

1. Disadvantaged Community Principal Forgiveness (affordability)

Minnesota Statutes, Section 446A.081, Subd 9(a)(9) authorizes PF grants for disadvantaged communities based on affordability criteria established for the state Water Infrastructure Funding (WIF) grant program in Minnesota Statutes, Section 446A.072. WIF and PF grants based on affordability are used to help municipalities build projects to replace aging and obsolete water systems that would otherwise create a significant financial hardship for the municipality and its residents. The methodology measures the financial impact on municipal users based on the total system costs including annual operation and maintenance, annual debt service for prior capital improvements and projected new debt service for the proposed project. The total system costs are divided 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 1.2% of the service area's median household income (MHI) the proposed project is eligible for either PF or WIF grants for up to 80% of project costs.

PFA determines eligibility for PF or WIF grants based on analysis of financial information included in DWRF loan applications. PF or WIF grant funds are reserved and awarded to eligible projects based on their PPL ranking, beginning first with carryover projects (that received technical approval and certification in a prior fiscal year), followed by new IUP projects. The PFA expects to have approximately \$34 million in PF funds for disadvantaged communities available in FY 2025. IUP Table 1a shows an estimated \$26.4 million in disadvantaged community (affordability-based) PF needs for IUP carryover projects. Combined with state WIF grant funds, PFA expects to meet affordability needs for all 2025 carryover projects and will evaluate PF/WIF grant eligibility for new projects when they are placed in the IUP fundable range and submit DWRF loan applications.

2. Emerging Contaminant Principal Forgiveness

Minnesota Statutes, Section 446A.081, Subd 9(a)(12) authorizes PF grants for Emerging Contaminant projects for 50% of project costs up to a maximum of \$3,000,000. The PFA expects to have approximately \$36 million in PF funds available for Emerging Contaminant projects in

FY 2025. IUP Table 1a shows \$13 million in estimated principal forgiveness for carryover projects and \$47 million for estimated PF for new EC project requests. PF funds for Emerging Contaminant projects are reserved and awarded for projects based on their PPL ranking, beginning first with carryover projects (that received technical approval and certification in a prior fiscal year), followed by new IUP projects. If sufficient PF funds are not available, a project may remain on the IUP as a carryover project and eligible funding will be reserved and awarded when new appropriations are available.

3. DWRF LSLR Principal Forgiveness (Disadvantaged Communities)

Federal IJIA funds dedicated to lead service line replacement (LSLR) require 49% to be used for principal forgiveness (PF), with the remainder to be divided between various set-asides (up to 26%) and loans. The PFA expects to have approximately \$83 million in PF funds available in FY 2025 for LSLR projects. These funds will be used for private lead service line replacement costs in disadvantaged communities.

PFA has reviewed how its disadvantaged community definition based on WIF affordability criteria can be applied to lead service line projects. A significant portion of drinking water service lines are owned by property owners and municipalities cannot use system revenues to pay the cost to replace privately-owned portions. Generally, special assessments to each individual property owner have been the only way to pay the private portion of the lead service line replacement cost, resulting in the cost impact falling on each property owner rather than over a municipality's entire user base. This could result in significant costs to each property owner that may be an affordability barrier to replacing the lead service line.

In determining LSLR projects that are eligible for federal PF funds, PFA will look at the combined financial impact from existing water rates for system users in the municipality plus the cost of a potential special assessment for replacement of the lead service line. If the total cost exceeds 1.2% MHI of the municipality, or the census tract(s) of the project area, the project will be eligible for federal PF for the cost of the privately owned LSL.

Section J below addresses more fully how federal and state funds will be coordinated to fund all LSLR project costs.

J. Coordinated Federal/State LSLR Funding

In recognition of the serious public health concerns from lead service lines, the Minnesota Legislature in 2023 created the Lead Service Line Replacement Grant program in Minnesota Statutes, Section 446A.077. The state program is designed to coordinate with federal LSLR dedicated funds to maximize benefits for both municipalities (publicly owned LSLs) and privately owned LSLs. The state set a goal to remove all lead service lines in public drinking water systems by 2033 and appropriated \$240 million for the program (with 10% for LSL inventories). To maximize the use of federal PF funds, PFA will use available federal PF funds to

replace the privately owned lead service lines for disadvantaged communities as described in Section 13, and state grant funds replace privately owned lines in all other communities. Minnesota law requires appropriated state grant funds to pay for 100% of project costs for privately owned lead service lines.

To maximize the use of federal dedicated LSLR loan funds, PFA will initially award loan funds for up to 100% of project costs to replace publicly owned portions of lead service lines. As project work is completed, PFA will provide state grant funds to the municipality to repay the loan. The Minnesota program requires that the priority use of state grant funds is to repay debt incurred for LSLR projects.

Recipients of federal and state LSLR funds must replace the entire lead service line, not just a portion, unless a portion has already been replaced or is concurrently being replaced with another funding source.

Under the state LSLR grant program, applicants must submit a plan to the MDH that describes how they will prioritize the expenditure of funds, including:

- Removing LSLs that are imminent threat to public health and safety.
- Targeting areas with children with elevated blood lead levels.
- Targeting areas with children under the age of five.
- Targeting LSLs that provide drinking water to schools, licensed child-care facilities, or other properties known to be used by disproportionately large numbers of children.
- Targeting areas with lower-income residents and other disadvantaged communities.
- Coordinating the replacement of publicly owned and privately owned portions of LSLs.
- Coordinating the replacement of LSLs with watermain replacement projects for the most efficient use of money.

The PFA expects to have federal and state funds available to fund all carryover and new LSLR projects on the 2025 IUP.

K. DWRf Federal and State Requirements

DWRf-funded projects are subject to both federal and state requirements. Additional information on the requirements is detailed in the PFA application materials and contract packet which are available on the PFA website.

The IIJA signed into law November 15, 2021 ([Public Law 117-580](#)) included additional Drinking Water State Revolving Fund requirements. The Build America, Buy America (BABA) Act is domestic sourcing requirement for federal financial assistance programs for infrastructure. An EPA Amended Adjustment Period Waiver has sunset, limiting projects qualify for the waiver. The PFA encourages applicants to consult their PFA loan officer and MDH for additional information.