

Water Pollution Control State Revolving Fund Intended Use Plan and Project Priority List

State Fiscal Year 2018
July 10, 2017

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TABLE OF CONTENTS

I.	Introduction	1
II.	List of Projects.....	1
III.	Order of Funding.....	1
IV.	Uses of the Water Pollution Control State Revolving Fund.....	2
V.	Goals and Objectives	9
VI.	Information On the Activities To Be Supported	10
VII.	Assurances and Specific Proposals	10
VIII.	Criteria and Method For Distribution Of Funds	12
IX.	Extended Financing.....	14
X.	Public Comment, Amending IUP, State Financial Commitment.....	15
ATTACHMENT I: WPCSRF Project Priority List-SFY18		16
ATTACHMENT II: Program Funding Status for the Montana WPCSRF Program		21
ATTACHMENT III: Fundable Projects		22
TABLE 1: Amounts Available To Transfer Between State Revolving Fund Programs.....		6

MONTANA
WATER POLLUTION CONTROL STATE REVOLVING FUND
SFY18 INTENDED USE PLAN

I. INTRODUCTION

The primary purpose of the Intended Use Plan (IUP) is to identify the proposed annual intended uses of the federal and state funds available to the Montana Water Pollution Control State Revolving Fund (WPCSRF) program. Federal dollars appropriated in one year are available for use in the next year (i.e. the FFY17 appropriation is available in FFY18). The State match will be raised through the sale of general obligation bonds or revenue anticipation notes as the need for funds arises. The draft IUP will be reviewed by the public and a hearing will be held to allow an opportunity to publicly comment on the draft IUP.

The IUP includes the following:

- I. Introduction
- II. List of Projects
- III. Order of Funding
- IV. Uses of the Revolving Fund
- V. Goals and Objectives
- VI. Activities to be Supported
- VII. Assurances and Specific Proposals
- VIII. Criteria and Method for Distribution of Funds
- IX. Extended Financing
- X. Public Comment, Amending IUP, State Commitment of Funds

II. LIST OF PROJECTS

The WPCSRF program was developed to provide low interest loans for the planning, design and construction (or implementation) of water pollution control projects. A complete list of any and all eligible projects that are considered possible candidates for assistance from the WPCSRF program at this time can be found in **Attachment I**, the Project Priority List (PPL). In addition to the PPL, this IUP also contains a list of new projects expected to receive WPCSRF funds for the period July 2017 through June 2018 (SFY18) in **Attachment III**.

A binding commitment will be in the form of a written agreement between the State of Montana and a borrower describing the project and indicating the amount of the loan and the time at which the funds will be made available. The binding commitment obligates the State to make the loan and the borrower to receive the proceeds and repay the loan, as per specified terms. In recent years, a "letter in lieu of a binding commitment" has been utilized rather than an actual binding commitment agreement.

III. ORDER OF FUNDING

The following factors will be considered when the project is ranked by the program:

1. Need for and benefit to be derived from the project as determined by the annual project priority list. The project ranking criteria were changed in FY12 in an attempt to alleviate some past concerns by program staff related to inconsistency of project ranking and to provide more emphasis on public health and water quality protection instead of readiness to proceed. However, readiness to proceed remains one of the primary ranking categories. As in the past, the ranking criteria still integrate point source and nonpoint source projects. Additional points are given if the project is part of a DEQ compliance strategy or a Total Maximum Daily Load (TMDL) watershed restoration plan. Also, points assigned toward refinancing existing long-term debt is only awarded a total of 10 priority points and interim financing projects are limited to 25 total points per project in an effort to direct more funds toward new projects that provide direct benefit to water quality or human health.
2. Ability of the municipality or private person to finance the project, with and without loan assistance (See Section IX).
3. Amount of financial assistance available from the revolving fund and the cumulative amount of funds requested by other applicants.

IV. USES OF THE WATER POLLUTION CONTROL STATE REVOLVING FUND

The WPCSRF may be used to:

1. Provide low interest loans to municipalities for wastewater treatment systems, new interceptors, collectors, and appurtenances, infiltration/inflow correction, sewer system rehabilitation, correction of combined sewer overflows, and construction of new storm sewers and detention basins. The low interest loans can be made for up to 100 percent of the total project cost. Approximately \$503 million in loans (this does not include nonpoint source projects for irrigation projects) have been made to communities in Montana. Each of these loans has had a total loan interest rate of 4% or less. Program interest rates will be evaluated and set annually. The interest rate for WPCSRF loans for SFY18 will be 2.50%.
2. Provide interim financing during construction for eligible projects. The interim financing rate for SFY18 will be 1.75%. The maximum term of the interim loan is the shorter of the construction period or three years.
3. Refinance qualifying debt obligations for water pollution control facilities if the debt was incurred and construction initiated after March 7, 1985. Approximately \$11.9 million of debt has been refinanced through this program in the past. However, due to exceptional demand for WPCSRF during the period covered by this IUP, it is not anticipated that WPCSRF funds will be provided for refinancing.
4. Guarantee or purchase insurance for local debt obligations. As of May, 2017, no loans have been made for this purpose.

5. Provide a source of revenue or security for general obligation bonds, the proceeds of which are deposited in the revolving fund. There is a 0.25% loan loss reserve surcharge included as part of the 2.50% interest rate. The purpose of the surcharge is to pay principal and interest on state G.O. Bonds if the Debt Service Account is insufficient to make payments. This is to secure \$29.2 million in State General Obligation Bonds. The excess over the required reserve has periodically been transferred to the principal account to make loans. In SFY18 it is anticipated that approximately \$200,000 in excess loan loss reserve funds will be transferred to the principal account, therefore, would be counted as additional state match for future capitalization grants.
6. Provide loan guarantees for similar revolving funds established by municipalities. As of May, 2017, no loans have been made for this purpose.
7. Finance non-point source pollution control (Section 319) implementation projects or programs. As of May, 2017, approximately \$63 million has been loaned for these types of projects.
8. Earn interest on program fund accounts. At the beginning of SFY13, cash flow analysis demonstrated this program will continue to be a strong source of loan funds after the federal grants are terminated. Interest income to date has been used to pay off program G.O. Bond debt. The cumulative interest earned in the program on investments is approximately \$8.58 million through May of 2017.
9. Pay reasonable administrative costs of the WPCSRF program not to exceed 4% (or the maximum amount allowed under the federal act) of all federal grants awarded to the fund. In addition to using WPCSRF funds for administration, each loan has a 0.25% administrative surcharge included in the 2.50% interest rate. These fees are not considered part of the loan principal. The reserve generated from this loan surcharge will be used for WPCSRF administration costs not covered by the EPA grants. Capitalization grants are approved by Congress every year and EPA is currently projecting WPCSRF funding for at least a few more years. However, if needed, these administrative funds could be transferred to the principal account and used to make loans. In SFY18, it is anticipated that approximately \$200,000 in administrative surcharge funds will be transferred to the principal account, therefore, would be considered additional state match for the capitalization grant.

The special administrative fees collected through loan repayments can be broken down into two categories. If the fees are repaid from direct federal loans during the grant period (i.e., from capitalization grants that are still open as of May 2017 – see list below) the uses of these fee funds will be limited to either SRF program administration or transfers to the principal account, as indicated above. However, fees repaid from loans made from capitalization grants that have been closed or from recycled funds may be used for other purposes as long as those uses are consistent with the federal Clean Water Act, this Intended Use Plan, the Operating Agreement between DEQ and EPA, the Trust Indenture and DEQ and DNRC rules and laws governing the WPCSRF program.

FFY 15 and 16 grants are the only open cap grants at this time. Projects drawing funds from these grants are:

Joliet Treatment
Eureka/Midvale
Ten Mile/ Pleasant Valley
Forsyth Collection
East Clark Street Collection
Cut Bank Treatment
Havre Stormwater
White Sulphur Springs Treatment

The special administrative fee collected from these combined projects in SFY18 is expected to be approximately \$29,589. The total special administrative fees expected to be collected in SFY18 are approximately \$1.46 million. Therefore, approximately \$1.43 million could be used for Clean Water Act-related purposes other than SRF administration and loans. Of the \$1.46 million to be received in SFY18, it is anticipated that about \$900,000 will be required for SRF administration, and approximately \$300,000 will be used for Clean Water Act-related purposes, as indicated below.

The WPCSRF program is expecting to use up to \$52,000 of the special administrative fee funds for advanced training for staff, consultants and wastewater treatment operators to help promote optimization of wastewater treatment throughout Montana, especially with regard to nutrient reduction. This training is a free service to Montana's operators. Special administration fees (up to \$90,000) are also expected to be used for partial funding of a wetland specialist to provide outreach, technical assistance and education for conservation and protection of natural wetlands. Up to \$37,000 of these fee-based funds are anticipated to be used to fund water pollution control training costs for the Montana Environmental Training Center (METC), which provides specific education to water and wastewater operators in Montana. Finally, up to \$110,000 is expected to be used to construct a pilot of a low-tech ammonia and nutrient reduction "technology" to help lagoons affordably reduce these effluent parameters. The total annual cost of the training, the wetland specialist, METC, and the nutrient pilot study, including indirect costs, is expected to be approximately \$300,000.

A determination of which projects are to be selected from the PPL, the amount of assistance, and the financing terms and conditions will be made by the Montana Department of Environmental Quality (DEQ) and the Montana Department of Natural Resources and Conservation (DNRC). See Section VIII below for a discussion on the distribution of funds.

Both the WPCSRF and Drinking Water SRF programs have developed a growth policy to clarify the eligibility of certain types of projects directly associated with growth. Specifically, with regard to wastewater systems, new wastewater collection projects that serve areas that are not at least 50% occupied are not eligible for WPCSRF funding.

The entire state match for the current federal grant has already been deposited into the SRF fund and disbursed on eligible activities. Therefore, all cash draws in FY18 will be at a 100% federal proportion. During SFY18, State of Montana will continue to issue state match bonds and sweep excess SRF fees and deposit both sources of match into the SRF to be used for projects. These funds will be used to match future federal grants.

At the Governor's discretion, the state may transfer up to 33% of its Drinking Water SRF capitalization grants, on a cumulative basis, to the WPCSRF or an equal amount from the WPCSRF to the Drinking Water SRF. This transfer authority was effective thru fiscal year 2001. One-year extensions of this transfer authority were granted through the Appropriation Bills for federal fiscal years 2002 - 2017. In addition to transferring grant funds, states can also transfer state match, investment earnings, or principal and interest repayments between SRF programs.

Table 1 itemizes the amount of funds that have been transferred between the WPCSRF and DWSRF programs to date. At this time, it is expected that approximately \$6 million in funds will be transferred from the DWSRF to the WPCSRF during the next 12 months.

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TABLE 1 - AMOUNTS AVAILABLE TO TRANSFER BETWEEN STATE REVOLVING FUND PROGRAMS

Year	Transaction Description	DWSRF Cap Grant Amount	33% of Cap Grant Amount (Eligible for Transfer)	Transferred from CWSRF to DWSRF	Transferred from DWSRF to CWSRF	Banked Transfer Ceiling	DWSRF Funds Available for Transfer	CWSRF Funds Available for Transfer
1996 & 1997	DW Grant Award	\$14,826,200	\$4,892,646			\$4,892,646	\$4,892,646	\$4,892,646
1998	DW Grant Award	7,121,300	2,350,029			7,242,675	7,242,675	7,242,675
1999	DW Grant Award	7,463,800	2,463,054			9,705,729	9,705,729	9,705,729
2000	DW Grant Award	7,757,000	2,559,810			12,265,539	12,265,539	12,265,539
2000	Transfer (2nd Rnd \$)			4,750,328		12,265,539	17,015,867	7,515,211
2001	DW Grant Award	7,789,100	2,570,403			14,835,942	19,586,270	10,085,614
2001	Transfer (2nd Rnd \$)			4,032,158		14,835,942	23,618,428	6,053,456
2002	DW Grant Award	8,052,500	2,657,325			17,493,267	26,275,753	8,710,781
2004	DW Grant Award (03)	8,004,064	2,641,341			20,134,608	28,917,094	11,352,122
2004	Transfer (2nd Rnd \$)				2,559,810	20,134,608	26,357,284	13,911,932
2005	Transfer (2nd Rnd \$)				2,570,403	20,134,608	23,786,881	16,482,335

Year	Transaction Description	DWSRF Cap Grant Amount	33% of Cap Grant Amount (Eligible for Transfer)	Transferred from CWSRF to DWSRF	Transferred from DWSRF to CWSRF	Banked Transfer Ceiling	DWSRF Funds Available for Transfer	CWSRF Funds Available for Transfer
2005	DW Grant Awards (04 & 05)	16,588,600	5,474,213			25,608,821	28,261,094	22,956,548
2006	DW Grant Award (06)	8,229,300	2,715,669			28,324,490	30,976,763	25,672,217
2006	Transfer (1st Rnd \$)				5,000,000	28,324,490	25,976,763	30,672,217
2007	DW Grant Award (07)	8,229,000	2,715,570			31,040,060	28,692,323	33,387,787
2008	Transfer (2nd Rnd \$)			2,500,000			31,192,333	30,887,787
2008	DW Grant Award (08)	8,146,000	2,688,180			33,728,240	33,880,513	33,575,967
2009	Transfer (1st Rnd \$)				5,000,000		28,880,513	38,575,967
2009	DW Grant Award (09)	8,146,000	2,688,180			36,416,420	31,568,693	41,264,147
2009	DW ARRA Grant Award	19,500,000	6,435,000			42,851,420	38,003,693	47,699,147
2010	DW Grant Award (10)	13,573,000	4,479,090			47,330,510	42,482,783	52,178,237
2011	Transfer (1st Rnd 10)				3,000,000		39,482,783	55,178,237

Year	Transaction Description	DWSRF Cap Grant Amount	33% of Cap Grant Amount (Eligible for Transfer)	Transferred from CWSRF to DWSRF	Transferred from DWSRF to CWSRF	Banked Transfer Ceiling	DWSRF Funds Available for Transfer	CWSRF Funds Available for Transfer
2012	DW Grant Award (12)	8,975,000	2,961,750			53,400,200	45,552,473	61,247,927
2013	DW Grant Award (13)	8,421,000	2,778,930			56,179,130	48,331,403	64,026,857
2014	DW Grant Award (14)	8,845,000	2,918,850			59,097,980	51,250,253	66,945,707
2015	DW Grant Award (15)	8,787,000	2,899,710			61,997,690	54,149,963	69,845,717
2016	DW Grant Award (16)	8,312,000	2,742,960			64,740,650	56,892,923	72,588,577
2017	DW Grant Award (17)	8,312,000	2,742,960			67,483,610	59,635,883	75,331,337
2018	Transfer (2nd Round)				10,000,000		49,635,883	85,331,331
Totals		\$204,495,864	\$67,483,610	\$11,282,486	\$29,130,213			

V. GOALS AND OBJECTIVES

Long-Term Goal and Objectives

The long-term goal of the WPCSRF is to maintain, restore and enhance the chemical, physical and biological integrity of the State's waters for the benefit of the overall environment and the protection of public health.

Objectives:

1. Provide affordable financial assistance for eligible applicants concurrent with the objective of maintaining a long-term, self-sustaining State Revolving Fund Program.
2. Fulfill the requirements of pertinent federal, state and local laws and regulations governing water pollution control activities, while providing the state and local project sponsors with maximum flexibility and decision-making authority regarding such activities.

Short-Term Goal and Objectives

The short-term goals of the WPCSRF are to continue to preserve and improve the quality of the state's waters (surface and groundwater), meet the water pollution control needs of the state, and eliminate any public health hazards related to the discharge of inadequately treated wastewater or other pollutants. as an estimated measure of the environmental benefits attained through funding of water pollution control projects, the WPCSRF program will continue to complete an EPA environmental benefits spreadsheet for each project during 2018.

Objectives:

1. Maintain and promote the WPCSRF program, which provides low interest financing (up to 100 percent loans) for water pollution control projects; provide loans for approximately 18 new projects in SFY18 (some projects may have more than one loan).
2. Ensure the technical integrity of WPCSRF projects through the review of planning documents, design plans and specifications, construction activities and development of a sound operation and maintenance program.
3. Ensure compliance with all pertinent federal, state and local water pollution control laws and regulations.
4. Obtain optimum turnover of the funds for the State in the shortest reasonable time; fund eligible NPS projects.
5. Simplify the administrative and regulatory requirements of the program, without sacrificing project quality, to make the financial assistance readily accessible; coordinate on a regular basis with DNRC and financial consultants to consider ways to improve the program and optimize use of resources.

6. Apply for all available appropriated federal funds contingent upon federal legislation.

VI. INFORMATION ON THE ACTIVITIES TO BE SUPPORTED

The primary type of assistance to be provided by the WPCSRF is expected to be loans. On a more limited basis, the State may provide funds for refinancing existing debt, guarantee or buy insurance for local debt obligations, or leverage bond issues, although none of these activities are expected during the period covered by this IUP.

These types of assistance will be provided to local communities, sanitary sewer districts, counties, eligible private persons, or other sub-governmental units recognized under Montana statutes for the construction of publicly-owned wastewater treatment facilities or non-point source water pollution control projects.

The State plans on reserving \$400,000 of the federal capitalization grant for administrative expenses in SFY18.

VII. ASSURANCES AND SPECIFIC PROPOSALS

The State will assure compliance with the following sections of the law in the State/EPA Operating Agreement, of which this document is a part. In addition, the State has developed specific proposals for implementation of those assurances in the rules promulgated by the Montana Department of Environmental Quality (DEQ) and the Montana Department of Natural Resources and Conservation (DNRC).

- Section 602(a) - Environmental Reviews - The State of Montana certifies that it will conduct environmental reviews of each Title II project receiving assistance from the WPCSRF. Montana will follow EPA approved, NEPA-like procedures in conjunction with such environmental reviews.
- Section 602(b)(3) - Binding Commitments - The State of Montana certifies that it will enter into binding commitments equal to at least 120% of each quarterly grant payment within one year after receipt (on a cumulative basis).
- Section 602(b) (4) - Timely Expenditures - The State of Montana certifies that it will expend all funds in the WPCSRF in an expeditious and timely manner.
- Section 602(b)(6) - Compliance with Title II Requirements - The State of Montana certifies that the applicable Title II requirements listed under this section will be satisfied in the same manner as projects constructed under Title II of the Clean Water Act.

Additional requirements for Clean Water SRF programs, including Montana's WPCSRF program, were included in the Federal Water Resources Reform and Development Act (WRRDA) which was passed by Congress in 2014. A summary of the requirements and a brief description of how the WPCSRF program will address them are included below.

Cost and Effectiveness: The SRF recipient must certify that it has studied and evaluated the cost and effectiveness of the proposed project and, to the maximum extent possible, has selected the alternative that maximizes the potential for water efficiency and energy conservation. The WPCSRF program will require a simple certification statement from the recipient in the final stages of the planning phase of a project. We feel that planning document requirements currently contained in Circular DEQ2 and the WWASACT Preliminary Engineering Report (PER) outline generally adequately address the cost and effectiveness requirement. Our experience has shown that most, if not all, engineering consultants consider energy usage in the alternative analysis in PERs and the practical opportunities for water conservation in water pollution control projects are limited.

Engineering Procurement: The State must either certify that the laws required for procurement of engineering services are equivalent to the federal requirements, which stipulates a qualifications-based selection process, or adopt the federal procurement requirements (40 U.S.C. 1101). Although Montana's procurement laws are consistent or equivalent to the federal requirements in most respects, DEQ's legal counsel felt that the differences between the state and federal laws were significant enough that the certification of equivalence could not be made. Therefore, the WPCSRF program will use the federal procurement requirements for architect and engineer procurement rather than try to change the state law.

Fiscal Sustainability Plans: A loan recipient must certify that it has developed and implemented a fiscal sustainability plan that includes: an inventory of critical assets; an evaluation of the condition and performance of the assets; evaluation and implementation of water and energy conservation efforts; and a plan for maintaining, repairing and replacement of treatment works. Some states, including Montana, do not give direct loans to communities. Rather, they buy the bonds that are issued by communities. The wording in the WRRDA pertaining to this requirement specifically refers to loans and, therefore, unless and until the wording in the law is modified, EPA has indicated that this requirement does not apply to Montana's WPCSRF program.

Extended loan terms: Loan terms can be extended to 30 years or to the useful life of the project, whichever is less. Affordability does not need to be a factor in extending loan terms. As indicated in this IUP, Montana WPCSRF program has removed the requirement that extended loan terms only apply to disadvantaged communities. However, the loan term cannot exceed the useful life of the project.

Affordability: Criteria for awarding principal forgiveness to a project must include unemployment rates, median household income and population trends. It is left up to each state as to how these three measures are weighed or incorporated into the evaluation of affordability. Please see discussion below for further details.

American Iron and Steel: All iron and steel products (as defined by WRRDA) in any project funded fully or in part with SRF funds must be produced in the USA. Iron and steel products are defined in WRRDA as: lined or unlined pipes and fittings, manhole covers and other municipal castings, hydrants, tanks, flanges, pipe clamps and restrains, valves, structural steel, reinforced precast concrete, and construction materials. The

WPCSRF program has been implementing this requirement, as required by previous federal grants, for a couple of years now. Specification inserts and certification forms have been developed by the WPCSRF program and will continue to be used to help communities meet this requirement.

Federal Davis Bacon wages and Disadvantaged Business Enterprises: These requirements have been in place for some time and will continue to be a requirement. Davis Bacon requirements apply to all SRF-funded projects and DBE requirements apply to only those projects funded with federal WPCSRF funds.

Additional Subsidization: State CWSRF programs have the option of providing additional subsidization. The maximum amount of additional subsidization (AS) that a state program may award is dependent on the national appropriation amount. Some AS is allowed in proportion to the federal appropriation greater than \$1 billion. If the federal appropriation is less than \$1 billion, no AS is allowed. In no case can any state award more than 30% of its capitalization grant in the form of AS. The criteria for awarding AS must be based on affordability or for water or energy efficiency, stormwater mitigation or sustainable project planning, design and construction.

In FFY2017, Congress provided a requirement for additional subsidy (AS) as part of the appropriation bill that is inconsistent with the WRRDA requirements. As such, EPA has interpreted the two conflicting “requirements” as follows. The appropriations bill actually requires that 10% of the capitalization grant to be used for AS. Per WRRDA, Montana has an option to use additional AS of up to 30%. Therefore, Montana must use at least 10% and not more than 40% of the grant amount for AS.

The Montana WPCSRF program has historically awarded the maximum AS (in the form of principal forgiveness) allowed by Congress in any individual year. This has generally been based on user rates per median household income. The provisions contained in WRRDA stipulate that unemployment rates and population trends also be considered as criteria for awarding AS. Please see discussion above on affordability requirements and also see Section VIII, Criteria and Method for Distribution of Funds.

VIII. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS

Historically, WPCSRF funds were allocated on a first-come, first-served basis because the supply of funds exceeded the demand. This allowed for the funding of all of the projects as they went into construction. However, due to annual federal requirements for principal forgiveness and green project reserve, it has become important to identify in each IUP which projects will be receiving SRF funds, including principal forgiveness, for the next fiscal year. **Please see Attachment III for a list of projects expected to receive WPCSRF funds and principle forgiveness in SFY18.**

Although not contained in WRRDA, the FFY2016 (17) appropriations bill requires that at least 10% of the capitalization grant must be used to fund green projects as defined by EPA. Projects that are believed to qualify in whole or in part for green reserve are identified in Attachment III.

The FFY17 Clean Water SRF federal appropriation is approximately \$1.38 billion, therefore, Montana has the option of awarding up to 40% of its capitalization grant in the form of principal forgiveness. The WPCSRF program is proposing to award the full 40% of its FFY17 cap grant, or \$2,589,600, as principal forgiveness.

The following factors will be considered in the allocation of principal forgiveness:

- 1. The WPCSRF program proposes to award principal forgiveness primarily based on affordability for those projects deemed ready to proceed to construction in SFY18. As required by federal law, three factors will be used to arrive at a composite affordability rate: the wastewater user rate per median household income (MHI), the local unemployment rate, and local population trends. The local population growth and unemployment rates will only be factored in if they are considered to have an unusual impact on affordability, as explained below.**

A local unemployment rate greater than 150% of the current state average unemployment rate (3.9%) will be added to the ww rate/MHI value, using a weighting factor of 10%. For example, if the unemployment rate for community A is 10.5%, that rate would be approximately 4.6 percentage points higher than 150% of the average state unemployment rate, or 5.9%. So, the MHI factor would be increased by $4.6 \times 0.10 = 0.46$,

Population growth rates of about zero to 1.5% per year are viewed by the WPCSRF program as relatively normal based on many years of reviewing municipal wastewater planning documents. Therefore, growth rates above 1.5%/year or negative growth rates may pose exceptional affordability issues. Very high growth rates may put a higher financial burden on existing residents to accommodate the building of large treatment projects relative to the existing population. Decreasing growth rates leave fewer people to shoulder the financial burden of regulatory compliance. For a population growth factor, the WPCSRF proposes a method similar to the unemployment rate methodology, but uses a factor of 10% if the growth rate is either above 1.5%/year or less than -0.25%/year. For example, if the same community A has a growth rate of -0.4%/year, this is 0.15 percentage points less than -0.25%/year. Using a weighting factor of 10%, the MHI factor would be increased by: $0.15 \times 0.10 = 0.015$.

The adjustment factors of 5% and 10% for unemployment rates and population growth factors were determined following a basic sensitivity analysis. It is felt by the WPCSRF program that the most important factor in establishing a level playing field relative to affordability is the user rate per median household income; however, the other two factors, if outside of the 'normal' range of values, can legitimately affect affordability in comparison to a more normal range of these parameters.

To continue the example of community A, assuming the wastewater user rate divided by the MHI is 2.2%, the unemployment factor is 0.23% and the population growth factor is

0.015%, the composite affordability rate would be: $2.2 + 0.46 + 0.015 = 2.675\%$. This will be used to determine the award of principal forgiveness in SFY18.

2. Consideration will be given to the effectiveness of the principal forgiveness in reducing user rates for a particular project. If the infusion of principal forgiveness funds into a project results in a similar reduction of grant funds from another funding agency, with the end result being no or limited decrease in user rates, the WPCSRF program may instead allocate the principal forgiveness to another project where final user rates will, in fact, be reduced.
3. No community will be allowed to receive FFY18 principal forgiveness for more than one project and no project shall be awarded principal forgiveness more than once.
4. In order to spread the funds to more than one project, it is proposed that the principal forgiveness will be capped at \$400,000 or 25% of the loan amount, whichever is less. This cap and percentage may change slightly depending on the projects selected in the final IUP.
5. Projects seeking short-term financing will not be given principal forgiveness; only long-term loans will be eligible for additional subsidy. Principal forgiveness will not be given for refinancing of projects.
6. Projects receiving principal forgiveness will be allowed to receive extended loan terms of up to 30 years provided the loan term does not exceed the useful life of the improvements.

The proposed list of projects that will receive WPCSRF funds in SFY18 is included as Attachment III.

Loan terms and interest rates will be determined in accordance with the Administrative Rules adopted by the DNRC. The WPCSRF program may choose to limit the maximum amount of any loan if the demand for loan funds exceeds the availability of funds. Interest rates must be established to generate sufficient revenues to allow the State to make the principal and interest payments on general obligation bonds sold to generate the State match or meet project demand. Ability to repay the loan will also be considered when establishing loan terms. The types of financial assistance provided by the WPCSRF will initially be based on the applicant's request. It is anticipated that the majority of assistance will be provided in the form of direct loans.

IX. EXTENDED FINANCING

In an effort to provide additional assistance to communities, the WPCSRF program will offer extended finance terms to qualifying projects. The extended loan terms allow communities up to 30 years to repay the loan. Loan terms cannot extend past the useful life of the improvements to be funded; therefore, it is expected that eligible projects will generally be new collection system piping and appurtenances. However, in certain situations, the WPCSRF program may consider extended financing for some treatment facilities if the replacement costs for the shorter-term assets (pumps, blowers, controls, lagoon liners, etc.) are set aside by the

community on an annual basis to ensure continuity of treatment or use throughout the term of the loan. The WPCSRF program reserves the right to limit extended term financing at any time in order to ensure the perpetuity of the fund. An evaluation of the funding baseline for the program will be evaluated annually to ensure the historic annual baseline established to date (\$12,753,710), per EPA, is continually met.

X. PUBLIC COMMENT, AMENDING IUP, STATE FINANCIAL COMMITMENT

Public Review and Comment – One public hearing will be held on Thursday, June 23, 2016 in Helena to discuss the SFY18 PPL and to allow public comment on the draft IUP. Public notice concerning the PPL and IUP will be posted in major newspapers across the state, and the notice and draft IUP will be published on DEQ’s website. There will also be a 30-day public comment period for the public to review and comment on the draft IUP.

Amending the IUP - A simple addition to the PPL and IUP will be allowed after notification has been provided to affected projects (if any) already on the list. If a project scheduled to receive loan assistance within the year is displaced by the addition of a new project, a formal public hearing, if requested, will be held to allow comment on the modifications to the PPL and IUP.

State Financial Commitment - The 1989 Montana Legislature passed House Bill 601, entitled the Wastewater Treatment Revolving Fund Act, which was subsequently signed into law by the Governor. The Act created the new program, established administrative procedures and allowed for a sale of state general obligation bonds in an amount not to exceed ten million dollars. The 1995 Montana Legislature passed House Bill 493, which was subsequently signed into law by the Governor. Among other things, the Act allowed for the sale of state general obligation bonds in an amount not to exceed an additional five million dollars. The 1999 Montana Legislature passed House Bill 110, which gives the WPCSRF an additional fifteen million dollars in general obligation-bonding authority. The 2003 Montana legislature passed House bill 46, which gives the WPCSRF an additional ten million dollars in general obligation-bonding authority. The combined bonding authority provided by these four bills furnishes the WPCSRF with forty million dollars in state general obligation bond authority, which provides enough funds to match all federal appropriations (1989-2006) that have been awarded to the program to date, as well as excess bond authority for potential future federal appropriations. In 2005 with HB142, the Legislative session allowed the bond authority to be up to \$40 million in outstanding bonds. The State held its first bond sale in 1991. In June of 1996, Montana held its second and third bond sales to provide State match funds for projects scheduled to proceed in FFY 1997. In March of 1998, a fourth bond sale was held to provide State match for projects scheduled to proceed in FFY 1998 and 1999. In March of 2000, a fifth bond sale was held to provide State match for projects scheduled to proceed in FFY 2000 and 2001. In June 2001, a sixth bond sale was held to provide match for projects scheduled to proceed in 2002 and 2003. In June of 2003, a sixth bond sale was held to provide match for projects projected to proceed in 2003. In April of 2004, a seventh bond sale was held to provide match for projects projected to proceed in 2004. An eighth bond sale was held in April of 2005, to provide state match for proposed projects to proceed in 2005. The bond authorization includes notes to be issued instead of bonds. Note sales were held in October 2007, for \$500,000, in April 2008, for \$400,000, and in March 2009, for \$2,000,000. A bond sale of \$6,450,000 was held in 2010. In 2013, a bond sale of \$5,000,000 was held. A bond sale of \$24,365,000,000 was held in June 2015. A revenue anticipation note was issued in October 2016.

As discussed previously, the increased demand for funds may force the WPCSRF program to issue periodic revenue anticipation notes (RANs) for the program in order to keep the projects moving through construction with adequate SRF funds. A revenue anticipation note of approximately \$3,000,000 is anticipated in SFY18.

ATTACHMENT I Montana WPCSRF Project Priority List State Fiscal Year 2018

Rank	Name	EPAID	Category	Ranking Points	Amount Assist Type	Commit Date
1	Anaconda_Deer Lodge West Valley PH 2	C302243	IVA	415	\$2,798,000 Loan	4/1/2015
2	Sidney WWTF Phase 1	C303213	I	410	\$1,500,000 Loan	10/1/2015
3	Sidney WWTF Phase 2	C303393	I	410	\$6,900,000 Loan	8/1/2016
4	Cut Bank WWTP	C301270	II	380	\$3,400,000 Loan	7/1/2017
5	Dawson County / W Glendive Sewer Improvements	C304231	IIIB	370	\$3,187,000 Loan	6/1/2016
6	East Clark Street W & S District	C303397	IVA, IVB	365	\$442,000 Loan	5/1/2016
7	Miles City - UV & Solids Handling	C301263	I, IIIA	355	\$6,004,000 Loan	6/1/2016
8	Gallatin Gateway	C303148	I, IVA	350	\$2,300,000 Loan	9/1/2018
9	Fort Benton WWTF Upgrade	C301253	I, IIIB	340	\$4,000,000 Loan	7/1/2018
10	Polson Treatment	C302200	II	335	\$17,000,000 Loan	2/1/2017
11	Lockwood Collection Phase 2	C302238	IVA	335	\$4,100,000 Loan	11/1/2015
12	Big Timber Wastewater Improvements 2017	C301289	I	335	\$3,500,000 Loan	8/1/2017
13	Livingston WRF Upgrade 2016	C303396	I, II, IIIB	335	\$13,000,000 Loan	9/1/2017
14	Belt WWTF Upgrade and LS Improvements	C304221	I, IIIB	320	\$1,500,000 Loan	9/1/2017

Rank	Name	EPAID	Category	Ranking Points	Amount Assist Type	Commit Date
15	Vaughn Treatment & Lift Station	C304227	I, IIIB	315	\$1,200,000 Loan	8/1/2017
16	Harlem WWT	C303207	I, IIIB	315	\$1,760,000 Loan	6/1/2019
17	Greater Woods Bay WW Collection	C302221	IVA	305	\$4,435,000 Loan	6/1/2019
18	Sidney WWTP Phase 3	C303394	I	305	\$7,400,000 Loan	5/1/2017
19	Eureka (Midvale) Collection Phase 2	303395	IV	300	\$1,000,000 Loan	9/1/2018
20	Terry Wastewater Collection System	C304239	IIIA	290	\$650,000 Loan	7/1/2017
21	Colstrip, City of	C301216	I	290	\$270,000 Loan	8/1/2017
22	Red Lodge Lift Station and Force Main Improvements	C302248	IIIB	290	\$1,250,100 Loan	8/1/2017
23	Plentywood Collection-Phase 1	C302233	IIiB	290	\$2,700,000 Loan	9/1/2017
24	Glendive Sargent Benham Collection	C304217	IIIB	280	\$233,000 Loan	5/1/2013
25	Townsend treatment and I/I 2018	C301260	I	275	\$4,500,000 Loan	4/1/2018
26	White Sulphur Springs WWTF	C301272	IIIB	270	\$2,291,000 Loan	10/1/2016
27	DNRC NPS Projects	C307175	VIIA, VIIE	265	\$1,000,000 Loan	9/1/2017
28	Shelby Storm Water Improvements Project 2016	C301283	VI	265	\$6,500,000 Loan	8/1/2017
29	Choteau Collection System Improvements 2017	C304240	IIIA	260	\$500,000 Loan	10/1/2017
30	Fallon County Collection	C302242	IVA, IVB	260	\$1,000,000 Loan	6/1/2019
31	Anaconda-Deer Lodge County WWTP Improvements	C301256	I, II	255	\$4,260,000 Loan	1/1/2018
32	Martinsdale	C303056	I, IVA, IVB	245	\$900,000 Loan	12/1/2020

Rank	Name	EPAID	Category	Ranking Points	Amount Assist Type	Commit Date
33	Fort Smith W&S Dist. WWTP Upgrades	C301218	I	240	\$3,000,000 Loan	6/1/2019
34	Philipsburg WWTP	C302207	II, IIIA	235	\$3,000,000 Loan	7/1/2019
35	Lincoln lift stations	C302247	II	235	\$435,000 Loan	5/1/2018
36	Columbus Collection 2015	C302244	IIIB, II	235	\$1,503,000 Loan	5/1/2016
37	Great Falls Storm Water 2016	C305179	VI	235	\$1,503,000 Loan	7/1/2016
38	LaCasa Grande W&S Dist-New Collection	C302230	IVA	230	\$975,000 Loan	6/1/2017
39	Whitefish WWTP Upgrade 2019	C301288	II	225	\$17,400,000 Loan	4/1/2019
40	Harlowton WWTP Improvements	C301213	I, IIIB	225	\$6,000,000 Loan	6/1/2019
41	Terry Wastewater Treatment Upgrades	C301285	I	215	\$1,200,000 Loan	10/1/2018
42	Glendive Meade Ave Collection	C304216	IIIB	215	\$463,000 Loan	7/1/2016
43	Missoula Co.-Spring Meadow	C303204	IVA	210	\$1,100,000 Loan	8/1/2019
44	Winifred WWTP	C303193	I	205	\$1,000,000 Loan	6/1/2019
45	Bainville Advanced Treatment	C301259	II	205	\$1,000,000 Loan	12/1/2019
46	Shelby WWTF Upgrades & Disinfection	C301280	IIIA	205	\$2,450,000 Loan	5/1/2018
47	Drummond Lagoon Improvements	C304154	I	200	\$1,500,000 Loan	6/1/2019
48	Meadowlark W&S Dist	C302178	IVA, IVB	195	\$250,000 Loan	12/1/2019
49	Jackson Collection	C301271	I	195	\$100,000 Loan	12/1/2019

Rank	Name	EPAID	Category	Ranking Points	Amount Assist Type	Commit Date
50	Manhattan Collection System 2016	C302245	IIIB	185	\$1,300,000 Loan	4/1/2019
51	North Baker-Fallon Co	C302204	IVA, IVB	185	\$910,000 Loan	12/1/2019
52	Hill County RSID 22 Sewer Lift Station	C302249	IIIB	185	\$116,250 Loan	5/1/2019
53	Seeley Lake Sewer	C303187	II, IIIB, IVA	180	\$1,110,000 Loan	6/1/2017
54	Kalispell West Side Interceptor	C303216	IVB	160	\$8,700,000 Loan	5/1/2018
55	Fairfield WWTF Upgrade	C301219	I	160	\$1,730,000 Loan	8/1/2018
56	Buena Vista Community - Missoula County	C303217	IVB	160	\$400,000 Loan	8/1/2019
57	South Wind - Trailer Terrace	C304224	I,IVA	155	\$1,000,000 Loan	7/1/2018
58	Havre Stormwater Improvements	C305177	VI	150	\$1,039,000 Loan	8/1/2016
59	Philipsburg I/I Reduction	C304208	IIIA	150	\$270,200 Loan	12/1/2018
60	Helena, City of - Collection 2018	C302250	IIIB	150	\$2,000,000 Loan	3/1/2018
61	Cascade collection and sludge removal	C302246	II	150	\$418,000 Loan	12/1/2019
62	Helena Westside Collection	C303218	IVA	150	\$2,000,000 Loan	10/1/2017
63	Lolo WWTP	C301215	II, IIIB	130	\$1,500,000 Loan	6/1/2017
64	Helena City of, NPS	C307182	VI	125	\$1,125,000 Loan	6/1/2019
65	Lodge Grass WWTP Phase 1	C301074	I, IIIB	125	\$2,300,000 Loan	7/1/2017
66	Bozeman Stormwater 2018	C305178	VI	125	\$1,700,000 Loan	10/1/2017
67	Simms lagoon improvements	C301284	I	115	\$1,000,000 Loan	12/1/2019
68	RAE WWTP Improvements 2016	C301286	I	115	\$6,000,000 Loan	6/1/2018
69	Polson Stormwater System Improvements	C306119	VIID	115	\$500,000 Loan	10/1/2019
70	Medicine Lake WWTP Improvements	C301257	I	110	\$1,350,000 Loan	3/1/2018
71	Havre I&I Improvements	C304222	IIIA	110	\$1,700,000 Loan	10/1/2019

Rank	Name	EPAID	Category	Ranking Points	Amount Assist Type	Commit Date
72	Saco WWTP	C304205	I, IIIB	105	\$710,000 Loan	8/1/2019
73	Dayton Sewer Dist	C303180	I, IVA, IVB	100	\$500,000 Loan	12/1/2019
74	Agricultural BMPs	C307174	VIIA	95	\$750,000 Loan	12/1/2019
75	Black Eagle Water Dist. Collection	C302185	IIIB	90	\$700,000 Loan	9/1/2019
76	Treasure State Acres Sewer District	C301158	I	85	\$650,000 Loan	8/1/2019
77	Ennis Collection	C304157	IIIA	80	\$200,000 Loan	8/1/2019
78	Fort Benton Collection	C302234	VI	80	\$200,000 Loan	8/1/2019
79	Ennis Storm Sewer	C305174	VIID	75	\$750,000 Loan	8/1/2019
80	Baker, City of	C302186	IVA	60	\$800,000 Loan	12/1/2019
81	Somers New WWTF	C301242	I	50	\$1,100,000 Loan	10/1/2019
82	Lakeside Lift Station Improvements	C301233	IIIB	35	\$1,200,000 Loan	10/1/2019
Total Project Assistance:		\$204,014,550				

PROJECT DESCRIPTION CATEGORIES

I	Secondary Treatment	VIID	NPS Urban Runoff
II	Advanced Treatment	VIIIE	NPS Ground Water
IIIA	Infiltration/Inflow Correction	VIIIF	NPS Marinas
IIIB	Major Sewer System Rehabilitation	VIIIG	NPS Resource Extraction
IVA	New Collectors & Appurtenances	VIIIH	NPS Brownfields
IVB	New Interceptors & Appurtenances	VII-I	NPS Storage Tanks
V	Correction of Combined Sewer Overflows	VIIJ	NPS Sanitary Landfills
VI	Stormwater Control	VIIK	NPS Hydromodification
VIIA	NPS Agric. (Cropland)	VIII	Confined Animals-Point Source
VIIIB	NPS Agric. (Animals)	IX	Mining-Point Source
VIIIC	NPS Silviculture		

ATTACHMENT II

**PROGRAM FUNDING STATUS
MONTANA WPCSRF PROGRAM**

STATE FISCAL YEARS 1990 TO 2017

Capitalization Grants.....	200,244,765
State Match (20% of cap grants).....	\$ 40,048,953
Overmatch: RIT, COI fees, investments, LLS (incl GO bonds in excess of 20% match)NIMS .	\$ 57,664,524
Program Administration Expenses (NIMS).....	\$ <u>(7,047,329)</u>
Available to Loan.....	\$ 290,910,913
Principal Repayments and Interest as of May, 2017 (DNRC).....	\$ 288,384,432
Transfers to DWSRF (principal repayments).....	\$ (7,847,727)
Transfers from DWSRF (direct capitalization grants)	\$ <u>13,000,000</u>
Total Funds Available to Loan through May, 2017	\$ <u>293,536,705</u>

SFY18

Capitalization Grant (FFY17)	\$ 6,474,000
DWSRF Transfer	\$ 10,000,000
State Match for FY18	
- Normal G.O. Bond match.....	\$ 1,305,000
- Additional RAN match	\$ 1,695,000
- Estimated Loan Loss Surcharge (LLS)	\$ 200,000
Program Administration Allowance.....	\$ (400,000)
Anticipated Investment Transfers.....	\$ 1,250,000
Anticipated Principal Repayments and Interest	\$ 25,546,440
Anticipated Overmatch (RIT or other)	\$ 0
Anticipated transfers from special administration Acct.	\$ 200,000
Available to Loan SFY18	\$ <u>46,270,440</u>

Total Funds Dedicated to Loan	\$ 630,718,058
Loans closed as of May, 2017 (DNRC).....	\$(553,249,484)
Funds available for Loans in SFY2018	\$ 77,468,574

Amount of Estimated Loans Identified on Attachment III of
Fiscal Year 2018 Intended Use Plan \$ 53,467,250

ATTACHMENT III

2018 IUP Attachment III
 \$6.474M Cap grant Updated 7/10/2017

Fundable projects for 2017/18 Construction	Total Loan Amount	Potential Green Amt	First Round*** Total FFY17	Principal Forgiveness FFY17	First rnd Loan FFY17	Recycled or BAN SFY18	Unempl Rate %	WW rate/ MHI	Growth Rate %	Rank	Composite Affordability Factor **
Anticipated SFY 2018 Construction Starts											
Vaughn Lagoon upgrade*	2,093,000					1,693,000	3.6	0.0310	0.24		3.1
Dawson County/W. Glendive*	3,187,000					2,787,000	3.8	0.0225	1.48		2.25
Shelby WWTF 2015*	3,300,000					2,900,000	3.5	0.0094	-0.9		1.01
Colstrip WWTP Phase 1*	700,000					593,000	4.7	0.00450	0.36		0.54
Cut Bank WWTP 2015*	3,400,000					3,400,000	8.3	0.0213	0.38		2.58
RAE WWTP Upgrade*	5,200,000					4,800,000	2.8	0.0160	2.5		1.7
DNRC NPS 19	1,000,000	1,000,000				1,000,000	N/A	N/A	N/A		N/A
Lincoln Lift Station	435,000					435,000	3	0.01060	1.08	12	1.06
Highwood lagoon rehab	209,000		209,000	52,500	156,500		3	0.01327	-0.02	8	1.327
Anaconda lagoon rehab	4,260,000		217,350	217,350		4,042,650	3	0.01198	0.04	10	1.198
Townsend lagoon rehab	4,300,000		400,000	400,000		3,900,000	4.5	0.02508	-0.08	1	2.578
Terry I/I	656,000		656,000	164,000	492,000		3.2	0.01798	1.7	2	1.818
Worden-Ballantine Coll	500,000		500,000	125,000	375,000		3	0.01372	1.64	5	1.386
Big Timber lagoon upgrade	3,500,000		3,500,000		3,500,000		2.3	0.01015	2.26	11	1.091
Plentywood Collection	2,700,000		400,000	400,000		2,300,000	2.5	0.01549	0.72	3	1.549
Red Lodge FM	1,258,000		314,500	314,500		943,500	3.3	0.01466	-0.82	4	1.523
Hill County RSID 22	465,000		116,250	116,250		348,750	3.3	0.01354	1.54	6	1.358
Livingston WWTP 2018	14,653,000		400,000	400,000		14,253,000	4.1	0.01301	0.08	7	1.331
Helena Collection 2018	2,000,000					2,000,000	3	0.00530	1.08	13	0.53
Kalispell West Interceptor	10,000,000		400,000			9,600,000	5.4	0.00960	2.37	9	1.207
Total	63,816,000	1,000,000	7,113,100	2,589,600	4,523,500	54,995,900					

Min green required: \$647,400
 Max Principal Forgiveness allowed: \$2,589,600
 Admin = \$400,000
 State match (20% of grant): \$1,294,800
 Total grant with Match \$7,768,800
 Total Grant expenditures 7,513,100

This assumes a maximum 25% subsidy with a cap of \$400,000 for projects with the highest composite affordability factor.
 WW rate / MHI taken from planning documents, possibly in combination with revised budgets, U.S. census data, or DNRC statewide rate study.

Unemployment rates taken from MT Dept of Labor and Industry website - by county. Current unadjusted MT unemployment rate is 3.8%
Growth rate (April, 2010 - July, 2015) from US Census data through MT Dept of Commerce. Some data are by county and others by City (larger communities). Average annual for the 5 year period.

* awarded principal forgiveness in prior year

**See narrative discussion on composite formula derivation.

***"First Round" funds are those directly associated with the EPA capitalization grant.

