



MINNESOTA

PUBLIC FACILITIES AUTHORITY

Water Infrastructure Financing

Senate Capital Investment – April 28, 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

- 2021: 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

- 2021: 27 grants, \$56 million
- Total since 1996: over 600 grants, \$719 million

All PFA programs follow project priority lists developed by MPCA and MDH

PFA loan and grant 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
 - Financial review, determine grant eligibility, 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 (CWRF/DWRF)

- Low interest loans, principal forgiveness grants for disadvantaged communities, green infrastructure
- Supported by annual federal capitalization grants and state match
- Loan repayments revolve to fund new loans

Water Infrastructure Funding (WIF) Program

- Grants to cities based on affordability criteria
- Packaged with PFA loan or USDA Rural Development funding

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

WIF Grant Program

- Grants based on affordability to help cities maintain and replace aging infrastructure that would otherwise be unaffordable
 - WIF grants up to 80% of project costs, \$5 million max grant
- ‘Economy of scale’: affordability is largely driven by community size
 - WIF grants tend to go to small communities with a smaller user base to share costs
- Affordability criteria are based on average cost per HH / city MHI
 - Includes O&M cost, existing debt service, and new project cost
 - Thresholds set by statute at 1.4% MHI for WW, 1.2% for DW
 - For WIF eligible projects, average cost per HH typically exceeds \$50-60 per month
 - For comparison, metro area 2020 average sewer rate per HH was \$29 per month

PSIG Grant Program

- PSIG grants help cities upgrade water treatment facilities to improve water quality and address impaired waters
 - PSIG grants cover 80% of eligible costs, up to \$7 million maximum grant
- Eligible projects include water treatment plant upgrades to meet more stringent permit requirements for phosphorus, chlorides, mercury
- For cost-effectiveness, cities may combine a PSIG eligible plant upgrade with rehab of aging facilities into one construction project
 - PSIG grant calculated on the PSIG eligible portion
 - PFA uses loan (and potentially WIF) to provide full project funding
- Separate PSIG application – July each year

Governor's Bonding Recommendations

Total PFA Request: \$200 million

- State Match for State Revolving Fund Programs - \$49 million
 - For estimated FY23-24 regular federal funds (\$92M)
 - For estimated FY22-24 IIJA supplemental funds (\$206M)
 - FY22-24 IIJA also includes \$164M 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 - \$662 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
- Drinking water 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	Mandated	Appropriation	Required	Mandated
		State	Add. Subsidy		State	Add. Subsidy
		Match	(PF grant)		Match	(PF grant)
CWSRF existing program	\$ 32,713	10%	49%	\$ 29,204	20%	10-20%
CWSRF emerging contaminants	\$ 1,731	-	100%	\$ -	-	-
DWSRF existing program	\$ 27,465	10%	49%	\$ 16,792	20%	12-26%
DWSRF lead service line repl.	\$ 43,161	-	49%	\$ -	-	-
DWSRF emerging contaminants	\$ 11,510	-	100%	\$ -	-	-
2022 total	\$ 116,580			\$ 45,996		

PFA Funding Process

The basic application steps remain the same:

- Cities submit project proposals to MPCA/MDH for ranking on PPL (CW to MPCA – March 4, DW to MDH – May 6)
- Cities request placement on PFA Intended Use Plan (IUP) when the project is scheduled for construction
 - IUP requests to PFA due June 3
 - Requires completion of project planning document or facilities plan

PFA prepares annual IUP describing available funding, requirements, and projects in fundable range:

- Draft IUP reviewed by PFA Board in mid-August
- Final IUP approved late September following public comment period

Following IUP approval:

- Projects submit plans and specifications for MPCA/MDH review and certification
- PFA staff review financial applications for financial capacity and potential WIF/PF eligibility
- PFA awards funding when application is complete, project certified, 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 statute changes to remove funding limits to provide flexibility
- IIJA funds for emerging contaminants – 100%
 - Will require statute change to authorize PF grants and establish criteria

IIJA New Project Category – Lead Service Lines (LSL)

- Many cities across the state have older housing with drinking water lead service lines which are a serious public health risk
- In most cases, a portion of the service line is owned by the property owner, making public financing to replace these lines difficult
- 2020 legislation authorized PFA to provide limited DWSRF principal forgiveness grants for projects to replace private lead service lines
 - PFA made first award to St. Paul in July 2021 (capped at \$250,000)
- IIJA provides new funding over 5 years for LSL projects (49% grant/51% loan)
 - Cities beginning to submit PPL/IUP requests now for 2023
 - PFA will target principal forgiveness grants to the private portion so that work is done at no cost to the property owner. Loans for the public portion will be 0%.
 - Governor's bonding bill contains needed statutory changes

IJA New Project Category – Emerging Contaminants

- IJA provides new funding to address emerging contaminants in drinking water and wastewater
 - Emerging contaminant funds are 100% principal forgiveness grants
- DWSRF emerging contaminants
 - MDH initially targeting PFAS and manganese
 - With guidance from MDH, cities are now submitting 2023 PPL/IUP proposals
 - Based on the proposals, MDH/PFA will prepare proposed statute amendments for 2023 session for the use of these principal forgiveness funds
- CWSRF emerging contaminants
 - MPCA will use Minnesota's PFAS Blueprint and Monitoring Plan to guide potential statute changes for use of these funds

Status of Federal Funds

- PFA will soon apply for 2022 regular federal capitalization grants based on the 2022 Intended Use Plans approved in October 2021
- IJJA Supplemental Funds for base CWSRF/DWSRF programs
 - PFA plans to apply for Year 1 IJJA funds in Fall 2022 following approval of 2023 IUPs
- IJJA Lead Service Line Replacement Funds
 - MDH and PFA now taking project proposals for 2023 PPL and IUP
 - PFA plans to apply for Year 1 IJJA funds in Fall 2022 following approval of 2023 IUPs
- Emerging Contaminant Funds
 - MDH working with cities and starting to receive EC project proposals
 - MPCA assessing how EC funds can accelerate PFAS monitoring efforts
 - Will require statute changes to authorize use of PF grant funds