

Village Safe Water Program Capital Improvement Project Funding Requirements for First Time Piped Service



To be eligible for Capital Improvement Project (CIP) design and construction funding for new piped water and sewer service, communities must possess the following:

- Approved Preliminary Engineering Report or similar planning document, and an
- Approved Sustainability Plan.

Preliminary Engineering Report

All design and construction projects funded through CIP funding allocation system require a completed Preliminary Engineering Report (PER) that has been reviewed and approved by the Multi-Agency PER Review Committee (Committee). The PER must be in the format established by the US Department of Agriculture (USDA) Rural Utilities Service Bulletin 1780-2. Alternative forms of planning documents may be acceptable but must first be approved by the Committee.

PERs to evaluate piped water and sewer service for all unserved communities were funded by the Indian Health Service (IHS) in 2021 using American Rescue Plan Act funding.

Sustainability Plan

VSW and our federal funding partners are committed to ensuring that communities have the necessary capacity to safely and sustainably operate their utilities in the long term. Utilities that do not collect sufficient revenue are unable to recruit and retain qualified managers and operators, nor are they able to proactively maintain and repair the systems to ensure that the systems meet or exceed their design life while providing safe sanitation. Additionally, when utility rates exceed that which local users can afford, many stop paying, resulting in loss of service for those users, and shifting additional burden to the remaining paying customers or causing the system to operate at a financial loss. To ensure the community is able to support the utilities in the long term, a Sustainability Plan (Plan) is required before CIP funding will be provided for first time piped water and sewer service projects.

Each community's Plan will be unique and specific to that community and will be developed in conjunction with, but not as a component of, the PER funded by IHS. However, the community's involvement in the development of the plan is essential. At a minimum, the Plan must establish the anticipated annual Operations and Maintenance (O&M) costs of the utilities, including sufficient staffing for system operators and utility management to facilitate implementation of necessary O&M, and the corresponding subsidies, revenues and user rates necessary to pay for those expenses. Additionally, the Plan must evaluate the affordability of those rates across all users.

VSW has developed a framework that considers the affordability of combined water and sewer user rates for the lowest two income quintiles within the community. This framework is one method of assessing affordability and communities are encouraged to use it in developing their Plan but other methods are available. From the perspective of the CIP funding agencies, user rates that do not exceed the upper limit of the medium burden range are considered sustainable as defined in the framework. However, user rates that fall within the low to medium burden in the VSW affordability framework are not the sole factor for achieving Plan approval. The VSW affordability framework, as well as additional information, can be found online at:

<https://dec.alaska.gov/water/village-safe-water/user-rate-affordability/>.

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In some instances, communities may receive outside support to ensure sustainability. This can come in many forms, including financial contributions, technical assistance, participation in a collaborative or regional subsidy program, or other regional programs or partnerships. If the Plan relies on such partnerships, a resolution adopted by the local governing body accepting the support, as well as a written agreement signed by both parties, is required before the Plan will be approved. The agreement must define the support to be provided, as well as the timeframe during which it will be provided. In most instances, aspects of the pledged support will not be required for several years until project construction is complete. Therefore, the Plan must address how the committed resources will be managed in the interim period. Additionally, if the Plan incorporates co-management or co-operation of the utilities, the outside partner must demonstrate the technical, financial, and managerial capacity to provide the assistance defined in the agreement.

During the development of the Plan communities are encouraged to work with the Rural Utility Business Advisor (RUBA) program, regional tribal health organizations, and other regional partners, such as Community Development Quota programs and local or regional businesses, to develop their Plan.

Multiple agencies are actively working to encourage development and funding of a long-term subsidy for rural sanitation operations and maintenance. If a subsidy is established, the need for sustainability plans will be reconsidered and guidance revised as appropriate.

Resources for Developing a Sustainability Plan

The Preliminary Engineering Report (PER) developed to evaluate the community wide water and sewer project provides information about the proposed project that may be helpful in developing a Sustainability Plan. Key information in the PER includes estimated operations and maintenance costs anticipated for the project and information about system complexity and certified operator requirements. The PER also offers estimates of the user rates required to generate sufficient revenues for operations and maintenance, as well as to develop a reserve account for repair and replacement expenses. While the PER may propose user rates and business practices, the community is responsible for making decisions about the finances of the utilities, as well as for crafting, adopting, and implementing the associated policies and ordinances.

Items to Consider When Developing a Sustainability Plan

While there are required elements to a Sustainability Plan, there is no required format. The Plan is meant to be a resource to the community in preparing for the new utilities and they are free to develop a Plan that best suits their needs.

The following are questions that are meant to generate discussion and consideration as part of the Sustainability Plan development process. Sustainability Plans are not expected to include a response to each of these specific items, but should address each of the categories (Technical, Financial, and Managerial) to some degree. The questions are arranged to first consider how the community is currently operating the existing utilities, what they should consider doing while the new system is being developed, and then what will be necessary when the new system is operating.

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Technical

- Does the City/Tribe currently employ one or more operators for their water and wastewater systems?
 - If not, how and when will the City/Tribe approach hiring one or more operators?
 - What assistance does the City/Tribe need to recruit new operators?
- Are the current operators certified to the level of the existing systems?
- What is the anticipated classification of the new water and wastewater system?
- How will the City/Tribe start preparing to have properly certified operators in place when the new system is turned on?
- What training do the operators need in the next 4-5 years to be prepared for the new system?
- Does the City/Tribe have a budget to pay for the training required by the operators?
- What assistance does the City/Tribe need to ensure the operators are properly trained?

Financial

- Does the City/Tribe develop an annual budget for the existing water/wastewater utilities?
- Does the City/Tribe currently manage the budget the water/wastewater utilities as an enterprise fund?
- Does the City/Tribe currently contribute funds from the general fund or other funding sources to cover water/wastewater utilities expenses?
- Does the City/Tribe currently generate sufficient revenue to cover all utility expenses?
- Does the City/Tribe collect enough revenue to contribute to a repair and replacement fund for the water/wastewater utilities?
- Who prepares the current water/wastewater utilities budgets?
- Who is responsible for monitoring the water/wastewater utilities budgets?
- Who will be responsible for monitoring the budgets of the new water/wastewater utilities?
- Does the City/Tribe plan to manage the budget for the new water/wastewater utilities as an enterprise fund?
- What will the City/Tribe do in the next 4-5 years to prepare for managing the budget of the new water/wastewater utilities?
- Does the City/Tribe need to hire someone to develop and manage the water/wastewater utilities budgets?
- Are there individuals who need training related to financial management of the water/wastewater utilities, either now or in the future.
- What resources are needed to recruit and train financial management staff?
- Does the City/Tribe have financial software that is used for managing the water/wastewater utilities?
- How will the City/Tribe approach development of a rate structure for new utility rates?
- How will the City/Tribe approach development of policies and ordinances related to the new water/wastewater utilities including topics such as rate structure, collection policy, etc?
- What type of assistance will the City/Tribe need to develop user rates and related policies and ordinances?

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- The PER provide a rough estimate of the user rates that will be necessary to support the operations and maintenance of the new water/wastewater utilities.
 - Are community members able to afford these rates?
 - How are you able to determine if the estimated rates are affordable to customers?
 - Are customers willing to pay more than is determined to be affordable?
 - How are you able to determine this willingness to pay?
 - If the estimated rates are not affordable for the rate payers, what is the City/Tribe considering doing to implement lower rates?
 - Is the City/Tribe planning to subsidize user rates for some or all customers?
 - If so, which customers? How will the subsidy be implemented?
 - Will the City/Tribe need outside assistance to provide subsidies to customers to make the rates affordable?
 - If so, which external partners does the City/Tribe plan to work with for these subsidies?
 - Does the City/Tribe have a formal agreement with these outside partners for the subsidy contribution?
 - How will the City/Tribe monitor changes in the primary categories of expenses, such as heating fuel and electricity, used to develop the estimated user rates in the PER over the multi-year construction process, to ensure the community is prepared to address these changes?
 - Has the City/Tribe considered updating the estimated O&M costs from the PER annually during construction to monitor these changes?

Managerial

- Who is responsible for management and oversight of the existing water/wastewater utilities?
- Who will be responsible for management and oversight of the new water/wastewater utilities?
- Will additional managerial staff be needed?
 - If so, how does the City/Tribe plan to recruit and train new managerial staff?
 - What assistance does the City/Tribe need to recruit and train new managerial staff?
- What role does the City/Tribal Council play in the oversight of the utilities?
- Have current council members participated in training specific to oversight and management of water/wastewater utilities?
- How does the City/Tribe plan to ensure new council members will receive water/wastewater training before the new water/wastewater utilities are completed?
- How is the council informed about the operations and management of the water/wastewater utilities?
 - Does the council receive regular reports from the water/wastewater operator(s)?
 - What type of information will the council need to receive regarding the new water/wastewater utilities?