

Kansas Public Water Supply Loan Fund Is One Option for Cities and RWDs

Many public water supply systems are considering making improvements. I appreciate the opportunity to submit this article concerning the options that are available for funding these improvements. These options are available to public water systems: Cash from reserves, General Obligation and/or Revenue Bonds, the USDA Rural Development Loan/Grant Program and the Kansas Public Water Supply Loan Program.

While some or all of these programs might work for your entity, each one should be reviewed carefully when planning on how to pursue dollars for your project.

I am going to discuss the Kansas Public Water Supply Loan Fund which is administered through the Kansas Department of Health and Environment (KDHE). It's also known as the "Revolving Loan Fund" or "SRF" which stands for State Revolving Fund.

The Kansas Legislature established the Public Water Supply Loan fund in 1994 to serve cities, rural water districts, boards of public utilities and public wholesale water supply districts as an alternative to fund long-term water infrastructure projects by providing loans that are below market rates. Funding through the program first became available in 1997.

This 500,000-gallon storage tank in Nemaha RWD 3 was financed as part of a larger loan provided by the Kansas Public Water Supply Loan Fund; the program is administered by the Kansas Department of Health and Environment.

Goals of the SRF

The goals for implementation of the program are both short- and long-term. The short-term goals include:

- ◆ Correct problems that have caused enforcement actions (i.e. Consent and/or Administrative Orders); in some cases, 30 percent loan forgiveness is granted in order for the water system to become compliant
- ◆ Replace deteriorating infrastructure
- ◆ Provide technical assistance for small systems
- ◆ Encourage consolidation or interconnections in a regional manner which would reduce public health risks or make a more efficient use of source water capacity and treatment processes
- ◆ Improve drinking water quality in the state through the loan program
- ◆ Set aside at least 20 percent of the available funds for entities serving a population under 5,000 persons
- ◆ Assure the eligible public water supply systems in the state that funding is available and the potential savings of using the Loan program

The long-term goals are:

- ◆ Maintain a well managed perpetual program to allow a source of funds to be available to systems in need
- ◆ Encourage systems to choose projects with the most effective solutions
- ◆ Encourage systems to implement projects that have little if any significant impact on the environment
- ◆ Implement and expand the Capacity Development Program
- ◆ Comply with State and Federal Laws and the State/EPA Capitalization Grant Agreement
- ◆ Assist water suppliers in meeting the Safe Drinking Water Act (SDWA) requirements
- ◆ Protect the public's health

How do we get on the funding list at KDHE?

Systems should have submitted a Project Submittal Form by May 31. This form can be located on KDHE's Web site (www.kdheks.gov). It is a relatively simple form asking for the entity's name, contact information, a description of the problem, the proposed solution, estimated costs including design completion and construction start date. If you are a rural water district or a public wholesale district, a second page would need to be completed which includes a breakdown

of meters by township. KDHE requests project submittals in early spring each year by direct mailings to public water supply systems. Such a notice was sent out by KDHE on March 11, 2013. In case your city or RWD failed to submit the form, you are encouraged to do so even after the May date. KDHE anticipates adding new projects to its funding list at least every six months and will add new projects sooner if there is demand and it is feasible to do so.

Upon receipt, KDHE will use the following factors to rank your project with other projects across the State. Projects are ranked among several categories which include water quality issues, especially compliance with maximum contaminant levels, (i.e., nitrates, arsenic, uranium, etc.), consolidation of systems by the use of regional plants, improving the reliability of the existing system, State median and applicant household income levels, and special project categories, such as but not limited to, green or innovative projects (i.e., changing out standard meters for an automated meter reading system).

Interest rates for the program have always been very favorable to borrowers. The May interest rate was 2.32

percent for a 20-year loan. The Kansas Rural Water Association has tracked the interest rates on its Web site at www.krwa.net since the inception of the loan program in 1997.

As of April 30, 2013, small systems have received 188 of the 260 loans (72 percent) for a total

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The advertisement includes three photographs of water towers: a white tower with a red bird logo, a white tower with 'DODGE CITY' written on it, and a white tower with 'SIRATES' written on it. A line drawing of a water tower is also present.

Potential Savings

The following table shows a cost comparison for a \$1,000,000 project using a KDHE SRF Loan, GO Bonds, Revenue Bonds, and a 40-year loan.

	SRF	GO Bonds	Revenue Bonds	40-year loan
Project Costs	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
COI & Fees	\$2,500	\$30,000	\$55,000	\$0
Interest Rate*	2.32%	2.50%	3.00%	2.75%
Term	20 years	20 years	20 years	40 years
Annual Payment	\$62,698	\$68,496	\$70,212	\$41,244
Total Interest and Fees				
for the life of the loan	\$251,458	\$229,919	\$349,241	\$649,760

* May 2013 interest rate; on the 40 year loan the rate shown is the intermediate rate which is available when median household income is less than \$51,623.

Rural water districts and very small towns that need reporting assistance pay one percent of the loan to a Financial Integrity Assurance Contract (FIAC). That fee provides for monitoring of financial statements on a quarterly basis to verify compliance with the debt service coverage ratio. For RWDs add \$10,000 for each \$1,000,000 borrowed for the FIAC fee. This fee is typically included in the loan and is not required to be paid up front. FIAC usually does not apply to cities but can if the financial evaluation of the application recommends a FIAC agreement.

Since rural water districts do not have taxing authority, the SRF requires security in the form of a 10 percent loan reserve account and an annual debt service coverage of 125 percent. The loan reserve account is typically borrowed as part of the loan and kept with KDHE. Interest earnings from this reserve account are credited back to the system which reduces the semi-annual loan repayment amounts. The loan reserve account will typically pay the last three payments of the loan agreement making the loan an 18.5-year loan instead of a 20-year loan. The loan reserve requirement can be waived if the system agrees to a 140 percent annual debt service coverage ratio. Maintaining a certain debt service coverage means on an annual basis the rural water district will collect enough revenue after all expenses are paid, to show an ability to pay at least 125 percent (or 140 percent) of all annual debt payments for that year.

While the annual payment may be higher than the 40-year loan, the amount of interest savings makes the Public Water Supply Loan a more favorable way to finance a project, assuming that the entity can afford that amount of annual debt service.

Can the SRF loan be paid off early? Yes, it can. And unlike bonds that have a specific maturity date before they can be called

without penalty, the SRF loan can be pre-paid by only providing a 60-day notice to KDHE.

Can the SRF loan be refinanced? Yes, but it cannot be refinanced by KDHE. This is accomplished by obtaining financing from some other debt instrument, such as bonds, and using proceeds of that instrument to pay of the SRF loan. A borrower must provide a notice 60 days in advance to prepay the SRF loan. Low interest rates for municipal bonds in the last two years have made this an attractive option for older SRF loans. The borrower needs to

send a letter to KDHE stating that they are looking at refinancing their loan and request a pay-off amount.

Water systems are encouraged to review all the funding options that are available to them. If you have questions, contact KDHE directly by emailing to William Carr at wcarr@kdheks.gov (or call 785-296-0735).

William Carr holds a Bachelors Degree in Chemistry; he has worked for KDHE since 1993.

He spent eight years in the radiochemical laboratory, but decided in 2002 to give up exposure to highly corrosive acids in favor of the relatively safe field of red tape tracking and number crunching as Program Coordinator for the Kansas Public Water Supply Loan Fund. He is still quite happy about the decision.



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