

# U.S. Department of Agriculture Rural Development

## Water and Environmental Programs

[www.usda.gov/rus/water](http://www.usda.gov/rus/water)



Committed to the future of rural communities.

# AFFORDABILITY & CAPACITY

How does RD Define Affordability?

(It Depends)

# FULL COST PRICING

- Operation & Maintenance Expenses
- Debt Service Payments
- Required Reserves
- Sustainability Factors (Capacity)

# O&M PROJECTIONS

- MUST INCLUDE:
- Realistic projections
- Comparison to similar systems
- Include Salaries, Benefits, Interest, Taxes, Insurance, Chemicals, Supplies, Gasoline, Oil and Fuel, Repairs, Scheduled Maintenance Requirements, Etc

# RESERVES

- EXISTING AND PROPOSED SYSTEMS
  - DEBT SERVICE
  - SHORT-LIVED ASSETS RESERVES
  - DEPRECIATION (LONG-TERM) ?

# DEBT SERVICE

10 % of loan payment until one year payments are held in debt service reserve account.

# SHORT-LIVED ASSETS

A reserve should be created through an annual budget for short-lived assets that includes items not budgeted for in the annual O&M expenses, but are anticipated in the next 5-7 years to ensure continual operation of the system with a positive cash flow.

# SHORT-LIVE ASSETS

- Trucks
- Computers
- Testing Equipment
- Storage Tank Painting
- Pump Replacement
- Construction Equipment
- etc...

# SUSTAINABILTY

- What does RD mean by financially sustainable system?
  - Debt Service Coverage Ratio (1.10)
  - Current Ratio (1.50)

# SUSTAINABILTY

- **Debt Service Coverage Ratio** - (Net From Operations plus Depreciation) divided by Total Debt Service
- **Current Ratio** - Current Assets divided by Current Liabilities

# AFFORDABLE RATE

- Similar Systems
- Percent of MHI
- Varies From State-to-State
- Varies Within a State

# LOAN/GRANT UNDERWRITING

- CPAP Underwriting Subroutine
  - Similar Systems Rates
  - Interest Rate
    - Market (11 GO Bond Index - 4.5%)
    - Intermediate (80% of Market – 3.625%)
    - Poverty (60% of Market – 2.75%)

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