

# Financial reviews save systems from potential financial pitfalls

**M**ost of you are probably familiar with the myriad of ways the Kansas Rural Water Association (KRWA) has provided technical assistance to cities and rural water districts (RWDs) over the past many years. Many of you, however, may not know about the technical assistance provided by the Kansas Rural Water Finance Authority (KRWFA). The purpose of this article is to identify the many ways the KRWFA can assist a city or RWD with technical assistance regarding financial matters.

The KRWFA was created in 1988 to primarily assist rural water districts refinance loans generated through the United State

Department of Agriculture's Farmers Home Administration (FmHA) through the Discount Purchase Program available at that time. A review of KRWA files shows that it was the KRWA that pressed elected officials, including Senator's Dole,

Kassebaum and U.S. Representative Jim Slattery to allow water systems to be able to purchase their own loans instead of having them sold on Wall Street. Once that allowance was incorporated into the law, RWDs were suddenly faced with learning about and choosing an appropriate funding option to refinance their old FmHA debt. KRWA endorsed



and supported the creation of the Finance Authority to ensure that funding options could be professionally presented and that a friendly agency would be in place

and marketing of the Kansas Public Water Supply Loan Fund and to provide technical assistance to KDHE in application review and monitoring of loans made to



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in case any system wanted the help. Through the years KRWFA has evolved into an organization that has accomplished much more than only assist RWDs and cities with the Discount Purchase Program in the late '80s. The Authority has helped RWDs and cities finance water projects through traditional bond issues. In 1997, the Kansas Department of Health and Environment (KDHE) contracted with the KRWFA to provide education, information

non-taxing systems and those cities that are determined to need financial oversight.

## **Kansas Department of Health and Environment's Revolving Loan Program**

The Kansas Public Water Supply Loan Fund, often referred to as the SRF, administered by KDHE is simply the least expensive way to finance water improvement projects when the system can afford a 20-year

amortization. KDHE can offer a loan below market interest rates due to the issuance of bonds sold as a pool to finance a myriad of projects. This reduces the cost versus financing projects with individual bond issues. Plus, KDHE leverages down the loan interest cost via a grant from the Environmental Protection Agency (EPA).

Over the past few years the KRWFA has assisted many RWDs and cities by working through the paperwork required by Public Water Supply Loan Program. This service is provided without cost to the city or RWD due to a contractual agreement between KDHE and KRWFA to provide technical assistance to cities and RWDs for this purpose.

Traditionally, professional engineers have provided assistance with applications for loans and grants. While KRWFA cannot completely replace the system's engineer for this purpose due to the design aspects required by the application process, the KRWFA can complete financial information and environmental review requirements. In addition, KRWFA can review the financial impact of the potential loan on the water utility system and help conduct public hearings; which are a requirement of the loan program. KRWFA subcontracts this service with Ranson Financial Consultants, LLC, Wichita, Kan. to provide this service. If you are interested in learning more, call Terry Haas or me at 316/264-3400 or e-mail me at [jhaas@ransonfinancial.com](mailto:jhaas@ransonfinancial.com). Kansas Rural Water Association also provides administrative support to the Authority and you can call KRWA at 785/336-3760 or e-mail KRWA at [krwa@krwa.net](mailto:krwa@krwa.net) for information about financing or funding options.

### Financial Management Analysis

As previously mentioned, since 1997 the KRWFA has provided financial management analysis for KDHE's Public Water Supply Loan Fund through two

review. Usually, KRWFA will work with the applicant on identified risk factors so the loan can ultimately be approved.

After a loan has been approved, some cities and all

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components: 1) the "Financial Advisory Services Agreement (FASA) and, 2) the Financial Integrity Assurance Contract (FIAC).

FASA is the process of reviewing a loan application for the Loan Program prior to its approval. The goal of the FASA process is to assess the applicant's ability to pay back the loan. KRWFA will either recommend to KDHE the approval or disapproval of the loan application based upon this

RWDs, Public Wholesale Districts and other non-taxing units enter into a FIAC agreement with KDHE. Loan holders that do not have or do not commit general taxing powers to support the loan are required to participate in FIAC. Other entities that have identified potential financial management issues may also be asked to participate in this program. The purpose of FIAC is to review financial information provided from the loan holder to assure continued compliance with



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provisions of the loan program. This includes a 125% debt service coverage ratio and maintenance of a 10% reserve account. The KRWFA may also identify other potential problems, such as a decrease in liquidity or increase in debt burden. If a loan holder does not correct problems identified in this process it may be asked to redeem its loan with KDHE.

KRWFA offers its assistance reviewing water systems' financial statements prior to submitting a loan application or the issuance of bonds. This service is without charge to the entity. As financial advisor to the KRWFA, Ranson also presently provides the KRWFA with technical assistance for these services.

**Take a second look**

Just recently we were asked to take a "second look" at a water rate study provided by a professional engineer prior to a local unit of government financing some major water improvements. The professional engineer, unfortunately, did not understand all of the provisions of the KDHE loan program or the covenants of a water revenue bond. Due to this misunderstanding the water rate increase required to support the debt was under-estimated. We worked with the local unit of government and the engineer to find an alternative that would still allow the project to proceed. I use this as an example not to point fingers at an engineer who missed

## Small systems, RWDs get majority of loans from KDHE's Public Water Supply Loan Fund

Kansas Public Water Supply Loan Fund Historical Interest Rates										
Month	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
January		4.25	3.98	4.73	4.37	4.08	3.91	3.80	3.60	3.60
February		4.15	4.00	4.77	4.25	4.11	3.92	3.73	3.58	3.57
March		4.09	4.00	4.80	4.13	4.14	3.89	3.68	3.53	3.53
April		4.09	4.04	4.77	4.11	4.15	3.86	3.62	3.56	3.53
May		4.15	4.05	4.69	4.15	4.16	3.81	3.69	3.58	3.58
June		4.17	4.09	4.69	4.18	4.18	3.69	3.82	3.56	3.62
July		4.15	4.16	4.68	4.21	4.13	3.59	3.97	3.46	
August		4.12	4.25	4.65	4.19	4.08	3.60	3.99	3.42	
September		4.10	4.35	4.52	4.11	4.01	3.78	3.90	3.43	
October		4.07	4.44	4.45	4.08	3.92	3.92	3.78	3.44	
November	4.31	4.00	4.58	4.44	4.04	3.89	3.97	3.66	3.49	
December	4.29	3.98	4.65	4.45	4.04	3.88	3.88	3.62	3.55	
<b>Average</b>	<b>4.30</b>	<b>4.11</b>	<b>4.22</b>	<b>4.64</b>	<b>4.16</b>	<b>4.06</b>	<b>3.82</b>	<b>3.77</b>	<b>3.52</b>	<b>3.57</b>

**K**ansas is leading the nation with the ability to leverage the EPA grant by a 4-to-1 ratio. For every one dollar of EPA grant the Kansas program can provide four dollars of loans. As of May 31, 2006 small systems have received 98 of the 144 loans (68%) for a total of \$109,696,959.13 of the total \$321,526,639.33 (34%) committed in loans. Systems serving a population of 5,000 or fewer are classified as small systems under the Kansas Public Water Supply Loan Fund.

a major financial issue, but to demonstrate that financing can be complicated. The cost of existing debt plus new debt needs to be evaluated together. In doing this, the KRWFA has many times recommended other changes to the loan applicant from modification of rate structures to consolidating old debt.

**Conclusion**

In 1988 when the KRWFA was created, systems had very short "windows" to evaluate if it made sense for them to purchase their old FmHA loans. (By the way it was not in all systems' best financial interest to do so). By 2006, even though RWDs and small cities have generally gained

some sophistication in understanding of their financing options, it's in their interests to properly develop their project and choose their financing method with the assistance of those who are experienced with financing and the proper financial management of a water utility system. If you are interested, call us at 316/264-3400 or you may also call the KRWA office at 785/336-3760 to discuss where to begin and how to get more help – all of which is at no cost to you. In addition, we might be able to provide a water or sewer rate review at a reduced cost.



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