

# Water sense

Premier Issue 1994  
Volume 1, Issue 1

## RDA Loan Program Provides Funding Alternative

by P.J. Cameon  
NDWC Staff Writer

The Marysville Water Association in Union County, Arkansas, needed to increase its water supply by adding a second well and chlorinator. Like water systems nationwide, it faced the often difficult process of securing funds.

A program operated by the Rural Development Administration (RDA) helped the water association finance the needed project. The RDA's Intermediary Relending Program (IRP) allowed the association to acquire the funding it needed at a favorable interest rate.

The water association, with 266 customers, needed to boost its water production to meet growing demand and to accommodate a nearby factory.

"The well we had was sufficient for everyday use, but we needed a second one," explained Sandy Woolsey, accountant for the association.

The association turned to the Community Resource Group (CRG) in Springdale, Arkansas, an RDA intermediary, which provided a \$56,000 loan at seven percent interest. The CRG loan originated from an IRP it operates.

"It was the best possible loan for us," Woolsey said. "We financed the loan over seven years. Going with other sources would have required the loan to be financed over 20 years or more."

Woolsey said the seven percent rate was lower

than rates offered by other lending institutions, which meant the association could afford to pay off the loan over a shorter period.

### How does the loan program operate?

The RDA provides loans of up to \$2 million each to intermediaries, which may be private nonprofit corporations (such as CRG), public agencies, federally recognized Tribal groups, or cooperatives. The RDA issues these loans at one percent interest for up to 30 years.

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*Wash day for the Trevillo family of rural Hidalgo County, Texas, is a lot easier since a loan from the Community Resource Group (CRG) Community Loan Fund provided the resources to bring water to their house. The loan is part of a Rural Development Administration loan program.*

*Photo by Russell Cauthron, courtesy of CRG.*

## Drinking Water SRF Is Possible Next Year

by P.J. Cameon  
NDWC Staff Writer

Drinking water industry officials are eager to see Congress approve a proposed state revolving fund (SRF) next year to help the nation's drinking water systems meet federal regulations.

"The drinking water SRF is important to both states and communities," said Vanessa Leiby, executive director of the Association of State Drinking Water Administrators. "It would begin to put a dent into the need for funding, and

certainly it is something we are interested in seeing authorized."

Congress appropriated \$1.3 billion to the U.S. Environmental Protection Agency (EPA), as part of the fiscal year 1994 and 1995 budgets, to fund the first two years of the drinking water SRF. However, authorization to start the new loan program was contained in the Safe Drinking Water Act (SDWA) reauthorization that Congress did not pass before its October 8 adjournment. The SRF is designed to help communities offset

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## Water Sense

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Rural Development  
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Acting Administrator  
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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 Development Administration and is located at West Virginia University.

Manager, WVU Environmental Services and Training Division

John L. Mori, Ph.D.

Publications Supervisor  
Jill Ross

Writer/Editor  
Laurie Klappauf

Staff Writer  
P.J. Cameon

Graphic Designer  
Rob Whitmore

### Article Submissions

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Editor, *Water Sense*, NDWC  
West Virginia University  
P.O. Box 6064  
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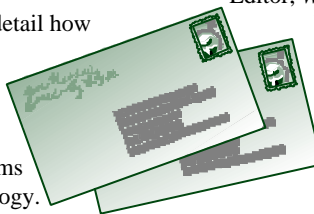
# Water Sense: Your Financial News Source

by Laurie Klappauf  
*Water Sense Editor*

Welcome to the premier issue of *Water Sense*, the NDWC's new quarterly newsletter devoted to financial options for small community drinking water systems. *Water Sense* is aimed at local, state, and federal officials; planning commissions; consultants and engineers; assistance organizations; regional and national associations; and anyone else involved in providing safe drinking water to small communities.

We recognize that small communities increasingly must shoulder heavy financial burdens as they struggle to meet regulatory guidelines, repair or replace inadequate systems, and obtain up-to-date technical expertise. We want to help resolve these financial problems by providing information about:

- funding sources (such as federal, state, and local governments; private sector organizations; and nonprofit foundations)
- each source's funding criteria and how to apply
- listings of resources—organizations, publications, training programs, and various experts—that provide financing assistance
- updates on legislation that affect drinking water funding
- "real life" success stories that detail how some communities have dealt with their financial problems
- cost-saving strategies for small communities
- innovative financing mechanisms
- financial "basics" and terminology.



*Water Sense* will supplement the technical and regulatory information currently provided by *On Tap*. We are fortunate to have on our staff P.J. Cameon, an experienced reporter who has already delved into state revolving funds and intermediary relending programs for this first issue.

*Water Sense* will have a separate mailing list from *On Tap*, so you must let us know if you want to be added to the new list. To receive future *Water Sense* issues, register for a free subscription by filling out the card inserted in this issue of *On Tap*. (Share the other card with a colleague!)

In addition, we would like your input so we can best serve you. What questions and issues would you like to see addressed? For what types of activities—capital projects, operations, maintenance, monitoring, or other functions—do you need the most financial advice?

We also encourage you to share your knowledge and experience, through *Water Sense*, with others in similar situations. Has your community solved a financial dilemma by developing an innovative strategy or tapping into a little-known resource? Do you know of new resources—new publications, organizations, or programs—that should be announced?

Please send your questions and comments to:  
Editor, *Water Sense*, NDWC, West Virginia University, P.O. Box 6064, Morgantown, WV 26506, or call (800) 624-8301. You may also include comments on the subscription form provided in this issue. \$

## RDA Loan Program Provides Funding Alternative

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The intermediaries, in turn, provide loans to the ultimate recipients, such as the Marysville Water Association. The ultimate recipients may be private or public organizations or individuals. To qualify for the IRP, both the intermediaries and the ultimate recipients must be unable to obtain loans elsewhere at reasonable rates and terms.

"[The intermediaries] use the money to establish revolving loan programs, in most cases, to finance businesses to create jobs. It can also be used for community development," said Wayne Stansbery, senior loan specialist in the RDA's Business and Industry Division. The IRP operated by CRG is primarily geared toward drinking water and wastewater projects.

"We encourage intermediaries to [issue loans to ultimate recipients] at the lowest rate that still allows them to repay us and cover administrative

costs and losses," Stansbery said.

As the ultimate recipients repay their loans, a portion of those funds is used by the intermediaries to provide new loans to communities in need. At the same time, the intermediaries are repaying funds they received from RDA, which then provides new loans to intermediaries.

Since the RDA's IRP was implemented in August 1988 it has provided intermediaries with 213 loans totaling \$221 million. CRG and the Southeast Rural Development Loan Fund, a component of the Virginia Water Project, are currently the only two intermediaries providing loans for drinking water projects. Both organizations serve as regional offices of the nationwide Rural Community Assistance Program (RCAP), providing technical and financial assistance to rural, low-income communities.

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## RDA Loan Program Provides Funding Alternative

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### CRG Aids Seven-State Region

Under the relending program, RDA loaned CRG \$1 million in fiscal year 1990 to establish a program for very small water and sewer projects. The effort was aided with a \$1 million loan from the Ford Foundation. CRG offered communities loans at below-market interest rates of five to seven percent, with repayment schedules ranging from two to 10 years.

"Basically, the kinds of loans we're making are to accomplish those smaller projects where the administrative costs are too high to make a traditional loan affordable," said Robert Anderson, director of CRG's loan fund division.

All funds from that initial CRG relending program have been allocated, but the group is applying for a second IRP loan for water and wastewater projects in its seven-state region: Alabama, Arkansas, Louisiana, Mississippi, Oklahoma, Tennessee, and Texas.

Woolsey, at the Marysville Water Association, said CRG provided the "most feasible" option to meet her association's needs.

"You couldn't ask for any nicer people to deal with," Woolsey said, praising the CRG officials. "If we have any questions, we just pick up the phone and call them."

Also under the CRG relending fund, the water system in Hidalgo County, Texas, was able to extend its lines to a neighborhood near the Mexican border that was without water service. Residents in Bexar County, Texas, were able to acquire, merge, and upgrade neighboring water systems with help from the relending program.

### New IRP Started for Southeastern States

An IRP program for drinking water projects is also being provided through the Southeast Rural Development Loan Fund, a component of Virginia Water Project, Inc., in Roanoke, Virginia. This loan fund is available to communities in Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, and Virginia.

The loan fund received a \$2 million loan from RDA in 1994 and an earlier \$1 million Ford Foundation loan to operate its IRP.

Beth Taylor, the loan fund manager, said the IRP is available for small business development and housing needs, but its main focus is drinking water and wastewater projects. She said the IRP can fund up to 75 percent of a project's total costs.

The loan fund will provide up to \$150,000, with interest rates ranging from three to seven percent. Typical projects eligible for funding include sewer system and water line extensions, water meter replacements, storage tank

restoration, and water system rehabilitations.

Taylor's group has already processed four IRP loans and is reviewing three others. It is continuing to accept applications from small communities in its region. \$

### IRP: How You Can Participate



The Rural Development Administration's (RDA) Intermediary Relending Program (IRP) is designed to help rural, low-income communities spur economic development and job growth. Such efforts can include improvements to drinking water infrastructure.

RDA provides low-interest loans to "intermediaries," which in turn provide loans to "ultimate recipients."

- Intermediaries:
- can be private nonprofit corporations, public agencies, federally recognized Tribal groups, or cooperatives;
  - must have legal authority to carry out the proposed loans and to incur and repay the debt;
  - must have a record of successfully assisting rural business and industry; and
  - must provide assurance of repayment.



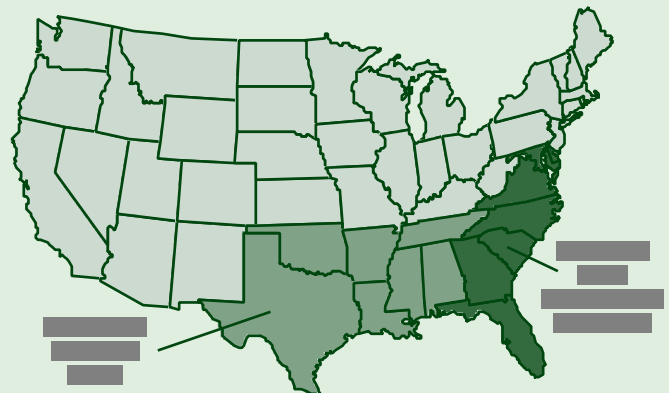
Organizations interested in participating as intermediaries may contact:

Wayne Stansbery  
RDA Senior Loan Specialist  
(202) 690-4100



"Ultimate recipients" can be private or public organizations or individuals. Currently, IRP loans are available to ultimate recipients for drinking water and wastewater projects in two regions (highlighted below). For more information, contact the appropriate "intermediary" office:

- **Community Resource Group**  
Springdale, Arkansas  
Robert Anderson  
Loan Division Manager  
(800) 392-4120
- **Southeast Rural Development Loan Fund**  
Virginia Water Project, Inc.  
Beth Taylor  
Loan Fund Manager  
(703) 345-1184



For more information about the IRP or other RDA programs in your area, contact your local Farmers Home Administration (FmHA) office. (For the number of your state FmHA office, call the National Drinking Water Clearinghouse at 1-800-624-8301.) \$

## Drinking Water SRF Is Possible Next Year

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the cost of compliance with SDWA standards.

"It would seem to me that there are some supporters who would be interested in even a stand-alone authorization," Leiby said, suggesting that Congress consider approving the drinking water SRF separately from the SDWA reauthorization. "It would be disappointing to lose the SRF money that so many people fought so hard to obtain, particularly when funding has been made available."

Leiby said there appears to be time for Congress to approve the drinking water SRF when it convenes next year. She said it appears funding for the SRF program is available until at least August 1, 1995. If not authorized for drinking water by that point, the funds could be reappropriated to an EPA SRF program for wastewater projects, she added.

### How would the SRF operate?

The revolving fund program would provide federal grants to states that would in turn provide low-interest loans to local water systems to construct needed improvements to meet SDWA standards. The fund could also be used to restructure or consolidate systems in efforts to improve compliance. The SRF would operate in a method similar to the existing wastewater SRF, started in 1988.

Jamie Bourne, manager of the EPA's State Capacity Initiative, said the drinking water SRF is critically needed and would lead to greater compliance with SDWA standards. He said that while many states already have some type of state loan program or bond bank to assist drinking water systems, the level of funding available is far from adequate.

"The SRF would provide systems with a way to lower the cost of funding their needed drinking water infrastructure improvements," Bourne said.

While a current estimate of these needs is not available, Bourne did mention Congressional testimony given in 1991 that provided a conservative estimate of \$150 billion required over 20 years to address the nation's drinking water infrastructure needs.

The infrastructure needs directly related to SDWA compliance is a small percentage of this overall need, said Bourne. EPA has estimated capital needs to comply with current SDWA regulations at \$8.6 billion.

EPA is now conducting a national needs survey of drinking water systems to assess just how much the systems must invest to

supply safe water and comply with current and future federal regulations. This *SRF Needs Survey for Drinking Water*—scheduled for completion next year and publication in early 1996—will likely be used by Congress to allocate SRF monies to states in the future.

In addition to the \$1.3 billion appropriated for the drinking water SRF through fiscal year 1995, the Clinton administration has proposed an annual \$1 billion in funding for fiscal years 1996, 1997, and 1998, according to Bourne.

After the states receive funding for their individual programs and provide their required share of matching funds, they could issue loans with interest rates from zero percent up to market rates, Bourne said. Loans would likely be repaid over 20 years, although this could be extended for smaller communities. Loan repayment would start within one year after completion of the funded project.

Cost savings would vary by system size and ability to borrow funds in the bond market, according to Bourne. Smaller systems would potentially save the most, since their borrowing costs are traditionally higher, if they can borrow at all.

The loan repayments, both the principal and interest, would go back to the state programs and "revolve," to be reloaned for other drinking water projects.

### What about small and private systems?

Bourne said the bills that had been considered by the House and Senate, while different, both contained provisions for loan forgiveness or grants to communities with fewer than 10,000 residents. A portion—perhaps 15 to 30 percent—of the SRF funds would be dedicated to help these "disadvantaged" small communities.

Bourne also said a percentage of the SRF funds—likely 1.5 percent—would be set aside as a grant program for Native American groups and native Alaskan villages.

Another SRF provision would allow the funds to be loaned to privately-owned community water systems and nonprofit, noncommunity systems, according to Bourne.

Bourne said EPA felt it was important not to neglect the category of privately-owned systems because they make up approximately 46 percent of the nation's 59,000 community water systems.

*Water Sense will help keep you abreast of congressional action concerning the drinking water SRF, as well as other major legislation affecting drinking water finance. \$*

*"It would be disappointing to lose the SRF money that so many people fought so hard to obtain, particularly when funding has been made available."*

Vanessa Leiby,  
Executive Director,  
Association of State  
Drinking Water  
Administrators

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