



## **Keep the Water Running**

PFA Funding & Utility Project Funding

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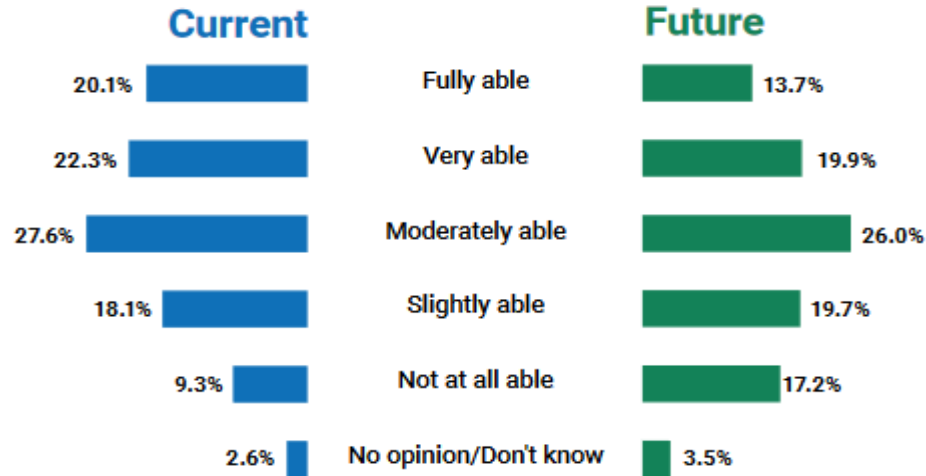
# Session Agenda

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- State of the Utility Industry
- Capital Planning & Rate Studies
- Choosing the Right Funding Options
- Demystifying PFA Funding
- Case Study

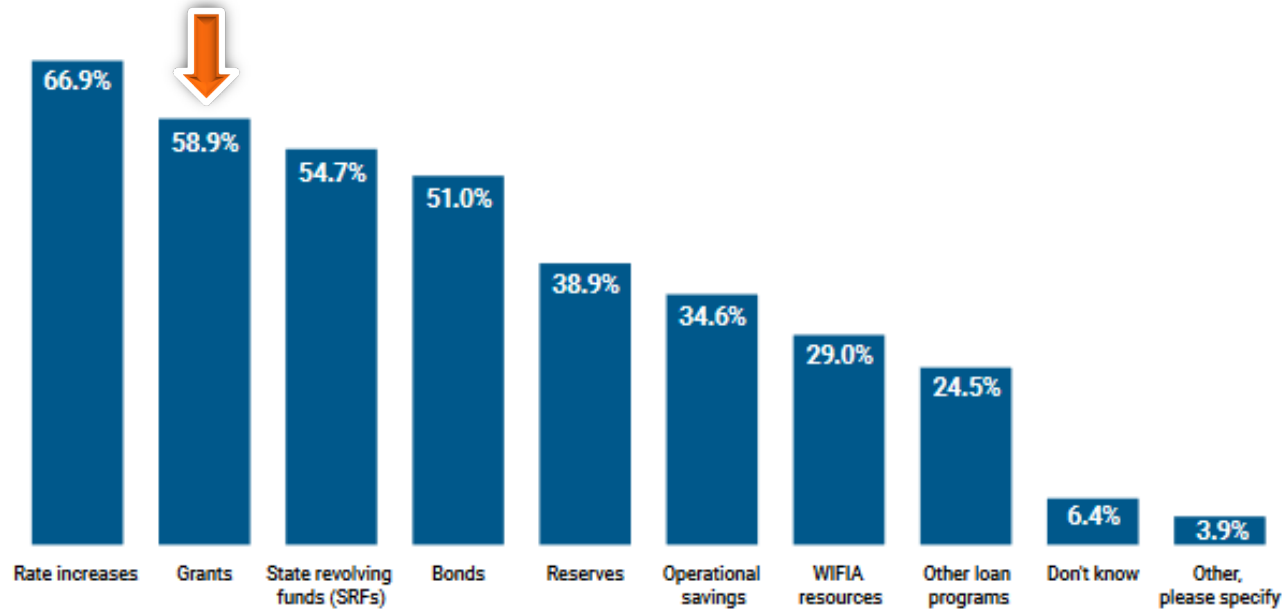
# Financial Planning for Utilities: Why We Need It

## Utility Ability to Cover Full Cost of Providing Services



27.4% of water utilities are struggling to implement full-cost pricing

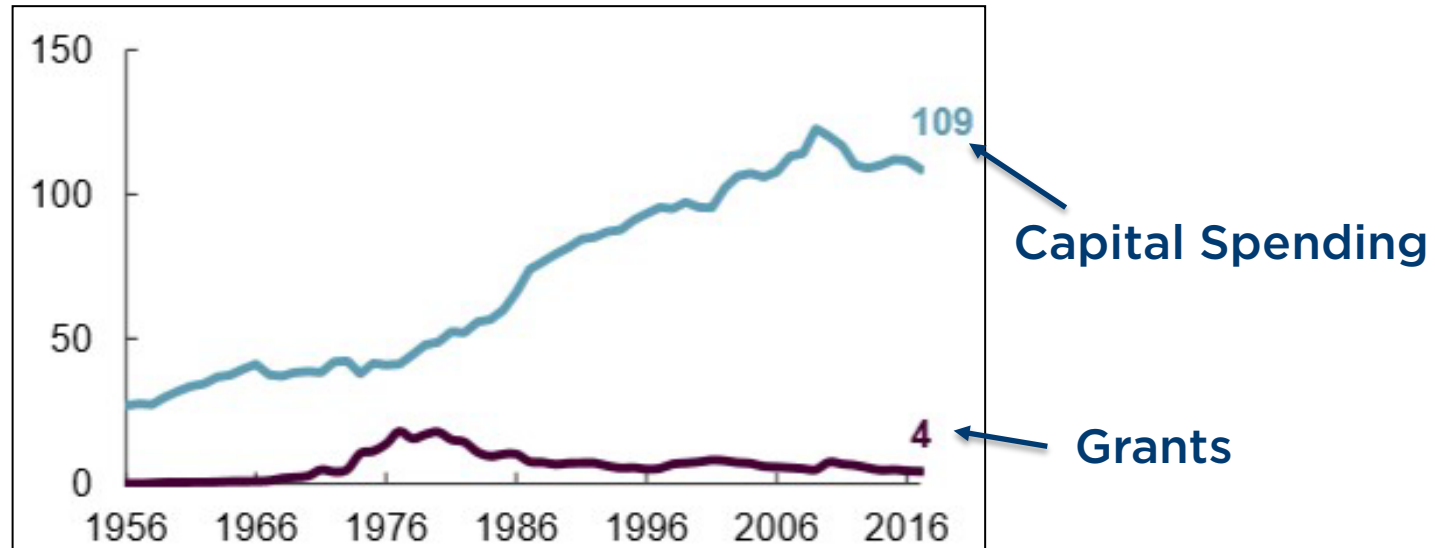
# Funding Strategies



Nearly 60% of water utilities hoping to receive grants

# Federal Grant History

## Federal Grant Funding vs. Water Supply & Wastewater Treatment Plant Capital Spending (*adjusted for inflation*)



# Unmet Need for Grants in Minnesota



**\$154 million  
drinking water**



**\$114 million  
wastewater**



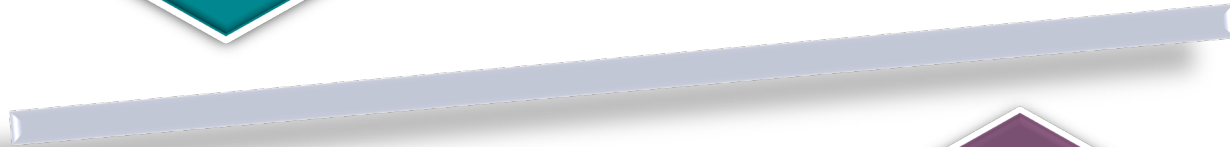
**\$132 million Point  
Source  
Implementation  
Grants**

# Goals for a Public Utility

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**Utility Rates**



**Safe &  
Reliable  
Service**



# Long-term Financial Planning

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- Complete capital plan
  - ✓ Look beyond current project
- Prepare 5- to 10-year cashflow projection for each utility
  - ✓ Account for existing debt
  - ✓ Include changes to operating expenses from new projects
- Determine revenue requirements
- Review rate structures
- Establish rates



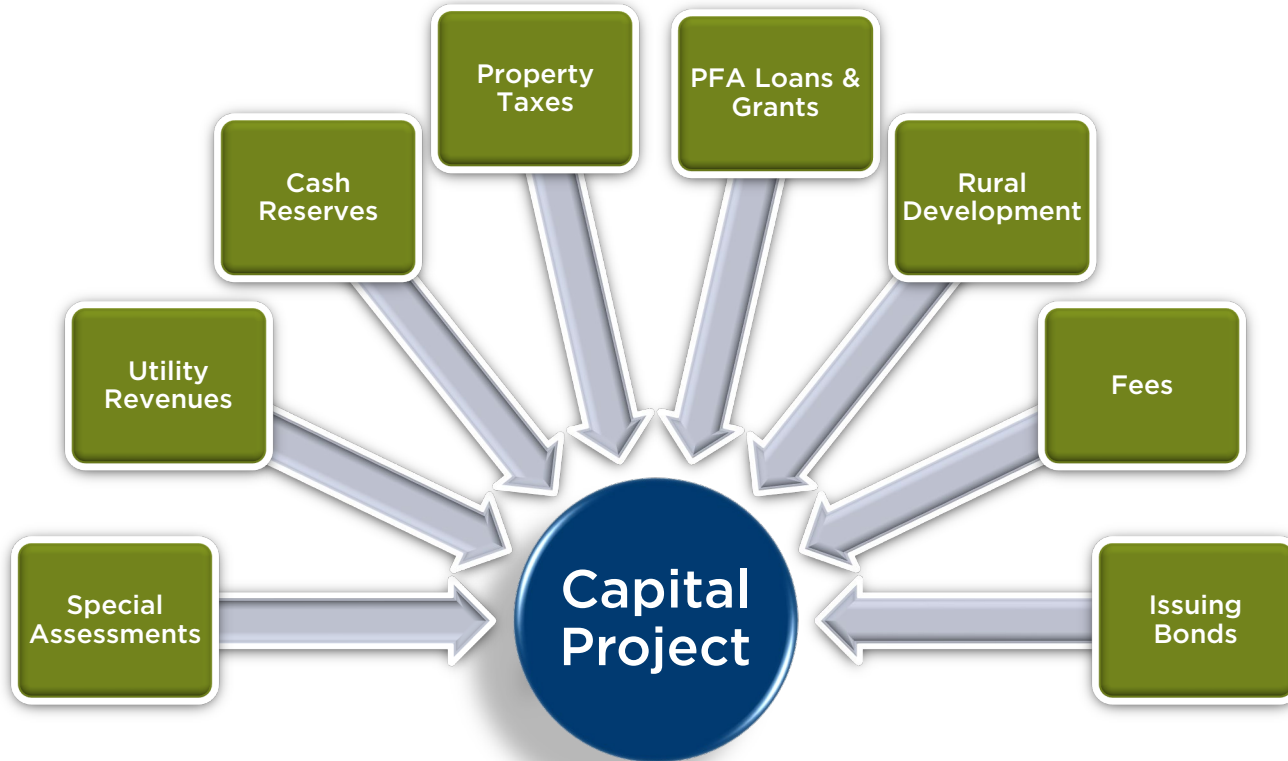
# Maximize Your Rate Study

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- Start early!
- PFA looking for demonstrated ability to repay loans
- Study helps determine affordability parameters for grants
- Use as a tool to explore different funding options and debt structures

# Consider all Funding Options

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# Special Assessments

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## Common Uses:



Road  
Reconstruction  
Projects



Lift Stations



Trunk Lines



Laterals

Can finance portion of project paid via assessments

# Financing Options

Financing Source	Key Characteristics	Common Uses
Capital Markets Financing (Market Rate Bonds)	<ul style="list-style-type: none"><li>• Can get money in 3-4 months</li><li>• Credit enhanced by State of MN</li><li>• Flexible repayment structure</li><li>• Typically pre-payable after some time</li><li>• No wage or Buy America requirements</li></ul>	<ul style="list-style-type: none"><li>• Street projects</li><li>• Utility infrastructure</li><li>• Storm water</li></ul>
Temporary Bonds	<ul style="list-style-type: none"><li>• Construction financing</li><li>• Interest only for up to 3 years</li></ul>	<ul style="list-style-type: none"><li>• When final scope or cost of project unknown</li><li>• Revenues currently insufficient to pay debt</li><li>• Rural Development construction financing</li></ul>

# Financing Options

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Financing Source	Key Characteristics	Common Uses
Rural Development (USDA)	<ul style="list-style-type: none"><li>• Loans, grants and loan guarantees</li><li>• Up to 40-year term on loans</li><li>• Need to obtain construction financing</li><li>• Only for rural communities with populations &lt; 10,000</li><li>• Often significant grant portion of total funding package</li><li>• Ability to refinance and “graduate” from program (or pre-pay)</li></ul>	<ul style="list-style-type: none"><li>• Utility Infrastructure &amp; possibly street reconstruction (or other infrastructure within RoW) due to utility replacement</li></ul>

# Financing Options

Financing Source	Key Characteristics	Common Uses
Minnesota PFA	<ul style="list-style-type: none"><li>• Below-market interest rates on loans</li><li>• Grant funds may be available with loans</li><li>• Program criteria that increase project expenses include:<ul style="list-style-type: none"><li>✓ Wage requirements</li><li>✓ Buy America provisions</li></ul></li><li>• Limited resources</li><li>• Limited flexibility on structuring debt</li><li>• Cannot pre-pay or refinance loans</li><li>• Ineligible portion(s) may require funding</li></ul>	<ul style="list-style-type: none"><li>• Utility Infrastructure</li><li>• Street costs associated with utilities</li><li>• Lead line replacement</li></ul>

# Bottom Line:

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- Your funding source should match the project, not vice versa
- Engage your municipal advisor early
- Don't rely on your engineer to determine funding source





# *PFA Funds & Utility Project Funding*

*(Keep the Water Running)*

Ehlers Public Finance Seminar

February 1, 2024

Becky Sabie, Program Coordinator



# Minnesota Public Facilities Authority (PFA)

- A state agency, a multi-agency authority, an Infrastructure Bank
- Support public health & water quality
  - Water infrastructure financing programs for municipal water projects
  - Help local govt improve water infrastructure while keeping costs affordable
- PFA finances all types of municipal wastewater/drinking water projects:
  - Replace aging infrastructure, system improvements, upgrades, improve water quality
  - Pipes, treatment facilities, lift stations, storage, source
  - Replace public and private lead service lines

# PFA Programs Open to all Cities

PFA low interest loans available to all cities with projects in fundable range

Targeted grants based on affordability and for treatment upgrades for specific water quality improvements

Lead Service Line Replacement available to all cities with LSLs

***All PFA programs follow Project Priority Lists developed by MPCA and MDH***

# PFA and Partner Agencies

## - Roles & Responsibilities

### Partner Agencies

*MPCA – wastewater, stormwater*

*MDH – drinking water*

- Project Priority Lists (PPLs)
  - 5 year project pipeline
  - Projects ranked based on age and condition, public health, water quality
- Technical Review
  - Preliminary planning docs, Project plans and specifications
- Environmental Review

### Public Facilities Authority (PFA)

- Annual Intended Use Plans (IUPs)
  - State Revolving Fund
- Financial and credit review
- Set loan terms and conditions
- Award financing, disburse funds
- Coordinate other funding sources
- Collect loan repayments
- On-going monitoring, compliance, audit review

# Municipalities & Consultants – Basic Roles & Responsibilities

## Municipal Entity (elected officials & staff)

- Determine priorities/identify projects
- Set budgets/asset management/CIP
- Set financing plan/adopt rate increases/levies/assessments
- Coordinate w/consultants, funders & residents
- Compliance with funding requirements
- Issues debt; debt service payments/on-going compliance

## Consultants & Advisors

- Consulting Engineer
  - Technical information/plans and specifications
  - Bidding through construction assistance/compliance
- Financial Advisor
  - Cash flows/rate studies/options
- Bond Counsel
  - Issue debt properly

# Undeniable Facts

- “When the well is dry, we know the worth of water” Ben Franklin
- Water infrastructure is essential and expensive – and does not last forever
  - Operation and Maintenance costs – local costs
  - Capital Costs – variety of sources, including local
- Best practices short term/long term plans
  - Asset management – know what you have, what condition, criticality
  - Financial planning – rate studies, capital improvement programs, etc.
- Ongoing financial/capital planning/asset management

# PFA Water Infrastructure Programs

## Clean Water and Drinking Water State Revolving Funds (CWRF/DWRF)

- Low interest loans
- Principal forgiveness grants for disadvantaged communities & green infrastructure
- Variety of sources (federal, state, PFA bond proceeds, loan repayments)
- CWRF/DWRF Infrastructure Investment & Jobs Act (IIJA) Funds
  - Provides additional funds to CWRF and DWRF for 5 years
  - DWSRF includes Lead Service Line Replacement funds (grant and loan)
  - DWSRF includes Emerging Contaminants principal forgiveness grant funds
  - Follows the same process

# PFA Water Infrastructure Programs (cont.)

## Water Infrastructure Fund (WIF) Grant Program

- Grants based on affordability criteria
- Packaged with PFA loans or USDA Rural Development funding for small cities

## Point Source Implementation Grant (PSIG) Program

- Grants to help upgrade water treatment facilities to improve water quality

## Minnesota's Lead Service Line Replacement Program

- Grants to cities for costs to replace privately owned LSLs & a portion of the publicly owned LSLs
- Coordinated with DWRP federal LSLR program

# PFA Funding Process

Same schedule each year – Notice/Instructions out now

1<sup>st</sup> step FOR ALL PROGRAMS request placement on MPCA/MDH Project Priority List (5-year pipeline)

- MPCA deadline March 1, 2024
- MDH deadline May 3, 2024

2<sup>nd</sup> step FOR CWRWF/DWRF loans, LEAD SERVICE LINE & EMERGING CONTAMINANT projects - request placement on the PFA's Intended Use Plan (Annual Funding Plan)

- PFA IUP deadline June 7, 2024



# PFA Funding Process (cont.)

IUP draft prepared/available for public comment – late summer/early fall

- Set fundable range for loans, base interest rate discount and cap for discount

Following IUP approval:

- Projects submit plans & specs for MPCA/MDH review; application to PFA
- PFA review applications for financial capacity & potential grant eligibility
- Funding awarded when application is complete, project certified, and as-bid costs submitted

PSIG applications are accepted during the month of July

- If seeking a CW or DW loan the project must also be on the IUP

WIF is coordinated through a CW or DW loan or USDA Rural Development funding

# Clean Water & Drinking Water State Revolving Fund Loans

- Financial Plan for payment of O, M & r, existing and new debt service
  - Sufficient revenues (user rate increases, assessments, tax levy) established
  - PFA staff may recommend use of a financial advisor, rate study, etc.
  - Most require city council action to approve rate increase(s) & other measures
- PFA will award financing when
  - Application is complete (including financial plan)
  - Total project funding is in place
  - As-bid costs area available
  - Partner agency has certified project

*Financial , managerial, technical capacity all part of the loan review*

# Clean Water & Drinking Water State Revolving Funds Loans (cont.)

- “Loans” but security is G. O. revenue bond issued by City to PFA
  - Use of bond counsel to prepare various legal documents
- Below market interest rates; loans generally not pre-payable
  - Base interest rate discount set with IUP
- Term—20 years; up to 30 for high-cost projects (not exceed useful life)
- Funds disbursed monthly based on incurred costs
- Semi-annual debt service (February & August 20<sup>th</sup>)

# Clean Water & Drinking Water State Revolving Funds (cont.)

- Can finance 100% of eligible project costs
  - As-bid construction, engineering, inspection, legal
- Federal/state requirements/bidding/prevaling wages, M/WBE, American Iron and Steel and **BUY AMERICA BUILD AMERICA**
- Municipal contracting requirements
- Ongoing compliance for term of loan, independent audits, tax compliance certificates

# Clean Water & Drinking Water State Revolving Funds – Principal Forgiveness

- Use described in the Intended Use Plans
- A grant by another name
- Affordability (CW)/Disadvantaged Community (DW) follows state Water Infrastructure Funding (WIF) criteria
- Awarded in conjunction with a CWRF or DWRF loan
- Emerging Contaminants (IIJA)
- Green Project Reserve (GPR) for CWRF projects
  - 25% PF for GPR eligible components up to \$1M

# WIF Affordability-Based Grants

- State grants for high cost/high priority projects
- All projects must be ranked on the PPL
- Two ways:
  - Grants to match USDA Rural Development based on RD app'l process & funding criteria. If eligible for RD, must apply to RD
  - Grants combined with CWRF loan when eligible system costs exceed 1.4% MHI; DWRF at 1.2% MHI
- Requires replacement fund (\$0.50/1,000 gallons of flow) set aside each year for future capital items

# Point Source Implementation Grants

- Grants to local governments to assist w/costs of water projects necessary to meet more stringent standards (phosphorus, chlorides, etc.)
- Applications accepted in July
- 80% grants up to \$7M
- Projects must be on the PPL; also on the IUP if seeking CWRP/DWRP loan

# Lead Service Line Replacement Grants

- State & Federal funds, follows existing PPL-IUP process
- Complete replacement of lead service line required
- Provides 100% grant for private LSLR costs; 50% grant public side LSLR costs; 50% DWRF loan
  - Post project completion, state LSLR Grant program payoff DWRF loan
  - Loans 0% interest, taxable note
- PFA funds for construction, engineering, outreach
- Inventory funds through the Department of Health



# Odds/Ends/Tidbits

- Keeping projects moving through process....
  - Communication with PFA, Health, Pollution Control Agency
  - Know/understand program deadlines
  - Responsive to requests
- Local Actions
  - Review/plan/establish revenues needed – regardless of funding
- Project Funding
  - Total project funding in place? Dedicated revenues in place?
  - Status of other funds

# Odds/Ends/Tidbits (cont.)

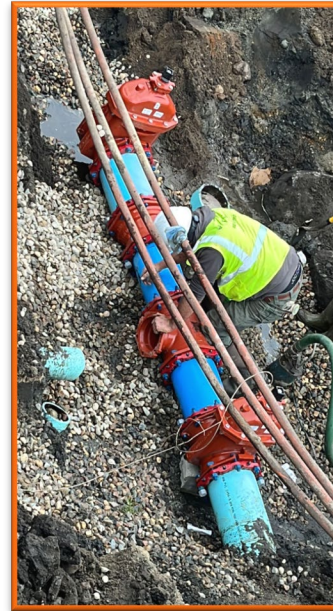
- Combo projects/combo funding
- Starting project before status of PFA funding known is risky
  - High affordability/no available grant funds.....wait/hold
  - Include PFA requirements for bidding/construction/implementation
- Expecting that all costs are eligible....whenever they occur
  - Local view versus what PFA can reimburse
    - Some programmatic differences
  - Timing/dates can play a role – CWRF/DWRF funds are the most flexible

# Additional Information

- [www.mn.gov/pfa](http://www.mn.gov/pfa)
- Approved 2024 IUPs on website
- 2025 PPL/IUP notices on website
- Contact Your PFA Loan Officer (staff list on Web)
- Becky Sabie ([rebecca.sabie@state.mn.us](mailto:rebecca.sabie@state.mn.us)) 651-259-7470

# Case Study: City of Long Prairie

## County Highway & Utility Reconstruction



# What Made the Project Work



- Team assembled early
  - ✓ City Administrator
  - ✓ Engineer
  - ✓ Municipal Advisor
  - ✓ PFA
- Rate studies completed in advance
  - ✓ Sewer & storm water (Ehlers)
  - ✓ Water (City)
- City had Financial Management Plan



# What Made the Project Work

- Debt structured in conjunction with long-term financial plans
  - ✓ Measured impact of new debt on rates and tax levy
  - ✓ Established a new storm water utility
  - ✓ Demonstrated to PFA that City could repay loans
- PFA was flexible because City demonstrated need and knew what to ask for



# Project Financing

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Bond Issue	Streets	Sewer	Water	Storm Water	Total
2022A (PFA)	\$1,877,000	\$2,899,440			\$4,776,440
2022B (PFA)	\$1,823,000		\$1,989,346		\$3,812,346
2022C	\$917,040			\$1,879,725	\$2,796,765
<b>Total</b>	<b>\$4,617,040</b>	<b>\$2,899,440</b>	<b>\$1,989,346</b>	<b>\$1,879,725</b>	<b>\$11,385,551</b>





# Creative Financing: Taxable Debt

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Because total bond issues exceeded \$10M,  
none could be “bank qualified”

Requested PFA to deem 2022B Bonds as  
taxable at tax-exempt program rate

Allowed 2022A & 2022C bonds to be  
deemed tax-exempt & bank qualified

Sold 2022A Bonds competitively at 3.96%  
true interest cost

# Lessons Learned

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- Assembling project team early pays dividends!
- City knew what to request from PFA as result of early financial planning
- Assess project one year in advance of first debt payment
- Assessment rate can only be 2% over rate on PFA loan
- Loan proceeds paid for financial planning
- Stay involved in the process & ask your consulting team questions!



# Your Presenters

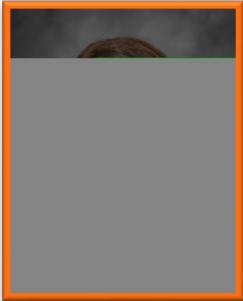
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**Bruce Kimmel**  
Senior Municipal Advisor  
[bkimmel@ehlers-inc.com](mailto:bkimmel@ehlers-inc.com)  
(651) 697-8572



**Becky Sabie**  
Program Coordinator  
**m** MINNESOTA  
PUBLIC FACILITIES AUTHORITY



**Jessica Cook**  
Director, Fiscal Consulting  
[jcook@ehlers-inc.com](mailto:jcook@ehlers-inc.com)  
(651) 697-8546



**Todd Hagen**  
Senior Municipal Advisor  
[thagen@ehlers-inc.com](mailto:thagen@ehlers-inc.com)  
(651) 697-8508

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