



## Step 3: Procure Financial Resources

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Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](http://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Water and wastewater utilities are very capital intensive business enterprises. Developing a plan for covering construction costs as well as operation and maintenance is a major part of a manager's job. The decisions made in the plan are basically a way of balancing the answer to the Step 1 questions Dr. Middlebrook posed:

- Will the project be able to meet the regulatory or water quality requirements?
- What are the capital costs?
- What are the expected operation and maintenance costs?
- What level of operator skill will be needed?
- What is the ability of the community to support the facility?

### **Sources of Funds**

There generally are three sources of funds for new construction: equity financing, loans and grant monies. Where there is a long-term capital plan, utility rates can be set that will allow the utility to save funds for future projects. Although this is the most economical way of paying for new construction, it often is impossible to save the amount of money needed for a major capital project. In this case outside funding will be necessary.

There are several sources of outside funds for utility construction in Tennessee. Grant monies are available from the Department of Economic and Community Development in the form of Appalachian Regional Commission and Community Development Block Grants. Sources of grant assistance are your local development district office, as well as private grant administrators. Grant/loan combinations are available from the Rural Development Administration. Low interest loans also are made for both water and wastewater projects through a state revolving loan fund program administered by TDEC, State Revolving Fund Loan Program.

Other sources of funds include the Tennessee Municipal League Bond Fund, your local bank and general obligation municipal bonds. Often large projects will use a combination of funding sources. Occasionally a county will allow a municipality to use the county's grant entitlement that could not be used by the county.

In small cities and towns, the consulting engineer will handle much of the paperwork associated with the financing. His or her experience with various lenders can be a great help. Larger utilities will have more experienced financial personnel and will handle their own financial work. If you choose to let your engineer coordinate the finances, oversee that work. A review of the financial package by someone who understands the options and their short- and long-term effects on rates and operations may be helpful. In addition to the five previously stated questions, an additional one is "How does the financial package affect the total or life-cycle cost of the project, which includes the construction costs and the operation and maintenance costs?"

### **Single Source or Proprietary Suppliers**

Utilities often desire specific types of equipment for operational & maintenance considerations or because of performance goals. The choices may be more expensive and thus not match the goal of choosing the lowest responsible purchase price. In some instances long-term goals such as standardized maintenance and repair parts or meeting complex regulatory standards may be more important or economical for the users than low purchase prices. Single source purchases should be clearly justified. Often performance specifications are written very tightly to assure the purchase of the desired equipment or process. The Water Environment Federation's Water Leadership Institute provides some guidance for negotiating with these suppliers(Alfonso). The first recommendation is to know the market and the supplier. Understand the technology, the alternatives and what others are paying for the technology. Clearly discuss the alternatives including situation where the desired technology may simply be unaffordable or for some other reason out of reach. Clearly specify warranty details, training, service and when appropriate (software) updates and the suppliers ability to meet these long-term commitments. A word of caution regarding the "newest" technology. Carefully research new equipment and technology for successful performance in conditions substantially similar to those

that exist in you city, and always be cautions about purchasing equipment with a serial number of 001. The first unit can easily have many unforeseen problems.

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