



# INDUSTRIAL COMMISSION OF NORTH DAKOTA

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Water-Related Topics Overview Committee  
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For the record, my name is Karlene Fine with the North Dakota Industrial Commission. I am appearing today at the request of Representative Hofstad who asked for information about a revolving loan concept for financing water projects. The Industrial Commission has taken no position on methods for financing water projects. I am here to only provide information.

## Current State of North Dakota Administered Loan Programs for Water-Related Projects

**The State Revolving Loan Fund has two programs – the Clean Water State Revolving Fund and the Drinking Water State Revolving Loan Fund.** This is a **federal program** and these monies are received by the State through a capitalization grant from the Environmental Protection Agency. These loans are made at a rate of 2.5% and are generally amortized over a 20 year time period. State Health Department, Public Finance Authority and Industrial Commission approvals are required to receive funding.

The ***Clean Water State Revolving Fund*** (CWSRF) eligible and non-eligible activities are as follows:

Below are the projects that are eligible for CWSRF Loans:

1. Wastewater treatment, Secondary & Advanced
2. Infiltration/Inflow correction
3. Sewer rehabilitation
4. Interceptor Sewers and Lift Stations
5. Combined Sewer Overflow abatement
6. Storm Sewer Control
7. Recycling/Reuse of wastewater
8. Nonpoint source activities

Below are projects, or project components that are not eligible for CWSRF loans:

1. Sanitary or Storm sewer systems for new development or subdivisions.
2. Land, easements, and associated legal fees for projects.
3. Operation and maintenance costs.
4. Projects that lack adequate technical, managerial and financial capability.

Projects primarily to serve future growth are also not eligible, but the Health Department is interpreting that to mean projects that are primarily aimed at fostering or promoting future growth in a particular area. The Health Department does allow capacity for reasonable future population growth estimates to be designed into CWSRF projects.

The ***Drinking Water State Revolving Fund*** (DWSRF) eligible and non-eligible activities are as follows:

In general, projects that address present or prevent future violations of health-based drinking water standards are eligible for assistance. These include projects needed to maintain compliance with existing national primary drinking water regulations for contaminants with acute and chronic health effects. Projects to replace aging infrastructure are eligible for assistance if they are needed to maintain compliance or further public health protection objectives.

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Eligible DWSRF costs/projects;

- Address Safe Drinking Water Act exceedances
- Prevent future Safe Drinking Water Act exceedances
- Replace aging infrastructure
- Buy/finance existing debt obligations (refinance) projects started after July 1993 (as long as the project would otherwise be eligible under SRF and all federal cross-cutter requirements were met)
- Restructure and consolidate water supplies
- Purchase a portion of another system's capacity
- Land acquisition if integral to a project
- New systems (if it creates a new community water system to address existing public health problems with serious risks caused by unsafe drinking water)

Ineligible DWSRF costs/projects;

- Projects primarily intended to serve future growth
- Dams/rehabilitation of dams
- Water rights
- Reservoirs (except finish water reservoirs and those that are part of a treatment process)
- Projects needed mainly for fire protection
- Operation and maintenance costs
- Systems in significant noncompliance with the Safe Drinking Water Act (unless project brings system back into compliance)
- Drinking water monitoring costs
- Projects that lack adequate technical, managerial and financial capability (unless project brings system back into compliance)

The two areas of community systems that the Health Department hasn't been able to fund in the past are those projects that are strictly industrial (although the Department will fund the drinking water portion of these projects) and new subdivisions/developments.

- Wastewater plants
- Drinking water etc.

**Community Water Facility Revolving Loan Fund administered by the Bank of North Dakota.** The fund was established by the Legislature to provide financing for community water projects when the project is above the maximum loan limits set by USDA Rural Development (RD). It is also the intent of this program to provide supplemental financing for federal loan programs associated with community water projects. Loans from this fund are made in accordance with N.D.C.C. Chapter 6-09.5. This Fund has assets of \$22 million and current availability of approximately \$1,000,000 for new loans. The Bank of North Dakota will fund 50% of a RD loan. These loans are made with a loan interest rate of 3% interest rate and are amortized over a 40 year time period. USDA Rural Development and Bank of North Dakota approval are required.

Project eligibility includes:

- Eligible applicants are cities, associations, cooperatives and corporations operated on a non-profit basis who have the legal authority to construct, operate and maintain water facilities.
- These entities should also show the ability to repay the loan in accordance with the Bank of North Dakota.
- An application may be made directly to the state office of Rural Development. Applications approved by RD are forwarded to BND for review and approval.

At a recent meeting of the Water-Related Interim Committee the Bank of North Dakota outlined the other general loan programs that they make available to state institutions and through their regular loan participation program.

## Information Regarding a Revolving Loan Fund

As the request of Chairman Hofstad, the Industrial Commission's financial advisor provided me with some calculations regarding the establishment of a revolving loan fund. Here is the information provided by Public Financial Management:

For a revolving loan fund of \$54,690,000 (10% of the \$546,900,000 anticipated revenues to the Resources Trust Fund for the 2013-2015 biennium) funded per biennium, the amount of loans made within 10 years would be \$340.4 MM and \$944.7 MM within 20 years. For a revolving loan fund of \$27,345,000 (5% of the \$546,900,000 anticipated revenues to the Resources Trust Fund for the 2013-2015 biennium) funded per biennium, the amount of loans made within 10 years would be \$170.2 MM and \$472.4 MM within 20 years. The steep increases in the 10 and 20 year numbers illustrate the impact of the compounding nature of revolving loan funds.

The basic assumptions for the loans were as follows:

- Loans had two years of interest only payments.
- Loans had 20 level principal and interest payments after first two years.
- Loans paid interest at 2.50% annually on the remaining balance.
- Loans were originated annually based upon  $\frac{1}{2}$  the biennial appropriation plus the amount of recycling received.
- In the 2013-15 biennium, the amount of loans originated under the 10% scenario was \$54.69 MM. For the 2031-33 biennium, that number has grown to \$150.47 MM.
- In the 2013-15 biennium, the amount of loans originated under the 5% scenario was \$27.345 MM. For the 2031-33 biennium, that number has grown to \$75.24 MM.

These numbers do not include the costs for administering the fund. (The Public Finance Authority/State Health Department and the Bank of North Dakota receives .5% of the loan rate for administration of the loan programs listed above.)

Points to consider for a revolving loan program funded with dollars from the Resources Trust Fund:

- Administration of the program – If the Water Commission prefers not to be in the loan business, the Public Finance Authority or the Bank of North Dakota may be candidates for administering such a program. That is their business.
- A new program should be structured not to compete with other state programs but rather to fill in the "gaps" that are not being met by the current loan programs.

Submitted by Karlene Fine, Industrial Commission Executive Director