G. Loan Terms and Conditions - Regular and Emerging Contaminant (Loan Funded Portion) Projects

PFA determines terms and conditions for DWRF loans pursuant to Minnesota Statutes Section 446A.081 and Minnesota Rules Part 7380.0265. Construction loans are not awarded until as-bid construction costs are submitted to the PFA. PFA makes DWRF loans at below-market rates in accordance with federal and state law. The basis for setting interest rates is described in Minnesota Rules Part 7380.0272. PFA bases interest rates on the greater of the current bond market rates for AAA or AA rated municipal bonds as determined by a daily index, (or the bond yield scale of the PFA's bonds if PFA bond proceeds are available) less any discounts described below. The interest charged includes a servicing fee up to 2% of each loan payment. PFA uses fee revenues to pay program administrative expenses. Fees are non-program income.

For projects receiving loan awards after the 2025 IUP is approved, the PFA has set a base discount of 1.0% that will be applied to the appropriate bond yield scale for loans up to $28 million, with no base discount applied to loan amounts in excess of $28 million.

Additional discounts up to 2.0% may be applied to borrowers under 2,500 population as described in Minnesota Rules Part 7380.0272, Subpart 3B. These discounts take project affordability into account. The minimum interest rate under PFA rules is 1.0%.

The standard loan term is 20-years or up to 30 years for projects meeting disadvantaged community criteria describe in Section I below. No loan term can exceed the useful life of the project.

To manage large project requests within the DWRF annual lending capacity, the PFA may provide separate financing agreements over more than one year based on the project's cash flow needs as negotiated between PFA and the borrower.

H. Loan Terms and Conditions – DWRF LSLR Projects (Public Portion)

Terms and conditions for DWRF LSLR loans are established in Minnesota Statues, Section 446A.081, Subd 8 (h). The interest rate on loans for lead service line projects 0% with principal payments commencing not later than 18 months after the completion of the project.

Refer to Section L for information on the State LSLR grant program.

I. Additional Subsidization

Federal capitalization grants require states to use certain percentages of the federal funds for additional subsidization beyond below-market interest rates for projects meeting specific criteria. The 2024 regular (base) capitalization grant requires a minimum of 26% and a maximum of 49% to be used for additional subsidization. IIJA Supplemental and LSLR capitalization grants require 49% to be used for additional subsidization. IIJA Emerging Contaminant capitalization grants require 100% to be used for additional subsidization. Table 2 on pages 24-26 show the amounts the PFA intends to take from capitalization grants received in FY 2024 and expected in FY 2025.

The PFA provides additional subsidization to eligible projects in the form of principal forgiveness (PF) grants, meaning a reduction in the amount of loan principal that must be repaid which is granted when PFA awards a DWRF financing agreement. The PFA awards PF grants to address affordability in disadvantaged communities, for replacement of lead service lines, and for projects that address emerging contaminants.