

(\$ in thousands)

Project Requests for State Funds					
Project Title	Priority Ranking	Funding Source	2026	2028	2030
State Match for Federal Grants to State Revolving Fund Loan Programs	1	GO	\$ 27,000	\$ 27,000	\$ 27,000
Lead Service Line Replacement Grant Program	2	GF	\$ 250,000	\$ 250,000	\$ 250,000
Point Source Implementation Grants Program	3	GO	\$ 120,000	\$ 120,000	\$ 120,000
Water Infrastructure Funding Program	4	GO	\$ 60,000	\$ 60,000	\$ 60,000
Emerging Contaminants Grant Program	5	GO	\$ 18,000	\$ 18,000	\$ 18,000
Total Project Requests			\$ 475,000	\$ 475,000	\$ 475,000
General Obligation Bonds (GO) Total			\$ 225,000	\$ 225,000	\$ 225,000
General Fund Cash (GF) Total			\$ 250,000	\$ 250,000	\$ 250,000

(\$ in thousands)

State Match for Federal Grants to State Revolving Fund Loan Programs

AT A GLANCE**2026 Request Amount:** \$27,000**Priority Ranking:** 1

Project Summary: The Public Facilities Authority (MPFA) requests \$27 million for deposit to the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund to make loans to local governments for clean water and drinking water infrastructure projects. The funds will provide the required state match for estimated federal FY 2027-28 U.S. EPA capitalization grants. The MPFA also requests statutory changes.

Project Description

The Clean Water State Revolving Fund provides low-cost financing for municipal wastewater treatment facilities, sewer collection systems and stormwater treatment facilities. Demand for clean water loans is driven by the need to replace aging facilities and sewer lines, provide additional treatment capacity, and meet more stringent treatment requirements.

The Drinking Water State Revolving Fund provides low-cost financing for municipal drinking water systems, including treatment plants, water towers, water mains, wells, and pump houses. Demand for drinking water loans is driven by the need to replace aging facilities, provide additional treatment to meet required public health standards, and replace old water mains to minimize water loss and contamination problems.

Each year, the MPFA receives funding requests for more than 200 wastewater, stormwater, and drinking water infrastructure projects totaling over \$500 million, more than double the sustainable long-term annual lending capacity of the Clean Water and Drinking Water State Revolving Funds.

The MPFA's Clean Water and Drinking Water State Revolving Funds have a proven track record as effective and efficient programs to finance municipal water infrastructure projects. The AAA ratings of the MPFA's clean water and drinking water revenue bonds from Standard and Poors, Fitch, and Moody's reflects the financial strength of the funds, the credit quality of Minnesota communities, and the MPFA's experienced staff and sound financial management.

Policy Proposal: The Clean Water Revolving Fund and Drinking Water Revolving Fund program statutes include specific authorizations for the use of federal principal forgiveness grants as allowed under federal law. Amendments to program statutes are proposed to authorize principal forgiveness grants for 50% of project costs up to \$5 million (from \$3 million) for projects that address emerging contaminants as defined by the US EPA.

Project Rationale

The MPFA's clean water and drinking water state revolving loan programs are important infrastructure financing tools to help communities throughout the state reduce borrowing costs for essential infrastructure to serve their residents and businesses and meet public health and environmental requirements. Under federal and state law, MPFA loans are made at below-market interest rates. Since inception, the MPFA has made \$5.3 billion in low-interest loans from these two revolving funds, resulting in savings to local taxpayers of over \$1.3 billion compared to market rate financing.

Through the MPFA's revolving loan programs, the impact of the state match funds is leveraged by federal funds, loan repayments, and the MPFA's AAA rated revenue bonds. Overall, each dollar of state matching funds to date has generated \$16 in project construction. Savings to local taxpayers from MPFA low-interest loans is approximately \$4 for every \$1 of state matching funds.

Project Timeline

Other Considerations

Eligible projects are prioritized based on environmental and public health criteria and ranked by the Minnesota Pollution Control Agency (for wastewater and stormwater projects) and the Minnesota Department of Health (for drinking water projects) on their annual project priority lists, ensuring that limited funds are targeted to the highest priority projects.

Impact on Agency Operating Budgets

Operating costs for the Clean Water and Drinking Water State Revolving Funds are paid partially from the federal capitalization grants, and from fees up to 2% collected on loan repayments. These fees are taken from the interest portion of the loan repayments and are not an additional cost to the borrowers. Operating Costs for these programs are incurred by the MPFA, the Minnesota Pollution Control Agency (MPCA), and the Minnesota Department of Health (MDH).

Description of Previous Appropriations

Prior appropriations for state match to U.S. EPA capitalization grants:

1987 \$3.2 million
1989 \$4.7 million
1990 \$15.6 million
1992 \$7.5 million
1993 \$4 million
1994 \$13.4 million
1996 \$4 million
1997 \$4.444 million
1998 \$24 million
1999 \$2.2 million
2000 \$14.893 million
2002 \$16 million

2005 \$14.38 million

2006 \$38.8 million

2008 \$30 million

2010 \$30 million

2012 \$8.5 million

2013 \$8 million

2014 \$12 million

2017 \$17 million

2018 \$14 million

2019 \$6 million

2020 \$25 million

2023 \$41 million

2025 \$39 million

Prior Governor funding recommendations for state match to U.S. EPA capitalization grants:

2024: \$39 million

2025: \$39 million

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Lead Service Line Replacement Grant Program

AT A GLANCE**2026 Request Amount:** \$250,000**Priority Ranking:** 2

Project Summary: The Public Facilities Authority (MPFA) requests \$250 million for the Lead Service Line Replacement Program to make grants to municipalities and other community public water suppliers to replace publicly and privately owned lead service lines. The funds will continue to move the state toward the goal to remove all lead service lines in public drinking water systems by 2033 as established in MS 446A.078.

Project Description

The Lead Service Line Replacement Program was established in 2023 under MS 446A.077 to provide state funds to supplement federal funds in the Infrastructure Investment and Jobs Act (IIJA) for the replacement of drinking water lead service lines. Combining state and federal funds will allow all public and private costs for replacement of lead service lines to be covered which will greatly reduce barriers to achieving the state goal of replacing all lead service lines by 2033. All eligible recipients must be listed on the Minnesota Department of Health (MDH) Priority Projects List to facilitate the coordination of state and federal funds.

The program requires each applicant to submit a plan for replacement of all lead service lines in the service area that describes how the recipient will prioritize the expenditure of grant funds, including targeting areas with children with elevated blood lead levels and children under the age of five, targeting lines that provide drinking water to schools and childcare facilities, and targeting areas with lower-income residents and other disadvantaged communities. The program allows up to 10% of funds appropriated to be used by the MDH to provide technical assistance to community water suppliers for lead service line mapping and inventory activities.

Project Rationale

The 2019 Lead in Minnesota Water report issued by the MDH states that the Center for Disease Control (CDC) has found no safe level of lead exposure. The report identifies the removal of lead service lines as a high priority. The MDH estimates that 100,000 lead service lines exist in community water systems statewide. At an estimated average cost of \$15,000 to replace each line, the total estimated cost is \$1.5 billion. Subtracting federal IIJA funds and the 2023 state appropriation, the remaining estimated cost is \$1 billion. Over four capital budget cycles through 2033, this is \$250 million per cycle.

In most cities, ownership of water service lines is split between the public water supplier and the private property owner, creating significant funding challenges.

Project Timeline

Other Considerations

According to the 2019 MDH report, lead service lines contribute to about 50 percent of the total mass of lead measured at the tap. Nationwide, more than 70 percent of cities with populations greater than 30,000 use lead water lines. The report states that lead service lines contribute significantly to lead in drinking water, thus the national effort to identify and remove these pipes.

Health equity:

According to the Lead Service Line Replacement Collaborative and highlighted in the 2019 MDH report, addressing lead hazards in water improves equity in high-risk communities. A comprehensive approach to lead service line replacement should include steps to protect people with low incomes and limited access to capital for lead service line replacement.

Impact on Agency Operating Budgets

The MPFA administrative costs for this program are paid from loan servicing fees and federal capitalization grants.

Description of Previous Appropriations

In 2023 the Legislature appropriated \$240 million in general fund cash for this program.

In the 2025 1st Special Session, the Legislature appropriated \$3 million in general fund cash for this program.

Prior Governor funding recommendations for the Lead Service Line Replacement Grant Program
2024: \$10 million

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Point Source Implementation Grants Program**AT A GLANCE****2026 Request Amount:** \$120,000**Priority Ranking:** 3

Project Summary: The Public Facilities Authority (MPFA) requests \$120 million for the Point Source Implementation Grants (PSIG) program under MS 446A.073 to provide grants to cities to help pay for treatment plant upgrades to address water quality restoration and protection goals.

Project Description

The PSIG program provides grants for infrastructure construction projects needed to improve water quality by meeting more stringent permit requirements to reduce the discharge of specific pollutants. The MPFA administers the program in partnership with the Pollution Control Agency (MPCA). Proposed projects must be ranked on the MPCA's project priority list (PPL) and the MPCA reviews and approves projects prior to grant award. The MPFA does not award a grant until full project funding is in place, which may include local funds and other MPFA funds.

Project Rationale

The Clean Water Council and the Clean Water Fund Interagency Coordination Team (ICT) framework identifies specific impaired and threatened water bodies where pollutant reductions are needed to meet water quality standards. Watershed restoration and protection strategies are developed to guide point source and non-point source implementation activities. These include projects to meet Total Maximum Daily Load (TMDL) requirements and water quality-based effluent limits for phosphorus, chlorides, and other pollutants.

Project Timeline**Other Considerations**

The MPFA has unfunded applications for over \$210 million in PSIG grant needs and expects to receive additional applications in July 2025.

Bonding appropriations for the PSIG program supplement appropriations from the Clean Water (Legacy) Fund.

The MPFA and MPCA track project completions by watershed. MPCA verifies that completed projects meet required permit limits and conditions. MPCA also monitors progress toward overall water quality goals through its watershed monitoring program.

Impact on Agency Operating Budgets

Administrative costs are paid partially from PSIG grant application fees of 1/2 of 1%, collected under

MS 446A.04 Subd. 5. The PSIG program is administered in conjunction with the MPCA's Clean Water PPL, so a portion of the Clean Water State Revolving Fund loan fees are also used for PSIG administration.

Description of Previous Appropriations

Previous appropriations for the PSIG program from FY 2013-2019 are shown below.

2013 \$18,000,000 Clean Water (Legacy) Fund

2015 \$18,000,000 Clean Water (Legacy) Fund

2017 \$15,750,000 Clean Water (Legacy) Fund

2017 \$33,737,000 G.O. Bonds

2019 \$38,348,000 G.O. Bonds

2019 \$18,000,000 Clean Water (Legacy) Fund

2020 \$44,553,000 G.O. Bonds

2021 \$15,936,000 Clean Water (Legacy) Fund (\$7,968,000 each FY 2022-23)

2023 \$16,500,000 Clean Water (Legacy) Fund (\$8,250,000 each FY 2024-25)

2023 \$80,000,000 G.O. Bonds

2025 \$16,540,000 Clean Water (Legacy) Fund (\$8,240,000 FY 26, \$8,300,000 FY 27)

2025 \$32,000,000 G.O. Bonds

Prior Governor funding recommendations for the PSIG program:

2024 \$18,527,000 (G.O. Bonds)

2025 \$18,527,000 (G.O. Bonds)

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Water Infrastructure Funding Program

AT A GLANCE**2026 Request Amount:** \$60,000**Priority Ranking:** 4

Project Summary: The Public Facilities Authority requests \$60 million for the Water Infrastructure Funding (WIF) program. WIF provides grants to local governments based on affordability criteria, supplementing low-interest loans from the MPFA's Clean Water State Revolving Fund (CWRF), Drinking Water State Revolving Fund (DWRf), or match funding from the U.S. Department of Agriculture Rural Development. The MPFA requests \$30 million for wastewater projects and \$30 million for drinking water projects.

Project Description

WIF grants are targeted to the highest priority projects based on environmental and public health criteria as determined by MPCA or MDH through their clean water and drinking water project priority lists. The WIF program supplements other funding to help communities address their existing water infrastructure needs while keeping costs affordable for their residents.

WIF grants are not awarded until projects are ready to start construction. Each year that WIF funds are available, funds are reserved for projects in priority order after design plans and specifications are approved and certified by MPCA or MDH, or after a funding commitment by USDA Rural Development.

Project Rationale

WIF grants are needed to assist financially challenged communities with high priority water infrastructure projects that would otherwise not be affordable for local residents. WIF grants are capped at \$5 million or \$20 thousand per connection, whichever is less, unless specifically approved by law. WIF eligible project costs are only those costs necessary to meet existing needs, not to address future growth.

Based on criteria established in M.S. 446A.072, Subd. 5a, municipalities that receive CWRF loans are eligible for WIF grants if the average per household system cost exceeds 1.4% of median household income. Municipalities that receive DWRf loans are eligible for WIF grants if the average per household system cost exceeds 1.2% of median household income.

For USDA Rural Development projects, the WIF program provides up to 65% of the grant need as determined by USDA Rural Development based on their affordability criteria for small rural communities. The unique state/federal partnership with USDA Rural Development helps coordinate assistance for small rural communities, making it easier for them to access funding. Providing WIF

grants to match USDA Rural Development funding helps the Minnesota USDA office fund more projects by obligating its allotted federal funds and then accessing the national pool for additional funds for Minnesota communities.

Project Timeline

Other Considerations

For recipients to make the necessary up-front investments in pre-construction work, they need to have confidence that funding will be available when their projects are ready for construction. The MPCA and MDH project priority lists (PPLs) rank projects for which cities are seeking funding for construction within a five-year period. The current priority lists include more than 108 projects with unfunded WIF needs over \$250 million, and additional WIF eligible projects are expected to submit proposals for the 2026 and 2027 PPLs. MPFA will survey cities with projects on the project priority lists to more accurately determine estimated WIF needs and project schedules for the MPFA's report on estimated funding needs to the Legislature in February 2026.

The federal Infrastructure Investment and Jobs Act (IIJA) provides (temporary) significant additional capitalization grants for the Clean Water State Revolving Fund and Drinking Water State Revolving Fund. Forty-nine percent of these IIJA grants must be used for “additional subsidization” grants which are interchangeable with state WIF investments. These temporary additional federal funds allow a reduced state request for the 2026 capital budget request.

Impact on Agency Operating Budgets

The WIF program is administered in conjunction with the MPFA's Clean Water State Revolving Fund and Drinking Water State Revolving Fund programs and administrative costs are paid from fees collected on CWRP and DWRP loan repayments. For projects receiving WIF grants to match funding from USDA Rural Development, the state/federal partnership is a cost effective strategy that uses USDA field staff to conduct much of the field work involved in reviewing applications and monitoring projects through construction.

Description of Previous Appropriations

Prior appropriations for the WIF program:

1987 \$ 3.241 million
1989 \$ 390 thousand
1990 \$ 381 thousand
1996 \$ 17.5 million
1997 \$ 7 million
1998 \$ 15.3 million
1999 \$ 20.5 million
2000 \$ 17.3 million
2003 \$ 13.5 million
2005 \$ 26.903 million
2006 \$ 22.996 million

2008 \$ 15.028 million

2010 \$ 27 million

2011 \$ 20 million

2012 \$ 15 million

2014 \$ 18.333 million

2015 \$ 10 million

2017 \$ 55 million

2018 \$ 25 million

2019 \$ 14.652 million

2020 \$ 55.494 million

2023 \$ 87.2 million

2025 \$ 87 million

Prior Governor funding recommendations for the WIF program:

2024: \$ 23.485 million

2025: \$ 23.485 million

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Emerging Contaminants Grant Program

AT A GLANCE**2026 Request Amount:** \$18,000**Priority Ranking:** 5

Project Summary: The Public Facilities Authority (MPFA) requests \$18 million for grants to local governments for the construction of drinking water treatment systems and/or alternative water supplies needed to address impacts from emerging contaminants such as manganese and polyfluoroalkyl (PFAS) substances.

Project Description

The request will provide funding to assist local governments to construct projects to meet state drinking water standards for manganese and upcoming state and federal standards for per- and polyfluoroalkyl substances. The program will combine state funds with available federal emerging contaminant funds to provide grants for 80% of project costs up to a maximum of \$5,000,000. Eligible projects must be listed on the Department of Health (MDH) Drinking Water State Revolving Fund Project Priority List and be reviewed and certified according to the MDH's rules. The MPFA shall not award a grant until the applicant has submitted as-bid construction costs.

Project Rationale

Not all municipal public water suppliers exceed state and federal standards for emerging contaminants. MDH testing shows that an estimated 40 municipalities across the state will not be able to meet the federal and state drinking water standards for PFAS and 24 municipalities are currently unable to meet the state drinking water guidance values for manganese.

The strongest and most consistently observed evidence for harmful impacts on human health from PFAS is immune suppression (such as decreased vaccination response), changes in liver function (such as higher cholesterol, elevated liver enzymes), and lower birth weight. In addition, perfluorooctanoic acid (PFOA) has also been associated with kidney cancer. There is evidence for additional health effects from different PFAS, including nonalcoholic liver disease and dyslipidemia, preeclampsia and pregnancy-related hypertension, and hypothyroidism and increased thyroid disease. The latest information indicates that fetuses and infants are more vulnerable. Long-term exposure to PFAS such as PFOA, perfluorooctane sulfonate (PFOS), and perfluorohexane sulfonate (PFHxS) leads to a buildup of these chemicals in the body. In women of child-bearing age who experience long-term exposure, the buildup of these chemicals can be passed on to the fetus and breastfed babies.

Similarly, children and adults who drink water with high levels of manganese for a long time may have problems with memory, attention, and motor skills. Infants (babies under one year old) may develop

learning and behavior problems if they drink water contaminated with manganese.

Analysis by MDH has shown that the communities impacted by PFAS and manganese have no recourse other than to construct projects such as drinking water treatment facilities or new wells to be able to provide safe water to their residents. These project expenses are significant and in addition to the costs that local governments face to operate and maintain their public water supply systems.

Project Timeline

Other Considerations

The federal Infrastructure Investment and Jobs Act (IIJA) included dedicated funding over five years to address emerging contaminants in community water systems. Minnesota expects to receive approximately \$120 million over five years, including federal funds through the DWSRF and dedicated federal funds for small and disadvantaged communities. The requested state funds will supplement the available federal funds to provide 50% grants up to \$5 million to local governments for projects to address emerging contaminants. The MDH estimates the total cost to provide these grants to all impacted municipalities is \$450 million.

MDH and PFA strive to improve, maintain, and protect the health of all Minnesotans through the incorporation of affordability criteria in the project funding framework. All community public water systems provide water to Minnesotans in their homes, where they have the highest exposure to drinking water. Of these approximately 1,000 public water suppliers serve smaller cities in Minnesota, with half of these serving populations less than 500 and another third serving populations between 501 and 3,300. The small customer base and limited user revenues makes it very difficult for these cities to invest in the essential infrastructure needed to ensure an uninterrupted supply of safe drinking water while keeping user rates affordable. Access to the proposed state funding dedicated to addressing the human health risks posed by emerging contaminants will be especially important to those communities that most need the assistance.

Impact on Agency Operating Budgets

MPFA administrative costs are paid from loan servicing fees.

Description of Previous Appropriations

Prior appropriations for the Emerging Contaminants Grant Program:

2025: \$18 million in GO bonds

Prior Governor funding recommendations for the Emerging Contaminants Grant Program:

2024: \$18 million in GO bonds

2025: \$18 million in GO bonds

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