



COMMONWEALTH of VIRGINIA

Karen Shelton, MD
State Health Commissioner

Department of Health
P O BOX 2448
RICHMOND, VA 23218

TTY 7-1-1 OR
1-800-828-1120

R. Christopher Lindsay
Chief Operating Officer

December 1, 2025

Subject: Caroline County
Water – Town of Bowling Green
Gross Alpha Treatment and Well Replacements
GA-011-25

Ms. India Adams-Jacobs, MPA, ICMA-CM
Town Manager/Clerk
Town of Bowling Green
P.O. Box 468
Bowling Green, VA 22427

Re: Virginia Drinking Water State Revolving Fund
FY 2025 General Assembly (GA) House Bill 1600 Chapter 725 - Item 280 Drinking Water
Infrastructure Funding Initial Offer

Dear Ms. Adams-Jacobs:

The Virginia Department of Health (VDH) has completed a preliminary review of your application for drinking water construction funds. The determination of the funding package is shown below; however, this determination is contingent on your acceptance in writing and the successful completion of a grant agreement with the VDH.

Based on the information provided, VDH determined the total funding package for your project is estimated to be **\$6,206,205 as grant**. The funding package was determined using information provided in your funding application.

VDH recommends the evaluation of revenues and adjustment of rates as necessary to ensure revenue growth that factors in increases (e.g., operational costs, inflation, etc.), other costs (e.g., asset/equipment replacements, technology upgrades, capital improvements, etc.), and takes into account other potential revenue reductions (e.g. future regulations, reductions from water conservation, etc.). VDH urges waterworks owners to establish and fund a capital reserve fund that adequately supports capital improvements and asset replacements.

Furthermore, VDH recommends waterworks owners implement a revenue growth model that includes automatic annual rate adjustments that exceed inflation. VDH recommends waterworks self-evaluate their financial position using the attached ***Building Financial Sustainability/Financial Health Indicators*** to ensure they are able to provide for financial sustainability.

VDH recommends all waterworks maintain updated Waterworks Business Operation Plans (WBOP), Asset Management Plans (AMP), and/or Capital Improvement Plans. Please coordinate with Capacity Development if you would like additional information regarding these plans. These questions can be directed to Jarrett Talley, Training Capacity Development and Outreach (TCDO) Division Director, by phone at (804) 317-0140 or by email at Jarrett.Talley@vdh.virginia.gov. Mr. Jarrett Talley is also available to answer questions on the Technical, Managerial, and Financial (TMF) review.

The funding package and loan closing are conditioned on and are subject to change based on (but not limited to) the following:

- (1) The availability of General Assembly GA House Bill 1600 funds,
- (2) New restrictions/conditions that the General Assembly may require in the use of GA House Bill 1600 funds,
- (3) Changes to the purpose, benefit, or scope of the project from the Preliminary Engineering Report (PER) or the DWSRF Application.
- (4) Owner complying with all applicable DWSRF Program requirements. These requirements are documented in the “Commonwealth of Virginia DWSRF Program Design Manual” and the “Procedural Guidelines for Drinking Water Funding Recipients.” The Drinking Water GA Funding established by HB1600 (Chapter 725) Item 280 will, however, differ from the DWSRF funding by eliminating the following requirements of federal funding, unless federal co-funding exists:
 - a. Build America, Buy America
 - b. American Iron and Steel
 - c. Minority Business Enterprises (MBE)/Women Business Enterprises (WBE)
 - d. Single Audit Requirements
- (5) Owner complying with all program procurement guidelines including compliance with the Virginia Public Procurement Act.
- (6) Owner’s progress to a timely closing according to a pre-negotiated schedule, or delays/changes in project readiness to proceed,
- (7) Certified bid results for those projects being bid,
- (8) Owner being debarred or suspended from applying for state or federal funds,
- (9) Waterworks maintaining compliance with the Virginia *Waterworks Regulations* and other applicable state/federal laws, regulations, policies, and procedures.

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Town Manager/Clerk
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An acceptance of this funding offer reflects a commitment on your part to these requirements.

Please notify me in writing as soon as possible but no later than January 2, 2026, at the email below of your acceptance of this initial funding package offer or any concerns and additional factors that should be considered. Failure to notify me can be deemed as your withdrawal of your application. Please use the above referenced project number and name on all correspondence. If necessary, I can be contacted by phone at (804) 584-0413 or by email at Anthony.Hess@vdh.virginia.gov.

Sincerely,



box SIGN 17Y936R3-172J87Y2

Anthony Hess, Director

Division of Financial, Construction & Assistance Programs

cc: Dwayne Roadcap, Director, Office of Drinking Water, Richmond Central Office
Jarrett Talley, TCDO Division Director, Richmond Central Office
Keith Kornegay, P.E., FCAP Project Team Leader, Lexington Field Office
James Reynolds, P.E., ODW Field Director, Richmond Field Office

VDH OFFICE OF DRINKING WATER
FINANCIAL AND CONSTRUCTION ASSISTANCE PROGRAMS (FCAP)

Building Financial Sustainability/Financial Health Indicators

Having adequate financial capacity and an acceptable credit review is a Program requirement for revolving fund loan projects. Listed below are some financial indicators that may be evaluated during a review by VDH or by the Virginia Resources Authority (VRA). Reviews are not limited to the factors listed below and may include other factors.

Revenue Pledge Factors: *(User fees pledged for loan repayment)*

1. **Debt Service Coverage Ratio:** Net Revenue (revenue – O&M) available for debt service divided by applicable debt service. Evaluated using the first two fiscal years after project completion.
 - Poor Less than 1.15x
 - Adequate From 1.15x to 1.5x
 - Strong Greater than 1.5x
2. **Days Cash on Hand:** Amount of total available unrestricted liquid reserves divided by daily operating expenditure requirements.
 - Poor Less than 60 days
 - Adequate From 60 to 120 days
 - Strong Greater than 120 days
3. **Operating Ratio:** Total operating income plus operating reserves divided by total operating costs (not including debt)
 - Poor Less than 1.1
 - Adequate From 1.1 to 3.0, Small systems (1.25 to 3.0), Medium and large (1.1 to 2.0)
 - Strong Greater than 3.0 Small systems (3.0), Medium and large (2.0)

General Obligation Factors:¹ *(Locality pledges its full faith and credit, backed by taxing power)*

4. **State Aid (if applicable):** Available state aid divided by applicable debt service.
 - Poor Less than 1.0x
 - Adequate From 1.0x to 1.5x
 - Strong Greater than 1.5x
5. **Debt Service vs. Expenditures:** Debt service compared to the total operating budget.
 - Poor Greater than 15%
 - Adequate From 10% to 15%
 - Strong Less than 10%

¹ Evaluate the debt, revenues, and expenses of the entire entity and not just the waterworks enterprise fund

6. **Unassigned Fund Balance:** Unassigned fund balance vs. total revenue.

- Poor Less than 5%
- Adequate From 5% to 10%
- Strong Greater than 10%

7. **Debt Payout Ratio:** Measurement of how much debt is paid off in ten years.

- Poor Less than 50%
- Adequate From 50% to 60%
- Strong Greater than 60%

8. **Total Debt vs. Total Valuation:**

- Poor Greater than 6%
- Adequate From 2% to 6%
- Strong Less than 2%

Other Factors:

9. **Affordability Index Target:** Annual residential bill divided by Annual Median Household Income (MHI).

- 1% for average gallons per month*
- 2% for 5,000 gallons per month

* Use the rate structure (in-town, if applicable) for residential customers and apply it to the average monthly residential water usage to derive the average monthly user rate for evaluation under the DWSRF Program. The average monthly residential water usage is to be based on residential water meter data. Waterworks are expected to meet or exceed the target rate criteria at the time of project completion.

Other considerations:

Experience has shown that fairly structured utility rates that implement gradual rate increases annually have been the most acceptable to the ratepayers and most effective in keeping revenue at pace with costs.

VDH recommends waterworks implement a revenue growth model that factors in increases (e.g., operational costs, inflation, etc.), other costs (e.g., asset/equipment replacements, technology upgrades, capital improvements, etc.), and takes into account other potential revenue reductions (e.g., future regulations, reductions from water conservation, etc.).

VDH recommends waterworks establish and fund a capital reserve fund that adequately supports capital improvements and asset replacements.

VDH reserves the right to require an implementation schedule acceptable to VDH for those waterworks that may need additional time for implementation of significant rate increases.