

covers and other municipal castings, hydrants, tanks, flanges, pipe clamps and restrains, valves, structural steel, reinforced precast concrete, and construction materials. The WPCSRF program has been implementing this requirement, as required by previous federal grants, for several years now. Specification inserts and certification forms have been developed by the WPCSRF program and will continue to be used to help communities meet this requirement.

**Federal Davis Bacon wages and Disadvantaged Business Enterprises:** These requirements have been in place for some time and will continue to be a requirement. Davis Bacon requirements apply to all SRF-funded projects and DBE requirements apply to only those projects funded with federal WPCSRF funds.

**Additional Subsidization:** Under WRRDA, state CWSRF programs have the option of providing additional subsidization. The maximum amount of additional subsidization (AS) that a state program may award is dependent on the national appropriation amount. Some AS is allowed in proportion to the federal appropriation greater than \$1 billion. If the federal appropriation is less than \$1 billion, no AS is allowed. The criteria for awarding AS must be based on affordability or for water or energy efficiency, stormwater mitigation or sustainable project planning, design and construction. Montana has chosen to use affordability as the criterion for awarding AS.

In FFY2019, Congress provided a requirement for additional subsidy (AS) as part of the appropriation bill that is inconsistent with the WRRDA requirements. The appropriations bill requires that 10% of the capitalization grant to be used for AS. Per WRRDA, Montana has an option to use additional AS of up to 30%. EPA's interpretation of the conflicting language between WRRDA and the appropriation bill is that Montana must use at least 10% and not more than 40% of the grant amount for AS.

The Montana WPCSRF program has historically awarded the maximum AS (in the form of principal forgiveness) allowed by Congress in any individual year. This has generally been based on user rates per median household income. The provisions contained in WRRDA stipulate that unemployment rates and population trends also be considered as criteria for awarding AS. Please see discussion above on affordability requirements and Section VIII, Criteria and Method for Distribution of Funds.

## **VIII. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS**

Historically, WPCSRF funds were allocated on a first-come, first-served basis because the supply of funds exceeded the demand. This allowed for the funding of all the projects as they went into construction. However, due to annual federal requirements for principal forgiveness and green project reserve, it has become important to identify in each IUP which projects will be receiving SRF funds, including principal forgiveness, for the next fiscal year. **Please see Attachment III for a list of projects expected to receive WPCSRF funds and principal forgiveness in SFY20.**

Although not contained in WRRDA, the FFY2019 appropriations bill requires that at least 10% of the capitalization grant must be used to fund green projects as defined by EPA. Projects that are believed to qualify in whole or in part for green reserve are identified in Attachment III.

The FFY19 Clean Water SRF federal appropriation is approximately \$1.63 billion, therefore, Montana has the option of awarding up to 40% of its capitalization grant in the form of principal forgiveness. The WPCSRF program is proposing to award 40% of its FFY19 cap grant, or \$3,111,600 as principal forgiveness.

**The following factors will be considered in the allocation of principal forgiveness:**

1. The WPCSRF program proposes to award principal forgiveness primarily based on affordability for those projects deemed ready to proceed to construction in SFY20. As required by federal law, three factors will be used to arrive at a composite affordability rate: the wastewater user rate per median household income (MHI), the local unemployment rate, and local population trends. The local population growth and unemployment rates will only be factored in if they are considered to have an unusual impact on affordability, as explained below.

A local unemployment rate greater than 150% of the current state average unemployment rate (3.2%) will be added to the ww rate/MHI value, using a weighting factor of 10%. For example, if the unemployment rate for community A is 10.5%, that rate would be approximately 5.7 percentage points higher than 150% of the average state unemployment rate. So, the MHI factor would be increased by  $5.7\% \times 0.10 = 0.57$ .

Population growth rates of about zero to 1.5% per year are viewed by the WPCSRF program as relatively normal based on many years of reviewing municipal wastewater planning documents. Therefore, growth rates above 1.5%/year or negative growth rates may pose exceptional affordability issues. Very high growth rates may put a higher financial burden on existing residents to accommodate the building of large treatment projects relative to the existing population. Decreasing growth rates leave fewer people to shoulder the financial burden of regulatory compliance. For a population growth factor, the WPCSRF proposes a method similar to the unemployment rate methodology, but uses a weighting factor of 10% if the growth rate is either above 1.5%/year or less than -0.25%/year. For example, if the same community A has a growth rate of -0.4%/year, this is 0.15 percentage points less than -0.25%/year. Using a weighting factor of 10%, the MHI factor would be increased by:  $0.15\% \times 0.10 = 0.015$ .

The adjustment factor 10% for unemployment rates and population growth factors were determined following a basic sensitivity analysis. It is felt by the WPCSRF program that the most important factor in establishing a level playing field relative to affordability is the user rate per median household income; however, the other two factors, if outside of the 'normal' range of values, can legitimately affect affordability in comparison to a more normal range of these parameters.

2. Consideration will be given to the effectiveness of the principal forgiveness in reducing user rates for each project. If the infusion of principal forgiveness funds into a project results in a similar reduction of grant funds from another funding agency, with the end result being no

or limited decrease in user rates, the WPCSRF program may instead allocate the principal forgiveness to another project where final user rates will, in fact, be reduced.

3. No community will be allowed to receive FFY20 principal forgiveness for more than one project and no project shall be awarded principal forgiveness more than once.
4. In order to spread the funds to more than one project, it is proposed that the principal forgiveness will be capped at \$350,000 or 25% of the long-term SRF loan amount, whichever is less. This cap and percentage may change slightly depending on the projects selected in the final IUP.
5. Projects seeking short-term financing will not be given principal forgiveness; only long-term loans will be eligible for additional subsidy. Principal forgiveness will not be given for refinancing of projects.
6. Projects receiving principal forgiveness will be allowed to receive extended loan terms of up to 30 years provided the loan term does not exceed the useful life of the improvements.

**The proposed list of projects that will receive WPCSRF funds in SFY20 is included as Attachment III.**

Loan terms and interest rates will be determined in accordance with the Administrative Rules adopted by the DNRC. The WPCSRF program may choose to limit the maximum amount of any loan if the demand for loan funds exceeds the availability of funds. Interest rates must be established to generate sufficient revenues to allow the State to make the principal and interest payments on general obligation bonds sold to generate the State match or meet project demand and to ensure the program is operated in perpetuity. Ability to repay the loan will also be considered when establishing loan terms. The types of financial assistance provided by the WPCSRF will initially be based on the applicant's request. It is anticipated that the majority of assistance will be provided in the form of direct loans (more precisely, the purchase of community-issued bonds by the WPCSRF program).

## **IX. EXTENDED FINANCING**

In an effort to provide additional assistance to communities, the WPCSRF program will offer extended finance terms to qualifying projects. The extended loan terms allow communities up to 30 years to repay the loan. Loan terms cannot extend past the useful life of the improvements to be funded; therefore, it is expected that eligible projects will generally be new collection system piping and appurtenances. However, in certain situations, the WPCSRF program may consider extended financing for some treatment facilities if the replacement costs for the shorter-term assets (pumps, blowers, controls, lagoon liners, etc.) are set aside by the community on an annual basis to ensure continuity of treatment or use throughout the term of the loan. The WPCSRF program reserves the right to limit extended term financing at any time in order to ensure the perpetuity of the fund. An evaluation of the funding baseline for the program will be done annually to ensure the historic annual baseline established to date (\$12,753,710), per EPA, is continually met.