



United States Department of Agriculture
Rural Development

Virginia State Office

October 3, 2006

TO: All Area Directors
Rural Development, Virginia

FROM: /s/ ELLEN MATTHEWS DAVIS
State Director

SUBJECT: Grant Threshold for Water and Sewer Projects

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to establish guidelines for the infusion of grant funds in water and/or sewer projects financed in Virginia.

COMPARISON WITH PREVIOUS AN:

This AN replaces VA AN No. 453 (1780), which expires on October 31, 2006.

IMPLEMENTATION RESPONSIBILITIES:

The demand for potable water and sanitary sewer facilities has grown over the past several years. In addition, project construction, operation, and maintenance costs have escalated significantly, which has resulted in an increase in the cost of producing water and/or sewerage treatment. In an effort to best serve the needs of so many rural communities and to efficiently manage funding resources, the most viable approach to maximizing our limited resources is to establish a threshold for determining whether or not grant funds will be considered for projects financed in Virginia.

To consider the infusion of grant funds, the average residential and commercial user must be paying an average monthly bill of 1.5% of the service area's median household income (MHI) for 5,000 gallons.

EXPIRATION DATE: October 31, 2007

FILING INSTRUCTIONS: File
preceding RD Instruction 1780

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Two examples of this threshold are illustrated below:

Service area MHI of \$25,000 x 1.5% = \$375 per year divided by 12 = \$31.25/month

Service area MHI of \$35,000 x 1.5% = \$525 per year divided by 12 = \$43.75/month

On occasion, you may encounter a system in which the average user utilizes less than 5,000 gallons per month. In these cases, assume a usage of 5,000 gallons and apply it to the proposed rate structure to determine whether or not the threshold of 1.5% of MHI is being met. For sewer systems where metered water service is not available and a flat rate will be charged, the minimum flat rate per month must meet the threshold of 1.5% of MHI.

In addition, grant funds will be further limited for those applicants that may qualify for assistance. There will be a cap of \$1,000,000 per project during Fiscal Year 2007, and there will be a 25% reduction in grant assistance for all projects that qualify for up to \$1,333,000 in grant assistance. The reason for the 25% reduction is to ensure that applicants share the burden of reduced grant assistance. For example, after meeting the requirement of 1.5% of MHI, the applicant may qualify for a grant of \$900,000. The \$900,000 will be reduced by 25% (or \$225,000), and a grant of \$675,000 would be awarded. The applicant would then need to either (a) increase rates to finance the \$225,000 reduction in the form of a loan or (b) obtain grant funding from other sources.

Since we will be capping grants at \$1,000,000, the 25% reduction would not apply to the applicant that qualifies for more than \$1,333,000. The grant will be limited to \$1,000,000, regardless of the percentage of reduction. For example, if an applicant qualifies for \$2,000,000, their grant will be capped at \$1,000,000, resulting in a 50% reduction.

We regret that we have to reduce and/or limit funds that are to be made available to rural communities to assist in keeping rates affordable; however, it is the Agency's intent to continue to provide assistance to all communities.

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