



Rural Community
Assistance Corporation
www.rcac.org

Tapping into Water and Wastewater Financing for Capital Improvements

HWEA 2010 Annual Conference

Welcome

■ Trainers:

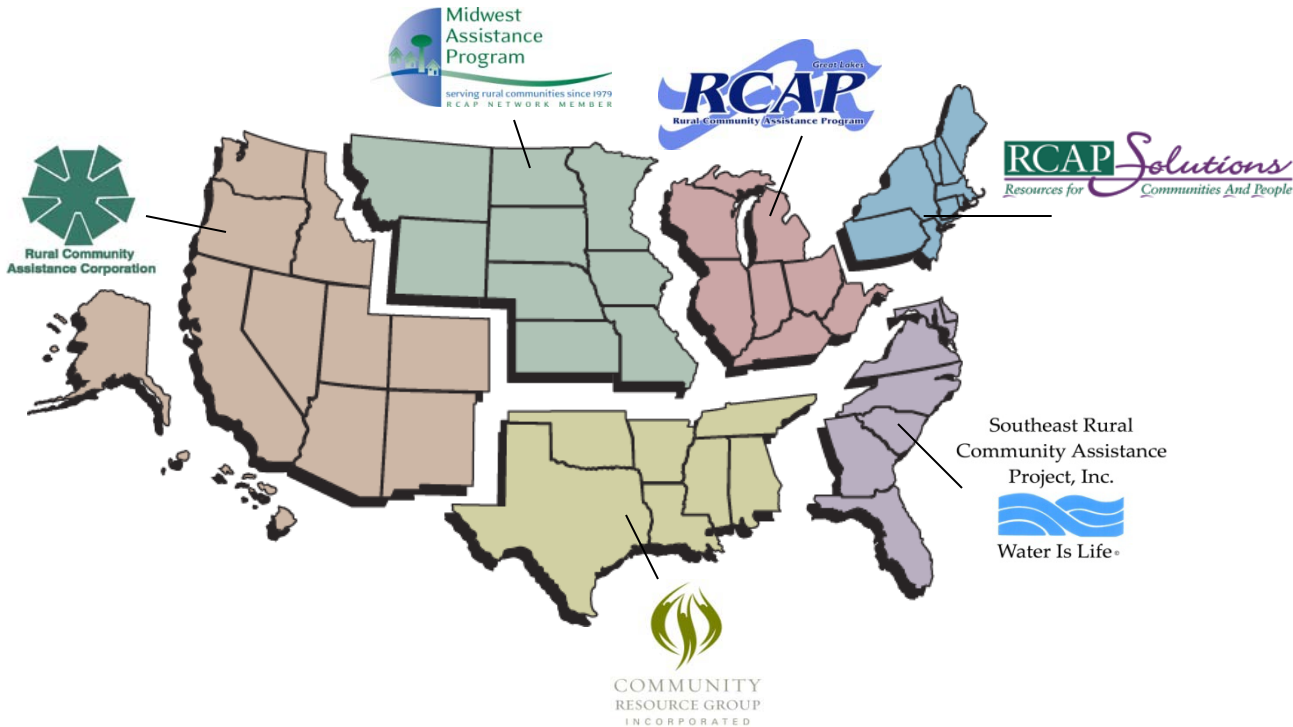
- Joy Gannon

 - March 16, 2010

 - Honolulu, HI

- This material is based upon work supported under a grant by the Utilities Program, United States Department of Agriculture. Any opinions, findings, and conclusions or recommendations expressed in this material are solely the responsibility of the authors and do not necessarily represent the official views of the Rural Utilities Programs.

The RCAP Network



Western RCAP
Rural Community Assistance Corporation
916/447-2854
www.rcac.org

Midwest RCAP
Midwest Assistance Program
952/758-4334
www.map-inc.org

Southern RCAP
Community Resource Group
479/443-2700
www.crg.org

Northeast RCAP
RCAP Solutions
800/488-1969
www.rcapsolutions.org

Great Lakes RCAP
WSOS Community Action Commission
800/775-9767
www.glrca.org

Southeast RCAP
Southeast Rural Community Assistance Project
866/928-3731
www.southeastrcap.org

Rural Community Assistance Partnership

800/321-7227

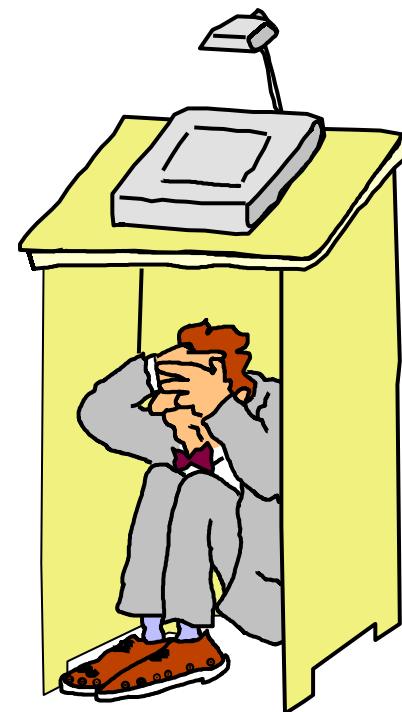
www.rcap.org



"Improving the quality of life in rural communities"

Capital Funding

- Your system started wearing out before anyone even turned on a faucet or flushed a toilet.
- Capital Improvements
 - Planned Equipment Repair & Replacement
 - Planned System Expansion and Improvements
 - Emergency Repairs



“Denial ain’t just a river in Egypt.” — Mark Twain

Funding Resources

- There are only four basic types of funding resources
 - Save and spend later (R&R funds, Reserves)
 - Spend and pay as you go (PAYG)
 - Spend borrowed funds and pay later
 - Find a grant and get someone else to pay
- Ultimately, society as a whole pays 100% of the costs of water and wastewater services.

Funding Resources

- Types of funding sources:
 - Federal, State, Local, and Other
- The vast majority of funding resources come from local funding.
- Only about 1.6% of the all the funds required to build, operate and maintain water and wastewater systems are derived from Federal resources.

Funding Resources

- Federal Funding Resources – the Big 4
 - EPA
 - Department of Agriculture (USDA) Rural Utility Service (RUS)
 - Department of Commerce (EDA)
 - Department of Housing and Urban Development (HUD)
- In a typical year, the Big 4 account for about 98% of Federal funding for Water and Wastewater Systems.

Federal Resources

- This is **NOT** a typical year.
- ARRA funding authorized \$ 1.38 Billion for the cost of direct loans and grants for the rural water, waster water, and waste disposal programs.



American Recovery and Reinvestment Act (ARRA)

USDA is in the process of distributing ARRA funds to provide safe drinking water, improve wastewater treatment, and protect the environment

| | |
|-------------------------------------|------------------|
| Water & Waster Disposal Grants | \$ 924,680,000 |
| Direct Water & Waste Disposal Loans | \$ 2,733,515,731 |

Federal Resources

SEPTEMBER 30, 2010

Federal Resources

SEPTEMBER 30th 2010

Federal Resources

- ARRA Funding must be obligated by **September 30th, 2010.**
- Funds must be spent within 5 years.
- In order to obligate, the USDA needs to go thru a “Book” process, where the Undersecretary approves the project before funds can be obligated.

Federal Resources

■ Types of Funds Available

Guarantee Loans

- Loans Are Made & Serviced by Lenders

- Normally Guarantee Will Not Exceed 80%

Direct Loans and Grants

- Loans and Grants (Maximum Grant 75%)

- Loan Only

Technical Assistance

Application

- Two Key Documents
 - Preliminary Engineering Report
 - Environmental Report
- SF 424.2 Application for Assistance
- Intergovernmental Review
- Certification of other credit is not available elsewhere
- Financial statements, audits, organizational documents, existing debt instruments.

Eligibility

- Eligible Entities: Communities less than 10,000 in population
- Applicant:
 - Public Body
 - Not for Profit Organization
 - Tribal

Eligibility

■ Credit Elsewhere

Applicants certify

- Not able to finance from own resources

- Commercial credit not available at reasonable rates and terms

■ Legal Authority and Responsibility

■ Economically Feasible Project

Eligibility

- Water, Sanitary Sewer, Solid Waste Disposal, Storm Waste Water Disposal
 - Construct, enlarge, extend or improve
 - Construct or relocate buildings, roads, bridges, fences, utilities, and other improvements to support primary purpose above
 - Soft costs for engineering, planning, administration.

Limitations

- Facilities Not Modest in size, design, or cost
- Finders Fees
- Combined storm and sanitary sewers
- Facilities that serve non-rural areas
- Funds may not be used to reduce EDU costs below those for similar systems.

Rates and Terms

■ Guaranteed Loans

- Up to a 90% Guarantee on the amount loaned
- 1% Guarantee Fee
- Lender Forms and Underwriting
- Any regulated Lender is eligible
- Rates negotiated between lender and borrower
- Terms to 40 years or useful life of the collateral

Additional Information

- RUS Web page:

<http://www.usda.gov/rus/water>

- Local Resource:

Ted Matsuo at 808.933.8310

ted.matsuo@hi.usda.gov

- RCAC can provide assistance as a technical service provided funded by the USDA

Funding Resources – Federal Hybrid: State Revolving Funds (SRF)

- Clean Water State Revolving Funds
- Drinking Water State Revolving Funds
- Common Goal of Providing a Sustainable Source of funding for water and wastewater projects



The revolving nature of the SRFs means that funds will be available for the foreseeable future.

Funding Resources – Federal Hybrid: State Revolving Funds (SRF)

- Federal dollars: Congress appropriates funds annually to the U.S. Environmental Protection Agency (EPA), which then allots those funds to the states based upon set formulas.
- State match: Each state is required to provide a 20% match.
- Loan repayments: Principal and interest from repayments are returned to the fund which in turn, grows the funds available for loans.

Funding Resources – Federal Hybrid: State Revolving Funds (SRF)

■ Features of the SRF

- State programs are allowed great flexibility
- State implemented and operated
- Public participation is encouraged
- Federal involvement is limited

Funding Resources – Federal Hybrid: State Revolving Funds (SRF)

■ Clean Water State Revolving Fund

- Established in 1987 to replace the construction grants program
- Since 1988 when Congress first funded the SRF, the program has paid out nearly \$60 Billion to address clean water needs.

■ Drinking Water State Revolving Fund

- Established in the 1996 Amendments to the SDWA



Funding Resources – Federal Hybrid: State Revolving Funds (SRF)

■ Hawaii CWSRF

- Provides below market interest rates to local governments to expand and improve water pollution control infrastructure.
- Projects can be both point source and nonpoint source pollution control facilities
- Must be a Public Entity.

■ Additional Information

<http://hawaii.gov/health/environmental/water/wastewater/cwsrf.html>

And

<http://www.hawaii.gov/health/environmental/water/sdwb/dwsrf/dwsrf.html>

RCAC's Loan Fund

- RCAC is a “needs lender.”
 - Facilities that primarily serve low-income rural communities.
 - Other projects that help improve the environment are considered case by case.

- Projects financed by RCAC must provide a public benefit (public entity or nonprofit corporation).

- The RCAC Loan Fund is a financing partner with other financial institutions, not a competitor. We provide financing along with conventional lenders and other CDFIs under terms that ensure project feasibility and community affordability.

RCAC's Loan Fund

- As of June 30, 2009, RCAC had more than \$65 million in lending capital.
- RCAC's Loan Fund had closed 536 loans, which totaled \$267,534,142 and leveraged \$1,114,544,072 for rural projects.
- These loans supported 27,159 individual water and wastewater connections for rural citizens, 10,849 housing units for low-income persons and 823,063 square feet of community facility space. This translates to 12,928 jobs created or retained.

RCAC's Loan Fund

■ RCAC Environmental Infrastructure Facility Finance Program

Short Term:

- 1-3 year term
- Feasibility Studies (PERs or Environmental Reports)
- Predevelopment costs such as engineering, legal, or bond counsel
- Construction projects

Intermediate Term

- Up to 20 years repayment
- Maximum 5 percent interest rate
- For smaller capital needs, normally not greater than \$100,000.

Long Term

RCAC's Loan Fund

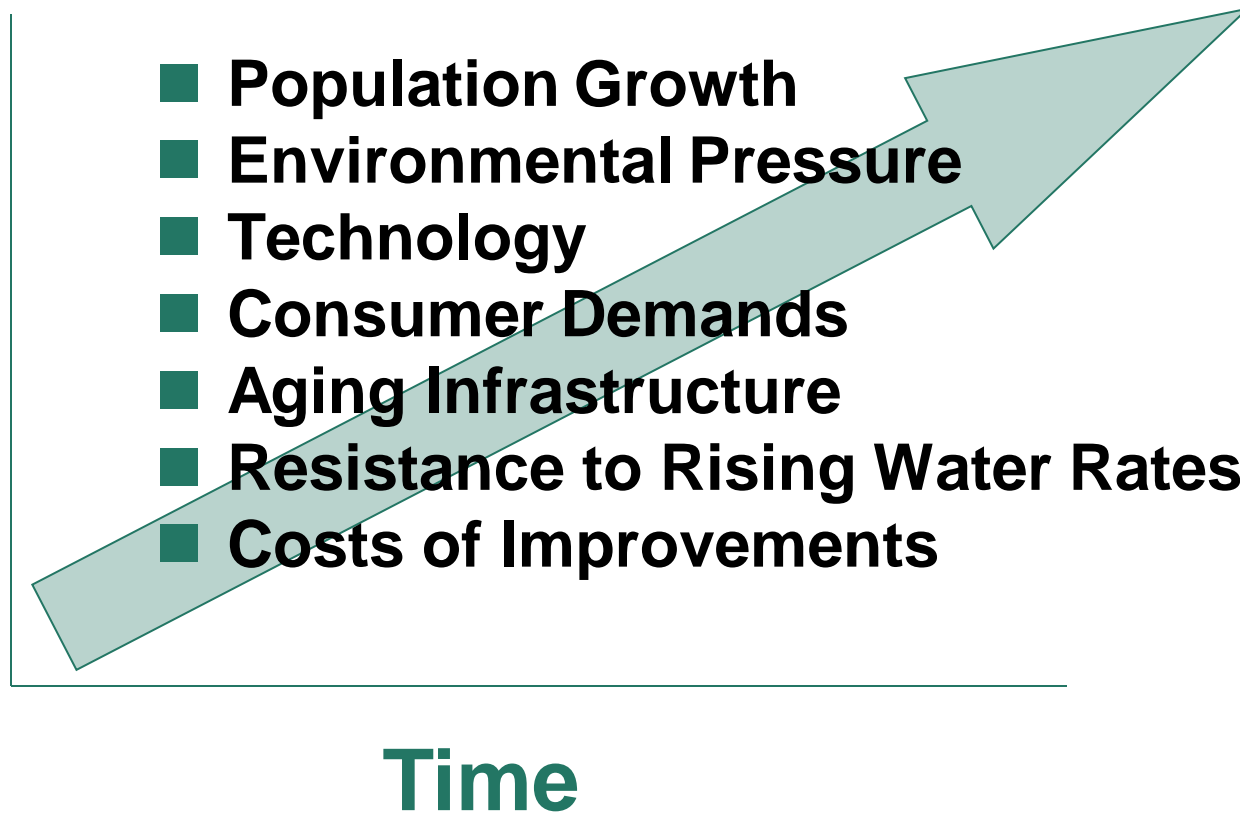
■ RCAC Environmental Infrastructure Facility Finance Program Long Term Loan

- Must meet requirement of USDA Rural Utilities Service Water and Waste Disposal Guaranteed Loan Program, such as eligible loan purpose and eligible entity
- Fees — 1 percent loan fee, 1 percent guarantee fee on guaranteed portion of loan (generally 90 percent)
- Interest rate — set at time of closing in accordance with the secondary market rate for the term of the loan. The rate is generally expected to be 2 to 3 percent over short-term rates
- Generally used when system improvements are needed and system does not have priority to qualify for more favorable funding sources
- Applicant must demonstrate repayment ability and security for the loan

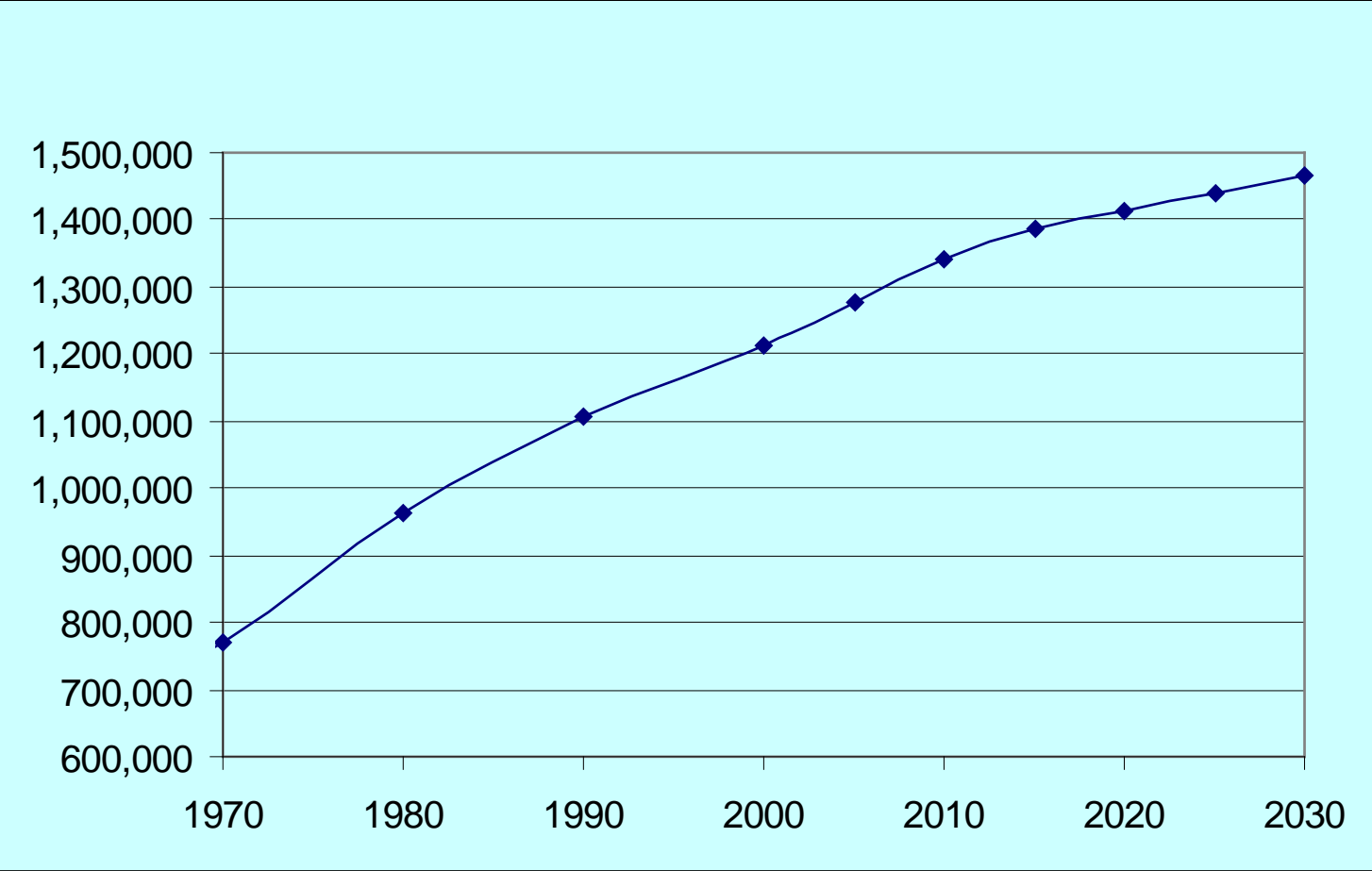
Funding Resources - Local

- The LARGEST revenue source for water and wastewater utilities are local utility charges, system fees, developer contributions, and even local taxes.
- This funding source **REQUIRES** local **SUPPORT**
 - Your customers need to understand what you do
 - They need to believe that what you do has value
 - They need to accept as true that the way you do your work is competent, if not exceptional!

Our Current Service Challenge - Trends



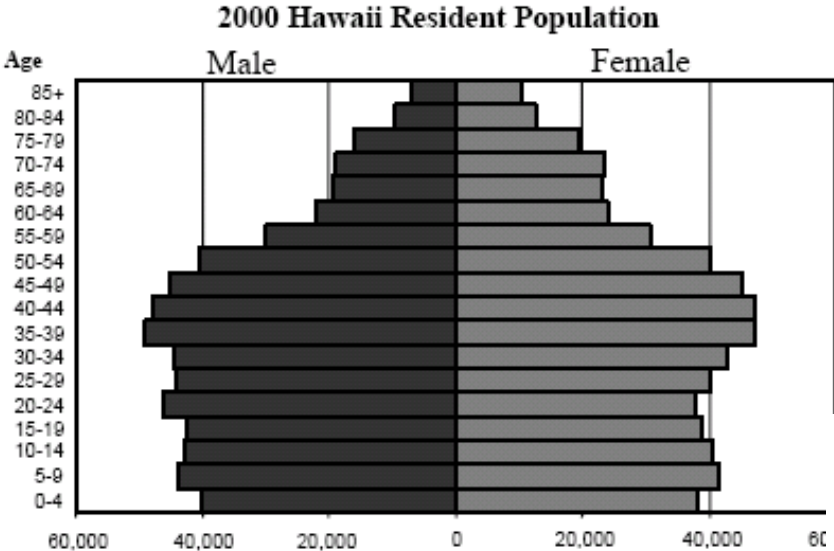
Our Current Service Challenge - Trends



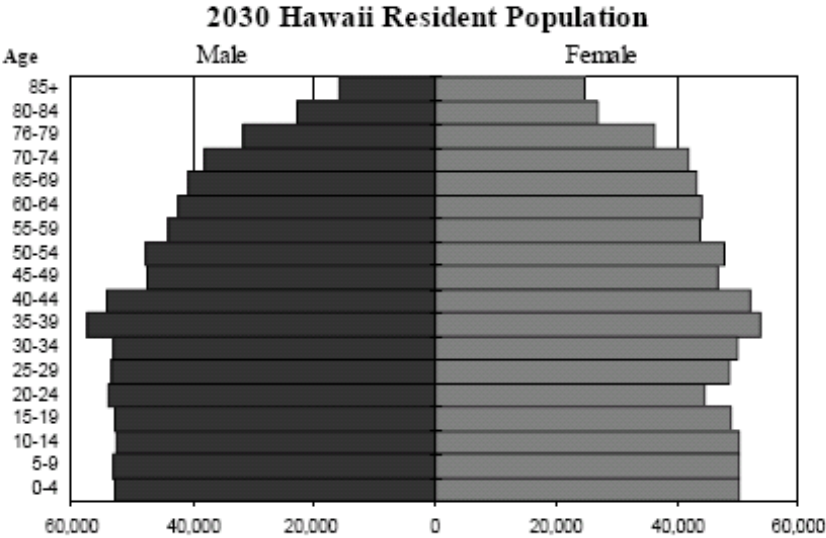
Source: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005



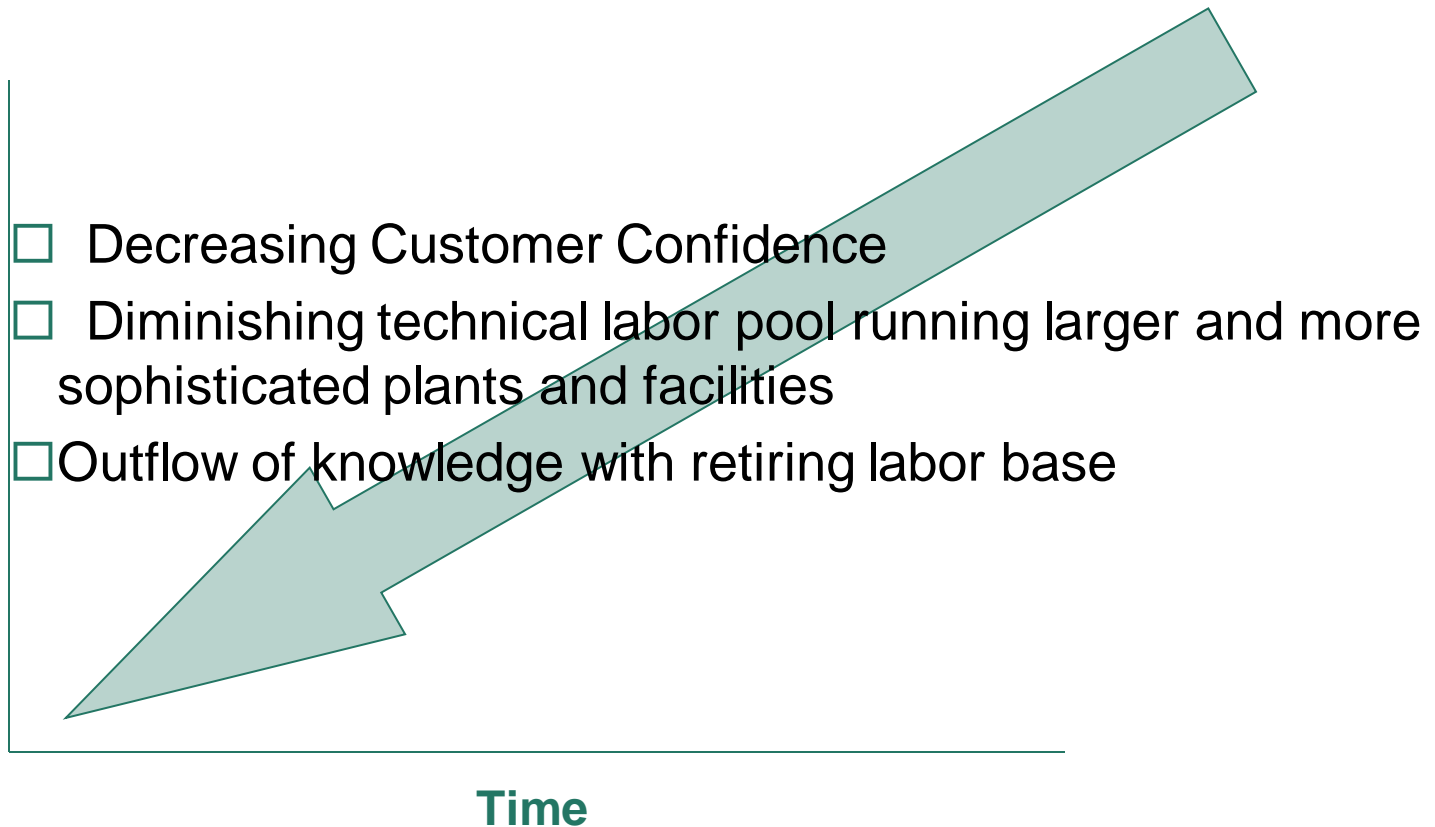
Our Current Service Challenge - Trends



- The population will be older – more and more on a fixed income

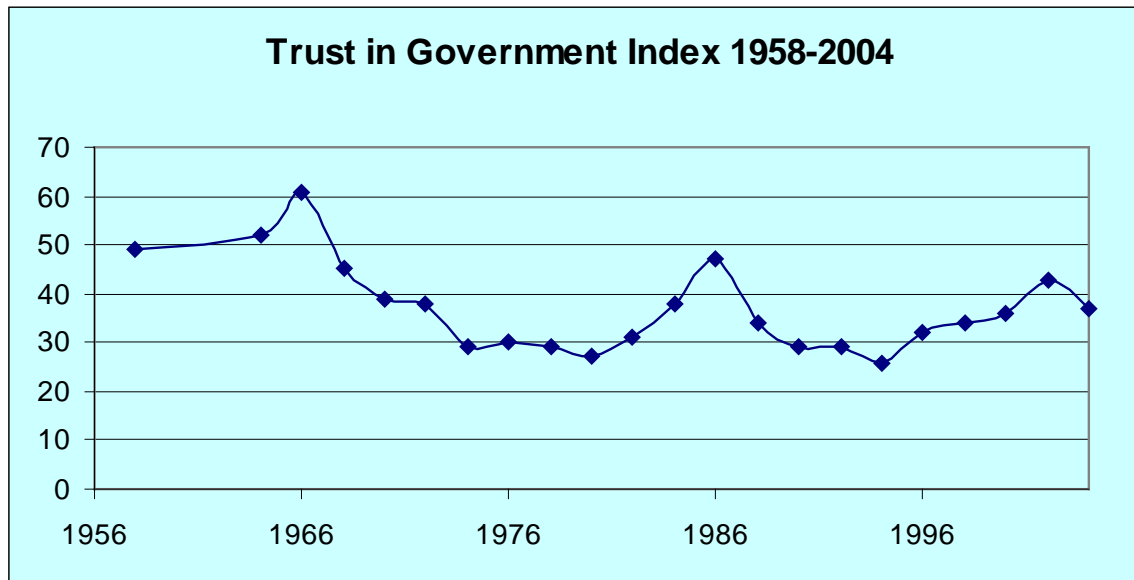


Our Current Service Challenge - Trends



Our Current Service Challenge - Trends

- The American public's trust in government has trended down over the last 35 years



Funding Strategies

Better Decisions Produce Real Savings

- Based on US EPA's assessment of Australia's advanced asset managements practices: there is a 20%-30% life cycle cost savings for US water and wastewater utilities



Funding Strategies

Better Decisions Produce Real Savings

- CUPSS is a free, easy-to-use, asset management tool for small drinking water and wastewater utilities.
- CUPSS provides a simple, comprehensive approach based on EPA's highly successful Simple Tools for Effective Performance (STEP) Guide series.
- Use CUPSS to help you develop
 - A record of your assets
 - A schedule of required tasks
 - An understanding of your financial situation
 - A tailored asset management plan
- <http://www.epa.gov/cupss/>

**For more information visit
www.rcac.org**

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