



Water Infrastructure Financing

2022 Bonding Request and Federal IIJA Funding

House Capital Investment – February 10, 2022

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Water Infrastructure to Protect Water Quality and Public Health

Over time all cities have water infrastructure needs:

- Replace aging infrastructure (pipes and treatment facilities)
- Make system improvements for better service and efficiency
- Upgrade treatment facilities to improve water quality



PFA Programs Open to all Cities

PFA low interest loans available to all cities with projects in fundable range

- 2001: 40 loans, \$214 million, 1.0% average interest rate
- Since inception (1990): over 1000 loans, \$4.4 billion

Targeted grants based on affordability and for treatment upgrades for specific water quality improvements

- 2001: 27 grants, \$56 million
- Total since 1996: over 600 grants, \$719 million

PFA funding follows a stable and predictable process so cities can plan and prepare for their projects

Program Administration

Technical: MPCA (wastewater and stormwater), MDH (drinking water)

- Develop Project Priority Lists (PPLs, 5 year project pipeline)
 - Project proposals are ranked based on age and condition, water quality, public health
- Technical and environmental project reviews
- Certify approved projects to PFA for funding
- Financial: PFA
 - Approve annual Intended Use Plans (IUPs)
 - Determine fundable range for projects eligible to apply for loans
 - Application review, set loan terms and conditions
 - Award funds and coordinate with other funding sources
 - Responsible for program requirements and managing revolving fund assets

PFA Water Infrastructure Programs

Clean Water and Drinking Water State Revolving Funds (CWRWF/DWRF)

- Low interest loans; principal forgiveness grants based on WIF affordability criteria

Water Infrastructure Funding (WIF) Program

- Grants based on affordability criteria for high cost projects

Point Source Implementation Grant (PSIG) Program

- Grants to help cities upgrade water treatment facilities to improve water quality

Small Community Wastewater Treatment Program

- Technical assistance grants and construction loans/grants for unsewered communities

PFA Loan Programs (CWSRF / DWSRF)

State Revolving Fund loan programs are the State's largest source of funding

- Clean Water SRF (wastewater projects, stormwater treatment projects)
- Drinking Water SRF

SRFs supported by annual federal capitalization grants and state match funds

- Loan repayments revolve back to support new loans

PFA authorized to sell revenue bonds to generate additional loan funds

- PFA revenue bonds are AAA rated
- PFA bonds backed solely by loan repayments, no state backing

PFA Grant Programs

- Water Infrastructure Funding (WIF) Program
 - Grants based on affordability criteria for projects in disadvantaged communities
 - Up to 80% of project costs, \$5 million max grant
 - Affordability criteria based on average cost per HH (including new project costs, O&M, existing debt service) and community median household income
 - WIF grants are packaged with PFA loans, or with USDA Rural Development grant and loan funds
- Point Source Implementation Grant (PSIG) Program
 - Grants to upgrade water treatment facilities to improve water quality
 - PSIG grants cover 80% of eligible costs, up to \$7 million maximum grant

Governor's Bonding Recommendations

Total PFA Request: \$200 million

- State Match for State Revolving Fund Programs - \$49 million
 - \$20M to match FY23-24 estimated regular federal funds (\$92M)
 - \$29M to match FY22-24 estimated IJA supplemental funds (\$207M)
 - FY22-24 IJA funds also include \$173M that doesn't require match
- Water Infrastructure Funding (WIF) Program - \$76 million
 - \$45M wastewater, \$31M drinking water
 - Recommend increasing max grant from \$5M to \$8M
- Point Source Implementation Grants (PSIG) - \$75 million



Infrastructure Investment and Jobs Act (IIJA)

IIJA water funding appropriated through State Revolving Funds \$668 million over five years (2022-2026)

- Supplemental funds for existing CWSRF and DWSRF programs
 - 49% to be provided as principal forgiveness grants
 - Requires 10-20% state match
- Lead service line replacement
 - 49% to be provided as principal forgiveness grants
 - No state match
- Emerging contaminants (CW and DW)
 - 100% to be provided as principal forgiveness grants
 - No state match

2022 Federal Funds (estimated)

2022 Federal Funding Allocations (estimated), IIJA and Regular SRF capitalization grants

(\$ in thousands)

| | Fed Infrastructure Act (IIJA) | | | Regular Capitalization Grant | | |
|-------------------------------|-------------------------------|----------------------|----------------------------------|------------------------------|----------------------|----------------------------------|
| | Appropriation | Required State Match | Mandated Add. Subsidy (PF grant) | Appropriation | Required State Match | Mandated Add. Subsidy (PF grant) |
| CWSRF existing program | \$ 32,982 | 10% | 49% | \$ 29,204 | 20% | 10-20% |
| CWSRF emerging contaminants | \$ 1,731 | - | 100% | \$ - | - | - |
| DWSRF existing program | \$ 27,408 | 10% | 49% | \$ 16,792 | 20% | 12-26% |
| DWSRF lead service line repl. | \$ 43,161 | - | 49% | \$ - | - | - |
| DWSRF emerging contaminants | \$ 11,510 | - | 100% | \$ - | - | - |
| 2022 total | \$ 116,792 | | | \$ 45,996 | | |

PFA Funding Process (regular SRF and IJA)

Project funding follows the existing CWSRF/DWSRF process

- Cities submit project proposals to MPCA/MDH for ranking on PPL
- Request placement on PFA Intended Use Plan (IUP) for the year when the project is planned for construction
 - Requires completion of project planning document or facilities plan
- Projects submit plans and specifications to MPCA/MDH for review
- MPCA/MDH certify approved projects to PFA for funding
- PFA reviews financial application
 - All loan apps are reviewed for WIF affordability criteria
- PFA awards funding when app is complete and as-bid costs submitted

Principal Forgiveness Grants

Federal appropriations (IIJA and regular funds) require a portion of federal funds to be provided as grants that reduce the loan principal

- IIJA supplemental funds for existing CWSRF/DWSRF programs – 49%
 - PFA statutes specify principal forgiveness criteria
 - Affordability criteria for disadvantaged communities follow WIF program criteria
 - PF grants also provided for green infrastructure projects (energy, stormwater)
- IIJA funds for lead service line replacement – 49%
 - PFA DWSRF statutes authorize use of PF grants for lead service line replacement
 - Recommend change to remove funding limits to provide maximum flexibility to cities
- IIJA funds for emerging contaminants – 100%
 - Will require statute change to authorize PF grants and establish criteria

Status of IJA Funds

Supplemental funds for existing CWSRF/DWSRF programs

- PFA plans to apply for Year 1 IJA funds as soon as possible based on the 2022 Intended Use Plans that were approved in October 2021
 - Clean Water: 99 projects, \$394 million requested loans
 - Drinking Water: 95 projects, \$280 million requested loans

Lead Service Line Replacement

- MDH and PFA now taking project proposals for 2023 PPL and IUP
- PFA expects to apply for Year 1 IJA funds by Fall 2022

Emerging Contaminant Funds

- MDH and MPCA working to determine eligibilities, priorities, funding criteria
- Will require statute changes to authorize use of PF grants