

PART 1780 - WATER AND WASTE LOANS AND GRANTS

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Authority: 5 U.S.C. 301; 7 U.S.C. 1989; 16 U.S.C. 1005.

Subpart A - General Policies and RequirementsSubpart A - General Policies and RequirementsSubpart A -
General Policies and Requirements

§1780.1 General.

(a) This part outlines the policies and procedures for making and processing direct loans and grants for water and waste projects. The Rural Utilities Service (RUS) shall cooperate fully with State and local agencies in making loans and grants to assure maximum support to the State strategy for rural development. Agency officials and their staffs shall maintain coordination and liaison with State agency and substate planning districts.

(b) The income data used in this part to determine median household income must be that which most accurately reflects the income of the service area. The median household income of the service area and the nonmetropolitan median household income of the State will be determined from income data from the most recent decennial census of the United States. If there is reason to believe that the census data is not an accurate representation of the median household income within the area to be served, the reasons will be documented and the applicant may furnish, or the Agency may obtain, additional information regarding such median household income. Information will consist of reliable data from local, regional, State or Federal sources or from a survey conducted by a reliable impartial source. The nonmetropolitan median household income of the State may only be updated on a national basis by the RUS National Office. This will be done only when median household income data for the same year for all Bureau of the Census areas is available from the Bureau of the Census or other reliable sources. Bureau of the Census areas would include areas such as: Counties, County Subdivisions, Cities, Towns, Townships, Boroughs, and other places.

(c) RUS debt instruments will require an agreement that if at any time it shall appear to the Government that the borrower is able to refinance the amount of the indebtedness to the Government then outstanding, in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, at reasonable rates and terms for loans for similar purposes and periods of time, the borrower will, upon request of the Government, apply for and accept such loan in sufficient amount to repay the Government and will take all such actions as may be required in connection with such loan.

(d) Funds allocated for use under this part are also for the use of Indian tribes within the State, regardless of whether State development strategies include Indian reservations within the State's boundaries. Native Americans residing on such reservations must have equal opportunity to participate in the benefits of these programs as compared with other residents of the State. Such tribes might not be subject to State and local laws or jurisdiction. However, any requirements of this part that affect applicant eligibility, the adequacy of RUS's security, or the adequacy of service to users of the facility and all other requirements of this part must be met.

(e) RUS financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

(f) Any processing or servicing activity conducted pursuant to this part involving authorized assistance to Agency employees, members of their families, known close relatives, or business or close personal associates, is subject to the provisions of subpart D of part 1900 of this title. Applicants for assistance are required to identify any known relationship or association with a RUS employee.

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(g) Water and waste facilities will be designed, installed, and operated in accordance with applicable laws which include but are not limited to the Safe Drinking Water Act, Clean Water Act and the Resource Conservation and Recovery Act.

(h) RUS financed facilities will be consistent with any current development plans of State, multijurisdictional areas, counties, or municipalities in which the proposed project is located.

(i) Each RUS financed facility will be in compliance with appropriate State or Federal agency regulations which have control of the appropriation, diversion, storage and use of water and disposal of excess water.

(j) Water and waste applicants must demonstrate that they possess the financial, technical, and managerial capability necessary to consistently comply with pertinent Federal and State laws and requirements. In developing water and waste systems, applicants must consider alternatives of ownership, system design, and the sharing of services.

(k) Applicants should be aware of and comply with other Federal statute requirements including but not limited to:

(1) Section 504 of the Rehabilitation Act of 1973. Under section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving RUS financial assistance;

(2) Civil Rights Act of 1964. All borrowers are subject to, and facilities must be operated in accordance with, title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and subpart E of part 1901 of this title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by §1901.202(e) of this title;

(3) The Americans with Disabilities Act (ADA) of 1990. This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, State and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by State and local public entities which provides services, programs and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities which accommodate the public; and

(4) Age Discrimination Act of 1975. This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance.

§1780.2 Purpose.

Provide loan and grant funds for water and waste projects serving the most financially needy communities. Financial assistance should result in reasonable user costs for rural residents, rural businesses, and other rural users.

§1780.3 Definitions and grammatical rules of construction.

(a) Definitions. For the purposes of this part:

Agency means the Rural Utilities Service and any United States Department of Agriculture (USDA) employee acting on behalf of the Rural Utilities Service in accordance with appropriate delegations of authority.

Agency identified target areas means an identified area in the State strategic plan or other plans developed by the Rural Development State Director.

Approval official means the USDA official at the State level who has been delegated the authority to approve loans or grants.

Equivalent Dwelling Unit (EDU) means the level of service provided to a typical rural residential dwelling.

Parity bonds means bonds which have equal standing with other bonds of the same Issuer.

Poverty line means the level of income for a family of four, as defined in section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2)).

Processing office means the office designated by the State program official to accept and process applications for water and waste disposal assistance.

Project means all activity that an applicant is currently undertaking to be financed in whole or part with RUS assistance.

Protective advances are payments made by a lender for items such as insurance or taxes in order to preserve and protect the security or the lien or priority of the lien securing the loan.

Rural and rural areas means any area not in a city or town with a population in excess of 10,000 inhabitants, according to the latest decennial census of the United States.

Rural Development means the mission area of the Under Secretary for Rural Development. Rural Development State and local offices will administer this water and waste program on behalf of the Rural Utilities Service.

RUS means the Rural Utilities Service, an agency of the United States Department of Agriculture established pursuant to section 232 of the Department of Agriculture Reorganization Act of 1994 (Pub. L. 103-354, 108 Stat. 3178), successor to the Farmer's Home Administration and the Rural Development Administration with respect to certain water and waste disposal loan and grant programs.

Service area means the area reasonably expected to be served by the project.

Servicing office means the office designated by the State program official to service water and waste disposal loans and grants.

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Similar system cost means the average annual EDU user cost of a system within a community having similar economic conditions and being served by the same type of established system. Similar system cost shall include all charges, taxes, and assessments attributable to the system including debt service, reserves and operation and maintenance costs.

State program official means the USDA official at the State level who has been delegated the responsibility of administering the water and waste disposal programs under this regulation for a particular State or States.

Statewide nonmetropolitan median household income means the median household income of the State's nonmetropolitan counties and portions of metropolitan counties outside of cities, towns or places of 50,000 or more population.

(b) Rules of grammatical construction. Unless the context otherwise indicates, "includes" and "including" are not limiting, and "or" is not exclusive. The terms defined in paragraph (a) of this section include the plural as well as the singular, and the singular as well as the plural.

§1780.4 Availability of forms and regulations.

Information about the availability of forms, instructions, regulations, bulletins, OMB Circulars, Treasury Circulars, standards, documents and publications cited in this part is available from any USDA/Rural Development office or the Rural Utilities Service, United States Department of Agriculture, Washington, D.C. 20250-1500.

§1780.5 [Reserved]

§1780.6 Application information.

(a) The Rural Development State Director in each State will determine the office and staff that will be responsible for delivery of the program (processing office) and designate an approving office. Applications will be accepted by the processing office.

(b) The applicant's governing body should designate one person to act as contact person with the Agency during loan and grant processing. Agency personnel should make every effort to involve the applicant's contact person when meeting with the applicant's professional consultants or agents.

§1780.7 Eligibility.

Facilities financed by water and waste disposal loans or grants must serve rural areas.

(a) Eligible applicant. An applicant must be:

(1) A public body, such as a municipality, county, district, authority, or other political subdivision of a state, territory or commonwealth;

(2) An organization operated on a not-for-profit basis, such as an association, cooperative, or private corporation. The organization must be an association controlled by a local public body or bodies, or have a broadly based ownership by or membership of people of the local community; or

(3) Indian tribes on Federal and State reservations and other Federally recognized Indian tribes.

(b) Eligible facilities. Facilities financed by RUS may be located in non-rural areas. However, loan and grant funds may be used to finance only that portion of the facility serving rural areas, regardless of facility location.

(c) Eligible projects.

(1) Projects must serve a rural area which, if such project is completed, is not likely to decline in population below that for which the project was designed.

(2) Projects must be designed and constructed so that adequate capacity will or can be made available to serve the present population of the area to the extent feasible and to serve the reasonably foreseeable growth needs of the area to the extent practicable.

(3) Projects must be necessary for orderly community development and consistent with a current comprehensive community water, waste disposal, or other current development plan for the rural area.

(d) Credit elsewhere. Applicants must certify in writing and the Agency shall determine and document that the applicant is unable to finance the proposed project from their own resources or through commercial credit at reasonable rates and terms.

(e) Legal authority and responsibility. Each applicant must have or will obtain the legal authority necessary for owning, constructing, operating, and maintaining the proposed facility or service and for obtaining, giving security for, and repaying the proposed loan. The applicant shall be responsible for operating, maintaining, and managing the facility, and providing for its continued availability and use at reasonable user rates and charges. This responsibility shall be exercised by the applicant even though the facility may be operated, maintained, or managed by a third party under contract or management agreement. Guidance for preparing a management agreement is available from the Agency. Such contracts, management agreements, or leases must not contain options or other provisions for transfer of ownership.

(f) Economic feasibility. All projects financed under the provisions of this section must be based on taxes, assessments, income, fees, or other satisfactory sources of revenues in an amount sufficient to provide for facility operation and maintenance, reasonable reserves, and debt payment. If the primary use of the facility is by business and the success or failure of the facility is dependent on the business, then the economic viability of that business must be assessed.

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(g) Federal Debt Collection Act of 1990 (28 U.S.C. 3001 et seq.). An outstanding judgment obtained by the United States in a Federal Court (other than in the United States Tax Court), which has been recorded, shall cause the applicant to be ineligible to receive a loan or grant until the judgment is paid in full or otherwise satisfied.

(h) [Removed] **[Revision 2, 06/04/99]**

§1780.8 [Reserved]

§1780.9 Eligible loan and grant purposes.

Loan and grant funds may be used only for the following purposes:

- (a) To construct, enlarge, extend, or otherwise improve rural water, sanitary sewage, solid waste disposal, and storm wastewater disposal facilities.
- (b) To construct or relocate public buildings, roads, bridges, fences, or utilities, and to make other public improvements necessary for the successful operation or protection of facilities authorized in paragraph (a) of this section.
- (c) To relocate private buildings, roads, bridges, fences, or utilities, and other private improvements necessary for the successful operation or protection of facilities authorized in paragraph (a) of this section.
- (d) For payment of other utility connection charges as provided in service contracts between utility systems.
- (e) When a necessary part of the project relates to those facilities authorized in paragraphs (a), (b),(c) or (d) of this section the following may be considered:

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(1) Loan or grant funds may be used for:

- (i) Reasonable fees and costs such as: legal, engineering, administrative services, fiscal advisory, recording, environmental analyses and surveys, possible salvage or other mitigation measures, planning, establishing or acquiring rights;
- (ii) Costs of acquiring interest in land; rights, such as water rights, leases, permits, rights-of-way; and other evidence of land or water control or protection necessary for development of the facility;
- (iii) Purchasing or renting equipment necessary to install, operate, maintain, extend, or protect facilities;
- (iv) Cost of additional applicant labor and other expenses necessary to install and extend service; and
- (v) In unusual cases, the cost for connecting the user to the main service line.

(2) Only loan funds may be used for:

- (i) Interest incurred during construction in conjunction with multiple advances or interest on interim financing;
- (ii) Initial operating expenses, including interest, for a period ordinarily not exceeding one year when the applicant is unable to pay such expenses;
- (iii) The purchase of existing facilities when it is necessary either to improve service or prevent the loss of service;
- (iv) Refinancing debts incurred by, or on behalf of, an applicant when all of the following conditions exist:
 - (A) The debts being refinanced are a secondary part of the total loan;
 - (B) The debts were incurred for the facility or service being financed or any part thereof; and
 - (C) Arrangements cannot be made with the creditors to extend or modify the terms of the debts so that a sound basis will exist for making a loan; and
- (v) Prepayment of costs for which RUS grant funds were obligated.

(3) Grant funds may be used to restore loan funds used to prepay grant obligated costs.

(f) Construction incurred before loan or grant approval.

(1) Funds may be used to pay obligations for eligible project costs incurred before loan or grant approval if such requests are made in writing by the applicant and the Agency determines that:

(i) Compelling reasons exist for incurring obligations before loan or grant approval;

(ii) The obligations will be incurred for authorized loan or grant purposes; and

(iii) The Agency's authorization to pay such obligations is on the condition that it is not committed to make the loan or grant; it assumes no responsibility for any obligations incurred by the applicant; and the applicant must subsequently meet all loan or grant approval requirements, including environmental and contracting requirements.

(2) If construction is started without Agency approval, post-approval in accordance with this section may be considered, provided the construction meets applicable requirements including those regarding approval and environmental matters.

(g) Water or sewer service may be provided through individual installations or small clusters of users within an applicant's service area. The approval official should consider items such as: quantity and quality of the individual installations that may be developed; cost effectiveness of the individual facility compared with the initial and long term user cost on a central system; health and pollution problems attributable to individual facilities; operational or management problems peculiar to individual installations; and permit and regulatory agency requirements.

(1) Applicants providing service through individual facilities must meet the eligibility requirements in §1780.7.

(2) The Agency must approve the form of agreement between the applicant and individual users for the installation, operation, maintenance and payment for individual facilities.

(3) If taxes or assessments are not pledged as security, applicants providing service through individual facilities must obtain security necessary to assure collection of any sum the individual user is obligated to pay the applicant.

(4) Notes representing indebtedness owed the applicant by a user for an individual facility will be scheduled for payment over a period not to exceed the useful life of the individual facility or the RUS loan, whichever is shorter. The interest rate will not exceed the interest rate charged the applicant on the RUS indebtedness.

(5) Applicants providing service through individual or cluster facilities must obtain:

(i) Easements for the installation and ingress to and egress from the facility if determined necessary by RUS; and

(ii) An adequate method for denying service in the event of nonpayment of user fees.

§1780.10 Limitations.

- (a) Loan and grant funds may not be used to finance:
 - (1) Facilities which are not modest in size, design, and cost;
 - (2) Loan or grant finder's fees;
 - (3) The construction of any new combined storm and sanitary sewer facilities;
 - (4) Any portion of the cost of a facility which does not serve a rural area;
 - (5) That portion of project costs normally provided by a business or industrial user, such as wastewater pretreatment, etc.;
 - (6) Rental for the use of equipment or machinery owned by the applicant;
 - (7) For other purposes not directly related to operating and maintenance of the facility being installed or improved; and
 - (8) A judgment which would disqualify an applicant for a loan or grant as provided for in §1780.7(g).

- (b) Grant funds may not be used to:
 - (1) Reduce EDU costs to a level less than similar system cost;
 - (2) Pay any costs of a project when the median household income of the service area is more than 100 percent of the nonmetropolitan median household income of the State;
[Revision 2, 06/04/99]
 - (3) Pay project costs when other loan funding for the project is not at reasonable rates and terms; and
 - (4) Pay project costs when other funding is a guaranteed loan obtained in accordance with subpart I of part 1980 of this chapter.

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(c) Grants may not be made in excess of the following percentages of the RUS eligible project development costs. Facilities previously installed will not be considered in determining the development costs.

(1) 75 percent when the median household income of the service area is below the higher of the poverty line or 80% of the state nonmetropolitan median income and the project is necessary to alleviate a health or sanitary problem.

(2) 45 percent when the median household income of the service area exceeds the 80 percent requirements described in paragraph (c)(1) of this section but is not more than 100 percent of the statewide nonmetropolitan median household income.

(3) Applicants are advised that the percentages contained in paragraphs (c)(1) and (c)(2) of this section are maximum amounts and may be further limited due to availability of funds or the grant determination procedures contained in §1780.35(b).

§1780.11 Service area requirements.

(a) All facilities financed under the provisions of this part shall be for public use. The facilities will be installed so as to serve any potential user within the service area who desires service and can be feasibly and legally served. This does not preclude:

(1) Financing or constructing projects in phases when it is not practical to finance or construct the entire project at one time; and

(2) Financing or constructing facilities where it is not economically feasible to serve the entire area, provided economic feasibility is determined on the basis of the entire system and not by considering the cost of separate extensions to or parts thereof; the applicant publicly announces a plan for extending service to areas not initially receiving service from the system; and potential users located in the areas not to be initially served receive written notice from the applicant that service will not be provided until such time as it is economically feasible to do so.

(b) Should the Agency determine that inequities exist within the applicants service area for the same type service proposed (i.e., water or waste disposal) such inequities will be remedied by the applicant prior to loan or grant approval or included as part of the project. Inequities are defined as unjustified variations in availability, adequacy or quality of service. User rate schedules for portions of existing systems that were developed under different financing, rates, terms or conditions do not necessarily constitute inequities.

(c) Developers are normally expected to provide utility-type facilities in new or developing areas in compliance with appropriate State statutes. RUS financing will be considered to an eligible applicant only in such cases when failure to complete development would result in an adverse economic condition for the rural area (not the community being developed); the proposal is necessary to the success of a current area development plan; and loan repayment can be assured by:

- (1) The applicant already having sufficient assured revenues to repay the loan; or
- (2) Developers providing a bond or escrowed security deposit as a guarantee sufficient to meet expenses attributable to the area in question until a sufficient number of the building sites are occupied and connected to the facility to provide enough revenues to meet operating, maintenance, debt service, and reserve requirements. Such guarantees from developers will meet the requirements in §1780.39(c)(4)(ii); or
- (3) Developers paying cash for the increased capital cost and any increased operating expenses until the developing area will support the increased costs; or
- (4) The full faith and credit of a public body where the debt is evidenced by general obligation bonds; or
- (5) The loan is to a public body evidenced by a pledge of tax revenue or assessments; or
- (6) The user charges can become a lien upon the property being served and income from such lien can be collected in sufficient time to be used for its intended purposes.

§1780.12 [Reserved]

§1780.13 Rates and terms.

(a) General.

- (1) Each loan will bear interest at the rate prescribed in RD Instruction 440.1, exhibit B. The interest rates will be set by the Agency for each quarter of the fiscal year. All rates will be adjusted to the nearest one-eighth of one per centum. The rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing unless the applicant otherwise chooses.
- (2) If the interest rate is to be that in effect at loan closing on a loan involving multiple advances of RUS funds using temporary debt instruments, the interest rate charged shall be that in effect on the date when the first temporary debt instrument is issued.

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(b) Poverty rate. The poverty interest rate will not exceed 5 per centum per annum. All poverty rate loans must comply with the following conditions:

(1) The primary purpose of the loan is to upgrade existing facilities or construct new facilities required to meet applicable health or sanitary standards; and

(2) The median household income of the service area is below the higher of the poverty line, or 80 percent of the Statewide nonmetropolitan median household income.

(c) Intermediate rate. The intermediate interest rate will be set at the poverty rate plus one-half of the difference between the poverty rate and the market rate, not to exceed 7 percent per annum. It will apply to loans that do not meet the requirements for the poverty rate and for which the median household income of the service area is not more than 100 percent of the nonmetropolitan median household income of the State.

(d) Market rate. The market interest rate will be set using as guidance the average of the Bond Buyer (11-GO Bond) Index for the four weeks prior to the first Friday of the last month before the beginning of the quarter. The market rate will apply to all loans that do not qualify for a different rate under paragraph (b) or (c) of this section.

(e) Repayment terms. The loan repayment period shall not exceed the useful life of the facility, State statute or 40 years from the date of the note or bond, whichever is less. Where RUS grant funds are used in connection with an RUS loan, the loan will be for the maximum term permitted by this part, State statute, or the useful life of the facility, whichever is less, unless there is an exceptional case where circumstances justify making an RUS loan for less than the maximum term permitted. In such cases, the reasons must be fully documented.

(1) Principal payments may be deferred in whole or in part for a period not to exceed 36 months following the date the first interest installment is due. If for any reason it appears necessary to permit a longer period of deferment, the Agency may authorize such deferment. Deferments of principal will not be used to:

(i) Postpone the levying of taxes or assessments;

(ii) Delay collection of the full rates which the borrower has agreed to charge users for its services as soon as those services become available;

(iii) Create reserves for normal operation and maintenance;

(iv) Make any capital improvements except those approved by the Agency which are determined to be essential to the repayment of the loan or to maintain adequate security; and

(v) Make payment on other debt.

(2) Payment date. Loan payments will be scheduled to coincide with income availability and be in accordance with State law. If State law only permits principal plus interest (P&I) type bonds, annual or semiannual payments will be used. Insofar as practical monthly payments will be scheduled one full month following the date of loan closing; or semiannual or annual payments will be scheduled six or twelve full months, respectively, following the date of loan closing or any deferment period. Due dates falling on the 29th, 30th or 31st day of the month will be avoided.

(3) In all cases, including those in which RUS is jointly financing with another lender, the RUS payments of principal and interest should approximate amortized installments.

§1780.14 Security.

Loans will be secured by the best security position practicable in a manner which will adequately protect the interest of RUS during the repayment period of the loan. Specific security requirements for each loan will be included in a letter of conditions.

(a) Public bodies. Loans to such borrowers, including Federally recognized Indian tribes as appropriate, will be evidenced by notes, bonds, warrants, or other contractual obligations as may be authorized by relevant laws and by borrower's documents, resolutions, and ordinances. Security, in the following order of preference, will consist of:

(1) The full faith and credit of the borrower when the debt is evidenced by general obligation bonds; and/or

(2) Pledges of taxes or assessments; and/or

(3) Pledges of facility revenue and, when it is the customary financial practice in the State, liens will be taken on the interest of the applicant in all land, easements, rights-of-way, water rights, water purchase contracts, water sales contracts, sewage treatment contracts, and similar property rights, including leasehold interests, used or to be used in connection with the facility whether owned at the time the loan is approved or acquired with loan funds.

(b) Other-than-public bodies. Loans to other-than-public body applicants and Federally recognized Indian tribes, as appropriate, will be secured in the following order of preference:

(1) Assignments of borrower income will be taken and perfected by filing, if legally permissible; and

(2) A lien will be taken on the interest of the applicant in all land, easements, rights-of-way, water rights, water purchase contracts, water sales contracts, sewage treatment contracts and similar property rights, including leasehold interest, used, or to be used in connection with the facility whether owned at the time the loan is approved or acquired with loan funds. In unusual circumstances where it is not legally permissible or feasible to obtain a lien on such land (such as land rights obtained from Federal or local government agencies, and from railroads) and the approval official determines that the interest of RUS is otherwise adequately secured, the lien requirement may be omitted as to such land rights. For existing borrowers where the Agency already has a security position on real property, the approval official may determine that the interest of the Government is adequately secured and not require additional liens on such land rights. When the subsequent loan is approved or the acquisition of real property is subject to an outstanding lien indebtedness, the next highest priority lien obtainable will be taken if the approval official determines that the loan is adequately secured.

(c) Joint financing security. For projects utilizing joint financing, when adequate security of more than one type is available, the other lender may take one type of security with RUS taking another type. For projects utilizing joint financing with the same security to be shared by RUS and another lender, RUS will obtain at least a parity position with the other lender. A parity position is to ensure that with joint security, in the event of default, each lender will be affected on a proportionate basis. A parity position will conform with the following unless an exception is granted by the approval official:

(1) It is not necessary for loans to have the same repayment terms. Loans made by other lenders involved in joint financing with RUS should be scheduled for repayment on terms similar to those customarily used in the State for financing such facilities.

(2) The use of a trustee or other similar paying agent by the other lender in a joint financing arrangement is acceptable to RUS. A trustee or other similar paying agent will not normally be used for the RUS portion of the funding unless required to comply with State law. The responsibilities and authorities of any trustee or other similar paying agent on projects that include RUS funds must be clearly specified by written agreement and approved by the State program official and the Office of the General Counsel (OGC). RUS must be able to deal directly with the borrower to enforce the provisions of loan and grant agreements and perform necessary servicing actions.

(3) In the event adequate funds are not available to meet regular installments on parity loans, the funds available will be apportioned to the lenders based on the respective current installments of principal and interest due.

(4) Funds obtained from the sale or liquidation of secured property or fixed assets will be apportioned to the lenders on the basis of the pro rata amount outstanding; provided, however, funds obtained from such sale or liquidation for a project that included RUS grant funds will be apportioned as required by the grant agreement.

(5) Protective advances must be charged to the borrower's account and be secured by a lien on the security property. To the extent consistent with State law and customary lending practices in the area, repayment of protective advances made by either lender, for the mutual protection of both lenders, should receive first priority in apportionment of funds between the lenders. To ensure agreement between lenders, efforts should be made to obtain the concurrence of both lenders before one lender makes a protective advance.

§1780.15 Other Federal, State, and local requirements.

Proposals for facilities financed in whole or in part with RUS funds will be coordinated with appropriate Federal, State and local agencies. If there are conflicts between this part and State or local laws or regulatory commission regulations, the provisions of this part will control. Applicants will be required to comply with Federal, State, and local laws and any regulatory commission rules and regulations pertaining to:

- (a) Organization of the applicant and its authority to own, construct, operate, and maintain the proposed facilities;
- (b) Borrowing money, giving security therefore, and raising revenues for the repayment thereof;
- (c) Land use zoning; and
- (d) Health and sanitation standards and design and installation standards unless an exception is granted by RUS.

§1780.16 [Reserved]

§1780.17 Selection priorities and process.

When ranking eligible applications for consideration for limited funds, Agency officials must consider the priority items met by each application and the degree to which those priorities are met. Points will be awarded as follows:

(a) Population priorities.

- (1) The proposed project will primarily serve a rural area having a population not in excess of 1,000 -- 25 points;
- (2) The proposed project primarily serves a rural area having a population between 1,001 and 2,500 -- 15 points;
- (3) The proposed project primarily serves a rural area having a population between 2,501 and 5,500 -- 5 points.

(b) Health priorities. The proposed project is:

- (1) Needed to alleviate an emergency situation, correct unanticipated diminution or deterioration of a water supply, or to meet Safe Drinking Water Act requirements which pertain to a water system -- 25 points;
- (2) Required to correct inadequacies of a wastewater disposal system, or to meet health standards which pertain to a wastewater disposal system -- 25 points;
- (3) Required to meet administrative orders issued to correct local, State, or Federal solid waste violations -- 15 points.

(c) Median household income priorities. The median household income of the population to be served by the proposed project is:

- (1) Less than the poverty line if the poverty line is less than 80% of the statewide nonmetropolitan median household income -- 30 points;
- (2) Less than 80 percent of the statewide nonmetropolitan median household income -- 20 points;
- (3) Equal to or more than the poverty line and between 80% and 100%, inclusive, of the State's nonmetropolitan median household income -- 15 points.

(d) Other priorities.

- (1) The proposed project will: merge ownership, management, and operation of smaller facilities providing for more efficient management and economical service -- 15 points;
- (2) The proposed project will enlarge, extend, or otherwise modify existing facilities to provide service to additional rural areas -- 10 points;
- (3) Applicant is a public body or Indian tribe -- 5 points;
- (4) Amount of other than RUS funds committed to the project is:
 - (i) 50% or more -- 15 points;
 - (ii) 20% to 49% -- 10 points;
 - (iii) 5% - 19% -- 5 points;
- (5) Projects that will serve Agency identified target areas -- 10 points;
- (6) Projects that primarily recycle solid waste products thereby limiting the need for solid waste disposal -- 5 points;
- (7) The proposed project will serve an area that has an unreliable quality or supply of drinking water -- 10 points.

(e) In certain cases the State program official may assign up to 15 points to a project. The points may be awarded to projects in order to improve compatibility and coordination between RUS's and other agencies' selection systems, to ensure effective RUS fund utilization, and to assist those projects that are the most cost effective. A written justification must be prepared and placed in the project file each time these points are assigned.

(f) Cost overruns. An application may receive consideration for funding before others at the State or National Office level when it is a subsequent request for a previously approved project which has encountered construction cost overruns. The cost overruns must be due to high bids or unexpected construction problems that cannot be reduced by negotiations, redesign, use of bid alternatives, rebidding or other means. Cost overruns exceeding 20% of the development cost at time of loan or grant approval or where the scope of the original purpose has changed will not be considered under this paragraph.

(g) National office priorities. In selecting projects for funding at the National Office level State program official points may or may not be considered. The Administrator may assign up to 15 additional points to account for items such as geographic distribution of funds, the highest priority projects within a state, and emergency conditions caused by economic problems or natural disasters. The Administrator may delegate the authority to assign the 15 points to appropriate National Office staff.

§1780.18 Allocation of program funds.

(a) General.

(1) The purpose of this part is to set forth the methodology and formulas by which the Administrator of the RUS allocates program funds to the States. (The term "State" means any of the States of the United States, the Commonwealth of Puerto Rico, any territory or possession of the United States, or the Western Pacific Areas.)

(2) The formulas in this part are used to allocate program loan and grant funds to Rural Development State offices so that the overall mission of the Agency can be carried out. Considerations used when developing the formulas include enabling legislation, congressional direction, and administration policies. Allocation formulas ensure that program resources are available on an equal basis to all eligible individuals and organizations.

(3) The actual amounts of funds, as computed by the methodology and formulas contained herein, allocated to a State for a funding period, are distributed to each State office. The allocated amounts are available for review in any Rural Development State office.

(b) Definitions.

(1) Amount available for allocations. Funds appropriated or otherwise made available to the Agency for use in authorized programs. On occasion, the allocation of funds to States may not be practical for a particular program due to funding or administrative constraints. In these cases, funds will be controlled by the National Office.

(2) Basic formula criteria, data source and weight. Basic formulas are used to calculate a basic State factor as a part of the methodology for allocating funds to the States. The formulas take a number of criteria that reflect the funding needs for a particular program and through a normalization and weighting process for each of the criteria calculate the basic State factor (SF). The data sources used for each criteria are believed to be the most current and reliable information that adequately quantifies the criterion. The weight, expressed as a percentage, gives a relative value to the importance of each of the criteria.

(3) Basic formula allocation. The result of multiplying the amount available for allocation less the total of any amounts held in reserve or distributed by base or administrative allocation times the basic State factor for each State. The basic formula allocation (BFA) for an individual State is equal to:

$$\text{BFA} = (\text{Amount available for allocation} - \text{NO reserve} - \text{total base and administrative allocations}) \times \text{SF}.$$

(4) Transition formula.

(i) A formula based on a proportional amount of previous year allocation used to maintain program continuity by preventing large fluctuations in individual State allocations. The transition formula limits allocation shifts to any particular State in the event of changes from year to year of the basic formula, the basic criteria, or the weights given the criteria. The transition formula first checks whether the current year's basic formula allocation is within the transition range (plus or minus 20 percentage points of the proportional amount of the previous year's BFA). The formula follows:

$$\text{Transition Range} = 1.0 + \frac{\text{maximum } 20\% \times (\text{Amount available for allocation this year} \times \text{State previous year BFA})}{100 (\text{Amount available for allocation previous year})}$$

(ii) If the current year's State BFA is not within the transition range in paragraph 4(i) of this section, the State formula allocation is changed to the amount of the transition range limit closest to the BFA amount. After having performed this transition adjustment for each State, the sum of the funds allocated to all States will differ from the amount of funds available for BFA. This difference, whether a positive or negative amount, is distributed to all States receiving a formula allocation by multiplying the difference by the SF. The end result is the transition formula allocation. The transition range will not exceed 40% (plus or minus 20%), but when a smaller range is used it will be stated in the individual program section.

(5) Base allocation. An amount that may be allocated to each State dependent upon the particular program to provide the opportunity for funding at least one typical loan or grant in each Rural Development State office. The amount of the base allocation may be determined by criteria other than that used in the basic formula allocation such as Agency historic data.

(6) Administrative allocations. Allocations made by the Administrator in cases where basic formula criteria information is not available. This form of allocation may be used when the Administrator determines the program objectives cannot be adequately met with a formula allocation.

(7) Reserve. An amount retained under the National Office control for each loan and grant program to provide flexibility in meeting situations of unexpected or justifiable need occurring during the fiscal year. The Administrator may make distributions from this reserve to any State when it is determined necessary to meet a program need or Agency objective. The Administrator may retain additional amounts to fund authorized demonstration programs.

(8) Pooling of funds. A technique used to ensure that available funds are used in an effective, timely and efficient manner. At the time of pooling those funds within a State's allocation for the fiscal year or portion of the fiscal year, depending on the type of pooling, that have not been obligated by the State are placed in the National Office reserve. The Administrator will establish the pooling dates for each affected program.

(i) Mid-year: Mid-year pooling occurs near the midpoint of the fiscal year.

(ii) Year-end: Year-end pooling usually occurs near the first of August.

(iii) Emergency: the Administrator may pool funds at any time that it is determined the conditions upon the initial allocation was based have changed to such a degree that it is necessary to pool funds in order to efficiently carry out the Agency mission.

(9) Availability of the allocation. Program funds are made available to the Agency on a quarterly basis.

(10) Suballocation by the Rural Development State Director. The State Director may be directed or given the option of suballocating the State allocation to processing offices. When suballocating the State Director may retain a portion of the funds in a State office reserve to provide flexibility in situations of unexpected or justified need. When performing a suballocation the State Director will use the same formula, criteria and weights as used by the National Office.

(c) Water and Waste Disposal loans and grants.

(1) Amount available for allocations. See paragraph (b)(1) of this section.

(2) Basic formula criteria, data source and weight. See paragraph (b)(2) of this section.

(i) The criteria used in the basic formula are:

(A) State's percentage of national rural population will be 50 percent.

(B) State's percentage of national rural population with incomes below the poverty level will be 25 percent.

(C) State's percentage of national nonmetropolitan unemployment will be 25 percent.

(ii) Data source for each of these criterion is based on the latest census data available. Each criterion is assigned a specific weight according to its relevance in determining need. The percentage representing each criterion is multiplied by the weight factor and summed to arrive at a State factor (SF). The SF cannot exceed .05, as follows:

$$\text{SF} = (\text{criterion in paragraph (b)(1)(i) of this section} \times 50 \text{ percent}) + (\text{criterion in paragraph (b)(1)(ii) of this section} \times 25 \text{ percent}) + (\text{criterion in paragraph (b)(1)(iii) of this section} \times 25 \text{ percent})$$

(3) Basic formula allocation. See paragraph (b)(3) of this part. States receiving administrative allocations do not receive formula allocations.

(4) Transition formula. See paragraph (b)(4) of this part. The percentage range for the transition formula equals 30 percent (plus or minus 15%).

(5) Base allocation. See paragraph (b)(5) of this section. States receiving administrative allocations do not receive base allocations.

(6) Administrative allocation. See paragraph (b)(6) of this section. States participating in the formula and base allocation procedures do not receive administrative allocations.

(7) Reserve. See paragraph (b)(7) of this section. Any State may request reserve funds by forwarding a request to the National Office. Generally, a request for additional funds will not be honored unless the State has insufficient funds to obligate the loan requested.

(8) Pooling of funds. See paragraph (b)(8) of this section. Funds are generally pooled at mid-year and year-end. Pooled funds will be placed in the National Office reserve and will be made available administratively.

(9) Availability of the allocation. See paragraph (b)(9) of this section. The allocation of funds is made available for States to obligate on an annual basis although the Office of Management and Budget apportions it to the Agency on a quarterly basis.

(10) Suballocation by the State Director. See paragraph (b)(10) of this section. The State Director has the option to suballocate funds to processing offices.

§1780.19 Public information.

(a) Public notice of intent to file an application with the Agency. Within 60 days of filing an application with the Agency the applicant must publish a notice of intent to apply for a RUS loan or grant. The notice of intent must be published in a newspaper of general circulation in the proposed area to be served.

(b) General public meeting. Applicants should inform the general public regarding the development of any proposed project. Any applicant not required to obtain authorization by vote of its membership or by public referendum, to incur the obligations of the proposed loan or grant, must hold at least one public information meeting. The public meeting must be held not later than loan or grant approval. The meeting must give the citizenry an opportunity to become acquainted with the proposed project and to comment on such items as economic and environmental impacts, service area, alternatives to the project, or any other issue identified by Agency. To the extent possible, this meeting should cover items necessary to satisfy all public information meeting requirements for the proposed project. To minimize duplication of public notices and public involvement, the applicant shall, where possible, coordinate and integrate the public involvement activities of the environmental review process into this requirement. The applicant will be required, at least 10 days prior to the meeting, to publish a notice of the meeting in a newspaper of general circulation in the service area, to post a public notice at the applicant's principal office, and to notify the Agency. The applicant will provide the Agency a copy of the published notice and minutes of the public meeting. A public meeting is not normally required for subsequent loans or grants which are needed to complete the financing of a project.

§§1780.20 - 1780.23 [Reserved]

§1780.24 Approval authorities.

Appropriate reviews, concurrence, and authorization must be obtained for all loans or grants in excess of the amounts indicated in RUS Staff Instruction 1780-1.

(a) Redelegation of authority by State Directors. Unless restricted by memorandum from the RUS Administrator, State Directors can redelegate their approval authorities to State employees by memorandum.

(b) Restriction of approval authority by the RUS Administrator. The RUS Administrator can make written restrictions or revocations of the authority given to any approval official.

§1780.25 Exception authority.

The Administrator may, in individual cases, make an exception to any requirement or provision of this part which is not inconsistent with the authorizing statute or other applicable law and is determined to be in the Government's interest.

§§1780.26 - 1780.30 [Reserved]

RUS Instruction 1780

Subpart B - Loan and Grant Application Processing
Subpart B - Loan and Grant Application Processing

§1780.31 General.

(a) Applicants are encouraged to contact the Agency processing office early in the planning stages of their project. Agency personnel are available to provide general advice and assistance regarding RUS programs, other funding sources, and types of systems or improvements appropriate for the applicants needs. The Agency can also provide access to technical assistance and other information resources for other project development issues such as public information, income surveys, developing rate schedules, system operation and maintenance, and environmental compliance requirements. Throughout the planning, application processing and construction of the project, Agency personnel will work closely and cooperatively with the applicant and their representatives, other State and Federal agencies and technical assistance providers.

(b) The processing office will handle initial inquiries and provide basic information about the program. They are to provide the application, SF 424.2, "Application for Federal Assistance (For Construction)," assist applicants as needed in completing SF 424.2, and in filing a request for intergovernmental review. Federally recognized Indian tribes are exempt from intergovernmental review. The processing office will explain eligibility requirements and meet with the applicant whenever necessary to discuss application processing.

(c) Applicants can make a written request for an eligibility determination in lieu of filing an SF 424.2 along with the information required by §1780.33. Applicants seeking only an eligibility determination, should contact the processing office to obtain a list of the items needed to make this determination. An eligibility determination for loan or grant assistance will not give an applicant priority for funding as set forth in §1780.17.

(d) Applications that are not developed in a reasonable period of time taking into account the size and complexity of the proposed project may be removed from the State's active file. Applicants will be consulted prior to taking such action.

(e) Starting with the earliest discussion with prospective applicants, the State Environmental Coordinator shall discuss with prospective applicants and be available for consultation during the application process the environmental review requirements for evaluating the potential environmental consequences of the project. Pursuant to 7 CFR part 1794 and guidance in RUS Bulletin 1794A-602, the environmental review requirements shall be performed by the applicant simultaneously and concurrently with the project's engineering planning and design. This should provide flexibility to consider reasonable alternatives to the project and development methods to mitigate identified adverse environmental effects. Mitigation measures necessary to avoid or minimize any adverse environmental effects must be integrated into project design.

[Revision 1, 12/11/98]

Revision 1

§1780.32 Timeframes for application processing.

- (a) The processing office will determine if the application is properly assembled. If not, the applicant will be notified within fifteen federal working days as to what additional submittal items are needed.
- (b) The processing and approval offices will coordinate their reviews to ensure that the applicant is advised about eligibility and anticipated fund availability within 45 days of the receipt of a completed application.

§1780.33 Application requirements.

An initial application consists of the following:

- (a) One copy of a completed SF 424.2;
- (b) A copy of the State intergovernmental comments or one copy of the filed application for State intergovernmental review; and
- (c) Two copies of the preliminary engineering report (PER) for the project.
 - (1) The PER may be submitted to the processing office prior to the rest of the application material if the applicant desires a preliminary review.
 - (2) The processing office will forward one copy of the PER with comments and recommendations to the State staff engineer for review upon receipt from the applicant.
 - (3) The State staff engineer will consult with the applicant's engineer as appropriate to resolve any questions concerning the PER. Written comments will be provided by the State staff engineer to the processing office to meet eligibility determination time lines.
[Revision 1, 12/11/98]
- (d) Written certification that other credit is not available.
- (e) Supporting documentation necessary to make an eligibility determination such as financial statements, audits, organizational documents, or existing debt instruments. The processing office will advise applicants regarding the required documents. Applicants that are indebted to RUS will not need to submit documents already on file with the processing office.
- (f) Environmental Report. For those actions listed in §§1794.22(b) and 1794.23(b), the applicant shall submit, in accordance with RUS Bulletin 1794A-602, two copies of the completed Environmental Report. **[Revision 1, 12/11/98]**
 - (1) Upon receipt of the Environmental Report, the processing office shall forward one copy of the report with comments and recommendation to the State Environmental Coordinator for review. **[Revision 1, 12/11/98]**

Revision 1

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(2) The State Environmental Coordinator will consult with the applicant as appropriate to resolve any environmental concerns. Written comments will be provided by the State Environmental Coordinator to the processing office to meet eligibility determination time lines. **[Revision 1, 12/11/98]**

(g) The applicants Internal Revenue Service Taxpayer Identification Number (TIN). The TIN will be used by the Agency to assign a case number which will be the applicant's or transferee's TIN preceded by State and County Code numbers. Only one case number will be assigned to each applicant regardless of the number of loans or grants or number of separate facilities, unless an exception is authorized by the National Office.

(h) Other Forms and certifications. Applicants will be required to submit the following items to the processing office, upon notification from the processing office to proceed with further development of the full application:

- (1) Form RD 442-7, "Operating Budget";
- (2) Form RD 1910-11, "Application Certification, Federal Collection Policies for Consumer or Commercial Debts";
- (3) Form RD 400-1, "Equal Opportunity Agreement";
- (4) Form RD 400-4, "Assurance Agreement";
- (5) Form AD-1047, "Certification Regarding Debarment, Suspension and other Responsibility Matters";
- (6) Form AD-1049, Certification regarding Drug-Free Workplace Requirements (Grants) Alternative I For Grantees Other Than Individuals;
- (7) Certifications for Contracts, Grants, and Loans (Regarding Lobbying); and
- (8) Certification regarding prohibited tying arrangements. Applicants that provide electric service must provide the Agency a certification that they will not require users of a water or waste facility financed under this part to accept electric service as a condition of receiving assistance.

§1780.34 [Reserved]

§1780.35 Processing office review.

Review of the application will usually include the following:

(a) Nondiscrimination. Boundaries for the proposed service area must not be chosen in such a way that any user or area will be excluded because of race, color, religion, sex, marital status, age, handicap, or national origin. This does not preclude construction of the project in phases as noted in §1780.11 as long as it is not done in a discriminatory manner.

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(b) Grant determination. Grants will be determined by the processing office in accordance with the following provisions and will not result in EDU costs below similar system user cost.

(1) Maximum grant. Grants may not exceed the percentages in §1780.10(c) of the eligible RUS project development costs listed in §1780.9.

(2) Debt service. Applicants will be considered for grant assistance when the debt service portion of the average annual EDU cost, for users in the applicant's service area, exceeds the following percentages of median household income:

(i) 0.5 percent when the median household income of the service area is equal to or below 80% of the statewide nonmetropolitan median income.

(ii) 1.0 percent when the median household income of the service area exceeds the 0.5 percent requirement but is not more than 100 percent the statewide nonmetropolitan household income.

(3) Similar system cost. If the grant determined in paragraph (b)(2) of this section results in an annual EDU cost that is not comparable with similar systems, the Agency will determine a grant amount based on achieving EDU costs that are not below similar system user costs.

(4) Wholesale service. When an applicant provides wholesale sales or services on a contract basis to another system or entity, similar wholesale system cost will be used in determining the amount of grant needed to achieve a reasonable wholesale user cost.

(5) Subsidized cost. When annual cost to the applicant for delivery of service is subsidized by either the state, commonwealth, or territory, and uniform flat user charges regardless of usage are imposed for similar classes of service throughout the service area, the Agency may proceed with a grant in an amount necessary to reduce such delivery cost to a reasonable level.

(c) User charges. The user charges should be reasonable and produce enough revenue to provide for all costs of the facility after the project is complete. The planned revenue should be sufficient to provide for all debt service, debt reserve, operation and maintenance, and, if appropriate, additional revenue for facility replacement of short-lived assets without building a substantial surplus. Ordinarily, the total debt service reserve will be equal to one average annual loan installment which will accumulate at the rate of one-tenth of the total each year.

[Revision 2, 06/04/99]

§1780.36 Approving official review.

Projects may be obligated as their applications are completed and approved.

(a) Selection of applications for further processing. The application and supporting information submitted will be used to determine the applications selected for further development and funding. After completing the review, the approval official will normally select those eligible applications with the highest priority scores for further processing. When authorizing the development of an application for funding, the following will be considered:

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- (1) Funds available in State allocation;
- (2) Anticipated allocation of funds for the next fiscal year; and
- (3) Time necessary for applicant to complete the application.

(b) Lower scoring projects.

(1) In cases where preliminary cost estimates indicate that an eligible, high scoring application is unfeasible or would require an amount of funding from RUS that exceeds either 25 percent of a State's current annual allocation or an amount greater than that remaining in the State's allocation, the approval official may instead select the next lower scoring application for further processing provided the high scoring applicant is notified of this action and given an opportunity to revise the proposal and resubmit it.

(2) If it is found that there is no effective way to reduce costs or no other funding sources, the approval official, after consultation with applicant, may submit a request for an additional allocation of funds for the proposed project to the National Office. The request should be submitted during the fiscal year in which obligation is anticipated. Such request will be considered along with all others on hand. A written justification must be prepared and placed in the project file.

§1780.37 Applications determined ineligible.

If at any time an application is determined ineligible, the processing office will notify the applicant in writing of the reasons. The notification to the applicant will state that an appeal of this decision may be made by the applicant under 7 CFR Part 11.

§1780.38 [Reserved]

§1780.39 Application processing.

(a) Processing conference. Before starting to assemble the full application, the applicant should arrange through the processing office an application conference to provide a basis for orderly application assembly. The processing office will explain program requirements, public information requirements and provide guidance on preparation of items necessary for approval.

(b) Professional services and contracts related to the facility. Fees provided for in contracts or agreements shall be reasonable. The Agency shall consider fees to be reasonable if they are not in excess of those ordinarily charged by the profession as a whole for similar work when RUS financing is not involved. Applicants will be responsible for providing the services necessary to plan projects including design of facilities, environmental review and documentation requirements, preparation of cost and income estimates, development of proposals for organization and financing, and overall operation and maintenance of the facility. Applicants should negotiate for procurement of professional services, whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiations of fair and reasonable compensation. Contracts or other forms of agreement between the applicant and its professional and technical representatives are required and are subject to RUS concurrence. **[Revision 1, 12/11/98]**

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(1) Engineering and architectural services.

(i) Applicants shall publicly announce all requirements for engineering and architectural services, and negotiate contracts for engineering and architectural services on the basis of demonstrated competence and qualifications for the type of professional services required and at a fair and reasonable price.

(ii) When project design services are procured separately, the selection of the engineer or architect shall be done by requesting qualification-based proposals and in accordance with this section.

(iii) Applicants may procure engineering and architectural services in accordance with applicable State statutes or local requirements provided the State Director determines that such procurement meets the intent of this section.

(2) Other professional services. Professional services of the following may be necessary: Attorney, bond counsel, accountant, auditor, appraiser, environmental professionals, and financial advisory or fiscal agent (if desired by applicant). Guidance on entering into an agreement for legal services is available from the Agency.

(3) Bond counsel. Unless otherwise provided by subpart D of this part, public bodies are required to obtain the service of recognized bond counsel in the preparation of evidence of indebtedness.

(4) Contracts for other services. Contracts or other forms of agreements for other services including management, operation, and maintenance will be developed by the applicant and presented to the Agency for review and concurrence. Guidance on entering into a management agreement is available from the Agency.

(c) User estimates. Applicants dependent on users fees for debt payment or operation and maintenance expenses shall base their income and expense forecast on realistic user estimates. For users presently not receiving service, consideration must be given to the following:

(1) An estimated number of maximum users should not be used when setting user fees and rates since it may be several years before all residents will need service by the system. In establishing rates a realistic number of users should be employed.

(2) New user cash contributions. The amount of cash contributions required will be set by the applicant and concurred in by the approval official. Contributions should be an amount high enough to indicate sincere interest on the part of the potential user, but not so high as to preclude service to low income families. Contributions ordinarily should be an amount approximating one year's minimum user fee, and shall be paid in full before loan closing or commencement of construction, whichever occurs first. Once economic feasibility is ascertained based on a demonstration of potential user cash contributions, the contribution, membership fee or other fees that may be imposed are not a loan requirement under this section. A new user cash contribution is not required when:

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(i) The Agency determines that the potential users as a whole in the applicant's service area cannot make cash contributions; or

(ii) State statutes or local ordinances require mandatory use of the system and the applicant or legal entity having such authority agrees in writing to enforce such statutes, or ordinances.

(3) An enforceable user agreement with a penalty clause is required (RUS Bulletin 1780-9 can be used) except:

(i) For users presently receiving service; or

(ii) Where mandatory use of the system is required.

(4) Individual vacant property owners will not be considered when determining project feasibility unless:

(i) The owner has plans to develop the property in a reasonable period of time and become a user of the facility; and

(ii) The owner agrees in writing to make a monthly payment at least equal to the proportionate share of debt service attributable to the vacant property until the property is developed and the facility is utilized on a regular basis. A bond or escrowed security deposit must be provided to guarantee this monthly payment and to guarantee an amount at least equal to the owner's proportionate share of construction costs. If a bond is provided, it must be executed by a surety company that appears on the Treasury Department's most current list (Circular 570, as amended) and be authorized to transact business in the State where the project is located. The guarantee shall be payable jointly to the borrower and the United States of America.

(5) Applicants must provide a positive program to encourage connection by all users as soon as service is available. The program will be available for review and concurrence by the processing office before loan closing or commencement of construction, whichever occurs first. Such a program shall include:

(i) An aggressive information program to be carried out during the construction period. The applicant should send written notification to all signed users in advance of the date service will be available, stating the date users will be expected to have their connections completed, and the date user charges will begin;

(ii) Positive steps to assure that installation services will be available. These may be provided by the contractor installing the system, local plumbing companies, or local contractors;

(iii) Aggressive action to see that all signed users can finance their connections.

(d) Interim financing. For all loans exceeding \$500,000, where funds can be borrowed at reasonable interest rates on an interim basis from commercial sources for the construction period, such interim financing may be obtained so as to preclude the necessity for multiple advances of RUS loan funds. However, the approval official may make an exception when interim financing is cost prohibitive or unavailable. Guidance on informing the private lender of RUS's commitment is available from the Agency. When interim commercial financing is used, the application will be processed, including obtaining construction bids, to the stage where the RUS loan would normally be closed, that is immediately prior to the start of construction. The RUS loan should be closed as soon as possible after the disbursement of all interim funds.

(e) Reserve requirements. Provision for the accumulation of necessary reserves over a reasonable period of time will be included in the loan documents.

(1) General obligation or special assessment bonds. Ordinarily, the requirements for reserves will be considered to have been met if general obligation or other bonds which pledge the full faith and credit of the political subdivision are used, or special assessment bonds are used, and if such bonds provide for the annual collection of sufficient taxes or assessments to cover debt service.

(2) Other than general obligation or special assessment bonds. Each borrower will be required to establish and maintain reserves sufficient to assure that loan installments will be paid on time, for emergency maintenance, for extensions to facilities, and for replacement of short-lived assets which have a useful life significantly less than the repayment period of the loan. Borrowers issuing bonds or other evidences of debt pledging facility revenues as security will plan their debt reserve to provide for at least one average annual loan installment. The debt reserve will accumulate at the rate of one-tenth of an average annual loan installment each year unless prohibited by state law. **[Revision 2, 06/04/99]**

(f) Membership authorization. For organizations other than public bodies, the membership will authorize the project and its financing. Form RD 1942-8, "Resolution of Members or Stockholders," may be used for this authorization. The approval official may accept RUS Bulletin 1780-28, "Loan Resolution Security Agreement," without such membership authorization when State statutes and the organization's charter and bylaws do not require such authorization; and **[Revision 2, 06/04/99]**

(1) The organization is well established and is operating with a sound financial base; or

(2) The members of the organization have all signed an enforceable user agreement with a penalty clause and have made the required meaningful user cash contribution.

(g) Insurance. The purpose of RUS's insurance requirements is to protect the government's financial interest based on the facility financed with loan funds. It is the responsibility of the applicant and not that of RUS to assure that adequate insurance and fidelity or employee dishonesty bond coverage is maintained. The requirements below apply to all types of coverage determined necessary. The approval official may grant exceptions to normal requirements when appropriate justification is provided establishing that it is in the best interest of the applicant and will not adversely affect the government's interest.

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(1) Insurance requirements proposed by the applicant will be accepted if the processing office determines that proposed coverage is adequate to protect the government's financial interest. Applicants are encouraged to have their attorney, consulting engineer, and/or insurance provider(s) review proposed types and amounts of coverage, including any deductible provisions.

(2) The use of deductibles may be allowed by RUS providing the applicant has financial resources which would likely be adequate to cover potential claims requiring payment of the deductible.

(3) Fidelity or employee dishonesty bonds. Applicants will provide coverage for all persons who have access to funds, including persons working under a contract or management agreement. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees. An exception may be granted by the approval official when funds relating to the facility financed are handled by another entity and it is determined that the entity has adequate coverage or the government's interest would otherwise be adequately protected. The amount of coverage required by RUS will normally approximate the total annual debt service requirements for the RUS loans.

(4) Property insurance. Fire and extended coverage will normally be maintained on all structures except as noted below. Ordinarily, RUS should be listed as mortgagee on the policy when RUS has a lien on the property. Normally, major items of equipment or machinery located in the insured structures must also be covered. Exceptions:

(i) Reservoirs, pipelines and other structures if such structures are not normally insured;

(ii) Subsurface lift stations except for the value of electrical and pumping equipment therein.

(5) General liability insurance, including vehicular coverage.

(6) Flood insurance required for facilities located in special flood- and mudslide-prone areas.

(7) Worker's compensation. The borrower will carry worker's compensation insurance for employees in accordance with State laws.

(h) [Removed and Reserved] **[Revision 1, 12/11/98]**

(i) The processing office will assure that appropriate forms and documents listed in RUS Bulletin 1780-6 are complete. Letters of conditions will not be issued unless funds are available.

§1780.40 [Reserved]

Revision 1

§1780.41 Loan or grant approval.

(a) The processing office will submit the following to the approval official:

- (1) Form RD 1942-45, "Project Summary";
- (2) Form RD 442-7, "Operating Budget";
- (3) Form RD 442-3, "Balance Sheet" or a financial statement or audit that includes a balance sheet;
- (4) Form RD 442-14, "Association Project Fund Analysis";
- (5) Letter of Conditions;
- (6) Form RD 1942-46, "Letter of Intent to Meet Conditions";
- (7) Form RD 1940-1, "Request for Obligation of Funds";
- (8) Completed environmental review documents including copies of public notices and appropriate proof of publication, if applicable; and
[Revised, 12/11/98]
- (9) Grant determination, if applicable.

(b) Approval and applicant notification will be accomplished by mailing to the applicant on the obligation date a copy of Form RD 1940-1. The date the applicant is notified is also the date the interest rate at loan approval is established.

§1780.42 Transfer of obligations.

An obligation of funds established for an applicant may be transferred to a different (substituted) applicant provided:

- (a) The substituted applicant is eligible and has the authority to receive the assistance approved for the original applicant; and
- (b) The need, purpose(s) and scope of the project for which RUS funds will be used remain substantially unchanged.

§1780.43 [Reserved]

§1780.44 Actions prior to loan or grant closing or start of construction, whichever occurs first.

- (a) Applicants must provide evidence of adequate insurance and fidelity or employee dishonesty bond coverage.
- (b) Verification of users and other funds. In connection with a project that involves new users and will be secured by a pledge of user fees or revenues, the processing office will authenticate the number of users. Ordinarily each signed user agreement will be reviewed and checked for evidence of cash contributions. If during the review any indication is received that all signed users may not connect to the system, there will be such additional investigation made as deemed necessary to determine the number of users who will connect to the system.
- (c) Initial compliance review. An initial compliance review should be completed under subpart E of part 1901 of this title.
- (d) Applicant contribution. An applicant contributing funds toward the project cost shall deposit these funds in its project account before start of construction. Project costs paid with applicant funds prior to the required deposit time shall be appropriately accounted for.
- (e) Excess RUS loan and grant funds. If there is a significant reduction in project cost, the applicant's funding needs will be reassessed. Decreases in RUS funds will be based on revised project costs and current number of users, however, other factors including RUS regulations used at the time of loan or grant approval will remain the same. Obligated loan or grant funds not needed to complete the proposed project will be deobligated. Any reduction will be applied to grant funds first. In such cases, applicable forms, the letter of conditions, and other items will be revised.
- (f) Evidence of and disbursement of other funds. Applicants expecting funds from other sources for use in completing projects being partially financed with RUS funds will present evidence of the commitment of these funds from such other sources. An agreement should be reached with all funding sources on how funds are to be disbursed before the start of construction. RUS funds will not be used to pre-finance funds committed to the project from other sources.
- (g) Acquisition of land, easements, water rights, and existing facilities. Applicants are responsible for acquisition of all property rights necessary for the project and will determine that prices paid are reasonable and fair. RUS may require an appraisal by an independent appraiser or Agency employee.
 - (1) Rights-of-way and easements. Applicants will obtain valid, continuous and adequate rights-of-way and easements needed for the construction, operation, and maintenance of the facility.
 - (i) The applicant must provide a legal opinion relative to the title to rights-of-way and easements. Form RD 442-22, "Opinion of Counsel Relative to Rights-of-Way," may be used. When a site is for major structures such as a reservoir or pumping station and the applicant is able to obtain only a right-of-way or easement on such a site rather than a fee simple title, the applicant will furnish a title report thereon by the applicant's attorney showing ownership of the land and all mortgages or other lien defects, restrictions, or encumbrances, if any.

(ii) For user connections funded by RUS, applicants will obtain adequate rights to construct and maintain the connection line or other facilities located on the user's property. This right may be obtained through formal easement or user agreements.

(2) Title for land or existing facilities. Title to land essential to the successful operation of facilities or title to facilities being purchased, must not contain any restrictions that will adversely affect the suitability, successful operation, security value, or transferability of the facility. Preliminary and final title opinions must be provided by the applicant's attorney. The opinions must be in sufficient detail to assess marketability of the property. Form RD 1927-9, "Preliminary Title Opinion," and Form RD 1927-10, "Final Title Opinion," may be used to provide the required title opinions.

(i) In lieu of receiving title opinions from the applicant's attorney, the applicant may use a title insurance company. If a title insurance company is used, the applicant must provide the Agency a title insurance binder, disclosing all title defects or restrictions, and include a commitment to issue a title insurance policy. The policy should be in an amount at least equal to the market value of the property as improved. The title insurance binder and commitment should be provided to the Agency prior to requesting closing instructions. The Agency will be provided a title insurance policy which will insure RUS's interest in the property without any title defects or restrictions which have not been waived by the Agency.

(ii) The approval official may waive title defects or restrictions, such as utility easements, that do not adversely affect the suitability, successful operation, security value, or transferability of the facility.

(3) Water rights. The following will be furnished as applicable:

(i) A statement by the applicant's attorney regarding the nature of the water rights owned or to be acquired by the applicant (such as conveyance of title, appropriation and decree, application and permit, public notice and appropriation and use).

(ii) A copy of a contract with another company or municipality to supply water; or stock certificates in another company which represents the right to receive water.

(4) Lease agreements. Where the right of use or control of real property not owned by the applicant is essential to the successful operation of the facility during the life of the loan, such right will be evidenced by written agreements or contracts between the owner of the property and the applicant. Lease agreements shall not contain provisions for restricted use of the site of facility, forfeiture or summary cancellation clauses. Lease agreements shall provide for the right to transfer, encumber, assign and sub-lease without restriction. Lease agreements will ordinarily be written for a term at least equal to the term of the loan. Such lease contracts or agreements will be approved by the approval official with the advice and counsel of OGC, as necessary.

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(h) Obtaining loan closing instructions. The information required by OGC will be transmitted to OGC with request for closing instructions. Upon receipt of closing instructions, the processing office will discuss with the applicant and its engineer, attorney, and other appropriate representatives, the requirements contained therein and any actions necessary to proceed with closing. State program officials have the option to work with OGC to obtain waivers for closing instructions in certain cases. Closing instructions are not required for grants.

§1780.45 Loan and grant closing and delivery of funds.

(a) Loan closing. Notes and bonds will be completed on the date of loan closing except for the entry of subsequent RUS multiple advances where applicable. The amount of each note will be in multiples of not less than \$100. The amount of each bond will ordinarily be in multiples of not less than \$1,000.

(1) Form RD 440-22, "Promissory Note (Association or Organization)," will ordinarily be used for loans to nonpublic bodies.

(2) RUS Bulletins 1780-27, "Loan Resolution (Public Bodies)," or 1780-28, "Loan Resolution Security Agreement," will be adopted by public and other-than-public bodies. These resolutions supplement other provisions in this part. **[Revision 2, 06/04/99]**

(3) Subpart D of this part contains instructions for preparation of notes and bonds evidencing indebtedness of public bodies.

(b) Loan disbursement.

(1) Multiple advances. Multiple advances will be used only for loans in excess of \$100,000. Advances will be made only as needed to cover disbursements required by the borrower over a 30-day period.

(i) Subpart D of this part contains instructions for making multiple advances to public bodies.

(ii) Advances will be requested by the borrower in writing. The request should be in sufficient amounts to pay cost of construction, rights-of-way and land, legal, engineering, interest, and other expenses as needed. The borrower may use Form RD 440-11, "Estimate of Funds Needed for 30 Day Period Commencing XXX," to show the amount of funds needed during the 30-day period.

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(2) RUS loan funds obligated for a specific purpose, such as the paying of interest, but not needed at the time of loan closing will remain in the Finance Office until needed unless State statutes require all funds to be delivered to the borrower at the time of closing. Loan funds may be advanced to prepay costs under §1780.9(e)(2)(iv). If all funds must be delivered to the borrower at the time of closing to comply with State statutes, funds not needed at loan closing will be handled as follows:

- (i) Deposited in an appropriate borrower account, such as debt service or construction accounts; or
- (ii) Deposited in a joint bank account under paragraph (e)(3) of this section.

(c) Grant closing. RUS Bulletin 1780-12 "Water or Waste System Grant Agreement" of this part will be completed and executed in accordance with the requirements of grant approval. The grant will be considered closed when RUS Bulletin 1780-12 has been properly executed. Processing or approval officials are authorized to sign the grant agreement on behalf of RUS. For grants that supplement RUS loan funds, the grant should be closed simultaneously with the closing of the loan. However, when grant funds will be disbursed before loan closing, as provided in paragraph (d)(1) of this section, the grant will be closed not later than the delivery date of the first advance of grant funds.

(d) Grant disbursements. RUS policy is not to disburse grant funds from the Treasury until they are actually needed by the applicant. Applicant funds will be disbursed before the disbursement of any RUS grant funds. RUS loan funds will be disbursed before the disbursement of any RUS grant funds except when:

- (1) Interim financing of the total estimated amount of loan funds needed during construction is arranged; and
- (2) All interim funds have been disbursed; and
- (3) RUS grant funds are needed before the RUS loan can be closed.

(e) Use and accountability of funds.

(1) Arrangements will be agreed upon for the prior concurrence by the Agency of the bills or vouchers upon which warrants will be drawn. Form RD 402-2, "Statement of Deposits and Withdrawals," or similar form will be used by the Agency to monitor funds. Periodic reviews of these accounts shall be made by the Agency.

(2) Pledge of collateral for grants to nonprofit organizations. Grant funds must be deposited in a bank with Federal Deposit Insurance Corporation (FDIC) insurance coverage. Also, if the balance in the account containing grant funds exceeds the FDIC insurance coverage, the excess amount must be collaterally secured. The pledge of collateral for the excess will be in accordance with Treasury Circular 176.

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(3) Joint RUS/borrower bank account. RUS funds and any funds furnished by the borrower including contributions to purchase major items of equipment, machinery, and furnishings will be deposited in a joint RUS/borrower bank account if determined necessary by the approval official. When RUS has a Memorandum of Understanding with another agency that provides for the use of joint RUS/borrower accounts, or when RUS is the primary source of funds for a project and has determined that the use of a joint RUS/borrower bank account is necessary, project funds from other sources may also be deposited in the joint bank account. RUS shall not be accountable to the source of the other funds nor shall RUS undertake responsibility to administer the funding program of the other entity. Joint RUS/borrower bank accounts should not be used for funds advanced by an interim lender. When funds exceeds the FDIC insurance coverage, the excess must have a pledge of collateral in accordance with Treasury Circular 176.

(4) Payment for project costs. Project costs will be monitored by the RUS processing office. Invoices will be approved by the borrower and their engineer, as appropriate, and submitted to the processing office for concurrence. The review and acceptance of project costs, including construction pay estimates, by RUS does not attest to the correctness of the amounts, the quantities shown or that the work has been performed under the terms of the agreements or contracts.

(f) Use of remaining funds. Funds remaining after all costs incident to the basic project have been paid or provided for will not include applicant contributions. Funds remaining, may be considered in direct proportion to the amounts obtained from each source. Remaining funds will be handled as follows:

(1) Remaining funds may be used for eligible loan or grant purposes, provided the use will not result in major changes to the facility(s) and the purpose of the loan and grant remains the same;

(2) RUS loan funds that are not needed will be applied as an extra payment on the RUS indebtedness unless other disposition is required by the bond ordinance, resolution, or State statute; and

(3) Grant funds not expended under paragraph (f)(1) of this section will be canceled. Prior to the actual cancellation, the borrower, its attorney and its engineer will be notified of RUS's intent to cancel the remaining funds. The applicant will be given appropriate appeal rights.

(g) Post review of loan closing. In order to determine that the loan has been properly closed the loan docket will be reviewed by OGC. The State program official has the option to consult with OGC to obtain waivers of this review.

§1780.46 [Reserved]

§1780.47 Borrower accounting methods, management reporting and audits.

- (a) Borrowers are required to provide RUS an annual audit or financial statements.
- (b) Method of accounting and preparation of financial statements. Annual organization-wide financial statements must be prepared on the accrual basis of accounting, in accordance with generally accepted accounting principles (GAAP), unless State statutes or regulatory agencies provide otherwise, or an exception is granted by the Agency. An organization may maintain its accounting records on a basis other than accrual accounting, and make the necessary adjustments so that annual financial statements are presented on the accrual basis.
- (c) Record retention. Each borrower shall retain all records, books, and supporting material for 3 years after the issuance of the audit or management reports. Upon request, this material will be made available to RUS, Office of the Inspector General (OIG), United States Department of Agriculture (USDA), the Comptroller General, or to their assignees.
- (d) Audits. All audits are to be performed in accordance with the latest revision of the generally accepted government auditing standards (GAGAS), developed by the Comptroller General of the United States. In addition, the audits are also to be performed in accordance with various Office of Management and Budget (OMB) Circulars. The type of audit each borrower is required to submit will be designated by RUS. Further guidance on preparing an acceptable audit can be obtained from RUS. It is not intended that audits required by this part be separate and apart from audits performed in accordance with State and local laws. To the extent feasible, the audit work should be done in conjunction with those audits. Audits shall be annual unless otherwise prohibited and supplied to the processing office as soon as possible but in no event later than 150 days following the period covered by the audit. OMB Circulars are available in any USDA/RUS office.
- (e) Borrowers exempt from audits. All borrowers who are exempt from audits, will, within 60 days following the end of each fiscal year, furnish the RUS with annual financial statements, consisting of a verification of the organization's balance sheet and statement of income and expense by an appropriate official of the organization. Forms RD 442-2, "Statement of Budget, Income and Equity," and 442-3 may be used.
- (f) Management reports. These reports will furnish management with a means of evaluating prior decisions and serve as a basis for planning future operations and financial strategies. In those cases where revenues from multiple sources are pledged as security for an RUS loan, two reports will be required; one for the project being financed by RUS and one combining the entire operation of the borrower. In those cases where RUS loans are secured by general obligation bonds or assessments and the borrower combines revenues from all sources, one management report combining all such revenues is acceptable. The following management data will be submitted by the borrower to the processing office. These reports at a minimum will include a balance sheet and income and expense statement.
- (1) Quarterly reports. A quarterly management report will be required for the first year for new borrowers and for all borrowers experiencing financial or management problems for one year from the date problems were noted. If the borrower's account is current at the end of the year, the processing office may waive the required reports.

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(2) Annual management reports. Prior to the beginning of each fiscal year the following will be submitted to the processing office. (If Form RD 442-2 is used as the annual management report, enter data in column three only of Schedule 1, and complete all of Schedule 2.)

(i) Two copies of the management reports and proposed "Annual Budget".

(ii) Financial information may be reported on Form RD 442-2 which includes Schedule 1, "Statement of Budget, Income and Equity" and Schedule 2, "Projected Cash Flow" or information in similar format.

(iii) A copy of the rate schedule in effect at the time of submission.

(g) Substitute for management reports. When RUS loans are secured by the general obligation of the public body or tax assessments which total 100 percent of the debt service requirements, the State program official may authorize an annual audit to substitute for other management reports if the audit is received within 150 days following the period covered by the audit.

§1780.48 Regional commission grants.

Grants are sometimes made by regional commissions for projects eligible for RUS assistance. RUS has agreed to administer such funds in a manner similar to administering RUS assistance.

(a) When RUS has funds in the project, no charge will be made for administering regional commission funds.

(b) When RUS has no loan or grant funds in the project, an administrative charge will be made pursuant to the Economy Act of 1932 (31 U.C.S. 1535). A fee of 5 percent of the first \$100,000 of a regional commission grant and 1 percent of any amount over \$100,000 will be paid to RUS by the commission. **[Revision 2, 06/04/99]**

(1) Appalachian Regional Commission (ARC). RUS Bulletin 1780-23 will be followed in determining the responsibilities of RUS. The ARC Federal Co-chairman and the State program official will provide each other with the necessary notification and certification.

(2) Other regional commissions. Title V of the Public Works and Economic Development Act of 1965 (42 U.S.C. 3121 et seq.) authorizes other commissions similar to ARC. RUS Bulletin 1780-23 of this part will be used to develop a separate project management agreement between RUS and the commission for each project. The agreement should be prepared by the State program official as soon as notification is received that a commission grant will be made and the amount is confirmed. Regional commission grants should be obligated as soon as possible in accordance with §1780.41, except that the announcement procedure referred to in RUS Staff Instruction 1780-2 is not applicable. Regional commission grants will be disbursed from the Finance Office in the same manner as RUS funds.

Revision 2

§1780.49 Rural or Native Alaskan villages.

(a) General.

- (1) This section contains regulations for providing grants to remedy the dire sanitation conditions in rural Alaskan villages using funds specifically made available for this purpose.
- (2) Unless specifically modified by this section, grants will be made, processed, and serviced in accordance with this subpart.

(b) Definitions.

- (1) Dire sanitation condition. For the purpose of this section a dire sanitation condition exists where:
 - (i) Recurring instances of a waterborne communicable disease has been documented; or
 - (ii) No community-wide water and sewer system exists and individual residents must haul water to or human waste from their homes and/or use pit privies.
- (2) Rural or Native Alaskan village. A rural or Native Alaskan community which meets the definition of a village under State statutes and does not have a population in excess of 10,000 inhabitants, according to the latest decennial Census of the United States.

(c) Eligibility.

- (1) The applicant must be a rural or Native Alaskan village.
- (2) The median household income of the village cannot exceed 110 percent of the statewide nonmetropolitan household income.
- (3) A dire sanitation condition must exist in the village.
- (4) The applicant must obtain 25 percent of project development costs from State or local contributions. The local contribution can be from loan funds authorized under this part.
[Revision 2, 06/04/99]

(d) Grant amount. Grants will be made for up to 75 percent of the project development costs.
[Revision 2, 06/04/99]

(e) Use of funds. Grant funds can be used to pay reasonable costs associated with providing potable water or waste disposal services to residents of rural or Native Alaskan villages.

(f) Construction.

- (1) If the State of Alaska is contributing to the project costs, the project does not have to meet the construction requirements of this subpart.

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(2) If a loan is made in accordance with this part for part of the local contribution, all of the requirements of this part apply.

§§1780.50 - 1780.52 [Reserved]

Subpart C - Planning, Designing, Bidding, Contracting, Constructing and Inspections
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Subpart C - Planning, Designing, Bidding, Contracting, Constructing and Inspections

§1780.53 General.

This subpart is specifically designed for use by owners including the professional or technical consultants or agents who provide assistance and services such as engineering, environmental, inspection, financial, legal or other services related to planning, designing, bidding, contracting, and constructing water and waste disposal facilities. These procedures do not relieve the owner of the contractual obligations that arise from the procurement of these services. For this subpart, an owner is defined as an applicant, borrower, or grantee.

§1780.54 Technical services.

Owners are responsible for providing the engineering, architect and environmental services necessary for planning, designing, bidding, contracting, inspecting, and constructing their facilities. Services may be provided by the owner's "in house" engineer or architect or through contract, subject to Agency concurrence. Engineers and architects must be licensed in the State where the facility is to be constructed.

§1780.55 Preliminary engineering reports and Environmental Reports.

Preliminary engineering reports (PERs) must conform to customary professional standards. PER guidelines for water, sanitary sewer, solid waste, and storm sewer are available from the Agency. Environmental Reports must meet the policies and intent of the National Environmental Policy Act and RUS procedures. Guidelines for preparing Environmental Reports are available in RUS Bulletin 1794A-602. **[Revision 2, 06/04/99]**

§1780.56 [Reserved]

§1780.57 Design policies.

Facilities financed by the Agency will be designed and constructed in accordance with sound engineering practices, and must meet the requirements of Federal, State and local agencies.

(a) Environmental review. Facilities financed by the Agency must undergo an environmental impact analysis in accordance with the National Environmental Policy Act and RUS procedures. Facility planning and design must not only be responsive to the owner's needs but must consider the environmental consequences of the proposed project. Facility design shall incorporate and integrate, where practicable, mitigation measures that avoid or minimize adverse environmental impacts. Environmental reviews serve as a means of assessing environmental impacts of project proposals, rather than justifying decisions already made. Applicants may not take any action on a project proposal that will have an adverse environmental impact or limit the choice of reasonable project alternatives being reviewed prior to the completion of the Agency's environmental review. **[Revision 1, 12/11/98]**

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- (b) Architectural barriers. All facilities intended for or accessible to the public or in which physically handicapped persons may be employed must be developed in compliance with the Architectural Barriers Act of 1968 (42 U.S.C 4151 et seq.) as implemented by 41 CFR 101-19.6, section 504 of the Rehabilitation Act of 1973 (42 U.S.C. 1471 et seq.) as implemented by 7 CFR parts 15 and 15b, and Titles II and III of the Americans with Disabilities Act of 1990.
- (c) Energy/environment. Facility design should consider cost effective energy-efficient and environmentally-sound products and services.
- (d) Fire protection. Water facilities should have sufficient capacity to provide reasonable fire protection to the extent practicable.
- (e) Growth capacity. Facilities should have sufficient capacity to provide for reasonable growth to the extent practicable.
- (f) Water conservation. Owners are encouraged, when economically feasible, to incorporate water conservation practices into a facility's design. For existing water systems, evidence must be provided showing that the distribution system water losses do not exceed reasonable levels.
- (g) Conformity with state drinking water standards. No funds shall be made available under this part for a water system unless the Agency determines that the water system will make significant progress toward meeting the standards established under title XIV of the Public Health Service Act (commonly known as the 'Safe Drinking Water Act') (42 U.S.C. 300f et seq.).
- (h) Conformity with federal and state water pollution control standards. No funds shall be made available under this part for a water treatment discharge or waste disposal system unless the Agency determines that the effluent from the system conforms with applicable Federal and State water pollution control standards.
- (i) Combined sewers. New combined sanitary and storm water sewer facilities will not be financed by the Agency. Extensions to existing combined systems can only be financed when separate systems are impractical.
- (j) Dam safety. Projects involving any artificial barrier which impounds or diverts water, or the rehabilitation or improvement of such a barrier, must comply with the provisions for dam safety as set forth in the Federal Guidelines for Dam Safety (Government Printing Office stock No. 041-001-00187-5, Superintendent of Documents, Attn: New Orders, P.O. Box 371954, Pittsburgh, PA 15250-7954) as prepared by the Federal Coordinating Council for Science, Engineering and Technology.
- (k) Pipe. All pipe used shall meet current American Society for Testing Materials (ASTM) or American Water Works Association (AWWA) standards.
- (l) Water system testing. For new water systems or extensions to existing water systems, leakage shall not exceed limits set by either ASTM or AWWA whichever is the more stringent.

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(m) Metering devices. Water facilities financed by the Agency will have metering devices for each connection. An exception to this requirement may be granted by the State program official when the owner demonstrates that installation of metering devices would be a significant economic detriment and that environmental considerations would not be adversely affected by not installing such devices. Sanitary sewer projects should incorporate water system metering devices whenever practicable.

(n) Economical service. The facility's design must provide the most economical service practicable.

(o) Seismic safety. All new structures, fully or partially enclosed, used or intended for sheltering persons or property will be designed with appropriate seismic safety provisions in compliance with the Earthquake Hazards Reduction Act of 1977 (42 U.S.C. 7701 et seq.), and Executive Order 12699, Seismic Safety of Federal and Federally Assisted or Regulated New Building Construction (3 CFR 1990 Comp., p. 269). Designs of components essential for system operation and substantial rehabilitation of structures that are used for sheltering persons or property should incorporate seismic safety provisions to the extent practicable. RUS implementing regulations for seismic safety are in 7 CFR part 1972, subpart C. ***[Added, revision 2, 06/04/99]***

§§1780.58 - 1780.60 [Reserved]

§1780.61 Construction contracts.

Contract documents must be sufficiently descriptive and legally binding in order to accomplish the work as economically and expeditiously as possible.

(a) Standard construction contract documents. If the construction contract documents utilized are not in the format previously approved by the Agency, OGC's review of the construction contract documents will be obtained prior to their use.

(b) Contract review and concurrence. The owner's attorney will review the executed contract documents, including performance and payment bonds, and will certify that they are adequate, and that the persons executing these documents have been properly authorized to do so. The contract documents, engineer's recommendation for award, and bid tabulation sheets will be forwarded to the Agency for concurrence prior to awarding the contract. All contracts will contain a provision that they are not effective until they have been concurred in by the Agency. The State program official or designee is responsible for concurring in construction contracts with the legal advice and guidance of the OGC when necessary.

§1780.62 Utility purchase contracts.

Applicants proposing to purchase water or other utility service from private or public sources shall have written contracts for supply or service which are reviewed and concurred in by the Agency. To the extent practical, the Agency review and concurrence of such contracts should take place prior to their execution by the owner. OGC advice and guidance may be requested. Form RD 442-30, "Water Purchase Contract," may be used when appropriate. If the Agency loan will be repaid from system revenues, the contract will be pledged to the Agency as part of the security for the loan. Such contracts will:

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- (a) Include a commitment by the supplier to furnish, at a specified point, an adequate quantity of water or other service and provide that, in case of shortages, all of the supplier's users will proportionately share shortages.
- (b) Set out the ownership and maintenance responsibilities of the respective parties including the master meter if a meter is installed at the point of delivery.
- (c) Specify the initial rates and provide a type of escalator clause which will permit rates for the association to be raised or lowered proportionately as certain specified rates for the supplier's regular customers are raised or lowered. Provisions may be made for altering rates in accordance with the decisions of the appropriate State agency which may have regulatory authority.
- (d) Cover period of time which is at least equal to the repayment period of the loan. State program officials may approve contracts for shorter periods of time if the supplier cannot legally contract for such period, or if the owner and supplier find it impossible or impractical to negotiate a contract for the maximum period permissible under State law, provided:
 - (1) The supplier is subject to regulations of the Federal Energy Regulatory Commission or other Federal or State agency whose jurisdiction can be expected to prevent unwarranted curtailment of supply; or
 - (2) The contract contains adequate provisions for renewal; or
 - (3) A determination is made that in the event the contract is terminated, there are or will be other adequate sources available to the owner that can feasibly be developed or purchased.
- (e) Set out in detail the amount of connection or demand charges, if any, to be made by the supplier as a condition to making the service available to the owner. However, the payment of such charges from loan funds shall not be approved unless the Agency determines that it is more feasible and economical for the owner to pay such a connection charge than it is for the owner to provide the necessary supply by other means.
- (f) Provide for a pledge of the contract to the Agency as part of the security for the loan.
- (g) Not contain provisions for:
 - (1) Construction of facilities which will be owned by the supplier. This does not preclude the use of money paid as a connection charge for construction to be done by the supplier.
 - (2) Options for the future sale or transfer. This does not preclude an agreement recognizing that the supplier and owner may at some future date agree to a sale of all or a portion of the facility.
- (h) If it is impossible to obtain a firm commitment for either an adequate quantity or sharing shortages proportionately, a contract may be executed and concurred in provided adequate evidence is furnished to enable the Agency to make a determination that the supplier has adequate supply and/or treatment facilities to furnish its other users and the applicant for the foreseeable future; and:

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- (1) The supplier is subject to regulations of the Federal Energy Regulatory Commission or other Federal or State agency whose jurisdiction can be expected to prevent unwarranted curtailment of supply; or
- (2) A suitable alternative supply could be arranged within the repayment ability of the borrower if it should become necessary; or
- (3) Concurrence in the proposed contract is obtained from the National Office.

§1780.63 Sewage treatment and bulk water sales contracts.

Owners entering into agreements with private or public parties to treat sewage or supply bulk water shall have written contracts for such service and all such contracts shall be subject to the Agency concurrence. Section 1780.62 should be used as a guide to prepare such contracts.

§§1780.64 - 1780.66 [Reserved]

§1780.67 Performing construction.

Owners are encouraged to accomplish construction through contracts with qualified contractors. Owners may accomplish construction by using their own personnel and equipment provided the owners possess the necessary skills, abilities and resources to perform the work and provided a licensed engineer prepares design drawings and specifications and inspects construction and furnishes inspection reports as required by §1780.76. Inspection services may be provided by individuals as approved by the State staff engineer. Payments for construction will be handled under §1780.76(e).

§1780.68 Owner's contractual responsibility.

This part does not relieve the owner of any responsibilities under its contract. The owner is responsible for the settlement of all contractual and administrative issues arising out of procurement entered into in support of a loan or grant. These include, but are not limited to: source evaluation, protests, disputes, and claims. Matters concerning violation of laws are to be referred to the applicable local, State, or Federal authority.

§1780.69 [Reserved]

§1780.70 Owner's procurement regulations.

Owner's procurement requirements must comply with the following standards:

- (a) Code of conduct. Owners shall maintain a written code or standards of conduct which shall govern the performance of their officers, employees or agents engaged in the award and administration of contracts supported by Agency funds. No employee, officer or agent of the owner shall participate in the selection, award, or administration of a contract supported by Agency funds if a conflict of interest, real or apparent, would be involved. Examples of such conflicts would arise when: the employee, officer or agent; any member of their immediate family; their partner; or an organization which employs, or is about to employ, any of the above; has a financial or other interest in the firm selected for the award.

(1) The owner's officers, employees or agents shall neither solicit nor accept gratuities, favors or anything of monetary value from contractors, potential contractors, or parties to subagreements.

(2) To the extent permitted by State or local law or regulations, the owner's standards of conduct shall provide for penalties, sanctions, or other disciplinary actions for violations of such standards by the owner's officers, employees, agents, or by contractors or their agents.

(b) Maximum open and free competition. All procurement transactions, regardless of whether by sealed bids or by negotiation and without regard to dollar value, shall be conducted in a manner that provides maximum open and free competition. Procurement procedures shall not restrict or eliminate competition. Examples of what are considered to be restrictive of competition include, but are not limited to: placing unreasonable requirements on firms in order for them to qualify to do business; noncompetitive practices between firms; organizational conflicts of interest; and unnecessary experience and bonding requirements. In specifying materials, the owner and its consultant will consider all materials normally suitable for the project commensurate with sound engineering practices and project requirements. The Agency shall consider fully any recommendation made by the owner concerning the technical design and choice of materials to be used for a facility. If the Agency determines that a design or material, other than those that were recommended should be considered by including them in the procurement process as an acceptable design or material in the water or waste disposal facility, the Agency shall provide such owner with a comprehensive justification for such a determination. The justification will be documented in writing.

(c) Owner's review. Proposed procurement actions shall be reviewed by the owner's officials to avoid the purchase of unnecessary or duplicate items. Consideration should be given to consolidation or separation of procurement items to obtain a more economical purchase. Where appropriate, an analysis shall be made of lease versus purchase alternatives, and any other appropriate analysis to determine which approach would be the most economical. To foster greater economy and efficiency, owners are encouraged to enter into State and local intergovernmental agreements for procurement or use of common goods and services.

(d) Solicitation of offers, whether by competitive sealed bid or competitive negotiation, shall:

(1) Incorporate a clear and accurate description of the technical requirements for the material, product or service to be procured. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a "brand name or equal" description may be used to define the performance or other salient requirements of a procurement. The specific feature of the name brands which must be met by the offeror shall be clearly stated; and

(2) Clearly specify all requirements which offerors must fulfill and all other factors to be used in evaluating bids or proposals.

(e) Affirmative steps should be taken to assure that small, minority, and women businesses are utilized when possible as sources of supplies, equipment, construction and services.

(f) Contract pricing. Cost plus a percentage of cost method of contracting shall not be used.

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(g) Unacceptable bidders. The following will not be allowed to bid on, or negotiate for, a contract or subcontract related to the construction of the project:

- (1) An engineer as an individual or firm who has prepared plans and specifications or who will be responsible for monitoring the construction;
- (2) Any firm or corporation in which the owner's engineer is an officer, employee, or holds or controls a substantial interest;
- (3) The governing body's officers, employees, or agents;
- (4) Any member of the immediate family or partners in the entities referred to in paragraphs (g)(1), (g)(2) or (g)(3) of this section; or
- (5) An organization which employs, or is about to employ, any person in the entities referred to in paragraphs (g)(1), (g)(2) or (g)(3), (g)(4) of this section.

(h) Contract award. Contracts shall be made only with responsible parties possessing the potential ability to perform successfully under the terms and conditions of a proposed procurement. Consideration shall include but not be limited to matters such as integrity, record of past performance, financial and technical resources, and accessibility to other necessary resources. Contracts shall not be made with parties who are suspended or debarred by any Agency of the United States Government.

§1780.71 [Reserved]

§1780.72 Procurement methods.

Procurement shall be made by one of the following methods: Small purchase procedures; competitive sealed bids (formal advertising); competitive negotiation; or noncompetitive negotiation. Competitive sealed bids (formal advertising) is the preferred procurement method for construction contracts.

(a) Small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods that are sound and appropriate for a procurement of services, supplies or other property, costing in the aggregate not more than \$100,000. If small purchase procedures are used for a procurement, written price or rate quotations shall be requested from at least three qualified sources.

(b) Competitive sealed bids. In competitive sealed bids (formal advertising), an invitation for sealed bids is publicly advertised and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is lowest, price and other factors considered. When using this method the following shall apply:

- (1) The invitation for bids shall be publicly advertised at a sufficient time prior to the date set for opening of bids. The invitation shall comply with the requirements in §1780.70(d). Bids shall be solicited from an adequate number of qualified sources;
- (2) All bids shall be opened publicly at the time and place stated in the invitation for bids;
- (3) A firm-fixed-price contract award shall be made by written notice to that responsible bidder whose bid, conforming to the invitation for bids, is lowest. When specified in the bidding documents, factors such as discounts and transportation costs shall be considered in determining which bid is lowest; and
- (4) Any or all bids may be rejected by the owner when it is in its best interest.

(c) Competitive negotiation. In competitive negotiations, proposals are requested from a number of sources and the Request for Proposal is publicized. Negotiations are normally conducted with more than one of the sources submitting offers. Competitive negotiation may be used if conditions are not appropriate for the use of formal advertising and where discussions and bargaining with a view to reaching agreement on the technical quality, price, other terms of the proposed contract and specifications may be necessary. If competitive negotiation is used for a procurement, the following requirements shall apply:

- (1) Proposals shall be solicited from an adequate number of qualified sources to permit reasonable competition consistent with the nature and requirements of the Procurement. The Request for Proposal shall be publicized and reasonable requests by other sources to compete shall be honored to the maximum extent practicable;
- (2) The Request for Proposal shall identify all significant evaluation factors and their relative importance;
- (3) The owner shall provide mechanisms for technical evaluation of the proposals received, determination of responsible offerors for the purpose of written or oral discussions, and selection for contract award; and
- (4) Award may be made to the responsible offeror whose proposal will be most advantageous to the owner. Unsuccessful offerors should be promptly notified.

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(d) Noncompetitive negotiation. Noncompetitive negotiation is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate. Noncompetitive negotiation may be used when the award of a contract is not feasible under small purchase or competitive sealed bids. Circumstances under which a contract may be awarded by noncompetitive negotiations are limited to the following:

- (1) The item is available only from a single source; or
- (2) There exists a public exigency or emergency and the urgency for the requirement will not permit a delay incident to competitive solicitation; or
- (3) After solicitation of a number of sources, competition is determined inadequate; or
- (4) No acceptable bids have been received after formal advertising; or
- (5) The procurement is for professional services; or
- (6) The aggregate amount does not exceed \$100,000.

§1780.73 [Reserved]

§1780.74 Contracts awarded prior to applications.

Owners awarding construction or other procurement contracts prior to filing an application, must provide evidence that is satisfactory to the Agency that the contract was entered into without intent to circumvent the requirements of Agency regulations.

(a) Modifications. The contract shall be modified to conform with the provisions of this part. Where this is not possible, modifications will be made to the extent practicable and, as a minimum, the contract must comply with all State and local laws and regulations as well as statutory requirements and executive orders related to the Agency financing. When all construction is complete and it is impracticable to modify the contracts, the owner must provide the certification required by paragraph (c) of this section.

(b) Consultant's certification. Provide a certification by an engineer, licensed in the State where the facility is constructed, that any construction performed complies fully with the plans and specifications.

(c) Owner's certification. Provide a certification by the owner that the contractor has complied with applicable statutory and executive requirements related to Agency financing for construction already performed.

§1780.75 Contract provisions.

In addition to provisions required for a valid and legally binding contract, any recipient of Agency funds shall include the following contract provisions in all contracts.

(a) Remedies. Contracts other than small purchases shall contain provisions or conditions which will allow for administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate. A realistic liquidated damage provision should be included in all contracts for construction.

(b) Termination. All contracts exceeding \$10,000, shall contain suitable provisions for termination by the owner including the manner by which it will be effected and the basis for settlement. In addition, such contracts shall describe conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.

(c) Surety. In all contracts for construction or facility improvements exceeding \$100,000, the owner shall require bonds or cash deposit in escrow assuring performance and payment each in the amount of 100 percent of the contract cost. The surety will be in the form of performance bonds and payment bonds. For contracts of lesser amounts, the owner may require surety. When a surety is not provided, contractors will furnish evidence of payment in full for all materials, labor, and any other items procured under the contract. Form RD 1924-10, "Release by Claimants," and Form RD 1924-9, "Certificate of Contractor's Release," may be used for this purpose. Companies providing performance bonds and payment bonds must hold a certificate of authority as an acceptable surety on Federal bonds as listed in Treasury Circular 570 as amended and the surety must be listed as having a license to do business in the State where the facility is located.

(d) Equal employment opportunity. All contracts awarded in excess of \$10,000 by owners shall contain a provision requiring compliance with Executive Order 11246 (3 CFR, 1966 Comp., p. 339), entitled, "Equal Employment Opportunity," as amended by Executive Order 11375 (3 CFR, 1968 Comp., p. 321, and as supplemented by Department of Labor regulations 41 CFR chapter 60.

(e) Anti-kickback. All contracts for construction shall include a provision for compliance with the Copeland "Anti-Kickback" Act (18 U.S.C. 874). This Act provides that each contractor shall be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which they are otherwise entitled. The owner shall report suspected or reported violations to the Agency.

(f) Records. All negotiated contracts (except those of \$10,000 or less) awarded by owners shall include a provision to the effect that the owner, the Agency, the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any books, documents, papers, and records of the contractor which are directly pertinent to a specific Federal loan or grant program for the purpose of making audits, examinations, excerpts, and transcriptions. Owners shall require contractors to maintain all required records for 3 years after making final payment and all other pending matters are closed.

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(g) State Energy Conservation Plan. Contracts shall incorporate mandatory standards and policies relating to energy efficiency which are contained in the State energy conservation plan issued in compliance with the Energy Policy and Conservation Act (42 U.S.C. 6201).

(h) Change orders. The construction contract shall require that all contract change orders be concurred in by the Agency.

(i) Agency concurrence. All contracts must contain a provision that they shall not be effective unless and until the State program official or designee concurs in writing.

(j) Retainage. All construction contracts shall contain adequate provisions for retainage. No payments will be made that would deplete the retainage nor place in escrow any funds that are required for retainage nor invest the retainage for the benefit of the contractor. The retainage shall not be less than an amount equal to 5 percent of an approved partial payment estimate until the project is substantially complete and accepted by the owner, consulting engineer and Agency. The contract must provide that additional amounts may be retained if the job is not proceeding satisfactorily.

(k) Other compliance requirements. Contracts in excess of \$100,000 shall contain a provision which requires compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act (42 U.S.C. 1857(h)), Section 508 of the Clean Water Act (33 U.S.C. 1368), Executive Order 11738 (3 CFR, 1974 Comp., p. 209), and Environmental Protection Agency (EPA) regulations 40 CFR Part 15, which prohibit the use under non-exempt Federal contracts, grants or loans of facilities included on the EPA List of Violating Facilities. The provision shall require reporting of violations to the Agency and to the U.S. Environmental Protection Agency, Assistant Administrator for Enforcement. Solicitations and contract provisions shall include the requirements of 4 CFR 15.4 (c) as set forth in RUS Bulletin 1780-14.

§1780.76 Contract administration.

Owners shall be responsible for maintaining a contract administration system to monitor the contractors' performance and compliance with the terms, conditions, and specifications of the contracts.

(a) Preconstruction conference. Prior to beginning construction, the owner will schedule a preconstruction conference where the consulting engineer will review the planned development with the Agency, owner, resident inspector, attorney, contractor, and other interested parties. The conference will thoroughly cover applicable items included in Form RD 1924-16, "Record of Preconstruction Conference," and the discussions and agreements will be documented.

(b) Monitoring reports. The owner is required to monitor construction and provide a report to the Agency giving a full explanation under the following circumstances:

- (1) Reasons why approved construction schedules were not met;
- (2) Analysis and explanation of cost overruns and how payment is to be made for the same; and
- (3) If events occur which have a significant impact upon the project.

(c) Inspection. Full-time resident inspection is required for all construction unless a written exception is made by the Agency upon written request of the owner. Unless otherwise agreed, the resident inspector will be provided by the consulting engineer. Prior to the preconstruction conference, the consulting engineer will submit a resume of qualifications of the resident inspector to the owner and to the Agency for acceptance in writing. If the owner provides the resident inspector, it must submit a resume of the inspector's qualifications to the project engineer for comments and the Agency for acceptance in writing prior to the preconstruction conference. The resident inspector will work under the technical supervision of the project engineer and the role and responsibilities will be defined in writing.

(d) Inspector's daily diary. The resident inspector will maintain a record of the daily construction progress in the form of a daily diary and daily inspection reports. The daily entries shall be made available to the Agency personnel and will be reviewed during project inspections. The original complete set will be furnished to the owner upon completion of construction. RUS Bulletin 1780-18 is available from the Agency for preparing daily inspection reports or the reports can be provided in other formats approved by the State staff engineer.

(e) Payment for Construction. Form RD 1924-18, "Partial Payment Estimate," or other similar form may be used for construction payments. If Form 1924-18 is not used, prior concurrence by the State staff engineer must be obtained.

(1) Payment of contract retainage will not be made until such retainage is due and payable under the terms of the contract.

(2) Invoices for the payment of construction costs must be approved by the owner, project engineer and concurred in by the Agency.

(3) The review and acceptance of project costs, including construction payment estimates by the Agency shall not attest to the correctness of the amounts, the quantities shown, or that the work has been performed under the terms of agreements or contracts.

(f) Prefinal inspections. A prefinal inspection will be made by the owner, resident inspector, project engineer, contractor, representatives of other agencies involved, and Agency representative (preferably the State staff engineer or designee). The inspection results will be recorded by the project engineer and a copy provided to all interested parties.

(g) Final inspection. A final inspection will be made by the Agency before final payment is made.

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(h) Changes in development plans.

(1) Changes in development plans shall be reviewed and approved by the Agency provided:

- (i) Funds are available to cover any additional costs; and
- (ii) The change is for an authorized loan or grant purpose; and
- (iii) It will not adversely affect the soundness of the facility operation or the Agency's security; and
- (iv) The change is within the scope of the contract,

(2) Changes will be recorded on Form RD 1924-7, "Contract Change Order," or other similar form if approved by the State program official or designee. Regardless of the form, change orders must be approved by the State program official or designee.

(3) Changes should be accomplished only after Agency approval and shall be authorized only by means of contract change order. The change order will include items such as:

- (i) Any changes in labor and material;
- (ii) Changes in facility design;
- (iii) Any decrease or increase in quantities based on final measurements that are different from those shown in the bidding schedule; and
- (iv) Any increase or decrease in the time to complete the project.

(4) All changes shall be recorded on chronologically numbered contract change orders as they occur. Change orders will not be included in payment estimates until approved by all parties.

§§1780.77 - 1780.79 [Reserved]

Subpart D - Information Pertaining to Preparation of Notes or Bonds and Bond Transcript Documents for Public Body Applicants

§1780.80 General.

This subpart includes information for use by public body applicants in the preparation and issuance of evidence of debt (bonds, notes, or debt instruments, referred to as bonds in this subpart) and other necessary loan documents.

§1780.81 Policies related to use of bond counsel.

The applicant is responsible for preparation of bonds and bond transcript documents. The applicant will obtain the services and opinion of recognized bond counsel experienced in municipal financing with respect to the validity of a bond issue, except for issues of \$100,000 or less. With prior approval of the approval official, the applicant may elect not to use bond counsel. Such issues will be closed in accordance with the following:

- (a) The applicant must recognize and accept the fact that application processing may require additional legal and administrative time;
- (b) It must be established that not using bond counsel will produce significant savings in total legal costs;
- (c) The local attorney must be able and experienced in handling this type of legal work;
- (d) The applicant must understand that it will likely have to obtain an opinion from bond counsel at its expense should the Agency require refinancing of the debt;
- (e) Bonds will be prepared in accordance with this regulation and conform as closely as possible to the preferred methods of preparation stated in §1780.94; and
- (f) Closing instructions must be issued by OGC.

§1780.82 [Reserved]

§1780.83 Bond transcript documents

Any questions relating to Agency requirements should be discussed with Agency representatives. Bond counsel or local counsel, as appropriate, must furnish at least two complete sets of the following to the applicant, who will furnish one complete set to the Agency:

- (a) Copies of all organizational documents;
- (b) Copies of general incumbency certificate;
- (c) Certified copies of minutes or excerpts from all meetings of the governing body at which action was taken in connection with the authorizing and issuing of the bonds;
- (d) Certified copies of documents evidencing that the applicant has complied fully with all statutory requirements incident to calling and holding a favorable bond election, if one is necessary;
- (e) Certified copies of the resolutions, ordinances, or other documents such as the bond authorizing resolutions or ordinances and any resolution establishing rates and regulating use of facility, if such documents are not included in the minutes furnished;
- (f) Copies of the official Notice of Sale and the affidavit of publication of the Notice of Sale when State statute requires a public sale;
- (g) Specimen bond, with any attached coupons;
- (h) Attorney's no-litigation certificate;
- (i) Certified copies of resolutions or other documents pertaining to the bond award;
- (j) Any additional or supporting documents required by bond counsel;
- (k) For loans involving multiple advances of Agency loan funds, a preliminary approving opinion of bond counsel (or local counsel if no bond counsel is involved) if a final unqualified opinion cannot be obtained until all funds are advanced. The preliminary opinion for the entire issue shall be delivered at or before the time of the first advance of funds. It will state that the applicant has the legal authority to issue the bonds, construct, operate and maintain the facility, and repay the loan, subject only to changes occurring during the advance of funds, such as litigation resulting from the failure to advance loan funds, and receipt of closing certificates;
- (l) Final unqualified approving opinion of bond counsel, (and preliminary approving opinion, if required) or local counsel if no bond counsel is involved, including an opinion as to whether interest on bonds will be exempt from Federal and State income taxes. With approval of the State program official, a final opinion may be qualified to the extent that litigation is pending relating to Indian claims that may affect title to land or validity of the obligation. It is permissible for such opinion to contain language referring to the last sentence of Section 306 (a)(1) or to Section 309A (h) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926 (a)(1) or 1929a (h)).

§§1780.84 and 1780.86 [Reserved]

§1780.87 Permanent instruments for Agency loans.

Agency loans will be evidenced by an instrument determined legally sufficient and in accordance with the following order of preference:

(a) First preference - Form RD 440-22, "Promissory Note". Refer to paragraph (b) of this section for methods of various frequency payment calculations.

(b) Second preference - single instruments with amortized installments. A single instrument providing for amortized installments which follows Form RD 440-22 as closely as possible. The full amount of the loan must show on the face of the instrument, and there must be provisions for entering the date and amount of each advance on the reverse or an attachment. When principal payments are deferred, the instrument will show that "interest only" is due on interest-only installment dates, rather than specific dollar amounts. The payment period including the "interest only" installment cannot exceed 40 years, the useful life of the facility, or State statute limitations, whichever occurs first. The amortized installment, computed as follows, will be shown as due on installment dates thereafter.

(1) Monthly payments. Multiply by twelve the number of years between the due date of the last interest-only installment and the final installment to determine the number of monthly payments. When there are no interest-only installments, multiply by twelve the number of years over which the loan is amortized. Then multiply the loan amount by the amortization factor and round to the next higher dollar.

(2) Semiannual payments. Multiply by two the number of years between the due date of the last interest-only installment and the due date of the final installment to determine the correct number of semiannual periods. When there are no interest-only installments, multiply by two the number of years over which the loan is amortized. Then multiply the loan amount by the applicable amortization factor.

(3) Annual payments. Subtract the due date of the last interest-only installment from the due date of the final installment to determine the number of annual payments. When there are no interest-only installments, the number of annual payments will equal the number of years over which the loan is amortized. Then multiply the loan amount by the applicable amortization factor and round to the next higher dollar.

(c) Third preference - single instruments with installments of principal plus interest. If a single instrument with amortized installments is not legally permissible, use a single instrument providing for installments of principal plus interest accrued on the principal balance. For bonds with semiannual interest and annual principal, the interest is calculated by multiplying the principal balance times the interest rate and dividing this figure by two. Principal installments are to be scheduled so that total combined interest and principal payments closely approximate amortized payments.

(1) The repayment terms concerning interest only installments described in paragraph (b) of this section apply.

(2) The instrument shall contain in substance provisions indicating:

(i) Principal maturities and due dates;

(ii) Regular payments shall be applied first to interest due through the next principal and interest installment due date and then to principal due in chronological order stipulated in the bond; and

(iii) Payments on delinquent accounts will be applied in the following sequence:

(A) billed delinquent interest;

(B) past due interest installments;

(C) past due principal installments;

(D) interest installment due; and

(E) principal installment due.

(d) Fourth preference - serial bonds with installments of principal plus interest. If instruments described under the first, second, and third preferences are not legally permissible, use serial bonds with a bond or bonds delivered in the amount of each advance. Bonds will be numbered consecutively and delivered in chronological order. Such bonds will conform to the minimum requirements of §1780.94. Provisions for application of payments will be the same as those set forth in paragraph (c)(2)(ii) of this section.

(e) Coupon bonds. Coupon bonds will not be used unless required by State statute. Such bonds will conform to the minimum requirements of §1780.94.

§1780.88 [Reserved]

§1780.89 Multiple advances of Agency funds using permanent instruments.

Where interim financing from commercial sources is not used, Agency loan proceeds will be disbursed on an "as needed by borrower" basis in amounts not to exceed the amount needed during 30-day periods.

§1780.90 Multiple advances of Agency funds using temporary debt instruments.

When none of the instruments described in §1780.87 are legally permissible or practical, a bond anticipation note or similar temporary debt instrument may be used. The debt instrument will provide for multiple advances of Agency funds and will be for the full amount of the Agency loan. The instrument will be prepared by bond counsel, or local counsel if bond counsel is not involved, and approved by the State program official and OGC. At the same time the Agency delivers the last advance, the borrower will deliver the permanent bond instrument and the canceled temporary instrument will be returned to the borrower. The approved debt instrument will show at least the following:

- (a) The date from which each advance will bear interest;
- (b) The interest rate as determined by §1780.13;
- (c) A payment schedule providing for interest on outstanding principal at least annually; and
- (d) A maturity date which shall be no earlier than the anticipated issuance date of the permanent instruments and no longer than the 40-year statutory limit.

§§1780.91 - 1780.93 [Reserved]

§1780.94 Minimum bond specifications.

The provisions of this section are minimum specifications only and must be followed to the extent legally permissible.

- (a) Type and denominations. Bond resolutions or ordinances will provide that the instruments be either a bond representing the total amount of the indebtedness or serial bonds in denominations customarily accepted in municipal financing (ordinarily in multiples of not less than \$1,000). Single bonds may provide for repayment of principal plus interest or amortized installments. Amortized installments are preferred by the Agency.
- (b) Bond registration. Bonds will contain provisions permitting registration for both principal and interest. Bonds purchased by the Agency will be registered in the name of "United States of America" and will remain so registered at all times while the bonds are held or insured by the Government. The Agency address for registration purposes will be that of the Finance Office.

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(c) Size and quality. Size of bonds and coupons should conform to standard practice. Paper must be of sufficient quality to prevent deterioration through ordinary handling over the life of the loan.

(d) Date of bond. Bonds will normally be dated as of the day of delivery. However, the borrower may use another date if approved by the Agency. Loan closing is the date of delivery of the bonds or the date of delivery of the first bond when utilizing serial bonds, regardless of the date of delivery of the funds. The date of delivery will be stated in the bond if different from the date of the bond. In all cases, interest will accrue from the date of delivery of the funds.

(e) Payment date. Loan payments will be scheduled to coincide with income availability and be in accordance with State law.

(1) If income is available monthly, monthly payments are recommended unless precluded by State law. If income is available quarterly or otherwise more frequently than annually, payments must be scheduled on such basis. However, if State law only permits principal plus interest (P&I) type bonds, annual or semiannual payments will be used.

(2) The payment schedule will be enumerated in the evidence of debt, or if that is not feasible, in a supplemental agreement.

(3) If feasible, the first payment will be scheduled one full month, or other period, as appropriate, from the date of loan closing or any deferment period. Due dates falling on the 29th, 30th, and 31st day of the month will be avoided. When principal payments are deferred, interest-only payments will be scheduled at least annually.

(f) Extra payments. Extra payments are derived from the sale of basic chattel or real estate security, refund of unused loan funds, cash proceeds of property insurance and similar actions which reduce the value of basic security. At the option of the borrower, regular facility revenue may also be used as extra payments when regular payments are current. Unless otherwise established in the note or bond, extra payments will be applied as follows:

(1) For loans with amortized debt instruments, extra payments will be applied first to interest accrued to the date of receipt of the payment and second to principal.

(2) For loans with debt instruments with P&I installments, the extra payment will be applied to the final unpaid principal installment.

(3) For borrowers with more than one loan, the extra payment will be applied to the account secured by the lowest priority of lien on the property from which the extra payments was obtained. Any balance will be applied to other Agency loans secured by the property from which the extra payment was obtained.

(4) For assessment bonds, see paragraph (k) of this section.

(g) The place of payments on bonds purchased by the Agency will be determined by the Agency.

(h) Redemptions. Bonds will normally contain customary redemption provisions. However, no premium will be charged for early redemption on any bonds held by the Government.

(i) Additional revenue bonds. Parity bonds may be issued to complete the project. Otherwise, parity bonds may not be issued unless acceptable documentation is provided establishing that net revenues for the fiscal year following the year in which such bonds are to be issued will be at least 120 percent of the average annual debt serviced requirements on all bonds outstanding, including the newly-issued bonds. For purposes of this section, net revenues are, unless otherwise defined by State statute, gross revenues less essential operation and maintenance expenses. This limitation may be waived or modified by the written consent of bondholders representing 75 percent of the then-outstanding principal indebtedness. Junior and subordinate bonds may be issued in accordance with the loan resolution.

(j) Precautions. The following types of provisions in debt instruments should be avoided:

(1) Provisions for the holder to manually post each payment to the instrument.

(2) Provisions for returning the permanent or temporary debt instrument to the borrower in order that it, rather than the Agency, may post the date and amount of each advance or repayment on the instrument.

(3) Provisions that amend covenants contained in RUS Bulletins 1780-27 or 1780-28.
[Revision 2, 06/04/99]

(4) Defeasance provisions in loan or bond resolutions. When a bond issue is defeased, a new issue is sold which supersedes the contractual provisions of the prior issue, including the refinancing requirement and any lien on revenues. Since defeasance in effect precludes the Agency from requiring refinancing before the final maturity date, it represents a violation of the statutory refinancing requirement; therefore, it is disallowed. No loan documents shall include a provision of defeasance.

(k) Assessment bonds. When security includes special assessment to be collected over the life of the loan, the instrument should address the method of applying any payments made before they are due. It may be desirable for such payments to be distributed over remaining payments due, rather than to be applied in accordance with normal procedures governing extra payments, so that the account does not become delinquent.

(l) Multiple debt instruments. The following will be adhered to when preparing debt instruments:

(1) When more than one loan type is used in financing a project, each type of loan will be evidenced by a separate debt instrument or series of debt instruments;

(2) Loans obligated in different fiscal years and those obligated with different terms in the same fiscal year will be evidenced by separate debt instruments;

(3) Loans obligated for the same loan type in the same fiscal year with the same term may be combined in the same debt instrument;

(4) Loans obligated in the same fiscal year with different interest rates that will be closed at the same interest rate may be combined in the same debt instrument.

Revision 2

RUS Instruction 1780

§1780.95 Public bidding on bonds.

Bonds offered for public sale shall be offered in accordance with State law and in such a manner to encourage public bidding. The Agency will not submit a bid at the advertised sale unless required by State law, nor will reference to Agency's rates and terms be included. If no acceptable bid is received, the Agency will negotiate the purchase of the bonds.

§§1780.96 - 1780.100 [Reserved]

OPERATING BUDGET

Schedule 1

Name		Address				
Applicant Fiscal Year		County		State (Including ZIP Code)		
From	To	20	20	20	20	First Full Year
		(1)	(2)	(3)	(4)	(5)
OPERATING INCOME						
1. _____						
2. _____						
3. _____						
4. _____						
5. Miscellaneous						
6. Less: Allowances and Deductions	(_____)	(_____)	(_____)	(_____)	(_____)	(_____)
7. Total Operating Income (Add Lines 1 through 6)		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
OPERATING EXPENSES						
8. _____						
9. _____						
10. _____						
11. _____						
12. _____						
13. _____						
14. _____						
15. Interest (RD)						
16. Depreciation						
17. Total Operating Expense (Add lines 8 through 16)		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
NONOPERATING INCOME						
19. _____						
20. _____						
21. Total Nonoperating Income (Add Lines 19 and 20)		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
22. NET INCOME (LOSS) (Add Lines 18 and 21) (Transfer to Line A Schedule 2)		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Budget and Projected Cash Flow Approved by Governing Body

Attest: _____ Secretary _____ Date

_____ Appropriate Official _____ Date

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0015. The time required to complete this information collection is estimated to average 5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

PROJECTED CASH FLOW

	20	20	20	20	First Full Year
A. Line 22 from Schedule 1 Income <i>(Loss)</i>	\$0	\$0	\$0	\$0	\$0
<i>Add</i>					
B. Items in Operations not Requiring Cash:					
1. Depreciation <i>(Line 16, Schedule 1)</i>	\$0	\$0	\$0	\$0	\$0
2. Others: _____					
C. Cash Provided from:					
1. Proceeds from RD loan/grant					
2. Proceeds from others					
3. Increase <i>(Decrease)</i> in Accounts Payable, Accruals and other Current Liabilities					
4. Decrease <i>(Increase)</i> in Accounts Receivable, inventories and Other Current Assets <i>(Exclude Cash)</i>					
5. Other: _____					
6. _____					
D. Total all A, B and C Items	\$0	\$0	\$0	\$0	\$0
E. <i>Less:</i> Cash Expended for:					
1. All Construction, Equipment and New Capital Items <i>(Loan and grant funds)</i>					
2. Replacement and Additions to Existing Property, Plant and Equipment					
3. Principal Payment RD Loan					
4. Principal Payment Other Loans					
5. Other: _____					
6. Total E 1 through 5	\$0	\$0	\$0	\$0	\$0
<i>Add</i>					
F. Beginning Cash Balances					
G. Ending Cash Balances <i>(Total of D minus E 6 plus F)</i>	\$0	\$0	\$0	\$0	\$0
Item G Cash Balances Composed of:					
Construction Account					
Revenue Account					
Debt Payment Account					
O&M Account					
Reserve Account					
Funded Depreciation Account					
Others: _____					

Total - Agrees with Item G	\$0	\$0	\$0	\$0	\$0



**APPLICATION TO OBTAIN OR AMEND A WATER OR SEWER
CERTIFICATE OF CONVENIENCE AND NECESSITY (CCN)**

GENERAL INFORMATION

★★★ THIS APPLICATION IS NOT A RATE CHANGE APPLICATION. THE APPROPRIATE FORMS NEEDED TO FILE A RATE CHANGE APPLICATION MAY BE OBTAINED BY CONTACTING THE UTILITIES AND DISTRICTS SECTION, Texas Commission on Environmental Quality (TCEQ). ★★★

☞ Pursuant to V.T.C.A., Water Code, Chapter 13, Subchapter G:

- CCNs *may be obtained* by any retail public water and sewer utility.
- CCNs *are required* for:
 - a) Investor Owned Utilities (IOU);
 - b) Non-profit, member-owned, member-controlled water supply or sewer service corporations (WSC) incorporated under Water Code Chapter 67; and
 - c) Affected counties.
- CCNs *may be required* for political subdivisions, except affected counties, before utility service can be provided to an area already lawfully being served.

☞ A CCN gives the holder:

- the legal right to provide water and/or sewer utility service;
- the legal right to be compensated, either directly through a monthly rate or indirectly through maintenance fees, property owners fees, etc.;
- a delineated service area; **AND**
- the obligation to provide service to every customer and qualified applicant who requests service within that area.

☞ A CCN is *not required* when service is either submetered pursuant to Water Code, Chapter 13, Subchapter M or included in the rental of the property.

☞ IOUs and WSCs with less than 15 potential retail water service connections may register as "exempt" and then are not required to possess a CCN for their service area if they meet the exemption criteria. This exemption **does not apply** to sewer providers with less than 15 potential retail sewer connections. Retail sewer utilities **must** obtain a CCN to provide retail sewer service to more than one connection.

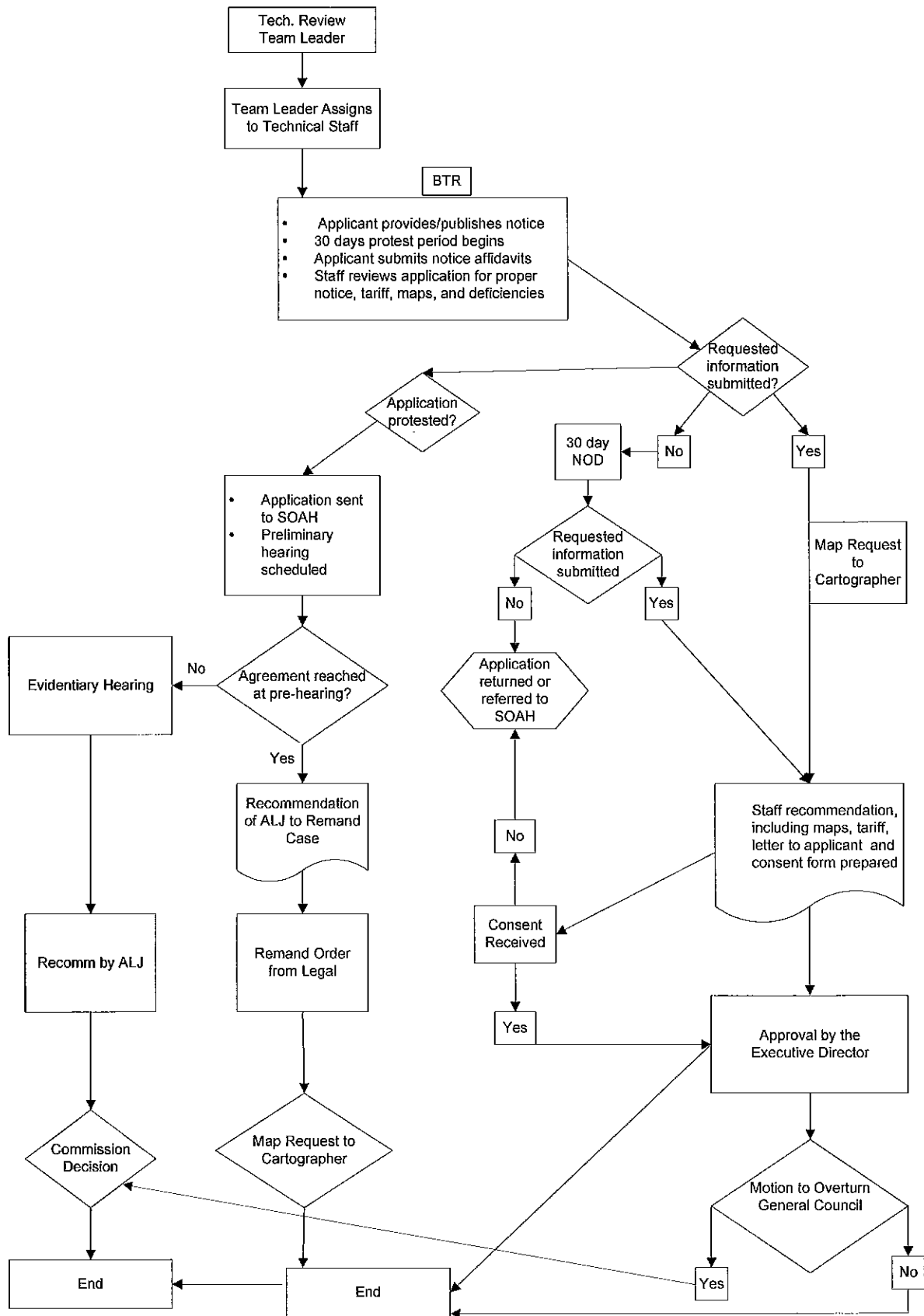
☞ **If this application was downloaded from the TCEQ web site or sent via E-mail, it shall not be changed, altered or amended from its original form only available from the Commission.**

PROCESSING YOUR CCN APPLICATION

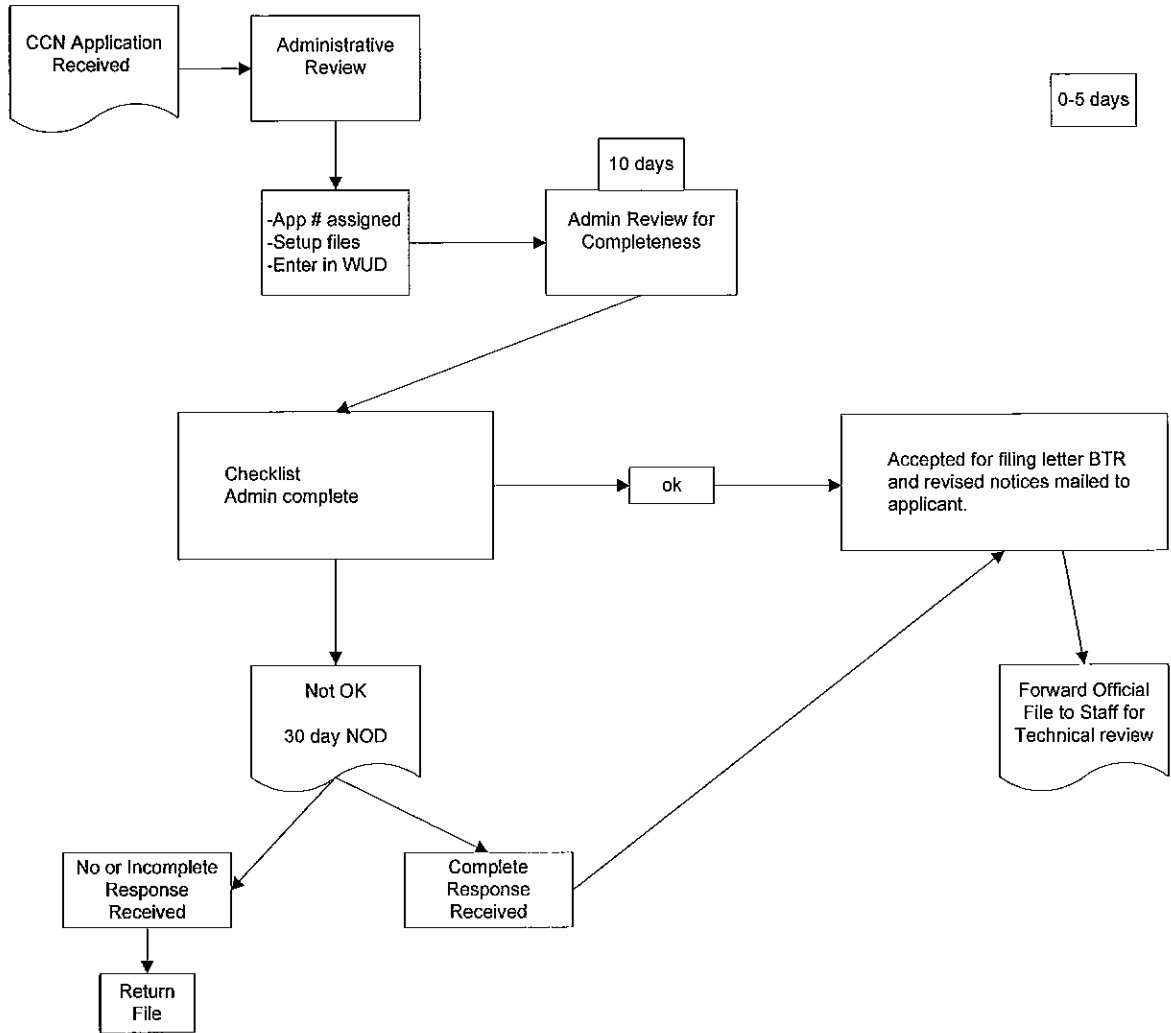
☞ **FLOW CHART**

Attached are flowcharts of the review process. Your application will go through an Administrative Review and, when accepted for filing, a Technical Review. For uncontested applications, processing time depends on the response time of the applicant. Contested applications generally take longer because of the need for scheduling a public hearing, and processing time depends on whether a settlement agreement between the applicant and the protestor(s) is reached.

CCN Tech Review Application Process - Flowchart



CCN Admin Review Application Process - Flowchart



ADMINISTRATIVE REVIEW OF YOUR CCN APPLICATION

- Your application will be reviewed for completeness by the Commission staff within ten (10) working days after it is received in our offices.
- Proposed notice forms are included with the application.
- If the application is administratively incomplete, you will be sent a letter that outlines the application's deficiencies and describes what is needed to correct the deficiencies. After receiving that letter, you will have thirty (30) days to make the necessary corrections.

If you fail to make the corrections in full,

- (a) the application will be returned,**
- (b) the application fee will be forfeited, and**
- (c) if you are already operating a system, you will be referred for enforcement action which may include administrative penalties of up to \$500 per day.**

NOTICE

The Commission cannot grant a CCN until proper notice of the application has been given. It is the applicant's responsibility to ensure that proper notice is given. Notice forms for publication, neighboring cities and systems, customers, and landowners are included with this application to use in preparing your proposed notices. These notice forms are also available in Spanish upon request. If the applicant is an operating IOU currently providing service without a CCN, then proposed notices must be provided for publication, to neighboring cities and systems, landowners with 25 acres or more, and current customers in the proposed service area. All three forms must be completed and submitted with the application. However, if the applicant has no customers in the proposed area at the time of filing and is only proposing to provide service at some future date, or if the applicant is a WSC or political subdivision, then only the notices for landowners with 25 acres or more, publication and neighboring cities and systems must be submitted. Do not publish the notice or send copies of the proposed notices or maps to anyone at the time you submit this application to the Commission. Your proposed notices and maps will be reviewed for completeness. When your application is accepted for filing, you will be directed to provide the appropriate notices for publication, to the neighboring cities and systems and, if necessary, to current customers.

TECHNICAL REVIEW OF YOUR CCN APPLICATION

When the application is complete, you will be notified by mail and be required:

- to publish notice once each week for two (2) consecutive weeks in a newspaper of general circulation in your local area and county. If the proposed area is in more than one county, publication in each county is required;
- to provide individual notice with a copy of the proposed CCN map to neighboring cities and systems within:
 - a) two (2) miles of your proposed service area, if you are an existing retail public utility amending the existing service area, **or**
 - b) five (5) miles if you are obtaining a new CCN to serve a new service area, and
- to provide individual mailed notice with a copy of the proposed CCN map to all affected current customers if you are required to have a CCN but are currently providing service without a CCN.

If the application is *technically incomplete*, you will be sent a letter that outlines the application's deficiencies and describing what you need to do to correct the deficiencies. After receiving that letter, you will have *thirty (30)* days to make the necessary corrections. **If you fail to make the corrections in full:**

- a) the application will be returned,**
- b) the application fee will be forfeited, and**
- c) if you are already operating a system, you will be referred for enforcement action which may include administrative penalties of up to \$500 per day.**

V.T.C.A. Water Code Section 13.246(c) requires the Commission to consider the following factors before it can issue a CCN:

- the adequacy of service currently provided to the requested area,
- the need for additional service in the requested area, including whether any landowners, prospective landowners, tenants, or residents have requested service,
- the effect of the granting of a certificate or amendment on the recipient of the certificate or amendment, on the landowners in the area, and on any retail public utility of the same kind already serving the proximate area,
- the ability of the applicant to provide adequate service, including meeting the standards of the commission, taking into consideration the current and projected density and land use of the area,
- the feasibility of obtaining service from an adjacent retail public utility,
- the financial stability of the applicant to pay for the facilities necessary to provide continuous and adequate service and the financial stability of the applicant including, if applicable, the adequacy of the applicant's debt-equity ratio,
- environmental integrity,
- the probable improvement of service or lowering of cost to consumers in that area resulting from the granting of the certificate or amendment, **AND**
- the effect on the land to be included in the certificated area.

In addition to these factors,

- the Commission must ensure that the applicant possesses the financial, managerial, and technical capability to provide continuous and adequate service **AND**
- the applicant must also demonstrate that regionalization or consolidation with another retail public utility is not economically feasible.

If there are *no protests*, you will be provided a copy of the technical staff recommendation and proposed CCN. If you have any questions or concerns, you should contact the technical staff person assigned to your application immediately. If you disagree with the staff recommendation and/or proposed CCN, the application will be considered contested, and a hearing may be requested.

If the application is *contested and a hearing is requested*, the application may be referred to the State Office of Administrative Hearings (SOAH). During the preliminary hearing, the presiding Administrative Law Judge (ALJ) may give the parties time to negotiate a settlement. Alternative Dispute Resolution (ADR) is available upon request of all of the parties. If a settlement is reached, the application will be remanded to staff for administrative processing. If a settlement is not reached, a discovery schedule and a date for an evidentiary hearing will be set. The ALJ will take testimony from each party and present a report to the Commission to consider in making a final decision on the application.

The completed application and copies should be sent to:

Texas Commission on Environmental Quality
Utilities and Districts Section, MC-153
P. O. Box 13087
Austin, TX 78711-3087

☆☆☆THIS APPLICATION IS NOT A RATE CHANGE APPLICATION. THE APPROPRIATE FORMS NEEDED TO FILE A RATE CHANGE APPLICATION MAY BE OBTAINED BY CONTACTING THE UTILITIES AND DISTRICTS SECTION, TEXAS COMMISSION ON ENVIRONMENTAL QUALITY. ☆☆☆



**APPLICATION TO OBTAIN OR AMEND A WATER/SEWER
CERTIFICATE OF CONVENIENCE AND NECESSITY (CCN)**

*RN #

*CN #

* If known (See instructions)

PURPOSE OF THIS APPLICATION

- OBTAIN New Water CCN New Sewer CCN
- AMEND Water CCN # _____ Sewer CCN # _____

1. APPLICANT INFORMATION

Utility Name: _____

Utility Address (city/state/zip) _____

Utility Phone and Fax Number () Phone () Fax _____

Contact Person: Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title related to the applicant.

Name: _____ Title: _____

Address: _____ Telephone () _____

City _____ St _____ Zip _____ Fax() _____

E-mail: _____

County(ies) in which service is proposed _____

A. Check the appropriate box and provide information regarding the legal status of the applicant:

<input type="checkbox"/>	Investor owned utility
<input type="checkbox"/>	Individual
<input type="checkbox"/>	Home or Property Owners Association
<input type="checkbox"/>	For-profit corporation
<input type="checkbox"/>	Non-profit, member-owned, member-controlled cooperative corporation (Water Code Chapter 67, Water Supply or Sewer Service Corporation)
<input type="checkbox"/>	Municipality
<input type="checkbox"/>	District
<input type="checkbox"/>	Other
	Please explain:

- B. If the applicant is a For-Profit Corporation:
- i. Please provide a copy of the corporation's "Certification of Account Status" from the Texas State Comptroller of Public Accounts. (See Note below).
 - ii. Please provide the corporation's charter number as recorded with the Office of the Texas Secretary of State. _____.
 - iii. Please provide a listing of all affiliated interests and their respective percentages of ownership.
 - iv. Provide a copy of the company's organizational chart, if available.
- C. If the applicant is a Water Code Chapter 67 water supply or sewer service corporation or other non-profit corporation:
- i. Please provide a copy of the Articles of Incorporation and By-Laws.
 - ii. Please provide the corporation's charter number as recorded with the Office of the Texas Secretary of State.
 - iii. Identify all owners including name, address, title, telephone number, fax number, and percentage of ownership.

2. LOCATION INFORMATION

- A. Are there people already living in the proposed area?
 YES _____ NO _____
 If YES, are any currently receiving utility service?
 YES _____ NO _____, if YES, from Whom _____.

Demonstrate the Need for Service by providing the following:

- B. Have you received any requests for service in the requested service area?
 YES _____ NO _____. If YES, provide the following:
- i. Describe the service area and circumstances driving the need for service in the requested area. Indicate the name(s) and address(es) of landowner(s), prospective landowner(s), tenant(s), or resident(s) that have requested service; and/or
 - ii. Describe the economic need(s) for service in the requested area (i.e. plat approvals, recent annexation(s) or annexation request(s), building permits, septic tank permits, hospitals, etc.); and/or
 - iii. Discuss in detail the environmental need(s) for service in the requested area (i.e. failing septic tanks in the requested area, filing wells, etc.); and/or
 - iv. Provide copies of any written applications or requests for service in the requested area; and/or
 - v. Provide copies of any reports and/or market studies demonstrating existing or anticipated growth in the requested area. If no, please justify the need for service in the proposed area.

- C. Is any portion of the proposed service area inside an incorporated city?
 YES ____ NO ____
 If YES, within the city limits of: _____
 Provide a copy of any franchise, permit, or consent granted by the city. If not available, please explain: _____

- D. Is any portion of the proposed service area inside another utility's CCN area?
 YES _____ NO _____
 If YES, has the current CCN holder agreed to decertify the proposed area?
 YES _____ NO _____
 If NO, are you seeking dual or single certification of the area? Explain why decertification of the area is in the public interest.

3. MAP REQUIREMENTS:

Attach the following hard copy maps with each copy of the application:

- A. A general location map delineating the proposed service area with enough detail to accurately locate the proposed area within the county.

- B. A map showing only the proposed area by:
 - i. metes and bounds survey certified by a licensed state or register professional land surveyor; or
 - ii. projectable digital data with metadata (proposed areas should be in a single record and clearly labeled); or
 - iii. following verifiable natural and man-made landmarks; or
 - iv. a copy of recorded plat map with metes and bounds.

- C. A written description of the proposed service area.

- D. Provide separate and additional maps of the proposed area(s) to show the following:
 - i. all facilities, illustrating separately facilities for production, transmission, and distribution of the applicant's service(s); and
 - ii. any facilities, customers or area currently being served outside the applicant's certificated area(s).

4. NEW SYSTEM INFORMATION OR UTILITIES REQUESTING A CCN FOR THE FIRST TIME

- A. Please provide the following information:
 - i. a list of all public drinking water supply systems or sewer systems within a 2 mile radius of the proposed system;
 - ii. copies of written requests seeking to obtain service from each of the public drinking water supply systems or sewer systems listed in #4.A.i above or documentation that it is not economically feasible to obtain service from them;
 - iii. copies of written responses from each system or evidence that they did not reply; and
 - iv. for sewer utilities, documentation showing that you have obtained or applied for a wastewater discharge permit.

- B. Were your requests for service denied?
 - i. If yes, go to 4.C.
 - ii. If no, please provide a detailed analysis which justifies your reasons for not accepting service. A separate analysis must be prepared and submitted for each system that granted your request for service.

- C. Please summarize how the proposed utility system will be constructed and describe each projected construction phase, if any: _____

- D. Date of plat approval, if required: _____
Approved by: _____

- E. Date Plans & Specifications submitted for approval _____ Log No. _____
Attach copy of approval letter if available.

- F. Date construction is scheduled to commence _____

G. Date service is scheduled to commence _____

5. EXISTING SYSTEM INFORMATION

A. Please provide the following information for **each** water and/or sewer system:

i. Water system's TCEQ Public Water System identification number:

--	--	--	--

ii. Sewer system's TCEQ Discharge Permit number: (for each system)

W	Q					-				W	Q					-			
---	---	--	--	--	--	---	--	--	--	---	---	--	--	--	--	---	--	--	--

- iii. Date of last inspection _____
- iv. Attach a copy of the most recent inspection report letter.
- v. For each system deficiency listed in the inspection report letter, attach a brief explanation listing the actions taken or being taken by the utility to correct the listed deficiencies, including the proposed completion dates.

B. Provide the following information about the utility's certified operators

Name	Classes	License Number

- Attach additional sheet(s) if necessary -

C. Using the current number of customers, is any facility component in systems named in #5A above operating at 85% or greater of minimum standard capacity?
 Yes _____ No _____

Attach an explanation listing the actions to be taken to make system improvements including proposed completion dates (See 291.93(3)(A) of TCEQ Rules).

D. List in the table below, the number of existing and/or proposed metered and non-metered connections (by size). The proposed number should reflect the information presented in the business plan and reflect the number of service requests identified in Question 2.b above.

Water System			Sewer System		
Connection	Existing	Proposed	Connection	Existing	Proposed
5/8" or 3/4" meter			Residential		
1" meter or larger			Commercial		
Non-Metered			Industrial		
Other:			Other:		
Total Water			Total Sewer		

E. If this application is for a water CCN only, please explain how sewer service is provided:

F. If this application is for a sewer CCN only, please explain how water service is provided:

G. Effect of Granting a Certificate Amendment.

Explain in detail the effect of granting of a certificate or an amendment, including, but not limited to regionalization, compliance and economic effects on the following:

- i. the applicant,
- ii. any retail public utility of the same kind already serving the proximate area; and
- iii. any landowner(s) in the requested area.

H. Do you currently purchase or plan to purchase water or sewer treatment capacity from another source?

i. No _____ (skip the rest of this question and go to #6)

ii. Water

Yes _____

Purchased on a () regular - () seasonal - () emergency basis?

Source	% of total supply

iii. Sewer treatment capacity

iv. Yes _____

v. Purchased on a () regular - () seasonal - () emergency basis

Source	% of total treatment

vi. Provide a certified copy of the most current water or sewer treatment capacity purchase agreement or contract.

I. Ability to Provide Adequate Service.

Describe the ability of the applicant to provide adequate service, including meeting the standards of the commission, taking both of the following items into consideration:

- i. the current and projected density, and
- ii. the land use of the requested area.

J. Effect on the Land.

Explain the effect on the land to be included in the certificated area.

6. FINANCIAL INFORMATION

- A. For new systems and for applicants with existing CCNs who are constructing a new stand alone system:
- i. the applicant must provide an analysis of all necessary costs for constructing, operating, and maintaining the system, and the source of that capital (such as a financial statement for the developing entity) for which the CCN is requested for at least the first five years. In addition, if service has been offered by an existing water service provider as stated in #4.A., but the applicant has determined that the cost of service as finally offered renders the project not economically feasible, the applicant must provide a comparison analysis of all necessary costs for acquiring and continuing to receive service from the existing system for the same period.
 - ii. Attach projected profit and loss statements, cash flow worksheets, and balance sheets (projected five year financial plan worksheet is attached) for each of the first five years of operation. Income from rates should correlate to the projected growth in connections, shown on the projected profit and loss statement.
 - iii. Attach a proposed rate schedule or tariff. Describe the procedure for determining the rates and fees and indicate date of last change, if applicable. Attach copies of any cost of service studies or rate analysis worksheets.
- B. For existing systems:
- i. Attach a profit and loss statement and current balance sheet for existing businesses (end of last fiscal year is acceptable). Describe sources and terms for borrowed capital such as loans, bonds, or notes (profit and loss and balance sheet worksheets are attached, if needed).
 - ii. Attach a proposed rate schedule or tariff.
★ NOTE: An existing system may be required to provide the information in 6.A.i. above during the technical review phase if necessary for staff to completely evaluate the application.
- C. Identify any funds you are required to accumulate and restrict by lenders or capital providers.
- D. In lieu of the information in #6.A. thru #6.C., you may provide information concerning loan approvals within the last three (3) years from lending institutions or agencies including the most recent financial audit of the applicant.

7. NOTICE REQUIREMENTS

- A. All proposed notice forms must be completed and submitted with the application. However, do not mail or publish them until you receive written approval from the Commission to do so.
- B. The Commission cannot grant a CCN until proper notice of the application has been given. Commission rules do not allow a waiver of these notice requirements.
- C. It is the applicant's responsibility to ensure that proper notice is given to all entities that are required to receive notice.
- D. Recommended notice forms for publication, neighboring cities and systems, landowners with 25 acres or more, and customers are included with this application to use in preparing your proposed notices. (These notice forms are also available in Spanish upon request.)
- E. After reviewing and, if necessary, modifying the proposed notice, the Commission will send the notice to the applicant after the application is accepted for filing along with instructions for publication and/or mailing. Please review the notice carefully and note any additional neighboring utilities which may be included in the

acceptance letter.

F. Notice For Publication:

The applicant shall publish the notice in a newspaper having general circulation in the county or counties where a certificate of convenience and necessity is being requested, once each week for two consecutive weeks beginning with the week after the notice is received from the Commission. Proof of publication in the form of a publisher's affidavit shall be submitted to the Commission within 30 days of the last publication date. The affidavit shall state with specificity each county in which the newspaper is of general circulation.

G. Notice To Neighboring Utilities:

- i. List all neighboring retail public utilities and cities providing the same utility service within the following vicinities of the applicant's proposed certificate area.
- ii. For applications for the issuance of a **NEW** certificate of public convenience and necessity, the applicant must mail the notice with a copy of the proposed CCN map to all cities and neighboring retail public utilities providing the same utility service within **five (5) miles** of the requested service area.
- iii. For applications for the **AMENDMENT** of certificate of public convenience and necessity, the applicant must mail the notice with a copy of the proposed CCN map to all cities and neighboring retail public utilities providing the same utility service within **two (2) miles** of the requested service area.

H. Notice to Customers

Investor Owned Utilities (IOUs) that are currently providing service without a certificate must provide individual mailed notice to all current customers. The notice must contain the current rates, the date those rates were instituted and any other information required in the application.

I. The Commission may require the applicant to deliver notice to other affected persons or agencies.

Do not publish or send copies of the proposed notices to anyone at the time you submit the application to the Commission. Wait until you receive written authorization to do so. This will occur after the Commission has reviewed the notices for completeness, and your application has been accepted for filing.

OATH

State of _____

I, _____, being duly sworn, file this application as _____ (indicate relationship to Applicant, that is, owner, member of partnership, title as officer of corporation, or other authorized representative of Applicant); that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the maps filed with this application, and have complied with all the requirements contained in this application; and, that all such statements made and matters set forth therein are true and correct. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Texas Commission on Environmental Quality.

I further represent that the application form has not been changed, altered or amended from its original form available only from the Commission.

I further represent that the Applicant will provide continuous and adequate service to all customers and qualified applicants for service within its certificated service area.

AFFIANT
(Applicant's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas, this _____ day of _____, 20____.

SEAL

NOTARY PUBLIC

Notice for Publication

NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE
AND NECESSITY (CCN) TO PROVIDE WATER/SEWER
UTILITY SERVICE IN _____ COUNTY (IES)

_____ has filed an application for a CCN to obtain or
Name of Applicant
amend CCN No. _____ / and to decertify a portion(s) of (Name of Decertified Utility) _____ with the
Texas Commission on Environmental Quality to provide _____ (specify 1) water or 2)
sewer or 3) water & sewer) utility service in _____
County(ies).

The proposed utility service area is located approximately _____ miles _____
[direction] of downtown _____, [City or Town] Texas, and is generally
bounded on the north by _____; on the east by _____
_____; on the south by _____
_____; and on the west by _____.

The total area being requested includes approximately _____ acres and _____ current customers.

A copy of the proposed service area map is available at _____ (Utility Address and Phone Number)

A request for a public hearing must be in writing. You must state (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, application number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent, would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

Persons who wish to intervene or comment should write the:

Texas Commission on Environmental Quality
Water Supply Division
Utilities and Districts Section, MC-153
P. O. Box 13087
Austin, TX 78711-3087

within thirty (30) days from the date of this publication or notice. A public hearing will be held only if a legally sufficient hearing request is received or if the Commission on its own motion requests a hearing. Only those individuals who submit a written hearing request or a written request to be notified if a hearing is set will receive notice if a hearing is scheduled.

If a public hearing is requested, the Executive Director will not issue the CCN and will forward the application to the State Office of Administrative Hearings (SOAH) for a hearing. If no settlement is reached and an evidentiary hearing is held, the SOAH will submit a recommendation to the Commission for final decision. If an evidentiary hearing is held, it will be a legal proceeding similar to a civil trial in state district court.

If you are a landowner with a tract of land at least 25 acres or more, that is partially or wholly located within the proposed area, you may request to be excluded from the proposed area (or “opt out”) by providing written notice to the Commission within (30) days from the date that notice was provided by the applicant. All requests to opt out of the requested service area must include a scaled, general location map and a metes and bounds description of the tract of land.

Persons who meet the requirements to opt out, and wish to request this option should file the required documents with the:

Texas Commission on Environmental Quality
Water Supply Division
Utilities and Districts Section, MC-153
P. O. Box 13087
Austin, TX 78711-3087

A copy of the request to opt out of the proposed area must also be sent to the applicant. Staff may request additional information regarding your request.

Si desea informacion en Espanol, puede llamar al 1-512-239-0200.

Notice to Neighboring Systems, Landowners and Cities

NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY
(CCN) TO PROVIDE WATER/SEWER UTILITY SERVICE IN _____
COUNTY (IES)

To: _____ Date Notice Mailed: _____, 20__
(Neighboring System, Landowner or City)

(Address)

(City State Zip)

_____ has filed an application for a CCN / to
Name of Applicant
amend CCN No. _____ / and to decertify a portion(s) of _____ (Name of Decertified Utility) with
the Texas Commission on Environmental Quality to provide _____ (specify 1) water or
2) sewer or 3) water & sewer) utility service in _____
County(ies).

The proposed utility service area is located approximately _____ miles _____
[direction] of downtown _____, [City or Town] Texas, and is
generally bounded on the north by _____; on the east
by _____; on the south by _____
_____; and on the west by _____. See enclosed
map of the proposed service area.

The total area being requested includes approximately _____ acres and _____ current customers.

A request for a public hearing must be in writing. You must state (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, application number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent, would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

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If you are a landowner with a tract of land at least 25 acres or more, that is partially or wholly located within the proposed area, you may request to be excluded from the proposed area (or "opt out") by providing written notice to the Commission within (30) days from the date that notice was provided by the applicant. All requests to opt out of the requested service area must include a scaled, general location map and a metes and bounds description of the tract of land.

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Water Supply Division
Utilities and Districts Section, MC-153
P. O. Box 13087
Austin, TX 78711-3087

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Notice to Customers of IOUs in Proposed Area

NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY
(CCN)
TO PROVIDE WATER/SEWER UTILITY SERVICE IN _____ COUNTY

Dear Customer: Date Notice Mailed _____, 20__

_____ has filed an application for a CCN to/
Name of Applicant

amend CCN No. _____ and to decertify a portion(s) of _____ Name of Decertificated Utility with the Texas Commission on Environmental Quality to provide _____ (specify 1) water or 2) sewer or 3) water & sewer) utility service in _____ County(ies).

The proposed utility service area is located approximately _____ miles [direction] of downtown _____, [City or Town] Texas

A copy of the proposed service area map is available at _____ (Utility Address and Phone Number)

The current utility rates which were first effective on _____, 200__ are:

- Monthly Flat Rate of \$_____ per connection
- OR-
- Monthly Base Rate including _____ gallons per connection for:
 - 5/8" meter \$_____
 - 1" meter \$_____
 - 1½" meter \$_____
 - 2" meter \$_____
 - Other _____ \$_____

Gallage charge of \$_____ per 1,000 gallons above minimum (same for all meter sizes)

Miscellaneous Fees

- Regulatory Assessment 1%
- Tap Fee (Average Actual Cost) \$_____
- Reconnection fee:
 - Non Payment (\$25.00 max) \$_____
 - Transfer \$_____
 - Customer's request \$_____
- Late fee \$5.00 or 10%
- Returned Check charge \$_____
- Customer Deposit (\$50.00 max) \$_____
- Meter test fee (Actual Cost not exceed \$25.00) \$_____
- Other Fees \$_____

Your utility service rates and fees cannot be changed by this application. If you are currently paying rates, those rates must remain in effect unchanged. Rates may only be increased if the utility files and gives notice of a separate rate change application.

A request for a public hearing must be in writing. You must state (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, application number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent, would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

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If a public hearing is requested, the Executive Director will not issue the CCN and will forward the application to the State Office of Administrative Hearings (SOAH) for a hearing. If no settlement is reached and an evidentiary hearing is held, the SOAH will submit a recommendation to the Commission for final decision. If an evidentiary hearing is held, it will be a legal proceeding similar to a civil trial in state district court.

IF A HEARING IS HELD, it is important that you or your representative attend to present your concerns. Your request serves only to cause a hearing to be held and is not used during the hearing.

If you are a landowner with a tract of land at least 25 acres or more, and is partially or wholly located within the proposed area, you may request to be excluded from the proposed area (or "opt out") by providing written notice to the Commission within (30) days from the date that notice was provided by the applicant. All requests to opt out of the requested service area must include a scaled, general location map and a metes and bounds description of the tract of land.

Persons who meet the requirements to opt out, and wish to request this option should file the required documents with the:

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A copy of the request to opt out of the proposed area must also be sent to the applicant. Staff may request additional information regarding your request.

Si desea informacion en Espanol, puede llamar al 1-512-239-0200.

HISTORICAL BALANCE SHEETS

	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
CURRENT ASSETS						
Cash						
Accounts Receivable						
Inventories						
Income Tax Receivable						
Other						
Total						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
Total						
TOTAL ASSETS						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
Total						
LONGTERM LIABILITIES						
Notes Payable, Long-term						
Other						
TOTAL LIABILITIES						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES AND EQUITY						
WORKING CAPITAL						
CURRENT RATIO						
DEBT TO EQUITY RATIO						
EQUITY TO TOTAL ASSETS						

HISTORICAL INCOME STATEMENT

	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
METER NUMBER						
Existing Number of Taps						
New Taps per Year						
Total Meters at Year End						
METER REVENUE						
Fees Per Meter						
Cost Per Meter						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Fees						
Other						
Gross Income						
OPERATING EXPENSES						
General & Administrative						
Interest						
Other						
NET INCOME						

HISTORICAL EXPENSES STATEMENT

	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries						
Office Expense						
Computer Expense						
Auto Expense						
Insurance Expense						
Telephone Expense						
Utilities Expense						
Depreciation Expense						
Property Taxes						
Professional Fees						
Other						
Total						
% Increase Per Year						
OPERATIONAL EXPENSES						
Salaries						
Auto Expense						
Utilities Expense						
Depreciation Expense						
Repair & Maintenance						
Supplies						
Other						
Total						
% Increase Per Year						
ASSUMPTIONS						
Interest Rate/Terms						
Utility Cost/gal.						
Depreciation Schedule						
Other						

PROJECTED BALANCE SHEETS

	START UP	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
CURRENT ASSETS						
Cash						
Accounts Receivable						
Inventories						
Income Tax Receivable						
Other						
Total						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
Total						
TOTAL ASSETS						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
Total						
LONGTERM LIABILITIES						
Notes Payable, Long-term						
Other						
TOTAL LIABILITIES						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES AND EQUITY						
WORKING CAPITAL						
CURRENT RATIO						
DEBT TO EQUITY RATIO						
EQUITY TO TOTAL ASSETS						

PROJECTED INCOME STATEMENT

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
METER NUMBER						
Existing Number of Taps						
New Taps per Year						
Total Meters at Year End						
METER REVENUE						
Fees Per Meter						
Cost Per Meter						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Fees						
Other						
Gross Income						
OPERATING EXPENSES						
General & Administrative						
Interest						
Other						
NET INCOME						

PROJECTED EXPENSES STATEMENT

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries						
Office Expense						
Computer Expense						
Auto Expense						
Insurance Expense						
Telephone Expense						
Utilities Expense						
Depreciation Expense						
Property Taxes						
Professional Fees						
Other						
Total						
% Increase Per Year						
OPERATIONAL EXPENSES						
Salaries						
Auto Expense						
Utilities Expense						
Depreciation Expense						
Repair & Maintenance						
Supplies						
Other						
Total						
% Increase Per Year						
ASSUMPTIONS						
Interest Rate/Terms						
Utility Cost/gal.						
Depreciation Schedule						
Other						

PROJECTED SOURCES AND USES OF CASH STATEMENTS

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
SOURCES OF CASH						
Net Income						
Depreciation (If Funded)						
Loan Proceeds						
Other						
Total Sources						
USES OF CASH						
Net Loss						
Principle Portion of Pmts.						
Fixed Asset Purchase						
Reserve						
Other						
Total Uses						
NET CASH FLOW						
DEBT SERVICE COVERAGE						
Cash Available for Debt						
Service (CADS)						
Net Income (Loss)						
Depreciation, or Reserve Interest						
Total						
REQUIRED DEBT SERVICE (RDS)						
Principle Plus Interest						
DEBT SERVICE COVERAGE RATIO						
CADS Divided by RDS						



ANNOUNCEMENT OF FEDERAL FUNDING OPPORTUNITY

EXECUTIVE SUMMARY

- **Federal Agency Name:** Economic Development Administration (EDA), Department of Commerce.
- **Funding Opportunity Title:** Economic Development Assistance Programs—Availability of Funds under the Public Works and Economic Development Act of 1965, as amended, and the Trade Act of 1974, as amended.
- **Announcement Type:** Initial Announcement of Federal Funding Opportunity (FFO).
- **Catalog of Federal Domestic Assistance (CFDA) Numbers:** 11.300, Grants for Public Works and Economic Development Facilities; 11.302, Economic Development—Support for Planning Organizations; 11.303, Economic Development—Technical Assistance; 11.307, Economic Adjustment Assistance; 11.313, Economic Development—Trade Adjustment Assistance.
- **Dates:** Proposals are accepted on a continuing basis and applications are invited and processed as received. Generally, two months are required for EDA to reach a final decision after receipt of a complete application that meets all requirements.
- **Application Submission:** Proposals or applications (as appropriate) must be submitted to the applicable EDA regional office as set forth below.
- **Funding Opportunity Description:** EDA announces general policies and application procedures for grant-based investments that will promote comprehensive, entrepreneurial and innovation-based economic development efforts to enhance the competitiveness of regions, resulting in increased private investment and higher-skill, higher-wage jobs in areas experiencing substantial and persistent economic distress.

FULL ANNOUNCEMENT TEXT

**THE ECONOMIC DEVELOPMENT ADMINISTRATION'S
ECONOMIC DEVELOPMENT ASSISTANCE PROGRAMS**

TABLE OF CONTENTS:

- Section I. Funding Opportunity Description**
- Section II. Award Information**
- Section III. Eligibility Information**
- Section IV. Application Submission Information**
- Section V. Proposal and Application Review Information**
- Section VI. Award Administration Information**
- Section VII. Agency Contacts**
- Section VIII. Additional Information and Requirements**

I. Funding Opportunity Description

A. Program Objectives and Description

EDA's mission is to lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy. In implementing this mission pursuant to its authorizing statute, the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. § 3121 *et seq.*) (PWEDA), EDA advances economic growth by assisting communities and regions experiencing chronic high unemployment and low per capita income to create an environment that fosters innovation, promotes entrepreneurship, and attracts increased private capital investment. EDA also administers the Trade Adjustment Assistance for Firms Program (TAA Program) under the Trade Act of 1974, as amended (19 U.S.C. §§ 2341-2391) (Trade Act). Under this program, EDA funds a national network of eleven (11) non-profit organizations known as Trade Adjustment Assistance Centers, with each being assigned a different geographic service region, which in turn provide trade adjustment assistance to firms that have been adversely affected by increased import competition.

B. Program Priorities

EDA encourages the submission of only those proposals or applications, as appropriate, which will significantly benefit regions with distressed economies. Distress may exist in a variety of forms, including high levels of unemployment, low income levels, large concentrations of low-income families, significant declines in per capita income, large numbers (or high rates) of business failures, sudden major layoffs or plant closures, trade impacts, military base closures, natural or other major disasters, depletion of natural resources, reduced tax bases, or substantial loss of population because of the lack of employment opportunities. EDA believes that regional economic development to help alleviate these conditions is effected primarily

through investments and decisions made by the private sector. EDA will give preference to proposals or applications (as appropriate) that include cash contributions (over in-kind contributions) as the matching share.

EDA will evaluate and select proposals or applications, as appropriate, according to the investment policy guidelines and funding priorities set forth in section V. of this announcement.

C. Program Authority

The authorities for the (i) Public Works and Economic Development Investments Program; (ii) Planning Program; (iii) Technical Assistance Program; and (iv) Economic Adjustment Assistance Program are sections 201 (42 U.S.C. § 3141), 203 (42 U.S.C. § 3143), 207 (42 U.S.C. § 3147), and 209 (42 U.S.C. § 3149) of PWEDA. The authorities for the TAA Program are Chapters 3 and 5 of Title II of the Trade Act (19 U.S.C. § 2341 *et seq.*).

EDA published final regulations (codified at 13 C.F.R. Chapter III) in the *Federal Register* on September 27, 2006 (71 FR 56658). The final regulations became effective upon publication and reflect changes made to PWEDA by the Economic Development Administration Reauthorization Act of 2004 (Pub. L. No. 108-373, 118 Stat. 1756 (2004)). The final regulations, PWEDA and Chapters 3 and 5 of Title II of the Trade Act are accessible on EDA's Internet website at www.eda.gov/InvestmentsGrants/Lawsreg.xml.

II. Award Information

II.A. Funding Availability

EDA is operating with appropriations made available under the Revised Continuing Appropriations Resolution, 2007, Pub. L. No. 110-5 (February 15, 2007). This Act makes \$250.741 million available in FY 2007 for the economic development assistance programs authorized by PWEDA and for the TAA Program authorized under the Trade Act.

This announcement will remain in effect until it is terminated or supplanted by a future FFO announcement. The funding periods and funding amounts referenced in this announcement are subject to the availability of funds at the time of award, as well as to Department of Commerce and EDA priorities at the time of award. The Department of Commerce and EDA will not be held responsible for proposal or application preparation costs. Publication of this FFO does not obligate the Department of Commerce or EDA to award any specific grant or cooperative agreement or to obligate all or any part of available funds.

II.A.1. Public Works and Economic Development Investments Program (CFDA No. 11.300)

For purposes of this FFO, EDA is allocating \$158,088,956 for the Public Works and Economic Development Investments Program in FY 2007. The average size of a Public Works investment in FY 2006 was \$1.223 million. However, this average is informational only and is not intended to restrict the size of future awards.

EDA will provide Public Works investments to support the construction or rehabilitation of essential public infrastructure and facilities necessary to generate or retain private sector jobs and investments, attract private sector capital, and promote regional competitiveness, including investments that expand and upgrade infrastructure to attract new industry, support technology-led development, redevelop brownfield sites, provide eco-industrial development, and support heritage preservation development investments such as those promoted by the Preserve America initiative.

II.A.2. Planning Program: Planning Assistance for District Organizations, Indian Tribes, States, and other Planning Organizations (CFDA No. 11.302)

EDA is allocating \$27,000,000 to the Planning Program in FY 2007. As in FY 2006, EDA expects that the majority of FY 2007 Planning Program funds will be used to provide support to existing District Organizations and Indian Tribe recipients. Some regions may offer three-year funding for their planning organizations.

II.A.3. Technical Assistance Program: Local Technical Assistance; National Technical Assistance; and the University Center Economic Development Program (CFDA No. 11.303)

EDA is allocating \$8,203,069 to the Technical Assistance Program in FY 2007. This includes \$700,443 for Local Technical Assistance, \$1,000,000 for National Technical Assistance, and \$6,502,626 for the University Center Economic Development Program.

- *Special Information on the National Technical Assistance Program*

A separate FFO announcement will be posted at www.Grants.gov that will set forth the specific funding priorities, application and selection processes, time frames, and evaluation criteria for certain National Technical Assistance projects to be funded with FY 2007 appropriations. Additional information may be found at EDA's Internet website at www.eda.gov.

- *Special Information on the University Center Economic Development Program*

In FY 2007, pursuant to a separate FFO announcement posted at https://apply.grants.gov/forms_apps_idx.html (insert CFDA Number 11.303 and Funding Opportunity Number EDA02142007) and at <http://www.eda.gov/InvestmentsGrants/FFON.xml>, EDA opened competition for the University Center Economic Development Program funding in its Austin and Denver regional offices. This FFO announcement sets forth the specific funding priorities, evaluation criteria, application and selection processes, and application deadline for University Center projects to be funded with FY 2007 appropriated program funds in the Austin and Denver regional offices. Additional information is available at EDA's Internet website at www.eda.gov.

EDA will approve a three-year project period for each University Center selected for funding under the FY 2007 University Center Economic Development Program competition. The University Center will not have to compete for the second and third years of funding. Funding beyond the initial year may be dependent upon the availability of program funds and satisfactory performance, as determined by EDA and expressed in written notice. Current University Center operators in the geographic service areas of EDA's Atlanta, Chicago, Philadelphia and Seattle regional offices will not have to compete for continuation funding in FY 2007, subject to the availability of funds and satisfactory continuing performance, as determined by EDA and expressed in written notice. The servicing EDA regional office will contact current University Center operators regarding the procedures for applying for FY 2007 continuation funding.

II.A.4. Economic Adjustment Assistance Program (CFDA No. 11.307)

EDA is allocating \$44,159,839 to the Economic Adjustment Assistance Program in FY 2007. The Economic Adjustment Assistance Program provides a wide range of technical, planning and infrastructure assistance in regions experiencing adverse economic changes that may occur suddenly or over time. This program is designed to respond flexibly to pressing economic recovery issues and is well suited to help address challenges faced by U.S. communities and regions. The Economic Adjustment Assistance Program is available to all eligible recipients under PWEDA, including institutions of higher education, non-profit organizations and consortia and State and local governments.

EDA also will continue its ongoing consideration of investment proposals from communities experiencing adverse economic changes due to base realignment and closures (BRAC) and federally-declared disasters when awarding assistance from FY 2007 Economic Adjustment Assistance Program funds. EDA will help American workers, businesses, and communities affected by military base closures or realignments, defense contractor reductions in force, U.S. Department of Energy defense-related funding reductions, rapid growth related to such closures, realignments, or reductions, federally-declared disasters, or economic deterioration due to other disasters, by providing assistance for planning, coordinating the use of federal resources available to support economic development recovery, and developing regionally focused economic recovery and growth strategies.

II.A.5. Trade Adjustment Assistance for Firms Program (CFDA No. 11.313)

EDA estimates that it will allocate \$12,814,214 to the TAA Program in FY 2007. EDA anticipates that these funds will be used to support the existing network of eleven (11) Trade Adjustment Assistance Centers, and to provide technical assistance to firms certified as eligible under the TAA Program. These continuation grants will not be competed. EDA does not currently anticipate awarding any new Trade Adjustment Assistance Center grants this fiscal year.

II.B. Types of Funding Instruments

EDA enters into either grants or cooperative agreements with eligible applicants in order to provide funding for eligible investment activities.

II.C. Project Periods

Project periods are dependent on the nature of the project and the EDA program under which the grant for the project is awarded.

III. Eligibility Information

A. Eligible Applicants

Pursuant to PWEDA, eligible applicants for and eligible recipients of EDA investment assistance include a(n): (i) District Organization; (ii) Indian Tribe or a consortium of Indian Tribes; (iii) State, a city or other political subdivision of a State, including a special purpose unit of a State or local government engaged in economic or infrastructure development activities, or a consortium of political subdivisions; (iv) institution of higher education or a consortium of institutions of higher education; or (v) public or private non-profit organization or association acting in cooperation with officials of a political subdivision of a State. *See* section 3 of PWEDA (42 U.S.C. § 3122) and 13 C.F.R. § 300.3. Projects eligible for Public Works or Economic Adjustment investment assistance include those projects located in regions meeting “Special Need” criteria (as defined in 13 C.F.R. § 300.3), as set forth in section VIII.B. of this announcement.

For-profit, private-sector entities do not qualify for investment assistance under PWEDA, with one minor exception: EDA may award a grant under section 207 (42 U.S.C. § 3147) of PWEDA under its Local Technical Assistance Program or National Technical Assistance Program to a for-profit organization for the specific purposes set forth in 13 C.F.R. § 306.1. EDA is not authorized to provide grants directly to individuals or to for-profit entities seeking to start or expand a private business. Such requests may be referred to State or local agencies, or to non-profit economic development organizations serving the region in which the project will be located.

Any community affected by the 1988, 1991, 1993, 1995 or 2005 base realignment and closure (BRAC) actions, which qualifies under EDA’s Public Works Program or Economic Adjustment Assistance Program, may apply for assistance under one or both of these programs. EDA anticipates that proponents with construction proposals will seek funding from the Public Works Program, and strategic planning, credit enhancement or other innovative financing proposals will compete under the Economic Adjustment Assistance Program.

B. Economic Distress Criteria

Potential applicants are responsible for demonstrating to EDA, by providing statistics and other appropriate information, the nature and level of economic distress in the region in which

the proposed project will be located. For a Public Works (13 C.F.R. part 305; CFDA No. 11.300) or an Economic Adjustment investment (13 C.F.R. part 307; CFDA No. 11.307), the project must be located in a region that, on the date EDA receives the application for investment assistance, meets one (or more) of the following economic distress criteria: (i) an unemployment rate that is, for the most recent twenty-four (24) month period for which data are available, at least one (1) percentage point greater than the national average unemployment rate; (ii) per capita income that is, for the most recent period for which data are available, eighty (80) percent or less of the national average per capita income; or (iii) a "Special Need," as determined by EDA and as discussed in section VIII.B. of this announcement. *See* section 301 of PWEDA (42 U.S.C. § 3161) and 13 C.F.R. § 301.3.

Special Provisions Relating to Disaster Assistance. The hurricane season of 2005 (hurricanes Katrina, Rita and Wilma) resulted in immense damage in the Gulf Coast region of the United States. As a result of the hurricanes, there are increasing demands being placed on federal funds. Previously, EDA determined that Alabama, Mississippi and Louisiana qualify for EDA assistance under the Public Works and Economic Adjustment Assistance Programs pursuant to the "Special Need" provisions at 13 C.F.R. §§ 300.3 and 301.3. This determination allowed the Regional Directors in EDA's Atlanta and Austin regional offices to recommend maximum investment rates of eighty (80) percent for specific investments in the affected States. This determination of "Special Need" was based on previous Presidential declarations of disaster areas and the Federal Emergency Management Agency's (FEMA) designations of areas as eligible for public assistance (Categories C-G; http://www.fema.gov/assistance/emergency_declaration.shtml) due to declared disasters. Under this competitive solicitation, as part of EDA's continuing efforts to help the Gulf Coast region recover, EDA will maintain its "Special Need" determination in the affected areas. Additionally, in FY 2007, EDA will help assist other Presidentially-declared disaster areas affected by hurricanes, tornadoes, floods, earthquakes or other calamities.

In August 2006, the Secretary of Commerce declared a commercial fishery failure due to a fishery resource disaster under section 312(a) of the Magnuson-Stevens Fishery Conservation and Management Act of 1976, as amended (16 U.S.C. § 1861a(a)). The scope of this fishery resource disaster, due primarily to natural causes, including drought, disease and poor ocean conditions, includes the entire 700 mile stretch of coastline from Cape Falcon, Oregon, to Point Sur, California. Due to this federally-declared disaster, EDA will maintain a "Special Need" determination for the fishery-impacted regions in the States of Oregon and California. *See* section VIII.B. of this FFO for additional information.

C. Cost Sharing or Matching Share Requirements

Generally, the amount of the EDA grant may not exceed fifty (50) percent of the total cost of the project. Projects may receive an additional amount that shall not exceed thirty (30) percent, based on the relative needs of the region in which the project will be located, as determined by EDA. *See* section 204(a) of PWEDA (42 U.S.C. § 3144) and 13 C.F.R. § 301.4(b)(1). For Planning Assistance, the minimum EDA investment rate for projects under 13 C.F.R. part 303 is fifty (50) percent, and the maximum allowable EDA investment rate may not exceed eighty (80) percent. *See* 13 C.F.R. § 301.4(b)(3). For projects of a national scope under 13 C.F.R. part 306 (Training, Research and Technical Assistance), and for all other projects

under 13 C.F.R. part 306, the Assistant Secretary of Commerce for Economic Development (Assistant Secretary) has the discretion to establish a maximum EDA investment rate of up to one-hundred (100) percent where the project (i) merits and is not otherwise feasible without an increase to the EDA investment rate; or (ii) will be of no or only incidental benefit to the recipient. *See* section 204(c)(3) of PWEDA (42 U.S.C. § 3144) and 13 C.F.R. § 301.4(b)(4).

In the case of EDA investment assistance to a(n) (i) Indian Tribe, (ii) State (or political subdivision of a State) that the Assistant Secretary determines has exhausted its effective taxing and borrowing capacity, or (iii) non-profit organization that the Assistant Secretary determines has exhausted its effective borrowing capacity, the Assistant Secretary has the discretion to establish a maximum EDA investment rate of up to one hundred (100) percent of the total project cost. *See* sections 204(c)(1) and (2) of PWEDA (42 U.S.C. § 3144) and 13 C.F.R. § 301.4(b)(5). Potential applicants should contact the appropriate EDA regional office to make these determinations.

While cash contributions are preferred, in-kind contributions, consisting of contributions of space, equipment, assumptions of debt, and services, may provide the required non-federal share of the total project cost. *See* section 204(b) of PWEDA (42 U.S.C. § 3144). EDA will fairly evaluate all in-kind contributions, which must be eligible project costs and meet applicable federal cost principles and uniform administrative requirements. Funds from other federal financial assistance awards are considered matching share funds only if authorized by statute, which may be determined by EDA's reasonable interpretation of the statute. *See* 13 C.F.R. § 300.3. The applicant must show that the matching share is committed to the project, available as needed and not conditioned or encumbered in any way that precludes its use consistent with the requirements of EDA investment assistance. *See* 13 C.F.R. § 301.5.

IV. Application Submission Information

A. Addresses to Request Pre-Application and Application Packages

Proponents applying for a Public Works or Economic Adjustment Assistance award under this announcement may request paper pre-application packages by contacting the designated point of contact listed in section VIII.C. of this FFO for the EDA regional office servicing your geographic area. Alternatively, proponents applying electronically through www.Grants.gov may access the pre-application package by following the instructions provided on http://www.grants.gov/applicants/apply_for_grants.jsp.

To apply for Planning or Technical Assistance under this announcement, the EDA regional office may instruct you to submit the *Application for Investment Assistance* (Form ED-900A) (OMB Control No. 0610-0094) in lieu of the *Pre-Application for Investment Assistance* (Form ED-900P) (OMB Control No. 0610-0094). Please contact the applicable EDA regional office listed in section VIII.C. of this FFO to make this determination. Whether the regional office instructs you to submit the *Application for Investment Assistance* or the *Pre-Application for Investment Assistance*, you also may apply via www.Grants.gov.

The following forms may be accessed and downloaded as follows: (i) Forms ED-900P and ED-900A at www.eda.gov/InvestmentsGrants/Application.xml; (ii) Standard Forms (SF) at either www.Grants.gov or at www.eda.gov/InvestmentsGrants/Application.xml; and (iii) Department of Commerce (CD) forms at www.doc.gov/forms. See section IV.D. of this FFO for paper or electronic submission requirements. See section V.A. of this FFO for information regarding evaluation and selection procedures.

For information regarding the TAA Program, please contact William P. Kittredge at WKittredge@eda.doc.gov. In connection with soliciting applications for certain National Technical Assistance projects to be funded in FY 2007, EDA will include relevant contact information in a separate FFO announcement.

B. Content and Form of Application Process

Proponents are advised to carefully read the instructions contained in this FFO and in the pre-application and application forms. The requirements of the pre-application are different than the requirements of the application. It is the sole responsibility of the proponent to ensure that the pre-application or application (as appropriate) is complete and received by EDA.

1. Proposal Format for Public Works or Economic Adjustment Assistance Investments

Proposals for Public Works or Economic Adjustment investments must be submitted on Form ED-900P. This form contains questions and requires a narrative statement that should not exceed four (4) pages. The project narrative statement must address the following topics in the order listed below:

- a. Project description.
- b. Geographic area in which project will be located.
- c. The regional nature and impact of the project.
- d. The means by which and the extent to which the project supports innovation.
- e. The means by which and the extent to which the project encourages entrepreneurship.
- f. Proponent's capability.
- g. Regional problem(s) or obstacle(s) addressed by the project.
- h. Project beneficiaries.
- i. Funding.
- j. Identity of sources of local commitment and non-EDA funding.
- k. Title/ownership/operation and maintenance (construction projects).
- l. Environmental issues.

Proponents requesting EDA to fund more than fifty (50) percent of eligible project costs are required to include Exhibit III.A. to Form ED-900P, which requests additional information from the proponent to reach a maximum allowable investment rate determination, in addition to other necessary documentation and the narrative statement.

For a Public Works or an Economic Adjustment investment, EDA reviews project eligibility at the time an application for investment assistance is received in the regional office. For economic distress levels based upon the unemployment rate or per capita income requirements, EDA will base its determination upon the most recent American Community Survey (ACS) published by the U.S. Census Bureau for either: the region where the Project is located, the geographic area where substantial direct project-related benefits will occur, or the geographic area of poverty or high unemployment, as applicable. If a recent ACS is not available to determine project eligibility, EDA will base its decision on the most recent federal data from other sources (e.g., data available from the Census Bureau and the Bureau of Economic Analysis, Labor Statistics, Indian Affairs). If no federal data are available, an applicant must submit to EDA the most recent data available through the government of the State in which the region is located (i.e., conducted by or at the direction of the State government). *See* section 301 of PWEDA (42 U.S.C. § 3161) and 13 C.F.R. § 301.3. Other data may be submitted, as appropriate, to substantiate eligibility based on a “Special Need” (*see* section VIII.B. below). The project must be eligible on the date EDA receives the application. In the case of an application received by EDA more than six (6) months prior to the time of award, EDA will re-evaluate the project to determine continued eligibility for EDA investment assistance before making an award. EDA will reject any documentation of eligibility that it determines is inaccurate or incomplete, which may cause the application to be rejected.

2. Submission Dates and Times

Unless otherwise noted in this announcement, EDA’s regional offices accept proposals on an ongoing basis. Proposals or applications (as appropriate) received after the date of this announcement will be processed in accordance with the requirements set forth herein until the next annual FFO is posted on www.Grants.gov and the related notice and request for proposals and applications is published in the *Federal Register*.

3. Intergovernmental Review

EDA applications for funding are subject to the requirements of Executive Order 12372, “Intergovernmental Review of Federal Programs.” To find out more about a State’s process under Executive Order 12372, applicants may contact their State’s Single Point of Contact (SPOC). Names and addresses of some States’ SPOCs are listed on the Office of Management and Budget’s (OMB) home page at www.whitehouse.gov/omb/grants/spoc.html.

C. Funding Restrictions

The general and administrative requirements for EDA awards are set forth in 13 C.F.R. parts 300–302. Specific application and award requirements for the Public Works, Planning, Technical Assistance, Economic Adjustment Assistance, and TAA Programs are provided in 13 C.F.R. parts 303-307 and 13 C.F.R. part 315. The uniform administrative requirements for Department of Commerce grants and cooperative agreements are codified at 15 C.F.R. parts 14 and 24, as applicable. Funds awarded cannot necessarily pay for all the costs that the recipient may incur in the course of carrying out the project. EDA allowable costs are determined in accordance with the following regulations (incorporated by reference at 15 C.F.R. parts 14 and

24): (i) 2 C.F.R. part 220, “Cost Principles for Educational Institutions (OMB Circular A-21)”;

(ii) 2 C.F.R. part 225, “Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)”;

(iii) 2 C.F.R. part 230, “Cost Principles for Nonprofit Organizations (OMB Circular A-122)”;

and (iv) Federal Acquisition Regulation Subpart 31.2, “Contracts with Commercial Organizations,” codified at 48 C.F.R. § 31.2. Applicable administrative requirements and federal cost principles are incorporated by reference into the terms and conditions of each EDA award. Generally, costs that are allowable include salaries, supplies and other expenses that are reasonable and necessary for the completion of the scope of work.

D. Pre-Application and Application Submission Requirements

The content of the pre-application or application (as appropriate) is the same for paper submissions as it is for electronic submissions. EDA will not accept facsimile transmissions of pre-applications and applications.

For projects under EDA’s Public Works Program (CFDA No. 11.300) or Economic Adjustment Assistance Program (CFDA No. 11.307), pre-applications may be submitted in two formats: (i) in paper (hardcopy) format through the procedures provided below in this FFO; or (ii) electronically in accordance with the procedures provided on www.Grants.gov.

For projects under EDA’s Planning Program (CFDA No. 11.302) or Technical Assistance Program (CFDA No. 11.303), please contact the applicable EDA regional office listed in section VIII.C. of this announcement for instructions as to whether you should complete a pre-application or an application. In the case of a continuation grant, no pre-application is required.

1. Paper Submissions

Under this competitive solicitation, a proponent for Public Works or Economic Adjustment investment assistance may submit a completed pre-application to the applicable EDA regional office listed in section VIII.C. of this announcement. Proponents choosing this option should download and print copies of the *Pre-Application for Investment Assistance* (Form ED-900P) and the *Application for Federal Assistance* (Form SF-424) at www.eda.gov/InvestmentsGrants/Application.xml, complete Parts I, II and III of Form ED-900P and Form SF-424, and attach the project narrative statement requested in section IV.B.1. of this FFO. The narrative statement should be clearly labeled to identify each addressed topic listed in section IV.B.1.

After consultation with the applicable EDA regional office, a proponent for a Planning or Technical Assistance investment may submit a completed pre-application or an application, as instructed, to the regional office.

A proponent must submit one (1) original and two (2) copies of a completed pre-application or application (as appropriate) via postal mail, shipped overnight or hand-delivered to the applicable regional office, unless otherwise directed by EDA staff. Proponents are advised that Department of Commerce mail security measures may delay receipt of United States Postal

Service mail for up to two weeks. Proponents may wish to use guaranteed overnight delivery services.

2. Electronic Submissions

Applicants for assistance under the Public Works or Economic Adjustment Assistance Programs may submit pre-applications electronically in accordance with the instructions provided at www.Grants.gov. The preferred file format for electronic attachments (e.g., the project narrative statement and exhibits to Form ED-900P) is portable document format (PDF); however, EDA will accept electronic files in Microsoft Word, WordPerfect, Lotus or Excel formats.

Applicants for Planning or Technical Assistance may not need to submit a pre-application. If the regional office instructs you to submit an application instead of a pre-application for a project under the Planning Program or the Technical Assistance Program, you may submit the application in paper (hardcopy) format or you may submit the application electronically via www.Grants.gov. If the regional office instructs you to submit a pre-application, you also may submit the pre-application in paper (hardcopy) format or electronically via www.Grants.gov.

Applicants should access the following link for assistance in navigating www.Grants.gov and for a list of useful resources: http://www.grants.gov/applicants/applicant_help.jsp. If you do not find an answer to your question under [Frequently Asked Questions](#), try consulting the [Applicant's User Guide](#). If you still cannot find an answer to your question, contact www.Grants.gov via email at support@grants.gov or telephone at 1-800-518-4726. The hours of operation for www.Grants.gov are Monday-Friday, 7:00 a.m. to 9:00 p.m. (EST) (except for federal holidays).

V. Proposal and Application Review Information

A. Evaluation and Selection Procedures

Each pre-application or application (as appropriate) is circulated by a project officer within the applicable EDA regional office for review and comments. When the necessary input and information are obtained, the pre-application or application (as appropriate) is considered by the regional office's investment review committee (IRC), which is comprised of regional office staff. The IRC discusses the pre-application or application (as appropriate) and evaluates it on two levels to (a) determine if the pre-application or application (as appropriate) meets the program-specific award and application requirements provided in 13 C.F.R. § 305.2 for Public Works investments, 13 C.F.R. § 303.3 for Planning investments, 13 C.F.R. § 306.2 for Local Technical Assistance, or 13 C.F.R. §§ 307.2 and 307.4 for Economic Adjustment Assistance; and (b) evaluate each pre-application or application (as appropriate) using the general evaluation criteria set forth in 13 C.F.R. § 301.8. These general evaluation criteria also are provided below under section V.B.

In the case of a pre-application, after completing its evaluation, the IRC recommends to the Regional Director whether an application should be invited, documenting its recommendation in the meeting minutes or in the Investment Summary and the Project Proposal Summary and Evaluation Form. For quality control assurance, EDA Headquarters reviews the IRC's analysis of the project's fulfillment of the investment policy guidelines set forth below in section V.B. of this FFO and in 13 C.F.R. § 301.8. After receiving quality control clearance, the Selecting Official, who is the Regional Director, considers the evaluations provided by the IRC and the degree to which one or more of the funding priorities provided below are included, in making his/her decision as to which proponents should be invited to submit formal applications for investment assistance. The Selecting Official then formally invites successful proponents to submit full applications (on Form ED-900A). If the Selecting Official declines to invite a full application, he/she provides written notice to the proponent.

If a proponent is selected to submit a formal application, the appropriate regional office will provide application materials and guidance in completing them. The proponent will generally have thirty (30) days to submit the completed application materials to the regional office. EDA staff will work with the proponent to resolve application deficiencies. EDA will notify the applicant if EDA accepts a completed application, and it is forwarded for final review and processing in accordance with EDA and Department of Commerce procedures.

B. Evaluation Criteria

EDA will select investment proposals or applications (as appropriate) competitively based on the investment policy guidelines and funding priority considerations identified in this section and in section V.C. below. EDA will evaluate the extent to which a project embodies the maximum number of investment policy guidelines and funding priorities possible and strongly exemplifies at least one of each. All investment proposals or applications (as appropriate) will be competitively evaluated primarily on their ability to satisfy one (1) or more of the following investment policy guidelines, each of equivalent weight and which also are set forth in 13 C.F.R. § 301.8:

1. ***Be market-based and results driven.*** An EDA investment will capitalize on a region's competitive strengths and will positively move a regional economic indicator measured on EDA's Balanced Scorecard, such as: an increased number of higher-skill, higher-wage jobs; increased tax revenue; or increased private sector investment resulting from the EDA investment.
2. ***Have strong organizational leadership.*** An EDA investment will have strong leadership, relevant project management experience, and a significant commitment of human resources talent to ensure a project's successful execution.
3. ***Advance productivity, innovation and entrepreneurship.*** An EDA investment will embrace the principles of entrepreneurship, enhance regional industry clusters, and leverage and link technology innovators and local universities to the private sector to create the conditions for greater productivity, innovation, and job creation.
4. ***Look beyond the immediate economic horizon, anticipate economic changes, and diversify the local and regional economy.*** An EDA investment will be part

of an overarching, long-term comprehensive economic development strategy that enhances a region's success in achieving a rising standard of living by supporting existing industry clusters, developing emerging new clusters, or attracting new regional economic drivers.

5. ***Demonstrate a high degree of local commitment by exhibiting:***

- High levels of local government or non-profit matching share funds and private sector leverage;
- Clear and unified leadership and support by local elected officials; and
- Strong cooperation between the business sector, relevant regional partners and local, State and Federal governments.

In addition to using the investment policy guidelines set forth above, EDA also will evaluate all Planning Assistance pre-applications or applications (as appropriate) based on the (i) quality of the proposed scope of work for the development, implementation, revision or replacement of a comprehensive economic development strategy (CEDS); and (ii) qualifications of the proponent to implement the goals and objectives resulting from the CEDS. *See* 13 C.F.R. § 303.3(a)(1) and (2). To ensure that the pre-application or application (as appropriate) fully meets these requirements, proponents should pay particular attention to 13 C.F.R. § 303.7(b), which sets forth specific technical requirements for the CEDS.

C. Funding Priorities

Successful proposals or applications (as appropriate) for EDA's investment programs will be regionally-driven initiatives in areas of the Nation that are underperforming and eligible for EDA assistance, and that meet one or more of the following core criteria (investment proposals or applications that meet more than one core criterion will be given more favorable consideration):

1. ***Investments in support of long-term, coordinated and collaborative regional economic development approaches:***

- Establish comprehensive regional economic development strategies that identify promising opportunities for long-term economic growth.
- Exhibit demonstrable, committed multi-jurisdictional support from leaders across all sectors:
 - i. Public (e.g., mayors, city councils, county executives, senior state leadership);
 - ii. Institutional (e.g., institutions of higher learning);
 - iii. Non-profit (e.g., chambers of commerce, development organizations); and
 - iv. Private (e.g., leading regional businesses, significant regional industry associations).
- Generate quantifiable positive economic outcomes.
- Make a persuasive case that the project would not have occurred "but for" EDA's investment assistance (e.g., a project in which EDA's assistance represents a substantial share of the total public infrastructure investment

and which are unlikely to attract public investment absent specific and discrete EDA involvement).

2. ***Investments that support innovation and competitiveness:***

- Develop and enhance the functioning and competitiveness of leading and emerging industry clusters in an economic region.
- Advance technology transfer from research institutions to the commercial marketplace.
- Bolster critical infrastructure (e.g., transportation, communications, specialized training) to prepare economic regions to compete in the world-wide marketplace.
- Leverage local partnerships and other federal programs (e.g., Economic Development Districts, Trade Adjustment Assistance Centers, University Centers, the U.S. Department of Labor's Workforce Innovation in Regional Economic Development (WIRED) initiative) that increase the project's probability of success, as well as its probability of bringing substantial benefits to the distress community in which it is located.

3. ***Investments that encourage entrepreneurship:***

- Cultivate a favorable entrepreneurial environment consistent with regional strategies.
- Enable economic regions to identify innovative opportunities among growth-oriented small and medium-size enterprises.
- Promote community and faith-based entrepreneurship programs aimed at improving economic performance in an economic region.
- Link the economic benefits of the project to the distressed community in which it is located.

Additional consideration will be given to investment proposals or applications (as appropriate) which also:

- Respond to sudden and severe economic dislocations (e.g., major layoffs, plant closures or disasters).
- Enable BRAC-impacted communities to transition from a military to civilian economy.
- Advance the goals of linking historic preservation and economic development as outlined by Executive Order 13287, "Preserve America."
- Support the economic revitalization of brownfields.

VI. Award Administration Information

A. Award Notices

As detailed in section V. of this announcement, for proponents submitting a pre-application, EDA may invite successful proponents to submit a formal application. This invitation is not, however, a guarantee that funding will be provided. Unsuccessful proponents will be notified by postal mail that their proposals were not recommended for funding. Unsuccessful proposals will be retained in the EDA regional office in accordance with EDA's record retention schedule.

The EDA Grants Officer will issue the grant award (Form CD-450), which is the authorizing financial assistance award document. By signing the Form CD-450, the recipient agrees to comply with all award provisions. EDA will provide the Form CD-450 by mail or overnight delivery to the appropriate business office of the recipient's organization. The recipient must sign and return the Form CD-450 without modification within thirty (30) days of receipt.

B. Reporting Requirements

All recipients are required to submit financial and performance (technical) reports in accordance with the terms and conditions of the grant award. All financial reports must be submitted in triplicate (one original and two copies) to the EDA Program Officer. *See* 13 C.F.R. § 302.16.

C. Performance Awards

In connection with an award to a recipient for a Public Works or an Economic Adjustment Assistance grant, the Assistant Secretary has the discretion to award a performance award to the recipient in an amount not to exceed ten (10) percent of the investment award, subject to the availability of funds. *See* section 215 of PWEDA (42 U.S.C. § 3154a). EDA will offer performance awards to selected recipients of Public Works and Economic Adjustment grants in accordance with 13 C.F.R. § 308.2. The process by which recipients will be selected is as follows:

- 1) Each regional office will determine which of its recipients are eligible to receive a performance award in accordance with the following:
 - (i) a recipient is eligible if it can demonstrate that the EDA project met or exceeded *at least one* of the following criteria: (a) its projection of jobs created; (b) its projection of private sector capital invested; (c) target dates for project start and completion stated at time of investment approval; and (d) notable fulfillment of the evaluation criteria set forth in 13 C.F.R. § 308.2;
 - (ii) the EDA award must have been made on or after October 27, 2004;
 - (iii) the project has been closed out; and
 - (iv) no more than three (3) years have elapsed since project closeout.
- 2) The regional office will select eligible projects for nomination and rates and ranks the selected projects.
- 3) The regional office then recommends a performance award amount for each project and compiles a ranked nomination list for submission to the Regional Director.

- 4) The Regional Director reviews the ranked nomination list and either accepts and signs the list, or based on his or her discretion, recommends changes, and forwards the nomination list to the Deputy Assistant Secretary for Management Services no later than May 1, 2007.
- 5) The Deputy Assistant Secretary for Management Services reviews the nominations and the justifications and compiles a consolidated list to submit to the Office of the Assistant Secretary.
- 6) The Assistant Secretary determines which recipients nominated will receive an award and the amount of each award and returns the approved selections to the regional office.
- 7) The Regional Director then issues notice of the performance awards to the selected recipients.

Performance awards cannot exceed ten (10) percent of EDA's investment in the project. However, if the regional office establishes and documents that an eligible EDA project also qualifies for a planning performance award in accordance with all requirements of 13 C.F.R. § 308.3, a combined performance and planning performance award of up to fifteen (15) percent of EDA's investment in the project may be awarded.

In accordance with the requirements of 13 C.F.R. § 308.3, recipients of EDA investment assistance awarded on or after October 27, 2004 may receive a planning performance award in an amount not to exceed five (5) percent of the amount of the applicable investment award. A regional office will determine its selection of projects eligible for a planning performance award based on: (i) the active participation by the recipient in District economic development activities; (ii) exceptional fulfillment of the comprehensive economic development strategy (CEDS); and (iii) exceptional collaboration with federal, State, and local economic development entities throughout development of the project.

- 1) The Regional Director will submit nominations, the associated justifications, and the recommended amounts to the Deputy Assistant Secretary for Management no later than May 1, 2007.
- 2) The Deputy Assistant Secretary for Management reviews the nominations and the justifications and compiles a consolidated list to submit to the Office of the Assistant Secretary.
- 3) The Assistant Secretary determines which of the recipients nominated will receive an award and the amount of each award and returns the approved selections to the regional office.
- 4) The Regional Director then issues notice of the planning performance awards to the selected recipients.

While section 215(h) and section 216(f) of PWEDA (42 U.S.C. §§ 3154a and 3154b) authorize the use of any amounts made available for EDA's economic development assistance programs, EDA is conducting the new performance award procedures on a pilot basis and will authorize the regional offices to use up to five (5) percent of their allocations for Public Works grants for these purposes.

VII. Agency Contacts

EDA's Internet website at www.eda.gov contains additional information on EDA and its programs. You may also contact the appropriate EDA regional office. Addresses for each of EDA's six (6) regional offices are provided in section VIII.C. of this announcement. Addresses for the Economic Development Representatives also are listed in section VIII.C. For community and regional economic development investments, contact the EDA regional office or the Economic Development Representative for your geographic area. For the following programs: (i) Research and Evaluation; (ii) National Technical Assistance; and (iii) Trade Adjustment Assistance for Firms, please contact William P. Kittredge at WKittredge@eda.doc.gov.

VIII. Additional Information and Requirements

A. Other Requirements

Unless otherwise provided in this FFO, applicant eligibility, program objectives and priorities, application procedures, evaluation criteria, selection procedures, and other requirements for all programs are set forth in EDA's final regulations (71 FR 56658) and applicants must address these requirements. EDA's final regulations are available on its Internet website at www.eda.gov. Certain Department of Commerce and other requirements are noted below.

1. Administrative and National Policy Requirements

Administrative and national policy requirements for all Department of Commerce awards are contained in the Department of Commerce Pre-Award Notification Requirements for Grants and Cooperative Agreements, published in the *Federal Register* on December 30, 2004 (69 FR 78389). This notice may be accessed by entering the *Federal Register* volume and page number provided in the previous sentence at the following Internet website: <http://gpoaccess.gov/fr/retrieve.html>.

2. Environmental Requirements

The implementing regulations of the National Environmental Policy Act of 1969, as amended (NEPA), require EDA to provide public notice of the availability of project-specific environmental documents, such as environmental impact statements, environmental assessments, findings of no significant impact, and records of decision, to the affected public, as specified in 40 C.F.R. § 1506.6(b). Depending on the project location, environmental information concerning specific projects can be obtained from the Regional Environmental Officer (REO) in the appropriate EDA regional office listed in section VIII.C.

B. Special Need Criteria

The following criteria are published in accordance with 13 C.F.R. § 301.3(a)(1)(iii) and define what may constitute a "Special Need" (as defined in 13 C.F.R. § 300.3) sufficient to make a project eligible for Public Works or Economic Adjustment investment assistance, as described in section III.A. of this announcement. Proposals for only Public Works or Economic

Adjustment investment assistance may be found eligible under a “Special Need,” and EDA will determine the investment rates for such projects. A project is eligible pursuant to a “Special Need” if the project is located in a region that meets one of the criteria described below:

1. Closure or restructuring of an industrial firms or loss of a major employer essential to the regional economy. A region has experienced either: (1) an actual closure or restructuring of a firm(s) within the past twelve (12) months prior to application, resulting in sudden job losses and meeting the following dislocation criteria; or (2) a threat of closure that results from a public announcement of an impending closure or restructuring of a firm(s) expected to occur within two (2) years of application and result in sudden job losses meeting the following dislocation criteria:
 - a. For regions with population over 100,000, the actual or threatened dislocation is 500 jobs, or one (1) percent of the civilian labor force (CLF), whichever is less.
 - b. For regions with population up to 100,000, the actual or threatened dislocation is 200 jobs, or one (1) percent of the CLF, whichever is less.
2. Substantial out-migration or population loss. Applicants seeking eligibility under this criterion will be asked to present appropriate and compelling economic or demographic data to demonstrate the special need.
3. Underemployment, meaning employment of workers at less than full-time or at less skilled tasks than their training or abilities permit. Applicants seeking eligibility under this criterion will be asked to present appropriate and compelling economic and demographic data to demonstrate the special need.
4. Military base closures or realignments, defense contractor reductions-in-force, or Department of Energy defense-related funding reductions.
 - a. A military base closure refers to a military base that was closed or is scheduled for closure or realignment pursuant to the base closure and realignment process or other Department of Defense (DOD) process. Unless further extended by the Assistant Secretary, the region is eligible from the date of DOD’s recommendation for closure until five (5) years after the actual date of closing of the installation.
 - b. A defense contractor reduction-in-force refers to a defense contractor(s) experiencing defense contract cancellations or reductions resulting from official DOD announcements and having aggregate value of at least \$10 million per year. Actual dislocations must have occurred within one year of application to EDA and threatened dislocations must be anticipated to occur within two (2) years of application to EDA. Defense contracts that expire in the normal course of business will not be considered in meeting this criterion.
 - c. A Department of Energy defense-related funding reduction refers to a Department of Energy facility that has experienced or will experience a reduction of employment resulting from its defense mission change. The area is eligible from the date of the Department of Energy announcement of reductions until five (5) years after the actual date of reduced operations at the installation.
5. Natural or other major disasters or emergencies, including terrorist attacks. Unless further extended by the Assistant Secretary, a region that has received one of the following disaster declarations is eligible to apply for EDA assistance for a period of 18 months after the date of declaration:

- a. A Presidentially-Declared Disaster declared under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended (42 U.S.C. § 5121 *et seq.*); or
 - b. A Federally-Declared Disaster pursuant to the Magnuson-Stevens Fishery Conservation and Management Act, as amended (16 U.S.C. § 1861a(a)); or
 - c. A Federally-Declared Disaster pursuant to the Consolidated Farm and Rural Development Act, as amended (7 U.S.C. § 1961); or
 - d. A Federally-Declared Disaster pursuant to the Small Business Act, as amended (Pub. L. No. 85-536, 72 Stat. 384 (1958)).
6. Extraordinary depletion of natural resources.
 7. Communities undergoing transition of their economic base as a result of changing trade patterns. An area certified as eligible by the North American Development Bank (NADBank) Program or the Community Adjustment and Investment Program (CAIP).
 8. Other special need. The area is experiencing other special or extraordinary economic adjustment needs, as determined by the Assistant Secretary.

The proponent will be asked to present appropriate economic or demographic statistics to demonstrate a “Special Need.”

C. EDA Regional Office Contacts and Economic Development
Representatives

The EDA regional office contacts, the Economic Development Representatives and the areas served by each regional office are listed below.

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TECHNICAL ASSISTANCE

Background

Many border communities often lack sufficient resources to develop the environmental infrastructure projects they require. Through its technical assistance programs BECC manages and provides grant resources to communities for the planning, development and design of their projects.

Project Development Assistance Program (PDAP)

This BECC managed program is funded by the U.S. Environmental Protection Agency and allows for supporting the development of water and wastewater collection and treatment projects.

Technical Assistance for other Projects

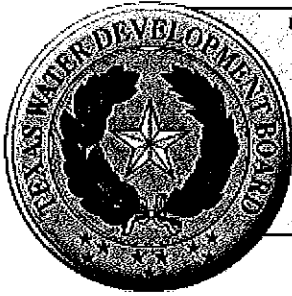
Since its inception, BECC has also provided technical assistance funds directly from its annual operating budget to support the development of projects in other environmental infrastructure sectors, primarily solid waste management and disposal projects. More recently BECC has made available limited resources for assisting the development of projects included in its expanded mandate, such as air quality and water conservation.

PDAP Eligibility Requirements

PDAP funding is available for project development activities necessary for certification of projects including, but not limited to: planning studies, environmental assessment, technical design, financial feasibility, community participation, and development of sustainability characteristics.

- 1 Financial strategy for the entire project
- 2 Project sponsor awareness of technical aspects of project
- 3 Project sponsor should provide a resolution establishing the need and support through implementation of the project.
- 4 BEIF eligible
- 5 C.N.A. and/or state/local government documented support, for projects in Mexico
- 6 Funds allocated on a per-task basis
- 7 Project coordination with all government agencies responsible for the project
- 8 Value engineering as required under BEIF program

PDAP is limited to a total maximum amount of \$500,000 per community per calendar year. PDAP funding may be used to fund up to 100 percent of project development activities with the exception of design costs. PDAP funding used for design costs is limited to a fifty percent match of the total design costs, not to exceed \$500,000. The prioritized list will be used to determine which projects receive PDAP funding to support project development leading to BECC certification. Projects likely to receive FY 2005-FY 2006 funding will be given preference for PDAP funds.



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Calendar of Events: Monday, December 2

» Events for today:	<<
TWDB Offices are Closed for the Holidays	S M
Presentation: Will resume business on December 27	2
	9 1
» Next upcoming event:	16 1
2008 AWBD Mid Winter Conference	23 2
Event Date: 1/11/2008	30 3
Presentation: No Event	
Description	*To view click here.
Place: Hyatt Regency Dallas at Reunion - Dallas, TX	**To add here.

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