

Approved February 24, 1988  
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Phil Kline at  
Chairperson

3:37 ~~xxx~~ p.m. on Tuesday, February 16, 19 88 in room 423-S of the Capitol.

All members were present except: Representatives Helgerson, Mainey, Aylward, Gjerstad, Barkis, Hassler, Foster. - Excused.

Committee staff present:  
Jim Wilson, Revisor  
Lynn Holt, Research  
Elaine Johnson, Secretary

Conferees appearing before the committee:  
Stanley Grant, Secretary, Dept. of Health and Environment  
George Barbee, Executive Director, Kansas Consulting Engineers  
Shelley Sutton, Director of Communications, Kansas Engineering Society, Inc.  
E. A. Mosher, Executive Director, League of Kansas Municipalities  
Allen Bell, President, Kansas Development Finance Authority  
Glen Coulter, Manager, The Kansas Contractors Association, Inc.

Chairman Phil Kline called the meeting to order and recognized Stanley Grant, Secretary of the Department of Health and Environment.

Secretary Grant said that they support S.B. 472 and urge passage. The establishment of a Kansas Water Pollution Control Revolving Fund will provide loans to Kansas municipalities for construction of municipal wastewater collection and treatment facilities. Kansas sewage collection and treatment needs are significant. Passage of S.B. 472 is the first step in creating a state revolving loan fund. The institutional framework to administer the fund and the source of the 20% state match must still be determined. The fund should be established and be in place by October 1, 1988 to take maximum advantage of the Federal funds. (Attachment 1). Mr. Grant also handed out a report on Kansas Water Pollution Control Revolving Fund (Attachment 2) and a Supplement to Kansas Water Pollution Control Revolving Fund (Attachment 3).

Discussion followed.

The second conferee was George Barbee who also urges passage of S.B. 472 as it is a positive step as a way to help Kansas meet its water quality sewerage needs. The Federal Water Quality Act of 1987 eliminates the Federal Grants program after FY 1990, but does provide for a transition from grants to loans beginning in FY 1989. The Kansas Water Pollution Control Revolving Fund coupled with the U.S. EPA's construction grants program could provide Kansas communities with up to \$92 million over the next six years. Kansans would be required to pay a 20 percent match or approximately \$15.34 million. (Attachment 4).

Shelley Sutton testified that the Kansas Engineering Society, Inc. feels that S.B. 472 is worth supporting although it is certainly, as a financial mechanism by itself, insufficient to meet the total needs that exist today and recommend favorable passage so that we may garner a share of some remaining federal funds to aid us. (Attachment 5).

Mr. Ernie Mosher testified that the League is in support of S.B. 472. Attention was called to the fact that S.B. 472 does not include a state appropriation. It is their understanding that actions are now under way to provide that the annual state 20% share would be paid by those local units receiving the loans, and not from a state appropriation. This would be accomplished by the annual issuance of bonds by the Kansas Development Finance Authority, with the principal, interest and issuance costs being paid by the local units that are users of the loans. The League is also

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,  
room 423-S Statehouse, at 3:37 ~~xxx~~ p.m. on Tuesday, February 16, 1988.

urging attention to the financing of the mandated 20% state share, to assure the program is practical and workable. They urge support of S.B. 513 as it is essential to the working of S.B. 472, without violations of the cash basis law. (Attachment 6).

Discussion followed.

Allen Bell testified on the providing of the state match for the Kansas Water Pollution Control Revolving Fund through the issuance of KDFA revenue bonds. The amount of the state match under the program will be approximately \$15 million over six years. If revenue bonds are used to provide the state match, they would be issued by KDFA. KDFA and the Secretary of Health and Environment would enter into an agreement in which the revenues accruing to the SRF from the repayment of loans is irrevocably pledged to the payment of principal and interest on the bonds. The bonds would be sold competitively into the national capital markets at the prevailing interest rates, and the proceeds deposited into the SRF. The proceeds of these bond issues would be combined with the federal grant dollars and lent to participating municipalities. 80% of each loan from federal grant dollars, and 20% from state bond dollars. With bonds, the state match is ultimately provided by each municipality that borrows from the SRF, with larger borrowers paying more of the match than smaller borrowers. (Attachment 7).

Discussion followed.

Glen Coulter expressed the support of The Kansas Contractors Association, Inc. The state's needs in the way of wastewater and sewerage improvements were great in 1984, and the needs are even greater in 1988. S.B. 472 will give Kansas communities the chance to continue to use federal funds to help solve their infrastructure needs for water pollution control. Favorable passage is requested. (Attachment 8). The "Kansas Infrastructure" referred to in Attachment 8 is (Attachment 9).

John Metzler, Chief Engineer of the Unified Wastewater Districts, Johnson County was scheduled to testify but due to illness was unable to attend. A copy of his testimony is attached as (Attachment 10) for the record.

The minutes of meetings held on January 26 and February 3rd were approved.

The meeting adjourned at 4:13 p.m.



Date: 2/16/88

G U E S T R E G I S T E B

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Testimony Presented to  
House Economic Development Committee

by

The Kansas Department of Health and Environment

Senate Bill 472

Mr. Chairman and Members of the Committee:

Senate Bill 472 is a new statute intended to establish a Kansas Water Pollution Control Revolving Fund. The Fund will provide loans to Kansas municipalities for construction of municipal wastewater collection and treatment facilities. The Federal Water Quality Act of 1987 phases out the construction grants program after 1991.

Since 1972, Kansas municipalities have received \$408 million in federal grants through the United States Environmental Protection Agency Construction Grants Program established by Public Law 92-500, or the Clean Water Act. The Act provides a transition from grants to loans beginning October 1, 1988. The Act provides for six years of federal seed money to be placed in a State revolving loan fund set up in accordance with specific conditions of the Federal Act. A separate paper titled "Kansas Water Pollution Control Revolving Fund" is provided with this testimony and presents specific program details and answers various questions regarding administration of the revolving fund program. The Kansas Water Pollution Control Revolving Fund can only be used for sewerage and water quality needs and must be set up and administered in accordance with the Federal Water Quality Act of 1987.

Kansas sewage collection and treatment needs are significant. Infrastructure studies by Department of Commerce identified 5 year needs between \$236 and \$400 million. \$300 million in projects are identified on KDHE's present grants priority list. Economic development potential of some Kansas communities could be limited because of these sewerage needs being unmet.

A total of \$92 million, including a mandatory 20% match provided by the State of Kansas, is potentially available to satisfy present needs and establish an attractive revolving loan fund in perpetuity. The State revolving fund would be established over a six-year period in accordance with the following schedule:

House Eco Devo  
Attachment 1  
2/16/88

FFY	\$Million (Federal)	\$Million (State)	\$Million (Total)
89	10.95	2.19	13.14
90	10.95	2.19	13.14
91	21.91	4.38	26.29
92	16.43	3.29	19.72
93	10.95	2.19	13.14
94	<u>5.49</u>	<u>1.10</u>	<u>6.59</u>
	76.68	15.34	92.02

This fund has the potential to finance over \$300 million in sewage projects during the next 20 years depending on loan conditions, the selected repayment period and the interest rate. The opportunity to combine five federal dollars with a single state dollar in a revolving loan fund for pollution control over the next six years would provide another potential funding option for local governments. With the EPA grants program phasing out we will be searching for alternative financing systems. This fund is one alternative.

Recognizing this opportunity and potential benefit to the State of Kansas, meetings have been held with representatives of the Kansas League of Municipalities, local government, the Kansas Contractors Association, the Kansas Consulting Engineers, the Kansas Engineering Society and the Kansas Department of Health and Environment to discuss the needs and means for establishing the fund. Representatives of other State agencies, professional societies and private firms have also attended these discussions.

The Kansas Water Pollution Control Revolving Loan Program was considered by the Interim Joint Committee on Economic Development during the fall of 1987. Senate Bill 472 is a product of that Committee's deliberations. This bill was considered and unanimously passed by the Senate Energy and Natural Resources Committee in the present form during the current legislative session. Several amendments were made to the bill with the support of the League of Municipalities and Kansas Department of Health and Environment.

Representatives of the Kansas Department of Health and Environment have met with city officials across the State to further explore the specific needs for the revolving loan fund, and we were generally met with interest and support. Most cities consider this fund as an attractive financing source to be explored during project development. Passage of Senate Bill 472 is necessary to create the Water Pollution Control Revolving Loan Fund Program.

Creation of the Kansas Water Pollution Control Revolving Loan Fund allows Kansas to use the opportunity to provide \$92 million for loans to Kansas municipalities for construction of wastewater works. Without the loan fund the federal share, \$77 million, would be provided to other states which have developed a revolving loan program.

Passage of S.B. 472 is the first step in creating a State revolving loan fund. The institutional framework to administer the fund and the source of the 20% State match must still be determined. The provisions of S.B. 472 allow the Department to establish the institutional framework through regulations. The fund should be established and be in place by October 1, 1988 to take maximum advantage of the Federal funds.

Mr. Chairman and Members of the Committee, we support Senate Bill 472 and urge your approval.

Presented by: Stanley Grant, Ph.D., Secretary  
February 16, 1988

A-1-3  
2/16/88

# FUNDING SCHEDULE

## PROPOSED STATE REVOLVING LOAN FUND

FFY	\$MILLION (FEDERAL)	\$MILLION (STATE)	\$MILLION (TOTAL)
89	10.95	2.19	13.14
90	10.95	2.19	13.14
91	21.91	4.38	26.29
92	16.43	3.29	19.72
93	10.95	2.19	13.14
94	<u>5.49</u>	<u>1.10</u>	<u>6.59</u>
	76.68	15.34	92.02

by KDHE  
JAN. 88

STATE OF KANSAS

KANSAS WATER POLLUTION CONTROL  
REVOLVING FUND

As Authorized In The  
Federal Water Quality Act of 1987  
(Public Law 100-4)

August 1987

MIKE HAYDEN, GOVERNOR

Stanley C. Grant, Secretary  
Gary K. Hulett, Under Secretary  
KANSAS DEPARTMENT OF HEALTH & ENVIRONMENT

James A. Power, Jr., Director  
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*House Eco Dev  
Attachment 2  
2/16/88*



# KANSAS WATER POLLUTION CONTROL REVOLVING FUND

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## WHAT ARE STATE REVOLVING FUNDS (SRF)?

The federal Water Quality Act of 1987 (Public Law 100-4) terminates the EPA Construction Grants Program after FFY 90. Recognizing that significant water quality and sewerage needs still persist across the nation, Congress included a provision for authorizing additional federal monies to be distributed to the states as capitalization grants to establish revolving funds to serve as a perpetual source of revenues for the correction of water quality problems and to satisfy sewerage facility needs. The capitalization grants are authorized over a 6-year period beginning in FFY 89 (October 1, 1988) and ending after FFY 94.

State revolving funds are restricted funds established from the federal capitalization grants, the minimum 20 percent state matching monies, and any other proceeds or revenues deposited into the fund as required by the Water Quality Act of 1987 and specific state revolving fund authorizing statutes. Section 212 of the Water Quality Act of 1987, which authorizes SRFs, is included in Appendix A.

## WHAT ARE KANSAS NEEDS FOR USING AN SRF?

The 1984 Kansas Department of Economic Development's (KDED) research paper on "Kansas Infrastructure" identified between \$236 to \$400 Million in sewerage system needs over the next five years to service the existing population. KDED utilized a combination of community surveys, the 1984 EPA Preliminary Needs Survey, and the Kansas Department of Health & Environment's (KDHE) Construction Grants Project Priority List to develop their sewerage needs estimate. The FFY 87 KDHE priority list contains projects totalling nearly \$300 Million from about 100 Kansas local governments. Projects listed on the KDHE priority list are needed to protect water quality and public health.

A more definitive, but not all-inclusive, list of Kansas sewerage system needs is included in Appendix B. This list was assembled by KDHE staff by screening all existing known lists. Local officials will be contacted to determine the local importance placed on these projects. The projects are fairly well distributed geographically in the State; however, as can reasonably be expected, the greatest sewerage needs are in the urban and urbanizing areas. The Kansas Water Pollution Control Revolving Fund can be a significant source of funds to satisfy these needs. It should be noted the fund is not limited to the projects listed in this paper or in any of the above lists.

## HOW MUST AN SRF BE SET UP?

To receive a federal capitalization grant, a state must establish -- by statute, executive order, or other legal mechanism -- a water pollution control revolving fund. The legal mechanism used to establish the fund must empower and require an existing or new instrumentality of the state to do the following:

1. Enter into capitalization grant agreements with the Environmental Protection Agency (EPA).
2. Operate the fund in accordance with the objectives and requirements of the Clean Water Act as amended by the Water Quality Act of 1987.
3. Ensure that the fund and all repayments from assistance provided by the fund be available in perpetuity.
4. Make financial assistance available by loans, that is, the dedicated fund cannot provide grant assistance.
5. Restrict assistance from the fund to projects that appear on the state's priority list and intended use plan. The priority list is a flexible projects need list which is annually updated; the intended use plan is an agreement with EPA for use of the funds.

Draft statutory provisions establishing the fund are included in Appendix C.

#### HOW MUCH FEDERAL MONEY IS AVAILABLE TO KANSAS?

Subject to the conditions of the Water Quality Act of 1987, the following amounts are authorized for Kansas (rounded to two decimal places):

<u>FFY</u>	<u>\$ Million (federal)</u>
89	10.95
90	10.95
91	21.91
92	16.43
93	10.95
94	5.48
Total	<u>\$76.67</u> Million

The actual amounts granted to Kansas are subject to certain conditions as well as Congressional appropriation.

#### WHAT IS THE MOST SIGNIFICANT CONDITION OF THE CAPITALIZATION GRANTS?

Congress has authorized a significant amount of federal money for satisfying water quality and sewerage needs. It is Congressional intent to encourage state and local governments to become more involved in environmental protection programs by assuming a greater financial stewardship role. Consistent with that more active partnership goal, the Water Quality Act of 1987 requires states to deposit a minimum of 20 percent matching money into the perpetual fund. In Kansas, this provision means the following amounts must be deposited into the fund before each FFY's federal money will be released to the state:

FFY	\$ Million (state)
89	2.19
90	2.19
91	4.38
92	3.29
93	2.19
94	1.10
Total	\$15.34 Million

Therefore, a total of \$92.01 Million (\$76.67 M + \$15.34 M) could be available in a perpetual fund to finance correction of emerging water quality problems and to satisfy statewide sewerage needs. The financial impetus of the SRF to satisfy sewerage infrastructure needs would also stimulate economic development.

#### WHAT OTHER CONDITIONS APPLY TO THE CAPITALIZATION GRANTS?

The state must negotiate an operating agreement with EPA that provides for the continual operation of the SRF. Conditions include the following:

1. EPA must accept the state's administrative proposal.
2. The state must submit an intended use plan at least 90 days before the beginning of the fiscal year for which assistance is sought. The intended uses must be consistent with the annually updated project priority list. An actual use report must be submitted no later than 90 days after the end of each federal fiscal year. Some of these requirements may not apply after FFY 94, the last year of capitalization grants.
3. All the money in the SRF must be expended in a timely and expeditious manner. This currently means a state must enter into binding commitments with local governments to provide financial assistance in an amount equal to 120 percent of each capitalization grant payment within one year of receiving the payment. The 120 percent figure represents the federal contribution plus the 20 percent state match.
4. The state must negotiate, with the administrator of EPA, a schedule of quarterly payments under which the federal money will be paid to the state.
5. The state must agree to abide by the conditions of the Water Quality Act of 1987 and to prevent waste, fraud, or abuse of federal monies.
6. The state must comply with its own laws for the commitment and expenditure of revenues. Also, the state and its loan recipients must comply with federal accounting, auditing, and fiscal procedures.

## HOW CAN THE \$92 MILLION BE USED?

Congress intended that most of the financial assistance provided by an SRF be in the form of loans to local governments for water pollution control facilities and programs. The loan repayments would then provide a continuing source of capital for satisfying water quality and sewerage needs. Allowable uses of the money are as follows:

1. Direct loans for construction.

The conditions placed on loans made from an SRF are intended to maintain the financial integrity of the fund and to ensure that money will be available to address the diverse water quality and sewerage needs of a state's local governments.

2. Administrative costs of the SRF.

Eligible administrative costs include all of the costs of technical project reviews and management associated with administering the loan program as well as the costs of servicing loans, program start-up costs, financial, management, and legal consulting fees.

Up to four percent of the federal capitalization grants can be used for the SRF administrative costs. For Kansas, this provision makes available the following amounts:

<u>FFY</u>	<u>\$ Million</u>
89	0.438
90	0.438
91	0.876
92	0.657
93	0.438
94	0.219
Total	\$3.066 Million

To maintain the financial integrity of the SRF, a state may also establish administrative fees in the form of interest as part of the loan agreements.

3. Refinancing local debt.

An SRF may purchase or refinance a local debt obligation if the debt was incurred after March 7, 1985, and the local government had proceeded with an eligible project in order to achieve compliance with a wastewater permit requirement.

4. Guarantees or insurance for local debt.

A local government may be able to more easily access credit markets or receive a reduced interest rate under this option. However, this type of

program generally requires a withdrawal of funds from the SRF without an annual repayment requirement. The annual purchasing power of the SRF is then reduced for the term of the guaranteed loan.

5. Leveraging.

The SRF may be used as a source of revenue or security for payments on bonds issued by a state if the proceeds of the bond sale are deposited in the SRF. A state must comply with all of its own securities laws and regulations as well as those of the federal government. The Tax Reform Act of 1986 significantly impacts this option.

6. Earn interest.

An SRF may earn interest on fund accounts, subject to the requirements for timely and expeditious expenditure of federal capitalization grant funds and federal and state arbitrage limits.

#### FOR WHAT CAN THE \$92 MILLION BE USED?

The fund must primarily be used to provide assistance to local governments for construction of publicly-owned wastewater treatment works to bring the facilities into compliance with their wastewater permit conditions or to satisfy other water quality needs. The term "construction" includes planning, design, legal, and fiscal costs associated with physical completion of a project. Eligible treatment works include treatment facilities, interceptor sewers, sewage collection systems, pumping stations, combined sewer correction, and storm water runoff treatment as necessary for water quality needs. The most cost-effective solution, including new construction, remodeling, alteration, rehabilitation, or combinations thereof must be chosen.

Additionally, a portion of the money can be reserved for implementation of certain nonpoint source correction programs and groundwater protection programs. The federal guidelines have not been completed for these programs. Initial consideration has centered around initial state program development with construction of a limited number of demonstration projects.

After FFY 94 most of the federal restrictions will not apply. However, the basic requirements of applying the fund for the construction of sewerage and water quality control facilities will remain.

#### WHAT IMPACT CAN THE SRF HAVE ON KANSAS' SEWERAGE NEEDS?

The states are given maximum flexibility to establish their loan programs. Therefore, an almost infinite number of options and combinations of terms are possible. The program must be competitive with conventional local financing and yet

allow the fund to grow to meet future needs. Appendix D contains a series of example loan programs. The examples show the impacts of varying interest rates and loan repayment periods on the fund over a 20-year period. Appendix E compares financing an example project with loan assistance from the SRF and variable term conventional financing.

A properly structured SRF will provide a viable, competitive source of monies to help satisfy Kansas sewerage needs.

#### WHAT TERMS AND CONDITIONS APPLY TO THE LOANS?

Loans must be made at or below market interest rates for terms not to exceed 20 years. Each loan recipient must have a dedicated source of revenue to begin paying back the principal and interest not later than one year after the project is operable for its intended purposes. Payments must be made at least annually and must be credited to the SRF. States have maximum flexibility to establish loan interest rates, length of term, and amortization schedules. State authorizing legislation must be passed and regulations adopted to govern the loan program (See Appendix C).

#### WHAT OTHER CONDITIONS APPLY TO INDIVIDUAL PROJECTS?

For sewerage needs projects, some of the former EPA construction grants requirements will apply for at least the first round of loans or until existing water quality needs are satisfied whichever occurs earlier. The most significant of these requirements are as follows:

1. Assistance is limited to projects for cost-effective secondary treatment, advanced treatment, new interceptors, pumping stations and appurtenances, and infiltration/inflow correction. A state may elect to reserve up to 20 percent of the funds for categories of collector sewers and general sewer rehabilitation projects. A portion of the 20 percent reserve could also be used for nonpoint source control and groundwater protection program management and demonstration projects. Future capacity restrictions will not apply.
2. Projects must be consistent with Kansas Water Quality Management Plans.
3. The applicant must show that the related sewage collection system is not subject to excessive infiltration or inflow.
4. The applicant must select the most cost-effective solution, must consider innovative or alternative technologies for problem resolution, and must take into account opportunities to make more efficient uses of resources and energy.

5. Local governments must develop user charge systems and must have the legal, institutional, managerial, and financial capability to construct, operate, and maintain the sewerage works.
6. One year after the completion of construction, the local government must certify the facility meets its design specifications and permit limitations or make necessary corrections to allow positive certification.
7. All projects estimated to cost over \$10 Million must have a value engineering review.
8. The National Environmental Policy Act (NEPA) requirements apply until a state develops its own EPA approved environmental impact review procedures. A state must have approved procedures in effect before FFY 94 (October 1, 1993) in order to receive the FFY 94 capitalization grant.
9. The provisions of the 1964 Civil Rights Act and subsequent amendments apply.
10. Applicable labor standards apply.

#### WHAT ARE THE TIME CONSTRAINTS?

The Clean Water Act provides a two-year period for a state to obligate the authorized capitalization grant amounts. If the funds are not obligated within the two-year period, any remaining monies are withdrawn to the national pool and reallocated to those states who have met the obligation commitment. Since the first capitalization grant amounts are authorized to begin in FFY 89 (October 1, 1988), Kansas would have to obligate that year's money before October 1, 1990 or be subject to reallocation loss.

In order to have benefit of the full two years to obligate the FFY 89 monies, the Kansas Water Pollution Control Revolving Fund would have to be established early in calendar year 1988 with the State's project priority list, intended use plan, and grant application submitted to Region VII EPA by July 1, 1988. This requires the enactment of a Kansas Water Pollution Control Revolving Fund Act similar to the draft statutory provisions included in Appendix C.



APPENDIX A

Section 212 of the Water Quality Act of 1987

SEC. 212. STATE WATER POLLUTION CONTROL REVOLVING FUNDS.

(a) ESTABLISHMENT OF PROGRAM.—The Act is amended by adding at the end thereof the following new title:

H. R. 1—16

**“TITLE VI—STATE WATER POLLUTION  
CONTROL REVOLVING FUNDS**

**“SEC. 601. GRANTS TO STATES FOR ESTABLISHMENT OF REVOLVING  
FUNDS.**

“(a) GENERAL AUTHORITY.—Subject to the provisions of this title, the Administrator shall make capitalization grants to each State for the purpose of establishing a water pollution control revolving fund for providing assistance (1) for construction of treatment works (as defined in section 212 of this Act) which are publicly owned, (2) for implementing a management program under section 319, and (3) for developing and implementing a conservation and management plan under section 320.

“(b) SCHEDULE OF GRANT PAYMENTS.—The Administrator and each State shall jointly establish a schedule of payments under which the Administrator will pay to the State the amount of each grant to be made to the State under this title. Such schedule shall be based on the State’s intended use plan under section 606(c) of this Act, except that—

“(1) such payments shall be made in quarterly installments,  
and

“(2) such payments shall be made as expeditiously as possible,  
but in no event later than the earlier of—

“(A) 8 quarters after the date such funds were obligated  
by the State, or

“(B) 12 quarters after the date such funds were allotted to  
the State.

**“SEC. 602. CAPITALIZATION GRANT AGREEMENTS.**

“(a) GENERAL RULE.—To receive a capitalization grant with funds made available under this title and section 205(m) of this Act, a State shall enter into an agreement with the Administrator which shall include but not be limited to the specifications set forth in subsection (b) of this section.

“(b) SPECIFIC REQUIREMENTS.—The Administrator shall enter into an agreement under this section with a State only after the State has established to the satisfaction of the Administrator that—

“(1) the State will accept grant payments with funds to be made available under this title and section 205(m) of this Act in accordance with a payment schedule established jointly by the Administrator under section 601(b) of this Act and will deposit all such payments in the water pollution control revolving fund established by the State in accordance with this title;

“(2) the State will deposit in the fund from State moneys an amount equal to at least 20 percent of the total amount of all capitalization grants which will be made to the State with funds to be made available under this title and section 205(m) of this Act on or before the date on which each quarterly grant payment will be made to the State under this title;

“(3) the State will enter into binding commitments to provide assistance in accordance with the requirements of this title in an amount equal to 120 percent of the amount of each such grant payment within 1 year after the receipt of such grant payment;

“(4) all funds in the fund will be expended in an expeditious and timely manner;

“(5) all funds in the fund as a result of capitalization grants under this title and section 205(m) of this Act will first be used to assure maintenance of progress, as determined by the Governor of the State, toward compliance with enforceable deadlines, goals, and requirements of this Act, including the municipal compliance deadline;

“(6) treatment works eligible under section 603(c)(1) of this Act which will be constructed in whole or in part before fiscal year 1995 with funds directly made available by capitalization grants under this title and section 205(m) of this Act will meet the requirements of, or otherwise be treated (as determined by the Governor of the State) under sections 201(b), 201(g)(1), 201(g)(2), 201(g)(3), 201(g)(5), 201(g)(6), 201(n)(1), 201(o), 204(a)(1), 204(a)(2), 204(b)(1), 204(d)(2), 211, 218, 511(c)(1), and 513 of this Act in the same manner as treatment works constructed with assistance under title II of this Act;

“(7) in addition to complying with the requirements of this title, the State will commit or expend each quarterly grant payment which it will receive under this title in accordance with laws and procedures applicable to the commitment or expenditure of revenues of the State;

“(8) in carrying out the requirements of section 606 of this Act, the State will use accounting, audit, and fiscal procedures conforming to generally accepted government accounting standards;

“(9) the State will require as a condition of making a loan or providing other assistance, as described in section 603(d) of this Act, from the fund that the recipient of such assistance will maintain project accounts in accordance with generally accepted government accounting standards; and

“(10) the State will make annual reports to the Administrator on the actual use of funds in accordance with section 606(d) of this Act.

“SEC. 603. WATER POLLUTION CONTROL REVOLVING LOAN FUNDS.

“(a) REQUIREMENTS FOR OBLIGATION OF GRANT FUNDS.—Before a State may receive a capitalization grant with funds made available under this title and section 205(m) of this Act, the State shall first establish a water pollution control revolving fund which complies with the requirements of this section.

“(b) ADMINISTRATION.—Each State water pollution control revolving fund shall be administered by an instrumentality of the State with such powers and limitations as may be required to operate such fund in accordance with the requirements and objectives of this Act.

“(c) PROJECTS ELIGIBLE FOR ASSISTANCE.—The amounts of funds available to each State water pollution control revolving fund shall be used only for providing financial assistance (1) to any municipality, intermunicipal, interstate, or State agency for construction of publicly owned treatment works (as defined in section 212 of this Act), (2) for the implementation of a management program established under section 319 of this Act, and (3) for development and implementation of a conservation and management plan under section 320 of this Act. The fund shall be established, maintained, and credited with repayments, and the fund balance shall be available in perpetuity for providing such financial assistance.

“(d) TYPES OF ASSISTANCE.—Except as otherwise limited by State law, a water pollution control revolving fund of a State under this section may be used only—

“(1) to make loans, on the condition that—

“(A) such loans are made at or below market interest rates, including interest free loans, at terms not to exceed 20 years;

“(B) annual principal and interest payments will commence not later than 1 year after completion of any project and all loans will be fully amortized not later than 20 years after project completion;

“(C) the recipient of a loan will establish a dedicated source of revenue for repayment of loans; and

“(D) the fund will be credited with all payments of principal and interest on all loans;

“(2) to buy or refinance the debt obligation of municipalities and intermunicipal and interstate agencies within the State at or below market rates, where such debt obligations were incurred after March 7, 1985;

“(3) to guarantee, or purchase insurance for, local obligations where such action would improve credit market access or reduce interest rates;

“(4) as a source of revenue or security for the payment of principal and interest on revenue or general obligation bonds issued by the State if the proceeds of the sale of such bonds will be deposited in the fund;

“(5) to provide loan guarantees for similar revolving funds established by municipalities or intermunicipal agencies;

“(6) to earn interest on fund accounts; and

“(7) for the reasonable costs of administering the fund and conducting activities under this title, except that such amounts shall not exceed 4 percent of all grant awards to such fund under this title.

“(e) LIMITATION TO PREVENT DOUBLE BENEFITS.—If a State makes, from its water pollution revolving fund, a loan which will finance the cost of facility planning and the preparation of plans, specifications, and estimates for construction of publicly owned treatment works, the State shall ensure that if the recipient of such loan receives a grant under section 201(g) of this Act for construction of such treatment works and an allowance under section 201(i)(1) of this Act for non-Federal funds expended for such planning and preparation, such recipient will promptly repay such loan to the extent of such allowance.

“(f) CONSISTENCY WITH PLANNING REQUIREMENTS.—A State may provide financial assistance from its water pollution control revolving fund only with respect to a project which is consistent with plans, if any, developed under sections 205(j), 208, 303(e), 319, and 320 of this Act.

“(g) PRIORITY LIST REQUIREMENT.—The State may provide financial assistance from its water pollution control revolving fund only with respect to a project for construction of a treatment works described in subsection (c)(1) if such project is on the State's priority list under section 216 of this Act. Such assistance may be provided regardless of the rank of such project on such list.

“(h) ELIGIBILITY OF NON-FEDERAL SHARE OF CONSTRUCTION GRANT PROJECTS.—A State water pollution control revolving fund may provide assistance (other than under subsection (d)(1) of this section)

to a municipality or intermunicipal or interstate agency with respect to the non-Federal share of the costs of a treatment works project for which such municipality or agency is receiving assistance from the Administrator under any other authority only if such assistance is necessary to allow such project to proceed.

**"SEC. 604. ALLOTMENT OF FUNDS.**

"(a) **FORMULA.**—Sums authorized to be appropriated to carry out this section for each of fiscal years 1989 and 1990 shall be allotted by the Administrator in accordance with section 205(c) of this Act.

"(b) **RESERVATION OF FUNDS FOR PLANNING.**—Each State shall reserve each fiscal year 1 percent of the sums allotted to such State under this section for such fiscal year, or \$100,000, whichever amount is greater, to carry out planning under sections 205(j) and 303(e) of this Act.

"(c) **ALLOTMENT PERIOD.**—

"(1) **PERIOD OF AVAILABILITY FOR GRANT AWARD.**—Sums allotted to a State under this section for a fiscal year shall be available for obligation by the State during the fiscal year for which sums are authorized and during the following fiscal year.

"(2) **REALLOTMENT OF UNOBLIGATED FUNDS.**—The amount of any allotment not obligated by the State by the last day of the 2-year period of availability established by paragraph (1) shall be immediately reallocated by the Administrator on the basis of the same ratio as is applicable to sums allotted under title II of this Act for the second fiscal year of such 2-year period. None of the funds reallocated by the Administrator shall be reallocated to any State which has not obligated all sums allotted to such State in the first fiscal year of such 2-year period.

**"SEC. 605. CORRECTIVE ACTION.**

"(a) **NOTIFICATION OF NONCOMPLIANCE.**—If the Administrator determines that a State has not complied with its agreement with the Administrator under section 602 of this Act or any other requirement of this title, the Administrator shall notify the State of such noncompliance and the necessary corrective action.

"(b) **WITHHOLDING OF PAYMENTS.**—If a State does not take corrective action within 60 days after the date a State receives notification of such action under subsection (a), the Administrator shall withhold additional payments to the State until the Administrator is satisfied that the State has taken the necessary corrective action.

"(c) **REALLOTMENT OF WITHHELD PAYMENTS.**—If the Administrator is not satisfied that adequate corrective actions have been taken by the State within 12 months after the State is notified of such actions under subsection (a), the payments withheld from the State by the Administrator under subsection (b) shall be made available for reallocation in accordance with the most recent formula for allotment of funds under this title.

**"SEC. 606. AUDITS, REPORTS, AND FISCAL CONTROLS; INTENDED USE PLAN.**

"(a) **FISCAL CONTROL AND AUDITING PROCEDURES.**—Each State electing to establish a water pollution control revolving fund under this title shall establish fiscal controls and accounting procedures sufficient to assure proper accounting during appropriate accounting periods for—

- “(1) payments received by the fund;
- “(2) disbursements made by the fund; and
- “(3) fund balances at the beginning and end of the accounting period.

“(b) ANNUAL FEDERAL AUDITS.—The Administrator shall, at least on an annual basis, conduct or require each State to have independently conducted reviews and audits as may be deemed necessary or appropriate by the Administrator to carry out the objectives of this section. Audits of the use of funds deposited in the water pollution revolving fund established by such State shall be conducted in accordance with the auditing procedures of the General Accounting Office, including chapter 75 of title 31, United States Code.

“(c) INTENDED USE PLAN.—After providing for public comment and review, each State shall annually prepare a plan identifying the intended uses of the amounts available to its water pollution control revolving fund. Such intended use plan shall include, but not be limited to—

“(1) a list of those projects for construction of publicly owned treatment works on the State's priority list developed pursuant to section 216 of this Act and a list of activities eligible for assistance under sections 319 and 320 of this Act;

“(2) a description of the short- and long-term goals and objectives of its water pollution control revolving fund;

“(3) information on the activities to be supported, including a description of project categories, discharge requirements under titles III and IV of this Act, terms of financial assistance, and communities served;

“(4) assurances and specific proposals for meeting the requirements of paragraphs (3), (4), (5), and (6) of section 602(b) of this Act; and

“(5) the criteria and method established for the distribution of funds.

“(d) ANNUAL REPORT.—Beginning the first fiscal year after the receipt of payments under this title, the State shall provide an annual report to the Administrator describing how the State has met the goals and objectives for the previous fiscal year as identified in the plan prepared for the previous fiscal year pursuant to subsection (c), including identification of loan recipients, loan amounts, and loan terms and similar details on other forms of financial assistance provided from the water pollution control revolving fund.

“(e) ANNUAL FEDERAL OVERSIGHT REVIEW.—The Administrator shall conduct an annual oversight review of each State plan prepared under subsection (c), each State report prepared under subsection (d), and other such materials as are considered necessary and appropriate in carrying out the purposes of this title. After reasonable notice by the Administrator to the State or the recipient of a loan from a water pollution control revolving fund, the State or loan recipient shall make available to the Administrator such records as the Administrator reasonably requires to review and determine compliance with this title.

“(f) APPLICABILITY OF TITLE II PROVISIONS.—Except to the extent provided in this title, the provisions of title II shall not apply to grants under this title.

“SEC. 607. AUTHORIZATION OF APPROPRIATIONS.

“There is authorized to be appropriated to carry out the purposes of this title the following sums:

“(1) \$1,200,000,000 per fiscal year for each of fiscal years 1989 and 1990;

“(2) \$2,400,000,000 for fiscal year 1991;

“(3) \$1,800,000,000 for fiscal year 1992;

“(4) \$1,200,000,000 for fiscal year 1993; and

“(5) \$600,000,000 for fiscal year 1994.”.

(b) STATE-OPTION TO USE TITLE II FUNDS.—Section 205 is amended by adding at the end thereof the following new subsection:

“(m) DISCRETIONARY DEPOSITS INTO STATE WATER POLLUTION CONTROL REVOLVING FUNDS.—

“(1) FROM CONSTRUCTION GRANT ALLOTMENTS.—In addition to any amounts deposited in a water pollution control revolving fund established by a State under title VI, upon request of the Governor of such State, the Administrator shall make available to the State for deposit, as capitalization grants, in such fund in any fiscal year beginning after September 30, 1986, such portion of the amounts allotted to such State under this section for such fiscal year as the Governor considers appropriate; except that (A) in fiscal year 1987, such deposit may not exceed 50 percent of the amounts allotted to such State under this section for such fiscal year, and (B) in fiscal year 1988, such deposit may not exceed 75 percent of the amounts allotted to such State under this section for this fiscal year.

“(2) NOTICE REQUIREMENT.—The Governor of a State may make a request under paragraph (1) for a deposit into the water pollution control revolving fund of such State—

“(A) in fiscal year 1987 only if no later than 90 days after the date of the enactment of this subsection, and

“(B) in each fiscal year thereafter only if 90 days before the first day of such fiscal year, the State provides notice of its intent to make such deposit.

“(3) EXCEPTION.—Sums reserved under section 205(j) of this Act shall not be available for obligation under this subsection.”.

(c) REPORT TO CONGRESS.—Section 516 is amended by adding at the end thereof the following new subsection:

“(g) STATE REVOLVING FUND REPORT.—

“(1) IN GENERAL.—Not later than February 10, 1990, the Administrator shall submit to Congress a report on the financial status and operations of water pollution control revolving funds established by the States under title VI of this Act. The Administrator shall prepare such report in cooperation with the States, including water pollution control agencies and other water pollution control planning and financing agencies.

“(2) CONTENTS.—The report under this subsection shall also include the following:

“(A) an inventory of the facilities that are in significant noncompliance with the enforceable requirements of this Act;

“(B) an estimate of the cost of construction necessary to bring such facilities into compliance with such requirements;

“(C) an assessment of the availability of sources of funds for financing such needed construction, including an estimate of the amount of funds available for providing assistance for such construction through September 30, 1999, from the water pollution control revolving funds established by the States under title VI of this Act;

“(D) an assessment of the operations, loan portfolio, and loan conditions of such revolving funds;

“(E) an assessment of the effect on user charges of the assistance provided by such revolving funds compared to the assistance provided with funds appropriated pursuant to section 207 of this Act; and

“(F) an assessment of the efficiency of the operation and maintenance of treatment works constructed with assistance provided by such revolving funds compared to the efficiency of the operation and maintenance of treatment works constructed with assistance provided under section 201 of this Act.”.

SEC. 213. IMPROVEMENT PROJECTS.

(a) AVALON, CALIFORNIA.—The Administrator shall make a grant of \$3,000,000 from funds allotted under section 205 of the Federal Water Pollution Control Act to the State of California for fiscal year 1987 to the city of Avalon, California, for improvements to the publicly owned treatment works of such city.

(b) WALKER AND SMITHFIELD TOWNSHIPS, PENNSYLVANIA.—Out of funds available for grants in the State of Pennsylvania under the third sentence of section 201(g)(1) of the Federal Water Pollution Control Act in fiscal year 1987, the Administrator shall make grants—

(1) to Walker Township, Pennsylvania, for developing a collector system and connecting its wastewater treatment system into the Huntingdon Borough, Pennsylvania, sewage treatment plant, and

(2) to Smithfield Township, Pennsylvania, for rehabilitating and extending its collector system.

(c) TAYLOR MILL, KENTUCKY.—Notwithstanding section 201(g)(1) of the Federal Water Pollution Control Act or any other provision of law, the Administrator shall make a grant of \$250,000 from funds allotted under section 205 of such Act to the State of Kentucky for fiscal year 1986 to the city of Taylor Mill, Kentucky, for the repair and reconstruction, as necessary, of the publicly owned treatment works of such city.

(d) NEVADA COUNTY, CALIFORNIA.—Out of funds available for grants in the State of California under the third sentence of section 201(g)(1) of the Federal Water Pollution Control Act in fiscal year 1987, the Administrator shall make a grant for the construction of a collection system serving the Glenshire/Devonshire area of Nevada County, California, to deliver waste to the Tahoe-Truckee Sanitary District's regional wastewater treatment facility.

(e) TREATMENT WORKS FOR WANAQUE, NEW JERSEY.—In fiscal year 1987 and succeeding fiscal years, the Administrator shall make grants to the Wanaque Valley Regional Sewerage Authority, New Jersey, from funds allotted under section 205 of the Federal Water Pollution Control Act to the State of New Jersey for such fiscal year, for the construction of treatment works with a total treatment capacity of 1,050,000 gallons per day (including a treatment module with a treatment capacity of 350,000 gallons per day). Notwithstanding section 202 of such Act, the Federal share of the cost of construction of such treatment works shall be 75 percent.

(f) TREATMENT WORKS FOR LENA, ILLINOIS.—The Administrator shall make grants to the village of Lena, Illinois, from funds allotted under section 205 of the Federal Water Pollution Control Act to the



APPENDIX B

Kansas Needs List

a-2-18  
2/16/88

REPORTED CURRENT SEWERAGE NEEDS  
Systems 5,000 P.E. and Larger

City	Sewerage Needs (\$ Million)		
	Treatment	Infiltration/Inflow Correction & Rehab.	Interceptors/ Collectors
Arkansas City			0.682
Atchison			4.000
Bonner Springs	0.050	0.789	
Coffeyville		3.041	
Derby			0.100
Dodge City			6.075
Fort Scott		1.777	
Hays			1.030
Hutchinson	1.800		
Independence		1.042	3.395
Johnson Co. U.W.D.	22.670	49.197	4.218
Junction City			0.141
Kansas City	0.503	19.215	44.285
Lansing			0.097
Lawrence		5758	0.195
Leavenworth			1.722
Liberal			4.765
McPherson	1.000		0.118
Olathe			8.000
Ottawa			0.476
Pittsburg		6.000	2.000
Pratt	5.442	0.882	0.700
Salina	7.132		0.280
Topeka	14.275		21.756
Wichita	39.860	10.944	64.106
Winfield			2.068
<b>Totals</b>	<b>92.732</b>	<b>98.645</b>	<b>170.601</b>

Summation = \$361.978 Million

a-2-19  
2/16/88

APPENDIX C

Draft Statutory Provisions

9-2-20  
2/16/88

An Act  
Creating the Kansas Water Pollution Control Revolving Fund  
and Administration Thereof

Be it enacted by the Legislature of the State of Kansas:

Section 1. This act shall be known and may be cited as the Kansas Water Pollution Control Revolving Fund Act.

Section 2. As used in this act:

- (a) "Clean Water Act" means the Federal Clean Water Act as amended by the Water Quality Act of 1987 (Public Law 100-4).
- (b) "Fund" means the Kansas Water Pollution Control Revolving Fund as established in Section 3 of this act.
- (c) "Sewerage needs" means projects necessary for extensions to, modifications to, or expansion of public sewerage systems.
- (d) "Public sewerage system" means the system of pipes, pumping stations, force mains, treatment facilities, sludge handling facilities, and appurtenances for the conveyance and treatment of sewage under the jurisdiction of a local government.
- (e) "Local government" means any municipality, county, township, sewer district, improvement district, or other public taxing entity authorized under Kansas statutes to treat or dispose of sewage.
- (f) "Department" means the Kansas Department of Health and Environment.
- (g) "Secretary" means the secretary of the Kansas Department of Health and Environment unless specified otherwise.

Section 3. The Kansas Water Pollution Control Revolving Fund is hereby established as a perpetual fund to assist qualified local governments in correction of water quality problems and satisfying sewerage needs. The fund shall be established for provisions in conformance with the Clean Water Act as follows:

- (1) No grants shall be made from the fund.
- (2) Financial assistance shall be provided only as loans to eligible local governments.
- (3) Loans shall be made only to local governments that:
  - (a) meet the requirements of financial capability set by the secretary of the department to assure sufficient revenues to operate and maintain the facility for its useful life and to repay the loan;

- (b) pledge sufficient revenues for repayment of the loan, provided that such revenues may only by law be pledged for that purpose;
  - (c) agree to operate and maintain the wastewater facility so that the facility will function properly over the structural and material design life, which shall not be less than twenty years unless otherwise approved by the secretary of the department;
  - (d) agree to properly maintain financial records and to conduct audits of the project's financial records as required;
  - (e) provide a written assurance, signed by an attorney, that the local authority has proper title, easements and rights-of-way to the property upon or through which the sewerage facility proposed for funding is to be constructed or extended;
  - (f) require the contractor of the construction project to post a performance and payment bond or other security in the amount of the bid;
  - (g) provide a written notice of substantial completion and start of operation of the facility;
  - (h) agree to repay the loans in equal annual installments with the first annual installment due within one year of the date the loan is issued;
  - (i) agree to employ a registered professional engineer to provide and be responsible for engineering services on the project. Such services include but are not limited to engineering reports, plans, specifications, other construction contract documents, supervision of construction and start-up services including project performance certification as required by the secretary; and,
  - (j) construct only eligible items. For loans made in whole or in part from federal funds, eligible items are those identified pursuant to the Clean Water Act.
- (4) Administrative costs may be assessed against the fund.
- (5) The federal funds allocated to the state pursuant to the Clean Water Act for the purpose of making loans to local authorities shall be deposited in the fund. All receipts from the repayment of loans made pursuant to the Kansas Water Pollution Control Revolving Fund Act shall be deposited in the fund. Earnings on balances in the fund shall be credited to the fund. Money remaining in the fund at the end of any fiscal year shall not revert to the general fund but shall accrue to the credit of the fund.

- (6) State money appropriated to carry out the provisions of the Kansas Water Pollution Control Revolving Fund Act shall be used to match federal funds allocated to the state pursuant to the Clean Water Act for the purpose of making loans to local governments.

Section 4. The secretary of the department is authorized to enter into capitalization grant agreements with the Environmental Protection Agency and shall be responsible for establishing the technical program elements in conformance with the Clean Water Act. The Kansas Department of Commerce shall be responsible for the financial maintenance of the fund including the transfer of the loans to the local governments as determined by the secretary of the department.

Section 5. The secretary of the Kansas Department of Commerce and the secretary of the department shall enter into an interagency agreement for coordination of their respective duties and responsibilities under this act.

Section 6. The secretary of the department is hereby authorized to adopt rules and regulations establishing the terms, conditions and administration of this act including the use of the fund.

APPENDIX D

Example Loan Program

A-2-24  
2/16/88

## Example Loan Program

To show the potential for an SRF to help satisfy Kansas' sewerage needs, a series of calculations were made to show the impact of varying both the loan interest rate and the repayment period. The results are shown on the table below. The calculations were made based upon the following goals and assumptions:

1. Maximize the amount of loans.
2. Annual repayments.
3. Return on fund balances at 5%.
4. Inflation rate at 5%.
5. Payments beginning one year after the loan.
6. Annual administrative cost at \$438,000.

The program was developed to show the relative impact of varying interest rates and repayment periods. Modifying the assumptions above will change the total loan potential but will not change the relative results of the table. That is, by changing the loan repayment period from 20 years to 15 years, the SRF can be expected to generate an additional \$50 Million to \$80 Million in loans over the 20-year period. Similarly, raising the interest rate by two percent will yield a minimum of \$40 Million for additional loans.

SRF LOAN POTENTIAL (\$ MILLION)									
Loan Year	Rate	15 Year Repayment				20 Year Repayment			
		0%	2%	4%	6%	0%	2%	4%	6%
1		11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
2		13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
3		27.0	27.0	27.0	29.0	27.0	27.0	27.0	29.0
4		24.0	24.0	24.0	25.0	21.0	22.5	24.0	24.0
5		18.0	19.0	18.0	21.0	17.0	17.5	18.0	19.5
6		12.0	14.0	15.0	16.5	11.0	12.0	13.0	15.0
7		7.0	8.0	10.0	12.0	5.0	6.5	7.0	9.5
8		7.0	9.0	11.0	13.0	5.0	6.5	8.0	10.0
9		7.5	9.5	12.0	14.0	5.0	7.0	8.5	11.0
10		8.0	10.0	13.0	15.5	5.5	7.0	9.0	12.0
11		8.5	10.5	13.5	17.0	5.5	7.5	10.0	13.0
12		9.0	11.5	15.0	19.0	6.0	8.0	11.0	14.0
13		10.0	12.5	16.0	21.0	6.0	8.5	12.0	15.5
14		10.0	14.0	17.0	23.0	6.5	9.0	12.5	17.0
15		11.0	14.5	19.0	25.0	7.0	9.5	13.5	18.0
16		12.0	16.0	21.0	28.0	7.0	10.5	14.5	20.0
17		12.0	16.0	22.0	30.0	8.0	10.5	15.5	21.5
18		12.0	16.5	22.0	31.5	8.0	11.5	16.5	23.0
19		11.0	15.5	22.0	31.5	8.5	12.0	17.5	26.0
20		10.0	15.0	22.0	32.0	9.0	13.0	18.5	27.5
Total Loan Potential		240.5	287.0	344.0	428.5	192.5	230.5	280.5	350.0

9-2-25  
2/16/88



APPENDIX E

Example Project

9-2-26  
2/16/88

### Example Project

To compare a conventionally-financed project to an SRF example, a \$1.0 Million project is selected. For the conventionally-financed project, the \$1.0 Million cost is assumed total costs before financing; that is, the cost does not include temporary financing and bond costs. For this example, the financing costs are assumed to be 8% of the project costs yielding a total amount of \$1,080,000 to be bonded. For the SRF example, it is assumed temporary financing and bond costs do not apply. However, a surcharge of 25% is assessed against the project due to the federal conditions attached to the loan project (recall these conditions should no longer apply after FFY 94). Therefore, as a worst case test, a total of \$1,250,000 is assumed to be financed from the SRF.

The \$1,080,000 conventionally-financed project is assumed to be financed by bonds at 8.5%, which was selected as representative of a June 1987 Johnson County project financing estimate for 15 and 20-year bonds. The \$1,250,000 SRF project is assumed to be paid over 15 years and 20 years at 4%.

### Project Comparison

	SRF	Conventional Financing	SRF	Conventional Financing
Repayment Period	15 yrs	15 yrs	20 yrs	20 yrs
Interest Rate	4%	8.5%	4%	8.5%
Project Cost	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Financing Cost	0	80,000	0	80,000
Surcharge for EPA Reqmts	250,000	0	250,000	0
Financed Amount	1,250,000	1,080,000	1,250,000	1,080,000
Payment Schedule Year				
1	112,425	158,000	91,975	141,210
2	112,425	151,850	91,975	136,620
3	112,425	145,700	91,975	132,030
4	112,425	139,540	91,975	127,440
5	112,425	133,380	91,975	122,850
6	112,425	127,220	91,975	118,260
7	112,425	121,070	91,975	113,670
8	112,425	114,910	91,975	109,080
9	112,425	108,760	91,975	104,490
10	112,425	102,600	91,975	99,900
11	112,425	96,440	91,975	95,310
12	112,425	90,290	91,975	90,720
13	112,425	84,130	91,975	86,130
14	112,425	77,980	91,975	81,540
15	112,425	72,360	91,975	76,950
16	0	0	91,975	72,360
17	0	0	91,975	67,770
18	0	0	91,975	63,180
19	0	0	91,975	58,590
20	0	0	91,975	54,000
Total Payment	\$1,686,375	\$1,724,230	\$1,839,500	\$1,952,100

A-2-27  
2/16/88

NOVEMBER 1987

SUPPLEMENT TO  
KANSAS WATER POLLUTION CONTROL  
REVOLVING FUND

As Authorized In The  
Federal Water Quality Act of 1987  
(Public Law 100-4)

August 1987

*House Eco Devo*  
*Attachment 3*  
*2/16/88*

SUPPLEMENT TO  
APPENDIX E

EXAMPLE PROJECT

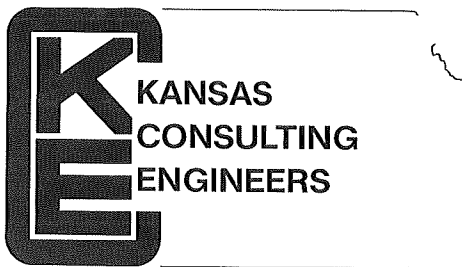
During discussions with interested and affected parties concerning the project comparison presented in the August 1987 document, the parties requested clarification and further information on the following scenarios:

1. The parties believe the worst case 25% surcharge for federal requirements is too extreme. The consensus of the group was that a surcharge of 8% to 12% was more realistic. Therefore, cost breakdowns using a 10% surcharge are included in the table below.
2. Many entities use revenue bonds to finance sewerage improvements. Revenue bonds generally require a reserve account with a minimum of one year's principal and interest in reserve. For the example included in the table below, a minimal reserve account was assumed. Depending upon the general financial condition of the entity, a greater reserve amount could be required.

Project Comparison

	SRF	Revenue Bonds	SRF	Revenue Bonds
Repayment Period	15 yrs	15 yrs	20 yrs	20 yrs
Interest Rate	4%	8.5%	4%	8.5%
Project Cost	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Financing Cost	0	80,000	0	80,000
Reserve Account	0	130,000	0	115,000
Surcharge for EPA Req'm'ts	100,000	0	100,000	0
Financed Amount	1,100,000	1,210,000	1,100,000	1,195,000
Payment Schedule Year				
1	98,934	145,708	80,938	126,275
2	98,934	145,708	80,938	126,275
3	98,934	145,708	80,938	126,275
4	98,934	145,708	80,938	126,275
5	98,934	145,708	80,938	126,275
6	98,934	145,708	80,938	126,275
7	98,934	145,708	80,938	126,275
8	98,934	145,708	80,938	126,275
9	98,934	145,708	80,938	126,275
10	98,934	145,708	80,938	126,275
11	98,934	145,708	80,938	126,275
12	98,934	145,708	80,938	126,275
13	98,934	145,708	80,938	126,275
14	98,934	145,708	80,938	126,275
15	98,934	145,708	80,938	126,275
16	0	0	80,938	126,275
17	0	0	80,938	126,275
18	0	0	80,938	126,275
19	0	0	80,938	126,275
20	0	0	80,938	126,275
Total Payment	\$1,484,010	\$2,185,620	\$1,618,760	\$2,525,500

a-3-2  
2/16/88



GEORGE BARBEE, EXECUTIVE DIRECTOR  
810 MERCHANTS NATIONAL BANK  
8TH & JACKSON  
TOPEKA, KANSAS 66612  
PHONE (913) 357-1824

DATE: February 16, 1988  
TO: House Committee on Economic Development  
FROM: George Barbee, Executive Director  
RE: SB-472

Mr. chairman and members of the committee my name is George Barbee, President of Barbee & Associates, and today I am appearing before you on behalf of the Kansas Consulting Engineers (KCE). KCE supports SB-472, which establishes the Kansas Water Pollution Control Revolving Fund.

The Kansas Consulting Engineers have been keenly involved with the drafting of legislation implementing a revolving loan fund in Kansas. We believe this program will be a positive step as a way to help Kansas meet its water quality and sewerage needs.

As others have already testified here today, the Federal Water Quality Act of 1987 eliminates the Federal Grants program after FY 1990, but does provide for a transition from grants to loans beginning in FY 1989. As you have heard, the only way for Kansas to receive federal assistance with our sewerage needs is for the state to adopt the Kansas Water Pollution Control Revolving Fund. It should be noted that this revolving fund can only be used for sewerage and water quality needs and must be set up in accordance with the Federal Water Quality Act of 1987.

Various reports have noted the Kansas sewerage needs over the next twenty years are in the neighborhood of \$300 to \$400 million. In 1986 KCE took part in a research paper on Kansas Infrastructure, as did other organizations represented here today, that paper recognized the need for Kansas to continue to build new sewerage systems, as well as update, replace, and improve existing, aging facilities.

The Kansas Water Pollution Control Revolving Fund coupled with the U.S. EPA's construction grants program could provide Kansas communities with up to \$92 million over the next six years. Of this \$92 million, Kansans would only be required to pay a 20 percent match or approximately \$15.34 million. The Kansas Consulting Engineers see this as a way for Kansas to meet its sewerage needs at a fraction of the total cost.

I urge you to give SB-472 favorable recommendation, so that Kansas may continue to meet its growing sewerage needs.



# Kansas Engineering Society, Inc.

627 S. Topeka, P.O. Box 477  
Topeka, Kansas 66601 (913) 233-1867

Testimony for the House Economic Development Committee  
February 16, 1988

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Mr. Chairman, members of the committee I am Shelley Sutton, the Director of Communications of the Kansas Engineering Society and I appear today before you in support of S.B. 472.

The members of our Society work in a variety of roles dealing with wastewater treatment in the state. Members of our organization work as governmental representatives in the operation, planning and inspection of these wastewater treatment facilities while other KES members serve the public as consultants to local units of government and plan and design these facilities.

While the federal government is a favorite target for criticism by engineers, and others I suspect, there is no doubt that without the funding of the Clean Water Act, Kansas communities would have even greater concerns today than they have without the past federal financing in this area of our infrastructure.

But after federal fiscal year 1990 the funds under this program will be terminated. Unfortunately, as our members can attest, the sewerage needs of Kansas local units of government will not have a similar sunset.

In 1984 a special committee of the Kansas Engineering Society worked with the Kansas Department of Economic Development in designing a research questionnaire on Kansas infrastructure needs. The results of that study identified between \$236 to \$400 million in sewage system needs through 1990 to serve our existing population. Other studies by state agencies and other non-profit organizations have identified at least a \$300 million needs list in this area.

To meet these needs there must of course be funding to finance the costs in wastewater treatment. One method of partially meeting these costs is to establish a state fund, capitalized by federal seed money, to loan local units of government the funds on a priority basis to meet wastewater treatment needs.

After analyzing S.B. 472 we feel this measure is worth supporting although it is certainly, as a financial mechanism by itself, insufficient to meet the total needs that exist today.

We would therefore recommend that this committee recommend favorable for passage S.B. 472 so that we may garner a share of some remaining federal funds to aid us in this venture.

Respectfully submitted

Shelley Sutton  
Director of Communications

*House Eco Dev*  
*Attachment 5*  
*2/16/88*

KANSAS ENGINEERING SOCIETY  
State Clean Water Act Revolving Fund

The Kansas Engineering Society supports the 1987 Interim Joint Committee on Economic Development recommendation that a Kansas Water Pollution Water Control Revolving Fund be created in Kansas.

For many years Kansas, as well as many other states, has been the beneficiary of federal grants under the Federal Clean Water Act which has financed the upgrading and construction of new waste water treatment facilities in the state. With the federal government's action to phase out its construction grants program many municipalities in Kansas will be cut off from receiving seed money and in some case the entire funding for improved waste water treatment facilities.

With the amendments to the Clean Water Act passed in 1987 the federal government will provide seed money to the state to establish a state revolving loan funds for local units of government to draw upon to help municipalities meet their waste water treatment needs and comply with federal water quality guidelines.

Based upon Kansas Department Health & Environment estimates Kansas should receive approximately \$82 million in federal construction grants through fiscal year 1990 and another \$78 million in federal funds to capitalize the state revolving fund beginning fiscal year 1989, subject to future federal appropriations. Kansas Authorization language must be introduced in the 1988 session.

One of the conditions for establishing such a Water Pollution Control Revolving Fund is that the state must provide a 20% state match to receive the federal seed money. Again, based upon Kansas Department of Health & Environment estimates, the State of Kansas will need to appropriate an amount in excess of \$15 million in fiscal year 1989 through fiscal 1994 in order to receive the federal funding. A state appropriation of \$2.2 million must be approved in fiscal year 1989 to enable Kansas to begin receiving the federal revolving funds when they are appropriated.

The engineering society is well aware that funding for local infrastructure projects is growing more and more scarce and the federal participation in these areas will continue to decline in the future. The Society therefore recommends for the state to maintain its continued economic development growth the state should act to utilize the federal funds available under the U.S. Clean Water Act amendments and establish a State Revolving Waste Water Treatment Fund.



# League of Kansas Municipalities

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL/112 WEST SEVENTH ST., TOPEKA, KANSAS 66603/AREA 913-354-9565

RE: SB 472--Water Pollution Control Loan Fund  
TO: House Committee on Economic Development  
FROM: E.A. Mosher, Executive Director  
DATE: February 16, 1988

The League is in support of SB 472, to establish a state water pollution control revolving loan fund. Presented below is our 1987 convention-adopted policy statement on this issue. Enactment of SB 472 is one of the top 1988 legislative priorities of the League and its member cities. The several amendments to the bill proposed by the League are included in the Senate-passed bill.

Our primary interest is to obtain a loan program that is financially workable and practical, and not just a "paper tiger." We call to your attention the obvious--SB 472 does not include a state appropriation. Yet, of critical importance to the practical application of such a federally capitalized state loan program, is where the mandatory state 20% share comes from. We understand that actions are now under way to provide that the annual state 20% share would actually be paid by those local units receiving the loans, and not from a state appropriation. This would be accomplished by the annual issuance of bonds by the Kansas Development Finance Authority, with the principal, interest and issuance costs being paid by the local units that are users of the loans.

Presumably, if interest is charged only for the "state share" of the loan, the effective overall cost of interest for the entire loan would be significantly less than that available through traditional local bonds. However, the elimination of any interest on the federally capitalized share would limit the long-term program--for years to come--to about \$92 million, the total of the federal and "state share."

Finally, we note that the proposed loan program, with actual local payment of the state share, may or may not be a winner for some local governments. Utilizing the state loan program brings with it the requirement for local conformance to all the federal restraints and conditions. There are, reportedly, 14 different federal "conditions," like conformance to the Davis-Bacon wage act, which accompanies federally assisted projects. Some local units may find in the future that the "savings" from using the state loan may be insufficient in comparison to issuing their own local bonds and getting out from under some of the federal restraints.

With all of this, we do urge your favorable recommendation of SB 472. We also urge your continued attention to the financing of the mandated 20% state share, to assure the program is practical and workable. And we also urge your support of SB 513, relating to the temporary financing of local expenditures to be financed by state loans. SB 513 is essential to the working

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*Eco Devo*

*Attachment 6*  
*2/16/88*



of SB 472, without violations of the cash basis law.

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Water Pollution--Financing. Enactment of the federal Water Quality Act (WQA) of 1987 signaled a new era in the federal contribution toward financing water pollution control facilities and systems. While the WQA terminates direct federal construction grants by September 1990, it authorizes additional federal moneys to be distributed over a six-year period (FFY 89 - FFY 94) to the states as capitalization grants to establish revolving funds to assist in the correction of water quality problems and meet sewerage facility needs. The primary use envisioned for the state revolving fund is as a no-interest or low-interest loan pool for local governments that face the need to build and modernize water pollution control facilities and systems. Because the WQA requires a 20% state contribution to the perpetual fund in order to receive capitalization grants, we urge the legislature to enact and fund a state revolving fund. The success of a revolving fund largely depends on its ability to provide low interest rates on loans to municipalities. The legislation should minimize administrative costs and provide the 20% share from state revenue sources to make the revolving fund financially workable and practical.

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MARTY BLOOMQUIST, ASSISTANT

February 15, 1988

M E M O R A N D U M

TO: House Economic Development Committee  
FROM: Allen Bell, President  
SUBJECT: Providing the State Match for the Kansas Water Pollution Control Revolving Fund (SB 472) through the issuance of K DFA Revenue Bonds

The federal Clean Water Act of 1987 (the "Act") requires that states wishing to continue receiving federal dollars for local sewage treatment projects must set-up and run state revolving loan funds (SRFs) which will gradually replace the existing EPA Loan Program for this type of project. The SRF will receive approximately \$75 million in federal capitalization grants over the next six years. The Act also requires that states contribute 20% of this amount to the SRF in order to qualify for the federal grants. States may provide this matching grant from any non-federal source, including the proceeds of revenue bonds secured by the loans made to municipalities and repaid into the SRF.

The amount of the state match under this program will be approximately \$15 million over six years, starting with \$2.5 million needed in FY 1989. If revenue bonds are to be used to provide the state match, they would be issued by K DFA. To do this, K DFA and the Secretary of Health and Environment would enter into an agreement in which the revenues accruing to the SRF from the repayment of loans is irrevocably pledged to the payment of principal and interest on the bonds. The bonds would be sold competitively into the national capital markets at the prevailing interest rates, and the proceeds deposited into the SRF.

The proceeds of these bond issues would be combined with the federal grant dollars and lent to participating municipalities. Eighty percent of each loan made would be from federal grant dollars, and 20% would be from state bond dollars. The interest rates on these loans would have to be high enough to

House Economic  
Development Committee  
February 15, 1988  
Page Two

generate interest income sufficient to make the debt service payments on the portion of each loan that came from state bond dollars. Given the ratio of federal dollars to state dollars, the interest rate needed on loans could be as little as 25% of the prevailing market interest rates. The interest rate on the loans, however, will also affect the amount of SRF funds that will be available each year for lending after the six-year capitalization period is over.

My preliminary analysis indicates that if KDFA bonds are sold at 8% to provide the state match, loans could be made to municipalities at 3% and the SRF maintained at a level that would permit \$10 million per year in new loans. If the interest rate on loans is set at 4%, the SRF could handle between \$15 and \$17 million new loans per year. At 5% on the loans, more than \$20 million per year could be lent out.

Using bonds to provide the state match for this program makes more sense than appropriating general fund dollars because it is the best practical way of passing the state match requirement through to the actual beneficiaries of the program. With bonds, the state match is ultimately provided by each municipality that borrows from the SRF, with larger borrowers paying more of the match than smaller borrowers. General fund appropriated dollars spread the burden of providing the match inequitably over the entire state, with non-borrowers potentially paying as much of it as borrowers.

A-7-2  
2/16/88

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## TESTIMONY BEFORE THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

February 16, 1988

Senate Bill 472

Glenn Coulter

Kansas Contractors Association, Inc.

Thank you. Mr. Chairman and members of the committee, my name is Glenn Coulter and I am Manager of the Kansas Contractors Association located in Topeka. We appreciate this opportunity to express our support for the passage of Senate Bill 472, a bill which would establish the Kansas water pollution control revolving fund.

Our membership includes municipal-utility contractors who make their living constructing wastewater treatment facilities and sewer systems for communities throughout Kansas. The great majority of these type projects are constructed under the construction grants program of the U.S. Environmental Protection Agency. The EPA, as you have heard from prior testimony, is phasing out its current grants program, which since 1972 has provided Kansas with \$408 million in funds for communities to build their wastewater and sewer systems.

The Water Quality Act of 1987 ends the grants program after October 1, 1991, but provides for a transition from grants to loans beginning

*House Eco Dev  
Attachment 8  
2/16/88*



October 1, 1988. To take advantage of these federal funds, or capitalization grants, under the Water Quality Act, Kansas must establish by statute a water pollution control revolving fund. According to what is projected as federal money and the state match over the life of the loan program, a total of \$92.01 million could be available in a perpetual fund to finance correction of emerging water quality problems and to satisfy statewide sewerage needs.

Significant water quality and sewerage needs still persist across our state. In 1984 the Kansas Department of Economic Development surveyed communities throughout the state for their infrastructure needs, which included water and sewer needs. The "Kansas Infrastructure" study identified between \$236 to \$400 million in sewerage system needs over a 5-year period to service the existing population. I have included with my written remarks a copy of the executive summary of the KDED infrastructure study.

The state's needs in the way of wastewater and sewerage improvements were great in 1984, and the needs are even greater in 1988. Senate Bill 472 will give Kansas communities the chance to continue to use federal funds to help solve their infrastructure needs for water pollution control. Therefore, Mr. Chairman and members of the committee, we respectfully request your favorable passage of Senate Bill 472.

Thank you again and I will be happy to answer questions on this important subject.

# Research Paper

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# KANSAS INFRASTRUCTURE

Executive Summary

Policy Analysis  
& Research Unit

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Kansas Department  
of Economic Development

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400 W. 8th St.—Suite 500  
Topeka, Kansas 66603-3957  
913-296-3481

*House Eco Devo  
Attachment 9  
2/16/88*

## ACKNOWLEDGEMENTS

This report represents the coordinated efforts of many people. Gratitude is extended to Glen Coulter and Dan Ramlow, Kansas Contractors Association; Bill Henry, the Kansas Engineering Society; George Barbee, Kansas Consulting Engineers; Ernie Mosher and Chris McKenzie, League of Kansas Municipalities who provided guidance on the definition and scope of the project; to the Kansas Department of Transportation, the Department of Health and Environment, the Kansas Board of Agriculture (Water Resources Division) and the Kansas Water Office for providing data, guidance in its interpretation, and review of several drafts of the report for accuracy in presentation; to Elmer Ranebaum, Kansas Rural Water Association and Nancy Brown, Kansas Association of Townships, for their assistance in gathering information from their members.

Special appreciation is extended to those city and county engineers who provided survey information on local infrastructure and to the city council/commission members, Mayors and Chamber of Commerce presidents who provided survey information for the study.

Thank you to Carla Roth for tireless efforts in typing the numerous drafts of the report.

## EXECUTIVE SUMMARY

### Introduction

The term "infrastructure" describes the basic network of public facilities that sustain our economy - here defined to include roads, bridges, railroads, airports, water and sanitary sewer systems, dams and storm drainage systems.

During recent years, several studies and reports have propelled the topic of infrastructure to national attention. Many of these reports have a common theme:

"Upkeep of public facilities has been neglected, and years of deferred maintenance and inadequate repair are catching up with us. Many aging facilities have reached, and others are fast approaching a point of deterioration beyond which repair is impossible -- costly replacement or abandonment are the unpalatable alternatives. Without a huge infusion of new dollars to maintain and repair 'infrastructure' and to build for the future, the economy will suffer, quality of life will be eroded, and our standard of living will decline."<sup>1</sup>

The national infrastructure questions with relevance to Kansas are:

1. What is the current condition of public facilities?
2. Is deferred maintenance a problem?
3. Does inadequate infrastructure affect health and safety?
4. Are existing revenue sources and funding levels adequate to meet the needs of infrastructure maintenance, repair, and new construction?
5. Does inadequate infrastructure adversely affect economic development?

The Kansas Department of Economic Development (KDED) found that the information needed to answer these questions for Kansas was in many cases not readily available. Thus, the purpose of this study is to present, for the first time, a statewide overview of the major components of Kansas' infrastructure. Much of the information contained in this report was obtained from federal, state, local

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<sup>1</sup> Pat Choate and Susan Walter, America in Ruins: Beyond the Public Works Pork Barrel.



agencies and a number of other organizations. In addition, to supplement the limited data available from secondary sources, KDED surveyed 3000 individuals in 1700 local jurisdictions during the summer of 1984 to determine the extent of "critical" infrastructure needs.

## Summary of Research Findings - Infrastructure Components

### Highways, Streets & Roads

Kansas has over 135,000 miles of public roads. It ranks fifth among states for total number of miles of public roads. Federal statistics on pavement conditions (1981 sampling) indicate that Kansas' more heavily traveled roads (interstates, arterials, and collectors) were among the worst in the country. Sampling statistics from 1983 indicate that pavement conditions have deteriorated even more. Information about the surface condition of local roads is sketchy, however, respondents to KDED's local road survey indicated substantial backlogs of needed sealcoating and overlay work. In addition, only 11% of the respondents indicated they were performing 100% of needed system maintenance.

KDOT statistics indicate that a substantial portion of the 10,500 mile state highways system also has multiple deficiencies with regards to current (AASHTO) design standards (lane width, shoulder type and width, and vertical and horizontal alignment, etc.) Many local roads suffer from these design deficiencies as well.

During the next 19 years it could require from \$4.5 billion to \$8.9 billion to rehabilitate or reconstruct current and future deficiencies on the heavily traveled state highways system. However, at present funding levels approximately \$3.06 billion will be spent during those 19 years. Local roads need attention, too. While not a comprehensive list of local road needs, respondent's to KDED's street and road survey indicated over \$478 million in critical projects needed during the next 5 years and inability to fund more than \$60 million for these critical projects.

### Bridges

Key elements of the Kansas road system are its 25,658 bridges and many small drainage culverts. The typical bridge is designed to last about 50 years. Almost 30% of Kansas' bridges have already exceeded their life expectancy and 43% are at least 40 years old. According to Federal statistics, Kansas ranks third among states for the greatest number of structurally deficient or func-

tionally obsolete bridges. To repair or replace all deficient bridges could require as much as \$1.2 to \$2.1 billion. This estimate does not include the cost of rehabilitating or replacing thousands of deficient drainage culverts. The largest amounts of funding will be needed for bridges located on rural county roads and heavily traveled state maintained bridges. Capital outlay for bridges was approximately \$75 million during FY 1984. At this rate of investment it will require from 16 to 28 years to repair the backlog of currently deficient bridges. During that time period, many additional bridges will become deficient.

### Water Systems

Kansas' water system infrastructure is essentially in place with 1,085 public water systems servicing almost 90% of the state's year-round housing units. While the condition and quality of service of most facilities is generally good, problems do exist. Many systems currently, or in the near future, face shortages of good quality water, particularly during drought conditions. The data available on facility condition indicates that insufficient storage, limited treatment capabilities, and aging and leaky distribution systems are problems suffered by numerous public water systems. In addition, data suggests that while there has been a trend for increased capital outlays for water systems, this public investment is, in many cases, not being adequately operated and maintained.

While not a complete list of public water system needs, KDED's water survey results indicate a need for over \$178 million in critical water system projects over the next five years. Many of those projects are for new supply and storage facilities and rehabilitation of aging water mains. Respondents indicated that they plan to fund most of these projects with current revenues, bonds, and reserve funds. Overall, less than \$4 million in projects would remain unfunded. However, Rural Water Districts (RWD's) and many smaller cities in lower income areas anticipate relying heavily on dwindling federal grants and loans as sources of funds. Preliminary analysis of water service charges indicates they are substantially higher than sewer service charges. Many systems could raise additional capital through increased user rates, while other systems are reaching the limit of their consumers' ability to pay. Many smaller water systems may have trouble funding needed improvements from local sources because the costs of construction, operation and maintenance are levied on relatively few customers.

## Sewerage Systems

Kansas' public sanitary sewerage infrastructure now provides service to over 80% of the state's year-round housing units. During the last decade increased capital outlays for sanitary sewer systems have resulted in significant reductions in municipal sewage pollution. However, problems do exist. The limited data available on facility condition indicate that aging and leaky collection systems, limited treatment capabilities, and inadequate operation and maintenance practices are, or soon will be, problems for many systems. An issue facing Kansas Development of Health and Environment officials is the degree of treatment needed for discharge to urban streams and small streams with low water flows.

Even though it is not a complete list of sanitary sewer system needs, the Federal Environmental Protection Agency's (EPA) 1984 Preliminary Needs Survey indicates between \$400 and \$800 million in needed projects. Recent capital outlay for sanitary sewer systems has been \$30-\$50 million per year. At this rate of investment it could require 10 to 20 years to complete currently needed projects.

Many communities will be relying on EPA sewer construction grant funding which is currently over \$22 million per year (substantially less than mid to late 1970's funding levels.) Local matching requirements recently increased from 25% to 45%. Preliminary analysis of sewer service charges indicates that if federal construction grant funding is reduced or eliminated many communities are in a position to increase service charges to raise needed capital. Similar to water systems financing, however, many smaller systems may have difficulty funding needed improvements from local sources because the costs of construction, operation and maintenance are levied on relatively few customers.

## Dams & Storm Drainage

With 5000 dams, Kansas ranks second among the states for total number of dams. Federal statistics indicate 4,545 of these dams have a low hazard potential and were not inspected under the National Dam Inspection Program. One hundred eighty dams of high or significant hazard (failure of these dams could cause loss of life and significant property damage) were inspected in 1982. Thirty were evaluated as unsafe; all contained non-emergency defects (28 contained inadequate spillways and 2 had unstable structures). Remedial measures have been taken on several of the dams. Cost estimates for repairing the other unsafe dams are available. A comprehensive description of the need for

additional dams is not available but is addressed in various elements of the Kansas water plan.

KDED survey results indicate that inadequate storm drainage facilities are perceived as a major problem in a number of communities. There is very little data concerning the condition of or need for storm drainage facilities. The 1982 EPA Needs Survey identified \$1.043 billion in currently needed projects to control storm water runoff, an estimate based on generalized cost curves rather than actual engineering studies. Kansas Department of Health and Environment (KDHE) officials consider actual needs to be substantially less.

### Airports

There are 382 Federal Aviation Administration (FAA) approved airports, with 544 runways in Kansas. Of these, 159 are public use airports of which 124 are publicly owned and 38 are privately owned. The condition of navigational equipment used for the air traffic control system is antiquated and is in need of upgrading. While runway pavement condition is generally adequate there is indication that many airports may be deferring critical runway pavement maintenance. The recent Kansas Aviations Systems Plan (Phase I) includes recommendations for upgrading 16 airports during the next ten years, and adding 15 new airports over the next ten years, while Federal Airport Improvement Program Funding remains high. Phase II, when completed, will derive cost estimates for these airport projects. The state of Kansas is one of the few which doesn't provide state funding for airport capital improvements or maintenance.

### Railroads

Kansas' rail line system, third largest in the nation with 7,117 miles, is 90-100 years old, and has been maintained relatively well. Indicators of rail system condition include (1) federally-approved railroad speeds and (2) lines identified for possible abandonment. In Kansas, 25% of the rail lines are restricted to 25 miles per hour or slower and 4% of the lines are identified for abandonment. The current increase in rail abandonment is occurring because of federal deregulation of railroads and the high cost to the private sector of maintaining and reconstructing low-use lines. An estimated \$12 million to \$21 million would be needed to rehabilitate the 290 miles of rail line scheduled for abandonment by the private sector.

## Conclusions

1. Kansas is a national leader in providing essential services through its vast network of infrastructure facilities. Kansas has over 135,000 miles of public road, (fifth in the nation among states), over 25,000 bridges (fourth in the nation), 7,117 miles of rail line (third in the nation), 5,000 dams (second in the nation) and 382 airports. The 1085 public water systems provide service to almost 90% of the state's year-round housing units, while public sewage systems provide service to almost 80% of year-round housing units.
2. Infrastructure is an integral part of the Kansas economy and must provide safe and efficient service to residential, commercial and industrial users. In addition to patented treats to Kansan's health and safety, inadequate infrastructure has many undesirable effects on the economy, including hampering potential economic development.
3. Preliminary information generated from this study indicate that many facilities in Kansas may be inadequate. Generally, in terms of dollar needs for projects, the largest infrastructure problems for Kansas are roads and bridges. In fact, inadequate bridges may be the State's most serious infrastructure problem. These findings are similar to those found in the recently completed report "Hard Choices", prepared for the Joint Economic Committee of the United States Congress. However, it is somewhat difficult to make direct comparisons between the various infrastructure components because of the varying methodologies used to identify facility condition, needs, and funding. One of the largest technical problems facing this and similar studies is the lack of consistent facility condition and needs data. This is particularly true for public water systems, local roads, and storm drainage. Thus the actual need for these systems could be very substantial.
4. There is a strong indication that the public's multi-billion dollar investment in infrastructure is not being adequately protected through proper maintenance. Inadequate funding as well as improper management are the major reasons for deferring maintenance. Preventive maintenance is extremely cost effective when compared with the cost of facility reconstruction and replacement.

5. The debate over the role of Federal and State design standards and regulations at all levels of government continues. Many local officials have expressed concern that excessive standards and regulations can significantly increase project costs, particularly for roads and bridges. This issue needs to be addressed more fully.
  
6. If an infrastructure crisis exists, it is for those facilities where needs outweigh the ability to finance renovation.
  - a. In dollar terms, roads and bridges show the greatest gap between needed facilities and current or anticipated funding levels. Even with increased revenues, deferred maintenance has created a backlog of needed road and bridge repair projects. Generally smaller jurisdictions with insufficient tax bases may have the most trouble funding needed projects.
  
  - b. There is evidence that a number of financial issues are already affecting many local jurisdictions' ability to maintain and renovate facilities including: reductions or possible elimination of federal grant and loan programs, statutory restrictions (including bonded debt limits, mill levy limits, and restrictions on financial procedures), small jurisdictions' inability to enter the debt market, changes in federal tax law (such as removal of the tax-exempt status of G.O. bonds), lack of proper planning (i.e. capital improvements programming and budgeting), etc.
  
  - c. Although the information is incomplete for a total estimate of infrastructure need, over the next five to ten years, compiled data alone indicate a need of at least \$8 to \$13.5 billion for Kansas' highways, streets, roads, bridges, water systems, sewerage systems, dams, storm drainage systems, airports, and rail lines. An estimate of funding shortfalls for these needs is in a range of \$3.5 to \$7.5 billion.

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October 1986

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2/16/88

Prepared by:  
John Metzler  
February 15, 1988

## JOHNSON COUNTY UNIFIED WASTEWATER DISTRICTS

### Testimony Before The House Economic Development Committee Regarding Senate Bill 472

I am John Metzler, Chief Engineer of the Johnson County Unified Wastewater Districts. I thank the Committee for this opportunity to testify on Senate Bill 472, which proposes establishment of a State revolving fund for water pollution control facilities. The matter of a State revolving fund program in Kansas has been discussed at some length with the Johnson County Board of County Commissioners, and has their unequivocal support. The Johnson County Unified Wastewater Districts now serves approximately a quarter of a million people, and has a continuing need to provide the sewerage facilities which will provide opportunities for economic development, as well as maintain the existing sewerage facilities infrastructure. The following specific statements are offered regarding this proposed legislation.

1. The Johnson County Unified Wastewater Districts fully supports the concept of a State revolving fund program for water pollution control facilities in the State of Kansas.
2. The Johnson County Unified Wastewater Districts concurs wholeheartedly in the amendments to Senate Bill 472 made by the Senate Energy and Natural Resources Committee.
3. It is our belief that the proposed loan program will be of significant benefit to both large and small communities. I worked for the Kansas Department of Health and Environment for eight years prior to taking the Chief Engineer's position with Johnson County. During those eight years, I was involved in many sewerage facility projects across the State, including small communities such as Goddard, WaKeeney, Centralia, Perry, and Cherryvale. During my tenure with the State I developed a considerable familiarity with the problems small communities face in financing of sewerage facilities, and I can assure this committee that the benefits of a loan program to small communities with the phasing out of grant funding will be crucial to the economic development and maintenance of infrastructure in these small communities. If Johnson County, with its tax base and favorable bonded indebtedness position, can benefit from this program, small communities, with limited tax bases and perhaps with bonded indebtedness limitation problems, conceivably could have this loan program as the sole available means of financing needed improvements.

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4. Even in instances where financing through general obligation bonds is available, a State revolving fund program with low interest rates could dramatically reduce the sewer use charges or taxes paid by taxpayers benefited by this program. As an example, 20-year general obligation bonds are currently being sold at about an 8% rate. If the loan rate established for the program was set at 4%, a 30% reduction in costs paid by the taxpayers can be achieved.

I trust this committee will give serious consideration to approving this bill for consideration by the full House. Thank you again for this opportunity. If you have any questions, I will be happy to answer them.

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