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Rural Community Assistance Partnership

"Improving the quality of life in rural communities"

Can We Get That Project Funded?

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Rural Community Assistance Program

Objectives of this Presentation:

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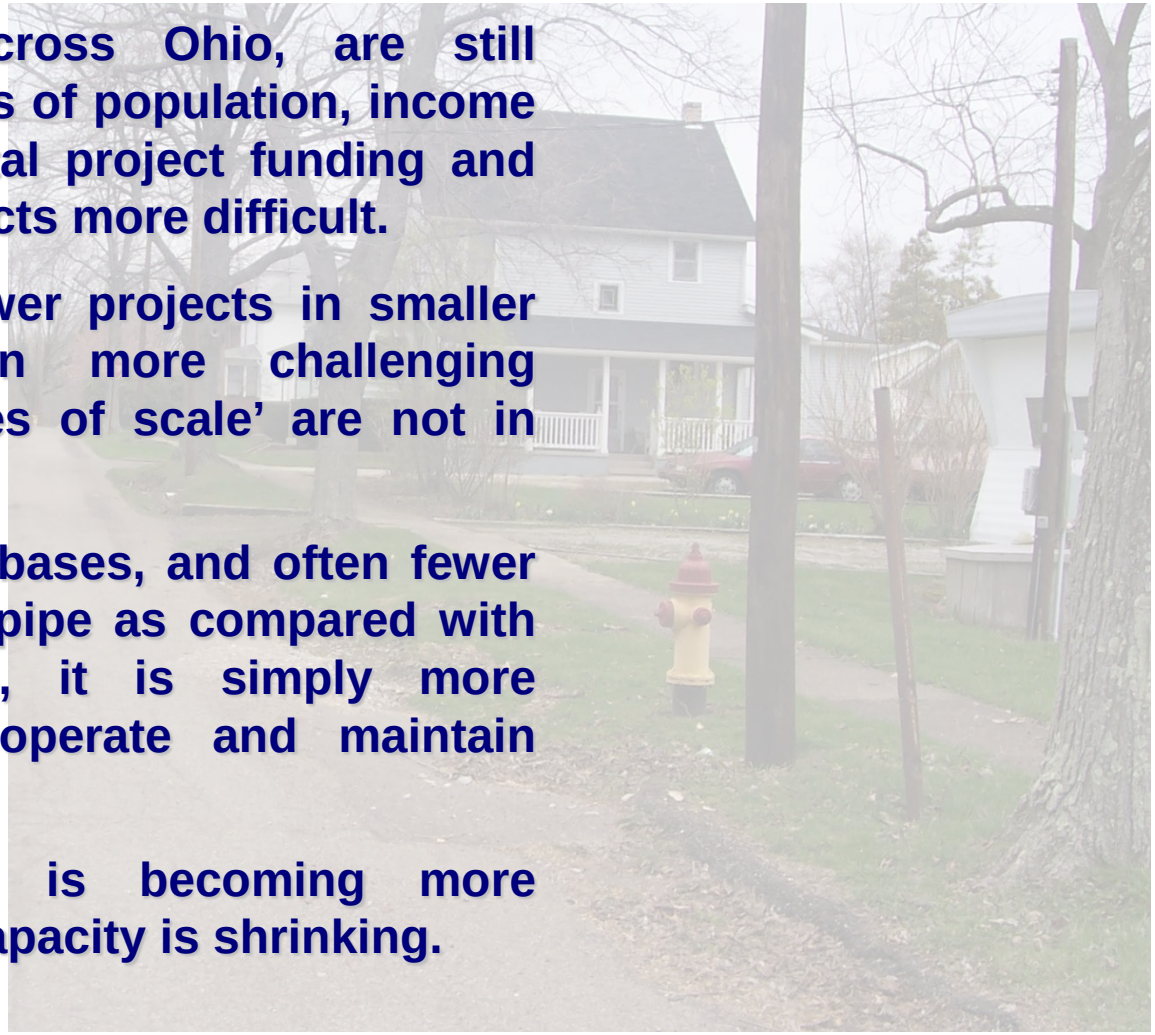
- Understand why long-term planning and building reserves is so important.
- Know which projects are more difficult to fund than others.
- Understand how to develop funding strategies based on this knowledge.
- Know the major programs that provide water and sewer funding.
- Be aware of funding cycles, and the amount of lead-time required to secure grant and low-interest loan funding.
- Know some of the pitfalls to avoid.

Recognizing the Challenges of Funding Water and Sewer Projects



Many communities across Ohio, are still recovering form the loss of population, income and jobs, making capital project funding and public support for projects more difficult.

Funding water and sewer projects in smaller communities is often more challenging because the 'economies of scale' are not in their favor.

With smaller customer bases, and often fewer customers per mile of pipe as compared with larger urban systems, it is simply more expensive to install, operate and maintain infrastructure.

Funding for projects is becoming more competitive, and debt capacity is shrinking.


Oh, crap! Was that TODAY?
REGAN

Our Message

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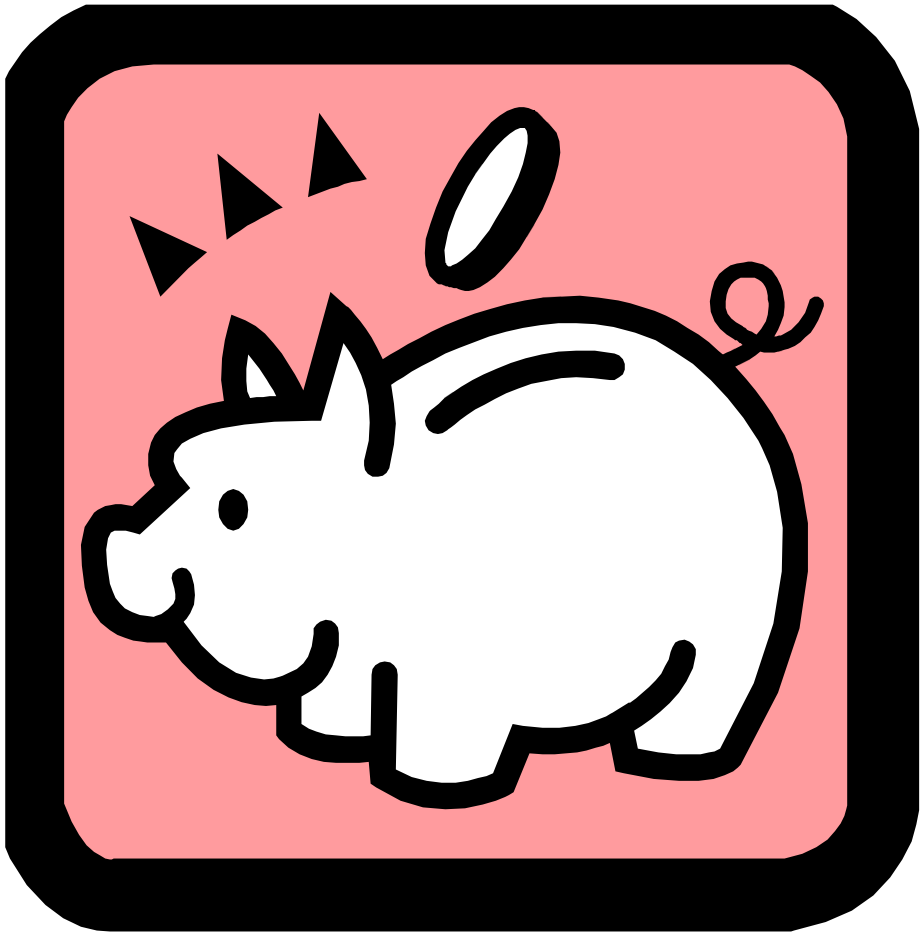
Communities can dramatically increase their odds of maximizing grant and low-interest loan opportunities if they plan ahead.

It usually takes a minimum of two, and sometimes up to four years or longer to secure and release all of the necessary funding for a major project, before a shovel is ever put in the ground.

You need to be strategic about which projects you seek to fund with public financing.

Village of Carrollton WWTP



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Water and sewer systems in general do not save enough. The loss of potential revenue over time by failing to keep up with inflation can be significant.

'Making up for lost time' by implementing significant rate increases for a large project will ultimately decrease your future borrowing capacity for the next project.

EXAMPLE:							Accumulated
							Dollars
	Year 1	Year 2	Year 3	Year 4	Year 5		Collected
Assume a $1.00 base rate with an an annual 3% compounded increase.							
	$1.00	$1.03	$1.06	$1.09	$1.13		
Per 10 Customers	$10.00	$10.30	$10.61	$10.93	$11.26		**$53.09**
Waiting 4 years to increase rates results in a **31%** rate increase to collect the same total dollars.							
	$1.00	$1.00	$1.00	$1.00	$1.31		
Per 10 Customers	$10.00	$10.00	$10.00	$10.00	$13.10		**$53.10**

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Plant the seeds early!

Identify all capital projects – do an asset management plan!

Develop strategies for each.

Begin saving for them now.

Allow enough time to plan the project and secure funding!

Implement annual rate increases.

What is Asset Management?

- Planning Process to get the most value
- Success is knowing your system and communicate it's needs
- Focus is on 'Life Cycle' cost
- Continuous process

Why manage your system's Assets?

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- US EPA estimates it will cost between $500 Billion to $1 Trillion to meet the water & wastewater needs by 2025. Stimulus program had $6 billion.

- Ohio Public Wastewater Systems scored a D+ Grade*
  - Est. 11.16 Billion needed for Infrastructure next 20 years
  - Stimulus requests to OEPA for $5.4 billion
  - Stimulus program had $220 million

*American Society of Civil Engineers 2009 Ohio Infrastructure Report Card

Benefits of Asset Management

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- Back up budget talks with solid facts
- Proactive maintenance vs reactive maintenance.
- Boost utility efficiency – Save Staff time
- Increase energy efficiency
- Water conservation
- Running a customer service business
- Decisions developed based on knowledge gained thru AM can lead to good choices that will serve their customers well for decades, maybe even generations.

Five core questions

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- What is the current state of my assets?
- What is my required level of service?
- Which assets are critical to sustain service?
- What are my best O & M and CIP investment strategies? (Life Cycle Cost)
- What is my best long-term funding strategy?

Projects That Are Often Easier To Fund

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- Projects under or close to Findings and Orders
- Projects that will prevent future compliance issues or a significant public health threat
- Source, treatment and storage projects (if they are related to a regulatory or compliance issue)
- Wastewater projects for NPDES Violations (treatment or collection)
- Projects addressing existing infrastructure as opposed to installing new infrastructure
- Projects for existing systems that where there is a capacity to borrow money
- Projects that qualify for some grant funding
- Projects that will have an economic benefit to create or retain jobs
- Green projects – including meters for unmetered systems

Examples of Projects That Are Generally Easier to Fund

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WATER


Carrollton Wellfield

- Contaminated or collapsing wells
- WTP Upgrades that will address a compliance concern
- Pump station rehab/replacements
- New above ground storage replacing in-ground tanks or addressing inadequate pressure or storage

SEWER

- WWTP Upgrade/ Expansion projects to address NPDES Violations
- Projects addressing sewage back-ups into basements
- CSO Abatement Projects
- Pump station rehab/replacements


Village of Adena

Projects That Are Often Harder To Fund

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- Projects not addressing a serious compliance issue
- Typical pipe replacement projects
- Water or sewer line extensions
- New systems
- Small private, non-profit systems (Homeowner Associations)
- Projects that are financially unsustainable
- Projects in moderate income communities that do not qualify for Grant funding (not wealthy, but not poor enough to qualify)
- Projects that are too small to justify the added application and administrative costs of certain funding sources (particularly grants)
- Low-income communities that have really low rates that will not qualify for grant assistance-they may be able to afford to pay more, but tripling rates is politically very difficult

Examples of Projects That Are Generally Harder to Fund

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WATER

- Water tower painting
- Waterline replacements
- Some waterline extensions
- New water systems
- Greensand Filters
- Some source water projects

SEWER

- Unsewered area projects
- Sewer replacements (unless there is a compliance issue, will help with NPDES violations or CSO's)

Saving vs. Borrowing

Which Projects Should We Pay for Out-of-Pocket?

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- Projects that are considered to be a maintenance activity rather than a capital improvement do not generally qualify for grants or low-interest loans.
- Projects that have a useful life of less than 20 years.
- Examples include:
  - Meter replacement
  - Water tower painting
  - Filter replacement
  - Mobile equipment (trucks, backhoes)

On large capital projects that will receive grant and low-interest loans, we recommend communities try to pay 10-20% out-of-pocket, particularly for planning, design, surveying, legal services, advertising, and other soft costs.

A Fact of Life – F & O's Yield Points for Applicants

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Pottery Addition

Most of the primary funding agencies have a scoring process that provides extra points for Finding and Orders. That doesn't mean the projects with F&O's will always score the highest. But, they can help a project get funded.

We strongly discourage communities from waiting until F&O's are in place to move forward with a project. They should at the first sign of a major compliance problem begin project planning, including developing a funding strategy. Nonetheless, projects that will address a current or near future compliance concern can be easier to fund.

Another Fact of Life – Funding Agencies Have Different Priorities

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Salineville WTP

Even though a project may score more points for addressing a significant compliance concern or public health hazard, or have F & O's, that doesn't mean the project will be a higher priority to the various funding agencies.

Funders often do not share the same priorities or sense of urgency as regulators do, and they will not 'bend any rules' to accommodate or hasten funding projects that are deemed to have a critical compliance or public health issue.

Water and Sewer Funding Programs

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- Ohio Water Development Authority (OWDA)
- Ohio EPA Water Supply Revolving Loan Account (WSRLA)
- Ohio EPA Water Pollution Control Loan Fund (WPCLF)
- USDA Rural Development
- Ohio Public Works Commission (OPWC)
- Community Development Block Grants (CDBG)

Other Potential Sources

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- Appalachian Regional Commission (ARC Counties only)
- US Army Corps of Engineers Section 594, obtained via federal appropriation
- State and Tribal Assistance Grants (STAG) via appropriation
- Other ODSA Programs and EDA
- Private Banks
- Municipal Bonds
- Local Property Assessments

For most communities, there are generally better loan options than to issue bonds or go through a private bank.

Preparing to Apply

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- Income Surveys-For some programs (OEPA, USDA, CDBG), an income survey may be warranted or required. You will need at least 90 days to complete an income survey.
- For most programs, at least some preliminary engineering is needed to be considered for funding. Even for federal appropriation requests, some idea of the scope and project cost is required.
- Environmental Assessments or Reports are required for federally funded programs. These will delay project funding (or for CDBG the Release of Funds) until they are finished and Public Notice periods are over. ER's typically take 3-6 months, but can take longer if agencies request additional information or studies before issuing a concurrence letter.

Funding Cycles and Ohio Winters Usually Drive Project Schedules

Funding Cycles

- **OWDA** – Easiest to obtain, applications submitted by the 15th of the month, approved 2 weeks later. Funds are usually available within 3 weeks after approval. Usually, applications are submitted after bids are received.
- **WSRLA** – One opportunity per year to apply (historically was twice per year), pre-apps usually due March 15th. Money is not available until after July 1st. Applications are finalized sent to OWDA Board for approval after bids are received. Environmental Report, completed free-of-charge by DEFA, can take several months to prepare. Construction contracts must be awarded by the end of the program year, the following June.
- **WPCLF** – Usually one opportunity per year to get added to Project Priority List (this year will be an exception). Typically, nomination forms are due by late summer/early fall. Money for the new program year is not available until after Jan 1st. Applications are finalized sent to OWDA Board for approval after bids are received. Environmental Report, completed free-of-charge by DEFA, can take several months to prepare. Construction contracts must be awarded by the end of the program year.

Funding Cycles

- **USDA Rural Development** – Submit all application items with PER and ER well in advance of when the project construction is to start. Following obligation, it can take several months to fulfill Letter of Conditions before Closing Instructions are provided and the project is bid.

- **Ohio Public Works Commission (OPWC)** – One opportunity per year to apply, which varies by District, usually late summer through fall. If a project is referred to Small Governments, those are not approved until May. Money is available after July 1.

- **Community Development Allocation Block Grants (CDBG)** – The "old Formula" program. Counties accept applications once per year, usually in March or April. Environmental Assessment is completed after award. Funds may be released in the Fall, but it is not uncommon for projects to begin construction the following Spring.

Funding Cycles

- **CDBG Residential Public Infrastructure Grant Program** (old Water and Sewer Program)– for projects in Non-Entitlement Counties. Begins accepting applications in mid-June, and continues until funds are gone. Must have health and safety or compliance issue, all other funds committed and Plan Approval/PTI. Approximately 20-25 projects per year are funded. Environmental Assessment is completed after award. Funds may be released in the Fall, but it is not uncommon for projects to begin construction the following Spring

- **ARC** – Pre-applications usually due early summer (varies by Development District). Projects selected for full applications are notified in the fall. All other funds must be committed. Full application goes to DC for approval. Grant agreements are typically approved the following spring or early summer.

- **Army Corps Section 594 or STAG** – One opportunity per year in January or February to submit appropriations requests to Senators and Congressional offices. If the project is included in the final budget, funds are not available until after the federal budget is passed. Following that, it can take several months or longer, particularly with Army Corps, to get an Environmental Report approved and other hoops.

Developing a Funding Strategy

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1. Determine the projects eligibility for the various funders.
2. Make sure the minimum and maximum user rates to qualify are considered.
3. Consider funding cycles.
4. Develop best-case through worst-case scenarios
5. Determine which scenarios result in an acceptable annual debt service-Affordability.
6. Develop funding strategy and project schedule.

Ohio Water and Sewer Project Funding
Residential Rate Eligibility Calculator

(Please check the RCAP Funding Grid on www.glrcap.org/ohio for other eligibility requirements, including population and other income limits.)

Community Name: **Village of Rayland**
Project: **Waterline Replacement**
MHI: **$ 27,386.00**
Criteria as of (date): **2/26/2009**

It is common to find communities that meet the eligibility criteria for grant and low interest loan programs…….. EXCEPT that their rates are too low to qualify!

OEPA Drinking Water Assistance Fund
Disadvantaged Funding

For 7,756 GPM, the minimum water rate is: $ 27.39 

OPWC - Small Govts Commission

For the average residential user, the minimum combined water and sewer rate for 7,756 GPM is: $ 52.49 

OWDA Community Assistance Fund

For 4,500 GPM, the minimum water rate is: $ 25.10 

(For a community that does not have water or sewer, this requirement does not apply. 4,500 GPM will be assumed as the average unless the community can document that the average is higher.)

USDA Rural Development

For 4,500 GPM, the maximum water or sewer rate is: $ 34.23 

OR

the maximum combined water and sewer rate is $ 68.47

CDBG Water and Sanitary Sewer Fund (for Non-Entitlement Counties)

For 4,500 GPM, the minimum water or sewer rate is: $ 22.82 or $30.00 whichever is lower 

OR

the minimum combined water and sewer rate is $ 45.64 or $60.00 whichever is lower

Case Study 1: Easy Project to Fund

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- Community A: 1,250 customers, the MHI is $33,809. Rates for 4,500 GPM are $20. 1% MHI for water rates would be $28.17. Sewer rates are only $10 per month.
- New well project was needed. The old one was collapsing, and there was no redundancy. Project cost was $520,000.
- The Village was successful in obtaining $157,000 in District OPWC funds. They were willing to put $107,000 in local funds towards the project.
- They got on the WSRLA Project Priority List for $256,000 for 2%-20 year funding.
- The debt would add only $1.05 per customer per month.
- Even if they had needed to borrow the entire amount, it would have only added $2.12 per customer per month.
- They could have taken the $107,000, borrowed that amount and then used the cash reserves to pay the debt service for the first four years to delay a rate increase if necessary.

Community A was "Crying the Blues" that it couldn't afford the project, and delayed it for over a year, but in reality, the Village had lots of debt capacity, and lots of room to restructure and raise rates in order to increase revenues. They were easily able to obtain funding for the project.

Case Study 2: Difficult Project to Fund

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- Community B: 610 customers. An income survey showed the MHI has dropped from over $36,000 to $32,000. Monthly bill for 4,500 GPM is around $55, which is 2.3% MHI. Sewer rates are also pretty high.
- The Village purchases bulk water. It cannot get out of or renegotiate a contract until 2018. It has a lot of water loss in the system. No debts will be paid off any time soon.
- The Village wants to replace a 2,800 LF waterline that frequently breaks. The project cost estimate is $740,000.
- This may help with water loss, which could reduce operating costs, however, the Village does not know how much water is lost from this particular line.
- They qualify for 2%, 30 year funding through OWDA, however, this would add $4.53 per customer per month, pushing rates to almost $60.
- There is no compliance issue. Based on the County they are in, there is little chance for OPWC funds. CDBG is a long shot. They submitted an appropriations request this year for half of the funds, which is also a long shot.

Community B legitimately should "Cry the Blues". It really can't afford the project. The Village has to try and pursue grant sources that are long shots and hope one of them comes through. This will probably take at least three years to fund.

Case Study 3: Very, Very Difficult Project to Fund

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- Community C: 130 customers, 140 EDU's (on a good day). The Village is an unsewered area under Findings and Orders. An income survey showed the MHI has dropped from over $40,000 to $35,000. Several families make less than $18,000 per year.
- Water service is provided by a large water district. The average monthly bill is in the mid-$20's. Rates will be going up soon.
- The proposed project, which include mostly gravity sewers, two pumps stations, and a small package plant is almost $3.74M. The cost per EDU is over $26,000, and that doesn't include the cost of running the laterals.
- The annual operating cost is estimated at $46,500, which adds another $28 per month to the average bill.
- The Village was only able to secure $200,000 in US Army Corps funds, which will reimburse a lot of the design costs.
- They applied for OPWC, but did not score enough points because this is new infrastructure for a small population with no economic development.
- They have applied to USDA RD, which has not chosen to fund the project yet. USDA RD wants to cap rates at 1.5% MHI, which for this Village is $43.75 per month.
- Along with pursuing sufficient grant and/or government subsidized funding, identifying ways to reduce project costs need to be part of the equation.

Bottom Line for Funders

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At the end of the day, regardless of the compliance or public health issues at hand, under most funding programs the overriding factor in receiving a loan is a community's ability to pay it back.

OEPA's WSRLA program for drinking water has also been known to make exceptions. OPWC does not require proof of the ability to pay before awarding a loan, but the local fiscal officer is required to sign a form certifying that they will collect enough revenues to pay back it back before funds are released.

“You can’t squeeze blood from a rock.”

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- There are communities that have reached their maximum debt capacity.
- If they cannot borrow funds, the only way to complete a project is with very high grant levels.
- Communities can count their blessing if they get more than half of a project funded with grant. Getting almost 100%, is usually impossible.
- It is likely that we will continue to see more communities end up in this predicament, particularly those with declining populations.
- We may see more communities defaulting on loans over the next few years.
- Preventing other communities from getting into this situation is critical, which means making sure they are doing their best to plan and save for future project funding, and obtaining every grant reasonably possible.

Pitfalls to Avoid!

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- Starting too late. *If you want grants, start developing funding strategy at least 2 ½ years in advance.*
- Not trying to obtain grant funds or the best interest rate possible that the project would likely receive – especially if your rates are already more than 1% of the MHI.
- And on the flip side, being unrealistic about grants and delaying projects too long. *Waiting for someone to swoop in with grants will often result in higher project costs due to inflation.*
- Paying for General Plans, or design, when the project is very unlikely to happen. OR, moving forward with design when there is no realistic funding strategy in place. *This is common for projects in new service areas, especially unsewered areas. The result is paying on planning and design loans for projects that may end up being re-engineered… if they ever happen.*

Pitfalls to Avoid!

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- Not reading preliminary engineering studies, and not questioning the proposed funding scenarios. Make sure you have realistic expectations about the project and any grant funds you are seeking.
- Signing a contract for planning, design and construction services up front, before the planning is finished. *Especially if it is the first time working with the firm and/or a large project, it's better to get through planning, and then sign a second contract for the design and construction phases.*
- Agreeing to an unrealistic Findings and Orders schedule. *Develop a detailed funding strategy and timeline, then if possible, negotiate for that schedule.*

Pitfalls to Avoid!

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- Not seriously evaluating project alternatives. *For example, a community choosing to pay a lot more to keep and maintain their own treatment facilities rather than connect to a neighboring community. OR a district choosing to run many miles of force main rather than consider a decentralized system.*
- Not building public support early.
- Breaking up capital improvement needs into too many small projects. *This can be a good strategy if you do not plan to pursue public financing, but before assuming it is better to do ten $100,000 projects rather than one $1M project, make sure the option of combining projects is considered. It may be cheaper and attract more grant.*
- Not having a comprehensive capital improvement plan and funding strategy for all projects coming up in the next 5-7 years.

Final Thoughts

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Communities can chart their own course! There will be set-backs, program changes, and other factors that may delay a project, but having a plan with some flexibility can dramatically increase the odds of maximizing grant and low-interest loan opportunities if realistic funding strategies are developed well in advance.

Communities that have the capacity to raise rates and save money, need to do so now and should implement annual inflationary rate increases.

Thanks

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