may want to contact the Michigan Department of Natural Resources and discuss the possibility of using any remaining grant funds. The initial contact for this program is:

Federal Aid Coordinator
Office of Budget and Federal Aid
Box 30028
Lansing, MI 48909
(517) 373-1750

Currently, the area around the dam has a potential for development as a Corunna park. The park could be developed in conjunction with a dam restoration program. The city of Corunna would want to impress upon DNR that if the park facilities were available in the area, they would enjoy a high usage rate.

Initially, applicants will be asked to submit a State of Michigan form. After favorable review, applicants will be invited to submit full application. Project proposals will be submitted through DNR to the National Park Service. DNR has the initial prerogative of determining acquisition and development of project eligibility, priority, need, and order of fund assistance within the state.

U.S. Department of Labor

CETA Youth Programs

The U.S. Department of Labor administers Comprehensive Employment and Training Act programs which could feasibly be used to provide labor to renovate the Corunna dam. CETA youth programs would be particularly well suited to this purpose. The objective of the CETA youth programs is to improve the future employability of youth, resulting in a wide range of coordinated employment and training programs. Based on the high unemployment figures for the Flint SMSA area, Corunna is in an

excellent position to suggest a youth employment and training project for reconstruction of the dam.

A CETA youth program that could be easily adapted to the Corunna dam project is the Youth Community Conservation and Improvement Projects (YCCIP). YCCIP provides employment, skill training, and opportunities for community service to unemployed, underemployed, and in-school youth ages 16-19. A participant may be enrolled in a YCCIP project for a period of up to 12 months, and the project must produce tangible conservation and improvement benefits to the community.

No more than 5% of the total funds allocated to the prime sponsor for YCCIP projects are to be used for administrative costs. Of the remaining funds, 65% must be available for participant wages and fringes, and no more than 10% may be used by project applicants for administrative costs. The remaining funds may be used for the training of participants, project supervisors, services to participants, and the acquisition, lease, or rental of materials, equipment and supplies. For more information about the availability of YCCIP or other Youth program monies in the Corunna area, the area prime sponsor should be contacted:

GLSF Consortium
Bruce Graebner
Consortium Director
708 Root Street
Room 323
Flint, MI 48503
(313) 766-7390

BONDING

This study has based an economic feasibility analysis upon a general obligation bond issue. This alternative is briefly described below. A bond issue could cover a portion of the dam renovation or the entire project. The interest rate of the bond issue will depend on the detailed terms of the indenture as they relate to the bond holder's risk and the rate of return. General obligation bonds are secured by the full faith, credit, and taxing power of the municipal issuer. Revenue bonds are considered among the riskiest of bonded instruments—thus, they are one of the most expensive in terms of interest expense. The flotation cost of bonded debt varies as to the size of the offering, perceived investment risk, and other market related factors.

According to local investment brokers, the current rate on a 10 year A rated municipal general obligation bond in Gratiot County is 10.5%; and in Genessee County a 20 year A rated general obligation bond is 11%. There have been no recent Shiawassee County bond issues available for analysis. However, the interest rate can be expected to fluctuate, but during the next several years it will probably remain somewhat on the high side of between 8 and 10%.

Assuming that an offering would be public, the city must select an investment banker. Investment banking houses operate in several capacities. They serve as middle men in the process of selling new securities, underwriting the securities for the municipality, and selling them to permanent investors. Investment bankers maintain a secondary market for the securities once they are sold. The investment banker is an invaluable source of information and council concerning the indenture terms and conditions of an issue. In order to determine the exact costs of either a revenue or a general obligation bond issue, the city of Corunna may want to contact an investment banker familiar with the Shiawassee County area to discuss key features of a bond issue such as maturity, interest rates, call provisions, and other terms. Flotation costs could also be ascertained at that time.