

## The Safe Drinking Water Trust by the RCAP

### With a little help from USDA-RD

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Big projects can cost big bucks, which can mean big problems for small water systems.

The U.S. Department of Agriculture has spent years helping small systems pay for those big projects using funding from its Rural Development programs.

Is your system eligible for USDA-RD funding? What will you need to apply? What sort of terms should you expect? What if a loan for the full amount would mean too much debt for your system?

In this edition of eBulletin, we'll talk about the USDA-RD loan and grant programs and how your system can apply, what you will be expected to do and how you can improve your chances of getting approval.

#### Is it for you?

The USDA-RD loan and grant program offers funding to water and wastewater systems in rural communities. The systems must cover areas with a population of no more than 10,000 people.

The money can be used for a variety of things, from major improvements or upgrades to the system to land acquisition, engineering services and startup operating funds. Basically, the funds cover any improvements, upgrades or costs that will expand or improve a system or bring it into state and federal regulations' compliance.

That may seem to cover a lot of systems. Not necessarily. The USDA-RD program is only available to systems who can't find funding elsewhere. So if your system can qualify for a grant or loan from another entity, you must get money from them first. However, there is a loophole to this to help small systems. According to the USDA, the other funding sources must include "reasonable rates and terms." In other words, if you're offered a loan, but at a variable interest rate or fixed rate that threatens to be too high for the system to pay off, then it may be possible to go ahead and apply for the USDA-RD loan instead.

There's another major requirement to consider. This is a loan program, meaning you'll have to pay the money back. Because of this, the USDA-RD requires that applicants be "financially sound." The USDA-RD wants to be sure you can pay your taxes, handle operating costs and pay back the loan.

If this is an issue, help is available from groups like the Rural Community Assistance Partnership. RCAP representatives can analyze your finances and help you set up a rate and billing system that will allow you to pay bills and make loan payments. They also can help you prepare USDA-RD applications. Links to the RCAP regional partners are provided below.

There's one other requirement you'll need to know. Those planning on applying, according to the USDA, "must employ the services of an engineer and an attorney to provide necessary technical and legal services associated with the project." Again, check with your local RCAP affiliate if you need help with this.

The USDA-RD has representatives available in each state to help with the application process as well. It's a good idea to give them a call. You can find your state's representative using the USDA's site. The link is provided below.

#### Additional Resources

USDA-RD State Staff map

<http://www.usda.gov/rus/water/states/usamap.htm>

Rural Community Assistance Partnership (RCAP)

<http://www.rcap.org>

RCAP Solutions (Northeast)

<http://www.rhircap.org>

Southeast Rural Community Assistance Project, Inc. (Southeast)

<http://www.sercap.org>

Community Resource Group (Southern)

<http://www.crg.org>

WSOS Community Action Commission (Great Lakes)

<http://www.wsos.org>

Midwest Assistance Program (Midwest)  
<http://www.map-inc.org>  
Rural Community Assistance Corporation (West)  
<http://www.rcac.org>

### Loan, grant or both?

The crux of the USDA-RD funding program is its loans. The loans are based on two things - how much a system needs, and how much it can repay. That's why it's important to make sure the system's finances are in order before applying for a USDA-RD loan. You must be able to show that the loan can be repaid through taxes, assessments, water rate charges, etc.

There are advantages to a USDA-RD loan. Unlike many bank loans, the interest rates on the USDA-RD loan are fixed once the loan is approved on both sides. Currently, the interest rates are 3.125% for poverty level, 4.125% for intermediate level and 5.125% for market level on loans approved after May 22, 2008. Loan rates can vary, however, so check with your USDA-RD representative for the latest rates.

Another advantage to the USDA-RD loan is its term length. Unlike standard loans that typically run 10-30 years, the USDA-RD loan can have a 40-year term. This helps keep monthly payments down by letting the system take longer to pay off the loan at a fixed interest rate.

If a huge project would mean huge debts from a loan, then a grant may help ease the financial pain. The USDA-RD allows supplemental grants to keep loan payments to a reasonable level. But you can only get so much from the grant portion of the program.

The USDA-RD state programs have set maximum limits on median household income in the system's area. The limits can vary from state to state. Grants are not available to those systems whose median household income surpasses this limit. Those with incomes well below the limit may qualify for grants up to 75% of the total cost of the project. Those below the maximum limit but still in the upper range may only qualify for grants up to 45% of the cost. Confusing? Here's a general example:

Communities in a state with the median household income is above \$40,000 are not considered eligible for USDA-RD grants. For those eligible, the grant won't total more than 75% of the project's total cost if the median household income is below \$35,000. Systems where the household income is above \$35,000 but below \$40,000 can only get up to 45% of the total cost as a grant. In other words:

#### **Median household income Grant maximum (% of total costs)**

Below \$35,000	Up to 75% of total cost of project(s)
\$35,000-\$40,000	Up to 45% of total cost of project(s)
Above \$40,000	Not eligible

Keep in mind, those 75% and 45% figures are the maximum amounts. Don't expect to get the full 75% as a grant if 30% will be enough to keep you financially stable. Chances are, your grant will only total that 30%.

With any luck, a standard USDA-RD loan will cover the costs of the planned projects. If the payments are too much to bear, however, the USDA-RD's grant program can help save the projects from being abandoned due to cost.

### What you'll need

Application for USDA-RD is not going to be a short process. There are several forms to fill out, plenty of data to gather, and conditions you may need to meet later before you see the first check. The process can take anywhere from a few months to over a year before the money is received by the system, though emergency funding is available in very limited situations, such as a catastrophic equipment failure or natural disaster. In general, though, be prepared for a bit of a wait. The USDA-RD has a lot of information to go through in order to make its decision.

Initially, you won't need much to get the ball rolling. The two main forms to submit for pre-approval are the Application for Financial Assistance (Form SF424) and the Preliminary Engineering Report (PER).

If these initial forms meet the USDA-RD's criteria, then you should get a letter asking for the rest of the application material.

Once the initial letter is received asking for more information, you'll need to gather a lot of information to continue the application process. Again, this can vary from state to state. However, most states will require this basic information to complete the application process:

- State Clearinghouse comments. Basically, these state the project has been checked and won't interfere with state or other property such as archaeological sites, state forests or parks, etc.
- Regional Clearinghouse comments. This is similar to the State Clearinghouse comments.
- Current and past financial statements. These should include how much debt the system has and has had and how well the system has performed in paying on those debts.
- Certification of Inability to get credit elsewhere. This should show why the USDA-RD funding is the last resort, such as because funding has been denied or because interest rates were too high for the system to be able to repay.
- Publication of Notice of Intent to file the application. This shows the water system announced plans publicly, such as at a regular meeting, to apply for USDA-RD funding.
- Data Universal Numbering System (DUNS). This number can be acquired by calling 1-866-705-5711 or by visiting the link below.

These forms can be downloaded from the USDA-RD web site. The link is provided below.

These forms are only the beginning. Once approval is complete, other forms may be needed later at the request of the USDA-RD.

Here's a tip: When completing the application, make sure you explain the project in detail. Vague descriptions may prompt the USDA-RD to ask for more details, slowing the process. Denial of the application is possible as well. Basically, the USDA-RD wants to know exactly how its money will be spent. Imagine if your kids came to you and said, "Can I have \$100 for school stuff?" Chances are, you won't be willing to cough up the cash. But hearing "Can I have \$100 to pay for my graduation fees, graduation gown and class ring?" might yield a better response.

#### **Additional Resources**

USDA-RD forms

<http://www.usda.gov/rus/water/wwforms.htm>

Data Universal Numbering System

[http://www.dnb.com/us/duns\\_update/index.html](http://www.dnb.com/us/duns_update/index.html)

#### **What to expect**

What happens once the application is sent?

Loan applications are evaluated on a first-come, first-serve basis, though the smallest communities and those needing to bring systems back into federal and state health compliance take priority.

Some of the criteria the USDA-RD takes into consideration are:

- Will the loan improve operating efficiency for the water system?
- Will the system be able to provide services to additional residents?
- Will there be additional local, state and/or federal funding?
- How stable are the system's finances?
- How much money will the system need from the USDA-RD program?

Again, being as detailed as possible can help the USDA-RD answer these questions more quickly.

Once all the applications are complete, it's time to hurry up and wait - and check your mail.

Loan approvals often are announced with the arrival of a Letter of Conditions. The letter basically states that the money will be awarded if certain criteria are met. These can range from more specifics on the job plan to improvements in the system's financial stability. Once the conditions are met, the money is given to the water system.

The conditions can be simple or complex, but your local USDA-RD or RCAP representative can help you meet those conditions.

The paperwork doesn't end once you receive the money. Expect to keep the USDA-RD informed of the project's status, including any delays, cost overruns or problems. They'll also want reports on how the project is helping the customers. Basically, be prepared for paperwork throughout the life of the loan.

It may seem a daunting task, but the USDA-RD program is a good last resort for systems that otherwise can't fund major improvements or can't seem to stay in compliance with federal, state or local regulations. It may be a long, often complicated process, but the end result is what counts - better service for your customers.