



NEW MEXICO  
**FINANCE AUTHORITY**



# **Drinking Water State Revolving Loan Fund**

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# DWSRLF

## Background



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- ◆ The Drinking Water State Revolving Loan Fund (DWSRLF) was established in 1996 by amendments to the federal Safe Drinking Water Act (SDWA) to finance the repair and replacement of drinking water infrastructure
- ◆ Since 1997, Congress has appropriated annual funding as part of the national budget and U.S. EPA awards capitalization grants to states that:
  - Evidence a plan to utilize the funding, including a list of projects
  - Provide a 20% state match
- ◆ Pursuant to the Drinking Water State Revolving Loan Fund Act (the “Act”), the DWSRLF is jointly administered by the New Mexico Finance Authority (NMFA) and New Mexico Environment Department - Drinking Water Bureau (NMED-DWB)
  - NMFA is the state’s grantee and is responsible for submitting the grant applications to EPA, providing the state match, providing financial assistance, administering the loan fund, monitoring projects, and financial reporting
  - Since program inception, NMFA has made 190 loans totaling more than \$390 million
  - Since 2011, DWSRLF loans are required to include federal subsidy which NMFA delivers through loan “principal forgiveness” (ie, grants) because the Act doesn’t allow for NMFA to make grants in this program

# Drinking Water State Revolving Loan Fund Overview



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- ◆ Federal capitalization grants allow up to 27% of the funding to be used by states for Set-Aside activities such as Capacity Development and Small Systems Technical Assistance
- ◆ NMED, as the state's primacy agency, is responsible for the public health aspects of the program including compliance and enforcement of SDWA regulations and implementation of Set-Aside activities
- ◆ NMED is also responsible for reviewing and ranking projects and producing a Fundable Priority List of projects to be funded by NMFA through the loan fund
  - NMED utilizes a pre-application to establish annual priority lists used to apply for capitalization grants

## Eligible Entities

- Public Water Systems (PWS) that are publicly or privately owned community water systems, or a non-profit non-community PWS

## Eligible Projects

- Drinking water treatment facilities
- Waterlines
- Storage tanks
- Wells
- Meters
- Interconnections between water systems
- Lead service line inventories/replacement
- Emerging contaminants studies/treatment

# DWSRLF

## Increased Funding

- ◆ New Mexico received between \$8 million and \$11 million in annual federal funding until 2022 when the federal Bipartisan Infrastructure Law (BIL) increased funding levels to the DWSRLF and added dedicated funding to two new sub programs:
  - Lead Service Line Replacement (state match not required)
  - Emerging Contaminants (state match not required)
- ◆ In FY 2023, New Mexico received a total of \$25 million in DWSRLF in funding through the regular capitalization grant (Base Program) and a BIL General Supplemental capitalization grant. NMFA provided the required 20% state match (\$5 million) through the PPRF
- ◆ In FY 2024, the state received a total of more than \$61 million in Base Program, BIL General Supplemental, Lead Service Line Replacement, and Emerging Contaminants capitalization grants. NMFA provided the required 20% state match (\$6 million) through the PPRF
- ◆ FY 2025 to date, NMFA and NMED have already submitted three applications for federal capitalization grants totaling more than \$35 million, with another application in development
  - The State will not be submitting an application for the most recent allocation of Lead Service Line Replacement capitalization grants because there is not demand for this funding

# DWSRLF Subsidy

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- ◆ From 2011 through 2022, a minimum of 6% of the annual capitalization grants had to be used to provide federal subsidy under a state determined “disadvantaged community assistance program.” BIL increased that mandate to a minimum of 61%
- ◆ NMFA changed program policies in 2022 to increase the number of systems eligible to receive disadvantaged community assistance. The change resulted in 200 additional severely disadvantaged areas in the state.
- ◆ Additional changes were made in 2023 to provide that Lead Service Line Replacement (“LSLR”) and Emerging Contaminants (“EC”) projects receive loans with 100% principal forgiveness.

| <b>Affordability Criteria</b>         | <b>Pre-2022</b>  | <b>Current</b>      |
|---------------------------------------|------------------|---------------------|
| Disadvantaged Status                  | Two levels       | Two levels          |
| Affordability Criteria                | MHI only - State | MHI only - National |
| MHI for Severely Disadvantaged Status | 80% or less      | 75% or less         |
| MHI for Disadvantaged Status          | > 80% but < 100% | > 75% but < 100%    |

| <b>Disadvantaged Community Assistance Program</b> | <b>Pre-2022</b>   | <b>Current</b> |
|---|-------------------|----------------|
| Principal Forgiveness: Disadvantaged              | 50%               | 50%            |
| Principal Forgiveness: Severely Disadvantaged     | 75%               | 75%            |
| Disadvantaged Entity Interest Rate                | 0%                | 0%             |
| Amount of Loan at Disadvantaged Interest Rate     | Up to \$1 million | No cap         |
| Public, Non-Disadvantaged Interest Rate           | 1%                | 0.01%          |
| Loan Terms, Disadvantaged/Severely Disadvantaged  | Up to 30 years    | Up to 30 years |

# DWSRLF

## Current Program Activity

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- ◆ U.S. EPA measures the utilization rate of the DWSRLF against all available funding sources (Federal capitalization grants, state match, and principal and interest repayments)
- ◆ Historically the state has had difficulty attracting clients to the DWSRLF because of the high levels of state grants (capital outlay, Water Trust Board, Colonias Infrastructure Board) and low-cost loans (Public Project Revolving Fund, Rural Infrastructure Program) available in NM
- ◆ Increased federal funding and new program initiatives over the past several years have put additional pressures on meeting the rigorous utilization requirements, however, program performance is still strong:
  - The loan fund is currently over-committed by \$35 million
  - Over the past couple of years disbursements have been lagging in comparison to the unprecedented volume of binding commitments (awards) and loan closings, primarily due competing projects and priorities of other funders
  - 23 projects with more than \$75 million in loan funds are currently in construction which bodes well for disbursements in fiscal year 2025. \$5 million in disbursements have already been made in the first two months of fiscal year 2025
  - NMFA's Project Oversight Manager is actively involved in monitoring DWSRLF construction projects, drawdown schedules, and project completion timelines

# DWSRLF Activity FY 2019 – FY 2024

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