

## KNOWLEDGE NOW: ALTERNATIVE RESOURCES FOR MUNICIPAL FUNDING

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The Knowledge Now series features practical research on timely topics from the Colorado Municipal League.

### Non-government grants

For many communities, grant resources from state and federal government sources have been a mainstay of their budgets. While these resources are becoming increasingly scarce, there are other, nongovernment sources for municipalities to consider. In each case, the purposes and motivations of the funder are important to factor when determining whether or not your funding request is the right fit for a particular source. Below are some general categories of nongovernment sources.

#### Foundations

Foundations often have firm guidelines and procedures, and typically have staff that oversee and implement the foundation giving.

#### Corporations

Often, corporations will allocate some of their profits towards community giving campaigns. This in particular could be a great fit for municipalities, as corporations are motivated to enhance their reputations with key stakeholders in communities at large.

#### Individuals

Individuals as a funding source may be harder to identify, but establishing a giving campaign to solicit directly from individuals can be a very effective fundraiser tool for the right type of project or program.

Once you have identified a possible grant resource and have done the appropriate background research, keep in mind a few key best practices when preparing your application:

- describe the program (why is it needed?) and recognize if there are other organizations providing this service

- explain how will you make it happen, including identifying what resources are needed and what steps will be taken to prepare for and execute the program;
- identify who will benefit, including how many people will you serve and any key demographics such as age, race, income, language; and
- include a plan for program evaluation that explains what results you expect, as well as how you will measure the results.

Applying for grants can be a time-consuming process, but the rewards for your community, especially in a time where other sources have run dry, can be tremendous. Fortunately, there is assistance available for municipalities looking to become more active in the grants process. For example, in June and September of this year, Rural Philanthropy Days take place (see [www.crcamerica.org/rpd/default.asp](http://www.crcamerica.org/rpd/default.asp) for details). In addition, organizations such as the Colorado Nonprofit Association frequently have in-person workshops and distance-learning webinars to provide education and support to organizations seeking grant funding (learn more at [coloradononprofits.org](http://coloradononprofits.org)).

There are a number of sources on the Internet where municipalities can identify possible funding sources. Visit [www.cml.org](http://www.cml.org) to find online resources for funding opportunities.

### State grants

#### Energy and mineral impact assistance program

The Energy and Mineral Assistance Program in the Department of Local Affairs (DOLA) historically has been available to fund planning, construction, and maintenance of public facilities and

the provision of public services. Recipients must be political subdivisions socially or economically impacted by the development, processing, or energy conversion of minerals and mineral fuels, which covers some but not all communities with fewer than 5,000 residents in Colorado, but does not include public, nonprofit water and wastewater systems.

The funds for the grant program are derived from two sources. One is from the 40 percent of federal mineral lease rents, royalties, and earnings paid to the state by the United States, half of which is deposited into the grant fund. (The remainder is distributed back to impacted communities.) The second source is from the 50 percent of state severance tax allocated to DOLA, of which 70 percent is deposited into the grant program. (The remaining 30 percent is distributed back to impacted communities.)

In 2009, the program was changed such that future grants will be awarded in three different tiers.

- Tier I grants: \$200,000 or less with expedited review
- Tier II grants: up to \$2 million
- Tier III grants: goal is provide up to three grants per year up to \$10 million if dollars are available (implementation has not yet occurred)

Loans also may be made through the program for domestic water treatment and distribution system improvements (not for raw water) at a rate of 5 percent for up to 20 years. There are three application deadlines throughout the year: April 1, Aug. 1, and Dec. 1.

While the new tiered system for grants will significantly assist many communities, the Energy and Mineral

Impact Assistance Fund (EIAF) grant program funds many types of infrastructure needs in impacted communities and cannot become a substitute for dedicated infrastructure funding.

Since the beginning of the economic downturn in 2008, the State of Colorado has relied on \$266.5 million of severance tax and federal mineral lease (FML) revenue to balance the state budget, \$247.4 million of which would have gone to the grant program. Since August of 2010, grants have been suspended indefinitely.

From 2007 to 2010, the EIAF awarded \$360.2 million in grants that were leveraged with matches to create a total investment of \$1.33 billion in Colorado communities. That investment, according to the Department of Local Affairs, created or supported 23,611 jobs.

Restoring this funding source for municipalities is a priority of CML and our local government partners.

### **State drinking water and domestic wastewater grants**

These grants are funded by the Department of Public Health and Environment out of the state's capital construction budget, although only one appropriation was made to the programs between 2002 and 2008. The total amount available is not significant — \$1.5 million total for each program — but is at least a source of some additional grant funding for areas with fewer than 5,000 residents.

The grants are available to governmental agencies, counties on behalf of unincorporated areas, and privately owned nonprofit public water systems for the planning, design, and construction of eligible projects. Applications for funding are due annually on Aug. 1, when money is available. If current economic forecasts hold true, a limited amount of money may be available in FY 12-13.

### **State revolving loan funds**

#### **The Drinking Water Revolving Fund (DWRF) and the Water Pollution Control Revolving Fund (WPCRF)**

The Drinking Water Revolving Fund (DWRF) and the Water Pollution Control Revolving Fund (WPCRF) are

administered jointly by the Department of Public Health and Environment's Water Quality Control Division, the Colorado Water Resources and Power Development Authority (CWRPDA), and the Department of Local Affairs' Division of Local Government. Each agency has a designated role in the funding process.

The DWRF and the WPCRF are low-interest loan programs that fund drinking water and wastewater related projects that will bring drinking water and wastewater systems into compliance or keep them in compliance with the Federal Safe Drinking Water Act and Clean Water Act. The funds can cover up to 100 percent of the eligible project costs with terms up to 20 years (up to 30 years for disadvantaged communities).

There are two main types of loans out of each program and one special type of loan in each for communities with significant funding challenges. Leveraged loans are for projects greater than \$2 million and have interest rates that are 70 percent of the market rate on Authority bonds. The loan application deadlines are Dec. 15 and June 15 each year. Direct loans are for projects less than \$2 million. The interest rate is set each December by the CWRPDA board and will be 2 percent for 2011. The Disadvantaged Community Program was created for communities with fewer than 5,000 residents in areas with median household incomes that are 80 percent or less than state average. The interest rate for areas with MHI from 61 percent to 80 percent of the state average is 1.00 percent, and the rate for areas with MHI 60 percent or less is 0.0 percent. The maximum loan amount is \$2 million.

Projects eligible for DWRF loans are treatment facilities, distribution/transmission lines, treated water storage, source water protection, water conservation (e.g., dual water lines), meters, and limited supply systems. For 2011, the fund has an approximate loan capacity of \$40 million, and the loan demand is \$35 million. Current drinking water needs statewide total \$2.2 billion. Most of the aggregate project need exists in smaller communities, while the bulk of the total

dollars needed exists in larger communities.

Projects eligible for WPCRF loans are wastewater treatment facilities, interceptor/collection lines, biosolid facilities, stormwater systems, reuse facilities, and non-point source projects. The 2011 loan capacity is approximately \$68 million (assuming the same grant funding level as 2010) and the loan demand is approximately \$75 million, continuing a trend of a shortfall in available wastewater loan funding. Of greater concern is the growing total statewide wastewater need — which totals \$2.9 billion — in the context of annual appropriations to the WPCRF from the EPA that are declining rapidly. Future capitalization grant funding levels are uncertain at this time.

Associated with both DWRF and WPCRF are \$10,000 grants for both planning and design to help address requirements of the Revolving Loan Funds, such as preliminary engineering reports; technical, managerial, and financial assessments (drinking water); environmental assessments; plans and specifications; and legal fees associated with an entity capable of receiving revolving fund assistance. Entities must be on the eligibility list, under 10,000 population, and either a median household income lower than the state average or current or projected user charges for water or sewer greater than the statewide average. A total of \$150,000 is available each year in both the DWRF and WPCRF.

#### **Water Quality Improvement Fund**

HB 06-1337 created the Water Quality Improvement Fund, administered by the Water Quality Control Division, to credit fines and penalties for violations of the Colorado Water Quality Control Act to the fund to be used for:

- improving water quality in the community or water body impacted by the violation;
- design, construction, or upgrades of domestic wastewater treatment plants;
- grants for stormwater projects; and
- non-federal match for Nonpoint Source Grants.

HB 06-1337 established a fund for addressing various water quality issues, including providing grants for stormwater projects, designing, construction, or upgrades of domestic wastewater treatment plants, and non-point source projects. The fund consists of penalties collected as a result of violations in accordance with the Colorado Water Quality Control Act. To date, the fund has received some penalty money, but no grants have been awarded.

### **Water Revenue Bond Program**

Administered by the Colorado Water Resources and Power Development Authority (CWRPDA), the Water Revenue Bond Program may be used to fund water and wastewater treatment plants, pump stations, dams/reservoirs, water rights, pipelines, wells, meters, reuse, and storage tanks, including facilities for streamflow improvements, and for stabilization of stream and river banks. Loans are in the range of \$300,000 to \$500,000, and the cost of issuance of the bond up to \$150,000 and other associated costs are currently covered by the CWRPDA. Terms are usually 20 or fewer years, but may be longer, and the interest rate is based on the market rate for AAA-insured revenue bonds.

### **Water Project Loan Program**

Since 1971, the Colorado Water Conservation Board (CWCB) Water Project Loan Program provides low-interest loans to agricultural, municipal and commercial borrowers for the development of raw water resource projects in Colorado. Eligible projects for financing include new construction or rehabilitation of existing raw water storage and delivery facilities, such as reservoirs, ditches and canals, pipelines, diversion structures, groundwater wells, water rights purchases, and flood control projects.

CWCB can finance up to 90 percent of the total project costs, including engineering and construction, for a term of up to 30 years. A loan feasibility study is required and must include the technical, financial, and institutional feasibility of the project. Rates for municipalities range from 3.5 percent to 4.5 percent. Rates are reduced by 0.25 percent for 20-year loans and 0.5 percent for 10-year loans, and

1 percent service fee applies to all loans. Other conditions apply. Applications for loans under \$5 million are accepted at any time, and the deadline for loans greater than \$5 million is Aug. 31 in order to receive funds by the following July.

### **Federal grants reduced**

After weeks of negotiating back and forth between President Obama and the Congressional leadership, the FY 2011 spending plan was enacted earlier this spring. The plan contains the largest ever cuts in discretionary spending, reducing \$40 billion from various federal programs of municipal interest. The following is a compilation of funding levels for some key municipal programs.

### **Community Development Block Grants**

Community Development Block Grants (CDBG) are funded at \$3.3 billion, or \$600 million less than last year. This affects Colorado's block grant, as well as what is distributed directly to the 13 entitlement cities and seven counties. The state's 2011 expected allocation for the CDBGs is \$10.4 million, and is administered by the state Department of Local Affairs (DOLA). Check with a DOLA field rep for more information.

### **Affordable housing**

The home program lost nearly \$200 million in funding. The Choice Neighborhoods and Sustainable Communities programs — both of which were scheduled for elimination — will each be funded at \$100 million for FY 2011. Section 8 (tenant-based) is at an \$18.4 billion, and Section 8 (project-based) is at a \$9.3 billion. HOPE VI received an allocation of \$100 million. Homeless assistance grants are at a \$1.9 billion level for FY 2011.

### **Transportation**

The National Infrastructure Investment Grants program has been allocated \$528 million. This program is modeled after the TIGER program. The president's national infrastructure bank was zeroed out.

### **Energy conservation**

The EECBG block grant program was not given any funding, as is the same for low income weatherization assistance. The low income home energy

assistance program received \$4.7 billion.

### **Water**

The clean water revolving fund received \$1.5 billion, and the drinking water revolving fund received \$965 million. A portion of this money goes directly to the Colorado Department of Public Health and Environment, and another portion goes to the Colorado Water Resources and Power Development Authority.

### **Public safety**

Byrne criminal justice grants are funded at \$431 million this year, and COPS funding also was reduced to \$496 million. Firefighter grants are at a level of \$810 million. This is overseen by the Colorado Department of Public Safety generally and in the fire area by the state Division of Fire Safety.

Interested municipal leaders can follow ongoing discussions about federal grants and funding levels by going to [www.nlc.org](http://www.nlc.org), the website for the National League of Cities.

### **State-shared revenues**

While it is true that Colorado is a fiscally decentralized state (cities and towns raise more revenue at the municipal level than what is shared back from the state), there are a few key programs that need to be highlighted from a municipal perspective.

### **Cigarette tax**

The state's excise tax on cigarettes and other tobacco products partially is shared with municipalities and counties on a formula basis. This sharing arrangement is in lieu of locally imposed taxes. It has averaged between \$11 and \$13 million annually, and is based upon the percentage of state sales taxes collected in each jurisdiction. Counties get credit for the unincorporated area only. The Colorado Department of Revenue calculates and distributes the tax. This year, there was an attempt to eliminate the share-back, but the combined efforts of the Colorado Municipal League and Colorado Counties, Inc. led to its defeat in the General Assembly.

### **Severance tax and federal mineral lease**

A portion of the state's tax on extracted natural resources (known as the severance tax) is shared back on a

formula basis directly to certain energy impacted municipalities and counties. The same is true for a portion of federal mineral lease revenues distributed back to Colorado by the federal government for energy extraction activity on certain leased federal land, like the Bureau of Land Management or Forest Service.

### **Highway Users Tax Fund**

The state shares a portion of the gas tax and certain motor vehicle registration fees with counties and municipalities on a formula basis through the Highway Users Tax Fund (HUTF). This year, it is anticipated that \$131.5 million will be distributed back to cities and towns. There are also earmarked grant programs for bridge repair and transit, administered by the Colorado Department of Transportation.

### **Lottery**

Certain revenues from the state-administered lottery are distributed directly to municipalities, counties, and certain title 32 special districts for parks, recreation, and open space. This is done on a per capita basis, and oversight of the distribution and the reporting requirements attached with the program are handled by the Department of Local Affairs. The Great Outdoors Colorado program (GOCO) also provides grant assistance to local governments using lottery dollars.

### **Gaming**

Certain revenues accruing from casino gambling in the Cities of Black Hawk, Central City, and Cripple Creek go into two major grant programs available to local governments: the limited gaming impact fund, which is administered by the Department of Local Affairs, and the State Historic Fund, administered the Colorado Historical Society.

### **For more information**

There are other specific grant programs offered by individual state agencies that are not highlighted here; CML always tries to keep our members informed of these opportunities, so always check *CML Newsletter* and [www.cml.org](http://www.cml.org) for supplementary information and additional opportunities.