

## **B. Transfer of funds between CWSRF and DWSRF**

At the governor's discretion, the State may transfer up to 33 percent of its CWSRF capitalization grant to the DWSRF or an equal amount from the DWSRF to the CWSRF. In addition to transferring grant funds, the State can transfer state match, investment earnings, principal and interest repayments, unrestricted cumulative excess, restricted cumulative excess, or Federally Capitalized Loan Account (FCLA) between SRF programs.

Transfers were authorized by the Governor in 2002, 2004, 2007, 2009, and 2015. These funds are transferred between the programs when necessary. The Governor's authorizations are as follows:

- 2002 - \$10.0 million from DWSRF to CWSRF
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- 2004 - \$4.0 million from CWSRF to DWSRF
- 2007 - \$20.0 million from CWSRF to DWSRF (with provision to return funds to CWSRF as needed)
- 2009 - \$2.6 million of American Recovery and Reinvestment Act (ARRA) funds from CWSRF to DWSRF
- 2015 - \$60.0 million from DWSRF to CWSRF (with provision to return funds to DWSRF as needed)

The transfer of funds from CWSRF to DWSRF in 2018 was \$12,156,132. The NDDoH is anticipating a transfer of funds from the CWSRF to the DWSRF in 2019. Approximately \$1,000,000 of non-federal funds will be transferred. With this transfer, the DWSRF program will be able to fund additional projects during 2019.

The NDDoH transfers funds on a net basis, since prior transfers have occurred between the two SRFs. A combined total of \$51.5 million was transferred from the CWSRF to the DWSRF and \$29.1 million was transferred back from the DWSRF to the CWSRF. The net transfer between programs is \$22.5 million from the CWSRF to the DWSRF. Attachment D itemizes the amount of funds transferred to and from the CWSRF program.

## **IV. CRITERIA AND METHODS FOR THE DISTRIBUTION OF FUNDS**

CWSRF funds will be distributed using the method, criteria, and eligible activities described in the CWSRF program rules. The methods and criteria used are designed to provide maximum flexibility and assistance which is affordable to the community, while providing for the long-term viability of the fund.

**A. Loan Terms and Fees**

Under North Dakota's base CWSRF program, the maximum repayment period for loans is 30 years following project completion. If a loan term greater than 20 years is desired, the useful life of the project components must be analyzed to determine if the project qualifies for an extended term. Beginning January 1, 2017, the loan interest rate was lowered to 1.5 percent plus an administrative fee of 0.5 percent. This rate will continue throughout 2019. For loan recipients that are not eligible for tax-exempt financing, the loan interest rate is 2.5 percent plus an administrative fee of 0.5 percent. The NDDoH reserves the right to leverage as needed to meet the demand for loans and assist communities currently on the priority list. Should leveraging be needed, those loans may be subject to an interest rate of 75 percent of the current market interest rate (including the 0.5 percent administrative fee). The current market interest rate is 3.5 percent, based upon competitive 20-year bond sales for the fourth quarter of 2017 in North Dakota.

**B. Additional Subsidization Set-Aside Requirement - Section 603(i)**

The FY2018 appropriation rules require that 10 percent of the capitalization grant be provided in the form of additional subsidies. The CWSRF program will provide these additional subsidies as loan forgiveness which will be allocated based on the Relative Future Wastewater Cost index (RFWCI). The RFWCI is defined as the ratio of expected average annual residential user charge for wastewater service resulting from the project to the local annual median household income (as determined by the 2012 - 2016 American Community Survey 5-year estimate).

Loan forgiveness offers will be sent to a group of the highest-ranking projects on the Priority List. Applicants will be considered on a first come, first served basis according to which project submits a loan application first. These projects will receive up to 30 percent of their eligible costs in loan forgiveness until 10 percent of FY2018 capitalization grant has been allocated. The remaining 70 percent or more of the project cost will be funded with loans from the base CWSRF program at a rate of 1.5 percent plus an administrative fee of 0.5 percent.

The 2019 PPL in Attachment B identifies in priority order the projects that will be used to provide additional subsidies via principal forgiveness. Any subsequent amendment to this PPL will likewise identify projects capable of utilizing 10 percent of the FY2018 capitalization grant for additional subsidies via principal forgiveness.

**C. Affordability Criteria - Section 603(i)(2)**

The CWSRF Program developed Affordability Criteria to be used on grants after FY2014. The Affordability Criteria, defined in Attachment E, are based on income,

unemployment data, population trends, and the Relative Future Wastewater Cost Index. The Water Resources Reform and Development Act (WRRDA) allows states to offer up to 30% of the capitalization grants for additional subsidization for communities with affordability issues. North Dakota has chosen not to offer additional subsidies to communities with affordability issues.

**D. Green Project Reserve (GPR) Set-Aside Requirement**

The FY2018 appropriation rules require that, to the extent there are sufficient eligible project applications, not less than 10 percent of the funds provided for projects be used for GPR projects such as: water efficiency, energy efficiency, green infrastructure, or other environmentally innovative activities.

The PPL has sufficient projects with qualifying components. Sixty-three projects listed on the attached 2019 PPL contain components qualifying as green infrastructure in the amount of \$55,503,000. The 10 percent requirement is \$ \$785,900; therefore, the CWSRF program should meet this requirement. Eligibility of these components will be verified using the required business case prior to award of financial assistance. Should those projects not proceed with loans, other projects identified on the PPL will meet the GPR requirement.

**E. Anticipated Cash Draw Ratio**

The program is currently over-matched. The 2018 bond issue provided for the required 20 percent state match through 2025 capitalization grants. Loan recipient draw requests will be funded with 100 percent federal funds. When federal funds are no longer available, disbursement of FCLA funds will be used to fund loan recipient draw requests. If bonds are issued during the year, the state match bonds will be expended first, followed by leveraged bond proceeds.

**V. GOALS AND OBJECTIVES**

**A. Long Term Goal**

The long term goal of the CWSRF is to maintain or restore and enhance the chemical, physical, and biological integrity of the state's waters for the benefit of the overall environment, the protection of public health, and the promotion of economic well being.

**B. Short Term Goals for FY2019**