

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

**State Fiscal Year 2019**

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**MONTANA**  
**WATER POLLUTION CONTROL STATE REVOLVING FUND**  
**SFY19 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 FFY18 appropriation is available in FFY19). Montana’s WPCSRF federal capitalization grant for federal fiscal year 2018 is \$7,859,000. 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 2018 through June 2019 (SFY19) 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 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 so that more funds are directed 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 \$555 million in loans (this does not include agricultural nonpoint source 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 SFY19 will be 2.50%.
2. Provide interim financing during construction for eligible projects. The interim financing rate for SFY19 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 high demand for WPCSRF funds during the period covered by this IUP, it is not anticipated that WPCSRF funds will be provided for refinancing in SFY19.

4. Guarantee or purchase insurance for local debt obligations. As of May, 2018, 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 \$27.6 million in State General Obligation Bonds. The excess over the required reserve has periodically been transferred to the principal account to make loans. In SFY19 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, 2018, no loans have been made for this purpose.
7. Finance non-point source pollution control (Section 319) implementation projects or programs. As of May, 2018, approximately \$76 million has been loaned for these types of projects. This includes irrigation, landfill and storm water 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 \$8.69 million through April of 2018.
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 SFY19, it is anticipated that no administrative surcharge funds will be transferred to the principal account.

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 2018 – 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 16 and 17 grants are the only open cap grants at this time. Projects drawing funds from these grants are:

- Dawson County
- Big Timber
- Ten Mile/ Pleasant Valley
- Plentywood Collection
- East Clark Street Collection
- Cut Bank Treatment
- Havre Storm water
- White Sulphur Springs Treatment
- Red Lodge Forcemain
- Terry Collection
- Vaughn
- Shelby Storm water

The special administrative fee collected from these combined projects in SFY19 is expected to be approximately \$47,341. The total special administrative fees expected to be collected in SFY19 are approximately \$1.34 million. Therefore, approximately \$1.29 million could be used for Clean Water Act-related purposes other than SRF administration and loans. Of the \$1.34 million to be received in SFY19, 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 \$80,000 of the special administrative fee funds for advanced training for staff, consultants and wastewater treatment operators to help promote operational optimization of wastewater treatment throughout Montana, especially with regard to nutrient and ammonia 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 \$70,000 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. Due to a reduction in federal PPG funding in FFY18, approximately \$23,000 of special administration fees will be used to pay salaries and operating costs of WPCSRF technical staff for technical assistance to Montana communities for operation and maintenance inspections, advanced operations training and support. The total annual cost of the training, the wetland specialist, METC, technical assistance, 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.

The entire state match for the current federal grant has already been deposited into the SRF fund and disbursed on eligible activities. Therefore, all loan cash draws in FY19 will be at a 100% federal proportion, however, administrative draws will be at the conventional 83.33% federal and 16.67% state match. During SFY19, 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 - 2018. 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. It is expected that approximately \$10 million in funds will be transferred from the DWSRF to the WPCSRF during the next 12 months.



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

Year	Transaction Description	Banked Transfer Ceiling	Transferred from WPCSRF to DWSRF	Transferred from DWSRF to WPCSRF	DWSRF Funds Available for Transfer	WPCSRF Funds Available for Transfer
1997	DW Grant Award	4,892,646	---	---	4,892,646	4,892,646
1998	DW Grant Award	7,242,675	---	---	7,242,675	7,242,675
1999	DW Grant Award	9,705,729	---	---	9,705,729	9,705,729
2000	DW Grant Award	12,265,539	---	---	12,265,539	12,265,539
2000	Transfer (2nd Rnd \$)	12,265,539	4,750,328	-0-	17,015,867	7,515,211
2001	DW Grant Award	14,835,942	---	---	19,586,270	10,085,614
2001	Transfer (2nd Rnd \$)	14,835,942	4,032,158	-0-	23,618,428	6,053,456
2002	DW Grant Award	17,493,267	---	---	26,275,753	8,710,781
2004	DW Grant Award	20,134,608	---	---	28,917,094	11,352,122
2004	Transfer (2nd Rnd \$)	20,134,608	-0-	2,559,810	26,357,284	13,911,932
2005	Transfer (2nd Rnd \$)	20,134,608	-0-	2,570,403	23,786,881	16,482,335
2005	Transfer (2nd Rnd \$)	20,134,608	-0-	1,000,000	22,786,881	17,482,335
2005	DW Grant Awards	25,608,821	---	---	28,261,094	22,956,548
2006	Transfer (1st Rnd \$)		-0-	5,000,000	23,261,094	27,956,548
2006	DW Grant Award	28,324,490	-	-	25,976,763	30,672,217
2007	DW Grant Award	31,040,060	-	-	28,692,333	33,387,787
2008	Transfer (2nd Rnd \$)		2,500,000		31,192,333	30,887,787
2008	DW Grant Award	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	36,416,420			31,568,693	41,264,147
2009	DW ARRA Grant Award	42,851,420			38,003,693	47,699,147
2010	DW Grant Award	47,330,510			42,482,783	52,178,237
2011	Transfer (1st Rnd \$)			3,000,000	39,482,783	55,178,237
2011	DW Grant Award	50,438,450			42,590,723	58,286,177
2012	DW Grant Award	53,400,200			45,552,473	61,247,927
2013	DW Grant Award	56,179,130			48,331,403	64,026,857
2014	DW Grant Award	59,097,980			51,250,253	66,945,707
2015	DW Grant Award	61,997,690			54,149,963	69,845,417
2016	DW Grant Award	64,740,650			56,892,923	72,588,377
2017	DW Grant Award	67,460,180			59,612,453	75,307,907
2018	DW Grant Award	71,208,650			63,360,923	79,056,377
2019	Transfer (2nd Rnd \$)			10,000,000	53,360,923	89,056,377
<b>Total</b>			<b>\$11,282,486</b>	<b>\$29,130,213</b>		

## 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 2019.

#### 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 20 new projects in SFY19 (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 SFY19.

## **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 that cost and effectiveness requirements have been met. 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. For project components that may have a shorter life than the loan, replacement costs will be factored into the operating budget.

**Affordability:** Criteria for awarding principal forgiveness, based on affordability, 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:** Under WRRDA, 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. 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. Montana has chosen to use affordability as the criterion for awarding AS.

In FFY2018, Congress provided a requirement for additional subsidy (AS) as part of the appropriation bill that is inconsistent with the WRRDA requirements. The appropriations bill 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%. EPA's interpretation of the conflicting language between WRRDA and the appropriation bill is that 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 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 principal forgiveness in SFY19.**

Although not contained in WRRDA, the FFY2018 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 FFY18 Clean Water SRF federal appropriation is approximately \$1.65 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 17% of its FFY18 cap grant, or \$1,388,400, 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 SFY19. 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 (4.0%) 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 4.5 percentage points higher than 150% of the average state unemployment rate. So, the MHI factor would be increased by  $4.5\% \times 0.10 = 0.45$ ,**

**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 weighting 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 factor 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.**

- 2. Consideration will be given to the effectiveness of the principal forgiveness in reducing user rates for each 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 FFY19 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 \$300,000 or 25% of the long-term SRF 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 and to ensure the program is operated in perpetuity. 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 (more precisely, the purchase of community-issued bonds by the WPCSRF program).

## **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 done 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 was held on Friday, June 15, 2018 in Helena to discuss the SFY19 PPL and to allow public comment on the draft IUP. Public notice concerning the PPL and IUP was posted in major newspapers across the state, and the notice and draft IUP was published on DEQ's website. There was also a 30-day public comment period for the public to review and comment on the draft IUP. That comment period ended July 2<sup>nd</sup>, 2018.

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 (1989-2018) that have been awarded to the program to date, as well as excess bond authority to match 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 bond anticipation notes (RANs) for the program in order to keep the projects moving through construction with adequate SRF funds. A bond anticipation note of approximately \$3,000,000 is anticipated in SFY19.

**ATTACHMENT I**  
**Montana WPCSRF Project Priority List State Fiscal Year 2019**

<b>Rank</b>	<b>Name</b>	<b>EPAID</b>	<b>Category</b>	<b>Ranking Points</b>	<b>Amount Assist Type</b>	<b>Commit Date</b>
1	Sidney WWTP Phase 3	C303394	I	430	\$7,400,000 Loan	7/1/2018
2	Sidney WWTF Phase 2	C303393	I	410	\$6,900,000 Loan	8/1/2016
3	Cut Bank	C301270	II	380	\$3,400,000 Loan	7/1/2017
4	Seeley Lake Sewer	C303187	II, IIIB, IVA	355	\$5,780,000 Loan	11/1/2018
5	Missoula County Fairgrounds Sewer Extension	C302251	IVA	355	\$600,000 Loan	6/1/2018
6	Fort Benton WWTF Upgrade	C301253	I, IIIB	340	\$4,000,000 Loan	7/1/2020
7	Polson Treatment	C302200	II	335	\$17,000,000 Loan	2/1/2017
8	Big Timber Wastewater Improvements 2017	C301289	I	335	\$3,500,000 Loan	8/1/2017
9	Livingston WRF Upgrade 2016	C303396	I, II, IIIB	335	\$13,000,000 Loan	9/1/2017
10	Hill County RSID 22 Sewer Lift Station	C302249	IIIB	320	\$395,250 Loan	7/1/2018
11	Plentywood Collection-Phase 1	C302233	IIIB	320	\$2,700,000 Loan	9/1/2017
12	Belt WWTF Upgrade and LS Improvements	C304221	I, IIIB	320	\$1,500,000 Loan	9/1/2019
13	Vaughn Treatment & Lift Station	C304227	I, IIIB	315	\$2,145,000 Loan	3/1/2018
14	Lincoln Lift Stations	C302247	II	310	\$435,000 Loan	5/1/2018
15	Kalispell West Side Interceptor	C303216	IVB	305	\$8,700,000 Loan	5/1/2018
16	Eureka (Midvale) Collection Phase 2	C303395	IV	300	\$1,000,000 Loan	6/1/2019
17	Manhattan Collection System 2016	C302245	IIIB	300	\$1,300,000 Loan	4/1/2018
18	Worden-Ballentine W&S District Collection 2018	C304241	IIIA	295	\$434,000 Loan	4/1/2018
19	Colstrip, City of	C301216	I	290	\$700,000 Loan	8/1/2017

Rank	Name	EPAID	Category	Ranking Points	Amount Assist Type	Commit Date
20	Red Lodge Lift Station and Force Main Improvements	C302248	IIIB	290	\$1,250,100 Loan	8/1/2017
21	Terry Wastewater Collection System Upgrade	C304239	IIIA	290	\$650,000 Loan	7/1/2017
22	Glendive Sargent Benham Collection	C304217	IIIB	280	\$233,000 Loan	7/1/2021
23	Townsend Treatment and I/I 2018	C301260	I	275	\$4,820,000 Loan	8/1/2018
24	DNRC NPS Projects	C307175	VIIIA, VIIIE	265	\$1,000,000 Loan	7/1/2018
25	Shelby Storm Water Improvements Project 2016	C301283	VI	265	\$6,500,000 Loan	8/1/2017
26	Fort Smith W&S Dist. WWTP Upgrades	C301218	I	265	\$3,000,000 Loan	6/1/2021
27	Choteau Collection System Improvements 2017	C304240	IIIA	260	\$500,000 Loan	10/1/2017
28	Wibaux Spray Irrigation	C301302	I	260	\$15,000,000 Loan	6/1/2020
29	Fallon County Collection	C302242	IVA, IVB	260	\$1,000,000 Loan	6/1/2019
30	Anaconda-Deer Lodge County WWTP Improvements	C301256	I, II	255	\$4,260,000 Loan	1/1/2019
31	Four Corners WWTP	C301301	II	255	\$8,200,000 Loan	3/1/2019
32	Helena Westside Collection	C303218	IVA	245	\$2,500,000 Loan	10/1/2019
33	Columbus Collection 2015	C302244	IIIB, II	325	\$1,503,000 Loan	5/1/2016
34	Philipsburg WWTP	C302207	II, IIIA	235	\$3,000,000 Loan	7/1/2020
35	LaCasa Grande W&S Dist- New Collection	C302230	IVA	230	\$975,000 Loan	6/1/2021
36	Plains WWTP Streambank Stabilization	C301291	I	230	\$1,109,000 Loan	1/1/2020
37	Helena City of, Stormwater 2018	C307182	VI	225	\$1,500,000 Loan	9/1/2018
38	Harlowton WWTP Improvements	C301213	I, IIIB	225	\$6,000,000 Loan	6/1/2021

Rank	Name	EPAID	Category	Ranking Points	Amount Assist Type	Commit Date
39	Whitefish WWTP Upgrade 2019	C301288	II	225	\$17,400,000 Loan	4/1/2019
40	Terry Wastewater Treatment Upgrades	C301285	I	215	\$1,200,000 Loan	10/1/2019
41	Glendive Meade Ave Collection	C304216	IIIB	215	\$463,000 Loan	7/1/2021
42	Missoula Co.-Spring Meadow	C303204	IVA	210	\$1,100,000 Loan	8/1/2021
43	Winifred WWTP	C303193	I	205	\$1,000,000 Loan	6/1/2020
44	Shelby WWTF Upgrades & Disinfection	C301280	IIIA	205	\$2,450,000 Loan	5/1/2018
45	Drummond Lagoon Improvements	C304154	I	200	\$1,500,000 Loan	6/1/2020
46	Hardin WWTF Upgrade	C301304	I	185	\$11,300,236 Loan	3/1/2020
47	Havre I&I Improvements	C304222	IIIA	185	\$1,700,000 Loan	10/1/2019
48	Great Falls Stormwater Improvements 2018	C305180	VI	175	\$3,512,000 Loan	3/1/2018
49	Buena Vista Community-Missoula County	C303217	IVB	160	\$400,000 Loan	8/1/2022
50	Fairfield WWTF Upgrade	C301219	I	160	\$1,730,000 Loan	8/1/2018
51	South Wind-Trailer Terrace	C304224	I, IVA	155	\$1,000,000 Loan	7/1/2020
52	Gardiner W&S District Lagoon Rehab	C301299	I	155	\$2,500,000 Loan	5/1/2020
53	Plentywood Collection System-Phase 2	C302254	IIIB	150	\$5,000,000 Loan	6/1/2020
54	Havre Stormwater Improvements	C305177	VI	150	\$1,039,000 Loan	8/1/2016
55	Bozeman North Interceptor	C302253	IVB	150	\$2,200,000 Loan	9/1/2018
56	Chester WWTF Improvements-CIPP Repairs	C304242	IIIA	150	\$622,000 Loan	8/1/2018
57	Bozeman Davis Lift Station	C302252	IVB	150	\$5,800,000 Loan	7/1/2018
58	Helena, City of-Collection 2018	C302250	IIIB	150	\$2,000,000 Loan	3/1/2020
59	Geraldine-2019 WWTF & Collection Improvements	C301303	IIIA	150	\$1,976,000 Loan	5/1/2020

Rank	Name	EPAID	Category	Ranking Points	Amount Assist Type	Commit Date
60	Cascade Collection and Sludge Removal	C302246	II	150	\$418,000 Loan	12/1/2020
61	Medicine Lake WWTP Improvements	C301257	I	130	\$2,730,600 Loan	1/1/2019
62	Lolo WWTP	C301215	II, IIIB	130	\$1,500,000 Loan	6/1/2017
63	Polson Stormwater System Improvements	C306119	VIID	115	\$500,000 Loan	1/1/2021
64	RAE WWTP Improvements 2019	C301286	I	115	\$1,800,000 Loan	6/1/2019
65	Simms Lagoon Improvements	C301284	I	115	\$1,000,000 Loan	7/1/2020
66	Saco WWTP	C304205	I, IIIB	105	\$710,000 Loan	8/1/2021
67	Black Eagle Water Dist. Collection	C302185	IIIB	100	\$700,000 Loan	9/1/2021
68	Highwood WWTF Improvements	C301298	I	100	\$213,193 Loan	9/1/2020
69	Treasure State Acres Sewer District	C301158	I	85	\$650,000 Loan	8/1/2021
70	Fort Benton Collection	C302234	VI	80	\$200,000 Loan	8/1/2021
71	Somers New WWTF	C301242	I	50	\$1,100,000 Loan	10/1/2021
72	Thompson Falls WW Improvements – Design	C301309	II, IVA, IVB	25	\$1,030,000 Loan	05/01/2019
<b>Total Project Assistance: \$247,783,376</b>						

PROJECT DESCRIPTION CATEGORIES			
I	Secondary Treatment	VIID	NPS Urban Runoff
II	Advanced Treatment	VIII	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 2018**

Capitalization Grants (NIMS).....	\$ 206,718,765
State Match (20% of cap grants).....	\$ 41,343,753
Overmatch: RIT, COI fees, investments, LLS (incl GO bonds in excess of 20% match)NIMS...	\$ 57,509,575
Program Administration Expenses (NIMS line 244).....	\$ <u>(7,391,954)</u>
Available to Loan.....	\$ 298,180,139
Principal Repayments and Interest as of May, 2017 (DNRC).....	\$ 314,387,262
Transfers to DWSRF (principal repayments) (NIMS).....	\$ ( 7,847,727)
Transfers from DWSRF (direct capitalization grants).....	\$ <u>13,000,000</u>
<b>Total Funds Available to Loan through April, 2018.....</b>	<b>\$ <u>617,720,274</u></b>

**SFY19**

Capitalization Grant (FFY17) .....	\$ 7,859,000
DWSRF Transfer.....	\$ 10,000,000
State Match for FY18	
- Normal G.O. Bond match.....	\$ 1,571,800
- Additional RAN match.....	\$ 1,428,200
- Estimated Loan Loss Surcharge (LLS) .....	\$ 200,000
Program Administration Allowance.....	\$ (400,000)
Anticipated Investment Transfers (DNRC).....	\$ 1,250,000
Anticipated Principal Repayments and Interest (DNRC).....	\$ 25,883,532
Anticipated Overmatch (RIT or other).....	\$ 0
Anticipated transfers from special administration Acct .....	\$ 0
<b>Available to Loan SFY19 .....</b>	<b>\$ <u>47,792,532</u></b>

Total Funds Dedicated to Loan .....	\$ 665,512,806
Loans closed as of May, 2018 (DNRC).....	\$(589,602,230)
Funds available for Loans in SFY2019 .....	\$ 75,910,576
Amount of estimated new loans identified on Attachment III of Fiscal Year 2019 Intended Use Plan .....	\$ 63,824,200

# Attachment III

**State Fiscal Year 2019 IUP Attachment III**  
**\$7.859M Cap grant** updated 7/11/18

<b>Fundable projects for 2018/19 construction</b>	Total Loan Amount	Potential Green Reserve	First Rnd Total FFY18	Principal Forgiven FFY18	1st rnd loan FFY18	Recycled or BAN SFY19	Unempl rate %	W/w rate/ MHI (%)	Annual growth rate %	<b>Composite Affordability Factor %**</b>	<b>Rank</b>
<b>SFY 2019 Construction Starts</b>											
Highwood Lagoon Rehab*	209,000			previous award		156,500					
Anaconda Lagoon Rehab*	4,360,000			previous award		3,960,000					
Worden Ballantine*	500,000			previous award		375,000					
Townsend Lagoon Rehab*	4,235,000			previous award		3,835,000					
Shelby w/WTF 2015*	2,900,000			previous award		2,900,000					
RAE w/WTP Upgrade*	1,800,000			previous award		1,200,000					
Kalispell Westside Collection*	14,400,000			previous award		14,000,000					
Helena Stormwater 2018	1,500,000			N/A		1,500,000					
Helena Westside Collection	2,500,000				0	2,500,000	3.1	0.56	1.4	0.56	9
Bozeman Front St. Interceptor	2,200,000			N/A		2,200,000	2.4	1.44	3.1	1.6	
Missoula Co. Fairgrounds Sewer Rehab***	600,000			N/C		600,000	3.1	0.00	0.9	0	
Medicine Lake Lagoon - Interim Financing	1,549,200	1,549,200		N/A		1,549,200		0.00		0	
Lincoln Lift Station Rehab	435,000				108,900	326,100	3.1	0.98	0.8	0.98	7
Four Corners w/WTP	8,200,000				300,000	7,900,000	2.4	1.27	2.5	1.37	5
Bozeman Davis Lane L.S./Forcemain	5,800,000				300,000	5,500,000	2.4	1.44	3.1	1.6	2
Manhattan Collection	612,000				153,000	459,000	2.4	1.52	1.9	1.52	4
DNRC Agricult. NPS	1,000,000	1,000,000		N/A		1,000,000		0.00		0	
Eureka/Midvale Ph2	652,000				163,000	489,000	8.9	2.32	0.5	2.61	1
Sidney Phase 3 Lagoon	4,000,000				300,000	3,700,000	3.5	1.06	2.3	1.14	6
Chester CIPP	622,000				26,000	596,600	2.2	0.97	0.5	0.97	8
Seeley Lake w/WTP and Collection Interim Financing	5,600,000			N/A		5,600,000		0.00		0	
Roberts Forcemain	150,000				37,500	112,500	3.7	1.58	0.79	1.58	3
Arlee lift station	300,000			N/A		300,000		not evaluated for PF due to late submittal			
<b>Total</b>	<b>64,124,200</b>	<b>2,549,200</b>		<b>1,388,400</b>	<b>0</b>	<b>60,758,900</b>					
<b>Projects currently in construction to be funded from FFY18 Grant</b>				<b>Total Balance</b>	<b>Federal Share</b>						
White Sulfur Springs lagoon				450,410	375,327						
Havre Storm Water				509,153	424,277						
Red Lodge Forcemain				239,134	199,270						
East Clark St Collection				37,184	30,985						
Terry Collection				175,011	145,837						
Joliet				4,907	4,089						
Plentywood Collection				2,177,000	1,814,094						
Vaughn				1,685,790	1,404,769						
Big Timber w/WTP				2,073,984	1,728,251						
Eureka Midvale				12,392	10,326						
<b>Total</b>				<b>7,364,965</b>	<b>6,137,225</b>						

Attachment III

<b>FFY18 grant to cover outstanding balances on projects currently under constr.</b>	<b>7,364,965</b>	
Preaward costs to be reimbursed with FFY18 grant		0
Min green project reserve required: \$785,900		
Minimum Principal Forgiveness required \$785,900		
Max Principal Forgiveness allowed: \$2,357,700		
<b>Proposed Principal Forgiveness for SFY 2019</b>	<b>1,388,400</b>	<b>1,388,400</b>
Administration = \$400,000	400,000	333,320
State match (20% of grant): \$1,571,800		
Total grant with Match \$9,430,800		
<b>Total Grant (including match)expenditures</b>	<b>9,153,365</b>	
<b>Total Grant-only expenditures</b>		<b>7,858,945</b>

This assumes a maximum 25% subsidy with a cap of \$300,000 for projects with the highest composite affordability factor.

W/w rate / MHI taken from planning documents, possibly in combination with revised budgets, and census data.

Unemployment rates taken from MT Dept of Labor and Industry website - by county. Current unadjusted MT unemployment rate is 4.0%.

Growth rate (April, 2010 - July, 2017) from US Census data. Joe Ramler, MT Dept. of Commerce. Some data are by county and others by City (larger communities). Average annual for the 7 year period.

\* awarded principal forgiveness in prior years

\*\* See narrative discussion on composite formula derivation.

\*\*\* Missoula County project does not have ww user rates associated with the project. County-wide tax assessments only.