

project eligibility and then apply to the designated local lender who will evaluate the financial credit worthiness of the project. Local lenders may charge borrowers up to 3% interest and other fees for underwriting the loan.

Since 1996 the PFA has allocated \$61.3 million in CWRP funds to the AgBMP program, which has generated over \$249.5 million in loans. Over the last five years, the average loan repayments received by the programs were \$10.4 million per year which are available to make new loans. In FY 2023, the AgBMP made \$18.2 million in loans. Demand for AgBMP program funds remains very strong.

No new funding allocation is proposed for 2023.

#### *B. Clean Water Partnership Loan Program*

The Minnesota Pollution Control Agency is responsible for administering the CWSRF Clean Water Partnership loan program for Section 319 nonpoint source projects in accordance with [Sec. 103F.725 MN Statutes](#). The Clean Water Partnership (CWP) loan program assists local units of government address nonpoint source pollution problems. Loans can be made to counties, cities, watershed districts, and joint powers organizations that have an approved CWP diagnostic study/implementation plan or equivalent report. Loan funds may be used to implement a variety of best management practices (BMPs) such as sedimentation basins and detention ponds, replacement of failing individual sewage treatment systems, lakeshore landscaping for erosion control and stabilization, streambank stabilization, in-stream and in-lake chemical treatment and aeration, forestry and parkland BMPs, and groundwater aquifer recharge area BMPs. The interest rate on CWP loans was changed in 2017 to 0% from 2% in an effort to increase participation. The loan term may vary depending on the project.

Since 1996 the PFA has allocated \$32.1 million in CWRP funds to the CWP loan program, which has generated over \$91.6 million in loans. Loan repayments of approximately \$2.8 million per year return to the program to make new loans. In FY 2023, CWP loans totaled \$3.6 million. Demand for CWP program funds remains strong.

The PFA will allocate an additional \$2,000,000 in state FY 2024 for the CWP loan program.

#### *C. Tourism Loan Program*

The Tourism Loan Program is administered by the Department of Employment and Economic Development (DEED) to provide loans to tourism related businesses to improve and replace septic systems. Program funds are used in conjunction loans from private financial institutions. The interest rate on the program funds is 2%. The rate on the bank loan is negotiated between the bank and the borrower. In 1996, the PFA provided an initial \$750,000 to capitalize the program, which has generated over \$1.3 million in loans. All funds have been disbursed and loan repayments continue to be available on a revolving basis. No new loans have been made for several years.

No new funding allocation is proposed for FY 2024.

## **V. Financial Status of the CWRP**

Table 2 (page 20) shows the sources and uses of funds in the CWRP for FY 2023, total amounts from the beginning of the program in FY 1989 through FY 2023, and the estimated amounts for FY 2024.

The PFA has developed a financial model to estimate the average annual lending capacity of the CWRP based on the current assets in the fund. The PFA currently estimates the average CWRP lending capacity to be approximately \$153 million per year in perpetuity, assuming no new state or federal funds are received. In many years, the PFA has used its reserves and bonding authority to make loans at higher levels based on strong demand.

Funding demand has always exceeded annual lending capacity, which the PFA has addressed by establishing a cap on the base interest rate discount and a fundable range for new project requests based on PPL priority points. Demand for CWRP financing continues to grow, and total loan requests for the 2024 IUP are \$577 million, nearly four times the sustainable long-term lending capacity of the CWRP. To maintain balance between current demand and future lending capacity, the PFA in consultation with the MPCA, each year determines a fundable range for new projects on the IUP based on PPL priority points. For new projects on the 2024 IUP, the fundable range cutoff has been set at 40 points.

In approving the 2024 IUP, the PFA commits to providing CWRP loans to all Part A carryover projects and Part B new projects in the fundable range that are able to proceed within the fiscal year.

While the total requested loans exceeds the sustainable lending capacity of the Fund, it is within a manageable level that the Fund can sustain in the short term. In the long term, however, without continued federal and state support for the program, funding beyond the Fund's average lending capacity will decrease its future lending capacity.

## **VI Federal Funds**

Minnesota's 2023 base capitalization grant was \$13,788,000 which was significantly less than prior years due to reductions from Congressionally Designated Spending (CDS) earmarks taken from the SRF program. PFA received the 2023 base cap grant in September 2023 and expects to receive the Year 2 IIJA supplemental cap grant of \$38,311,000 in spring 2024. Congress has not yet appropriated funds for the 2024 base cap grants.

The 2023 Minnesota Legislature appropriated the required matching funds for the 2023 and 2024

base cap grants and Years 1 -3 IJA supplemental cap grants.

The Year 2 IJA Emerging Contaminants cap grant, which will be transferred to the Drinking Water Fund, is \$3,909,000 and does not require a state match.

#### *Technical Assistance (TA) Authority/Set-Asides*

In addition to financing clean water projects, amendments to the CWA enacted in the IJA permits states to set-aside a percentage of capitalization grant funds for certain non-project activities. Up to 2% of each capitalization grant can be set-aside for technical assistance for small, rural, and tribal publicly owned treatment works. EPA defines rural, small, and tribal publicly owned treatment works as systems serving populations of 10,000 or less or facilities treating less than 1 MGD.

Two percent of the 2024 Base (amount TBD) IJA Supplemental Year 2 (\$766,220) and IJA Emerging Contaminants Year 2 (\$78,180) capitalization grants will be reserved for potential future technical assistance activities to small, rural, and tribal publicly owned treatment works (POTWs). The MPCA will use TA funds from a prior years' cap grant to contract for a provider to deliver technical assistance activities with a focus on asset management (training, inventory of assets, mapping, etc.). MPCA will also use TA funds to pay for staff to work directly with small and rural communities.

#### *Program Administration*

The PFA reserves the authority to use up to 4% of the IJA Year 2 Supplemental cap grant (\$1,532,440) and up to 4% (\$156,360) of the Emerging Contaminants as needed for program administration, including potential additional staff and funds to develop improved online CWRP tools. Emerging contaminant funds are limited to future administrative activities related to emerging contaminants. Any amounts not utilized in 2024 will be reserved for potential future program administrative activities.

Technical assistance activities will be detailed in work plans submitted to EPA with the associated capitalization grant applications. Table 3 contains information on TA and Administrative Costs.

## **VII Transfers**

Federal regulations allow transfers up to 33% of cumulative federal capitalization grants from Clean Water to Drinking Water or vice versa. Per EPA, transfers of EC funds are based on the IJA drinking water EC cap grant allotments.

Additional time is needed to identify eligible CW emerging contaminant projects, while the Minnesota Department of Health has identified high priority DW emerging contaminant projects on the 2024 IUP. Therefore, the PFA intends to transfer \$3,909,000 from the CW EC capitalization grant to the Drinking Water Fund to help address high priority DW EC projects on the 2024 DW IUP. PFA intends to transfer the \$3,909,000 back to the CW Fund in the future.

A transfer in the amount of \$3,909,000 will be made from the CW Fund Emerging Contaminants

capitalization grant to the Drinking Water Fund for DW Emerging Contaminants projects.

## **VIII. Goals of the Clean Water Revolving Fund**

The member agencies of the PFA are committed to using the Clean Water Revolving Fund as effectively as possible to protect, preserve and improve water resources in the State. The agencies will work to bring together federal, state, local, and private resources to meet these goals.

### *A. Short Term Goals*

1. Prepare for a bond sale late calendar year 2023.
2. Continue to negotiate loan amounts with applicants funded on an annual cash flow basis in order to meet project needs while limiting the annual impact on the CWRP.
3. Continue to promote asset management for CWRP recipients
4. Facilitate on-going discussions with AgBMP and CWP staff about nonpoint source program demand, priorities, and available funding.
5. Further develop plans to utilize and implement the 2% set-aside for technical assistance activities for small and rural publically owned treatment works.
6. Continue to support MPCA efforts to identify clean water emerging contaminants project needs.

### *B. Long Term Goals*

1. Help cities implement projects to make their water infrastructure more climate resilient.
2. To the maximum extent possible, provide timely funding for all projects that receive technical approval and certification from the MPCA, including projects eligible for principal forgiveness and WIF.
3. Utilize the assets of the CWRP so the State employs a balanced approach to protecting and improving Minnesota's waters quality by financing both point source and nonpoint source projects.
4. Actively coordinate state and federal agency programs to maximize funding for projects on the Project Priority List, including those that have affordability needs.
5. To make funds available to as many high-priority projects as possible while maintaining a steady and sustainable fundable range.
6. To administer the CWRP so that its revolving nature is assured in perpetuity.
7. To apply a variety of delivery mechanisms to best reach and serve different types of clientele.
8. To implement technological solutions to increase efficiencies with program operations.

**IX. Cross-Collateralization**

As permitted by Congress in legislation approved in 1997, the PFA has cross-collateralized the bonds sold for the Clean Water Revolving Fund and the Drinking Water Revolving Fund. The purpose is to enhance the security of bonds sold for both programs, thereby improving the credit rating and reducing the interest rate on the bonds. This allows the PFA to pass on the best possible interest rates to its borrowers. The revenues from loan repayments in each program are pledged first to the bonds for that program. After the revenues in each program have been used to make the PFA's bond debt service payments and meet all other payment and coverage requirements under the bond resolutions, funds in excess of these requirements may be used to cover a default in the other program.

Given the coverage requirements the PFA must meet for its bonds, the general obligation pledges provided by the borrowers, and the financial management practices of the PFA (as reflected by the AAA rating of its bonds), it is very unlikely that a default would occur. The cross-collateralization of the two programs provides even more assurance to the bondholders and enhances the financial strength of the programs.

**X. Attached Tables and Appendix**

Table 1: 2024 IUP Project List (pages 16-19)

Table 2: Sources and Uses of Funds (pages 20-21)

Table 3: Technical Assistance and Administrative Costs (page 22)

Appendix: Minnesota Pollution Control Agency 2024 Project Priority List

**XI. Websites for Further Information**

Minnesota Public Facilities Authority: [www.mn.gov/pfa](http://www.mn.gov/pfa)

MPCA CWRP Point Source (Wastewater/Stormwater) Financing:  
[www.pca.state.mn.us/ppf](http://www.pca.state.mn.us/ppf)

MPCA Clean Water Partnership Loan Program:  
[www.pca.state.mn.us/water/cwp-319.html](http://www.pca.state.mn.us/water/cwp-319.html)

MDA Agriculture BMP Loan Program: <http://www.mda.state.mn.us/agbmploan>

**XII. Questions and Comments**

Questions or comments regarding the 2024 IUP should be directed to:

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