SECTION 7: POTENTIAL FUNDING SOURCES

Funding sources for the Calhoun County Regional Wastewater System are dependent on the selected alternative and financial viability of each political entity within the study area. Also, the type of funding source selected to finance the engineering design and construction costs will depend on the organizational structure of the entity that owns and operates the regional system.

A number of potential funding sources exist for rural utilities, which typically provide service to less than 50,000 people. Both state and federal agencies offer grant and loan programs to assist rural communities in meeting their infrastructure needs. Most are available to "political subdivisions" such as counties, municipalities, school districts, special districts, or authorities of the state with some programs providing access to private individuals.

Grant funds are typically available to those entities that demonstrate financial need based on a median household income (MHI) value below 75 to 80 percent of the State's MHI value. The funds may be used for planning, design, and construction of wastewater construction projects. Some funds may be used to finance the consolidation or regionalization of neighboring wastewater utilities. Three Texas agencies that offer financial assistance for wastewater infrastructure are:

- ***Texas Water Development Board (TWDB)*** has several programs that offer loans at interest rates lower than the market offers to finance projects for public wastewater systems that facilitate compliance with wastewater regulations. Additional subsidies may be available for disadvantaged communities. Low interest rate loans with short and long-term finance options at tax exempt rates for wastewater projects give an added benefit by making construction purchases qualify for a sales tax exemption. Generally, the program targets customers with eligible wastewater projects for all political subdivisions of the state (at tax exempt rates).
- ***Texas Department of Rural Affairs (TDRA, formerly ORCA)*** is a state agency with a focus on rural Texas by making state and federal resources accessible to rural communities. Funds from the U.S. Department of Housing and Urban Development Community Development Block Grants (CDBG) are administered by TDRA for small, rural communities with populations less than 50,000 that cannot directly receive federal grants. These communities are known as non-entitlement areas. One of the program objectives is to meet a need having a particular urgency, which represents an immediate threat to the health and safety of residents, principally for low- and moderate-income persons. At this time, the programs may be changing since the legislative

session; the agency will become the Office of Rural Affairs at the Texas Department of Agriculture during the fall of 2011.

- ***U.S. Department of Agriculture Rural Development (USDA Rural Development)*** coordinates federal assistance to rural Texas to help rural Americans improve their quality of life. The Rural Utilities Service (RUS) programs provide funding for water and wastewater disposal systems. The application process, eligibility requirements, and funding structure vary for each of these programs. There are many conditions that must be considered by each agency to determine eligibility and ranking of projects. The principal factors that affect this choice are population, percent of the population under the State MHI, health concerns, compliance with standards, Colonia status, and compatibility with regional and state plans.

In addition to Federal and State water/wastewater programs, funding sources may also originate from revenue bonds and developer participation towards the regional infrastructure of the system. An overview of all of these financing mechanisms is presented below.

7.1 FEDERAL AND STATE INFRASTRUCTURE PROGRAMS

There are a variety of funding programs available to entities through Federal and State infrastructure programs. Depending on the type of organization that owns the proposed regional wastewater facilities, funding is most likely to be obtained from programs administered by the TWDB, TDRA and/or USDA Rural Development. Information required by these agencies for initial applications may include financial analyses, records demonstrating health concerns, failing infrastructure, and financial need.

7.1.1 TWDB Funding Options

The programs offered by the TWDB include the Clean Water State Revolving Fund (CWSRF), State Loan Program (Development Fund II) and Economically Distressed Areas Program (EDAP).

Clean Water State Revolving Fund

The Clean Water State Revolving Fund (CWSRF) provides loans (Tier II) at interest rates lower than the market to political subdivisions with the authority to own and operate a wastewater system. The CWSRF also includes Federal (Tier III) and Disadvantaged Communities funds that provide even lower interest rates for those meeting the respective criteria.

The CWSRF offers fixed and variable rate loans at subsidized interest rates. The maximum repayment period for a CWSRF loan is 20 years from the completion of project construction. A cost-recovery loan origination charge of 1.85% is imposed to cover administrative costs of operating the CWSRF; however, an additional interest rate subsidy is offered to those financing the origination charge.

TWDB accepts Project Information Forms (PIFs) from prospective loan applicants to be included on the CWSRF Intended Use Plan (IUP) during the early part of each year. The Information Form describes the applicant's existing wastewater facilities, facility needs, the nature of the project being considered and project cost estimates. This information is used to rate each proposed project and place them in priority order on the IUP. Applicants eligible for funding through the CWSRF program are notified in the summer to attend a pre-application meeting and submit an application for financial assistance. Funds would be available the following year after previously submitting the Project Information Form.

State Loan Program (Development Fund II)

The State Loan Program is a diverse lending program directly from state funding sources. As it does not receive federal subsidies, it is more streamlined. The loans can incorporate more than one project under the umbrella of one loan. Political subdivisions of the state are eligible for tax exempt rates. Projects can include purchase of treatment plants, pumping facilities, lift stations, collection lines, and acquisitions. The loan requires that the applicant pledge revenue or taxes. The maximum financing life is 50 years, and the average financing period is approximately 20 years. The lending rate scale varies according to several factors, but is set by the TWDB based on cost of funds to the board, risk factors of managing the board loan portfolio, and market rate scales.

The application materials must include an engineering feasibility report, environmental information, rates and customer base, operating budgets, financial statements, and project information. The TWDB considers the needs of the area; benefits of the project; the relationship of the project to the overall state water needs and the State Water Plan; and the availability of all sources of revenue to the rural utility for the ultimate repayment of the loan. The board considers applications on a monthly basis.

Economically Distressed Areas Program

The EDAP Program was originally designed to assist areas along the U.S./Mexico border in areas that were economically distressed. In 2008, this program was extended to apply to the entire state so long as requirements are met. This program provides financial assistance through the provision of grants and loans to communities where present facilities are inadequate to meet resident's minimal needs. Eligible communities are those that have median household income less than 75 percent of the state household income.

The county where the project is located must adopt model rules for the regulation of subdivisions prior to application for financial assistance. If the applicant is a city, the city must also adopt Model Subdivision Rules of TWDB (31 TAC Chapter 364). The program funds design, construction, improvements, and acquisition, and includes measures to prevent future substandard development. The TWDB works with the applicant to find ways to leverage other state and federal financial resources. The loan requires that the applicant pledge revenue or taxes. The maximum financing life is 50 years, and the average financing period is approximately 20 years. The lending rate scale varies according to several factors, but it is set by the TWDB based on cost of funds to the board, risk factors of managing the board loan portfolio, and market rate scales. The TWDB seeks to make reasonable loans with minimal loss to the state. Most projects have a financial package with the majority of the project financed with grants; many recipients have received 100 percent grant funds.

7.1.2 TDRA Funding Options

The Texas Department of Rural Affairs (TDRA, previously ORCA) seeks to strengthen rural communities and assist them with community and economic development and healthcare by providing a variety of rural programs, services, and activities. Of their many programs and funds, the most appropriate programs related to drinking water are the Community Development (CD) Fund and Texas Small Towns Environment Program (STEP). These programs offer attractive funding packages to help make improvements to wastewater systems to mitigate potential health concerns.

Community Development Fund

The CD Fund is a competitive grant program for water and wastewater system improvements. Funds are distributed between 24 state planning regions where funds are allocated to address each region's utility priorities. Funds can be used for various types of public works projects, including wastewater system improvements. Cities with a population of less than 50,000 that are not eligible for direct CDBG funding from the

U.S. Department of Housing and Urban Development are eligible. Funds are awarded on a competitive basis decided twice a year by regional review committees. Awards are no less than $75,000 and cannot exceed $800,000.

Texas Small Towns Environment Program

Under special occasions some communities are invited to participate in grant programs when self-help is a feasible method for completing a wastewater project, the community is committed to self-help, and the community has the capacity to complete the project. The purpose is to significantly reduce the cost of the project by using the communities' own human, material, and financial capital. Projects typically are repair, rehabilitation, improvements, service connections, and yard services. Reasonable associated administration and engineering cost can be funded. A letter of interest is first submitted, and after CDBG staff determines eligibility, an application may be submitted. Awards are only given twice per year on a priority basis so long as the project can be fully funded ($350,000 maximum award). Ranking criteria are project impact, local effort, past performance, percent of savings, and benefit to low to medium-income persons.

7.1.3 USDA Rural Development Funding Options

USDA Rural Development established a Revolving Fund Program (RFP) administered by the staff of the Water and Environment Program (WEP) to assist communities with water and wastewater systems. The purpose is to fund technical assistance and projects to help communities bring safe drinking water and sanitary, environmentally sound, waste disposal facilities to rural Americans in greatest need. WEP provides loans, grants, and loan guarantees for drinking water, sanitary sewer, solid waste, and storm drainage facilities in rural areas and cities and towns with a population of 10,000 or less. Recipients must be public entities such as municipalities, counties, special purpose districts, Indian tribes, and corporations not operated for profit. Projects include all forms of infrastructure improvement, acquisition of land and water rights, and design fees. A request for a combination of grants and loans vary on a case by case basis, and some communities may have to wait though several funding cycles until funds become available.

Water and Wastewater Disposal Program

The major components of the RFP are loan, loan guarantees, and grant funding for water and waste disposal systems. Entities must demonstrate that they cannot obtain reasonable loans at market rates, but have the capacity to repay loans, pledge security, and operate the facilities. Grants can be up to 75 percent of the project costs, and loan guarantees can be up to 90 percent of eligible loss. Loans are not to exceed a 40-year repayment period, require tax or revenue pledges, and are offered at three rates:

- ***Poverty Rate -*** The lowest rate is the poverty interest rate of 4.5 percent. Loans must be used to upgrade or construct new facilities to meet health standards, and the MHI in the service area must be below the poverty line for a family of four or below 80 percent of the statewide MHI for non-metropolitan communities.
- ***Market Rate –*** Where the MHI in the service exceeds the state MHI, the rate is based on the average of the "Bond Buyer" 11-Bond Index over a four week period.
- ***Intermediate Rate –*** the average of the Poverty Rate and the Market Rate, but not to exceed seven percent.

7.2 REVENUE BONDS

In addition to Federal and State wastewater programs, a wastewater utility may pledge future earnings to fund improvements to the wastewater system through the issuance of revenue bonds. A revenue bond is a special type of municipal bond, and the income generated by the improvement or expansion of the wastewater project would be used for repayment. Unlike general obligation bonds, only the revenues specified in the legal contract between the bond holder and bond issuer are required to be used for repayment of the principal and interest of the revenue bonds. Since the pledge of security is not as great as that of general obligation (G.O.) bonds, revenue bonds may carry a slightly higher interest rate than G.O. bonds.

7.3 DEVELOPER PARTICIPATION

Developer participation typically occurs through two means: upfront capital contributions or payment of impact fees for a water/wastewater infrastructure project. Under a regional system where several political subdivisions are participating, a single independent organization or entity is recommended to manage and/or operate the regional system, such as a river authority or regional utility authority. River authorities, a regional utility authority, or other similar entities may require a developer to completely finance the entire cost of an infrastructure project and then turn it over to the utility to own and operate on their behalf. A utility may also require a developer to pledge capital towards an infrastructure project through an upfront cash payment or a letter of credit for the utility to drawdown on if needed to reduce the level of risk on the project.

The utility may also require that developers contribute toward the cost of new water/wastewater infrastructure through the payment of impact fees. The intent of this funding source is that the cost of new infrastructure serving new utility customers will not be subsidized by the existing utility rate payers. In essence, growth pays for growth.

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