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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETY-THIRD SESSION

H. F. No. 220

01/11/2023

Authored by Quam

The bill was read for the first time and referred to the Committee on Environment and Natural Resources Finance and Policy

1.1 A bill for an act
1.2 relating to taxation; dedicating a portion of local government aid to create a loan
1.3 program to renovate rural municipal water treatment facilities; appropriating
1.4 money; amending Minnesota Statutes 2022, sections 477A.013, subdivisions 8,
1.5 9; 477A.03, by adding a subdivision; proposing coding for new law in Minnesota
1.6 Statutes, chapter 446A.

1.7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.8 Section 1. 446A.077 RURAL MUNICIPALITY WATER TREATMENT FACILITY
1.9 RENOVATION FUNDING.

1.10 Subdivision 1. Definitions. (a) For purposes of this section, the following terms have
1.11 the meanings given.

1.12 (b) "Rural municipality" means a statutory or home rule charter city, town, county, or
1.13 sanitary district; an organization formed for the joint exercise of powers under section
1.14 471.59; and any other special purpose district or authority that operates a wastewater
1.15 treatment facility or water main and that is located outside of the metropolitan area as defined
1.16 in section 473.121, subdivision 2.

1.17 (c) "Wastewater treatment facility" has the meaning given under section 115.71,
1.18 subdivision 6.

1.19 Subd. 2. Establishment of account. A water treatment facility renovation account is
1.20 created in the special revenue fund. The authority shall make low or no interest loans from
1.21 the account to rural municipalities as provided in this section. Money in the account is
1.22 annually appropriated to the authority and does not lapse. The authority shall manage and

2.1 administer the account and, for these purposes, may exercise all powers provided in this
2.2 chapter. The account shall be credited with:

2.3 (1) all loan repayments and interest collected under this section; and

2.4 (2) money appropriated from local government aid under section 477A.03, subdivision
2.5 2d.

2.6 Subd. 3. **Renovation loans; eligibility.** (a) The authority may award loans as provided
2.7 in this section to rural municipalities to renovate, rehabilitate, or update wastewater treatment
2.8 facilities that pose a risk to groundwater quality or the water quality in lakes, rivers, or
2.9 streams or to replace water mains that pose a risk to drinking water sources. A rural
2.10 municipality receiving a loan from the account is responsible, either directly or through a
2.11 contract with a private vendor, for all inspections and repairs necessary to ensure proper
2.12 operation of the wastewater treatment facility or water main.

2.13 (b) Loans may be awarded for up to 100 percent of eligible project costs minus any
2.14 funding available from other sources.

2.15 (c) The authority must award loans as provided in this section to rural municipalities
2.16 with approved applications based on their ranking on the project priority lists under
2.17 subdivision 4.

2.18 Subd. 4. **Project priority lists.** (a) Rural municipalities seeking loans for a wastewater
2.19 treatment facility renovation must first submit a project proposal to the Pollution Control
2.20 Agency on a form prescribed by the Pollution Control Agency. The Pollution Control
2.21 Agency shall rank project proposals on its project priority list used for the clean water
2.22 revolving fund under section 446A.07.

2.23 (b) Rural municipalities seeking loans for replacing a water main must first submit a
2.24 project proposal to the Department of Health on a form prescribed by the Department of
2.25 Health. The Department of Health shall rank project proposals on its project priority list
2.26 used for the drinking water revolving fund under section 446A.081.

2.27 Subd. 5. **Applications.** Rural municipalities with projects on a project priority list shall
2.28 submit applications for loans under this section to the authority on forms prescribed by the
2.29 authority. An application must include:

2.30 (1) a description of the wastewater treatment facility or water main renovations to be
2.31 made;

2.32 (2) a project schedule and cost estimate for each year of the project; and

3.1 (3) a financing plan for repayment of the loan.

3.2 Subd. 6. **Loan terms and conditions.** Loans from the water treatment facility renovation
 3.3 account must comply with the following terms and conditions:

3.4 (1) principal and interest payments must begin no later than two years after the loan is
 3.5 awarded;

3.6 (2) loans must be fully amortized within 20 years but not to exceed the expected design
 3.7 life of the facility or water main; and

3.8 (3) a rural municipality receiving a loan must establish a dedicated source or sources of
 3.9 revenues for repayment of the loan and must issue a general obligation note to the authority
 3.10 for the full amount of the loan.

3.11 Subd. 7. **Disbursements.** Loan disbursements by the authority under this section must
 3.12 be made for eligible project costs as incurred by the recipients and must be made in
 3.13 accordance with the project loan agreement and applicable state law.

3.14 Subd. 8. **Audits.** A rural municipality receiving a loan under this section must annually
 3.15 provide to the authority for the term of the loan a copy of its annual independent audit or,
 3.16 if the rural municipality is not required to prepare an independent audit, a copy of the annual
 3.17 reporting form it provides to the state auditor.

3.18 Sec. 2. Minnesota Statutes 2022, section 477A.013, subdivision 8, is amended to read:

3.19 **Subd. 8. City formula aid.** (a) For aids payable in 2018 and thereafter, the formula aid
 3.20 for a city is equal to the product of (1) the difference between its unmet need and its certified
 3.21 aid in the previous year and before any aid adjustment under subdivision 13, and (2) the aid
 3.22 gap percentage.

3.23 (b) The applicable aid gap percentage must be calculated by the Department of Revenue
 3.24 so that the total of the aid under subdivision 9 equals the total amount available for aid under
 3.25 section 477A.03; however, the aid gap percentage may not be less than zero. The aid gap
 3.26 percentage must be the same for all cities subject to paragraph (a). Data used in calculating
 3.27 aids to cities under sections 477A.011 to 477A.013 shall be the most recently available data
 3.28 as of January 1 in the year in which the aid is calculated.

3.29 **EFFECTIVE DATE.** This section is effective for aids payable in 2024 and thereafter.

4.1 Sec. 3. Minnesota Statutes 2022, section 477A.013, subdivision 9, is amended to read:

4.2 Subd. 9. **City aid distribution.** (a) In calendar year 2018 and thereafter, if a city's
4.3 certified aid before any aid adjustment under subdivision 13 for the previous year is less
4.4 than its current unmet need, the city shall receive an aid distribution equal to the sum of (1)
4.5 its certified aid in the previous year before any aid adjustment under subdivision 13, (2) the
4.6 city formula aid under subdivision 8, and (3) its aid adjustment under subdivision 13.

4.7 (b) For aids payable in 2020 only, no city's aid amount before any adjustment under
4.8 subdivision 13 may be less than its pay 2019 certified aid amount, less any aid adjustment
4.9 under subdivision 13 for that year. For aids payable in 2020 and thereafter, if a city's certified
4.10 aid before any aid adjustment under subdivision 13 for the previous year is equal to or
4.11 greater than its current unmet need, the total aid for a city is equal to the greater of (1) its
4.12 unmet need plus any aid adjustment under subdivision 13, or (2) the amount it was certified
4.13 to receive in the previous year minus the sum of (i) any adjustment under subdivision 13
4.14 that was paid in the previous year but has expired, and (ii) the lesser of \$10 multiplied by
4.15 its population, or five percent of its net levy in the year prior to the aid distribution. No city
4.16 may have a total aid amount less than \$0.

4.17 (c) Notwithstanding paragraphs (a) and (b), if the aid gap percentage calculated in
4.18 subdivision 8 is zero and the total aid distributed under this paragraph to all cities would be
4.19 greater than the maximum amount available under section 477A.03, then the aid for a city
4.20 under this subdivision shall be equal to its certified aid under this subdivision in the previous
4.21 year multiplied by an adjustment factor. The adjustment factor, which must be the same for
4.22 all cities, must be calculated by the Department of Revenue so that the total aid to all cities
4.23 under this subdivision is equal to the amount available for this aid under this section.

4.24 **EFFECTIVE DATE.** This section is effective for aids payable in 2024 and thereafter.

4.25 Sec. 4. Minnesota Statutes 2022, section 477A.03, is amended by adding a subdivision to
4.26 read:

4.27 Subd. 2d. **Wastewater treatment dedication.** Each calendar year, five percent of the
4.28 appropriation amount under each of subdivisions 2a to 2c shall be retained by the
4.29 commissioner of revenue and deposited in the water treatment facility renovation account
4.30 under section 446A.077, subdivision 2.

4.31 **EFFECTIVE DATE.** This section is effective for aids payable in 2024 and thereafter.