

Choosing the right funding option impacts project costs

The Environmental Protection Agency estimates that total drinking water infrastructure needs across the United States total \$276.8 billion. Of this total \$137.2 billion is needed by small and medium sized systems to upgrade or replace aging assets. Kansas' needs are no exception. All across the state, cities and rural water districts face aging facilities, new regulations and an overall need for financing.

In discussions with system personnel and decision-makers it is often apparent that there are misconceptions about the availability of funding and sources from which this funding is generated. Systems need to make informed decisions regarding financing. The Kansas Rural Water Association

Web site, www.krwa.net, and the new KanCap program, the educational program designed to help public water supply systems achieve and maintain technical, financial and managerial capacity, both have specific information

on funding available. To find this financial information on the Web site simply click on "Funding Options" under the financing tab on the home page. A graphic depicting financial information is also available with this article. The graphic shown at the right is a page from the new KanCap program.

As you can see from the accompanying chart of funding options, there are limited sources

available to a city or rural water district to finance needed water system improvements:

1. United States Department of Agriculture Rural Development grants and loans
2. Kansas Department of Health and Environment Public Water Supply Loan Fund and Clean Water Revolving Loan Fund (wastewater)
3. Kansas Department of Commerce, with Community Development Block Grants and programs such as KAN STEP
4. Commercial loans or bonds

These are the options available to Kansas public water suppliers. Loans provide the highest

one system may not fit the needs of another system. Some programs require that the system meet low-to-moderate income guidelines. In order to get your project started, do your homework and make sure you explore all of the financing options available.

USDA – Bulwark for new systems and those needing grants

The United States Department of Agriculture Rural Development Program offers a grant/loan program in addition to guaranteed loans. The term for the loan program is generally set at 40 years with the most recent interest rate being 4.50%. On the guaranteed loan program the lender sets the interest rate and term with the term generally not



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percentage of the overall funding. However, there are some grant funds available but those are limited – and becoming more and more so.

When shopping around for financing on a project there are things to consider. The different programs all have different terms and interest rates. What will it cost your system to finance a project over a forty-year period versus the cost of a twenty-year term? If grant funds are obtained will they offset the cost of a longer term financing? What may be an acceptable financing package to

exceeding 20 years. As mentioned earlier, Rural Development also offers grant funds. Grant funds are limited and will generally not be awarded until a system's water rates reach a point that additional debt payments would make the water service unaffordable or difficult to maintain to an average customer. This is known as an affordability index. Before grant funds would be made available to a city an average water bill for a customer using 5,000 gallons of water per month would cost \$30 to \$32. In rural water districts that number would be around \$50 per month for the same amount of

water. For many systems the longer terms and lower debt payments of Rural Development are often what is needed both financially and politically to make

the project successful. Rural Development has helped untold numbers of systems in Kansas achieve success in their reaching their project goals.

Kansas Department of Health & Environment Revolving Fund

The Kansas Public Water Supply Loan Fund (KPWSLF) was established to provide loans

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	Wastewater	Water, wastewater, other community facilities	Water, wastewater, community facilities
Approximate annual funding	\$15 million on direct loans and grants; \$2.5 million for guaranteed loans	\$35+ million annually	\$30 million annually	Approximately \$9 million annually	Unlimited
Maximum funding	100% of project cost	100% of project cost	100% of project cost	\$400,000 per project or \$2000 per beneficiary maximum	100% of cost
Application cycle	Throughout year	Submit expression of interest by July 1	Throughout year	Submit by October 15; award January 15	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). Development and Environmental Review typically require 6 months.	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 goal requirement	Debt authority; direct debt ratios; ability to meet debt service coverage ratios
Contact Information	Gary Smith, Chief, Community & Business Programs; Ph.785.271.2728	David Waldo, Chief, Bureau of Water; Ph.785.296.5503	Rodney R. Geisler, P.E., Chief, Municipal Programs Section, Bureau of Water. Ph.785.296.5527	Marilyn Graham, Program Manager, 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

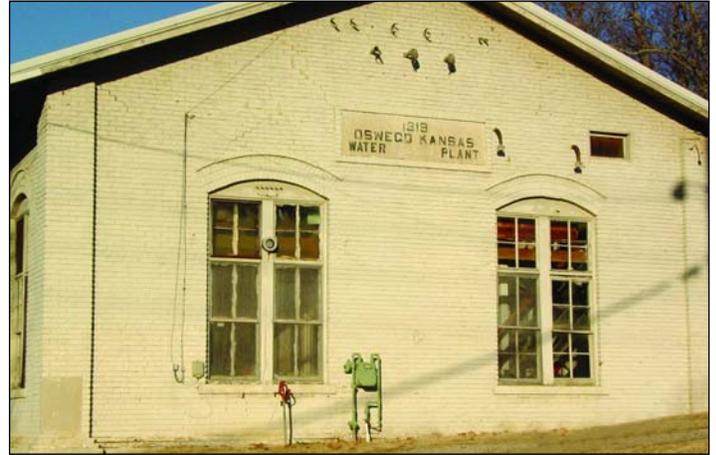
Web sites: KDHE (water) www.kdhe.state.ks.us/pws/loan/loandfund.htm
 KDHE (wastewater) www.kdhe.state.ks.us/muni/
 Kansas Department of Commerce www.kansascommerce.com
 USDA Rural Development www.rurdev.usda.gov/

Choosing the right funding . . .

to Kansas water suppliers, at below market interest rates, for water supply system infrastructure construction or improvement. The Kansas Department of Health and Environment administers the loan program. In the eight years since

national leader in the development and management of the program. Due to sound investment strategies the program is the highest leveraged program of its type in the nation with the ability to leverage at a ratio of four to

both entities. The highest rate the fund has experienced was 4.80% in March of 2000. The lowest rate to date was 3.42% in August of 2005. The January 2006 rate, the time of this writing, is 3.60%. Interest rates for both cities and



the inception of the loan program there have been 127 loan commitments with a total dollar value of \$290,457,701. During the fiscal year of 2005 a total of \$31,462,168 was borrowed from this fund. The fund in Kansas is a

one. This means that for every dollar of grant money the program receives it can loan out four dollars to public water systems.

This program is available to both cities and rural water districts and offers the same interest rate to

Many Kansas systems will be undertaking large infrastructure improvement projects in the coming years such as this water treatment plant upgrade at Oswego seen in photo at left with the old facility seen at right. Understanding the funding options available to systems will be essential in making good decisions.

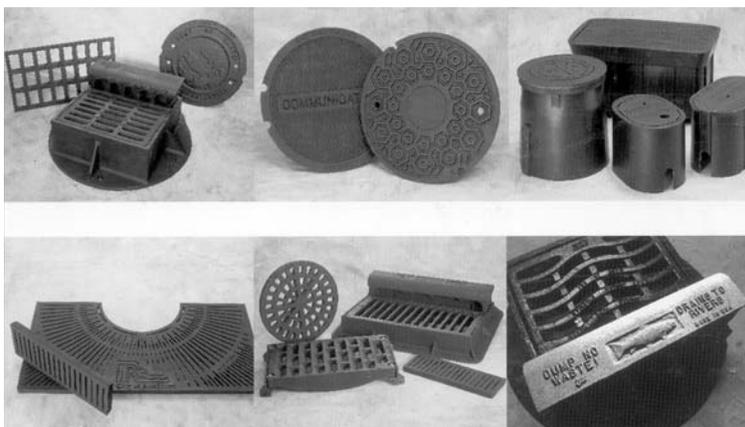
rural water districts are the same. While the fund offers the same service for city and rural systems there are some differences in security pledges required from systems receiving loan funds. Cities are required to pledge their taxing authority or they may opt to pledge only system revenues and purchase a bond insurance policy. Rural water districts are required to purchase an insurance policy or choose one of two debt service coverage ratio options. The first option requires the system to maintain a 125% debt service coverage ratio and have a 10% reserve (of the loan) account. The second option requires 140% debt service coverage with no reserve account.

With the KPWSLF all rural water districts, public wholesale districts and some cities are required to enter into a Financial Integrity Assurance Contract (FIAC) with the Kansas Rural

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Water Finance Authority (KRWFA) before receiving any loan funds. FIAC requirements include the submission of an annual budget along with quarterly financial reports to KRWFA for review. All of these steps assist in procuring high bond ratings on the market to keep the program working for Kansas systems.

Commerce provides grants to eligible systems

The Kansas Department of Commerce is the only agency in Kansas that offers only grant funds to public water suppliers. These grants are called Community Development Block Grants (CDBG). The program has an annual funding of approximately \$9,000,000 and also grants money to other aspects of community operations. The CDBG program is very competitive in nature. Cities can apply for one grant per funding cycle while the county commissioners in the county of their incorporation must sponsor rural water districts for application. Counties can submit two applications for CDBG funds in one funding cycle.

The maximum funds available through the CDBG program are \$400,000 per project or \$2,000 per beneficiary. A system must meet low-to-moderate income guidelines in order to qualify for funding from the CDBG program.

The Kansas Department of Commerce also administers a program known as KAN STEP. The KAN STEP program is unique as it allows systems to be granted 100% of material costs if the system can demonstrate a 40% saving over retail costs. Utilizing volunteer labor generates the reduction over retail costs. KAN STEP has helped many communities complete projects that would never have been possible without the help of this grant program.

Bonds, loans: make sure your rates and terms are competitive

Some water systems opt to finance their projects through the issuance of their own bonds or in the case of rural water districts they can obtain bank financing. If your system is planning to issue bonds to finance an upcoming project it is advisable to utilize the services of a good financial advisor to negotiate favorable interest rates. Interest rates can be quite negotiable if the system employs someone knowledgeable in such transactions. The Kansas Rural Water Finance Authority is an excellent resource for this type of negotiation. The savings a system can realize over time by taking that step can be significant.

If your system needs assistance or would like to talk to someone regarding the options available to you as they apply to financing please give the Kansas Rural Water Association a call.

It's all about money

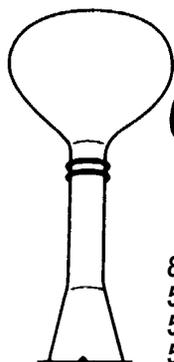
The 2006 KRWA conference in Wichita March 28 – 30 provides an outstanding opportunity for individual water and wastewater utilities to hear presentations on the various funding programs and also to meet one on one with agencies in the EXPO Hall. Watch for these sessions and make sure someone from your city or RWD attends:

Tuesday, March 28:
Advanced Rate Setting Strategies to Fix Your Finances

Wednesday, March 29
Long Range Planning: An Essential Element for a Water Utility

KAN STEP: The Community Model
State Revolving Funds: Water and Wastewater Funding Options

Thursday, March 30
Trends in Funding Programs at USDA



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