

All You Need to Know, From Idea to Funding

RUS Water and Wastewater Loans and Grants Program

By Mark Kemp-Rye, *On Tap* Editor

Between 1947 and 2002, the U.S. Department of Agriculture's Rural Utilities Service (RUS, formerly the Farmers Home Administration) has funded water and wastewater projects valued at more than \$19.4 billion. Many small and rural community water systems would never have been completed without these loans and grants.

"RUS water programs enable the residents of rural America to improve their quality of life with safe, reliable water supplies and appropriate waste treatment," says Glendon Deal, RUS director of engineering and environment. "Rural and small communities have the dedication, determination, and initiative to be successful. I believe RUS provides the technical assistance and financing that helps make the plans and dreams of those communities a reality."

Along with the drinking water state revolving loan fund, the RUS water/waste disposal (WWD) loan program is the major source of funding for small and rural communities seeking to build, improve, or expand their water or wastewater facilities. During the last (2003) fiscal year, RUS distributed \$1.5 billion in program funding—\$881 million in the form of low-interest loans and \$640 million in grants—through its network of rural development (RD) offices. If your community hasn't benefited from this program, chances are the folks down the road have.

Who is eligible?

How do you know if your town can participate in the WWD program? To be eligible for an RUS loan, a system must:

- Be a local government, a cooperative, not-for-profit corporation, or an Indian tribe;
- Provide service to a rural area or town of fewer than 10,000 people;
- Be unable to self-finance the project or secure other financing at a reasonable rate;

- Have the authority to construct, operate, and maintain the facility; and,
- Be legally able to secure and repay the loan.

If your system meets all of these requirements, you may qualify for RUS funds.

Funding Has Many Uses

RUS program financing can be used for most costs related to the building or expansion of a water or wastewater project. These costs can include construction, legal expenses, engineering, and initial operating costs. RUS funds can account for most of the project financing and, in some cases, all of it. In many cases, other government programs (local, state, and federal) make up what RUS can't provide. In fact, RUS encourages borrowers to seek joint funding whenever possible.

Usually, an approved applicant receives a combination of a loan and a small grant. Because they don't have to be repaid, grants are more desirable. RUS determines whether an applicant is eligible for a grant based on the median household income of the area being served. If the community meets certain income requirements, the size of the grant is based on the user rates a system will have to charge to its customers to fund the project.

Grants help reduce project costs so the water or wastewater service can be provided at "reasonable" rates. Reasonable user rates are determined by similar system costs: what other communities are paying for the same type of service. The system receiving RUS funds is compared to neighboring communities that have similar population, income, and water or wastewater systems.

The rates from the other communities are used as a basis for determining what would be a reasonable average user cost in the community requesting RUS funds. RUS can provide up to 100 percent of a project's funding, but a maximum of 75 percent of that funding can be in the form of grants.

"One needs to look no further than the projects funded to see the impact we have had on removing public health hazards, creating growth opportunities and improving the quality of life for people living in rural America," says Gary Morgan, assistant administrator, RUS water and environmental programs.

How does the process work?

A preliminary eligibility determination starts the process. A community planning to apply for RUS funding should do so as early as possible by submitting a standard application form, available at any state or local RD office. The application generally determines if the community meets the population, median income, and other eligibility requirements.

The application is then reviewed by RUS officials at the state RD office. If the document meets all criteria, RUS officials prepare for an application conference with community officials.

At this point, RUS officials can look at the history of similar projects in the region and offer general advice as to what type of system should be installed as well as some idea of the proposed project's per-household cost.

One important matter discussed at the application conference is the selection of a consulting engineer. "Community officials need to stress to the engineer the importance of designing a system modest in scope and design and according to RD regulations," says Deal. "Communities should also check an engineer's references and consult with other communities the engineer may have worked with before hiring the engineer."

After all of these concerns are addressed and satisfied, the RUS process may be postponed so that state government officials can submit relevant comments or give any needed project approval, such as from the state environmental office.

State RUS representatives must then determine if the project is:

- Technically feasible—the preliminary engineering report is used to study community needs and ensure that an appropriate system design is being proposed.
- Environmentally feasible—This step addresses such concerns as, "Is the system being constructed in a floodplain? And, "Will any wetlands be disturbed?"
- Legally feasible—Engineering and legal contracts are reviewed as well as any

water purchase agreements and project-related property purchases.

- Financially feasible—This analysis determines whether adequate revenue will be generated to cover the system's operating costs, debt service, and other expenses.

Once all the feasibility issues are dealt with and any state input is received, the final step to loan approval is a letter of conditions. This letter explains the list of requirements the applicant will have to accomplish in order to close the loan and receive the funds. If the applicant agrees to the terms in the letter of conditions, the approval is signed by the state RD director.

It Ain't Over Yet

The time involved in the total RUS loan application process is difficult to estimate. The feasibility study alone can require anywhere from a minimum of three months to upwards of a year.

After RUS approves a loan and/or grant, there is still a lot of work to be done. The engineer has to finish the design work, and the state engineer has to approve the design once it is complete. That entire process can take a year or so on a big project.

To make sure that higher priority projects are funded first, a rating system is used. Each approved application is given a score based on various criteria, the main factors being population (smaller communities receive priority), income (low-income residents receive priority), and public health (pressing health and sanitation problems receive priority). Each state office begins funding the projects with the highest priority first and works down the list until the money is gone or all prepared applications are funded.

Each state knows in advance how much money it will have for projects in a given fiscal year. State offices try to have enough projects lined up to account for about 150 percent of its allocations. This allows each state office to use its allocation even if a few applications are withdrawn or delayed.

Lower Rates, Longer Terms

A community's RUS loan is set at one of three rates—poverty, intermediate, and market rate—based on the community's median income. (See page XX for the latest rates.) Current loans are in

the XX to XX [fill in based on first quarter rates when announced] percent range, which is much lower than rates offered by commercial banks. RUS may also extend loans for up to 40 years, making the debt service payment more reasonable and affordable for the community.

“I believe we offer a unique service to rural America,” says Morgan. “The combination of technical assistance, affordable financing, and partnerships helps create viable communities where people can live and prosper.”

Acknowledgement

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Sidebar #1

RUS Application Process

The application process for RUS loans and grants has four components:

Initial Contact

RUS used to require a pre-application for communities seeking a loan or grant. Now, applicants can usually find out if they're eligible from their state rural development (RD) office. To locate your state office, check the blue pages in your phonebook or call the National Drinking Water Clearinghouse at (800) 624-8301.

Information is also available on the RUS Web site at www.usda.gov/rus/water.

Application Conference

If the preliminary eligibility determination is favorable, an RUS representative meets with the applicant to discuss how to complete the final application and how to select a project engineer. The application is available at any state or local RD office.

Feasibility

After the formal application is submitted, RUS officials determine if the project is technically, environmentally, legally, and financially feasible. More detailed documentation is usually required at this step.

Approval

Projects are approved and prioritized at the state level. The number of projects funded depends on the amount of federal appropriations available in

that fiscal year. Approved applicants may receive both a loan and small grant, depending on the availability of grant funds.

Sidebar #2

What information do I need?

Whether you are seeking an RUS loan or money from another source, most funding agencies need background information to determine whether or not a community is eligible. Here are some items funding agencies typically request:

- An overview of the proposed project;
- Rough cost estimates of the project;
- Health or environmental problems the current system faces;
- Current and projected user rates;
- Number of residential and commercial users;
- Total amounts of water used in a given time period (e.g., daily, weekly, monthly)
- Median household income of the service area; and
- Population of the service area.

These various pieces of information are easily obtained. Once eligibility is determined, applicants are then encouraged to file a formal application for their project.

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