

The Kentucky Water and Wastewater Assistance for Troubled or Economically Restrained Systems Fund was created by House Bill 563 of the 2024 Regular Session of the Kentucky General Assembly and codified in Acts Chapter 185, creating a new section in KRS Chapter 224A for the program. The KY WWATERS Program, as it is known, provides a funding application and evaluation process for eligible public water and wastewater systems to seek funding from the General Assembly. The program will be administered by the Kentucky Infrastructure Authority. The Kentucky WWATERS Program was established to provide for an orderly process to apply for funds for eligible projects and for applications to be evaluated, scored, and presented to the General Assembly for consideration for funding.

## **INTRODUCTION**

### **Kentucky Water and Wastewater Assistance for Troubled or Economically Restrained Systems Program (KY WWATERS Program)**

The program was established with the intent of creating a revolving loan fund. However, it does provide for multiple types of funding assistance including grants, loans, no-interest loans, or forgivable loans.

During the application period July 17 through August 30, 2024, KIA received 165 applications. After working with applicants who did not provide a completed application packet, KIA evaluated 159 applications for a total request of \$715,288,052. A total of 150 applicants supplied all required documentation for a total funding request of \$657,394,094. Six applications were considered ineligible due to incomplete application packets. Nine applicants were considered ineligible because they did not provide a corrective action plan.

The range of scores by eligible applicants was from a high of 82 to a low of 10 out of a possible 125 points.

## **PROGRAM SPECIFICS**

### **Types of Assistance Available**

- Loan Repayment will be structured to meet the payment ability of the system.
- Financing proceeds may be used for capital and non-capital expenditures.
- Emergency funding for projects relating solely to restoring or avoiding imminent interruption of utility service provided by a public water or wastewater system.

**To Participate in the Kentucky WWATERS Program**, a funding applicant shall submit an application to the KIA board, which shall include a corrective action plan detailing how the requested funds would be used to address the performance deficiencies that made the applicant eligible for the funding.

**Eligible Funding Recipients are public water or wastewater systems** that must meet one (1) or more of the following criteria.

- The median household income within the service area of the funding applicant is less than the Commonwealth's median household income.
- User rates for the public drinking water or wastewater services provided by the funding applicant are at or above one percent (1%) of annual household income for its service area.
- The funding applicant has failed to produce a financial statement audit in at least one (1) of the prior three (3) years.
- The funding applicant has negative income in any two (2) of the previous five (5) years.
- The funding applicant's debt service coverage ratio, calculated by dividing its annual net operating income by its annual debt payments, was less than one and one-tenth (1.1) in any three (3) of the previous five (5) years.
- The funding applicant's current accounts payable turnover ratio, calculated by dividing its monthly net credit purchases from suppliers by its average accounts payable balance for the month, is less than one (1).
- The funding applicant's current days' sales in accounts receivable ratio, calculated by dividing its monthly accounts receivable by its monthly credit sales value and multiplying the resulting quotient by the number of days in that month, is greater than forty-five (45) days.
- The funding applicant has received a notice of violation or has entered into an agreed order as a result of a violation of the requirements of the Safe Drinking Water Act, 42 U.S.C. sec. 300f et seq., or the Clean Water Act, 33 U.S.C. sec. 1251 et seq., in the past year.
- The percentage of water loss of the funding applicant's system is greater than thirty percent (30%).

**Eligible Project Types may be a capital or non-capital projects** including but not limited to expenditures relating to:

- Developing technical, operational, and maintenance resources and expertise.
- Improving utility infrastructure planning, repair, maintenance, renovation, and management of plants and assets.
- Obtaining technical expertise in areas of rate-setting, cost-of-service, and proper utility accounting standards for the utility type.
- Performing and correcting deficiencies from drinking water, wastewater, and financial audits.
- Providing financing for financial inadequacies, including debt service coverage through relief or refinance of the drinking water or wastewater system's debt.
- Providing payment assistance for other financial inadequacies including but not limited to excessive maintenance costs, fines and penalties from past violations, or consultants.
- Extending financing for inadequately maintained distribution, collection, or treatment works, including service extensions to unserved or underserved areas and the renovation of treatment works to conserve resources.

## **Ranking and Scoring Criteria**

Eligible recipients will be scored on the following criteria:

- The median household income within the service area of the funding applicant is less than the Commonwealth's median household income.
- User rates for the public drinking water or wastewater services provided by the funding applicant are at or above one percent (1%) of annual household income for its service area.
- The funding applicant has failed to produce a financial statement audit in at least one (1) of the prior three (3) years.
- The funding applicant has negative income in any two (2) of the previous five (5) years.
- The funding applicant's debt service coverage ratio, calculated by dividing its annual net operating income by its annual debt payments, was less than one and one-tenth (1.1) in any three (3) of the previous five (5) years.
- The funding applicant's current accounts payable turnover ratio, calculated by dividing its monthly net credit purchases from suppliers by its average accounts payable balance for the month, is less than one (1).
- The funding applicant's current days' sales in accounts receivable ratio, calculated by dividing its monthly accounts receivable by its monthly credit sales value and multiplying the resulting quotient by the number of days in that month, is greater than forty-five (45) days.
- The funding applicant has received a notice of violation or has entered into an agreed order as a result of a violation of the requirements of the Safe Drinking Water Act, 42 U.S.C. sec. 300f et seq., or the Clean Water Act, 33 U.S.C. sec. 1251 et seq., in the past year.
- The percentage of water loss of the funding applicant's system is greater than thirty percent (30%).
- The funding applicant is willing to use the funding for regionalization, consolidation, or partnerships, consistent with the policy stated in KRS 224A.300(1).
- The funding applicant, after receiving the funding, will be able to fully resolve the pending issues that are the subject of its application using the funding and other funding sources, if available.
- The funding applicant's proposed project demonstrates a high level of community or regional impact potential if funding is awarded.

## **Interest Rates**

Interest rates for loans awarded under this program shall be set at least one-half percent lower than the rates for the federally-assisted water supply revolving fund administered by the authority under KRS 224A.1115 and the federally-assisted wastewater revolving fund administered by the authority under KRS 224A.111.

## **Principal Forgiveness**

Loan subsidies may be offered in the form of grants or principal forgiveness to be approved by the General Assembly. Principal forgiveness will show up as a credit on the loan amortization schedule concurrent with each draw request.

### **Loan Repayment**

- Interest and principal payments are due twice a year- June and December. Monthly repayment schedules may also be requested.
- Interest payments on the outstanding principal amount commences within six months of first disbursement of funds.
- Repayment of principal commences within one year of the initiation of operation of the project.

### **Other Information**

If a funding applicant is selected as an eligible funding recipient approved under the Kentucky WWATERS Program, it shall comply with any reporting or other requirements deemed necessary by the Kentucky Infrastructure Authority to verify that the awarded funding goes toward an eligible project and that the funding recipient is making improvements on the performance criteria described in the application. The eligible funding recipient shall also comply with any internal management and governance procedures that the authority may impose in order to correct any performance deficiencies that gave rise to the need for the requested funds.

A funding recipient shall forfeit all moneys received, including accrued interest, shall be immediately due to the authority if the selected funding recipient:

1. Fails to comply with any of the requirements above;
2. Uses the awarded funding for any purpose other than the eligible project for which the funding was awarded; or
3. Transfers or assigns the obligation to repay the funding amounts to any other entity, including any successor in interest.

Funding recipients may also forfeit funds and be subject to immediate repayment to the authority of all outstanding funding amounts, including accrued interest, if the authority finds that the recipient has not made adequate improvements on the performance criteria described in the application.

### **Emergency Kentucky Water and Wastewater Assistance for Troubled or Economically Restrained Systems Program (Emergency Kentucky WWATERS Program)**

The emergency WWATERS program is dedicated to providing funding for both capital and non-capital expenses relating solely to restoring or avoiding imminent interruption of utility service provided by a public water or wastewater system after a statewide state of emergency has been declared pursuant to KRS Chapter 39A or a local state of emergency has been declared for the jurisdiction where the public water or wastewater system is located pursuant to KRS Chapter 39B.

Projects funded under this program will use the same application and processes as the KY WWATERS Program. Funding decisions will be provided by the KIA Board.

## **KIA BOARD**

### **Requirements**

The Board is required to do the following:

- (a) Hold at least monthly meetings, which may be in conjunction with regularly scheduled board meetings, to discharge its duties under this section;
- (b) Determine whether a funding applicant is an eligible funding recipient and is seeking funding for an eligible project;
- (c) Based on the criteria listed in paragraph (d) of this subsection, develop an objective score card or rubric, which may be amended from time to time, to aid in the analysis and scoring of funding applications;
- (d) Evaluate and score each funding applicant's project according to the extent to which it meets the... [12 scoring] ... criteria:
- (e) Within sixty (60) days of a funding application being deemed complete under subsection (3)(b) of this section, make determinations on the eligibility of the proposed project and the applicant and issue a project score for the application;
- (f) Provide detailed feedback to all funding applicants within fourteen (14) days of the project score being completed; and
- (g) No later than December 1, 2024, and each December 1 thereafter, submit to the Legislative Research Commission for referral to the Interim Joint Committee on Appropriations and Revenue an annual report containing:
  - (a) The evaluations and scores of the proposed funding recipients for the year to allow for the General Assembly to make the determinations for funding the proposed funding recipients. For each proposed funding recipient that meets the eligibility requirements for funding, the board shall provide a proposal for the structure and the terms of the funding, including but not limited to whether the funding should be awarded in whole or in part as a grant, loan, no-interest loan, or forgivable loan, the repayment terms and interest rates for loans or portions of loans, and any other conditions that the board proposes to be placed on the funding;
  - (b) A list of all program applicants;
  - (c) The identity of applicants who did not meet the eligibility requirements for participation in the program;
  - (d) Trends found in feedback given to applicants who did not meet the eligibility requirements for participation in the program; and
  - (e) Eligible uses of funding cited in the funding applications.

### **Actions**

The KIA Board has taken the following actions.

### **Interest Rates**

Interest Rates were set at the July 11, 2024 meeting of the KIA Board.

Interest rates will be reset at least annually to go into effect each July 1. Interest rates for the KY WWATERS program as of July 2024 are:

1.75%	Systems with a Median Household Income (MHI) above the Commonwealth's MHI
0.75%	<ol style="list-style-type: none"> <li>1. Systems with a MHI between 80 and 100 percent of the Commonwealth's MHI.</li> <li>2. Project will achieve compliance with an order or judgment addressing environmental noncompliance.</li> <li>3. Project meets the definition of regionalization per 200 KAR 17:050 for clean water or 200 KAR 17:070 for drinking water.</li> </ol>
0.00%	Systems with a MHI below 80 percent of the Commonwealth's MHI

### Scoring Rubric

Scoring rubric was approved at the September 5, 2024 meeting. The KIA Board established a weighted scoring rubric ranging from 6 to 20 points per category. The maximum available points equals 125.

	Category	Rubrick
1	Service area MHI compared to State MHI	>50%, 20 points 50%><80%, 15 points 80% >< 100% , 10 points
2	Affordability Index at or above 1	>1%, 10 points
3	Negative Income any 2 of previous 5 years	3 Years +, 12 points 2 Years, 8 points
4	No audits in 1 of prior 3 years	2 Years +, 12 points 1 Year, 8 points
5	DCR less than 1.1 in any 3 of prior 5 years	3 Years +, 12 points 3 Years, 8 points
6	Accounts Payable Turnover less than 1	<1%, 8 points
7	Accounts Receivable Days greater than 45	>45 days, 6 points
8	NOV or Agreed Order	if yes, 6 points
9	Water loss greater than 30%	50%+, 9 points 30%, 6 points
10	Issue fully resolved	if yes, 10 points
11	High level of community support	if yes, 10 points
12	Regionalization, consolidation, or partnerships	if yes, 10 points

## Financing Terms

The standard loan terms were approved at the September 5, 2024 meeting.

- Loan Term was established at 30 years.
- If principal forgiveness is offered, it will be offered at 50% of the loan amount.
- Target debt service coverage ratio was established at 1.1.
- Target funding recommendation was established as the funding scenario that first reaches the target debt service coverage ratio.

## Emergency Projects

The KIA Board approved the following Emergency Projects during the reporting period.

	TOTAL PROJECT AMOUNT	KIA GRANT AMOUNT	DATE APPROVED	COMMENTS
<b><u>Projects Approved in FY 2025:</u></b>				
1 Salyersville, City of	\$354,899	\$354,899	7/1/2024	Emergency Funding
2 Marion, City of		\$1,827,600	10/2/2024	Emergency Funding
	<u>\$354,899</u>	<u>\$2,182,499</u>		

## ASSUMPTIONS

To uniformly evaluate each application, the following assumptions were used:

1. Debt service coverage was calculated using the most recent audited financial statement provided. No additional analysis was conducted to obtain updated information between the most recent audited financial state date and the current date.
2. No future projections were considered. All decisions were based on the most recent audited financial statement provided.
3. The MHI score was based on the Median Household Income (MHI) of the service area. Project area MHI was not evaluated. MHI data was obtained from the WRIS.
4. The affordability ratio was calculated using the service area MHI. The 4,000 gallon rate was obtained from both application data and WRIS data. If a utility had inside and outside city rates, inside rates were used.
5. If the applicant stated they did not have audited financial statements in 1 of the past 3 years and they provided 2 or less audits, they received points for this category.
6. If the applicant stated they had negative income in 2 of the past 5 years but did not provide 2 years of financial statements showing negative income, they did not receive points in this category.
7. If the applicant stated they had a debt service coverage ratio less than 1.1 in 3 of the past 5 years but did not provide 3 years of financial statements showing negative income, they did not receive points in this category.
8. For scoring purposes, the accounts payable turnover ratio was only evaluated for the most recent year of financial data provided.
9. For scoring purposes, the days' sales in accounts receivable ratio was only evaluated for the most recent year of financial data provided.
10. For scoring purposes, a notice of violation or agreed order had to be issued within the past year. KIA used an "as of" date of July 1, 2023, representing the past calendar year.
11. Average water loss was calculated using the number of reports provided by the applicant.
12. Every applicant received the total amount of points available in the category "Funding will be able to fully resolve the pending issues in the application." There was no way for KIA staff to prove that the funding would not complete the project described in the application.
13. If a project was designated as a regional project, the applicant received the total amount of points available in the category "Proposed project demonstrates a high level of community or regional impact potential."
14. If a project was designated as a regional project, the applicant received the total amount of points available in the category "Use funding for regionalization, consolidation, or partnerships."