

Federal and State Funding Sources to be Considered for the Southwest Missouri Water Supply Project

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1.0 Introduction

Since 2003 the Tri State Water Resource Coalition (Coalition) has sought a reliable, regional water supply to meet projected future demands and localized shortages during extended drought periods. The Coalition is currently pursuing a water supply source through the reallocation of storage in one or more Federal reservoir projects for municipal and industrial use. Further study is ongoing regarding the connection of the new water supply source(s) to existing water utilities through a transmission pipeline and associated infrastructure (withdrawal intakes, treatment facilities, lift stations, etc.).

The purpose of this report is to describe the federal and state funding sources available for the planning and construction of (drinking) water utility projects. This report does not include a discussion of utility-specific rate increases or surcharges, the issuance of tax-exempt municipal bonds, or local taxation/ballot-initiatives that may also be considered in a project financing plan.

2.0 Federal and State Funding Sources

Prior to the elimination of Congressional earmarks, regional water projects comparable to the ongoing effort in southwest Missouri were often authorized and funded directly through Federal legislation (e.g. nearly \$214 million in federal grant funding was authorized for the Lewis and Clark Regional Water System Project in SD, MN and IA – 80% of the project cost).

Today, the U.S. Environmental Protection Agency (EPA), U.S. Department of Agriculture (USDA) and U.S. Department of Housing and Urban Development (HUD) are the main sources of federal funding for drinking water, wastewater, and stormwater infrastructure. In addition, funding for drinking water and waste water projects is available through state revolving fund loan and grant programs and state appropriations to dedicated water development funds. A summary table of available funding sources in Missouri is included as Attachment 1.

It is important to note that no single funding source described within this report will meet the funding requirements of the proposed Coalition project – rather a portfolio comprised of multiple federal, state, local and private funding sources will be needed. The following sections provide an overview of available state and federal funding sources.

2.1 Water Infrastructure Finance and Innovation Act (WIFIA) Program

The Water Infrastructure Finance and Innovation Act (WIFIA) was signed into law by the President on June 10, 2014, and authorized the WIFIA program to be managed by EPA Headquarters. The WIFIA program is intended to provide credit assistance in the form of loans for large water infrastructure projects. WIFIA works separately from, but in coordination with, the State Revolving Fund (SRF) programs to provide subsidized financing for large dollar-value projects. WIFIA is open to both privately held or investor-owned utilities as well as municipal utilities (public-private partnerships are allowed and encouraged). Through WIFIA, individual projects that are eligible for the SRF program can be “bundled” together and submitted under a single application.

It’s important to note that the new WIFIA program is not fully implemented as of the delivery date of this report. In FY 2014 and FY 2015, Congress provided \$2.2 million to EPA to establish the WIFIA program, including hiring qualified staff, developing regulations, guidance and application materials, and developing a credit subsidy model. However, full implementation of WIFIA will not occur until Congress appropriates funds to cover the subsidy cost of the program, which has not yet happened, but the President’s FY2017 budget requests \$15 million for EPA to begin making loans.

Recently, the Senate approved S. 2848, the Water Resources Development Act or WRDA, on September 16, 2016. A key element in S. 2848 is a provision of \$70 million so WIFIA can start making actual loans. The House version of WRDA does not include this provision and any funding authorization for WIFIA must be negotiated in the Conference Committee, if the 2016 WRDA is even taken up during the remainder of the Congressional session.

WIFIA Program Features:

- Projects must cost at least \$20 million for large communities and \$5 million for small communities (population of 25,000 or less).
- WIFIA assistance may not exceed 49% of a project’s eligible costs.
- Total federal assistance may not exceed 80% of a project’s eligible costs.
- The interest rate on the loan will not be less than the yield on [U.S. Treasury securities of a similar maturity](#) at the date of closing.
- Loans may have a repayment schedule of up to 35 years or the useful life of the project, whichever is shorter. There is no repayment obligation until five years after substantial completion of the project.
- The project must have a dedicated source of revenue and be deemed creditworthy. The senior obligation of the project must receive an investment grade rating. A preliminary rating opinion letter is required at the time of application, and two final rating opinion letters are required prior to closing.
- NEPA, Davis-Bacon, American Iron and Steel, and all other federal cross-cutter provisions apply.

WIFIA Eligible borrowers are:

- Federal, state or local government entities
- Partnerships and joint ventures
- Corporations and trusts
- Tribal governments or consortium of tribal governments
- State Clean Water and Drinking Water State Revolving Fund (SRF) programs

WIFIA Eligible projects are:

- Wastewater conveyance and treatment projects that are eligible for the [Clean Water SRF](#)
- Drinking water treatment and distribution projects that are eligible for the [Drinking Water SRF](#)
- Enhanced energy efficiency at drinking water and wastewater facilities
- Brackish or seawater desalination, aquifer recharge, and water recycling projects
- Acquisition of property if it is integral to the project or will mitigate the environmental impact of a project
- Bundled SRF projects submitted under one application by an SRF program
- A combination of projects secured by a common security pledge

WIFIA Eligible activities are:

- Development phase activities, including planning, preliminary engineering, design, environmental review, revenue forecasting, and other pre-construction activities
- Construction, reconstruction, rehabilitation, and replacement activities
- Acquisition of real property or an interest in real property, environmental mitigation, construction contingencies, and acquisition of equipment
- Capitalized interest necessary to meet market requirements, reasonably required reserve funds, capital issuance expenses and other carrying costs during construction

EPA is currently conducting WIFIA Information sessions that includes an overview of the program, project/applicant eligibility and the application process. In person meetings have been held in several large metropolitan areas and will conclude in Dallas, TX on November 18, 2016. EPA has announced a series of webinars will be conducted in December for those interested in the program. As part of the information session, EPA has released ***draft*** application documents that include a 1) letter of interest and 2) a full application (from EPA-invited applicants that submitted a letter of interest). EPA draft guidance requires the payment of an application fee upon submission of a full application. The ***draft*** application documents are included as Attachments 2A and 2B.

2.2 Drinking Water State Revolving Fund Program (DWSRF)

The Drinking Water State Revolving Fund (DWSRF) program is a federal-state partnership to help ensure safe drinking water. Created by the 1996 Amendments to the Safe Drinking Water Act (SDWA) the program provides financial support to water systems and to state safe water programs. States develop a priority system for funding projects based upon

three criteria from the Safe Drinking Water Act. Priority is given to eligible projects that address the most serious risk to human health, ensure compliance with the requirements of the Safe Drinking Water Act and assist systems most in need, on a per household basis, according to state-determined affordability criteria.

During fiscal year 2017, Missouri expects to have \$72 million available for new Drinking Water SRF projects. This includes carry-over monies from previous years, loan repayments, interest earnings on investments of Drinking Water SRF resources and federal capitalization grants and state match. Missouri law requires the funds be allocated as follows: 20 percent to very small community systems serving fewer than 3,300 people; 15 percent to small systems serving 3,301 to 9,999 people; and, 65 percent to general communities (not restricted by population served). The maximum amount for a loan from any single Intended Use Plan will not exceed 30 percent of available loan funds or \$10 million, whichever is less, unless approved by the Missouri Safe Drinking Water Commission.

Six categories of projects are eligible to receive DWSRF assistance. These categories and examples of projects within them are:

- Treatment
 - Projects to install or upgrade facilities to improve drinking water quality to comply with SDWA regulations
- Transmission and distribution
 - Rehabilitation, replacement, or installation of pipes to improve water pressure to safe levels or to prevent contamination caused by leaky or broken pipes
- Source
 - Rehabilitation of wells or development of eligible sources to replace contaminated sources
- Storage
 - Installation or upgrade of finished water storage tanks to prevent microbiological contamination from entering the distribution system
- Consolidation
 - Interconnecting two or more water systems
- Creation of new systems
 - Construct a new system to serve homes with contaminated individual wells
 - Consolidate existing systems into a new regional water system

However, certain water projects are ineligible for assistance, including the construction or rehabilitation of dams, construction or rehabilitation of most water reservoirs, projects needed primarily for fire protection, and projects needed primarily to serve future population growth.

Types of DWSRF Assistance

The DWSRF offers the following types of assistance:

Loans

- The terms of the loan may not exceed 30 years or the useful life of the project.
- Interest rates must be at or below market rate, including interest-free.

Purchase of debt or refinance

- A community's debt may be purchased by a DWSRF program.
- The purchase may have terms up to 30 years or the useful life of the project.
- A DWSRF program may refinance previously issued debt.

Guarantees and insurance

- Guarantees or insurance can be used where such assistance will result in improved credit market access or reduced interest rates.

Guarantee SRF revenue debt

- DWSRF programs may issue debt guaranteed by DWSRF funds. The revenue generated is used to provide assistance to borrowers for eligible projects. This expands the capacity of a program in the near term.

Provide loan guarantees

- Similar revolving funds established by municipalities or inter-municipal agencies can receive loan guarantees.

Additional subsidization

- DWSRF programs provide up to a fixed percentage of their capitalization grants as additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants.

Earn interest

- DWSRFs may invest available funds in short-term investments.
- All interest earnings must remain in the fund to be used for eligible purposes.

The Missouri Department of Natural Resources solicits applications for the State Revolving Fund program each year. An eligible entity can submit an application at any time to the department. Applications received postmarked by Feb. 15 each year will receive priority consideration for funding in the next fiscal year's Intended Use Plan. A complete facility plan and a voted bond or other debt instrument are required for Drinking Water SRF loan consideration. Potential applicants are encouraged to contact the Financial Assistance Center prior to submitting an application. The Missouri DWSRF FY17 Intended Use Plan and application documents are included as Attachments 3A, 3B and 3C.

Missouri DWSRF Loan Terms

- The Drinking Water SRF offers a fixed-rate loan with a maximum term of 20 years.
- Interest rates are generally only 30 percent of the AAA municipal market rate.
- Annual fee of 1/2 percent of outstanding loan balance for administration costs.
- Short-term loans of one to three years are also available.
- Loan proceeds are to be expended within 36 months of the loan closing.

2.3 USDA Rural Development Water and Environmental Program

The USDA Rural Development Water and Environment Program (WEP) offers financing to rural communities with populations of 10,000 or less to develop, construct or improve water and wastewater infrastructure. WEP also provides funding to organizations that provide technical assistance and training to rural communities for water and wastewater activities. This funding mechanism differs from the Missouri DWSRF in that it is intended primarily for small communities and has payback period of up to 40 years (compared to a 20-year maximum DWSRF payback period).

USDA RD Eligible areas

- Rural areas and towns with fewer than 10,000 people (check [eligible addresses](#))
- Tribal lands in rural areas

USDA RD Funding types

- Long-term, low-interest loans
- If funds are available, grants may be combined with a loan if necessary to keep user costs reasonable

Funds may be used to finance the acquisition, construction or improvement of:

- Drinking water sourcing, treatment, storage and distribution
- Sewer collection, transmission, treatment and disposal
- Solid waste collection, disposal and closure
- Storm water collection, transmission and disposal

In some cases, funding may also be available for related activities such as:

- Legal and engineering fees
- Land acquisition, water and land rights, permits and equipment
- Start-up operations and maintenance
- Interest incurred during construction
- Purchase of existing facilities to improve service or prevent loss of service
- Other costs determined to be necessary for completion of the project

USDA RD Loan rate

- Up to 40-year payback period, based on the useful life of the facilities financed
- Fixed interest rate
- The interest rate is based on the need for the project and the median household income of the area to be served

Applications for this program are accepted through your local offices year around. Since applications are not available on-line, applicants are encouraged to first contact their area office and specialist (Springfield Area Office Contact, Mr. Bruce Hivley, (417) 831- 5246).

2.4 Community Development Block Grants – Water/Waste Water

This program helps communities establish or improve local water or sewer systems. Grants may be used for construction that is related to water treatment and distribution, and sewer treatment and collection for publicly owned systems.

Program Benefits/Eligible Uses:

Grants may be used for construction that is related to water treatment and distribution, and sewer treatment and collection for publicly owned systems. Operation and maintenance activities and not eligible.

Funding Limits:

The maximum amount any applicant can apply for is \$500,000 or \$5,000 per household.

Application/Approval Procedure:

Applications are open cycle (year-round), but **require an invitation** after completing the Missouri Water and Wastewater Review Committee (MWWRC) process. The process includes submission of a preliminary proposal and engineering report to MWWRC for review and comment. The MWWRC meets monthly and is made up of members from USDA-Rural Development, Missouri Department of Natural Resources, and CDBG.

Special Program Requirements:

Applicants must be sure that the project beneficiaries are at least 51% low-to-moderate income persons. New water or sewer systems or expansion/upgrades of existing systems that have substantiated health concerns are prioritized. Successful applicants must demonstrate that rates will adequately cover operation, maintenance, reserves, emergencies, employee overhead, etc.; or, the community must have initiated a graduated rate increase that will provide adequate operating costs over a period of years. Communities applying a regional approach to problem solving will receive priority consideration as well. The CDBG Water/Waste Water Application is included as Attachment 4.

2.5 Missouri Water Development Fund (RSMo 256.280 – 256.360)

The purpose of the Missouri Water Development fund is to receive transfers of appropriations from the General Revenue Fund for the purpose of purchasing municipal and industrial water supply storage in public works projects. In addition, this statute provides the authority for the State to enter into contracts with appropriate Federal agencies to secure municipal and industrial water supply storage. Acceptable payments from the Water Development Fund include water supply storage costs incurred by project construction (including cost sharing of the project investment cost), annual operation, maintenance and replacement costs, and payment of the interest on the unpaid balance.

The Missouri Water Development Fund has been used to make payments toward the State's water supply storage obligations in Mark Twain Lake (Clarence Cannon – northeast

Missouri) from 1998 through the present. Payments to the Fund are included in the Missouri Department of Natural Resources annual budget request and funding would be contingent upon a contract between the State of Missouri, US Army Corps of Engineers (and likely the Southwest Missouri Joint Municipal Water Commission) and subsequent annual appropriations from the Missouri General Assembly.

2.6 Multipurpose Water Resource Act (RSMo 256.435 – 256.445)

The purpose of the Multipurpose Water Resources Act (Act) is to ensure adequate, long-term, reliable public water supply storage, treatment and water related facilities in both urban and rural areas of the State. The Act includes the “Multipurpose Water Resource Program Renewable Water Program Fund” (Multipurpose Fund) that is intended to receive and distribute funds from a variety of sources (public and/or private) for a broad variety of water resource project needs (including reservoir storage and infrastructure funding). The Act authorizes the Missouri Department of Natural Resources (MDNR) to administer moneys appropriated to the Fund through the provision of grants or other financial assistance, and allows for the state to participate with a sponsor in the development, construction or renovation of a water resource project (upon submission and acceptance of a project plan).

The fund is designed to receive appropriations from the Missouri General Assembly during the annual budget process. To date, the fund has been used in a limited capacity but represents a potentially broad and flexible funding source.