2022 CIFA SRF Workshop

State Spotlight on SRF Process

Jeff Freeman
Executive Director
Minnesota Public Facilities Authority
<table>
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<th>PFA and Partner Agencies</th>
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<td><strong>MN Public Facilities Authority (PFA)</strong></td>
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<tr>
<td>• Annual Intended Use Plans (IUPs)</td>
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<td>• Set fundable range for projects on PPLs</td>
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<td>• Underwriting and program compliance</td>
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<td>• Set loan terms and conditions</td>
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<td>• Award financing, disburse funds</td>
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<td>• Coordinate other funders</td>
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<td>• Collect loan repayments</td>
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<td>• On-going monitoring, audit review</td>
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<td><strong>MN Pollution Control Agency – Clean Water</strong></td>
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<td><strong>MN Department of Health – Drinking Water</strong></td>
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<td>• Project Priority Lists (PPLs)</td>
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<td>• 5-year project pipeline</td>
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<td>• Projects ranked based on age and condition, public health, water quality</td>
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<td>• Technical Review (facility plans, plans and specs)</td>
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<td>• Environmental Review</td>
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<td>• Certify projects to PFA for funding when reviews are complete</td>
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<td><strong>Other:</strong></td>
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<td><strong>USDA Rural Development</strong></td>
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<td>• Default lead funder for small rural communities (&lt;1000 pop)</td>
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<td>• PFA may co-fund with matching state grant</td>
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PFA Water Infrastructure Programs

Clean Water and Drinking Water State Revolving Funds (CWSRF/DWSRF)
- Interest rates follow daily AAA bond market, minus discounts
  - Current base discount – 1% (current loan rate as of 11/2/22: 2.55% on 20-year loan)
  - Cities under 2,500 can receive additional discounts up to 1.5%
- PF grants for disadvantaged comm. (state WIF affordability criteria) and green infrastructure

Water Infrastructure Fund (WIF) Grant Program
- State grants up to $5m to cities based on affordability criteria
  - Avg system cost per HH > 1.4% MHI (CW), 1.2% MHI (DW)
  - WIF grants packaged with SRF loans or USDA Rural Development funding for small cities

Point Source Implementation Grant (PSIG) Program
- State grants to help cities upgrade water treatment facilities to improve water quality

➢ All programs follow the Clean Water and Drinking Water PPLs
Background

- Annual IUP requests greatly exceed annual lending capacity
  - 2023 CW IUP Requests - $625m; Average lending capacity = $128m
  - 2023 DW IUP Requests - $569m; Average lending capacity = $51m
- For many reasons, projects often don’t proceed on schedule
- PFA doesn’t award or commit funds until a project completes all technical, environmental, financial reviews and submits as-bid costs

Goals:
- Stable and predictable process for cities
- Maximize the number of projects that can access funding each year
- Fund all eligible projects, big and small
Project Priority Lists

- The Project Priority Lists (PPLs) list eligible projects for which cities plan to seek funding within five years.
  - Projects are ranked by MPCA/MDH based on age and condition of existing infrastructure, water quality and public health factors.
  - Cities can submit new project proposals in the spring each year.
    - Projects remain on PPL until construction starts and they receive funding.
  - MPCA/MDH score projects based established priority scoring system, provide updated PPLs to PFA each year in July.
- 2023 PPLs:
  - CW: 276 projects, $2.9 billion
  - DW: 675 projects, $1.8 billion
Intended Use Plans

- Cities submit IUP requests to PFA each year by June for projects that are planned to start construction in the coming year.
- PFA matches IUP requests to the new PPL (points/rank).
- IUP fundable range is determined based on PPL point value:
  - CW: all projects above 40 points (out of 100+) are in fundable range.
  - DW: all projects above 7 points (out of 30) are in fundable range.
  - As much as possible, fundable range cutoff is held steady from year to year.
- Small communities (generally under 1000) are referred to USDA Rural Development unless PFA has prior lending history or other circumstances:
  - PFA may still co-fund with state WIF grant.
IUP Approval and Application Process

- Draft IUPs presented to PFA Board in August/September
  - Board approves IUP fundable range, set-aside percentages, allocations for nonpoint programs
  - Board delegates individual project awards to Chair based on Executive Director recommendations

- Projects in the IUP fundable range have six months to submit their financing application to PFA and plans/specs to MPCA/MDH
  - Financing application:
    - Audits, revenue and cash flow projections
    - System users, O&M budgets and debt service schedules (used in affordability calcs for principal forgiveness and WIF grants)
    - Program compliance documentation
    - Equivalency requirements generally applied to all projects unless exempted on case-by-case basis
Funding Awards and ‘Carryover’ Projects

• IUP projects receive funding awards when:
  • Financial review complete (including documentation of full project funding)
  • Technical review complete (plans/specs, env review) and project is certified
  • City lets construction bids and submits as-bid project costs

• IUP project that receives technical certification by end of state FY (6/30) but hasn’t yet bid or is delayed for some reason becomes a ‘carryover’ projects on the next IUP
  • PFA’s commitment to fund project (but not actual obligation of funds)

• IUP projects that aren’t certified by end of state FY can submit new IUP request the following year
SRF Funding for large projects

- Large projects with long construction schedules may be funded with separate financing agreements over multiple years based on project cash flow needs
- PFA provides the base interest rate discount only on amounts up to ½ of average annual lending capacity
  - Loan amounts that exceed ½ of capacity will be at market rate
- Large utilities with multiple projects under construction at once can be funded through a Pro-Fi approach, with one financing agreement for multiple eligible projects with flexibility to shift funds
A. Baseline Capacity: $128 million
Assuming No new federal or state $.

B. Raised Baseline: $154 million
Assuming IIJA + regular fed and state continue thru FFY 2026.

C. Target Capacity: $200 million
(needs review)

* Actual thru FY 2022

* 2010 lending was $231.4 million
A. Baseline Capacity: $51 million
Assuming: No new footers or sites.

B. Revised Baseline: $67 million
Assuming: IRA = regular fed and site continues thru FY 2016.

C. Target Capacity: $106 million (down to $80)