

A Summary of Funding Options for Water and Wastewater Utilities

It's a challenge for local water and wastewater utility owners, managers and administrators to know about and understand all the funding options available to water and wastewater utility systems. Options for municipal systems vary compared to rural water districts. The funding agencies for the state of Kansas consist of USDA Rural Development, Kansas Department of Health and Environment, Kansas Department of Commerce, and bonds. For rural water districts, add local banks and a revolving loan fund through the National Rural Water Association.

One exception between rural water districts and cities is that rural water districts can apply for financing through local banks. Cities are not permitted to obtain loans from banks as a result of cash basis law limitations.

Kansas Department of Commerce – CDBG

The Kansas Department of Commerce first accepted responsibility for administering the federally-funded Community Development Block Grants (CDBG) in 1984. A system must qualify for Low-to-Moderate income (LMI) level per the 2010 U.S. Department of Housing and Urban Development (HUD) Census. Systems

must have 51 percent of the population at or below the LMI income for the area. All cities and counties are eligible to participate with the exception of Kansas City, Wichita, Topeka, Lawrence, Leavenworth, Manhattan, Overland Park and all of Johnson County.

Water and wastewater utilities can apply. The maximum grant is \$600,000 to \$700,000; there is a 25 percent match required. Water rates must be an average of \$32.86 for 5,000 gallons to qualify for CDBG grant. On wastewater, the average rate must be \$26.25 per month for 5,000 gallons of water use to qualify. Applications are due by September 29.

The CDBG funding is competitive. Eligible projects include, but are not limited to, water and sewer improvements, fire protection, bridges, community and senior centers, demolition, streets, architectural barrier removal, natural gas systems, electrical systems, public service activities and nonprofit entities. The grants are awarded one time per year.

Water/Sewer Grant applications are reviewed annually by the Department of Commerce, the Kansas Department of Health and Environment (KDHE) and the Kansas Water Office. Projects with less than 5,000 beneficiaries may

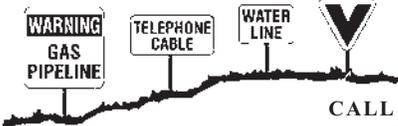
apply for \$2,000 per beneficiary up to \$600,000. Projects with 5,000 or more beneficiaries may apply for \$2,000 per beneficiary up to \$700,000.

The communities and their engineer must meet with the Kansas Interagency Committee (KIAC) before submitting their application. The purpose is to help them determine the best source of funding for the project. The presentation also alerts the agencies as to what projects are being suggested. KIAC meetings begin in May through July; with only one KIAC meeting begin held in August. The CDBG program will fund only two phases of an activity. Once Phase II is completed there will be a five (5) year waiting period before an application for the same activity shall be accepted.

Revolving Loan Programs through the Kansas Department of Health and Environment

The Public Water Supply Section manages programs that can provide funding assistance for municipalities that desire to make drinking water infrastructure improvements. Grant funding is available for planning assistance and loan funding is available for planning, design, and construction of drinking water system infrastructure.

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Funding Sources and Assistance

Organization/agency	USDA Rural Development	KS Dept. of Health & Environment	KS Dept. of Health & Environment	KS Dept. of Commerce	Bonds/Leases
Program title	Water and Wastewater Grant and Loan Program; also has a guaranteed loan program	KS Public Water Supply Loan Fund	Water Pollution Control Revolving Fund	Community Development Block Grant	General Obligation; Revenue Bonds
Eligible applicants	Cities, RWDs with population less than 10,000	Municipally owned water systems and RWDs	Publicly owned wastewater treatment works	Municipalities, RWDs apply through county	Cities, RWDs, others
Type of funding	Loans/Grants; also a guaranteed loan program	Loans only	Loans only	Grants only	Technically not a loan but similar
Eligible projects	Water & Wastewater	Water	Wastewater	Water, wastewater, other community facilities	Water, wastewater, community facilities
Approximate annual funding	\$15+ million on direct loans; \$4.3 for grants	\$50+ million annually	\$50+ million annually	Approximately \$13 million annually	Unlimited
Maximum funding	100% of project cost	100% of project cost	100% of project cost	\$600,000 for projects under 5000 beneficiaries; \$700,000 for projects over 5000 beneficiaries; or \$2000 per beneficiary maximum	100% of cost
Application cycle	Throughout year	Submit expression of interest by July 1	Throughout year	Submit by Sept 29; award mid-January, 2017	No restriction
Estimated time to prepare application	Estimate 6 months if engineer and applicant work diligently	Typically, 120 days for the application and review process. Funding approval determined about Sept. 1	Typically 120 days for the application and review process, after engineering report approval. Immediate funding	Applicants must appear before Kansas Inter-Agency Committee (KIAC). Start work on application as early as possible.	45 days minimum, no environmental review required when commercial credit is utilized
Major application criteria	For rural areas and communities less than 10,000; program should not compete with commercial credit	Compliance with drinking water regulations; consolidation	Compliance with NPDES and KWPC permits, resolve water quality impairments, regionalization	Meet Low-to-Moderate Income requirement	Debt authority; direct debt ratios; ability to meet debt service coverage ratios
Contact Information	Shane Hastings, Community & Business Programs: Ph.785.271.2728	William Carr, Bureau of Water; Ph.785.296.0735	Rodney R. Geilser, P.E., Chief, Municipal Programs Section, Bureau of Water. Ph.785.296.5527	Salih Doughramaji, Community Development Block Grant Program: Ph.785.296.3004	Financial advisor or other financial institution
Comments	On direct loans, term is typically set at 40 years. On guaranteed loans, the interest rate and term set by lender, generally not more than 20 years	Loans are 20 years with no penalty for early payment	Application includes environmental review and planning coordination. Maximum repayment period 20 years. Interest rate is approximately 60% of market rate	Highly competitive application process	Ensure competitive pricing through bidding of financing; bond reserve of 10% typically included in the financing

Websites: KS Dept. of Health & Environment (water) – www.kdhe.state.ks.us/pws/loan/loanfund.htm
 KS Dept. of Health & Environment (wastewater) – www.kdhe.state.ks.us/muni/
 KS Department of Commerce – <http://www.kansascommerce.com>
 USDA Rural Development – <http://www.rurdev.usda.gov/>

The Kansas Public Water Supply Loan Fund (KPWSLF) can provide subsidized interest rate loans for almost any public water supply system infrastructure need. The interest rate for loans made in June 2017 is 2.30 percent.

There are also two planning grant programs. They are: 1) Regional Public Water Supply Planning Grants; and, 2) Small Public Water Supply Systems Grants. Regional Public Water Supply Planning Grants can provide for 50 percent of the cost (up to \$12,500) for developing engineering studies that evaluate regional solutions to public water supply needs. Small Public Water

Supply System Grants can provide for 50 percent of the cost (up to \$5,000) for developing engineering studies for public water supply systems that are out of compliance with drinking water regulations and serving a population of 1,000 or less.

In order for the municipality to be eligible for a Kansas Public Water Supply Loan Fund loan (KPWSLF) it must first be listed on the Project Priority List found in the Intended Use Plan. A "Project Submittal Form" must be submitted to the KDHE KPWSLF to receive consideration to be included on the Project Priority List. Projects that

are needed solely for future growth or fire protection cannot be considered for funding through the KDHE loan programs.

United States Department of Agriculture Rural Development

The USDA Rural Development Water and Wastewater Loan/Grant program provides funding for drinking water systems, sanitary sewage disposal, sanitary solid waste disposal, and storm water drainage to households and businesses in eligible rural areas. Those eligible for the loan/grant program are systems with a population

of 10,000 or less, tribal lands in rural areas and private nonprofits. USDA Rural Development uses a 40- year payback period. The interest rate is based on the need for the project and the Median Household Income (MHI) of the area to be served.

Grant assistance is considered for cities when a water rate is \$45 or more for 5,000 gallons; for rural water districts, that rate is \$60 per month for 5,000 gallons. The USDA programs provide 40-year financing; early payoff is allowed. As of April 1, 2017, the Market Rate is 3.375%; the intermediate rate is 2.75% and the poverty rate is 2.0%.

National Rural Water Association State Revolving Loan Fund

Unfortunately this Revolving Funding is for Rural Water Districts only. If a RWD is looking to do a small upgrade the NRWA SRF is a great program. The total amount available for any loan is \$100,000 or 75 percent of the total project cost whichever is less. This means that the system will put up 25 percent of the total project cost. The term is 10 years at 3 percent. The application and turn-around is fast.

Municipal Bonds

A bond is nothing more than an (IOU). You give a company, a city, a government, money and they promise to repay you the full amount plus interest. The repayment amount is determined by the Yield and will never change. The face value of the bond will change as its value to maturity changes and how inflation affects that bond. General Obligation and Revenue bonds are different from one another in that they have differing sources of cash flows that will be responsible for repaying the investors who provide the capital to issue the bonds. The purchasers of bonds are the investors that lend money to the entity, by buying bonds, in exchange for payments with interest.

A General Obligation Bond or GO Bond is a municipal bond backed by the credit and “taxing power” of the issuing jurisdiction rather than the revenue from a given project such as a water or wastewater system. A significant contributor to the safety of a GO Bond is the fact that most of these types of bonds are only created when governing bodies agree to repay

the bonds. That means the population of an area is committed to the expenditure, and there is often more than sufficient assets or taxing power built into the loan agreement to repay the investors who provide the funds.

A Revenue Bond is a municipal bond supported by the revenue from a specific project, such as a water system.

If your city or RWD has a project and is in need of funding, I encourage you to contact the agencies directly or give KRWA a call for further discussion. We don't give financial advice; KRWA just aims you at those who administer funding programs. Email me at rita@krwa.net or call me at 785.850-0192.

Rita Clary's focus at KRWA is providing assistance with applications for funding for cities and rural water districts. Rita gained extensive municipal experience working at the city of Troy, Kan. for eleven years prior to joining KRWA in 2009. She is a certified EMT and served as the Ambulance Director for two years and supervised the volunteer staff at Troy. She has worked on or completed most water and wastewater utility reporting requirements.

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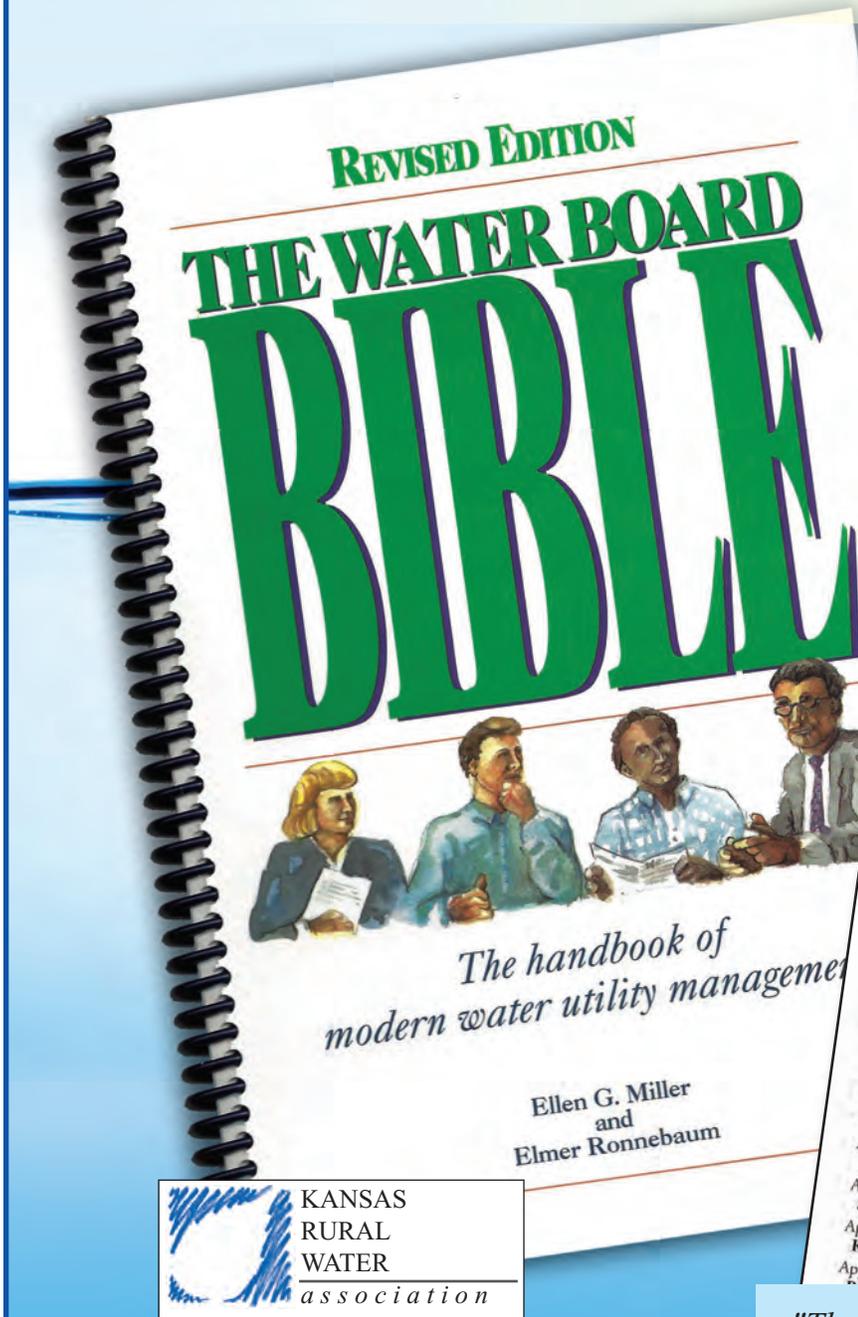
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A newly updated *Water Board Bible* is now available from Kansas Rural Water Association



Building on the strong foundation document authored in 1993 by Ellen Miller and Elmer Ronnebaum, the "Bible", was reprinted in 1995 and again in 2010 with minor revisions.

A much more extensive review and updates in the 2016 printing were provided by Gary Hanson, Stumbo Hanson, LLP (ret.).



THE WATER BOARD BIBLE

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"The Water Board Bible strikes the right tone with respect to current trends including diversity in the workforce, open government and post-Flint regulatory climate as well as the relationship with the consuming public and their water supply expectations,"

– Gary Hanson

KRWA also continues to make its handbooks available to other state and national organizations. More than 42,000 copies have been provided.

To obtain copies, contact KRWA,
785.336.3760.

Funding for the 2016 printing is courtesy of the Kansas Rural Water Finance Authority. The Authority has offered to donate copies to every rural water district in Kansas, upon such request. The handbook will also be used for board training provided by KRWA.