

CAPITAL PLANNING ADVISORY BOARD

2022-2028 Agency Capital Plan

Staff Analysis and Comments

Branch: Executive Branch
Cabinet/Function: Cabinet of the General Government
Agency/Institution: Kentucky Infrastructure Authority

OVERVIEW

The Kentucky Infrastructure Authority was given four responsibilities by the General Assembly. The Authority was mandated to implement a program for providing assistance for the provision of water services; manage, operate and update the water resources information system (WRIS); gather information from state and local governments regarding the issue of water resource development and management; and promulgate regulations that require a water supply and distribution system receiving or seeking funding to provide data relating to the financial, managerial, and technical aspects of its system.

The WRIS is a proactive data model that provides much of the information needed for water resource planning. It contains a geographic information system comprised of water resource maps, utility data, project profiles and asset management features. As of January 2021, the data indicates that 96% of the population has access to public drinking water and 61% has access to wastewater treatment. The average age for drinking water treatment plants and water storage tanks is about 36 years. There are over 64,130 miles of water lines mapped with 24% over 50 years old. The average age of wastewater treatment plants is about 35 years and 40% of sewer lines being over 50 years old.

KIA administers three programs: State Revolving Funds-The Federally Assisted Wastewater (Fund A) and Drinking Water Funds (Fund F) are funded by capitalization grants from the US EPA as authorized by the Clean Water Act and the Safe Drinking Water Act. Both funds provide assistance for projects with below-market interest rate loans and repayments are not to exceed 30 years. The grants require a 20% state match which is funded by appropriations of the Commonwealth; Infrastructure Revolving Loan Program (Fund B) - provides loans to governmental entities for infrastructure projects at or below market interest rates with repayments not to exceed 30 years; and Governmental Agencies Program (Fund C) - provides governmental agencies access to funding through the municipal bond market at better terms than may be obtained on an individual basis. Loans are available for any infrastructure project with repayments not to exceed 20 years. (Additional information about each program is attached.)

Broadband Deployment Fund

The Broadband Deployment Fund was established in House Bill 362, 2020 Regular Session of the Kentucky General Assembly. The purpose of the fund is to provide grants to governmental agencies and private entities to construct infrastructure for the deployment of broadband services to underserved and unserved areas of the state. The fund received federal appropriations totaling \$300 million during the 2021 Regular Session of the General Assembly (House Bills 320 and 382). The federal funding is derived from the State Fiscal Recovery Fund of the American Rescue Plan Act of 2021. Awards are limited to \$50 million before April 1, 2022, and a 50% match is required. The first \$50 million will be targeted to unserved areas of the state. KIA will administer the program, and is currently in the process of developing funding criteria and prioritization schedules for broadband deployment projects.

Cleaner Water Program Grant

Senate Bill 36 passed during the 2021 Session appropriated \$250 million in federal funds in fiscal year 2021-2022 from the American Rescue Plan Act of 2021 Coronavirus State Fiscal Recovery Fund for the Cleaner Water Program Grant.

Commented [WSR(1): Added the Cleaner Water Program Grant

In fiscal year 2022, KIA will allocate \$150 million to utilities within each county based on the county's population. Jefferson County's population will be discounted by 50% due to its high per capita allocation from the Coronavirus Local Fiscal Recovery Fund. \$50 million will be awarded to utilities with projects that provide drinking water service to unserved rural customers or to utilities to address federal consent decrees. \$49,925,000 will be awarded to supplement a project grant for a project whose cost exceeds a county's allocation amount. The remaining \$75,000 will be available to KIA for administering the grant program. KIA is establishing approval criteria to ensure that project approvals are based on rational criteria and include a project's readiness to proceed as well as the project's social, economic, and environmental benefits. Both ordinary and emergency administrative regulations were approved by the KIA Board on May 27, 2021 and filed with LRC on June 1, 2021. The call for projects has been open as of June 1, 2021.

PROPOSED PROJECTS – Financial Summary

By Fund Source	<u>2022-2024</u>	<u>2024-2026</u>	<u>2026-2028</u>	<u>Total</u>
General Funds	\$41,494,000	\$41,494,000	\$41,494,000	\$124,482,000
Federal Funds	78,134,000	78,134,000	78,134,000	234,402,000
Agency Bonds	<u>60,000,000</u>	<u>60,000,000</u>	<u>60,000,000</u>	<u>180,000,000</u>
Total	\$179,628,000	\$179,628,000	\$179,628,000	\$538,884,000

KENTUCKY INFRASTRUCTURE AUTHORITY
Proposed Projects Involving the General Fund (Cash or Bonds)
(amounts in **bold** are the total budget)

2022-2024

(Projects listed by agency priority; descriptions are from the agency submission)

1 Assistance for Small and Disadvantaged Communities **\$2,540,000**

The grant program is designed to help public water systems in underserved communities meet and comply with Safe Drinking Water Act requirements. The federal funds are provided by the United States Environmental Protection Agency (EPA). Projects eligible for assistance include those to return a public water system to compliance; efforts that benefit disadvantaged communities on a per household basis; programs to provide household water quality testing, including testing for unregulated contaminants; and activities necessary for a state to respond to a contaminant. The Authority will develop a list of projects that meet the requirements of the grant program to receive funding. (GL)

CPAB Staff Notes

- NEW project – has not been listed in a previous capital plan.
- This grant program is proposed for each biennium in the same amount.
- The project scope is comprised of \$1,396,000 federal funds \$1,144,000.

2 KIA Fund A - Federally Assisted Wastewater Program **\$78,540,000**

This program finances local wastewater treatment and collection facilities that qualify under EPA requirements. Funds are provided by the EPA through capitalization grants of 83.33 percent of the total project. The state matches these funds with a 16.67 percent match of the total project through the issuance of general fund-supported debt. Up to four percent of the capitalization grants may be reserved for the program's administrative costs. The funding sources for this project include GF (cash or bonds) – \$8,090,000; FF – \$40,450,000; and AB – \$30,000,000. (GL)

CPAB Staff Notes

- Funding in the current budget is \$49,028,000 (FF – \$40,856,000 and BF –\$8,172,000). All federal funds and state match funds have been committed. Approximately 51% (36) of the 71 projects on the 2021 priority list were invited to apply for funding of which approximately 64% (23) accepted.
- Plan proposes the same GF, FF, and AB amounts in 2024-2026 and 2026-2028.

3 KIA Fund B - Infrastructure Revolving Fund **\$25,000,000**

This fund provides financial assistance to governmental agencies and in some instances investor-owned water systems for the construction or acquisition of infrastructure projects. The program addresses three areas of need: water loss, failing privately owned package treatment plants, and cost and restrictions of federal programs. Providing additional capital to this state-funded program will permit the Commonwealth to increase the available funding to small and disadvantaged communities for economic development inspired projects. (GL)

CPAB Staff Notes

- Plan proposes the same amounts in 2024-2026 and 2026-2028.

4 KIA Fund F - Drinking Water Revolving Loan Program **\$73,548,000**

This program finances local drinking water facilities that qualify under EPA requirements. Funds are provided by the EPA through capitalization grants of 83.33 percent of the total project. The state matches these funds with 16.67 percent match of the total project through the issuance of general fund-supported debt. Up to thirty-one percent of the capitalization grants may be reserved for program administration costs and to help fund state programs and activities to ensure safe drinking water. The funding sources for this project include FF – \$36,606,000 and AB – \$30,000,000. (GL)

CPAB Staff Notes

- Funding in the 2020-22 budget is \$44,828,000 (FF – \$36,606,000 and BF – \$8,222,000). All 2021 federal funds and state match funds have been committed. Approximately 72% (56) of the 78 projects on the 2021 priority list were invited to apply for funding of which approximately 61% (34) accepted.
- Plan proposes the same GF, FF, and AB amounts in 2024-2026 and 2026-2028.

KENTUCKY INFRASTRUCTURE AUTHORITY
Proposed Projects Involving the General Fund (Cash or Bonds) – cont'd

2024-2026

Assistance for Small and Disadvantaged Communities	\$2,540,000
KIA Fund A - Federally Assisted Wastewater Program	78,540,000
KIA Fund B - Infrastructure Revolving Fund	25,000,000
KIA Fund F - Drinking Water Revolving Loan Program	73,548,000

2026-2028

Assistance for Small and Disadvantaged Communities	\$2,540,000
KIA Fund A - Federally Assisted Wastewater Program	78,540,000
KIA Fund B - Infrastructure Revolving Fund	25,000,000
KIA Fund F - Drinking Water Revolving Loan Program	73,548,000

**FEDERALLY ASSISTED
WASTEWATER REVOLVING LOAN PROGRAM (FUND A)**

The Federally Assisted Wastewater Revolving Loan Program (Fund A) is authorized by KRS 224A.111.

The funds are used to finance local wastewater treatment and collection facilities that comply with the federal Clean Water Act. Projects must be ranked on the project priority list in the intended use plan for the Clean Water State Revolving Fund loan program. An approved facilities plan, when applicable, must include the project for which funding is requested. Awards are based on the project ranking on the clean water project priority list, with some adjustment to meet federal requirements.

Standard and nonstandard interest rates are set by the KIA board at least annually. Currently, the standard rate is 2%, the nonstandard rate is 1%, and the nonstandard hardship rate is 0.25%. The following criteria are used in establishing a nonstandard rate: 1) Whether the median household income of the applicant's jurisdiction or service area, as published by the Kentucky State Data Center, is below the state median; 2) Whether the median household income of the service area as identified by income surveys is below the state median; 3) Regionalization as set out in Section 1(16) of 200 KAR 17.050 and verified by the authority; 4) The existence of an order or judgment addressing environmental noncompliance; or 5) Other criteria relating to public health or safety, environmental concerns, or financial considerations that the authority may determine. Repayment must be within 20 years of project completion; however 30-year terms are available.

Funding History

Funding is 83% federal (US Environmental Protection Agency) with a 17% state match that is historically provided through the issuance of bonds. Bond funds for the state match are appropriated in the capital budget, while the federal funds are appropriated in the operating budget to comply with the Federal Cash Management Act.

INFRASTRUCTURE REVOLVING LOAN PROGRAM (FUND B)

The Infrastructure Revolving Loan Program (Fund B) is authorized by KRS 224A.112.

Funds are focused on water and wastewater projects, but other types of infrastructure projects may also be financed. Projects must be submitted by a governmental agency and determined to be financially feasible by KIA staff. Awards are made on a first come, first served basis.

Standard and nonstandard interest rates are set by the KIA board at least annually. Currently, the standard rate is 2%, the nonstandard rate is 1%, and the nonstandard hardship rate is 0.25%. The following criteria are used in establishing a nonstandard rate: 1) Whether the median household income of the applicant's jurisdiction or service area, as published by the Kentucky State Data Center, is below the state median; 2) Whether the median household income of the service area as identified by income surveys is below the state median; 3) Regionalization as set out in Section 1(16) of 200 KAR 17.050 and verified by the authority; 4) The existence of an order or judgment addressing environmental noncompliance; or 5) Other criteria relating to public health or safety, environmental concerns, or financial considerations that the authority may determine. Repayment usually must be within 20 years of project completion; however 30-year terms are available.

Funding History

Fund B was created as a revolving loan fund in 1988 and was originally capitalized with GF supported appropriations in 1989-90, 1991-92, and 1993-94 totaling \$45.5 million. KIA has made loan commitments of over \$160 million since the program's inception and annual repayments from existing loans total approximately \$5 million per year.

**FEDERALLY ASSISTED
DRINKING WATER REVOLVING LOAN PROGRAM (FUND F)**

The Federally-Assisted Drinking Water Revolving Loan Program (Fund F) is authorized by KRS 224A.1115.

Governmental agencies – other than federal agencies – are eligible to receive funding for facilities necessary to achieve or maintain compliance with the Safe Drinking Water Act or to protect public health. The borrower must demonstrate financial, managerial, and technical capacity, and the project must be included on the project priority list in the intended use plan for the Drinking Water State Revolving Fund loan program. Awards are based on the project ranking on the drinking water project priority list, with some adjustment to meet federal requirements. KIA policy sets a \$4 million maximum annual award from each funding source to a governmental agency for this program.

Standard and nonstandard interest rates are set by the KIA board at least annually. The standard rate is 2%, the nonstandard rate is 1%, and the nonstandard hardship rate is 0.25%. The following criteria are used in establishing a nonstandard rate: 1) Whether the median household income of the applicant's jurisdiction or service area, as published by the Kentucky State Data Center, is below the state median; 2) Whether the median household income of the service area as identified by income surveys is below the state median; 3) Regionalization as set out in Section 1(16) of 200 KAR 17.070 and verified by the authority; 4) The existence of an order or judgment addressing environmental noncompliance; or 5) Other criteria relating to public health or safety, environmental concerns, or financial considerations that the authority may determine. Repayment usually must be within 20 years of project completion. However, 30-year terms may be available for disadvantaged communities.

Funding History

Funding is 83% federal with a 17% state match that is historically provided through the issuance of bonds. Bond funds for the state match are appropriated in the capital budget, while the federal funds are appropriated in the operating budget to comply with the Federal Cash Management Act.