

# KDHE ARRA Funding

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# The Basics

- American Recovery & Reinvestment Act became law on February 17, 2009
- “—to preserve and create jobs and promote economic recovery.”
- \$2 billion authorized nationally for drinking water infrastructure
- ARRA funds are to be channeled through state revolving loan fund programs (SRF)

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# What is a SRF Program?

- SRF stands for state revolving fund
- Kansas Public Water Supply Loan Fund (KPWSLF)
- Loans offered at below market interest rates for water system infrastructure
- Capitalized with grants from EPA
- Short turn-around time for funding, 90 days typical
- No interim financing needed
- Loan disbursements for project costs typically made within two-weeks

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# KPWSLF Background

- Safe Drinking Water Act (SDWA) authorized SRF programs nationally in 1996
- Program statutes, KSA 65-163d – 163u passed in 1994
- Program regulations, KAR 28-15-50 to 65
- First loans fall of 1997
- Up to a 20 year term

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# Eligible Borrowers

- Under SDWA, “Public Water Supply Systems”
- Under state law, “Municipalities” defined as political or taxing subdivisions of the state
  - Cities
  - Rural Water Districts
  - Improvements Districts
  - Benefit Districts

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# Ineligible Projects

- Dams
- Water Rights – Unless they are being purchased with an entire system through consolidation
- Reservoirs – Unless Finished Water or Part of the Treatment Process
- Laboratory Fees
- Operation and Maintenance Expenses

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# Ineligible Projects (continued)

- Projects needed mainly for fire protection
- Projects for systems without adequate technical, financial and managerial capacity (TFM) – Unless to insure compliance
- Projects for systems in significant non compliance with the SDWA (MCL violations)– Unless to ensure compliance
- Projects primarily intended to serve future growth
- Projects for systems without a Water Conservation Plan approved by the Kansas Water

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# KPWSLF Structure

- Reserve account/leveraging, nominal 400% leverage capacity
- EPA capitalization grants are invested in a reserve fund and used as security for state issued revenue bonds
- Proceeds of revenue bonds are loaned to borrowers
- Interest earnings from the reserve fund are used to subsidize the loan interest rate

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# Program Stats

- August interest rate 3.75%
- Interest rates offered range from 3.33% to 4.80%
- AAA bond ratings
- As of July 1, 2009, 197 loans for \$433 million with disbursements of \$351 million

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# ARRA

- Signed by President Obama 2/17/2009
- Appropriates \$2 billion for the national drinking water loan program, in addition to \$829 million annual FY09 appropriation
- Kansas received \$19.5 million ARRA funds in addition to standard DWSRF FY09 allocation of \$8.3 million

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# ARRA Adjustments

- 20% state matching funds not required
- Prevailing wage rates (Davis-Bacon)
- At least 50% of ARRA funds must be used for “---additional subsidies---”
  - Negative interest rates
  - Grants
  - Principal forgiveness
- Buy American
- 20% reserved for green infrastructure

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# Other considerations

- Goal of 50% of the funds committed to contracts within 120 days
- 100% of the funds must be committed to contracts within 12 months, or EPA must reallocate to other states
- ***Readiness to proceed is the primary consideration for funding***

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# Process

- FY09 IUP had sufficient funds-\$123 million- for all interested borrowers
- No backlog of projects awaiting funds
- On January 26, KDHE contacted eligible borrowers and asked for projects ready for construction
- Interest was good
  - 107 projects for \$ 144 million ready this summer
  - 30 projects for \$72 million ready within one year
- Principal forgiveness prevented leveraging of the stimulus funds

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# Process

- Demand is greater than available funds
- KDHE is adding approximately \$30 million regular funds to the stimulus funds for a total of approximately \$50 million
- A nominal 20% principal forgiveness is offered to satisfy the 50% ARRA additional subsidy requirement
- More communities benefit from the savings of principal forgiveness

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# Project Selection

- Only those projects ready for construction this summer were considered for stimulus funding
- All projects were ranked according to the KPWSLF Project Priority System
  - Meet public health goals of the SDWA
  - Assists systems most in need on a per household income basis
  - Achieve compliance with the requirements of the act
  - Promote regional projects (state)
  - Projects with green elements received special consideration

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# Process

- Hearing on the Stimulus IUP held March 23
- 33 projects totaling \$53M were selected for funding
- Project sponsors were notified on April 23rd and required to confirm their participation in writing within 14 days,
- Complete application required by June 30
- Final design required by July 30
- Contract Executed by November 1, 2009
- Failure to meet schedules can result in the loss of principal forgiveness

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# Current info

- As of August 6, 2009
  - 25 of the 33 projects have moved forward with ARRA funding for a total of \$39.6M
  - Plans for 20 projects have been submitted
  - 14 loan agreements have been extended and 5 executed
  - 6 projects have been authorized to bid

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# Challenges

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# Green Project Reserve (GPR)

- Business Case Requirements for almost everything except clean energy projects (wind, solar, geothermal, hydroelectric)
- Business Case standards are different between CWSRF and DWSRF
- Business Case standards are set at a high level

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# Davis-Bacon

- Systems declined consideration due to assumed increased costs for project
- SRF has no existing requirements for wage rates and therefore no guidance

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# Buy American

- New requirement for SRF programs
- EPA had no experience implementing this requirement
- Guidance not completed until late spring
- Difficult to make progress towards meeting the 12-month requirement to place ARRA funds under contract without guidance.

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# Questions

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- KDHE ARRA IUP on the web at  
[www.kdheks.gov/pws/loan/loanfund/htm](http://www.kdheks.gov/pws/loan/loanfund/htm)

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