

# Water sense

Spring Issue 1995  
Volume 1, Issue 2

## RUS Loan Program Crucial for Small Community Projects

by P.J. Cameon  
NDWC Staff Writer

Many small and rural community water and wastewater projects would never be completed without the assistance of a Rural Utilities Service (RUS) loan program.

The RUS Water/Waste Disposal (WWD) Loan Program provides low-interest loans and grants



*Workers install a water line extension to the Little Hocking water system in Washington County, Ohio. The project is one of many funded through the RUS Water/Waste Disposal (WWD) Loan Program.*

—Photo courtesy Ohio RECD

## Planning Puts You in Control Environmental Finance Tips for Community Leaders

by Elizabeth Hickey, Coordinator,  
Maryland Environmental Finance Center

How often do we order an expensive meal or new car first—and then ask the price later? Not often! In our private lives most of us must live within our means—we need to know how to pay for something before we buy it.

Clearly, this is a good rule of thumb for managing our public needs as well. However, our community gets swamped with many demands—environmental, social, safety, and economic—seemingly all at once. As a result, we become *reactive* to crisis rather than *proactive*.

But effective planning can allow you to take control of your financial commitments while meeting the needs of your community. Good planning is a dynamic process that takes into account constantly changing regulatory, financial,

through the network of federal Rural Economic and Community Development (RECD) offices, previously known as Farmers Home Administration offices.

“This loan program is important because we’re funding projects that no one else can afford to do,” said Jim Cogan, chief of Community and Business Programs at the Ohio RECD office. “These are water and sewer projects that, generally, will not happen if we’re not able to assist.”

This loan program is a major source of funding for small and rural communities seeking to build, improve, or expand their water or wastewater facilities. For the current (1995) fiscal year, RUS is distributing \$1.3 billion in program funding: more than \$827 million in the form of low-interest loans and \$500 million in grants.

Most recently the program was operated by the Rural Development Administration, which is now part of the RUS.

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*See inside to learn  
how the RUS Loan  
Program works and  
how your community  
can apply.*

and economic situations, and input from local citizens.

Here are some steps to help you develop a capital facilities plan for financing your environmental needs.

### **Take Stock—Identify Compliance Problems**

Start by identifying environmental regulations applicable to your jurisdiction. There are many sources of information to help small communities outline these regulations, including assistance organizations and government documents.

Once you’ve determined the regulations you need to be concerned with, you can pinpoint where you have compliance problems. Reporting requirements can be grouped together and addressed separately from environmental projects that must be prioritized and financed.

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# Water Sense

Sponsored by  
**Rural Utilities  
Service**

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**Loan Specialist**  
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## National Drinking Water Clearinghouse

The National Drinking Water Clearinghouse (NDWC) assists small communities by collecting, developing, and providing timely information relevant to drinking water issues. Established in 1991, the NDWC is funded by the Rural Utilities Service and is located at West Virginia University.

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# Making Sense of Drinking Water Finance

by Laurie Klappauf  
*Water Sense Editor*

As our first full-length issue of *Water Sense* goes to press, we find ourselves buoyed by the enthusiastic response we've received for creating a newsletter devoted to drinking water finance.

But we also find the challenge somewhat daunting. How do we provide universal financing solutions to fit a nation of very diverse small and rural communities?

Obviously, no two states or communities are exactly alike, so we won't pretend to provide a newsletter full of "one-size-fits-all" solutions. But there are commonalities in problems and potential solutions. What we can offer are solutions to the more common problems as well as an overview of the drinking water finance universe.

By presenting a variety of information, we hope to provide ideas that encourage you to develop customized solutions to fit your unique situation or look at problems in new ways. Many of these funding methods are applicable not only to drinking water, but to other environmental projects as well.

## What's out there?

The majority of *Water Sense* subscribers who completed our response card asked for help identifying funding sources and advice on how to apply for funds.

We will therefore cover major government funding programs that currently exist for water and wastewater projects, explaining how to tell if you are eligible and how to access the funds. In this issue, Staff Writer P.J. Cameon profiles the Water and Waste Disposal Loan Program offered by the Rural Utilities Service.

Other major funding sources include the Small Cities Community Development Block Grants, Economic Development Administration grants, and the U.S. Environmental Protection Agency (EPA) State Revolving Funds (the last program is currently available for wastewater projects, but not for drinking water).

But funding sources are not limited to government programs. Increasingly, communities must look to "alternative" ways to pay for projects. Alternatives can range from community "self-help" programs to "privatization" of public functions to private sources of funding.

## Who can help?

Many resources are available to help you find solutions to your financial problems. In this issue, for instance, we describe EPA's Environmental Finance Program and Environmental Finance Centers.

In the future, we plan to describe services provided by other assistance organizations, and continue to list publications and resources offering financing information.

And don't forget that the National Drinking Water Clearinghouse, and our sister organizations—the National Small Flows Clearinghouse and the National Environmental Training Center for Small Communities—can provide technical, regulatory, and financial information and referrals.

## What's next?

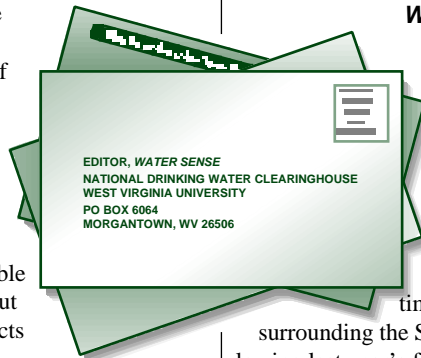
We will also continue to draw story ideas based on your suggestions. Some of you, for instance, asked for articles about cost effects of new regulations and about federal and state government activities regarding water.

These concerns are very timely given the uncertainties surrounding the Safe Drinking Water Act following last year's failed bid for reauthorization. Furthermore, the new Republican-led Congress will likely have an impact on how small communities affordably provide safe drinking water, so we plan to cover significant actions that could affect your financial strategies.

Other topics you suggested include:

- water conservation,
- rate setting,
- self-help for small communities,
- maintenance on limited budgets,
- selecting a good consultant,
- revenue and municipal bonds,
- "selling" town water to your community,
- costs of regulatory issues, and
- costs of waterborne illnesses.

As always, we'd like to hear from you. What innovative programs are being undertaken in your state or community? What issues do you want to see addressed in *Water Sense*? Please send comments or questions to: Editor, *Water Sense*, National Drinking Water Clearinghouse, West Virginia University, P.O. Box 6064, Morgantown, WV 26506-6064, or call (800) 624-8301. \$





## Two Books Provide Financial Insight

The often complicated world of funding water and wastewater projects is simplified in two books by authors with extensive experience in infrastructure finance.

In the *Handbook of Project Finance for Water and Wastewater Systems* (1993, 256 pages), attorney and investment banker Michael Curley tackles the finance issues that can intimidate people unfamiliar with the subject.

Curley, a member of the U.S. Environmental Protection Agency's (EPA) Environmental Financial Advisory Board, details various options for financing capital improvement projects—municipal bonds, commercial loans, and government loan and grant programs—while giving insight as to which option may be most appropriate for a particular project. While not specifically geared toward small systems, the book does provide

information that should be helpful to managers of smaller systems and to community officials.

In the *Comprehensive Guide to Water and Wastewater Finance and Pricing, Second Edition* (1993, 336 pages), George A. Raftelis covers rate-setting, privatization, and traditional and innovative financing. Raftelis, also a member of EPA's Environmental Finance Advisory Board, is president of Raftelis Environmental Consulting Group, Inc.

The guide includes a discussion of short-term and long-term project financing, the advantages and disadvantages of privatization, and the factors that drive water and wastewater pricing.

The Curley book (\$55) and the Raftelis book (\$65) can each be ordered through Lewis Publishers in Boca Raton, Florida. For more information or to place an order, call (800) 272-7737. \$

## EPA Guide Targets Small Communities

Planning ahead can be crucial for small communities that don't have the resources to meet all of their environmental responsibilities at once.

A new document, *Environmental Planning for Small Communities—A Guide for Local Decision-Makers*, presents a process for creating and implementing a comprehensive environmental plan.

The guide, published by the U.S. Environmental Protection Agency, includes information about how to pay for environmental equipment and facilities. A detailed chart describes advantages and disadvantages of common financing options for both operational and capital costs. These methods include taxes, fees, loans, bonds, revolving funds, and privatization.

The document devotes a chapter to each of the following topics:

- setting goals for creating a plan;
- building a planning team;
- developing a shared vision for the future;

- defining a community's needs by: determining the greatest problems facing residents' health and quality of life, determining which environmental regulations apply to your community, and evaluating the effectiveness of your environmental facilities;
- determining which technologies and strategies work best in a community;
- weighing a community's needs and possible ways for setting priorities for action; and
- implementing, financing, evaluating, and revising the plan.

The appendices provide information on regulations, assessing risk, and sources of help with financial management and other topics.

To order a copy of the free guide, call the Center for Environmental Research Information—ORD Publications at (513) 569-7562, or fax your request to (513) 569-7566. Ask for publication EPA/625/R-94/009. \$

## Booklet Explains Funding Options

Bonds, grants, public-private partnerships, and other finance terms and concepts are explained in a U.S. Environmental Protection Agency (EPA) booklet on funding alternatives.

A *State and Local Government Guide to Environmental Program Funding Alternatives* is focused on projects associated with nonpoint source pollution, but the funding sources and methods are applicable to environmental programs in general.

Traditional financing mechanisms are outlined as are new and alternative sources, such as special

license plates, income tax checkoffs, and lottery revenues. Brief examples show how these alternative financing efforts are being implemented around the country.

The EPA guide gives easy-to-understand explanations of financial terms, and provides dozens of contacts for further information.

This free, 26-page booklet is available from the National Drinking Water Clearinghouse. See back page for ordering information. \$

## RUS Loan Program Crucial for Small Community Projects

*Continued from page 1*

### Are you eligible?

The first question a local official is likely to ask about the Rural Utilities Service (RUS) Water/Waste Disposal (WWD) Loan Program is, "Does my system qualify?"

As far as eligibility, this financing is available for projects in rural, unincorporated areas and towns of less than 10,000 people. To be eligible, the project must be owned and operated by a local government, Indian tribe, cooperative, or not-for-profit corporation. RUS cannot provide funds to privately owned systems operated for profit.

Another important factor is the applicant's financial status. RUS only lends to communities that are unable to obtain loans from other sources at reasonable rates. "Basically we have a loan program for entities that can't get financing from commercial sources," said Donna Roderick, RUS loan specialist.

The chart at left also provides information on WWD funding eligibility.

### RUS Loans and Grants Have Many Uses

RUS program financing can be used for most costs relating to the building or expansion of a water or wastewater project. These costs can include construction, legal expenses, engineering, and initial operating costs.

RUS financing can account for most, or even all, of an applicant's needed funding. When an applicant applies for partial funding through RUS, the rest of the money needed usually is acquired through other government programs.

But what determines whether an applicant receives RUS funding for a project through a loan or through a grant? Actually, in most cases an approved applicant receives a combination of a loan and a small grant. Grants are more desirable, obviously, because they do not have to be repaid.

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 its customers to pay for the project.

Grants help reduce project costs so the water or wastewater service can be provided at "reasonable" rates.

"By reasonable user rates we are looking at similar system costs—what other communities are paying for the same type of service," said Jerry Cooper, another RUS loan specialist. He said they try to compare the system receiving funds with a neighboring community that has a

similar population, income, and water or wastewater system. "We use rates from that other community as a basis for determining what would be a reasonable average user cost [in the community requesting funds]," said Cooper.

RUS can provide up to 100 percent of a project's funding, but only 75 percent of that funding can come in the form of grants.

### A Pre-Application Starts the Process

Roderick said a community planning to apply for RUS funding should do so as early as possible by submitting a standard **pre-application** form. These forms are available at any state or local Rural Economic and Community Development (RECD) office.

The pre-application generally determines if the community meets the population, median income, and other eligibility requirements mentioned earlier. This may require such documentation as U.S. Census figures, town bylaws, and financial records. More detailed documents, such as project engineering reports, are not required at this point.

"It's very preliminary," Roderick said of the pre-application. "We don't ask them to spend any money at this stage."

The pre-application is reviewed by RUS officials at the state RECD office. If the document meets all eligibility 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 some general advice as to what type of system should be installed or whether the project is appropriate to meet the community's needs.

One important matter discussed at the application conference is the applicant's selection of a consulting engineer for its project. RUS officials often give advice on how to select one.

"The engineer is going to design the system and have a lot of responsibilities during construction. An engineer can really make the difference between a good project and a bad project," explained Ohio's Cogan.

Cogan said community officials need to stress to the engineer the importance of designing a "modest system" that is as inexpensive as possible to build and also reasonable to operate. He encourages communities to check an engineer's references before hiring him or her, and speak with other communities the engineer may have worked with.

RUS officials can also give the applicant some idea of the proposed project's per-household cost.

*Continued on next page*

### WWD

#### Loans and Grants

*Is your project eligible?*

#### IF THE APPLICANT...

- is a local government, a cooperative, not-for-profit corporation, or an Indian tribe and
- provides service to a rural area or town of fewer than 10,000 people.

#### AND

- is unable to self-finance the project or secure other financing at a reasonable rate
- has authority to construct, operate, and maintain the facility
- is legally able to secure and repay the loan.

#### THEN

...the project may qualify for Rural Utilities Service funding.

*Continued from previous page*

However, they cannot estimate user rates until the actual project designs are completed.

### **Eligible Applicants Continue the Process**

After the application conference, the community is invited to complete a **formal application**. This step is taken only if it appears likely that funding will be available (a matter discussed later in this article).

"That's when they get into the details," Roderick said of the formal application.

These details are likely to include financial information, such as current and projected user rate schedules, as well as drafts of any legal agreements the applicant will enter into during the project, a detailed environmental assessment with flood plain and geographic maps, and a preliminary engineering report.

Using this information, state office 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 flood plain?" 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 action determines whether adequate revenue will be generated to cover the system's operating costs, debt service, and other expenses.

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. For example, Cogan said, a project in his state may need approval of the Ohio Environmental Protection Agency.

Once all feasibility issues are dealt with and any state input is received, the final step to loan **approval** is a "letter of conditions." Roderick said the letter "spells out everything the applicant will have to accomplish in order to close a loan." If the applicant agrees to these terms, the approval is signed by the state RECD director.

Roderick said it is difficult to give even a general estimate of the time involved in the total RUS loan application process. She said the feasibility study alone can take anywhere from a minimum of three months to upwards of a year.

"After we approve a loan and grant, there is still a lot of work to be done," Roderick said.

"The engineer has to finish design work, and there's the need for state approval. That can take a year or so on a big project."

### **Approval Does Not Guarantee Funding**

As mentioned earlier, communities are encouraged to complete a formal application only if there appear to be funds available. But application approval does not guarantee that a community will receive RUS funding.

## The RUS Water/Waste Disposal Application Process



### **Pre-Application**

A standard form is used to gather information about the applicant and the proposed project. Pre-application forms are available at any Rural Economic and Community Development office, formerly FmHA offices. Some supporting documentation may be required.



### **Application Conference**

If the pre-application is approved, an RUS representative will meet with the applicant to discuss how to complete the final application and how to select a project engineer.



### **Feasibility**

After the formal application is submitted, RUS officials will determine if the project is technically, environmentally, legally, and financially feasible. More detailed documentation is 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. An approved applicant will likely receive a combination of a loan and small grant.

A rating system has been designed to make sure that higher priority projects are funded first. This also ensures that all funding allocated for the program is utilized.

Cooper explained that each approved application is given a score based on various criteria. The main factors in the scoring system are:

- *population*. Smaller communities are funding priorities.
- *income*. Priority is given to projects that benefit low-income residents.

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## RUS Loan Program Crucial for Small Community Projects

*Continued from page 5*

- *health and sanitation.* Projects that address pressing health problems are given more points.

“These are the big three as far as points go,” Cooper said. Points can also be earned if an application meets other criteria, such as being “truly rural.” Each state RECD office then ranks the approved applications based on their scores.

Cooper explained that each state knows in advance how much money it will have available for projects in a given fiscal year. Each state’s allocation is based on the size of its rural population, the percentage of those rural families that are living in poverty, and the state’s percentage of the nation’s nonmetropolitan unemployed population.

Before a fiscal year starts, each RECD state office attempts to have enough projects lined up to account for about 150 percent of its allocations. This system allows each state office to use its allocation even if a few applications are withdrawn or delayed.

Each state office begins funding projects at the top of its scoring list at the start of each fiscal year, which begins in October. Each state works through its list until its allocation is depleted or all prepared applications are funded.

If a state office for some reason is unable to disburse all of its allocation, the funds are returned to the national office to be redistributed to states requesting additional funding.

### RUS Offers Lower Rates, Longer Terms

A community’s RUS loan is set at one of three interest rates, again depending on the community’s median income. These three interest rates—poverty, intermediate, and market rate—are explained in the box below.

Whereas RUS is currently offering loans with interest rates in the area of 4 to 6 percent, Cogan said, a commercial bank may be charging up to 10 to 11 percent interest. In addition to outright grants, a lower RUS interest rate and longer repayment period are important to keeping user rates affordable, according to Cogan.

“We can extend loans for up to 40 years, and that can really make debt service more reasonable,” he said.

Roderick also explained that RUS is interested in having the applicant explore other funding sources, such as the U.S. Environmental Protection Agency and Economic Development Administration at the federal level and Community Development Block Grants at the state level.

“We encourage joint funding wherever possible to get the most out of the money we have to offer,” she added.

*For additional information about the RUS Water/Waste Disposal Loan Program, contact your state RECD office (formerly Farmers Home Administration offices). For the number of your state office, contact the National Drinking Water Clearinghouse at (800) 624-8301. \$*

### RUS Interest Rates

*Third Quarter, Fiscal Year 1995 (effective April 1 through June 30, 1995)*

**Poverty Line Rate:**  
4.500 percent

**Intermediate Rate:**  
5.250 percent

**Market Rate:**  
6.000 percent

*RUS loans are administered through local or state Rural Economic and Community Development (RECD) offices (formerly Farmers Home Administration offices). Local RECD officials can provide more information about loan rates and applications.*

*For the number of your state RECD office, call the National Drinking Water Clearinghouse at (800) 624-8301.*

### RUS Loan Interest Rates Explained

As a service to our readers, current Rural Utilities Service (RUS) interest rates for Water and Waste Disposal (WWD) loans are included in this issue of *Water Sense* (see chart at left). The rates will also be included in future issues.

RUS interest rates are set on a quarterly basis. The rates for the third quarter of Fiscal Year 1995 were set at the beginning of April 1995 and apply to loans approved in April, May, and June.

RUS interest rates are set at three levels: poverty line rate, intermediate rate, and market rate. The rate applied to an individual project depends on community income and the type of project being funded.

- To qualify for the *poverty line rate*: 1) the loan must primarily be used for facilities required to meet health and safety standards, and 2) the median household income

of the area being served must be below 80 percent of the state’s nonmetropolitan median income or fall below the federal poverty level. (Median household income is determined by lining up all household incomes from highest to lowest. The median income is at the middle of the list. The nonmetropolitan median income figure varies from state to state, while the federal poverty level is set at \$15,150 for 1995.)

- To qualify for the *intermediate rate* the service area’s median household income cannot exceed 100 percent of the state’s nonmetropolitan median income.
- The *market rate* is applied to projects that don’t qualify for the poverty or intermediate rates. The market rate is based on the average of the Bond Buyer Index. \$



## CoBank Assists Rural Drinking Water, Wastewater Systems

With its focus on rural America, CoBank provides a unique financing option for small drinking water and wastewater systems.

CoBank is a federally chartered and regulated bank that serves rural utility systems and agricultural cooperatives. Operated as a financial cooperative, CoBank is part of the Farm Credit System, a government-sponsored enterprise created to assist agriculture and other business in rural areas.



*Jim Zeck, chief plant operator at Minnehaha Community Water Corp., takes readings from the system's gauges. Minnehaha, in Dell Rapids, South Dakota, is one of more than 200 rural water systems assisted by CoBank.*

CoBank lends to water and wastewater systems in unincorporated areas or communities with less than 20,000 people. The bank provides credit-worthy systems with loans extending from just a few months up to several decades.

To assist private small water and wastewater systems, CoBank operates a Small Loan Program that provides loans of \$50,000 to \$500,000 through a streamlined application process. This program is offered through the National Association of Water Companies (NAWC). (Officials with public and cooperative systems, which are not eligible for NAWC membership, may contact CoBank directly concerning this loan program.)

"Water companies are telling us they are excited to find a bank that talks their language and is committed to their industry," said Keith Applegeet, executive vice president of CoBank's Rural Utility Banking Group.

CoBank can lend to systems that are government-operated (or public), cooperatives, or operated by investor-owned businesses. While bank officials say they are able to issue loans at "competitive interest rates," they also say that

government-operated systems may prefer to seek revenue through tax-exempt bonds.

Whereas many government assistance programs usually limit how funding can be used, CoBank can issue loans "for any valid business purpose," according to Applegeet. For example, CoBank loans can be used:

- to cover construction-related costs,
- as interim funding until guaranteed federal assistance is delivered, or

- to refinance higher-interest loans from other sources.

Applegeet said a CoBank loan does not prevent a system from also receiving government assistance for the same project or another project within the system. He also stressed that CoBank can be an especially useful resource for investor-owned systems, which generally do not qualify for government loans or grants.

For more information on CoBank, refer to the box below. \$

### CoBank Loans

#### Who's eligible?

CoBank provides loans to credit-worthy rural utilities, including water systems. The water system must serve an unincorporated area or town with fewer than 20,000 residents.

#### What type of loans?

CoBank offers loans at fixed and variable interest rates for construction projects or other needs. It also offers interim loans for systems waiting for delivery of approved federal funding.

#### Who to call?

To explore lending possibilities with CoBank, contact Tom Smith in Atlanta, Georgia, at (800) 255-7429; Horace Harrod in Louisville, Kentucky, at (800) 262-6599; or Steve Gustafson in Denver, Colorado, at (800) 542-8072.

## Finance Planning Puts You in Control

*Continued from page 1*

### Take a Geographic Inventory

Now be sure that you have a complete inventory of the area's natural assets and geographic characteristics. Often, a degraded wetland may present a unique solution to a waste treatment problem. Other times, a high water table may warrant the relocation of a real estate development, which may save the cost of a future drinking water treatment facility.

Your local department of natural resources or a nearby university can often help compile this information.

### Gather Financial Statements

The blueprints from which any financing decisions will be made are the town's financial statements. These usually include a balance sheet and an annual budget.

It's best to have the statements audited to verify that they meet acceptable accounting practices. This assurance can make your community more attractive to banks or other private funding sources, which usually require an outside evaluation of a town's financial condition. Accounting firms may sometimes audit statements free for small communities.

### Identify Priorities and Funding Sources

With the core group of environmental projects in one hand and the financing statements in the other, you are prepared to enter into the most difficult part of planning—setting priorities. Not all projects can be accomplished at the same time, and some may have more immediate health and safety benefits than others.

At this point, identify all possible sources of money to build your project—these are "capital sources"—as well as on-going sources of revenue to pay for day-to-day operations, maintenance, and any debt repayment.

Capital sources of money may include federal loans or grants, bonds, bank loans, and partnerships with the private sector.

Ongoing revenue streams tend to come from customer water and sewer rates, and any special fees. By asking "who benefits from the project," you can identify who should help pay for it.

Comparing environmental priorities with possible funding sources will accomplish a few things:

- Priorities may be influenced by balancing project benefits against any hoops you have to jump through to get the financing. Financing that takes a year or more to set up—as with some government funding—might relegate a

project to a one- or two-year horizon, while another project might be able to use readily available financing from the local credit union.

- Certain projects may require local ordinances to be written or amended. In these cases, financial timing can be matched to the administrative process.
- Combinations of projects may save money or open up new avenues of financing. The repair of water mains, which usually requires removal of road surfaces and sidewalks, could be combined with other underground projects, in addition to the repair of roads and walkways. Funds available to enlarge a high school might allow for construction of onsite waste treatment facilities, thereby reducing the perceived need for increased capacity at the town's central facility.
- Alternative options can be explored. A project that also creates jobs or benefits low-income citizens may be eligible for government grants geared to those needs. Bond pools or cooperatives can be formed on a regional basis to take advantage of greater economies of scale. Private companies may be interested in participating in a joint management arrangement. Leasing arrangements may become an option. Your credo should be, "Look for money anywhere."

### Put Your Plan in Writing

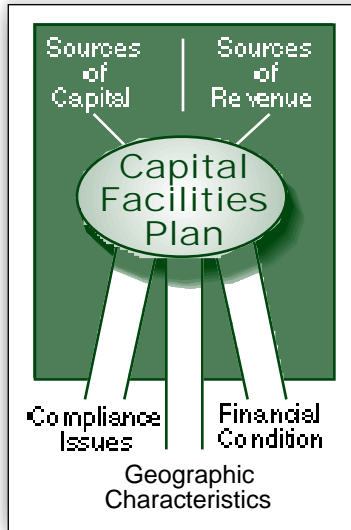
Now put your strategy in writing in the form of a capital facilities plan. This document describes what sort of capital improvements, such as buildings or treatment plants, are needed to fix the environmental compliance problems identified earlier. The capital facilities plan also lays out a construction schedule for each project, and matches sources of revenue to project phases.

Through effective planning—and constant reevaluation to address changing situations—your community can begin to take charge of its financial and environmental needs.

It's equally important to involve local citizens in every step of this process. When they understand why a new drinking water facility is important and can see how it fits into a well-developed plan, they are more likely to support special fees or surcharges that help pay for the project.

*The National Drinking Water Clearinghouse and the National Small Flows Clearinghouse can provide additional information and resources on regulations, financial management, and planning. Call (800) 624-8301. \$*

Water Sense will continue to publish articles representing the opinions or experiences of environmental finance professionals. We welcome reader viewpoints through contributed articles, questions, and letters to the editor.



*As coordinator of the Environmental Finance Center at the University of Maryland—sponsored by the U.S. Environmental Protection Agency and Maryland Sea Grant—Elizabeth Hickey helps state and local governments in the Mid-Atlantic region find creative, efficient ways to finance environmental projects. She previously worked for 10 years as a commercial and investment banker.*



## EPA's Environmental Finance Program Offers Innovative Advice

If your community is struggling to meet the rising costs of environmental protection, the U.S. Environmental Protection Agency's (EPA) Environmental Finance Program (EFP) may be able to help you find creative ways to pay for environmental projects.

While the EFP does not offer any direct funding, it does help state and local governments learn how to tap into alternative financing sources—such as partnerships with the private sector—to meet environmental mandates.

“We help a community look for ways to finance environmental needs by creating more efficiencies, lowering costs, and increasing private investment,” says EFP Director George Ames.

“We've focused a lot on small communities,” says Ames. “We're developing tools, such as a rate-setting model geared toward small and medium-sized communities. And our Environmental Financial Advisory Board has produced advisories on strategies to finance environmental facilities in small communities.”

The EFP provides financial assistance through the following activities:

- **Environmental Financial Advisory Board (EFAB):** Comprised of public and private financial experts, EFAB offers policy advice on how environmental programs can be structured to help communities come into regulatory compliance without going bankrupt. A list of available EFAB reports on environmental finance issues can be obtained directly from the EFP. For a list of EFAB publications, call Joanne Lynch at (202) 260-1459.
- **Environmental Financing Information Network (EFIN):** Another EFP tool, available via computer, is the EFIN database, loaded with information about environmental finance options. (See box at right.)
- **Demonstration Projects and Publications:** Through a series of demonstration projects, the EFP has tested more than 45 environmental finance models, many focused on drinking water and wastewater systems.

These projects provide examples of successful public-private partnerships and other financing arrangements. For instance, a struggling public water system serving the 1,600 residents of Sabine Parish, Louisiana, was able to expand its plant and cut operating costs 60 percent by contracting with a private corporation to operate and maintain the system. In Maine, the creation of a bond pool allows small private drinking water systems to access tax exempt financing.

Although further demonstration projects have been curtailed due to budget cutbacks, the EFP has produced a series of publications summarizing lessons learned from these case studies. Many of the strategies are particularly relevant to small communities. A number of these publications are available from NDWC. (See back page.)

- **Environmental Finance Centers (EFC):** A network of EFC's established at universities across the country with start-up funds from EPA, offers a direct link to local communities.

“These centers provide state and local officials with training, advisory services, and analyses on financing trends and techniques,” says Vera Hannigan, EFP senior program analyst. EFC activities are described in the next two pages.

For more information about the Environmental Finance Program, contact Vera Hannigan at (202) 260-6685, or call one of the EFC contacts listed in the following pages. \$

### EFIN Offers Environmental Finance Information Online

The Environmental Financing Information Network (EFIN) database, developed by the U.S. Environmental Protection Agency (EPA), provides a one-stop source of information on funding alternatives for state and local environmental programs and projects.

The database contains abstracts of reports, articles, and publications about environmental finance, plus case studies that demonstrate successful uses of funding methods. Many EFIN listings contain names and phone numbers of contacts for more information.

The EFIN database can be accessed two ways. The first is via the EFIN bulletin board system (BBS) offered by the National Small Flows Clearinghouse. The BBS provides a gateway to the database, and also serves as an electronic forum for sharing information, questions, and real-life experiences related to environmental finance. As an added feature, the BBS allows you to download full text documents, such as the EPA report, *Alternative Financing Mechanisms*.

Accessing the EFIN BBS is free and easy. All you need is a computer with a modem and communications software. Dial 1-800-291-0349 and follow the log-on procedure. If you need assistance, call (800) 624-8301 and ask for Brad Maust, system operator.

The second way to reach EFIN is direct access, either via modem on EPA's Online Library System (dial 1-919-549-0720) or through the Internet by telnetting to "epaibm.rtpnc.epa.gov". For assistance in accessing EPA's Online Library Service, call (800) 334-2405 or (919) 541-7862, or call the EFIN operator at (202) 260-0420. \$



## EFCs Help You Explore Funding Options

The Environmental Finance Centers (EFC) introduced on the next two pages were launched with start-up funds from the U.S. Environmental Protection Agency's (EPA) Environmental Finance Program (see story on page 9). Five EFCs are currently operating. EPA plans to ultimately establish an EFC in each of the 10 EPA regions.

### New Mexico EFC

The first EFC was started in 1991 at the University of New Mexico. It serves EPA Region 6 (Arkansas, Louisiana, New Mexico, Oklahoma, and Texas).

"Our area of expertise is in small communities," says Tracy Eagle, managing director of the New Mexico EFC.

The center offers a training course on "Public-Private Partnerships for Local Government Officials" as an introduction for those thinking about privatizing their public functions. The two-day workshop helps officials decide what services might be realistically privatized and explains how to select a partner, negotiate a deal, and manage the project once a deal is in place.

The center is also developing workshops on user charge systems in conjunction with a computerized user charge program being created by an EFC consultant.

### New Mexico EFC Assists Colonias

In the southern New Mexico county of Doña Ana, a group of about 20 small, impoverished communities along the U.S.-Mexico border has attracted the attention of the New Mexico Environmental Finance Center (EFC). Known as *colonias*—Spanish for *neighborhoods*—these communities lack the most basic water, sewage, and road services. And absent any formal ties to local municipalities or even to each other, the colonias have been unable to access traditional financing methods—such as bonds, loans, or grants—that could help fund infrastructure projects.

The EFC is looking at ways these colonias might organize into a more united entity that can collectively apply for grants, incur debt, assess user fees, or otherwise obtain financing. Some options include: incorporation as a municipal utility district, creation of a water or wastewater association, use of circuit riders, or establishment of a system to collect user fees.

"We're quickly becoming experts in the border region," says Tracy Eagle, managing director of the New Mexico EFC.

As part of this effort, the center is also analyzing low-cost, innovative technology options to help the communities select the most cost-effective system that will still provide the essential services.

"We can also share this knowledge with communities in other areas," says Eagle. "We can help them know what questions to ask so they can find the technology that's both low cost and appropriate." \$

In addition to training, the center is studying ways to restructure small, independent water systems in Otero and Doña Ana counties, New Mexico, into regional entities.

"The benefits of regionalization are transferable to other communities as well," says Eagle, emphasizing that it allows for a cost-effective, coordinated management structure and better ensures compliance with drinking water regulations.

For more information, contact Eagle at (505) 272-7372, or Norm Falk, executive director, at (505) 272-7343.

### Maryland EFC

Established in 1992 at the University of Maryland at College Park, the Maryland EFC serves EPA Region 3 (Delaware, Maryland, Pennsylvania, Virginia, West Virginia, and Washington, D.C.).

The center organizes "charrettes"—or intensive workshops—to help local governments discover what is needed to fully comply with environmental and health regulations. During these sessions, a panel of public, private, and academic sector experts helps local officials analyze their environmental problems and recommends financial or management solutions. The charrettes are summarized into one-page abstracts that can be shared with other communities.

The center will hold its second annual conference on environmental finance this fall.

"The conference encourages innovative thinking," says Elizabeth Hickey, program coordinator of the Maryland EFC. "It provides a forum for government and private sector representatives to share environmental finance ideas. There's really nothing like it." Small community officials are encouraged to attend, says Hickey.

The Maryland EFC is currently planning a two-day teleconference on innovative environmental finance to be held in June 1995. The interactive workshop will be linked to sites across the country, enabling rural communities to access long-distance learning about financing options. The program will focus on rate setting and identifying capital sources of money.

For more information, contact Hickey at (301) 405-6383.

### New York EFC

In 1993, a third EFC was set up at Syracuse University in upstate New York, covering EPA Region 2 (New York, New Jersey, Puerto Rico, and the Virgin Islands).

The Syracuse EFC focuses on water and wastewater training for local government management. *Continued on next page*

*Continued from previous page*

ers, particularly in small and rural communities. The center's recent conference on full-cost pricing, for instance, helped 75 local officials learn how to devise a rate structure that fully captures the costs of their water and wastewater services.

The center is currently developing a capital budgeting course for state and local officials, scheduled for completion this summer. "It will be aimed at small to medium-sized communities," says Carole Cimitile, program coordinator, "because that's where the real need is. We don't want to exclude large communities, but they already tend to have plenty of expertise."

This summer, the center will also offer an Environmental Mediation short course open to anyone interested in developing conflict management skills pertaining to environmental projects and related financial negotiations.

Several times a year, the center pulls together state and regional technical assistance providers to assess small community needs and coordinate assistance efforts.

As an outgrowth of these meetings, the Syracuse EFC is trying to set up a program to provide direct legal and technical help to small communities. The EFC is talking with Syracuse University Law School's proposed Environmental Law Clinic and the American Consulting Engineers Council to locate knowledgeable volunteers willing to share their expertise.

"Often small communities need help just reading regulations," says Cimitile. "We may be able to find law students to do legal compliance assessments for them." Although this program is still under development, Cimitile encourages anyone who might like to participate—as a recipient or volunteer—to contact the EFC.

*For more information, contact Cimitile or Bernard Jump, director, at (315) 443-3759.*

### California EFC

A fourth EFC was established at California State University at Hayward in October 1994, serving EPA Region 9 (Arizona, California, Hawaii, Nevada, Guam, and the Marshall Islands).

This EFC is encouraging private sector financing of "entrepreneurial" environmental activities. In particular, the center is helping to convert California's Alameda Naval Air Station from military to civilian use by providing financial expertise and a revolving loan fund to private environmental ventures locating on the base.

"Traditionally, private lenders, such as banks or investment funds, perceive environmental-related businesses as too risky," says Taylor McNamee, managing director of the EFC. She cited funding problems faced by small businesses

## Maryland Charrette Offers Insights

Federalsburg, a town of 2,365 people on Maryland's eastern shore, was struggling with how to pay for desperately needed sewage and storm water line upgrades. These were among some \$2 million in proposed projects that would also extend water and sewer services to several previously unserved areas, including some designated as low income. Although the town recently renovated its 750,000 gallons per day wastewater treatment facility, the community was at or near its debt limit.

By the time local officials met with a panel of advisors in a face-to-face *charrette* workshop, the community had applied for or received around \$1.3 million in funds from several sources, including the Farmers Home Administration (now Rural Utilities Service), the state's Community Development Block Grant program, and a private bank. However, another \$1 million in projects remained unfunded.

Recommendations proposed at the Federalsburg charrette included:

- *Adjust the tap-in fee system to reflect the larger volume usage by business. (Historically, tap-in fees for water and sewer were the same—\$1,000 each—for all users.)*
- *Take advantage of excess capacity at the sewage treatment facility to attract residential and commercial development.*
- *Initiate self-help programs, where local residents and other volunteers assume certain project responsibilities, with a potential savings of up to 10 percent of a project's total costs. \$*

trying to comply with regulations or by environmental businesses involved in toxic cleanups.

The California EFC plans to act as a brokerage or "go-between," and, in some cases, provide loan guarantees to promote lending to environmentally innovative projects.

*For more information, contact McNamee or Samuel Doctors, executive director, at (510) 885-3554.*

### Ohio EFC

The fifth EFC was established this year at Cleveland State University in Ohio. It will serve EPA Region 5 (Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin).

The center will initially focus on redeveloping "brownfield" sites. These are abandoned industrial and commercial properties, possibly contaminated by past activities.

"We hope to identify ways that market-based and private sector financing can be used to clean up environmental problems while promoting economic development," says Ohio EFC Director Don Iannone.

*For more information, contact Iannone at (216) 687-6947. \$*

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## Financial Publications Available from NDWC

*Note: The free items listed below are limited to one of each per order. A minimum \$2 shipping and handling charge will apply unless otherwise noted. Call (800) 624-8301 to order.*

■ **A State and Local Government Guide to Environmental Program Funding Alternatives**

Item #: *FMBLFN14*

(See article on page 3.)

Cost: *free*

*The following items were prepared by the U.S. Environmental Protection Agency's Environmental Finance Program. See article on page 9.*

■ **Alternative Financing Mechanisms for Environmental Programs**

Item #: *FMPCFN12*

This 122-page, 1993 report discusses pros and cons of various financing methods.

Cost: *\$15.80*

■ **Public-Private Partnerships Case Studies: Profiles of Success in Providing Environmental Services**

Item #: *FMBKPP02*

The 118-page photocopied book, published in 1989, includes 23 case studies of public-private partnerships in solid waste, wastewater treatment, and drinking water.

Cost: *\$10.85*

■ **Public-Private Partnerships for Environmental Facilities: A Self-Help Guide for Local Governments**

Item #: *FMBKPP03*

This 40-page booklet, published in 1990, gives local officials information about public-private partnerships, how they are beneficial, and how to form one.

Cost: *free*

## AWWA Official Says SDWA Vote Possible

Action on Safe Drinking Water Act (SDWA) reauthorization could take place this summer, according to Frederick W. Pontius of the American Water Works Association (AWWA).

Pontius, AWWA associate director for regulatory affairs, said little action is expected on SDWA reauthorization until Republicans in the House of Representatives finish work on their *Contract With America*.

In an article for *Journal AWWA*, Pontius further suggests that action needs to be taken before September, when the presidential campaign will begin to interfere with congressional activity.

The coalition that unsuccessfully sought SDWA reauthorization last year is active again this year, according to Pontius. But in light of political changes in Washington, the coalition is seeking a more limited range of legislation to include in the proposed reauthorization.

A new drinking water state revolving fund (SRF) was proposed as part of last year's SDWA. The SRF would help communities finance projects to meet federal drinking water mandates, according to Pontius, but Congress may be unwilling to provide funding for the SRF program unless "fundamental improvements" are made to other SDWA provisions. \$

### National Drinking Water Clearinghouse

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