AGENDA

I. CALL TO ORDER / ESTABLISH QUORUM

II. APPROVAL OF AGENDA

III. APPROVAL OF JANUARY 12, 2022 MINUTES

IV. PREPARATION FOR 2022 INDEPENDENT AUDIT
   A. Memo

V. FY 2023 ADMINISTRATIVE BUDGET AND INTERAGENCY AGREEMENTS
   A. Memo
   B. Resolution 2022-01
   C. FY 2023 PFA Budget Detail

VI. DELEGATION OF SIGNATURE AUTHORITY
    A. Memo
    B. Resolution 2022-02

VII. 2022 LEGISLATIVE UPDATE
    A. Memo
    B. OLA Letter and Questions with PFA Response

VIII. NEXT MEETING
    A. Memo

IX. ADJOURN
I. CALL TO ORDER:

Chair McKinnon called the meeting of the Public Facilities Authority to order on January 12, 2022 at 11:02 am and stated: “I now call the meeting of the Minnesota Public Facilities Authority to order as Chair. As the Chair of the Minnesota Public Facilities Authority, I determined that an in-person meeting was not practical because of the current health pandemic declared under Chapter 12 of Minnesota Statutes. As is permitted under the Open Meeting Law in these conditions, this meeting of the Minnesota Public Facilities Authority is being conducted over Audio Video Conferencing, and all votes will be counted with roll call. I will ask Jennie Brown to call roll after every agenda item including agenda, minutes, each resolution and adjournment."

Roll call taken; present: DEED; MMB; MDH; PCA; MDOT
Absent: MDA

A quorum was established.
II. APPROVAL OF AGENDA

Chair McKinnon entertained a motion to approve the agenda. Motion made by Katrina Kessler, seconded by Tom Hogan.

Roll call taken, voting yes: DEED; MMB; MDH; PCA; MDOT
Voting No: none
Absent: MDA

Approval of the agenda passed unanimously.

Andrea Vaubel, MDA arrived after Agenda Item II.

III. APPROVAL OF AUGUST 31, 2021 MINUTES

Chair McKinnon entertained a motion to approve the minutes from the August 31, 2021 meeting. Motion made by Jennifer Hassemer, seconded by Katrina Kessler.

Roll call taken, voting yes: DEED; MMB; MDH; PCA; MDA; MDOT
Voting No: none
Absent: none

Approval of the August 31, 2021 Meeting minutes passed unanimously.

IV. 2021 INDEPENDENT AUDIT

Steve Walter, Chief Financial Officer noted that there were no findings in PFA’s 2021 Independent Audit and nothing unusual to report; PFA had a large volume of loans and grants but nothing out of the ordinary.

Steve reviewed the Management Analysis and Discussion section of the Authority’s financial report which included narratives and charts explaining Authority operations and financial performance. There were no significant or unusual issues related to fiscal year 2021 financial activity. Steve introduced Corey Topp, partner at RSM, the Authority’s independent auditing firm. Corey introduced Jeff Miller as the lead on transaction testing. Corey discussed RSM’s responsibilities and their auditing process and scope of the audit. He reviewed RSM’s Report to the Board, their opinions expressed in the financial report and compliance report and confirmed that no findings were issued.

Roll call taken: DEED; MMB; MDH; PCA; MDA; MDOT
Absent: none

V. DRAFT PFA REPORTS

Jeff Freeman briefly reviewed the three required annual reports the PFA is required to submit to the Legislature and Governor due mid-January 2022. The Annual Report describes FY 2021 funding activity and program descriptions for each of the PFA programs and a brief discussion of water infrastructure needs and the PFA funding process.
The Fee Report identifies the amount of fees collected by the PFA, the purposes for which the fees have been spent, and the amount of any remaining fee balances.

The Estimated Funding Needs Report requires the PFA to report on estimated funding needs for eligible projects under the WIF and PSIG grant programs. The report also provides information on average annual residential wastewater rates for eligible projects with and without PFA grants, and a comparison with average wastewater charges in the metropolitan area.

Jeff noted that all three draft reports are provided to members for review and comment before they are submitted. The reports make no funding or policy decisions or recommendations. Reports will be submitted to the Legislature and Governor mid-January, Board Members will also be sent a copy.

Roll call taken: DEED; MMB; MDH; PCA; MDA; MDOT
Absent: none

VI. UPDATE ON PREPARATIONS FOR 2022 LEGISLATIVE SESSION

Jeff described the new federal water infrastructure funding from the recently approved federal Infrastructure Investment and Jobs Act (IIJA, also known as the Bipartisan Infrastructure Law – BIL). The Act includes major new federal appropriations over the next five years to the Clean Water and Drinking Water State Revolving Funds for water infrastructure improvements. Minnesota’s estimated share over the five-year period is to be approximately $663 million.

There are many questions yet to be answered about the new federal funding, and PFA staff continue to participate in discussions with USEPA and other states through various forums. Jeff explained that we hope to apply for the 2022 supplemental program funds as soon as possible based on existing projects on the current 2022 Intended Use Plans. There are also new project categories for replacement of drinking water lead service lines and addressing emerging contaminant. Those funds will likely have to wait until eligible projects can be identified on the 2023 Intended Use Plans.

Commissioner Kessler asked if we could approach EPA to start identifying these projects now rather than waiting to apply. Jeff confirmed that we have been in discussion with EPA and various other States and staff will be working to identify potential projects although there are still many questions about project eligibilities. EPA has set up a workgroup to identify questions and develop answers and staff will be participating in that process.

Jeff described the state match requirement for the IIJA funds. IIJA requires a state match for the existing SRF program funding of 10% for the first two years, increasing to 20% for the last three. In June 2021, the Board authorized submittal of the PFA’s 2022 capital budget request totaling $200 million to meet estimated funding needs through state FY 2024, including $25 million for SRF state matching funds, $100 million for WIF grants, and $75 million for PSIG grants. Staff have recommended to MMB that the request be adjusted to meet the additional IIJA state match requirement by moving $24 million from WIF to state match, thereby increasing the state match portion to a total of $49 million to cover the estimated regular and IIJA state match through 2024. The total PFA bonding request would stay at $200 million, and the reduction in WIF funding would be more than offset by the increased principal forgiveness funds mandated by IIJA.

Jeff also described changes to PFA’s proposed legislative initiatives that were discussed at the August 2021 board meeting to proceed through the Governor’s office process for legislative proposals. First was a change to the DWRF statutes regarding the use of federal principal forgiveness grant funds for lead
service line replacement. The original proposal was to delete the 50% limitation on principal forgiveness funds and to increase the maximum award from $250,000 to $500,000. With IIJA providing very large, dedicated funding for lead service lines with 49% principal forgiveness, the proposal has been changed to remove the maximum award amount.

Second was a proposal to increase the maximum grants allowed under the WIF and PSIG programs to better address the needs of larger projects. After further discussion with PCA staff, we agreed that, due to the complexity of issues and project types potentially eligible for PSIG grants, we should hold off on the PSIG increase at this time. The WIF proposal to increase the maximum WIF grant from five to eight million will proceed.

The legislative proposals have been drafted by the Revisor and are waiting for final approval and direction from the Governor’s Office. Following that approval, we will work with the capital investment chairs to include these provisions in a 2022 bonding bill.

Roll call taken: DEED; MMB; MDH; PCA; MDOT
Absent: MDA

VII. NEXT MEETING

The next PFA Board meeting is expected to be early to mid-June which will include approval of the FY2023 administrative budget, interagency agreements, and a discussion with Corey Topp, RSM US LLP, regarding planning for the FY 2022 audit.

Roll call taken: DEED; MMB; MDH; PCA; MDOT
Absent: MDA

VIII. ADJOURN

Chair McKinnon entertained a motion to adjourn. Motion made by Katrina, seconded by Tom Hogan.

Roll call taken: DEED; MMB; MDH; PCA; MDOT
Absent: MDA

The meeting adjourned at approximately 12:09 pm.

Respectfully Submitted,

Jeff Freeman, Executive Director
Minnesota Public Facilities Authority
Date:       June 8, 2022  
To:         Public Facilities Authority Members  
From:       Jeff Freeman, Executive Director  
Subject:    Address to the Board by MPFA Auditor

At this time each fiscal year, our auditors begin planning for the independent audit of our financial statements for the fiscal year ending June 30.

RSM Partner Corey Topp will address the board regarding the process and the opportunity for board members to address questions or concerns.
Date: June 8, 2022
To: Public Facilities Authority Members
From: Jeff Freeman, Executive Director
Subject: FY 2023 Administrative Budget and Interagency Agreements

Prior to the beginning of each fiscal year, the Public Facilities Authority (PFA) approves its administrative budget and authorizes the Executive Director to execute interagency agreements with member agencies for costs related to the Authority’s operations and programs.

The PFA’s administrative budget includes funds for Authority staff and expenses, and for costs related to administrative and technical support services. For efficient use of resources and appropriate segregation of duties, the PFA contracts with the Department of Employment and Economic Development (DEED) for payroll, HR and certain general administrative services.

Interagency agreements are executed with the Pollution Control Agency (PCA) and Department of Health (MDH) to fund expenses associated with their responsibilities for administration of the clean water and drinking water programs. The PCA and MDH budgets include the engineers and other technical staff that review the project proposals, plans and specifications, and environmental documents for all wastewater and stormwater projects (PCA) and drinking water projects (MDH) seeking PFA funding. PCA and MDH staff also have regulatory responsibilities that go beyond specific program funding requirements.

PFA funding is provided through a framework of state and federal funding and multiple programs. Many projects receive a funding package from multiple programs, and often include funding from other sources including our primary funding partner USDA Rural Development. This approach maximizes the number of projects that can be funded and effectively targets funding based on community needs and water quality and public health priorities. But it also carries significant administrative challenges for PFA, PCA, and MDH staff.

We continue to see strong demand for PFA funding programs. In FY22 to date, PFA has made 35 clean water loan and grant awards totaling $172 million, and 24 drinking water loan and grant awards totaling $37 million. (The drinking water dollar amount to date is down somewhat only because of several pending large projects that will be awarded in late FY22 or early FY23.) Looking ahead to FY23, with new federal funds from the Infrastructure Investment and Jobs Act (IIJA), new project categories for lead service lines and emerging contaminants, and many new project requests for the 2023 Project Priority Lists and Intended Use Plans, we expect FY23 will be another very busy year.
The following table shows last year’s approved budgets and the proposed FY 2023 budgets, FTE’s, and source of funds from the various PFA fee accounts. PFA fee accounts include loan servicing fees and application fees authorized in statute. PFA staff monitor fee account revenues, expenditures, and balances to ensure long term sustainability.

<table>
<thead>
<tr>
<th>Agency-Dept</th>
<th>Program</th>
<th>FY 22 Budget</th>
<th>Proposed FY 23 Budget</th>
<th>FY 23 FTEs</th>
<th>Source of Funds</th>
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<tbody>
<tr>
<td>PCA</td>
<td>CWSRF</td>
<td>$1,866,156</td>
<td>$2,026,691</td>
<td>13.000</td>
<td>Loan Fees</td>
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<td>MDH</td>
<td>DWSRF</td>
<td>$671,680</td>
<td>$756,288</td>
<td>5.000</td>
<td>Loan Fees</td>
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<td>PFA</td>
<td>CWSRF</td>
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<td>$987,000</td>
<td>6.875</td>
<td>Loan Fees</td>
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<tr>
<td></td>
<td>DWSRF</td>
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<td>817,000</td>
<td>5.875</td>
<td>Loan Fees</td>
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<td>TRLF</td>
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<td></td>
<td>Cred Enh &amp; CWL</td>
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<td>57,000</td>
<td>0.375</td>
<td>Applic. Fees</td>
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<tr>
<td>PFA totals</td>
<td></td>
<td>$1,781,000</td>
<td>$1,918,000</td>
<td>13.500</td>
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</table>

The PCA FY23 proposed budget includes an increase of one new engineering position to a total of 13 FTEs compared to 12 in FY22, along with standard increases in salary and indirect. PFA and PCA staff have had discussions about the new IIJA set-aside funds and the possibility of using those for additional staffing needs. We will have more information on IIJA set-asides for discussion at the August Board meeting as part of the 2023 Intended Use Plan review.

The MDH FY23 proposed budget also includes additional engineering FTEs bringing the total to 5 FTEs from 4.6 in FY22, along with standard increases in salary and indirect. PFA and MDH staff have had discussions about the new IIJA set-aside funds and the possibility of using those for additional staffing needs along with other activities such as supporting lead service line inventories. We will have more information on IIJA set-asides for discussion at the August Board meeting as part of the 2023 Intended Use Plan review.

The PFA FY23 budget of $1,918,000 is based on 13.5 FTE’s. Last year PFA created and filled a compliance coordinator position and an administrative support position, and one loan officer position was reduced to ½ time through a post retirement appointment. For FY23 we have created an additional loan officer position (vacant but currently interviewing for). We also have tentative plans to re-create a deputy director position. The attached memo from Chief Financial Officer Steve Walter provides more PFA budget detail.

In addition to the PFA’s general administrative budget, the budget memo identifies an estimated $150,000 for on-going professional/technical service contracts to fulfill the Authority’s responsibilities for managing its revolving funds and assets, including independent auditor, bond counsel, and municipal advisor. This also includes continuing an interagency agreement with Minnesota Housing Finance Agency (MHFA) for the services of Paula Rindels to help the Authority with issues related to tax-exempt bond requirements and other matters.

The attached resolution approves the PFA’s FY 2023 budget and authorizes the Executive Director to prepare and execute Interagency Agreements with the PCA, MDH, DEED and MHFA, and other contracts, purchase orders, and agreements necessary and appropriate to manage and implement the funds and programs of the Authority.
MINNESOTA PUBLIC FACILITIES AUTHORITY
RESOLUTION NUMBER 2022-01

APPROVING THE AUTHORITY’S FY 2023 BUDGET AND AUTHORIZING PREPARATION AND EXECUTION OF AGREEMENTS AND CONTRACTS FOR EXPENSES RELATED TO THE AUTHORITY’S OPERATIONS AND PROGRAMS

WHEREAS, pursuant to Minnesota Statutes Section 446A.03, Subdivision 5, the Executive Director is responsible for staff of the Authority and for carrying out the Authority’s responsibilities to manage and implement the funds and programs of the Authority; and

WHEREAS, Minnesota Statutes Section 446A.03, Subdivision 6 authorizes the Authority to enter into agreements for administrative and professional services, and technical support; and

WHEREAS, Minnesota Statutes Section 446A.04, Subdivision 5 authorizes the Authority to collect fees for costs incurred by the Authority and other agencies and departments and to enter into interagency agreements with appropriate agencies and departments to provide funds for the administration of its programs; and

WHEREAS, pursuant to Minnesota Statutes Section 446A.07, the Pollution Control Agency is responsible for various administrative duties with respect to the Clean Water Revolving Fund and loan fees and other monies may be used to the extent permitted under federal law to pay reasonable costs incurred by the Pollution Control Agency for these activities; and

WHEREAS, pursuant to Minnesota Statutes Section 446A.081, the Department of Health is responsible for various administrative duties with respect to the Drinking Water Revolving Fund and loan fees and other monies may be used to the extent permitted under federal law to pay reasonable costs incurred by the Department of Health for these activities.

NOW, THEREFORE BE IT RESOLVED BY THE MINNESOTA PUBLIC FACILITIES AUTHORITY THAT:

1. The Authority’s administrative budget for FY 2023 is hereby approved in the total amount of $1,918,000, and the Executive Director is authorized to make line item changes during the year as may be necessary within the overall budget limit; and

2. The Executive Director is authorized to prepare and execute on behalf of the Authority interagency agreements for FY 2023 program administration expenses with the Pollution Control Agency in the amount of $2,026,691 and the Department of Health in the amount of $756,288; and

3. The Executive Director is authorized to prepare and execute on behalf of the Authority a FY 2023 interagency agreement with the Department of Employment and Economic Development for administrative and technical services to support Authority staff and operations; and

4. The Executive Director is authorized to prepare and execute on behalf of the Authority a FY 2023 interagency agreement with the Housing Finance Agency for professional/technical services provided by Paula Rindels; and

5. The Executive Director is authorized to sign contracts, purchase orders, and other agreements necessary and appropriate to manage and implement the funds and programs of the Authority and maintain compliance with state and federal program requirements, securities and tax laws and regulations.

Adopted the 13th day of June, 2022

MINNESOTA PUBLIC FACILITIES AUTHORITY

By: ____________________________________
Chair/Member

Attest: __________________________________
Executive Director
Date: June 6, 2022
To: Jeff Freeman
Executive Director
From: Steve Walter
Chief Financial Officer
Melissa Ralph
Accounting Officer Senior
RE: BFY 2023 Budgets for General Administrative Costs and Professional Technical Services Contracts

**General Admin Costs**

<table>
<thead>
<tr>
<th>Obj</th>
<th>Obj Description</th>
<th>Application Fees</th>
<th>Loan Servicing Fees</th>
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<td>B240020 Cred Enh</td>
<td>B240040 CWL</td>
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<td>41000</td>
<td>Full-Time</td>
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<td>41050</td>
<td>Overtime</td>
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<tr>
<td>41100</td>
<td>Space Rental</td>
<td>1,702</td>
<td>31,674</td>
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<tr>
<td>41110</td>
<td>Printing and Advertising</td>
<td>300</td>
<td>200</td>
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<td>41155</td>
<td>Communications</td>
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<td>800</td>
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<td>41160</td>
<td>Travel-In-State</td>
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<td>41170</td>
<td>Travel-Out-State</td>
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<td>41180</td>
<td>Employee Dvlp</td>
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<td>41190</td>
<td>Agency Support-DEED</td>
<td>1,632</td>
<td>4,200</td>
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<td>41196</td>
<td>MNIT-Centralized IT Services</td>
<td>20,400</td>
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<td>41197</td>
<td>MNIT-Other (OnBase, Adobe)</td>
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<tr>
<td>41300</td>
<td>Supplies</td>
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<tr>
<td>41400</td>
<td>Equipment (printer)</td>
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<tr>
<td>41500</td>
<td>Repairs/maint (printer)</td>
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<td>47160</td>
<td>Equipment (monitors, office equip…</td>
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<td>42010</td>
<td>Statewide Indirect (2)</td>
<td>15</td>
<td>39</td>
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<td>42020</td>
<td>Attorney General Costs</td>
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<tr>
<td>43000</td>
<td>Other Operating</td>
<td>753</td>
<td>59</td>
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</table>

**Total general admin:**

16,000          41,000          987,000        817,000        57,000          1,918,000

Staff full-time equivalency: 0.125    0.250    6.875    5.875    0.375    13.500

Past years' budgets and FTE:

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<td><strong>FTE:</strong></td>
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<td>10.750</td>
<td>10.750</td>
<td>12.000</td>
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**Professional Technical Services Contracts:**

Bond Counsel, Financial Advisor, Legal consultation w/HFA, other bond-related costs not paid from proceeds:

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<thead>
<tr>
<th>Service</th>
<th>CWSRF</th>
<th>DWSRF</th>
<th>Totals</th>
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<td>Audit</td>
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<td>25,600</td>
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<td>Arbitrage Rebate Calculations</td>
<td>3,150</td>
<td>2,100</td>
<td>5,250</td>
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<tr>
<td>Financial Advisor, Bond Counsel,...</td>
<td>48,450</td>
<td>32,300</td>
<td>80,750</td>
</tr>
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</table>

90,000          60,000          150,000
Date: June 8, 2022
To: Public Facilities Authority Members
From: Jeff Freeman, Executive Director
Subject: Delegation of Signature Authority for Project Contracts

Under Minnesota Statutes, Section 446A.03, Subdivision 3a, members of the Authority may delegate to the Chair, Vice-Chair, or Executive Director their responsibilities for reviewing and approving financing for eligible projects that have been certified to the Authority by another department or agency or authorized by law. Past practice has been for the Board to delegate authority to the Chair or Vice-Chair to approve and sign financing agreements for projects that are recommended for funding by the Executive Director.

For the Clean Water and Drinking Water Revolving Funds, delegations are included in the Authority resolutions approving the annual Intended Use Plans.

For the Authority’s other water financing programs, it is appropriate for the Authority to annually reaffirm its review and approval delegations. The attached Resolution 2022-02 authorizes the Chair or, in his absence, the Vice-Chair to approve and sign financing agreements for eligible projects certified by a partner agency and recommended for funding by the Executive Director under these statutory programs:

- MS 446A.072, the Water Infrastructure Funding program
- MS 446A.073, the Point Source Implementation Grants program
- MS 446A.075, the Small Community Wastewater Treatment program

The Authority also from time to time (usually through bonding bills) receives capital project appropriations for grants to individual projects (earmarks). The attached Resolution 2022-02 delegates approval and signature authority for capital project appropriations made by the Legislature to the Authority.

Finally, Resolution 2022-02 also reaffirms authorization for the Executive Director to sign credit enhancement program agreements through which the state provides a limited guarantee of debt service payments for certain general obligation bonds issued by cities and counties pursuant to Minnesota Statutes, Section 446A.086. The Authority assumes no financial liability under these agreements.
WHEREAS, pursuant to Minnesota Statutes Section 446A.03, Subdivision 3a, members of the Authority may delegate to the Chair, Vice-Chair, or Executive Director their responsibilities for reviewing and approving financing of eligible projects that have been certified to the Authority by another department or agency, projects that have been authorized by law, or programs specifically authorized by resolution of the Authority; and

WHEREAS, the Authority administers the Water Infrastructure Funding program (Minnesota Statutes, Section 446A.072), the Point Source Implementation Grants program (Minnesota Statutes, Section 446A.073) and the Small Community Wastewater Treatment Program (Minnesota Statutes, Section 446A.075) in cooperation with other departments and agencies; and

WHEREAS, the Minnesota Legislature from time to time appropriates funds to the Authority for grants to specific individual capital projects; and

WHEREAS, the Authority administers a credit enhancement program (Minnesota Statutes, Section 446A.086) in cooperation with Minnesota Management and Budget, and through its Resolution 00-03 the Authority authorized implementation of the program and delegated signature authority for program agreements to the Executive Director.

NOW, THEREFORE BE IT RESOLVED BY THE MINNESOTA PUBLIC FACILITIES AUTHORITY

THAT:

1. The Chair, or in his absence, the Vice-Chair is authorized to approve and sign project financing agreements under the Water Infrastructure Funding program, the Point Source Implementation Grants program, and the Small Community Wastewater Treatment program for eligible projects that are certified by another department or agency under each program’s statutory requirements and recommended for funding by the Executive Director.

2. The Chair or, in his absence, the Vice-Chair is authorized to approve and sign financing agreements for individual capital projects to receive funds appropriated by the Legislature.

3. The Executive Director is authorized to approve and sign program agreements for eligible applicants under the Credit Enhancement Program.

Adopted the 13th day of June, 2022

MINNESOTA PUBLIC FACILITIES AUTHORITY

By: _________________________________

Chair/Member

Attest: _________________________________

Executive Director
Date: June 8, 2022
To: Public Facilities Authority Members
From: Jeff Freeman, Executive Director
Subject: 2022 Legislative Session Update

The 2022 regular legislative session ended with a frustrating whimper. No bonding bill means many potential WIF and PSIG grant recipients that were preparing for construction will be delayed and funding uncertainties for many projects will likely have ripple effects well into the future. With many issues left unfinished there may still be hope for a summer special session that would include a bonding bill but PFA will need to be prepared if that doesn’t happen.

The Governor’s 2022 bonding recommendations included $49 million for state match to federal funds for the Clean Water and Drinking Water State Revolving Fund (SRF) programs, $76 million for the Water Infrastructure Fund (WIF) grant program, and $75 million for the Point Source Implementation Grant (PSIG) program. The Governor’s recommendations also included PFA’s proposed statute changes for lead service line replacement projects and to increase the maximum WIF grant.

The state match funding and proposed statute changes are linked to the new federal funding through the Infrastructure Investment and Jobs Act (IIJA). IIJA includes supplemental funds for the existing Clean Water and Drinking Water SRF programs and new project categories for lead service line (LSL) replacement projects and emerging contaminant projects. The supplemental SRF funds require a state match while the LSL and emerging contaminant funds do not. The PFA state match request includes funding to match estimated regular federal capitalization grants for FY 2023-2024 and the first three years (FY 2022-2024) of IIJA supplemental SRF funds. Federal law requires states to apply for and receive Year 1 IIJA funds by September 30, 2023.

While Minnesota is not in immediate danger of losing IIJA funds, the lack of a bonding bill with state match funds potentially delays our receipt of the additional federal funds. For months, PFA, PCA, and MDH staff have been discussing how best to implement the new IIJA funding and requirements. We have notified and made presentations to cities and consultants with information about how to submit requests for the 2023 Project Priority Lists (PPLs) and Intended Use Plans (IUPs), including for LSL replacement projects, and appear to have a record numbers of requests. Our plan is to submit applications for Year 1 IIJA funds this fall as soon as the 2023 IUPs are approved. If state match funds are not available we would not be able to start drawing the supplemental IIJA funds.
The lack of a bonding bill will also prevent PFA from making full use of the dedicated IIJA funds for lead service line (LSL) replacement. While the LSL funding does not require a state match, the PFA had proposed changes to the Drinking Water SRF statutes to expand the use of principal forgiveness grant funds beyond the current limit of $250,000 and had proposed a 0% interest rate for LSL projects. Without these changes it will not be possible to fully utilize the IIJA lead service line funding.

MDH and PCA staff are in the process of scoring PPL requests for the 2023 PPLs which PFA expects to receive in early July. Based on the 2023 PPLs and the IUP project requests received by PFA, staff will prepare draft 2023 IUPs for review at the next PFA Board meeting in August or early September. Hopefully a legislative special session will be called this summer and we can prepare the IUPs based on the Governor’s bonding recommendations. If not we will still prepare draft IUPs based on existing resources and with the new IIJA project categories and requirements so that we can use them to at least submit the Year 1 IIJA applications and be prepared to start drawing those funds as soon as possible.

Another concerning aspect of the 2022 session was the introduction of a number of policy bills that would significantly change the PFA funding framework. In particular, bills targeted the affordability criteria in statute for WIF grants, and by cross-reference, SRF principal forgiveness grants. There were also proposals to make major changes to the project ranking criteria used in the PCA and MDH project priority systems.

Through the Clean Water and Drinking Water SRFs, the PFA provides low interest loans to cities of all sizes throughout the state. The purpose of the WIF grant program is to supplement the loan funds by providing targeted grant assistance to help cities replace aging wastewater and drinking water systems that would otherwise be unaffordable. WIF grants tend to go to smaller communities because they have fewer users to share the costs and those users typically pay 2-3 times or more what users in larger cities pay. While no one approached me to discuss the proposed bills, the goal appears to be to change affordability criteria to identify areas of significant hardship or disadvantaged communities within larger cities. I explained in committee testimony that water systems operate as enterprise funds and all cities by law must charge every residential user based on the same rate structure. The benefit to individual households of grants to larger cities is diluted by the larger user base, meaning that the grants would have very little impact on rates.

I also explained in committee that the application of affordability criteria will be different for lead service line replacement projects. Because a portion of the service line is owned by the individual property owner, the affordability criteria will focus on what would be the financial impact of an assessment back to the individual property. Based on discussions with EPA, cities, and other states, PFA and MDH staff believe it is appropriate to target federal Principal Forgiveness grant funds to the replacement of the privately owned portion of lead service lines in all cities, with the goal of doing the replacement at no cost to the property owner.

Toward the end of the regular session we received a request from the Office of the Legislative Auditor (OLA) for information in response to specific questions regarding affordability criteria and related issues. The OLA letter and questions and PFA staff responses are attached.
May 10, 2022

Jeff Freeman, Executive Director
Minnesota Public Facilities Authority
1st National Bank Building, Suite W820
332 Minnesota Street
Saint Paul, MN 55101-1378

Sent via e-mail: Jeff.Freeman@state.mn.us

Dear Executive Director Freeman:

The Office of the Legislative Auditor (OLA) is conducting some preliminary research into the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund, in response to some questions we received. After reviewing applicable state and federal law, and the 2022 intended use plans, we have a number of questions for you and your staff. Your answers will help us provide accurate information to the Legislature.

Under OLA’s “special review” authority in Minnesota Statutes 2021, 3.971, subd. 8a, we request that you respond to the questions on the following pages by June 3, 2022. If a response is guided by a specific state or federal law, please cite the relevant rule or statute. Additionally, please feel free to submit relevant agency policies, procedures, or other documents if they would aid your explanation.

As you might know, OLA has the authority to obtain data of any classification under Minnesota Statutes 2021, 3.978, subd. 2. Additionally, Minnesota Statutes 2021, 3.979, subd. 1, requires OLA to “protect from unlawful disclosure data classified as not public.” To aid our ability to protect the information that you provide, please indicate if any of the information that you provide is not public, and please provide the legal citation that classifies it as such.

If you have any questions about this request, please contact Lucas Lockhart at Lucas.Lockhart@state.mn.us or 651-296-1233. Thank you for your time and assistance with this request.

Sincerely,

Katherine Theisen
Director of Special Reviews

cc: Judy Randall, Legislative Auditor, Office of the Legislative Auditor
Questions:

1) 33 U.S. Code, sec. 1383(i)(2)(A)(i), states that a “State shall establish affordability criteria to assist in identifying municipalities that would experience a significant hardship raising the revenue necessary to finance a project or activity eligible for assistance under subsection (c)(1) if additional subsidization is not provided.” Subsection (c)(1) states: “The amounts of funds available to each State water pollution control revolving fund shall be used only for providing financial assistance—(1) to any municipality or intermunicipal, interstate, or State agency for construction of publicly owned treatment works.”

A. What is Public Facilities Authority’s (PFA’s) interpretation of “significant hardship” and “additional subsidization”?

B. Please explain how these interpretations affect PFA’s implementation of Minnesota’s Clean Water State Revolving Fund (CWSRF).

2) According to the 2022 Clean Water Revolving Fund Intended Use Plan, federal Principal Forgiveness and state Water Infrastructure Fund (WIF) grants may be awarded to CWSRF projects based upon the affordability criteria of the WIF program found in Minnesota Statutes 2021, 446A.072, subd. 5a(b).

A. Please confirm that the affordability criteria found in Minnesota Statutes 2021, 446A.072, subd. 5a(b), are not used to place or rank projects on the Minnesota Pollution Control Agency’s Project Priority List.

B. Please confirm that the affordability criteria found in Minnesota Statutes 2021, 446A.072, subd. 5a(b), are not used to place or rank projects on PFA’s Clean Water Revolving Fund Intended Use Plan.

3) Minnesota Statutes 2021, 446A.072, subd. 5a(b), states “For a governmental unit receiving a loan from the clean water revolving fund under section 446A.07, the authority may provide assistance under this section in the form of a grant if the average annual residential wastewater system cost after completion of the project would otherwise exceed 1.4 percent of the median household income of the project service area.”

A. For what time period is the “median household income” calculated?

B. What is the typical “project service area” for these projects?

C. How is median household income calculated if the project service area covers more than one governmental unit?

4) According to the 2022 Clean Water Revolving Fund Intended Use Plan, “The WIF program criteria limits assistance to the portion of a project needed to address existing wastewater needs as opposed to growth-related needs, thereby limiting WIF and Principal Forgiveness awards for communities with growing populations.”
A. Please provide more details on the scope and purpose of the limitations placed on WIF and Principal Forgiveness awards for communities with growing populations.

B. Are the population-based limitations on the WIF and Principal Forgiveness awards required by law? If so, please provide citations to the relevant laws.

C. For the purpose of this limitation, how does PFA define a “community?”

D. How does PFA determine whether a particular portion of a project is needed for an existing need versus a growth-related need?

5) According to the 2022 Clean Water Revolving Fund Intended Use Plan, for federal Principal Forgiveness funds, PFA considers unemployment data as a secondary factor after the WIF affordability criteria are applied. The Intended Use Plan states that “To the extent possible, PFA [directs] federal Principal Forgiveness funds to eligible projects whose county unemployment rate for the most recent full calendar year is higher than the state’s unemployment rate for the same period.”

A. Please explain how PFA uses county unemployment rate for federal Principal Forgiveness funds.

B. Does PFA use unemployment data in any way for the CWSRF and WIF programs?

6) Other than median household income, population trends, and unemployment rate, does PFA use any other affordability criteria when administering CWSRF loans, federal Principal Forgiveness grants, or WIF grants? If yes, please describe those criteria.

7) According to the 2022 Drinking Water Revolving Fund Intended Use Plan, “Federal law and appropriation language requires at least 20% ($3,358,400) of [federal drinking water capitalization grants] be used for additional subsidization to disadvantaged communities.” What forms can this “additional subsidization” take?

8) According to the 2022 Drinking Water Revolving Fund Intended Use Plan, there are three categories of “disadvantaged communities.” We understood the plan to say that a governmental unit in which the cost of a residential drinking system project would exceed 1.2 percent of the median household income of the project service area (Minnesota Statutes 2021, 446A.072, subd. 5a(c)) would be considered a disadvantaged community.

A. Is our interpretation correct?

B. If so, for what time period is “median household income” calculated?

D. What is the typical “project service area” for these projects?

C. How is median household income calculated if the project service area covers more than one governmental unit?
9) Our review of the 2022 Drinking Water Revolving Fund Intended Use Plan suggests that neither unemployment nor population growth are considered as either primary or secondary factors in drinking water affordability criteria or to designate “disadvantaged communities.” Is this correct?

   A. Other than the affordability criteria found in Minnesota Statutes 2021, 446A.072, subd. 5a(c), are any other affordability criteria used as primary or secondary factors in drinking water-related WIF or Principal Forgiveness grants? If yes, describe the criteria.

10) According to Minnesota Rules, 4720.9015, subp. 8, when two or more projects on the Minnesota Department of Health’s (MDH’s) Project Priority List are tied, the project sponsored by the entity with the lowest median household income must receive the highest priority. Further, Minnesota Rules, 4720.9040, subp. 3, states that “A project sponsored by a community public drinking water supply with a median household income less than either the median household income for a metropolitan or nonmetropolitan area, as applicable, must be assigned five priority points.”

   A. Does PFA consider Minnesota Rules, 4720.9015, subp. 8, and Minnesota Rules, 4720.9040, subp. 3, as “affordability criteria” or as something distinct?

   B. Other than median income, are any other affordability or financial need criteria used to score projects on MDH’s Drinking Water Project Priority List or in PFA’s Intended Use Plans?

   C. Please confirm that the affordability criteria found in Minnesota Statutes 2021, 446A.072, subd. 5a(c), are not used to place or rank projects on MDH’s Project Priority List or in PFA’s Drinking Water Revolving Fund Intended Use Plan.

11) Other than for Drinking Water State Revolving Fund (DWSRF) loans, CWSRF and DWSRF Principal Forgiveness grants, and WIF grants, please name any other programs that use the affordability criteria found in Minnesota Statutes 2021, 446A.072, subd. 5a.

12) Are affordability criteria used in the underwriting process for CWSRF or DWSRF loans? If so, how do affordability criteria affect loan terms?

13) Broadly speaking, how has the recent Bipartisan Infrastructure Law (P.L. 117-58), also known as the “Infrastructure Investment and Jobs Act of 2021,” affected your process to prioritize CWSRF and DWSRF loans, select projects for WIF grants or Principal Forgiveness, or otherwise administer the CWSRF, DWSRF, and WIF programs?

14) When was the last time Minnesota reviewed and updated its affordability criteria for DWSRF loans, CWSRF and DWSRF Principal Forgiveness grants, and WIF grants, including how criteria are weighted or used in calculations? If applicable, please highlight any differences between the CWSRF, DWSRF, Principal Forgiveness, and WIF programs.
15) How frequently has PFA updated affordability criteria for DWSRF loans, CWSRF and DWSRF Principal Forgiveness grants, and WIF grants in the last ten years?

16) Please describe the general process for updating affordability criteria. What role do public input (such as public comment periods, hearings, or focus groups) and economic, demographic, and environmental data have in the affordability criteria update process?

17) Please provide an example of affordability criteria calculation and/or weighting for the CWSRF that uses median income, population trends, and unemployment rate.

18) Please provide an example of affordability criteria calculation and/or weighting for DWSRF loans, CWSRF and DWSRF Principal Forgiveness grants, and WIF grants.

19) If you have it, please provide a project priority scoring example that draws upon the requirements of Minnesota Rules, 4720.9015, subp. 8, and 4720.9040, subp. 3. If you do not have an example, please provide a relevant contact at the Minnesota Department of Health who could provide an example.
Questions:

1) 33 U.S. Code, sec. 1383(i)(2)(A)(i), states that a “State shall establish affordability criteria to assist in identifying municipalities that would experience a significant hardship raising the revenue necessary to finance a project or activity eligible for assistance under subsection (c)(1) if additional subsidization is not provided.” Subsection (c)(1) states: “The amounts of funds available to each State water pollution control revolving fund shall be used only for providing financial assistance—(1) to any municipality or intermunicipal, interstate, or State agency for construction of publicly owned treatment works.”

A. What is Public Facilities Authority’s (PFA’s) interpretation of “significant hardship” and “additional subsidization”?

PFA interprets “significant hardship” for wastewater projects based on the Water Infrastructure Fund (WIF) affordability criteria established in Minnesota Statutes 2021, 446A.072, subd. 5a(b), which provides a methodology to calculate the financial impact on a municipality’s users if the municipality had to finance an eligible project with only Clean Water State Revolving Fund (CWSRF) loan assistance. The affordability criteria considers the system annual operation and maintenance costs, debt service for prior capital improvements, and projected new debt service for the proposed project. The cost impact on the average household is determined by dividing the total system costs by the number of residential users (measured by equivalent residential units) to determine the average cost per household. If the average cost per household exceeds 1.4% of the municipality’s median household income, the proposed project is considered to create significant hardship for the municipality.

“Additional subsidization” is a term used in EPA guidance and regulations that refers to grants or principal forgiveness provided through the CWSRF. PFA provides “additional subsidization” in the form of principal forgiveness, meaning a specific dollar reduction in the amount of loan principal that must be repaid, which is granted at the time a CWSRF loan agreement is awarded.

B. Please explain how these interpretations affect PFA’s implementation of Minnesota’s Clean Water State Revolving Fund (CWSRF).

When an eligible project would create a significant hardship for a municipality as described above, the PFA financial award can include a WIF grant (under MS 446A.072) or principal forgiveness award (through a cross-reference in MS 446A.07, subd 8(a)(7)) to reduce the loan portion of project financing.

As stated in MS 446A.072, Subd 1, the purpose of the WIF program is to assist governmental units demonstrating financial need to build cost-effective projects to address existing environmental or public health problems. PFA interprets this to mean that the program purpose is to help governmental units build projects to replace aging and obsolete wastewater and drinking water systems that would otherwise create a significant hardship for their ratepayers.
2) According to the 2022 Clean Water Revolving Fund Intended Use Plan, federal Principal Forgiveness and state Water Infrastructure Fund (WIF) grants may be awarded to CWSRF projects based upon the affordability criteria of the WIF program found in Minnesota Statutes 2021, 446A.072, subd. 5a(b).

A. Please confirm that the affordability criteria found in Minnesota Statutes 2021, 446A.072, subd. 5a(b), are not used to place or rank projects on the Minnesota Pollution Control Agency’s Project Priority List.

The affordability criteria found in MS 446A.072, subd. 5a(b) are not used to place or rank projects on the MPCA’s Project Priority List. Project eligibilities and priorities are determined by MPCA according to Minnesota Rules chapter 7077.

B. Please confirm that the affordability criteria found in Minnesota Statutes 2021, 446A.072, subd. 5a(b), are not used to place or rank projects on PFA’s Clean Water Revolving Fund Intended Use Plan.

The affordability criteria found in MS 446A.072, subd. 5a(b) are not used to place or rank projects on the PFA’s Clean Water Revolving Fund Intended Use Plan (IUP). Projects requesting placement on the Clean Water Revolving Fund IUP are ranked based on the MPCA’s Project Priority List and placed on the IUP according to Minnesota Rules Part 7380.0422.

3) Minnesota Statutes 2021, 446A.072, subd. 5a(b), states “For a governmental unit receiving a loan from the clean water revolving fund under section 446A.07, the authority may provide assistance under this section in the form of a grant if the average annual residential wastewater system cost after completion of the project would otherwise exceed 1.4 percent of the median household income of the project service area.”

A. For what time period is the “median household income” calculated?

The PFA uses the median household income as shown in the U.S. Census American Community Survey at the time the project is placed on the Intended Use Plan.

B. What is the typical “project service area” for these projects?

“Project service area” means the geographic area to be served by the project. In most cases the “project service area” is the entire municipality. If the project will serve only a portion of the municipality’s geographic area and the project costs will be assessed to that smaller area, the “project service area” would be that smaller geographic area to be served. If the project is to extend service outside the municipal geographic area and the project costs will be assessed to that area, the geographic area receiving service would be the “project service area”.

C. How is median household income calculated if the project service area covers more than one governmental unit?

If the project service area covers more than one governmental unit, the PFA would either calculate a weighted average median household income based on the number of households in each governmental unit, or would provide financing separately to each governmental unit based on its number of households, MHI and share of the total project costs.
4) According to the 2022 Clean Water Revolving Fund Intended Use Plan, “The WIF program criteria limits assistance to the portion of a project needed to address existing wastewater needs as opposed to growth-related needs, thereby limiting WIF and Principal Forgiveness awards for communities with growing populations.”

A. Please provide more details on the scope and purpose of the limitations placed on WIF and Principal Forgiveness awards for communities with growing populations.

Eligible project costs for the WIF grant program (and by cross-reference Principal Forgiveness awards) are determined based on a calculation by MPCA of the ‘Essential Project Components’ percentage. MS 446A.072, Subd 3(c)(1) requires the MPCA to calculate the ‘Essential Project Component’ percentage based on the portion of project costs necessary to convey or treat the existing wastewater flows and loadings. This percentage is multiplied by the total project cost to determine the WIF eligible project cost on which the WIF grant (or Principal Forgiveness) amount is calculated under MS 446A.072, Subd 5a(b). This methodology ensures that the WIF grant is based only on the project costs necessary to meet a municipality’s existing needs. Project costs related to growth in a community with a growing population are not eligible for WIF grant (or Principal Forgiveness) assistance.

B. Are the population-based limitations on the WIF and Principal Forgiveness awards required by law? If so, please provide citations to the relevant laws.

The ‘Essential Project Component’ percentage calculation is required as part of the MPCA project certification in MS 446A. 072, Subd 3(c)(1). This requirement is also applied to Principal Forgiveness awards through the cross-reference in MS 446A.07, subd 8(a)(7).

C. For the purpose of this limitation, how does PFA define a “community?”

In the context of the Clean Water Revolving Fund Intended Use Plan, the term “community” is analogous to the municipality that is applying for project financing.

D. How does PFA determine whether a particular portion of a project is needed for an existing need versus a growth-related need?

See 4A.

5) According to the 2022 Clean Water Revolving Fund Intended Use Plan, for federal Principal Forgiveness funds, PFA considers unemployment data as a secondary factor after the WIF affordability criteria are applied. The Intended Use Plan states that “To the extent possible, PFA [directs] federal Principal Forgiveness funds to eligible projects whose county unemployment rate for the most recent full calendar year is higher than the state’s unemployment rate for the same period.”

A. Please explain how PFA uses county unemployment rate for federal Principal Forgiveness funds.

For projects that meet the WIF affordability threshold, PFA examines the county unemployment rate to identify projects that may receive Principal Forgiveness awards instead of WIF grants where the county unemployment rate for the most recent calendar year is higher than the state’s unemployment rate for the same period.
B. Does PFA use unemployment data in any way for the CWSRF and WIF programs?

*For CWSRF Principal Forgiveness as described above. Not for the WIF program.*

6) Other than median household income, population trends, and unemployment rate, does PFA use any other affordability criteria when administering CWSRF loans, federal Principal Forgiveness grants, or WIF grants? If yes, please describe those criteria.

As described in 1A, the most critical affordability factors are the actual system costs and the number of residential users, with the system costs including costs to operate and maintain the system, pay existing debt service, and pay for the new proposed project. Costs per household are largely driven by economies of scale, with the average system cost per residential household generally higher in smaller municipalities than larger ones.

7) According to the 2022 Drinking Water Revolving Fund Intended Use Plan, “Federal law and appropriation language requires at least 20% ($3,358,400) of [federal drinking water capitalization grants] be used for additional subsidization to disadvantaged communities.” What forms can this “additional subsidization” take?

“Additional subsidization” is a term used in EPA guidance and regulations that refers to grants or principal forgiveness provided through the DWSRF. PFA provides “additional subsidization” in the form of principal forgiveness, meaning a specific dollar reduction in the amount of loan principal that must be repaid, which is granted at the time a DWSRF loan agreement is awarded.

8) According to the 2022 Drinking Water Revolving Fund Intended Use Plan, there are three categories of “disadvantaged communities.” We understood the plan to say that a governmental unit in which the cost of a residential drinking system project would exceed 1.2 percent of the median household income of the project service area (*Minnesota Statutes* 2021, 446A.072, subd. 5a(c)) would be considered a disadvantaged community.

A. Is our interpretation correct?

Yes

B. If so, for what time period is “median household income” calculated?

*The PFA uses the median household income as shown in the U.S. Census American Community Survey at the time the project is placed on the Intended Use Plan*

D. What is the typical “project service area” for these projects?

“Project service area” means the geographic area to be served by the project. In most cases the “project service area” is the entire municipality. If the project will serve only a portion of the municipality’s geographic area and the project costs will be assessed to that smaller area, the “project service area” would be that smaller geographic area to be served. If the project is to extend service
outside the municipal geographic area and the project costs will be assessed to that area, the geographic area receiving service would be the “project service area”.

C. How is median household income calculated if the project service area covers more than one governmental unit?

If the project service area covers more than one governmental unit, the PFA would either calculate a weighted average median household income based on the number of households in each governmental unit, or would provide financing separately to each governmental unit based on its number of households, MHI and share of the total project costs.

9) Our review of the 2022 Drinking Water Revolving Fund Intended Use Plan suggests that neither unemployment nor population growth are considered as either primary or secondary factors in drinking water affordability criteria or to designate “disadvantaged communities.” Is this correct?

Yes

A. Other than the affordability criteria found in Minnesota Statutes 2021, 446A.072, subd. 5a(c), are any other affordability criteria used as primary or secondary factors in drinking water-related WIF or Principal Forgiveness grants? If yes, describe the criteria.

No other affordability criteria are used, however the affordability criteria can be adapted to fit different situations. For example, when project costs are assessed to properties in a smaller area than the entire municipality, WIF or Principal Forgiveness grants can be calculated based on the costs, number of households, and MHI in that smaller area.

10) According to Minnesota Rules, 4720.9015, subp. 8, when two or more projects on the Minnesota Department of Health’s (MDH’s) Project Priority List are tied, the project sponsored by the entity with the lowest median household income must receive the highest priority. Further, Minnesota Rules, 4720.9040, subp. 3, states that “A project sponsored by a community public drinking water supply with a median household income less than either the median household income for a metropolitan or nonmetropolitan area, as applicable, must be assigned five priority points.”

A. Does PFA consider Minnesota Rules, 4720.9015, subp. 8, and Minnesota Rules, 4720.9040, subp. 3, as “affordability criteria” or as something distinct?

The purpose of the MDH rules cited are for setting project priorities. They are not considered affordability criteria.

B. Other than median income, are any other affordability or financial need criteria used to score projects on MDH’s Drinking Water Project Priority List or in PFA’s Intended Use Plans?

No.

C. Please confirm that the affordability criteria found in Minnesota Statutes 2021, 446A.072, subd. 5a(c), are not used to place or rank projects on MDH’s Project Priority List or in PFA’s Drinking Water Revolving Fund Intended Use Plan.
The affordability criteria in MS 446A.072, subd. 5a(c) are not used to place or rank projects on the MDH Project Priority List or the PFA’s Drinking Water Revolving Fund Intended Use Plan.

11) Other than for Drinking Water State Revolving Fund (DWSRF) loans, CWSRF and DWSRF Principal Forgiveness grants, and WIF grants, please name any other programs that use the affordability criteria found in Minnesota Statutes 2021, 446A.072, subd. 5a.

No other programs use the affordability criteria in MS 446A.072, subd. 5a. The PFA Small Community Wastewater Treatment Program (MS 446A.075) provides funding for very small unsewered communities to replace failing septic systems with publicly owned decentralized treatment systems and uses similar affordability criteria to determine grant eligibility as specified in MS 446A.075, subd. 2(c).

12) Are affordability criteria used in the underwriting process for CWSRF or DWSRF loans? If so, how do affordability criteria affect loan terms?

Similar criteria are used in determining interest rates for CWSRF and DWSRF loans. Interest rate discounts for CWSRF loans are specified in Minnesota Rules, Part 7380.0442, subd. 3. Interest rate discounts for DWSRF loans are specified in Minnesota Rules, Part 7380.0272, subd. 3. For both programs, additional discounts up to 2.5% beyond the base discount are potentially available if the project service area population is under 2,500 based on the MHI relative to average metro or nonmetro MHI and average system costs as a percentage of MHI.

13) Broadly speaking, how has the recent Bipartisan Infrastructure Law (P.L. 117-58), also known as the “Infrastructure Investment and Jobs Act of 2021,” affected your process to prioritize CWSRF and DWSRF loans, select projects for WIF grants or Principal Forgiveness, or otherwise administer the CWSRF, DWSRF, and WIF programs?

Congress directed the majority of IIJA water infrastructure funds to states through the existing CWSRF and DWSRF funding process. The CWSRF and DWSRF programs have been very effective at helping municipalities of all sizes replace aging infrastructure and make other capital improvements to their wastewater and drinking water systems. Municipalities and their ratepayers throughout the State have benefited from CWSRF and DWSRF below market interest rate loans and targeted WIF and Principal Forgiveness grants. PFA expects that the additional loan and Principal Forgiveness grant funding through IIJA will allow PFA to increase the number of municipalities and projects that can be funded as the State continues to try to meet its long term water infrastructure needs.

IIJA also provides funding for two new project SRF project categories: emerging contaminants under both the CWSRF and DWSRF, and lead service line replacement under the DWSRF, both of which will require program changes.

For emerging contaminants, MDH is in the process of amending their DWSRF priority system rules to provide additional priority points for certain contaminants. IIJA funding for projects to address these contaminants is to be provided as 100% Principal Forgiveness grants which will require statutory
authorization and funding parameters to be set in MS 446A.081, Subd 9. MDH and PFA plan to propose recommended language next session. For the CWSRF emerging contaminant funds, MPCA has been working with EPA to explore how these funds can best be used. MPCA recently developed its PFAS Monitoring Plan to guide PFAS monitoring in municipal wastewater streams to determine where PFAS levels are significantly high and identify sources.

For lead service line replacement, MDH has been working with municipalities on this serious public health issue for some time. The first step is for municipalities to develop inventories of the lead service lines in their drinking water systems. Some municipalities are far along in this work and others have yet to begin. MDH and PFA have been discussing with EPA how set-aside funds within the IIJA lead service line funding can be used to help cities accelerate this work.

MDH is in the process of amending their DWSRF priority system rules to provide additional priority points for lead service line replacement projects. This spring MDH and PFA have been accepting lead service line project proposals from municipalities for the 2023 Project Priority List and Intended Use Plan.

The IIJA funding for lead service line replacement projects is divided between loan funds and Principal Forgiveness grants. The Governor’s 2022 bonding bill recommendations include proposed statutory changes to expand the use of Principal Forgiveness grant funds for these projects and for the loans to be made at an interest rate of 0%.

Financing for lead service line replacement projects is complicated by the fact that in most cases a significant portion of a drinking water service line is owned by the property owner, therefore municipalities cannot use system revenues or traditional tax-exempt financing to pay the privately owned portion. To date, special assessments to each individual property owner have generally been the only way to pay the private portion of the lead service line replacement cost.

Federal IIJA funds provide a major new source of funding to address lead service lines. The PFA’s goal is to target federal Principal Forgiveness grant funds so that replacement of the private portion of a lead service line can be done at no cost to the property owner by adapting the existing WIF/Principal Forgiveness affordability criteria for these projects. Specifically, PFA will determine what the estimated annual assessment cost would be for each property if the replacement of the private portion of the line were financed through a special assessment to the property. PFA will then add the current cost per household for water service in the municipality and compare the total to the median household income. Our expectation is that the result will exceed the 1.2% threshold for most municipalities based on the municipality’s MHI, thereby making the cost of the private portion eligible for a Principal Forgiveness grant. If not, we would look at the census tracts in the municipality’s project area and use the census tract MHI to determine targeted eligibility for Principal Forgiveness grants.

The 2023 Intended Use Plans will describe the intended uses of all available CWSRF and DWSRF funds, including regular federal capitalization grants and IIJA funding, and the projects that are eligible to receive funding awards. PFA will work with EPA to ensure the Intended Use Plans continue to be in compliance with federal requirements. Draft Intended Use Plans will be available for public comment before they are approved.
14) When was the last time Minnesota reviewed and updated its affordability criteria for DWSRF loans, CWSRF and DWSRF Principal Forgiveness grants, and WIF grants, including how criteria are weighted or used in calculations? If applicable, please highlight any differences between the CWSRF, DWSRF, Principal Forgiveness, and WIF programs.

The approach of determining affordability based on a municipality’s average system cost per household and setting affordability thresholds based on median household income were established in statute in 2010. The affordability thresholds automatically adjust each year with changes to median household income as determined by the Census Bureau American Community Survey.

15) How frequently has PFA updated affordability criteria for DWSRF loans, CWSRF and DWSRF Principal Forgiveness grants, and WIF grants in the last ten years?

See above.

16) Please describe the general process for updating affordability criteria. What role do public input (such as public comment periods, hearings, or focus groups) and economic, demographic, and environmental data have in the affordability criteria update process?

See above.

17) Please provide an example of affordability criteria calculation and/or weighting for the CWSRF that uses median income, population trends, and unemployment rate.

Two examples are provided in Attachments A and B:

- **Attachment A – Deer River.** Attached is the funding award cover memo, WIF/PF calculation worksheet, and MPCA certification for Deer River which received a CWSRF loan and WIF grant in 2021 for a wastewater pond expansion project. The WIF/PF worksheet shows how the grant was calculated. In this case the project included some capacity expansion to accommodate growth. Therefore, the total project cost of $2,922,760 was multiplied by the Essential Project Component percentage of 85.21% (from MPCA certification) which reduced the WIF eligible cost to $2,490,484. Based on the wastewater affordability threshold of 1.4% the project was eligible for an 80% WIF grant of $1,992,387.

- **Attachment B – Waverly.** Attached is the funding award cover memo, WIF/PF calculation worksheet, MPCA certification, and unemployment data sheet for Waverly which received a CWSRF loan, PF and WIF grant for a 2019 project to replace a portion of the sanitary sewer collection system. The WIF/PF worksheet shows how the grant was calculated. MPCA determined the Essential Project Component percentage was 100% because the project was replacing a failing portion of the sanitary sewer system for existing users with no growth. Therefore the WIF eligible cost was equal to the total project cost of $3,865,159, and based on the wastewater affordability threshold of 1.4% the project was eligible for an 80% grant of $3,092,127 which was funded from a combination of Principal Forgiveness and WIF. To be eligible for Principal Forgiveness funds, the PFA had to confirm that the county (Wright)
unemployment rate for the most recent calendar year was higher than the state’s unemployment rate.

18) Please provide an example of affordability criteria calculation and/or weighting for DWSRF loans, CWSRF and DWSRF Principal Forgiveness grants, and WIF grants.

Two examples are provided in Attachments C and D:

- **Attachment C – Askov.** Attached is the funding award cover memo, WIF/PF calculation worksheet, and MDH certification for Askov which received a DWSRF loan and PF grant in 2021 to replace aging watermains. The WIF/PF worksheet shows how the grant was calculated. MDH determined the project was to meet existing needs and the EPC% was 100%, therefore the total project cost of $1,609,367 was grant eligible. Based on the drinking water affordability threshold of 1.2% the project was eligible as a disadvantaged community for a Principal Forgiveness grant of $1,115,232.

- **Attachment D – Elbow Lake.** Attached is the funding award cover memo, WIF/PF calculation worksheet and MDH certification for Elbow Lake which received a DWSRF loan and WIF grant in 2021 to build a new drinking water treatment plant. The WIF/PF worksheet shows how the grant was calculated. MDH determined the project was to meet existing needs and the EPC% was 100%, therefore the total project cost of $5,272,000 was grant eligible. Based on the drinking water affordability threshold of 1.2% the project was eligible as for a WIF grant of $1,877,680.

19) If you have it, please provide a project priority scoring example that draws upon the requirements of *Minnesota Rules*, 4720.9015, subp. 8, and 4720.9040, subp. 3. If you do not have an example, please provide a relevant contact at the Minnesota Department of Health who could provide an example.

Specific questions about the MDH priority system rules should be addressed by MDH staff.

Chad Kolstad, P.E.
DWSRF Program Coordinator
Minnesota Department of Health
625 North Robert Street
St. Paul, MN 55155
Phone: 651/201-3972
Date: May 10, 2021

To: Steve Grove
Chair, Public Facilities Authority

From: Jeff Freeman, Executive Director
Public Facilities Authority

Subject: Recommendation for Project Contract Approval

Recipient: City of Deer River

Contract ID: CWRF_Deer River_01

Project descr: The Project consists of expansion and improvements to the City's wastewater stabilization ponds.

Full-Project-Funding sources are as follows:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Funding Source</th>
<th>PFA Funding ID</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFA</td>
<td>Clean Water SRF-Loan</td>
<td>MPFA-CWRF-L-050-FY21</td>
<td>$930,373</td>
</tr>
<tr>
<td></td>
<td>(30 years at 1.000%, estimated savings to recipient is $59,783)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>WIF Wastewater-Grant</td>
<td>MPFA-WIFC-G-050-FY21</td>
<td>$1,992,387</td>
</tr>
</tbody>
</table>

Total Project Costs: $2,922,760

The application for financial assistance from the City of Deer River has been reviewed by Senior Loan Officer Mary Jane Schultz and is complete. The project summary and calculation sheets are attached.

The required certifications from the Minnesota Pollution Control Agency are attached. I recommend approval of the enclosed PFA financing totaling $2,922,760.
## Minnesota Public Facilities Authority

### Wastewater

**Applicant/Project Name:** Deer River CW Pond Rehab as bids 20210430 FINAL

### Project Costs

<table>
<thead>
<tr>
<th>Type</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>$13,900</td>
</tr>
<tr>
<td>Design</td>
<td>$123,800</td>
</tr>
<tr>
<td>Other</td>
<td>$260,440</td>
</tr>
<tr>
<td>Land</td>
<td>$2,404,400</td>
</tr>
<tr>
<td>Construction</td>
<td>$2,292,760</td>
</tr>
<tr>
<td>Contingencies</td>
<td>$120,220</td>
</tr>
</tbody>
</table>

### Existing and Estimated Future Wastewater System Costs

#### Planning
- A. **Annual WW system debt service:** $121,019
- B. **Annual op. and maintenance cost:** $203,975

#### Design
- **Other grant sources:** (PSIG, SCUP, Other) $260,440

#### Other
- **Other grants (total):** $2,292,760

### Municipalities (cities, townships) Included in the Project Area

<table>
<thead>
<tr>
<th>Municipality Name</th>
<th>Current</th>
<th>Est in 20 Years</th>
<th>Household Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deer River 2016 ACS</td>
<td>653</td>
<td>653</td>
<td>758</td>
</tr>
</tbody>
</table>

### Average Residential System Cost with no WIF:

<table>
<thead>
<tr>
<th>Per HH/mo</th>
<th>% of MHI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current cost before project: $41.47</td>
<td>1.79%</td>
</tr>
<tr>
<td>When new project begins op., 20 yr loan $62.85</td>
<td>2.71%</td>
</tr>
<tr>
<td>Eligible for 30 yr loan $56.63</td>
<td>2.45%</td>
</tr>
</tbody>
</table>

### Locked-In Project Cost at time of Certification:

- **Date of project cert or RD commitment:** 06/27/19
- **Project cost estimate as of that date:** $3,725,988
- **Lessor of locked-in or current cost, net of other funds:** $2,922,760

### WIF funding approved based on higher as-bid cost:

- **Due to sufficient funds available**
- **If Yes, net project cost used for WIF calc:** NA

### PFA Executive Director approval:

- **Weighted average useful life calculation**
  - **Const name:** 30 | 2,922,760 | 87,682,800
  - **Est name:** -
  - **Cost:** -

### Essential Project Component (EPC%) estimated/actual:

<table>
<thead>
<tr>
<th>EPC%</th>
<th>Estimated From PCA</th>
<th>Actual From PCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>86.1%</td>
<td>$19,590</td>
<td>$3,265,000</td>
</tr>
</tbody>
</table>

### WIF / PF:

- **LOAN AMOUNT:** $930,373

### System Cost Calculations

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4% of Median HH Income</td>
<td>$389</td>
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<tr>
<td>Max. Total Annual Costs</td>
<td>$254,093</td>
</tr>
<tr>
<td>Average existing debt service</td>
<td>$122,465</td>
</tr>
<tr>
<td>O&amp;M costs when project begins operation</td>
<td>$208,054</td>
</tr>
<tr>
<td>Cap repl fund</td>
<td>$19,590</td>
</tr>
<tr>
<td>Available for new debt service on a max term loan</td>
<td>$-</td>
</tr>
<tr>
<td>Prelim Loan Amount</td>
<td>$-</td>
</tr>
</tbody>
</table>

### MHI weighted average:

- **100% $27,794**

### Avg Cost per HH in year 1 based on WIF and loan term:

<table>
<thead>
<tr>
<th>Year</th>
<th>DS Amount (P&amp;I)</th>
<th>Avg-Next 10 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>$121,019</td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>$120,381</td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td>$122,466</td>
<td></td>
</tr>
<tr>
<td>2024</td>
<td>$122,466</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>$122,466</td>
<td></td>
</tr>
<tr>
<td>2026</td>
<td>$121,742</td>
<td></td>
</tr>
<tr>
<td>2027</td>
<td>$119,912</td>
<td></td>
</tr>
<tr>
<td>2028</td>
<td>$118,786</td>
<td></td>
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<tr>
<td>2029</td>
<td>$122,466</td>
<td></td>
</tr>
<tr>
<td>2030</td>
<td>$123,438</td>
<td></td>
</tr>
<tr>
<td>2031</td>
<td>$116,925</td>
<td>$122,465</td>
</tr>
</tbody>
</table>

5/13/2021
(REVISED) CLEAN WATER REVOLVING FUND PROJECT CERTIFICATION FORM

SECTION I: PROJECT INFORMATION

Applicant Name & Address: City of Deer River
PO Box 122
Deer River, MN 56636-0122

Authorized Representative: Mark Box, City Administrator

Consulting Engineer: Colin Marcusen, SEH Inc.

Project Name: Wastewater Stabilization Pond Expansion

MPCA Project Number: 272596-PS01

PPL Rank: 193 PPL Year: 2019

Point Total: 43 PPL Year: 2019

SECTION II: PROJECT DESCRIPTION

Construction of a secondary treatment pond to be used in conjunction with the existing stabilization ponds

All project components, as described in the plans and specification approval letter dated June 27, 2019, are eligible for loan funding with the exception of any items noted below:

Ineligible items are:

Project Needs Categories and Percentage: Choose category from dropdown list

CWT-Secondary Treatment 100%

SECTION III: ESSENTIAL PROJECT COMPONENTS

The Essential Project Components (EPC) percentage is 85.21 %, based on calculations from Minnesota Rule 7077.0281, Subpart 3a.

SECTION IV: CW BENEFITS REPORTING (CBR) INFORMATION

Discharge Information: Choose category from dropdown list

Surface Water

Wastewater Volume:

<table>
<thead>
<tr>
<th>Project</th>
<th>System 0.21 MGD</th>
</tr>
</thead>
</table>

Eliminated/Conserved

For NPDES: outfall location. For SDS: center of service area

Latitude 47.35 Decimal format only & carried out 4 digits
Longitude -93.77
Radius

No NPDES Permit

Other Permit Type and Number

NPDES Permit Number: MN0051616

Project Improvement/Maintenance of Water Quality: Choose from dropdown list

Contributes to Water Quality: Maintenance
SECTION V: CERTIFICATION
The Minnesota Pollution Control Agency hereby certifies that the loan application for the project described above meets the applicable criteria set forth in the Federal Water Pollution Control Act, Minn. Stat. ch. 446A, and Minn. R. ch. 7077.0281.

Bill Dunn, CWRF Coordinator
Minnesota Pollution Control Agency

3/4/2021

CWRF Certification Form - April 19, 2018
Recipient: City of Waverly

Project: Replace sewer mains west side ph- 3

Award Date: September 3, 2019

Total Project Cost: $3,865,159

Description: The Project consists of replacing sanitary collection system on the west side of Waverly Lake.

Project Funding:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Funding Source</th>
<th>PFA Funding ID</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFA</td>
<td>Clean Water SRF-Loan</td>
<td>MPFA-CWRF-L-017-FY20</td>
<td>$773,032</td>
</tr>
<tr>
<td></td>
<td>(30 years at 1.000%, estimated savings to recipient is $105,881)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Clean Water SRF-Principal Forgiveness Grant</td>
<td>MPFA-CWRF-G-017-FY20</td>
<td>$2,920,400</td>
</tr>
<tr>
<td></td>
<td>WIF Wastewater-Grant</td>
<td>MPFA-WIFC-G-017-FY20</td>
<td>$171,727</td>
</tr>
<tr>
<td><strong>Total Project Costs:</strong></td>
<td></td>
<td></td>
<td>$3,865,159</td>
</tr>
</tbody>
</table>

More about the Minnesota Public Facilities Authority and its Programs:
The Minnesota Public Facilities Authority (PFA) provides financing and technical assistance to help communities build public infrastructure that protects public health and the environment and promotes economic growth.

Clean Water Revolving Fund (also known as the Clean Water State Revolving Fund or CWSRF):
The CWSRF is supported by federal capitalization grants from the U.S. Environmental Protection Agency and state matching funds. These funds, together with PFA revenue bond proceeds, are used to make low interest loans to communities throughout the state for wastewater and stormwater infrastructure projects. Loan repayments revolve back to make new loans, providing a permanent source of low-interest capital to help cities finance clean water infrastructure projects. Since its start in 1990, Minnesota's CWSRF has awarded more than 565 loans for over $3.1 billion, providing over $691 million in interest savings to local governments and their taxpayers.

Water Infrastructure Fund (WIF):
The WIF program provides supplemental assistance grants for based on affordability criteria for high cost projects. WIF grants are packaged with PFA loans or USDA Rural Development loan and grant funds.
## Applicant/Project Name:
**WAVERTY-CW-4 (phase 3) FINAL dated 6-17-19**

### Project Costs

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>6,000</td>
</tr>
<tr>
<td>Design</td>
<td>417,398</td>
</tr>
<tr>
<td>Other</td>
<td>324,748</td>
</tr>
<tr>
<td>Land</td>
<td>2,968,584</td>
</tr>
<tr>
<td>Contingencies</td>
<td>148,429</td>
</tr>
<tr>
<td>Total Project Cost</td>
<td>3,865,159</td>
</tr>
</tbody>
</table>

### Existing and Estimated Future Wastewater System Costs

<table>
<thead>
<tr>
<th>Year</th>
<th>DS Amount (P&amp;I)</th>
<th>Avg-Next 10 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$220,985</td>
<td>$127,262</td>
</tr>
<tr>
<td>2020</td>
<td>$227,762</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>$231,504</td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>$162,696</td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td>$162,373</td>
<td></td>
</tr>
<tr>
<td>2024</td>
<td>$165,081</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>$131,337</td>
<td></td>
</tr>
<tr>
<td>2026</td>
<td>$132,124</td>
<td></td>
</tr>
<tr>
<td>2027</td>
<td>$22,771</td>
<td></td>
</tr>
<tr>
<td>2028</td>
<td>$22,581</td>
<td></td>
</tr>
<tr>
<td>2029</td>
<td>$22,391</td>
<td>$127,262</td>
</tr>
</tbody>
</table>

### Project Costs

- **Planning**: $6,000
- **Design**: $417,398
- **Other**: $324,748
- **Land**: $2,968,584
- **Contingencies**: $148,429
- **Total Project Cost**: $3,865,159

### Other Grants (total)

- **Net PFA Request**: $3,865,159

#### Negotiated Assessments from Large Non-res Users:

- **Locked-In Project Cost:**
  - **A. Residential households (billed individually):**
    - i) connections
    - ii) ERU’s (equals residential HH connections):
    - iii) percentage of system use:
  - **B. Other residential (multi-family, other residential facilities):**
    - i) connections
    - ii) ERU’s
    - iii) percentage of system use:
  - **C. Nonresidential:**
    - i) connections
    - ii) ERU’s
    - iii) percentage of system use:
  - **D. Total Users:***
    - i) connections
    - ii) ERU’s
    - iii) percentage of system use:

### Municipalities (cities, townships) Included in the Project Area

<table>
<thead>
<tr>
<th>Municipality Name</th>
<th>Current</th>
<th>Op Begins</th>
<th>Est in 20yrs</th>
<th>Median Household Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waverly</td>
<td>438</td>
<td>446</td>
<td>613</td>
<td>$76,563</td>
</tr>
</tbody>
</table>

### Average Residential System Cost with no WIF:

- **Per HH/mo**: $132.88
- **% of MHI**: 2.08%
- **When new project begins op, 20 yr loan**
  - **1.00% %**: $153.80
  - **2.41% %**: Eligible for 30 yr loan
- **When project begins op, max yr loan = 30**
  - **1.00% %**: $141.77
  - **2.22% %**: Eligible for WIF

### Essential Project Component (EPC%) estimated/actual:

- **Wastewater Flow (gallons per month)**
  - Est (5000/ERU): 2,230,000
  - Annual Repl Fund: $13,380

### WIF / PF:

- **$3,092,127**
- **LOAN AMOUNT**: $773,032

### System Cost Calculations

- **1.4% of Median HH Income**: $1,072
- **Max. Total Annual Costs**: $478,059
- **Average existing debt service**: $127,262
- **O&M costs when project begins operation**: $481,700
- **Cap repl fund**: $13,380
- **Available for new debt service on a max term loan**: $-
- **Prelim Loan Amount**: $-
- **EPC % to use for calculation**: 100.0%

---

_W/IF and CW Principal Forgiveness (2019) _

_Existing DS schedule as of: June 17, 2019_

_Date of project cert or RD commitment: $3,865,159_

_WIF funding approved based on higher as-bid cost: due to sufficient funds available_
SECTION I: PROJECT INFORMATION

Applicant Name & Address: City of Waverly
502 Atlantic Ave, P.O. Box 189
Waverly, MN 55390

Authorized Representative: Deb Ryks, City Clerk-Treasurer

Consulting Engineer: Sheila Krohse, P.E., Bolton & Menk

Project Name: Waverly 2 - Rehab collect Ph 4 No. Shore Dr

MPCA Project Number 280655-PS01

PPL Rank: 107 PPL Year: 2020

Point Total: 53 PPL Year: 2020

SECTION II: PROJECT DESCRIPTION

The Phase 4 project will consist of removal and replacement of the low-pressure system around Waverly Lake with gravity sewer, including removing existing grinder stations and forcemain, and constructing new gravity sewer and gravity services for each property within the project area. A lift station will be installed to convey wastewater to the existing gravity sewer. The project area in the City of Waverly is described as follows: North Shore Drive from the end limits of the Phase 3 work scope area on the west side of Waverly Lake, extending to the end limits of the Phase 2 work scope area on the east side of the lake.

All project components, as described in the plans and specification approval letter dated June 30, 2020, are eligible for loan funding with the exception of any items noted below:

1. Storm sewer related items. Storm sewers are not a necessary component of a wastewater conveyance and treatment system.
2. Water mains, water wells, and other water supply items. Water supply systems are not a necessary component of a wastewater treatment system.
3. Portions of street, curb and gutter, and sidewalks that are not a result of the construction of sanitary sewers. Reconstruction fundability should be limited to the width of the pipe trench necessary to install the sanitary sewer. In areas where both sewer and water are installed, the reconstruction costs should be divided proportionally between sewer and water costs.

Project Needs Categories and Percentage: Choose category from dropdown list

CWT-Sewer System Rehab
50%
CWT-Infiltration/Inflow
50%

SECTION III: ESSENTIAL PROJECT COMPONENTS

The Essential Project Components (EPC) percentage is 100%, based on calculations from Minnesota Rule 7077.0281, Subpart 3a.
SECTION IV: CW BENEFITS REPORTING (CBR) INFORMATION

Discharge Information: Choose category from dropdown list

| Surface Water | Wetland |

Wastewater Volume (in mgd):

- Project
- System 0.781

Eliminated/Conserved

For NPDES: outfall location, For SDS: center of service area

- Latitude 45.06
- Longitude -93.90
- Radius

Other Permit Type and Number Description

Project Improvement/Maintenance of Water Quality: Choose from dropdown list

- Contributes to Water Quality
- Allows the System to
- Affected Waterbody is
- Allows the System to Address

- Maintenance
- Maintain Compliance
- Impaired

Designated Surface Water Uses

<table>
<thead>
<tr>
<th>Choose from dropdown list</th>
<th>Primary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2D Protection</td>
<td></td>
</tr>
</tbody>
</table>

Other Uses and Outcomes (primary only)

<table>
<thead>
<tr>
<th>Choose from dropdown list</th>
<th>Primary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure Improvement Protection</td>
<td></td>
</tr>
</tbody>
</table>

CBR Project Comment Box

Waverly collection system transports wastewater to Montrose WWTP for treatment prior to discharge.

SECTION V: CERTIFICATION

The Minnesota Pollution Control Agency hereby certifies that the loan application for the project described above meets the applicable criteria set forth in the Federal Water Pollution Control Act, Minn. Stat. ch. 446A, and Minn. R. ch. 7077.0281.

Bill Dunn, CWRF Coordinator
Minnesota Pollution Control Agency

6/30/2020

Date
# DEED Unemployment Data (not seasonally adjusted)

<table>
<thead>
<tr>
<th>Year (Average Annual)</th>
<th>Becker Co. Unemployment Rate (Detroit Lakes)</th>
<th>Fillmore Co. Unemployment Rate (Lanesboro)</th>
<th>Ottertail Co. Unemployment Rate (Battle Lake)</th>
<th>St. Louis Co. Unemployment Rate (Hoyt Lakes)</th>
<th>St. Louis Co. Unemployment Rate (Two Harbors)</th>
<th>Wright Co. Unemployment Rate (Waverly)</th>
<th>State of Minnesota Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>7.9</td>
<td>7.5</td>
<td>7.2</td>
<td>8.1</td>
<td>8.1</td>
<td>8.0</td>
<td>7.4</td>
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<td>2015</td>
<td>4.4</td>
<td>4.1</td>
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<td>3.9</td>
</tr>
<tr>
<td>2017</td>
<td>4.1</td>
<td>3.5</td>
<td>3.9</td>
<td>4.6</td>
<td>4.6</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>2018</td>
<td>3.6</td>
<td>3.1</td>
<td>3.6</td>
<td>3.7</td>
<td>3.7</td>
<td>3.0</td>
<td>2.9</td>
</tr>
<tr>
<td>2019</td>
<td>not available</td>
<td>not available</td>
<td>not available</td>
<td>not available</td>
<td>not available</td>
<td>not available</td>
<td>not available</td>
</tr>
</tbody>
</table>

7/2/19 updated unemployment rates for potential 2020 IUP-PF projects
8/3/2017
6/27/2018 updated unemployment rates for 2017 data

# BLS annual (not seasonally adjusted) DATA IS THE SAME AS THE DEED FOR THE COUNTIES ABOVE

<table>
<thead>
<tr>
<th>Year (Average Annual)</th>
<th>State of Minnesota Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>7.4</td>
</tr>
<tr>
<td>2011</td>
<td>6.5</td>
</tr>
<tr>
<td>2012</td>
<td>5.6</td>
</tr>
<tr>
<td>2013</td>
<td>5</td>
</tr>
<tr>
<td>2014</td>
<td>4.2</td>
</tr>
<tr>
<td>2015</td>
<td>3.7</td>
</tr>
<tr>
<td>2016</td>
<td>3.9</td>
</tr>
<tr>
<td>2017</td>
<td>3.5</td>
</tr>
<tr>
<td>2018</td>
<td>2.9</td>
</tr>
</tbody>
</table>

http://data.bls.gov/map/MapToolServlet
http://www.bls.gov/lau/
Date: October 4, 2021

To: Steve Grove
Chair, Public Facilities Authority

From: Jeff Freeman, Executive Director
Public Facilities Authority

Subject: Recommendation for Project Contract Approval

Recipient: City of Askov
Contract ID: DWRF_Askov_03
Project descr: The Project consists of looping and replacement of old watermains, hydrants and gate valves.

Full-Project-Funding sources are as follows:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Funding Source</th>
<th>PFA Funding ID</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFA</td>
<td>Drinking Water SRF-Loan</td>
<td>MPFA-DWRF-L-020-FY22</td>
<td>$494,135</td>
</tr>
<tr>
<td></td>
<td>(30 years at 1.000%, estimated savings to recipient is $41,542)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Drinking Water SRF-Principal Forgiveness Grant</td>
<td>MPFA-DWRF-G-020-FY22</td>
<td>$1,115,232</td>
</tr>
</tbody>
</table>

Total Project Costs: $1,609,367

The application for financial assistance from the City of Askov has been reviewed by Senior Loan Officer Kathe Barrett and is complete. The project summary and calculation sheets are attached.

The required certifications from the Minnesota Department of Health are attached. I recommend approval of the enclosed PFA financing totaling $1,609,367.
Minnesota Public Facilities Authority
Applicant/Project Name: ASKOV DW-3 (Watermain & looping) FINAL 9/27/21

### Drinking Water

**WIF and DW Principal Forgiveness (FY20)**

#### Project Costs

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>$30,000</td>
</tr>
<tr>
<td>Design</td>
<td>$120,000</td>
</tr>
<tr>
<td>Other</td>
<td>$185,000</td>
</tr>
<tr>
<td>Land</td>
<td>$10,000</td>
</tr>
<tr>
<td>Construction</td>
<td>$1,204,159</td>
</tr>
<tr>
<td>Contingencies</td>
<td>$60,208</td>
</tr>
</tbody>
</table>

Total Project Cost: $1,609,367

Other Grants (total): $ -

Net PFA Request: $1,609,367

### Existing and Estimated Future Wastewater System Costs

#### Non-SRF DS (av)

<table>
<thead>
<tr>
<th>Year</th>
<th>DS Amount (P&amp;I)</th>
<th>Avg-Next 10 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>$4,886</td>
<td>$24,744</td>
</tr>
<tr>
<td>2022</td>
<td>$25,205</td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td>$25,015</td>
<td></td>
</tr>
<tr>
<td>2024</td>
<td>$24,825</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>$24,635</td>
<td></td>
</tr>
<tr>
<td>2026</td>
<td>$24,445</td>
<td></td>
</tr>
<tr>
<td>2027</td>
<td>$24,255</td>
<td></td>
</tr>
<tr>
<td>2028</td>
<td>$25,065</td>
<td></td>
</tr>
<tr>
<td>2029</td>
<td>$24,865</td>
<td></td>
</tr>
<tr>
<td>2030</td>
<td>$24,665</td>
<td></td>
</tr>
<tr>
<td>2031</td>
<td>$24,465</td>
<td>$24,744</td>
</tr>
</tbody>
</table>

### Municipalities (cities, townships) Included in the Project Area

<table>
<thead>
<tr>
<th>Municipality Name</th>
<th>Current</th>
<th>Op Begins</th>
<th>Est in 20yrs</th>
<th>Median Household Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Askov (2018 ACS)</td>
<td>181</td>
<td>181</td>
<td>181</td>
<td>$44,875</td>
</tr>
</tbody>
</table>

Average Residential System Cost with no WIF:

- Current cost before project: $35.51 / HH/mo (0.95% of MHI)
- When new project begins op, 20 yr loan: $79.59 / HH/mo (2.13% of MHI) Eligible for 30 yr loan
- When project begins op, max yr loan: $67.24 / HH/mo (1.80% of MHI) Eligible for WIF

**WIF / PF:**

- Loan Amount: $494,135
- Municipality chosen loan term: 30 years
- Avg Cost per HH in year 1 based on WIF and loan term: 27.14

Locked-In Project Cost:

- Date of project cert or RD commitment: 06/27/21
- Project cost estimate as of that date: $1,531,200
- Lessor of locked-in or current cost, net of other funds: $1,531,200

WIF funding approved based on higher as-bid cost: Yes

Due to sufficient funds available:

If yes, net project cost used for WIF calc:

PFA Executive Director approval:

Weighted average useful life calculation:

- Component: Watermain
- Est years: 30
- Cost: $1,609,367

Maximum loan term:

- 30

System Cost Calculations:

- MHI weighted average:
  - 100% $44,875
  - $ -
  - $ -
  - $44,875

- Average existing debt service: $24,744
- O&M costs when project begins operation: $59,851
- Total Annual Costs: $97,469
- Available for new debt service on a max term loan: $8,344
- Prelim Loan Amount: $215,327
- EPC % to use for calculation: 100.0%

10/5/2021
Project Certification for

Drinking Water Revolving Fund Program

Applicant:
Askov City Council
c/o Kathy Morris, Clerk
Askov City Hall
P.O. Box 245
Askov, Minnesota 55704

Project Description:
Watermain - Repl & Loop, Project 1580001-5, Rank #51 on FY 2021 Intended Use Plan

Certification:
The Minnesota Department of Health hereby certifies that the loan applicant for the project described above meets the applicable criteria set forth in Title XIV Section 1452 of the Public Health Services Act. The requirements being met fall under these headings:

- Plan and Specification Approval
- Environmental Review
- Operator Certification
- Technical and Managerial Capacity
- DNR Water Supply Plan
- Federal Bidding & Wages Rates
- American Iron & Steel
- EPC = 100%

Eligibility:
The project consists of the installation of 5,313 lineal feet of 6-inch C900 PVC watermain, 270 lineal feet of 8-inch C900 PVC watermain, 200 lineal feet of steel casing pipe, 12 hydrants and 31 gate valves.

The project is covered in plans and specifications reviewed on May 3, 2021. A copy of the plan review approval is included with this certification.

The project will solve a transmission/distribution problem. Public health priority points were not assigned.

Chad M. Kolstad, P.E., DWRF Program Coordinator
Minnesota Department of Health

Date
6-27-21
Date: April 16, 2021

To: Steve Grove
Chair, Public Facilities Authority

From: Jeff Freeman, Executive Director
Public Facilities Authority

Subject: Recommendation for Project Contract Approval

Recipient: City of Elbow Lake

Contract ID: DWRF_Elbow Lake_05

Project descr: The Project consists of construction of a new drinking water treatment plant and associated watermain piping.

Full-Project-Funding sources are as follows:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Funding Source</th>
<th>PFA Funding ID</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFA</td>
<td>Drinking Water SRF-Loan</td>
<td>MPFA-DWRF-L-049-FY21</td>
<td>$3,394,320</td>
</tr>
<tr>
<td></td>
<td><em>(20 years at 1.000%, estimated savings to recipient is $91,188)</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>WIF Drinking Water-Grant</td>
<td>MPFA-WIFD-G-049-FY21</td>
<td>$1,877,680</td>
</tr>
<tr>
<td>Total Project Costs:</td>
<td></td>
<td></td>
<td>$5,272,000</td>
</tr>
</tbody>
</table>

The application for financial assistance from the City of Elbow Lake has been reviewed by Senior Loan Officer Peter Bradshaw and is complete. The project summary and calculation sheets are attached.

The required certifications from the Minnesota Department of Health are attached. I recommend approval of the enclosed PFA financing totaling $5,272,000.
## Minnesota Public Facilities Authority

### Drinking Water

**WIF and DW Principal Forgiveness (FY20)**

**Applicant/Project Name:** Elbow Lake Treatment - New Plant/Remove Fe/Mn

### Project Costs

<table>
<thead>
<tr>
<th>Planning</th>
<th>Design</th>
<th>Other</th>
<th>Land</th>
<th>Construction</th>
<th>Contingencies</th>
<th>Total Project Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>$390,000</td>
<td>$512,005</td>
<td></td>
<td></td>
<td>$4,161,900</td>
<td>$208,095</td>
<td>$5,272,000</td>
</tr>
</tbody>
</table>

### Existing and Estimated Future Wastewater System Costs

<table>
<thead>
<tr>
<th>Year</th>
<th>DS Amount (P&amp;I)</th>
<th>Avg-Next 10 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>$122,654</td>
<td>$30,114</td>
</tr>
<tr>
<td>2022</td>
<td>$44,030</td>
<td>$33,250</td>
</tr>
<tr>
<td>2023</td>
<td>$32,945</td>
<td>$32,545</td>
</tr>
<tr>
<td>2024</td>
<td>$33,250</td>
<td>$32,668</td>
</tr>
<tr>
<td>2025</td>
<td>$34,340</td>
<td>$19,331</td>
</tr>
<tr>
<td>2026</td>
<td>$34,340</td>
<td>$19,151</td>
</tr>
<tr>
<td>2027</td>
<td>$33,250</td>
<td></td>
</tr>
<tr>
<td>2028</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2029</td>
<td>$19,331</td>
<td></td>
</tr>
<tr>
<td>2030</td>
<td>$19,151</td>
<td></td>
</tr>
<tr>
<td>2031</td>
<td>$19,371</td>
<td>$30,114</td>
</tr>
</tbody>
</table>

### Project Costs Existing and Estimated Future Wastewater System Costs

<table>
<thead>
<tr>
<th>Planning</th>
<th>Design</th>
<th>Other</th>
<th>Land</th>
<th>Construction</th>
<th>Contingencies</th>
<th>Total Project Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>$390,000</td>
<td>$512,005</td>
<td></td>
<td></td>
<td>$4,161,900</td>
<td>$208,095</td>
<td>$5,272,000</td>
</tr>
</tbody>
</table>

### Other Grants (total) $-

### Net PFA Request $5,272,000

(WIF calc based on lessor of the net cost or the cost est as of the last WIF approp.)

### Negotiated assessments from large non-res users:

### Residential and Nonresidential Users in Project Area

**A. Residential households (billed individually):**
- i) connections: 520
- ii) ERU's: 520
- iii) percentage of system use: 91%

**B. Other residential (multi-family, other residential facilities):**
- i) connections: 6
- ii) ERU's: 33
- iii) percentage of system use: 6%

**C. Nonresidential:**
- i) connections: 75
- ii) ERU's: 17
- iii) percentage of system use: 3%

**D. Total Users:**
- i) connections: 601
- ii) ERU's: 570
- iii) percentage of system use: 100%

### Municipalities (cities, townships) Included in the Project Area

<table>
<thead>
<tr>
<th>Municipality Name</th>
<th>Total ERUs from above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elbow Lake</td>
<td>570</td>
</tr>
</tbody>
</table>

### Weighted average useful life calculation

<table>
<thead>
<tr>
<th>Component</th>
<th>Est years</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>30</td>
<td>$5,272,000</td>
</tr>
<tr>
<td>name</td>
<td>-</td>
<td>$158,160,000</td>
</tr>
<tr>
<td>name</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>name</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Maximum loan term: 30

### MHI weighted average

<table>
<thead>
<tr>
<th>% of MHI</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>51,429</td>
</tr>
</tbody>
</table>

### System Cost Calculations

1.2% of Median HH Income 617,148
Max. Total Annual Costs 351,774
Average existing debt service 30,114
O&M costs when project begins operation 191,226
Cap repl fund 17,100
Available for new debt service on a max term loan 113,334
Prelim Loan Amount 2,924,900

### Average Residential System Cost with no WIF:

<table>
<thead>
<tr>
<th>Per HH/mo</th>
<th>% of MHI</th>
</tr>
</thead>
<tbody>
<tr>
<td>$45.34</td>
<td>1.06%</td>
</tr>
<tr>
<td>$75.07</td>
<td>1.75%</td>
</tr>
<tr>
<td>$62.23</td>
<td>1.45%</td>
</tr>
</tbody>
</table>

### Estimated Future Wastewater System Costs

- OM=When project begins operation
- (do not include depreciation)

### Locked-In Project Cost:

**Date of project cert or RD commitment:** 06/26/20

**Project cost estimate as of that date:** $4,202,000

Lessor of locked-in or current cost, net of other funds $4,202,000

### WIF funding approved based on higher as-bid cost:

**Due to sufficient funds available:** Yes

**If Yes, net project cost used for WIF calc:** $5,272,000

**PFA Executive Director approval:**

### Essential Project Component (EPC%) estimated/actual:

<table>
<thead>
<tr>
<th>Component</th>
<th>Est From Above</th>
<th>Actual From MDH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cap repl fund</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

### Drinking Water Flow (gallons per month): 2,850,000

### Est Annual Repl Fund: $17,100

### WIF / PF: $1,877,680

LOAN AMOUNT: $3,394,320

### Municipalities chosen loan term: 20 years

### Avg Cost per HH in year 1 based on WIF and loan term:

<table>
<thead>
<tr>
<th>O&amp;M</th>
<th>Ex DS</th>
<th>DS</th>
<th>Repl Fund</th>
<th>Total</th>
<th>% MHI</th>
</tr>
</thead>
<tbody>
<tr>
<td>27.96</td>
<td>4.40</td>
<td>27.50</td>
<td>2.50</td>
<td>62.36</td>
<td>1.46%</td>
</tr>
</tbody>
</table>
Project Certification for
Drinking Water Revolving Fund Program

Applicant:
Elbow Lake City Council
c/o Mr. Jeff Holsen, City Clerk
Elbow Lake City Hall
P.O. Box 1079
Elbow Lake, Minnesota 56531

Project Description:
Treatment - New Plant/Remove Fe/Mn, Project 1260003-5, Rank #133 on FY 2020
Intended Use Plan

Certification:
The Minnesota Department of Health hereby certifies that the loan applicant for the project described
above meets the applicable criteria set forth in Title XIV Section 1452 of the Public Health Services Act.
The requirements being met fall under these headings:

☒ Plan and Specification Approval
☒ Environmental Review
☒ Operator Certification
☒ Technical and Managerial Capacity
☒ DNR Water Supply Plan
☒ Federal Bidding & Wage Rates
☒ American Iron & Steel
☒ EPC = 100%

Eligibility:
The project consists of the construction of a new 400 gallon per minute (gpm) treatment plant and
installation of associated watermain piping.

The project is covered in plans and specifications reviewed on June 26, 2020. A copy of the plan review
approval is included with this certification.

The project will solve a treatment problem. Public health priority points were not assigned.

Chad M. Kolstad, P.E., DWRF Program Coordinator
Minnesota Department of Health

Date

6-26-20
Date: June 8, 2022

To: Public Facilities Authority Members

From: Jeff Freeman, Executive Director

Subject: Next Meeting

The next PFA Board meeting is expected to be in mid-August or early September. The agenda will include review of the draft 2023 Intended Use Plans (IUPs) for the Clean Water and Drinking Water Revolving Funds. Following Board review and approval of the draft IUPs, they will be available for public review and comment before final approval.

The 2023 IUPs will be used as the basis for PFA’s applications for the 2023 regular federal capitalization grants and Year 1 funding under the federal Infrastructure Investment and Jobs Act (IIJA).