USDA

United States Department of Agriculture

VA AN No. 522 (1780)

Rural Development

RD State Office

1606 Santa Rosa
Road, Suite 238
Richmond, VA 23229

Voice: 804-287-1590
Fax: 804-287-1780

October 22, 2014

TO: Rural Development Specialists and Technicians

FROM: Dr. Basil I. Gooden
State Director

SUBJECT: Community Programs Funding for Fiscal Year 2015
Water and Environmental Programs

PURPOSE/INTENDED OUTCOME

To provide guidance to Area Office personnel on funding criteria for all Water and Environmental Program projects. Program-specific criteria will be addressed that establishes parameters for funding consideration for Fiscal Year 2015.

COMPARISON WITH PREVIOUS AN

There has not been a previous AN issued on this subject.

IMPLEMENTATION RESPONSIBILITIES

For Fiscal Year 2015, we anticipate that the Water and Environmental Program funding will be funded at levels compared with the last fiscal year. Virginia received $30,900,000 in loan funds and $8,547,000 in grant funds in Fiscal Year 2014. In Fiscal Year 2014, Virginia spent 25.43% of our loan allocation ($7,858,000) and 69.19% of our grant allocation ($5,913,250). The majority of the grants were small grant obligations of $25,000 to $30,000 for planning grants. By Fiscal Year 2016, each state is to spend at least 20% of their allocation within areas of poverty. In Fiscal Year 2014, Virginia spent 80% of our loan funds and 99% of our grant funds in poverty areas.

Our goal for Fiscal Year 2015 is to utilize our entire allocation of both loan and grant funds. We want to continue to target resources in those areas of greatest need. Historically, Virginia has required all projects to have a defined equivalent dwelling unit cost (EDU) of at least 1.5% of the service area's median household income (MHI). This was in keeping with the National Office policy of prioritizing National Office reserve requests that met this 1.5% standard.

EXPIRATION DATE: September 30, 2015

FILING INSTRUCTIONS: File preceding RUS Instruction 1780

USDA is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form, found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

Rural Development in Virginia has historically mirrored the National Office reserve funding policy of first considering all applications for rural utility grant funding that met the 1.5% threshold. Rural Development regulations clearly state each system MUST generate sufficient revenue to pay debt service and reserve, operation and maintenance costs, and other reserve funds, including replacement of short-lived assets. Each system will be evaluated to determine if that system is projected to generate sufficient revenue to continue operation in a professional and well maintained manner. The regulations require all applications to have reasonable rates when compared to other similar systems. Therefore, it is **not** the policy of Rural Development, and it is against our regulations, to utilize grant dollars in such a way that will enable localities to avoid raising rates that are in line with other comparable and similar systems. All applications will be evaluated to determine how their proposed rate structure compares with other similar systems and to make sure that they are generating enough income to operate successfully.

Rural Development recognizes, however, that the 2010 census data is reporting a substantial increase in MHI for some areas. The new census data, in addition to slowing local economies, has made it difficult, if not impossible, for many localities to meet a threshold of 1.5%. Therefore, in the State of Virginia we will be using the following for the purpose of defining a minimum user cost per equivalent dwelling unit (EDU):

1. MHI of $53,494 or above will use the 1.5% MHI threshold
2. MHI from $42,795 to $53,493 will use a 1.25% threshold
3. MHI of $42,794 and below will use a 1.00% threshold

An example is offered below:

> The system has 1,008 residential users utilizing 3,103,632 gallons per month, for an average usage of 3,079 gallons. As residential users are dwelling units, this equates to 1,008 EDUs. The system has 32 commercial users utilizing 182,528 gallons. Divide total commercial gallons by average residential use to arrive at 59 commercial EDUs. Therefore, total EDUs on this system equal 1,067. The service area's MHI is $35,267, and using the guidelines above, the minimum EDU cost must equal at least 1.0% of the MHI: $35,267 x 1.0% = $352.67 per year divided by 12 = $29.38 per month per EDU. Therefore, the applicant must propose a rate structure which will generate a monthly income of $29.38 x 1,067 EDUs = $31,349.

All Rural Development staff and applicants need to be aware, however, that when National Office funding requests are submitted, they will score higher if the 1.5% MHI threshold is obtained. That is one of the considerations the National office uses. This formula is expected to result in making our loan and grant ratio more user friendly to those most distressed communities. We want to have a minimum standard in order for Virginia communities throughout the Commonwealth to apply for Virginia's allocation in a fair manner based on objective criteria.

We intend to set an application deadline one month before the first day to request funds from National Office reserve. We recognize that the pooling date is yet unknown, however, it typically happens in the spring and we can plan accordingly. Applications that are deemed **complete** (including all environmental publication periods) by that date shall be considered for funding from the State Office allocation. Applications not received by that date may be considered for funding if there is adequate time to completely process the application and request funds.

If you should have any questions, please contact the Community Programs Division.