

Local Government Water and Wastewater Infrastructure Funding

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INTRODUCTION

This primer will provide background on local Montana state government’s assistance programs that provide funding for construction, upgrades, and maintenance of major wastewater and drinking water systems.

Wastewater and Drinking Water Funding

In the state of Montana, the provision of water and wastewater facilities can be a financial challenge for local governments. This infrastructure is typically funded through sources including:

Local government funds

- Fee supported debt
- Loans
- Grants

The provision of wastewater and water infrastructure is one of the most significant capital costs faced by local governments. Larger cities benefit from economies of scale or having the ability to spread costs over a larger population. In Montana, approximately 65% of the population reside in low population rural areas, where these costs may be prohibitive without financial assistance.

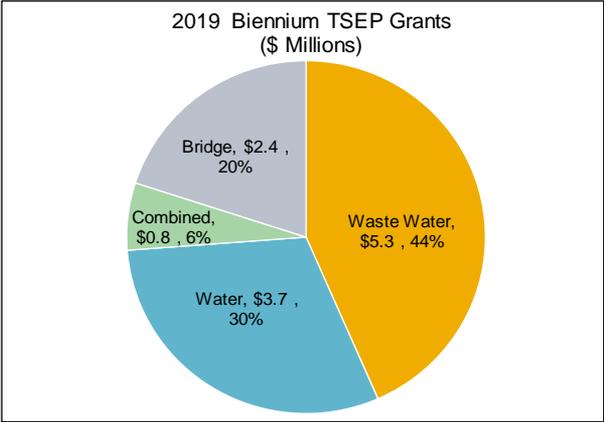
This primer will discuss many of the state grant and loan funding sources available to local governments in the provision of wastewater and drinking water infrastructure funding. While this brochure provides a focus on state funding, the federal government also partners with local and state governments in these costly projects. A good source for wastewater and drinking water project information, both financial (including federal funding partners) and technical, can be found at the Water, Wastewater, and Solid Waste Action Coordinating Team (W2ASACT) website: <http://dnrc.mt.gov/divisions/cardd/wasact>

The state funding sources described in this brochure include:

- | | |
|--|----------------------------|
| * Treasure State Endow. Program (TSEP) | * State Revolving Loan |
| * TSEP Regional Water (TSEPRW) | Funds Programs (SRF) |
| * Renewable Resource Grant Program (RRG) | * Community Develop. Block |
| * Renewable Resource Loan Program (RRL) | Grant Program (CDBG) |
| * Coal Board Grants Program (Coal Board) | * Intercap Loan Program |

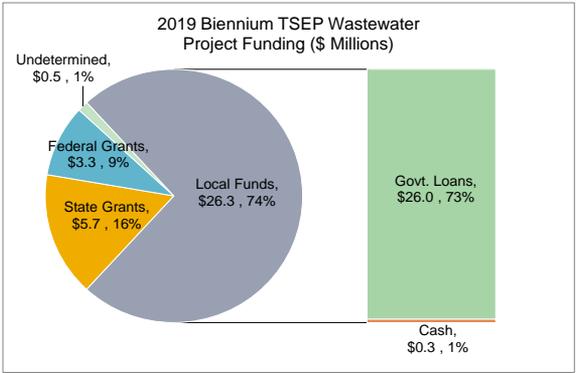
In the next sections, cost and funding data is exemplified through

the 2019 biennium TSEP program, where the total appropriation for projects funding was \$12.1 million, after the funding reductions during the 2017 special session. Wastewater and drinking water infrastructure projects received 80% of the project funding. The breakdown of TSEP project type is demonstrated in the figure below.



Wastewater systems

Montana local governments operate 180 public wastewater systems, and at any point-in-time, as many as 20% of the facilities are under formal enforcement orders. For the 2019 biennium, the legislature authorized TSEP funding for 8 wastewater system projects, after the reductions associated with the 2017 special session. Total costs of these projects are estimated at \$35.7 million. Wastewater projects ranged from the upgrades and equipment replacement of one wastewater system, costing \$16.0 million, to the replacement and rehabilitation of 5,000 linear feet of wastewater piping, costing \$1.2 million. The average cost of the authorized



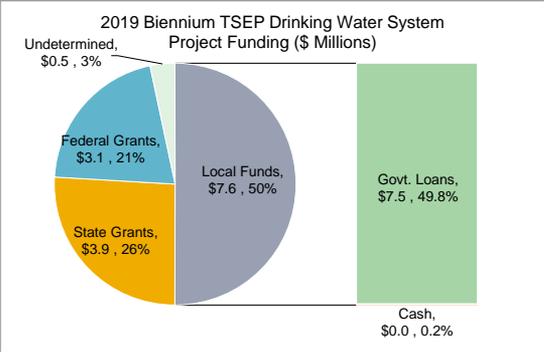
wastewater projects was \$4.5 million. The distribution of funding types is shown in the figure above.

In the 2019 biennium, local governments will contribute \$26.3 million or 74% of the average wastewater project costs. From the local government funding, 99% is in the form of loans. The total funding packages¹ of wastewater projects consists of:

- State grants - two programs
- Federal grants - three programs
- Local government loans - one state programs and one federal program

Drinking Water Systems

Montana local governments operate 700 drinking water systems with over 5,300 miles of transmission pipes. For the 2019 biennium, the legislature authorized TSEP funding for 7 drinking water system projects after the reductions associated with the 2017 special session. Total cost of these projects is estimated at \$15.1 million. Drinking water project costs ranged from \$588,000 to \$4.8 million. The average cost of the authorized projects was \$2.7 million. The distribution of funding types is shown in the figure to the right.



In the 2019 biennium, local governments will contribute \$7.6 million or 50% of the average drinking water project costs. From the local government funds, 100.0% is in the form of loans. The total funding packages of water projects consists of:

- State grants - three programs
- Federal grants - one program
- Local government loans - one state programs and one federal program

¹ Total funding is taken from local government's planning as defined in the initial TSEP application and are subject to change.

STATE GRANTS PROGRAMS

Treasure State Endowment Program (TSEP)

TSEP, administered by the Montana Department of Commerce (DOC), is an infrastructure competitive grant program defined in Title 90, Chapter 6, part 7, MCA. Grant funding for the program is derived from the interest earnings of the TSEP trust, which has a fixed principal balance of \$271.4 million and generates approximately \$10 million of revenues each year. According to statute, the purpose of TSEP is to assist local governments in funding infrastructure projects that will:

- Create jobs for Montana residents
- Promote economic growth in Montana by helping to finance necessary infrastructure
- Encourage local public facility improvements
- Create a partnership between the state and local governments to make necessary public projects affordable
- Support long-term, stable economic growth in Montana
- Protect future generations from undue fiscal burdens caused by financing necessary public works
- Coordinate and improve infrastructure financing by federal, state, local government, and private sources
- Enhance the quality of life and protect the health, safety, and welfare of Montana citizens

TSEP-eligible infrastructure projects include drinking water systems, wastewater treatment facilities, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges (up to 20% of interest earnings). Grants are limited in rule to a maximum of \$750,000 and eligible applicants include:

- * Cities
- * Counties and consolidated city/counties
- * Towns
- * Water, sewer, solid waste districts
- * Tribal Governments
- * Other as defined in 75-6-304, MCA

In addition to funding for infrastructure projects, the TSEP budget includes funding for project planning grants and emergency grants.

TSEP applications are submitted to the DOC biennially and are evaluated according to seven statutory priorities, which are intended to:

1. Solve urgent and serious public health or safety problems or that enable local governments to meet state or federal health or safety standards,
2. Reflect greater need for financial assistance than other projects,
3. Incorporate appropriate, cost-effective technical design and provide thorough, long-term solutions to community public facility needs,
4. Reflect substantial past efforts to ensure sound, effective, long-term planning and management of public facilities and that attempt to resolve the infrastructure problem with local resources,
5. Enable local governments to obtain funds from sources other than TSEP,
6. Provide long-term, full-time job opportunities for Montanans, provide public facilities necessary for the expansion of a business that has a high potential for financial success, or maintain the tax base or encourage expansion of the tax base, and
7. Are high local priorities and have strong community support.

Special Conditions/Considerations

1. Financial need is an important ranking criterion, and the local government's financial need is measured by a "target-rate" analysis which is a calculated percentage of the combined average household cost of wastewater and drinking water to average personal income in an area, and
2. All requests require a 50% match for the overall project budget that may include other grants and loans.

Application Deadline: Spring of even number years.

Appropriation Method: The legislature appropriates the TSEP budget in what is normally HB 11.

TSEP Regional Water (TSEPRW)

The TSEPRW program, administered by the Department of Natural Resources and Conservation (DNRC), is established in 90-6-715, MCA, to provide matching funds for regional drinking water systems that supply drinking water to large geographical

areas and serve multiple local governments. Program funding is derived from the interest earnings of the TSEPRW trust, which has a fixed principal balance of \$94.9 million and generates approximately \$3.4 million of revenues each year.

Regional water projects service wide areas of the state. The large systems are comprised of one treatment facility and many miles of water transmission pipes. The costs of these facilities is typically shared between the federal government, state government, and local governments. The local governments are represented by the “regional water authority” of the area. Funding through TSEPRW is available to all state-approved regional water authorities.

There are two regional water authorities that have been approved by both the state and federal government. With federal authorization, the federal government will assist in the project funding. There are another two authorities that have received state authorization but have not been authorized by the federal government. Federal authorization and the associated promise of financial support is critically important since the Montana projects are estimated to range in cost between \$85 million (Musselshell-Judith) and \$375 million (Rocky Boys / North Central).

The regional water authorities prioritize the construction projects based on numerous criteria, but the top three are:

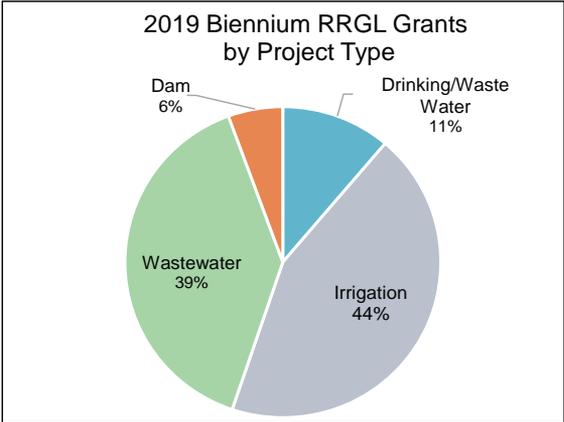
- Need (is there a boil order in the town or an urgent need for the construction)
- Feasibility (can the project move forward this biennium given the Regional Water System infrastructure already in place?)
- Cost & Funding (Is the project affordable based on available funds?) This is dependent on federal and state funds and if the local community is prepared to pay their match

Application Deadline: Ongoing, no deadline.

Appropriation Method: The legislature appropriates the TSEPRW budget in what is normally HB 11.

Renewable Resource Grants and Loans Program (RRGL) – Grants

The RRGL program, is a competitive grant program administered by the Department of Natural Resources and Conservation (DNRC). As established in Title 85, Chapter 1, part 6, MCA, the purpose of the RRGL program is to “enhance Montana’s renewable resources through projects that conserve, develop, manage, or preserve resources.” While infrastructure funding is not the primary purpose of RRGL, the natural resource benefits realized from wastewater and water system improvements can qualify local governments for these grants.



DNRC and a technical review team initially evaluate each application for economic and technical feasibility. Qualifying applications are ranked according to five criteria:

1. Resource and citizen benefit,
2. Technical feasibility,
3. Project management and implementation,
4. Financial feasibility, and
5. Environmental impact.

RRGL-eligible projects include drinking water and wastewater facilities, and other projects that benefit or sustain renewable resources, as shown in the figure on the preceding page. Grants are limited by agency policy to a maximum of \$125,000 and eligible applicants include:

- | | |
|----------------------|---|
| * Cities | * Counties and consolidated city/counties |
| * Towns | * Water, sewer, solid waste districts |
| * Tribal Governments | * State political subdivisions |
| * Universities | * Conservation districts |
| * State agencies | * Irrigation districts |

In addition to funding for infrastructure projects, the RRGL budget includes funding for project planning, emergency, and private grants. Note: RRGL grants are also offered for source-water protection projects. While not directly used in financing wastewater and water infrastructure projects, these grants do protect water resources by reducing sediment and nutrient loads, so treatment facilities will have fewer needs in addressing water contaminants.

Special Conditions/Considerations

Highest ranking consideration is given to projects that protect and conserve natural resources. There is no required match to RRGL grant funds.

Application Deadline: May 15 of even numbered years.

Appropriation Method: The legislature appropriates the RRGL grants budget in what is normally HB 6.

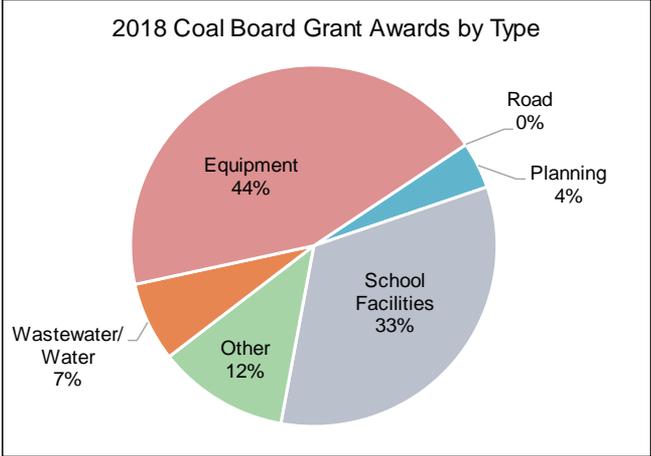
Coal Board Grants

The Coal Board Grants Program, a competitive grant program administratively attached to the DOC, is established in Title 90, Chapter 6, part 2, MCA, **“to address impacts that are a direct consequence of coal development or as a result of major decline in coal-related activities”**. Grants are ranked by the Coal Board according to five criteria that include:

- Planning and management
- Need
- Severity of impact
- Availability of funds
- Degree of local effort

Coal Board grants are available for any type of governmental service, including infrastructure, as a direct consequence of an increase or decrease in the consumption of coal by coal-using

energy complex, as shown in the figure on the below. While local governments are less reliant on coal board grants for wastewater and water infrastructure projects, on occasion eligible local governments will seek funding through this program. There is no ceiling to the grant awards.



Eligible applicants include:

- * Cities
- * Towns
- * Tribal Governments
- * State agencies
- * Counties and consolidated city/counties
- * Water, sewer, solid waste districts
- * Others as defined in 75-6-304, MCA

Application Deadline: Ongoing, no deadline.

Appropriation Method: Grant funds are appropriated biennially in the general appropriations act, HB 2.

Community Development Block Grants Program (CDBG)

While CDBG is a federally funded competitive grant program, it is administered by the DOC and is an important wastewater/drinking water funding program in the state. CDBG funds are available to local governments to assist individuals who are low to moderate income with housing, public infrastructure, community facilities, economic development and planning for community development.

The funding coming through the Public and Community Facilities Program is discussed in this section.

The CDBG program targets grants of up to \$450,000 to low to moderate-income (LMI) Montanans, or those with earnings of less than 80% of the area median income. Communities may receive CDBG grants if at least 51% of the project's beneficiaries are LMI. Eligible applicants include:

- Counties
- Incorporated cities and towns
- Consolidated city-county governments
- Does not include Billings, Great Falls, and Missoula (who directly receive CDBG funds from the U.S. HUD)

Eligible communities may file applications on behalf of water/sewer districts or nonprofit organizations.

Ranking criteria include:

- Community planning assessment
- Project need
- Concept and technical design
- Community efforts
- Financial need
- Benefit to LMI
- Implementation and management

Special Conditions/Considerations

- As in the TSEP program, target-rates are calculated to determine financial need.
- Requires a 25% local match.

Application Deadline: Varies depending on the availability of federal funds through the federal budgeting process.

Appropriation Method: Grant funds are appropriated biennially in the general appropriations act, HB 2.

STATE LOANS PROGRAMS

RRGL-Loans

The RRGL loans program, administered by DNRC, makes loans to communities for renewable resource projects. This program often funds irrigation loans, reflecting the need for repair of aging ditches, diversions, and other irrigation infrastructure, but also provides a safety net for projects unable to obtain RRGL grants. The program also refinances high interest rate local government wastewater and drinking water debt with lower rate loans and at times subsidized loans.

The funding for the RRGL loans program is obtained through coal severance tax (CST) special revenue bonds, which are then repaid through the loan payments and, when subsidized, through CST distributions flowing into the constitutionally restricted trust fund.

Application Deadline: May 15 of even numbered years.

Appropriation Method: The legislature authorizes bonds and provides appropriations in what is normally HB 8.

Special Conditions/Considerations

The RRGL loans program occasionally uses funds deposited in the coal tax trust for the payment of initial bond payments that may be due before the loans payments come due. The program may also subsidize loan payments, using the taxes deposited in the trust for that purpose. As such, the RRGL loans legislation requires a $\frac{3}{4}$ vote of each house of the legislature.

State Revolving Funds, Wastewater and Drinking Water (SRF)

There are two SRF Loan Programs, one for water pollution control projects (wastewater and non-point source projects) and the other for drinking water projects, administered cooperatively by the Department of Environmental Quality (DEQ) and DNRC. Both programs provide at or below market interest rate loans to eligible Montana entities. The programs are funded with capitalization grants from the U.S. Environmental Protection Agency and are

matched at 20% with general obligation (GO) bonds proceeds. Borrowers repay loans and those funds then repay the GO debt as well as supporting the administrative costs. Any excess revolves to provide loans for future infrastructure projects.

DEQ assures that the technical and programmatic requirements of the programs are met. The DNRC issues the GO bonds and makes loans to the project borrowers. Given the limits to available funding, loans are ranked by program criteria and financial capacity for loan repayment.

Application Deadline: Ongoing, no deadline.

Appropriation Method: Loan funds are statutorily appropriated.

Intercap Loan Program

The Intercap Loan program is a variable rate loan program administered by the Board of Investments of the DOC. The program provides loans to local government units, special purpose districts, and water/sewer districts. Loans through this program may be used for wastewater and drinking water systems, as well as other forms of infrastructure and equipment. The loans may also serve as interim financing on major projects when needed. The Intercap program is not competitive, so does not consider ranking criteria. However, the applicant must demonstrate the financial capacity for loan repayment.

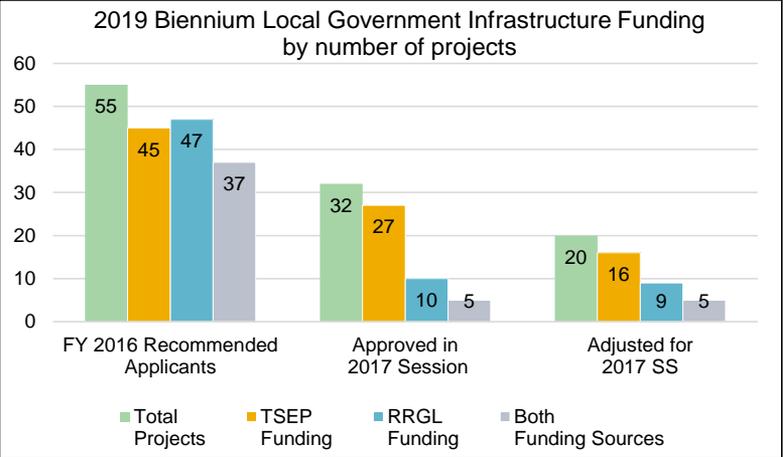
STATE GRANTS DISPARITY AND ASSOCIATED PRESSURES

Local governments seek assistance in financing projects from multiple state and federal funding partners for improvements to wastewater and drinking water systems. This brochure contains information on six grant programs, most of which are competitive in the provision of funds. However, the various program purposes and ranking criteria differ cause disparities in the ultimate receipt of grant funds.

The TSEP program provides funding for wastewater and drinking water projects, and financial need, public health, and safety are critical criterion. Most local governments seeking TSEP grants

also apply for grant funding through the RRGL program, where the critical ranking criteria is natural resource benefit and conservation. With grants prioritized based on the program purpose and ranking criteria, there are times when a grant ranked highly, and accordingly in the funding, in one program is not ranked in the same order of priority as the other.

The following figure demonstrates graphically the impacts for local governments that results from the different ranking criteria. For the 2019 biennium grant funding cycle, a total of 55 projects were recommended for funding through the both the TSEP and RRGL programs and 37 projects, or 67%, were recommended by both agencies for grant funding.



The legislature appropriated funding that would cover the costs of 32 projects, or 58% of the recommended projects based on the funding availability. Of the authorized funded projects, only 5, or 16%, would receive funding from both sources.

During the 2017 special legislative session, the legislature transferred funds from both programs to the general fund, having the effect of reducing the number of projects funded. The projected funding would provide for 20 infrastructure projects. Under this scenario, 5 projects, or 25%, would receive funding from both programs.

Any of these scenarios creates gaps in the project funding packages that must be filled from another source, usually an increase in borrowed funds. At times the local government will postpone the project and reapply in a future funding cycle. The disparity also creates pressure for the legislature to fund all grant requests in the TSEP and RRGL programs, and there are pros and cons for taking this action.

The pros for funding all the projects include:

- Elimination of the winner/loser scenario
- Improving the wastewater and drinking water systems statewide
- Bringing engineering and construction jobs to the Montana economy

The cons to funding all the projects include:

- Funding projects that for valid reasons did not rank well and may have issues related to the project design and plan
- Tapping supplemental sources of funding for projects, most usually the general fund

MORE INFORMATION

More information on agencies that provide assistance for local government water and wastewater infrastructure projects may be found at the indicated internet sites.

Department of Natural Resources and Conservation:

State Revolving Loan Programs, TSEP Regional Water, and others: <http://dnrc.mt.gov/grants-and-loans>

And: <http://dnrc.mt.gov/divisions/cardd/financial-bureau>

Department of Commerce:

TSEP, CDBG, and Coal Board: <http://comdev.mt.gov/>