

REGIONAL RURAL REVITALIZATION (R3) STRATEGIES

Housing and Public Improvement Consortium

White Paper

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Background

John Day, Burns and Lakeview signed a memorandum of understanding (MOU) in October 2021 to explore opportunities to collaborate between the trities, with the specific goal of stimulating economic recovery and revitalization within their respective communities. The cities also desired to establish an agency to combine and share resources that would achieve greater efficiencies and economies of scale to execute housing and other public improvement projects.

The new agency is called Regional Rural Revitalization (R3) Strategies to recognize its role in catalyzing regional economic recovery. It is organized under Oregon Revised Statutes 190.010, which allows units of local government in Oregon to enter into agreements for the performance of any functions and activities that any party to the agreement, or its officers or agents, has the authority to perform.

R3 operates under an intergovernmental agreement (IGA) with a five-member board of directors and a managing director that will oversee its operations.

Planning Milestones

R3 will have an operational effective date of July 1, 2022. Key dates in the agency formation and planning process are shown in table 1.

Table 1. Planning milestones for agency formation

| Date | Milestone/Action |
|----------------------|-----------------------------------------------------------------------------------------------------|
| October 27, 2021 | Trities MOU Signed |
| December 16, 2021 | First Planning Session w/Councilors |
| January 13, 2022 | Second Planning Session w/Councilors |
| February 22-23, 2022 | Formation ordinances and IGA presented |
| March 8-9, 2022 | Formation ordinances and IGA adopted; Sent to Oregon Secretary of State; Begin Director Recruitment |
| April 11-15, 2022 | First Board Meeting |
| TBD May | Second Board Meeting |
| July 1, 2022 | Begin Operations |

R3 Strategies Overview

R3 Strategies is a new kind of government agency. With a focus on civic entrepreneurship and rural innovation, R3 will act as a broker or intermediary between rural public sector agencies and private equity investors. R3 aims to achieve greater economies of scale and increased economic gains for its member cities by pooling public assets across multiple jurisdictions, facilitating public-private partnerships, and managing complex community development and capital improvement projects through a single intergovernmental agency.

R3 Strategies will equip small cities and rural local governments to “hunt as a pack” by providing asset management services that pool human capital, capital equipment, and financing across multiple jurisdictions.

Operating Model

Small cities and special districts in rural-frontier communities can be fiercely independent. They value their political autonomy and have a strong will to survive. However, this independent spirit also hampers their ability to compete economically with larger jurisdictions because they simply lack the resources to go it alone.

R3 Strategies overcomes these cultural and geographic barriers by pooling staff across its member cities through virtual teaming arrangements. Virtual teams are assembled using best of breed techniques that capitalize on each member’s unique staff skill sets, staff availability, and professional services relationships. These virtual teams are scoped through task orders issued by each member city. R3 Strategies then provides a detailed performance work statement (PWS) with a proposed teaming strategy, and once an agreement is reached, the virtual teams work together on projects for a limited duration “during the hunt” to allow them to bring down bigger game – without sacrificing their independence or political autonomy. When their role in a project is complete, the PWS is closed and the staff who participated are available for other projects within their own jurisdictions or other members’ as needed.

The same principle applies to pooling capital assets like property, plant and equipment (PP&E). PP&E often sits idle in one jurisdiction when it could be put to use in another. Similarly, small cities in rural communities lack the purchasing power to acquire higher-dollar assets for things like utility line maintenance, street maintenance, and other basic needs. As a result, they have to contract for these services, for which they pay a premium in the market due to the cost to mobilize assets to remote rural areas.

R3 Strategies breaks this “fee-for-service” model by assembling virtual motor pools made up of the available assets of all its member cities. By cataloguing the mix and availability of PP&E assets within its member jurisdictions, these resources can become available for the entire enterprise to use on an as-needed basis. R3 can also acquire assets on behalf of its members, which none of the cities can afford independently. The result – maximizing the use of equipment by deploying it where, when and how it’s needed most.

Finally, R3 will assist its members in applying for and administering federal, state, and non-profit grants and loans in compliance with the increasingly complex rules and regulations that govern public sector financial transactions. R3 will provide capital finance and asset management services for its members across their capital project portfolios. The agency will take the lead on negotiating complex transactions like public-private partnerships through financial management and contracting strategies that enhance the effectiveness, impact and efficiency of governmental services – ultimately delivering greater economic gains for the public.

Core Services

R3 will provide seven core services for its member cities:

- 1) Corporate strategy;
- 2) Capital finance and asset management;
- 3) Capital projects;
- 4) Capital equipment;
- 5) Public-private partnerships;
- 6) Strategic Teaming, Contract Management & Negotiations (Dealmaking)
- 7) Regional planning, GIS and other data-driven services.

Corporate Strategy

The incorporated places we call towns and cities are actually organized as Oregon Municipal Corporations. At their most fundamental level they are a business – a business organized to provide public goods. Even small cities can end up managing complex, multi-million dollar portfolios that need to be managed strategically in order to provide these public goods in the most effective way possible.

Corporate Strategy takes a portfolio approach to strategic decision making by looking across all of the city's funds to determine how to create the most value. In order to develop a corporate strategy, cities must look at how the various funds they manage fit together, how they impact each other, and how the city is structured in order to optimize human capital, service delivery, and governance. Corporate strategy should inform a city council's decision making as well as the operations and budget priorities for each city and each department within the city.

Many city councils fall into the trap of setting numbered goals (1 through 10) and saying they won't work on anything else until their top goal is reached. The result? Goal number one takes ten years and goals two through ten never happen.

No business operates this way. Businesses manage capital projects as an investment portfolio that syndicates risk through diversification, simultaneously investing in a combination of short- and long-term assets, with some lower and higher risk projects, all of which are aligned within the framework of a corporate strategy.

For example, in 2017, John Day adopted a new corporate strategy, called its *Strategy for Growth* (figure 1). The strategy focuses on recruiting and retaining three core demographics: digital commuters who have a choice about where they work; active retirees with disposable income; and young, working families that contribute to the local economy and tax base. This approach led to a restructuring of the city's finances, with the addition of a Main Street Department, a new Community Development Fund, and several cost-cutting measures that reduced and reprioritized the mix of staff within the city to create the human capital and investment capital pool needed to achieve their strategy.

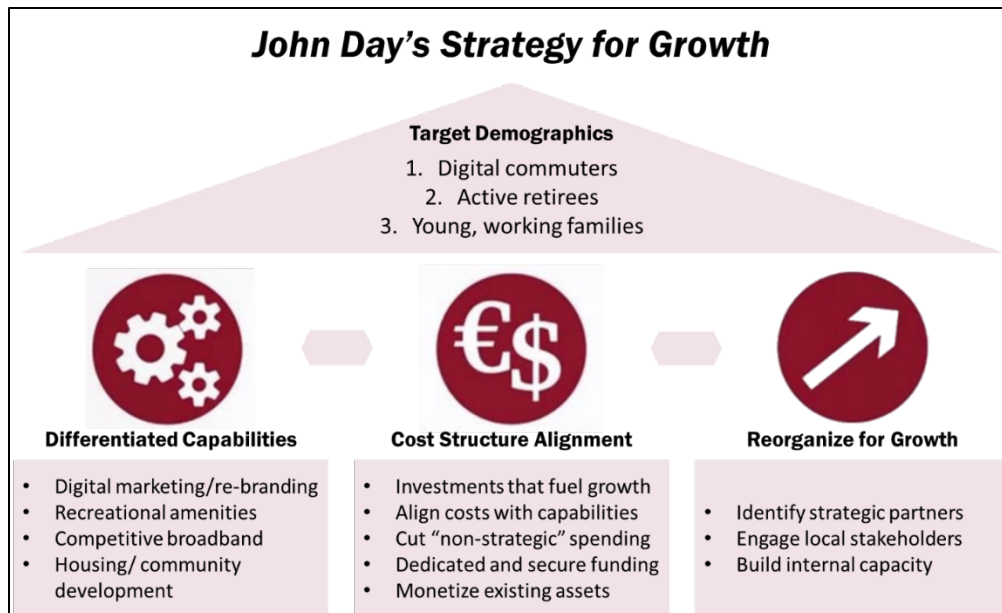


Figure 1. John Day's Strategy for Growth, adapted from Strategy & Fit for Growth model

R3 can assist its member cities with developing their corporate strategies by helping them define their targeted outcomes, differentiating their capabilities, internally aligning their cost structure to fuel their strategy, and reorganizing to achieve that strategy. Ultimately, this will allow our members to grow in a balanced way while preserving their rural lifestyle and quality of life for generations to come.

Capital Finance and Asset Management

Capital is the money available to pay for both day-to-day operations and to fund future growth. The three major types of capital for municipal corporations are working capital (operating income), debt and grants. Oregon budget law requires cities to forecast operating income 12 months in advance and to report (or audit) their financials for the past three years. Most public officials are familiar with these processes, which occur on an annual basis. However, capital finance is far more complex.

Debt and grants can be used strategically to build wealth (resulting in an increase in net assets and the city's net position). They can also be used to generate operating income. For example, investing in new roads, water and sewer infrastructure using a combination of grants and loans (capital finance) can lead to new residential construction that in turn leads to an increase in property tax receipts, water/sewer utility revenue, and state shared revenue. In other words, making the right kinds of capital investments can significantly (and permanently) increase operating income above and beyond the cost of the city's debt service.

Many cities fall into the trap of trying to sustain what they have by withholding strategic investment. They try to save their way out of decline, and the more they decline, the more they try to save. This sends a strong signal to the market - *We don't believe in ourselves enough to invest, so why should you?*

It also doesn't work. In an age when the consumer price index (cost of goods) increases six percent or more annually, and the local government investment pool delivers less than two percent on its annual rate of return, a city can never earn enough interest on savings to keep up. Costs will outpace revenue every time and eventually small cities will be forced to cut funding for basic public services. The loss of police departments in John Day and Lakeview are just one example. Municipal pools, parks, downtown buildings, urban blight – all are symptoms of failed government policies that pull back resources in the misguided assumption that when times are bad you should save rather than invest.

Building capital stacks – layers of strategic debt (investment capital), own-source revenue (matching funds), grants and state appropriations – can build wealth by adjusting the capital structure of the city into a growth-oriented position. It signals to the market that you believe in yourselves. And in many cases, it will lead to an increase in operating revenue in addition to an increase in net assets, which allows the city to underwrite more investment capital that can fuel further growth and investment – ultimately stimulating new private sector growth as buildable lands open up for development and new residents and customers drive a need for additional residential, commercial and industrial services in the cities.

R3 will manage its member cities' assets strategically by creating long-term financial forecasts, in-depth financial analysis of the financial health of the city, and by managing the capital structure of the cities so that they can make capital investments. We'll assist our members in obtaining good bond counsel, external financial investors, and new grants and long-term, low-interest loans based on the cities' goals and objectives. We'll also provide financial tools, like the Ten-point Test, to help our cities measure their short-run financial position, liquidity, net asset growth, operating margin, own-source revenues, debt, coverage and capital asset condition (see Appendix A).

This approach took John Day from an annual operating budget of \$5 million a year to a budget of \$29 million and increased its net position by \$2.7 million (35 percent) over a five-year period, allowing the city to simultaneously fund 15 capital improvement projects while reducing its staffing by 10 positions.

Capital Projects

A capital project is a long-term, capital-intensive investment. Capital projects create capital assets (utility infrastructure, buildings, land, equipment, etc.). Capital assets are assets that are used to generate revenue over the course of more than one year. They are recorded as an asset on the balance sheet and expensed over the useful life of the asset through a process called depreciation.

As shown in our recently completed Economic Opportunity Assessments, buildable land is one of the most abundant economic assets of our member cities. We have the ability to grow and expand, but this requires public-sector investment in new capital projects – roads, bridges, floodplain mitigation, utility infrastructure, etc.

R3 will build and manage the capital project portfolios for its member cities. The agency will report quarterly on the status of each project, its percent completion, and progress on planning, design, financing, permitting and construction, to allow its members to invest in capital project portfolios that will create synergies and efficiency gains across the portfolio. R3 can also provide due diligence to help our members evaluate the benefits and costs of a given project to determine whether the juice is worth the squeeze. Sometimes a project looks good at the outset, but ultimately won't pencil. Sound due diligence can help avoid the pitfalls of bad investments by identifying the risks and rewards of a given project from the outset and ensuring it is sustainable over the long haul.

Taking advantage of Wall Street investment strategies to benefit Main Street businesses will help spur growth while syndicating and managing risk, keeping exposure levels minimal and allowing cities to achieve a higher rate of investment in capital projects that build wealth and revenue to provide public services.

Capital Equipment

Capital equipment is any physical asset that is used to provide services that our residents will later use or benefit from. Capital equipment can include machinery, vehicles, and tools. These items are generally held in the Motor Pool funds because they benefit multiple funds or provide more than one service (i.e. a utility truck for utility workers that can maintain streets, water and sewer infrastructure). Capital equipment has an acquisition cost of \$5,000 or more and is classified as a non-current asset, meaning it is capitalized and depreciated over the length of its useful life.

Part of the service R3 will provide is helping evaluate whether a piece of equipment should be procured as an asset, or if a service should be leased or contracted out. For example, flying a public improvement project with Lidar can provide detailed elevation and terrain data used for planning a project, and for very little cost, the flight path can be expanded to include future residential neighborhoods to offset the soft-cost of hiring a surveyor for a future housing development. Rather than buying a drone equipped with Lidar, it may be more cost effective to simply contract for these services.

On the other hand, some services are capital intensive and used more frequently. These items include street sweepers, chipspreaders, pneumatic rollers, and structural pipe lining or cured-in-place-pipe liners (CIPP) (see example spec sheets and pricing, Appendix B). This equipment can help rehabilitate, preserve and maintain public assets like streets, water and sewer lines in good working condition using local labor and equipment provisioned across each city as part of a shared motor pool, significantly reducing the cost to maintain our public improvements.

Public-Private Partnerships

Public-Private Partnerships (P3s) are now a permanent part of state and local governments' service delivery toolkit and interest in them has a lot to do with financial necessity. P3s can help address spending gaps in infrastructure investments by, among other things, using private sector money to jump-start projects that might not happen otherwise.

P3s leverage private sector money, expertise, innovation and flexibility, and combine these with the institutional reach of a public organization. Public agencies use P3s to connect vital services and infrastructure to other policy goals such as economic development, community revitalization and workforce development.¹

A P3 can take several forms based on a given project’s needs. One example is Design-Build-Operate-Maintain (DBOM), where a public agency owns, finances and oversees a project, but a private sector partner is responsible for the construction, operations and maintenance. Another example is a joint venture. In this arrangement, the government and private partner(s) together form a new corporation – known as a special purpose vehicle (SPV) or project company – that builds, owns and operates the facility. With these additional components in place, a DBOM can become a DBFOM (Figure 2).

| Design-Build-Operate-Maintain (DBOM) P3 | | | | Joint Venture P3 | | | |
|-----------------------------------------|-------|---------|----------|------------------|-------|---------|----------|
| Manage Project | | | | Manage Project | | | |
| Design | Build | Operate | Maintain | Design | Build | Operate | Maintain |
| Finance Project | | | | Finance | | Project | |
| Own Project | | | | Own | | Project | |

Figure 2. Structuring Public-Private Partnerships

Often a formal P3 is unnecessary. Strategic teaming relationships for specific projects (discussed in the next section) are simpler to create and can lead to the same outcomes. However, for some regional initiatives (like broadband and housing) a P3 may prove to be more efficient and effective.

R3 can assist its member cities in evaluating P3 structures and determining whether (and how) to pursue this approach, including building capital stacks that leverage both public and private resources.

Strategic Teaming, Contract Management & Negotiations (Dealmaking)

R3 can issue biannual requests for qualifications to create a pool of professional services firms to assist its members with contract management and negotiations. Capital projects are best serviced by creating integrated planning teams consisting of legal counsel, bond counsel, engineers, architects, surveyors, and project managers. At times, these projects also require specialized skill sets – environmental specialists, brownfields redevelopers, hydrogeologists, geohazard engineers, etc.

These integrated planning teams, in turn, help facilitate coordination between our member cities and the various local, state, and federal agencies that are involved in the project. Often, these agencies play a dual role as both investor and regulator. As a result, they need to be viewed as partners in the process, but partners that may come with strings attached.

¹ Governing Guide to Financial Literacy, Volume 3. *Understanding the Risks and Rewards of Public-Private Partnerships*, 2016.

Having an integrated planning team to provide “housing as a service” is just one example of an approach R3 will take to reduce costs (and increase profits). R3 will create a clearing house for the entitlement process – resulting in an increase in housing productivity at a lower price point and helping to ensure our local residents are not priced out of their market.

P3’s also require separate contracts and joint development agreements, and at times may require public agencies to create a special purpose vehicle to facilitate a joint investment opportunity to syndicate the risk and ensure the incentives are aligned between the public and private investors.

R3 can help manage and facilitate strategic teaming, professional services contracts, negotiations and dealmaking across these various entities to ensure its member cities’ desired outcomes are achieved, adding critical staff capacity and expertise available across the service region. R3 can also help reduce soft costs for both its members and private investors by creating a clearing house for the entitlement process that will increase the speed and efficiency of its members’ planning departments.

Regional Planning, Geographic Information Systems and other Data-driven Services

R3 will assist local planning departments of its member cities by providing regional planning, GIS and other data-driven services for their capital improvement projects. Spatial data analysis, advanced analytical tools and innovative methods to look at problem sets in new ways will deliver greater value over the entire service region. These services include demographic analysis, modeling and spatial analysis and reports that can facilitate complex transactions and make it easier for developers and property owners to submit development applications (Figure 3).

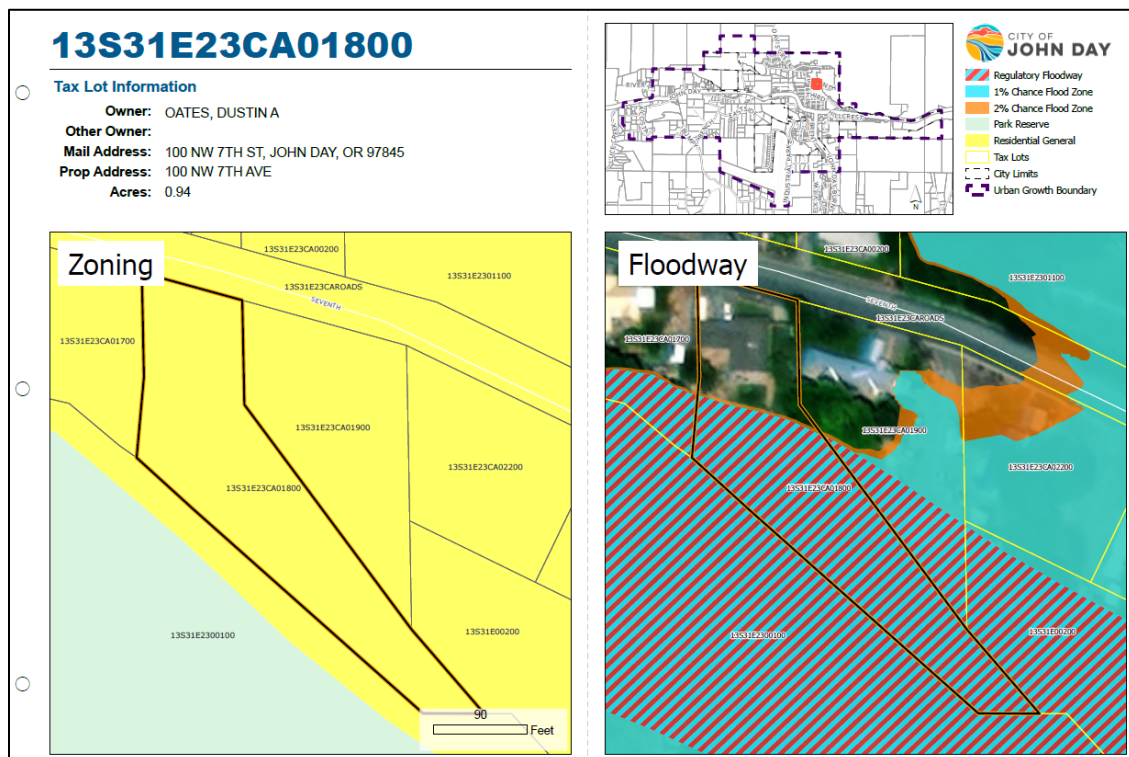


Figure 3. A sample GIS report showing zoning, floodplains and other information for a future project

Master planned housing developments or new commercial and industrial projects can require detailed terrain mapping, natural hazards analysis, and GIS overlays for utilities, roads and other public infrastructure, as well as support for the architectural, civil and structural components of a project. The goal of these services is to further streamline the entitlement process for land use and development, including zoning, density, design, use, and occupancy permits.

Capital Projects Portfolio

The potential projects in the infrastructure investment portfolio for each city are included in Appendix C. Several capital projects within the portfolio are already in development and are either partially or fully funded. The councils and city managers for each member city will need to make their own determination about which projects to engage R3 and which ones to manage in-house. Some projects may be simple enough they can be handled with existing staff.

Task Orders

Projects that are sourced to R3 will be sent through task orders issued by a member agency (or some combination of agencies) and will contain the name of the requesting agency, date of request, and background that provides a high-level description of the agency's needs and requirements for a given project. The task order is short and concise and focuses on providing information about the city's desired impacts and project outcomes.

A sample task order is enclosed in Appendix D.

Performance Work Statements

The PWS is issued by R3 in response to a Task Order. It's developed in partnership with the member city after reviewing their request. The PWS emphasizes performance-based concepts such as desired results (deliverables), outcomes, objectives and project milestones at a detailed and measurable level. It is essentially a contract or agreement between R3 and the requesting agency about the scope of work to be performed. Key components of the PWS will include:

1. Objective
2. Scope
3. Requirements and Tasks
4. Deliverables and Delivery Schedule
5. Personnel
6. Agency Furnished Equipment, Information and Documents
7. Place of Performance
8. Period of Performance
9. Estimated Level of Effort
10. Invoice Approach and Instructions
11. Travel Requirements
12. Project Cost Analysis & Cost Summary

R3 Staffing

R3 will have a managing director and may require additional employees depending on project requirements, but these staff will work on behalf of each city and many will be drawn from the ranks of the existing employee pool through virtual teaming agreements. Employees with time and expertise for a given project will be issued a charge authorization from R3 and allowed to bill out at their fully-burdened rate for the projects they are supporting.

Similar to the equipment sharing model, creating virtual teams can maximize the skill sets of a given employee (and utilize their time to its highest and best use). Because they are charging time under a contract from R3 to a specific project, many of which are grant funded, this could have the net effect of reducing staff costs to our member cities through cost recovery, reducing downtime for specialized skill sets, and federating employee time across our members' projects.

Summary

R3 is a novel approach for small frontier cities to work together to achieve critical community outcomes for their residents at a time when access to capital has never been greater. The trillion dollar federal Infrastructure Investment and Jobs Act, American Rescue Plan, and other federal and state resources have made it financially achievable for small cities to invest in their own communities in ways that have never been seen before. However, these new resources will not have an impact if we can't get to the funding or manage it in compliance with the numerous regulations that come with it.

R3 will build the much-needed capacity and expertise to seek these new sources of capital without creating additional PERS liabilities or a long-term staffing obligations. It's ability to downward reinforce its members' corporate strategies, capital asset portfolios, and dealmaking should allow each city to achieve productivity gains and economies of scale that are unattainable alone. The agency, if properly implemented, will reduce risk and increase rewards for all its members, and will eventually allow us to overcome the decades' long recessions that have hindered our economic recovery.

Appendix A. Financial Assessment (Ten Point Test)

The financial statement analysis performed for the tricities is enclosed. Hines was also included as a comparative city outside of the tricities consortium but of similar size and composition.

Scores range from -1 to +2 points for each of the categories analyzed.

- A score of 10 or greater suggests a government’s financial position is “among the best.” It can easily meet its immediate spending needs, it has more-than-adequate reserves to mitigate the immediate effects of recessions, natural disasters, or other unexpected events, and it has the capacity to generate adequate resources to cover its long-term spending needs. To earn that score most of its ten ratios must be as good as or better than its peer governments.
- A score between 5 and 9 means the government is “better than most.” Most of its ratios are better than its peer governments, and a few ratios are equal to its peers.
- A score between 0 and -4 means the government is “worse than most.” Most of its ratios are weaker than its peer governments.”
- A score less than -5 means the government is “among the worst.” It has major financial problems and may be insolvent. Scores this low are quite rare.

Each of our member cities composite scores were 6 or above, indicating they are better than most or among the best (Figure 4).

| Financial Ratio | John Day | Burns | Lakeview | Hines |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------|-----------------|--------------|
| 1. Short Run Financial Position | 2 | 0 | 0 | 0 |
| 2. Liquidity | 2 | 2 | 2 | 2 |
| 3. Net Asset Growth | 0 | 2 | -1 | 2 |
| 4. Operating Margin | 1 | 1 | 0 | -1 |
| 5. Own-Source Revenues | -1 | -1 | -1 | -1 |
| 6. Near-Term Solvency | 1 | 2 | 1 | 2 |
| 7. Debt Burden per Capita | 1 | 2 | 2 | 2 |
| 8. Coverage 1 | 0 | 2 | 2 | 2 |
| 9. Coverage 2 | 2 | 2 | 2 | 2 |
| 10. Capital Asset Condition | -1 | 2 | -1 | -1 |
| | 7 | 14 | 6 | 9 |
| PSU Certified Population | John Day | Burns | Lakeview | Hines |
| | 1750 | 2835 | 2300 | 1565 |
| https://www.pdx.edu/population-research/population-estimate-reports | | | | |

Figure 4. Composite scores from the Ten Point Test for FY20

Appendix B. Capital Equipment

[Spec Sheets Enclosed]

Appendix C. Initial Capital Projects Portfolio

[enclosed]

Appendix D. Sample Task Order

Background

[Provide background for the Task Order, outline why the contractor team would want to work on this and who the major user groups would be]

Objectives

[Use this section to outline Objectives for the Task Order. Objective summarizes the deliverables and high-level outcomes, the service delivery approach and description of equipment and procedures to be used (if applicable), ongoing process for evaluating and determining changing scope, etc.]

Scope

[Provide scope of work for Task Order]

Sample Scope Statement

“The scope of this task order is for R3 to deliver the [name of project or task].

The scope also includes the technical and related project management activities such as but not limited to:

- *Tasks that R3 must successfully perform,*
- *Operational requirements that must be met,*
- *Generalized administrative requirements and any other terms and conditions,*
- *Invoicing Instructions for the proejct*

Roles and Responsibilities

[Add specific roles here]

Download the [Performance Work Statement \(PWS\) Template](#) for sample language on Agile Roles and responsibilities

Tasks

[Add specific tasks here]

Sample Language on Tasks

“The following requirements must be met in order to fulfill the objectives of this task order and may be refined iteratively over the course of the effort to continuously meet specified user needs. Specifically, the contractor will provide the following tasks and services:

- *R3 shall coordinate with the [name of sponsoring organization] stakeholders to conduct [project scope].*
- *R3 shall advise on a capital stack that accomplishes the needs as stated in the objectives*
- *R3 shall work with the [name of sponsoring organization] project teams to ensure that the system is compliant with interagency requirements and policies, to include [specify requirements]*

OPERATIONAL REQUIREMENTS

Personnel - Skills and Knowledge

[Add specific skills and knowledge required here or desired teammates]

Deliverables

[Add specific details here]

Also download the [Performance Work Statement \(PWS\) Template](#) for sample language on deliverables, delivery method examples and timeframes.

Travel and Other Direct Costs (ODC)

[Add specific details here]

Terms and Conditions

Download the [Performance Work Statement \(PWS\) Template](#) for sample language.

Period of Performance (POP)

[Add specific details here]

Place of Performance

[Add specific details here]

Contract Administration

[Add specific details here]

Payment and Invoicing Procedures

Content of Invoice

[Add specific details here]

Final Invoice

[Add specific details here]

Close-out Procedures

[Add specific details here]

Additional Resources

Pricing Template

Download the [Performance Work Statement \(PWS\) Template](#) for sample language.

Base Period, Task or Deliverable

| LABOR CATEGORY | LABOR HOURS | HOURLY RATE | CEILING PRICE |
|-------------------------|-------------|-------------|---------------|
| Job Title(s) / Employee | | | |
| Job Title(s) / Employee | | | |
| Job Title(s) / Employee | | | |
| Job Title(s) / Employee | | | |

Option Period, Task or Deliverable

| LABOR CATEGORY | LABOR HOURS | GSA HOURLY RATE | CEILING PRICE |
|----------------|-------------|-----------------|---------------|
| | | | |
| | | | |