

CAPITAL PLANNING ADVISORY BOARD

**2024-2030
Agency Capital Plan**

Staff Analysis and Comments

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

AGENCY MISSION AND PROGRAMS

KIA was given four responsibilities by the General Assembly (KRS 224A.300), which found it necessary to encourage regionalization, consolidation & partnerships with the goal of making potable water & wastewater treatment available to all Kentuckians. KIA was mandated to Implement a program for providing assistance for the provision of water services; Manage, operate & update the WRIS; Gather information from state & local governments regarding the issue of water resource development & management; and Promulgate regulations that require a water supply & distribution system receiving or seeking funding to provide data relating to the financial, managerial, & 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 & asset management features. As of Jan. 2023, the data indicates that 94% of the population has access to public drinking water & 61% have access to wastewater treatment. The average age for drinking water treatment plants & water storage tanks is about 38 yrs. There are over 64,264 miles of water lines mapped with 26% over 50 yrs old. The average age of wastewater treatment plants is about 37 yrs & 40% of sewer lines being over 50 yrs old.

Loan programs: State Revolving Funds: The Federally Assisted Wastewater (Fund A) & Drinking Water Funds (Fund F) are funded by capitalization grants from the U.S. EPA as authorized by the Clean Water Act & the Safe Drinking Water Act, with additional funding provided by the Bi-Partisan Infrastructure Law. Both funds provide project assistance with below-market interest rate loans, with repayments not to exceed 30 yrs. The Base & Supplemental Base portion of the EPA grants require a 20% state match, which is funded by appropriations of the Commonwealth. The Emerging Contaminants & Lead Service Line Replacement funds provided by the Bi-Partisan Infrastructure Law do not require state match funding; Infrastructure Revolving Loan Program (Fund B) provides loans to governmental entities for infrastructure projects (defined KRS 224A.011) at or below market interest rates with repayments not to exceed 30 yrs; 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, with repayment terms not to exceed 30 yrs.

Proposed Funding – Funding Summary

Funding by Source	<u>2024-2026</u>	<u>2026-2028</u>	<u>2028-2030</u>	<u>Total</u>
General Fund	\$60,984,000	\$71,244,000	\$48,512,000	\$180,740,000
Federal Funds	237,315,000	262,526,000	67,550,000	567,391,000
Agency Bonds	60,000,000	60,000,000	60,000,000	180,000,000
FB Total	358,299,000	393,770,000	176,062,000	928,131,000

KENTUCKY INFRASTRUCTURE AUTHORITY
Proposed Projects Involving the General Fund (Cash or Bonds)

(Amounts in **bold** are the total budget)

2024-2026

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

1. 2024-2026 1 KIA Fund A - Federally Assisted Wastewater Program **\$132,270,000**

The Fund A (Federally Assisted Wastewater Revolving Fund Program) finances local wastewater treatment and collection facilities that qualify under U.S. Environmental Protection Agency requirements. Funds are provided by the United States Environmental Protection Agency 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 issuance of General Fund-supported debt. Up to four percent of the capitalization grants may be reserved for the program's administrative costs. (GL)

CPAB Staff Notes

-Funding in the current budget is \$50,590,000 (FF – \$44,261,000 and BF –\$6,329,000). Bond funds will provide the state match.

-Please note the significant increase over the 2022-2024 budgeted amount. Increases are due to five new capitalization grants that KIA received from US EPA through the IIJA (Infrastructure Investment and Jobs Act – also called BIL or Bipartisan Infrastructure Law). The new categories are: DWSRF Supplemental, DWSRF Emerging Contaminants, DWSRF Lead Service Line Replacement, CWSRF Supplemental, and CWSRF Emerging Contaminants.

2. KIA Fund F - Drinking Water Revolving Loan Program **\$191,029,000**

The Fund F (Federally Assisted Drinking Water Revolving Loan Fund Program) finances local drinking water facilities that qualify under U.S. Environmental Protection Agency requirements. Funds are provided by the United States Environmental Protection Agency 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 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. (GL)

CPAB Staff Notes

-Funding in the current budget is \$113,316,000 (FF – \$106,732,000 and BF –\$6,584,000). Bond funds will provide the state match.

-As above, the significant increase over the 2022-2024 budgeted amount. Increases are due to five new capitalization grants that KIA received from US EPA through the IIJA (Infrastructure Investment and Jobs Act – also called BIL or Bipartisan Infrastructure Law). The new categories are: DWSRF Supplemental, DWSRF Emerging Contaminants, DWSRF Lead Service Line Replacement, CWSRF Supplemental, and CWSRF Emerging Contaminants.

3. KIA Fund B - Regionalization Account **\$10,000,000**

Pursuant to the amendments to KRS 224A and KRS 151 from SB 263 of the 2023 Regular Session, the new Water and Wastewater Service Regionalization Account was established within the Infrastructure Revolving Fund. The fund will provide financial assistance for utilities to enhance the effectiveness, reliability, and resilience of the state's water and wastewater systems, and where inefficiencies exist, to eliminate structural and administrative duplication of infrastructure and service delivery systems, by using a variety of tools, including but not limited to regionalization, merger, and consolidation. (GL)

CPAB Staff Notes

-New Project – has not been listed in previous capital plan.

-This new account is a result of RS 2023 SB 263.

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

KRS 224A.112 created the infrastructure revolving fund to be dedicated to providing financial assistance to governmental agencies & investor-owned water systems for the construction or acquisition of infrastructure projects. Entities submit applications; staff reviews data & makes a recommendation to the KIA Board. Loans are 20-30 years depending on project eligibility & life span. Interest rates are set at least annually. The program addresses the following areas of need:

- Water Loss – Per KRS 224.112 & in accordance with KRS 224A.308, the Authority is to establish a program to assist governmental agencies in detecting water loss from distribution lines. The program can provide funding in the forms of loans or grants.
- Failing Privately Owned Package Treatment Plants - the program has been used to assist governmental agencies in eliminating failing privately-owned package treatment plants through consolidation into publicly-owned utilities.
- Asset Management Plans – program funds may now be used to assist governmental agencies in developing & maintaining asset management plans.
- Reliability & Security – the program may now be used to assist governmental agencies to provide reliable infrastructure & secure & safe water & wastewater systems.
- Regionalization – the program continues to assist governmental agencies where inefficiencies exist, to eliminate structural & administrative duplication of infrastructure & service delivery systems, by using a variety of tools, including but not limited to regionalization, merger, and consolidation.
- Cost & Restrictions of Federal Programs - Federal requirements carry additional administrative burdens, the cost of which often puts the federally assisted loan programs out of reach of small or disadvantaged communities. Providing additional capital to this state funded program will permit the Commonwealth to increase the available funding to small & disadvantaged communities & for economic development inspired projects. (GL)

CPAB Staff Notes

- *Plan proposed the same amounts in 2026-2028 and 2028-2030.*
- *Bonds will be issued for this program through General Fund.*

2026-2028

KIA Fund A - Federally Assisted Wastewater Program	\$147,848,000
KIA Fund B - Infrastructure Revolving Fund	25,000,000
KIA Fund B - Regionalization Account	10,000,000
KIA Fund F - Drinking Water Revolving Loan Program	210,922,000

2028-2030

KIA Fund A - Federally Assisted Wastewater Program	\$78,764,000
KIA Fund B - Infrastructure Revolving Fund	25,000,000
KIA Fund B - Regionalization Account	10,000,000
KIA Fund F - Drinking Water Revolving Loan Program	62,298,000

KENTUCKY INFRASTRUCTURE AUTHORITY
Proposed Projects Involving Agency Bonds
(Amounts in **bold** are the total budget)

2024-2026 1 KIA Fund A - Federally Assisted Wastewater Program **\$132,270,000**

The Fund A (Federally Assisted Wastewater Revolving Fund Program) finances local wastewater treatment and collection facilities that qualify under U.S. Environmental Protection Agency requirements. Funds are provided by the United States Environmental Protection Agency 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 issuance of General Fund-supported debt. Up to four percent of the capitalization grants may be reserved for the program's administrative costs. (GL)

KIA Fund F - Drinking Water Revolving Loan Program **\$191,029,000**

The Fund F (Federally Assisted Drinking Water Revolving Loan Fund Program) finances local drinking water facilities that qualify under U.S. Environmental Protection Agency requirements. Funds are provided by the United States Environmental Protection Agency 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 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. (GL)

2026-2028

KIA Fund A - Federally Assisted Wastewater Program	\$147,848,000
KIA Fund F - Drinking Water Revolving Loan Program	210,922,000

2028-2030

KIA Fund A - Federally Assisted Wastewater Program	\$78,764,000
KIA Fund F - Drinking Water Revolving Loan Program	62,298,000

**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.

FUND B - REGIONALIZATION ACCOUNT

In accordance with KRS 224A.310, as amended, the authority shall establish an incentive program that allocates funds from the Water and Wastewater Service Regionalization Account that encourages the regionalization, merger, and consolidation of water and wastewater systems and elimination of structural and administrative duplication. The established incentives may be used by government owned and private systems.

The incentive program shall target water and wastewater systems that have high debt, inadequate operational and maintenance resources, high maintenance costs, old and inadequately maintained treatment works, a history of violations of the Division of Water's statutes and administrative regulations due to inadequate operational and maintenance resources, or insufficient financial resources to extend system service to unserved or underserved areas.

In developing the incentives to encourage governmental agencies to merge, regionalize, consolidate, and partner with target systems and develop or maintain an asset management plan, the authority shall give priority to those projects which have been identified in a water management planning council plan prioritized under KRS 151.607 and meet the funding priorities established by the authority.

Funding History

The Water and Wastewater Service Regionalization Account is a new authorization, so a funding history has yet to be established. Future program budgets will be evaluated based on program participation.

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.

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.