

# Appendix I

## Overview of Relevant Funding Programs

---



# Appendix I: Overview of Relevant Funding Programs



# Appendix I

## Overview of Relevant Funding Programs

### Sources of Funding

The costs to implement water supply and water resources projects continue to escalate. In light of the significant investments that must often be made to meet the needs of water users, numerous federal and state agencies have developed programs for partnering with project sponsors. Some agencies, such as the BOR, had their genesis in the immense need to support water management solutions in working with local project sponsors. Many of today's water resources programs include the ability to provide funding to support water supply and water resources projects, through grants, loans, or related mechanisms.

This section provides a brief overview of some of the key existing programs that are relevant to water resources projects in Colorado. Colorado water resources projects are currently funded through a variety of sources, including outlays from cities, businesses, water districts, and local water users.

### State of Colorado Agencies and Programs



For the State of Colorado, three agencies play key financing roles: the CWCB, the CWRPDA, and the CDPHE. Grants and loans are awarded by these agencies to help local groups finance water projects, with revenues obtained through

taxes and bond sales. Highlights of these agencies' major existing funding programs relevant to water supply needs are provided in the following subsections.

#### Colorado Water Conservation Board



One of the important state agencies in Colorado for water project financing is the CWCB. CWCB was created in 1937 to oversee water supply protection, flood protection, water supply planning and finance, stream

and lake protection, water conservation and drought planning, and management of related water information (CWCB July 2003). CWCB consists of 15 members, eight of which are appointed by the Governor from the

major river basins of the state and one that the Governor appoints from the City and County of Denver. All Board members require Senate confirmation and serve 3-year terms.

CWCB administers three funds of particular importance to water project financing, described below.

#### CWCB Construction Fund

CWCB established this low-interest loan program in 1971 to assist in the development of water resource projects. The fund is a revolving fund that is funded by principal and interest payments on outstanding loans, interest earned on the cash balance of the fund through investments by the State Treasurer, mineral lease fund distributions, and occasional cash transfers from the Colorado General Assembly. The total equity of the fund is currently about \$250 million, about \$130 million of which consists of outstanding loans due back to the Board. About 250 locally-sponsored projects have been financed historically with CWCB Construction Fund assistance through the loan of around \$250 million, as of January 2004 (Serlet 2004).

The loans can be used for:

- **Reservoirs** – new raw water storage or enlargement of existing reservoirs
- **Dam Rehabilitation** – to meet safety standards and recover restricted capacity
- **Water Supply Systems** – rehabilitate or construct agricultural or municipal raw water (diversion structures, ditches, headgates, pipelines, wells, etc.)

CWCB may contribute up to 90 percent of the costs of engineering and construction for a project<sup>1</sup> and up to 50 percent of the cost of a feasibility study, which is required of all projects. Loans for studies usually must be repaid regardless of whether or not the project is constructed, and grants of up to \$5,000 may also be available for studies (CWCB 1999). Loan rates for 30-year repayment periods were around 2.5 percent for agricultural project loans and between 3.5 and

<sup>1</sup> For project sponsors with a greater ability-to-pay, engineering, and construction loans may be capped at 75 percent of total costs (CWCB Policy Number 11).

## Appendix I Overview of Relevant Funding Programs

4.5 percent for municipal project loans as of January 2004; rates for any loan under this program are slightly lower for 10- or 20-year loan terms (Serlet 2004). A 1 percent loan service fee is applied to all loans. Projects that are determined to be technically and financially feasible by CWCB are recommended to the Colorado General Assembly for funding through the annual Construction Fund bill.

On average, around \$40 million is loaned through the CWCB Construction Fund each year. Any project over \$50 million requires approval by the state legislature, while any project below the \$50 million threshold only requires Board approval. Each year, about \$4 million is set aside from interest generated by the Construction Fund to be used for non-reimbursable grants rather than loans. For a project to be eligible for a grant, it must either have a statewide impact or importance, or it must be designed to either answer questions of statewide water issues or show significant potential for receiving funding through CWCB loan programs.<sup>2</sup>

### Fish and Wildlife Mitigation Fund

This fund was created in 1987 to address the environmental impact of water facilities. Each year, unreserved cash from the CWCB Construction Fund may be transferred to the Fish and Wildlife Mitigation Fund in order to maintain a fund balance of \$5 million. Individual projects may receive a maximum of 5 percent of total construction costs from Fish and Wildlife Mitigation Fund awards to be used for dedicated mitigation purposes.<sup>3</sup> Around \$3 to \$4 million in total has been funded for environmental purposes through the Construction Fund, mainly for the benefit of endangered species (Serlet 2004).

### Severance Tax Trust Fund Perpetual Base Account

CWCB also administers another major fund for Colorado water resources, called the Severance Tax Trust Fund Perpetual Base Account. The Account was created in 1995 from Severance Tax receipts credited to the Severance Tax Trust Fund. The Account provides low interest loans to water users in the development of water resource projects through a process almost identical to the Construction Fund. Sources of revenue are from the

return of principal and interest on the outstanding loans, interest earned on the cash balance of the fund through investments by the State Treasurer, and annual Severance Tax receipts (CWCB Kiosk 2003). As of January 2004, the Fund's value was at about \$80 million, and about \$10 million is awarded from the Fund each year. About \$70 million in total awards have been loaned to applicants since the creation of the account (Serlet 2004). These loans require annual approval by the State General Assembly, and no grants are awarded.

In Colorado, severance tax is collected from the producers of gas, oil, coal, metals, and molybdenum, and the proceeds are deposited into a State Severance Tax Trust Fund. About \$60 million of revenue, on average, is generated in this fashion each year (Serlet 2004). One-quarter of this revenue is dedicated to the Severance Tax Trust Fund Perpetual Base Account.

Funds from both the CWCB Construction Fund and the Severance Tax Trust Fund Perpetual Base Account are awarded with a preference for those projects that are most cost-effective, demonstrate the greatest need for assistance in financing, and that best relate to the Board's Long Range Plan.<sup>4</sup> Preference is also given to projects that increase the beneficial consumptive use of certain undeveloped supplies and projects that involve repair, rehabilitation, and management of existing water infrastructure and support systems.<sup>5</sup>

### Colorado Water Resources and Power Development Authority

A more recently created state agency in Colorado of importance to water development financing is the CWRPDA. CWRPDA was created in 1981 by the Colorado General Assembly to assist water and wastewater utilities in financing water projects. A nine-member board of directors provides policy direction for the Authority, with each member representing one of the eight major river basins and the City and County of Denver. Each board member is appointed by the governor and confirmed by the Colorado Senate.



<sup>2</sup> CWCB Policy Number 14.

<sup>3</sup> Award recipients must pay the first 5 percent of mitigation costs and any costs above the next 5 percent increment, which are covered by the award.

<sup>4</sup> CWCB Policy Number 12.

<sup>5</sup> Sec. 37-60-121(1)(b)(I) and (II) of Colorado Revised Statutes (CRS).

CWRPDA is currently involved with the Animas-La Plata project, a federal reclamation project designed to fulfill a water rights settlement with two Indian tribes and to protect water reliability for non-Indian water users in southwest Colorado. The project, after lengthy negotiations resulted in a smaller project than originally planned, will cost an estimated \$500 million, most of which will be funded through the federal BOR. CWRPDA has agreed to share about \$7.2 million of this cost, while also contributing to a \$15 million "Future Projects Escrow" to be used for new irrigation projects.

CWRPDA provides low-interest loans to local entities at a rate of around \$100 million per year (Law 2004). As of December 31, 2003, the Authority had executed over 222 loans representing over \$907 million in projects, largely through the use of revenue bonds (CWRPDA 2004). CWRPDA is authorized by Colorado statute to fund loans of up to \$500 million per borrower per project. A summary of the four major CWRPDA funding programs is included below:

### Small Water Resources Projects Program

The Small Water Resources Projects (SWRP) Program was created through Senate Bill 67 in 1989 to assist local governments in the financing of water resource projects. Loans of up to \$2 million per municipality are available and can be expedited through this program. Loans of up to \$500 million may be awarded under the SWRP program without legislative review, expediting the award process for the construction of water management and hydroelectric facilities and giving the project sponsor and the CWRPDA flexibility in reacting to bond market conditions. Eligible projects include water and wastewater treatment plants, pump stations, dams and reservoirs, water transfers, pipelines, hydroelectric projects, wells, meters, reuse facilities, and storage tanks. The SWRP Program also provides other financial benefits for loan recipients, including funding of the debt service reserve fund, pooling multiple borrowers, and subsidizing the cost of bond issuance.<sup>6</sup> As of December 31, 2003, CWRPDA had executed 48 SWRP Program loans totaling almost \$150 million (CWRPDA 2004).

<sup>6</sup> CWRPDA website ([www.cwrpda.com/Auth%20Frames/fanda.htm](http://www.cwrpda.com/Auth%20Frames/fanda.htm))

### Drinking Water Revolving Fund

The Drinking Water Revolving Fund (DWRF) was created in 1995 through Senate Bill 93 as Colorado prepared for the federal reauthorization of the SDWA and the creation of its new state revolving fund mechanism. Through the DWRF program, bonds are issued to fund leveraged loans and to meet the required 20 percent match on federal capitalization grants through EPA. Colorado was the first state in the nation to sell DWRF bonds (CWRPDA 2002).

As of July of 2003, CWRPDA had provided over \$15.7 million to match over \$84 million in federal grants. Subsidized loans are awarded under DWRF to public water systems to help achieve or maintain compliance with the SDWA and to protect certain public health objectives under the Act.

CWRPDA and CDPHE work together in the administration and funding of State Revolving Fund loans. CDPHE's Water Quality Control Division is the primary contact for loan applicants and assures that projects comply with all applicable requirements. The Division of Local Governments is responsible for analyzing the applicant's financial condition. The CWRPDA provides Colorado's required 20 percent match for EPA's federal funds, enters into loan agreements, and is responsible for the administration and management of the fund. As of December 31, 2003, CWRPDA had executed 61 DWRF loans representing \$205 million in projects (CWRPDA 2004).

### Water Pollution Control Revolving Fund

The Water Pollution Control Revolving Fund (WPCRF) was created in 1988 through Senate Bill 50, as directed by the federal CWA Amendments of 1987. CWRPDA issues bonds to fund the loans and meet the required 20 percent state match on federal funds, as with the DWRF. Publicly-owned wastewater treatment works receive low-interest loans under WPCRF for financing treatment plants, interceptors, pump stations, biosolids facilities, water meters, sewer lines, reuse facilities, and non-point source control projects.<sup>7</sup>

As of July 1, 2003, CWRPDA had provided over \$31.9 million in state funds to match \$176 million in federal grants. As of December 31, 2003, CWRPDA had

<sup>7</sup> CWRPDA website ([www.cwrpda.com/Funding%20Programs/WPCRF/EligProcess.htm](http://www.cwrpda.com/Funding%20Programs/WPCRF/EligProcess.htm))

## Appendix I Overview of Relevant Funding Programs

executed 107 WPCRF loans represented over \$517 million in projects (CWRPDA 2004).

### Water Revenue Bonds Program

The Water Revenue Bonds Program was initiated in 1998 to provide funds for programs that do not qualify for funding through other CWRPDA programs. CWRPDA assists the borrower with the structuring of the bonds, pays most of the costs of issuance, and either funds the required debt service reserve fund or purchases a surety bond in lieu of a cash deposit.<sup>8</sup> Legislative review is not required for loans of \$500 million or less under this program. Eligible projects under the program are similar to those under the SWRP Program, but may include additional projects such as dams, reservoirs, and water transfers. As of July 2003, CWRPDA had executed six loans under this program, representing over \$34 million in projects.

### Colorado Department of Public Health and Environment

In addition to its role in the State Revolving Fund loan programs, CDPHE administers the Drinking Water Grant Program. This program was established in 1999, is periodically funded by the state legislature, and provides grants to small (less than 5,000 population) systems for projects that may include consolidation, planning, design, and/or construction of water treatment systems. The grant program prioritizes projects and funding levels based upon public health and compliance needs as well as financial need. While the program typically is funded by the state legislature to about the \$1.5 million level each year, no funds are appropriated by the legislature in some fiscal years.

### Federal Agencies and Programs



Federal contributions for major water resources projects in

Colorado have decreased in recent years (Legislative Council of the Colorado General Assembly 2003). Federal funds continue to provide support for Colorado's

SDWA and CWA State Revolving Funds,<sup>9</sup> which are administered via state agencies as described above.

Federal programs in support of western water needs date back several decades. As Colorado and other western states grow and water uses evolve, the role of federal agencies in water management is also evolving. Major water supply-related federal agencies and funding programs in existence today are highlighted below.

### Department of Defense, U.S. Army Corps of Engineers

Following a lengthy hiatus of new construction of federally financed water projects under USACE, the Water Resources Development Act (WRDA) of 1986 and subsequent biennial renewals and updates, re-established a tradition and re-invigorated the USACE. WRDA 86 changed USACE operations policy and increased non-federal cost shares – resulting in broader distribution of funds and planning capability.

### Continuing Authorities Program

Large capital projects are the subject of specific Congressional authorization under the biennial WRDA legislation. USACE has nine project authorities. The two listed below would perhaps be the most relevant to major water-supply infrastructure projects in Colorado.

- **Project Modifications for Improvements to the Environment (Section 1135)** – Work under this authority provides for ecosystem restoration through modification to USACE structures or operation of USACE structures, or implementation of features when the construction of a USACE project has contributed to the degradation of the quality of the environment. Federal assistance for study is limited to \$10,000; the federal cost-share for implementation is 75 percent; and, the federal project limit is \$5,000,000.
- **Aquatic Ecosystem Restoration (Section 206)** – Work under this authority provides for the restoration and protection of aquatic ecosystems if the project will improve the environment and is in the public interest. Federal assistance for study is limited to \$10,000; the federal cost-share is 65 percent; and, the federal project limit is \$5,000,000.

<sup>8</sup> CWRPDA website ([www.cwrpda.com/Funding%20Programs/WRBP/EligProcess.htm](http://www.cwrpda.com/Funding%20Programs/WRBP/EligProcess.htm))

<sup>9</sup> DWRF and WPCRF, respectively.

### Section 22 and Section 219

In addition to the nine Continuing Authorities, the USACE has authority under Section 22, Planning Assistance to States, and under Section 219, Environmental Infrastructure Programs, to assist local governments.

- **Planning Assistance to States (Section 22)** – This authority allows for comprehensive planning for the development, utilization, and conservation of water-related land resources. Typical activities studied under the Section 22 Program are flood control, water supply, water conservation, water quality, hydropower, erosion, environmental evaluation, and navigation. These projects are conducted on a 50 percent cost-share, and the local share can be entirely in in-kind services.
- **Environmental Infrastructure Programs (Section 219)** – This authority allows the USACE to assist non-federal interests carry out water-related environmental infrastructure and resource protection, and development of such projects. USACE participation is in the form of technical and planning and design assistance.

### U.S. Department of the Interior, Bureau of Reclamation



For three-quarters of a century, the BOR was the premier water development and water infrastructure

agency in the West -- with a primary mission of agricultural water supply and a secondary, but no less important, function of hydroelectric power generation. While the BOR's activities are largely centered upon the construction, operation, and maintenance of specifically authorized project and facilities, the agency possesses an organic authority to study watershed and water management and to design water infrastructure.

In the midst of this reshaping of policy and management objectives at the BOR, Congress was also able to provide "rural water supply" project authority to the BOR for both agriculture and M&I purposes – another significant departure from the traditional agricultural emphasis. Also, the funding authority for projects under this authority is significantly different from traditional cost-sharing – with the federal share reaching 75 to 80 percent of total project costs.

BOR involvement in Colorado can most easily be initiated under BOR organic authority for investigations related to existing BOR projects and facilities in the state. Other investigations, and design and construction financial support or engineering, can be initiated via new specific legislative authorities.

### U.S. Environmental Protection Agency



In contrast to the USACE's and the BOR's longstanding presence in Western water development, EPA is a relative newcomer. Born of a shift in policy emphasis towards environmental concerns and of regulatory mandate, EPA and the

State Revolving Fund designed to implement CWA point source pollutant reductions, have significantly evolved.

While the increasing layering of federal regulatory demands can be a crushing burden on water resource planning and operations, it can also present an opportunity for increased federal agency assistance, technically and financially. For instance, where a water quality issue overlaps another water quality issue, a case can be made to utilize one agency's capabilities to achieve another agency's requirements. Thus, a case could be made to utilize EPA funding as part of the local cost-share.

Two key EPA funding accounts are:

- **State and Tribal Assistance Grants Account (STAG)** – This account funds local water supply and wastewater projects. There is a 55 federal/45 non-federal cost-share, and the funds can be used for both studies and construction. For Fiscal Year 2002, Congress approved a \$100 million increase for EPA's State and Tribal Assistance Grant Program, rising from \$3.63 billion in Fiscal Year 2001 to \$3.73 billion in Fiscal Year 2002. For Fiscal Year 1992 to 2004, a total of over \$5.7 billion in STAG grants were administered by EPA on 2,078 projects, for an average of about \$2.8 million per grant. Over this time period, Colorado projects were granted a total of just \$13 million.
- **Environmental Programs and Management (EPM)** – These funds are available on a 95 federal/5 non-federal cost-share for non-construction activities. In Fiscal Year 2002, Congress trimmed \$33 million from EPA's EPM Account for a decrease from Fiscal Year

## Appendix I Overview of Relevant Funding Programs

2001's \$2.88 billion to Fiscal Year 2002's \$2.055 billion.

Overall, the ongoing and upcoming EPA initiatives and regulatory actions emanating from CWA implementation will likely be a focus of water project operations, agricultural conservation program application, and to address water quality issues in many parts of Colorado.

### U.S. Department of Agriculture: Rural Development

Looking beyond the traditional action and regulatory agencies impacting water management and infrastructure development for potential agency partners is important to supporting comprehensive water resource strategies. For instance, the USDA Rural Utilities Service (RUS) oversees \$750 million annually in grants and loans for development of water projects in rural communities, and for rural, agriculturally-based communities.

The USDA RUS Water Programs Division oversees four programs providing technical and financial assistance for development and operation of safe and affordable water supply systems, as well as sewage and other waste disposal facilities:

- Water and Waste Disposal Loans and Grants
- Emergency Community Water Assistance Grants
- Technical Assistance and Training Grants
- Solid Waste Management Grants

#### Rural Economic and Development Loan Program

This Rural Business Cooperative Service program provides zero interest loans and grants for water infrastructure projects that are critical to economic development in rural areas (less than 20,000 residents).

### U.S. Department of Agriculture: Farm Bill Conservation Title Programs

Farm Bill Conservation Title programs may also provide federal funding assistance where water quality, habitat conservation, and watershed protection are an integral part of a community's or region's resource management plans. The USDA directs a number of programs designed to provide farmers with economic incentives to alter cropping patterns for environmental benefit. Originally conceived as the Soil Conservation Service, and focused on preventing overworking farmland and creating a dustbowl and for checking production, these

programs have significantly changed in recent years (particularly since the 1996 Farm Bill). While the economic incentives and the production control elements remain, there has been increased focus on environmentally-based conservation of species habitat, wetlands, and grasslands/rangelands.

### Local Entities

The list of local entities in Colorado that currently provide for water project financing includes municipal utilities, conservancy districts, and conservation districts. The



largest and oldest of the state utilities is Denver Water, an independent agency from the City of Denver servicing over 1 million people in the Denver metro area.

Denver Water operates from a Water Works Fund, which is separate from the City's general fund, and received receipts of \$220.3 million in 2002 (Denver Water 2003). The agency owns 2,552 miles of water mains, 18 pumping stations, 34 underground reservoirs, and draws water from 13 surface reservoirs owned or leased by the utility.<sup>10</sup>

Conservancy districts were created in 1937, in part to allow agricultural and municipal users to pool resources to build water facilities. Conservancy districts are created by petitions from local residents within the district area, with boards that are appointed by district judges. The focus of conservancy districts tends to be on specific local needs, and the role of the districts includes the construction and operation of water projects.

Conservancy districts have the authority to levy taxes and to use the power of eminent domain (Quillen 2001). The first conservancy district formed was the Northern



Colorado Water Conservancy District (NCWCD), which was created to contract with the BOR to build and

operate the Colorado-Big Thompson Project – a massive transmountain system that delivers 220,000 AF of water annually east across the continental divide.<sup>11</sup> NCWCD generated over \$20 million in revenue from property

<sup>10</sup> Denver Water website ([www.water.denver.co.gov/aboutdw/aboutdwframe.html](http://www.water.denver.co.gov/aboutdw/aboutdwframe.html))

<sup>11</sup> NCWCD website ([http://www.ncwcd.org/project&features/cbt\\_main.asp](http://www.ncwcd.org/project&features/cbt_main.asp))

taxes, water assessments, service charges, and other sources for the year ending September 30, 2002 (NCWCD 2002).

There are three conservation districts in the State of Colorado:

- Colorado River Water Conservation District
- Rio Grande Water Conservation District
- Southwestern Water Conservation District

Conservation districts can also assess taxes and build and operate water projects, like conservancy districts, but conservation districts are more oriented for bigger-



picture tasks such as planning and development.

Conservation districts

must be authorized by the Colorado General Assembly, and have boards appointed by county commissioners (Quillen 2001). The Colorado River Water Conservation District, as an example, generated almost \$3.5 million in revenues from property taxes, specific ownership taxes, and other sources in fiscal year 2003 (CRWCD 2003).

## References

CRWCD [Colorado River Water Conservation District]. 2003. "General Fund – 2003 Budget Summary – Revenue/Expenditures", updated September 30. [www.crwcd.gov/2004budget/2004generalbudget.pdf](http://www.crwcd.gov/2004budget/2004generalbudget.pdf).

CWCB [Colorado Water Conservation Board]. 2003. Strategic Plan, Revised July.

\_\_\_\_\_. 2003. "CWCB Activities (Multimedia Kiosk Presentation)." <http://cwcb.state.co.us/Kiosk/index.html>.

\_\_\_\_\_. 1999. "New Construction Loan Policies" fact sheet, October 4. [http://cwcb.state.co.us/Fact\\_Sheets/construction%20policies.pdf](http://cwcb.state.co.us/Fact_Sheets/construction%20policies.pdf).

CWRPDA [Colorado Water Resources and Power Development Authority]. 2004. "All Programs, Loan Status Report, As of December 31, 2003" tabular fax. January 13.

\_\_\_\_\_. 2002. "Annual Report: Fiscal Year 2002." April 30.

Denver Water. 2003. "Denver Water 2003 Budget." February 27.

Law, Daniel. 2004. Executive Director of the Colorado Water Resources and Power Development Authority. Phone and e-mail correspondence, January.

Legislative Council of the Colorado General Assembly. 2003. "Analysis of the 2003 Ballot Proposals", Research Publication No. 515-0.

NCWCD [Northern Colorado Water Conservancy District]. 2002. 2002 Comprehensive Annual Financial Report. September 30.

Serlet, Mike. 2004. Colorado Water Conservation Board Chief of Water Supply Planning and Finance. Phone conversations, January.

Quillen, Ed. 2001. "Water by the District, Water Conservancy Districts", Colorado Central Magazine No. 86, pg. 17. April.