

Agency Purpose

The mission of the Minnesota Public Facilities Authority (PFA) is to utilize its interagency authority to provide municipal financing expertise and infrastructure financing programs to enhance the environmental and economic vitality of the state. The PFA is governed by a board consisting of six state commissioners representing the departments of Employment and Economic Development (DEED), Finance, Health, Agriculture, Transportation (MnDOT), and the Pollution Control Agency (PCA).

The PFA is established in M.S. Chapter 446A. The commissioner of DEED serves as the chair and is responsible for hiring an executive director with the consent of the board. The executive director is responsible for staffing, program administration, debt issuance as authorized by the board, and compliance with laws, regulations and disclosure requirements related to the PFA programs. The PFA has statutory authority to issue up to \$1.5 billion in outstanding revenue bonds to raise capital to make loans.

At A Glance

- ◆ PFA finances local government infrastructure, primarily clean water and drinking water systems, through low interest loans and grants.
- ◆ PFA leverages federal and state seed funds through use of statutory authority to issue its revenue bonds to raise capital for revolving loan funds.
- ◆ During FY 2008, PFA financed high priority local government infrastructure needs by making 43 grants totaling \$21.2 million and 35 loans totaling \$185 million.
- ◆ Since 1989, PFA has leveraged \$881 million in federal and state contributions to finance over \$2.3 billion for clean water and drinking water infrastructure projects.

To achieve its goals the PFA implements the following strategies:

- ◆ Target limited resources to high priority projects identified by regulatory agencies through their project priority lists.
- ◆ Coordinate project funding with all other state and federal funding programs to leverage resources necessary to keep projects affordable.
- ◆ Coordinate activities of various funding partners to minimize duplication, administrative costs, and confusion.
- ◆ Maintain the credit quality (AAA rated) and viability of the PFA's revolving loan funds.
- ◆ Balance the current demand for project funding (including nonpoint source and point source needs) with the long term lending capacity of the PFA's revolving funds to maintain their critical role as important financing tools for high priority projects in perpetuity.

Core Functions

The core functions of the PFA are: administration of infrastructure financing programs (offering both loans and grants to political subdivisions of the state); investment of funds; issuance of revenue bonds to make loans; and loan servicing. The PFA manages three revolving loan funds and several other grant and loan programs in conjunction with member agencies of the PFA board, which establish priorities and provide technical reviews of projects before the PFA approves funding. The PFA also administers a credit enhancement program and a bond pool program to reduce borrowing costs for local governments for certain types of projects.

PFA programs include the following:

Clean Water Revolving Fund (CWRF)

- ◆ Low interest loans to municipalities for wastewater and stormwater projects
 - ⇒ Total loans made FY 1989-2008: 328 for \$1.8 billion
 - Interest savings to communities/taxpayers: \$444 million
 - ⇒ Funding priorities set by PCA project priority list
 - ⇒ Future needs: 261 projects for \$1.8 billion on 2009 priority list
- ◆ PFA has also allocated \$81.6 million for programs to control nonpoint source pollution (Agriculture Best Management Practices Loan Program, PCA Clean Water Partnership Loan Program, DEED Tourism Septic System Loan Program)
- ◆ PFA also provides program administration funds to PCA

Drinking Water Revolving Fund

- ◆ Low interest loans to municipalities and other public water suppliers for drinking water infrastructure improvements
 - ⇒ Loans made FY 1999-2008: 207 for \$414 million
 - Interest savings to communities/taxpayers: \$83.7 million
 - ⇒ Funding priorities set by Minnesota Department of Health (MDH) project priority list
 - ⇒ Future needs: 121 projects for \$191 million on 2009 priority list
 - ⇒ PFA also provides funds to MDH for program administration, wellhead protection, public water supply supervision, technical assistance

Transportation Revolving Loan Fund

- ◆ Low interest loans to governmental entities for eligible transportation projects, including road and bridge projects and transit projects.
 - ⇒ Loans made FY 1999-2008: 22 for \$134 million
 - Interest savings to communities/taxpayers: \$19.2 million
 - ⇒ MnDOT periodically solicits project proposals and ranks them on a competitive basis as loan repayments become available for new loans.

Wastewater Infrastructure Funding (WIF) Program

- ◆ Supplemental assistance for high cost, high priority wastewater projects
 - ⇒ Grants to match U.S. Department of Agriculture (USDA) Rural Development for small rural communities
- ◆ Non-Rural Development projects receive 0% deferred loans to package with CWRP loans
- ◆ Funding priorities set by PCA project priority list

Total Maximum Daily Load (TMDL) Grant Program

- ◆ 50% grants to assist municipalities with wastewater or stormwater projects needed to meet TMDL implementation plan requirements
- ◆ As directed by statute, \$7 million appropriated in 2005-2006 was directed to projects in the first two TMDL implementation areas.
- ◆ Funding priorities for new appropriations are based on PCA's project priority list

Clean Water Legacy Phosphorus Reduction Grant Program

- ◆ 75% grants up to \$500,000 to assist municipalities with wastewater treatment projects that will reduce discharge of total phosphorus to 1 mg/l or less
- ◆ Funding order based on PCA project priority list

Small Community Wastewater Treatment Program

- ◆ Loans and grants to assist small communities with costs to replace non-complying Individual Sewage Treatment Systems (ISTS) with new ISTS and small cluster systems that are publicly owned and operated
- ◆ Technical assistance grants to help small communities contract for services to conduct preliminary site evaluations and contract with University of Minnesota Extension Service for advice and technical assistance to develop their capacity to own and operate the systems.
- ◆ 1% construction loans for up to 100% of project costs, communities that have below average median household income can receive 50% of funding as a grant
- ◆ Funding order based on PCA project priority list

Credit Enhancement Program

- ◆ Provides limited state guarantee of local government general obligation bonds issued for certain purposes.
- ◆ Eligible county projects include construction of jails, correctional facilities, law enforcement facilities, and social services and human services facilities.
- ◆ 2008 statutory change expands eligibilities to include city and county general obligation bonds for wastewater drinking water, and storm water facilities, and for publicly owned buildings or infrastructure that has received partial funding from grants awarded by certain DEED Programs
- ◆ Reduces borrowing costs on general obligation bonds issued for certain purposes by providing a limited state guarantee of the bond payments.

Credit Enhanced Bond Program

- ◆ Created in 2008 to reduce borrowing costs for local government projects by pooling local government general obligation debt into a single revenue bond issue of the PFA, with the Credit Enhancement Program used to provide additional security for the underlying bonds.
 - ⇒ Limited to projects partially funded by other DEED infrastructure grant programs.

In partnership with DEED, the executive director oversees the Community Assistance and Redevelopment and Brownfield Units located in the Business and Community Development Division. PFA will implement the new Credit Enhanced Bond Program and Credit Enhancement Program and coordinate with DEED to maximize the use of limited grant funds to deliver comprehensive and coordinated financial packages critical to build the capacity for economic development opportunities across the state.

Operations

Communities that have drinking water or clean water needs are directed to the appropriate agency (MDH and PCA) to list the project on the appropriate project priority list and to begin the environmental and technical review processes required to permit and certify projects to the PFA for funding. Each year the PFA solicits requests for placement on the Intended Use Plan (a federal requirement used to report to the U.S. Environmental Protection Agency and the public on how the state will use the Clean Water and Drinking Water Revolving Funds each fiscal year). To be placed on the Intended Use Plan, the project must have approval of its preliminary engineering report or facility plan and be scheduled to start work during the fiscal year. Each year the PFA determines how far down the priority list it can fund based on current demand, projected future needs, and the short-term and long-term lending capacity of the revolving funds.

The PFA manages capital assets for the making of loans through receipt of federal capitalization grants, state matching funds, loan repayments, investment interest, and proceeds of revenue bond issuances. Communities issue their general obligation bonds to the PFA to secure the loans. The combination of equity assets, general obligation bonds from a large and diverse pool of borrowers and the experienced staff and management practices of the PFA have achieved AAA bond ratings from all three bond rating agencies.

The WIF program follows the PCA's project priority list and provides supplemental funding for high cost projects that qualify for grant funding by the USDA Rural Development or when project costs exceed 5% of the market value of property in the service area for projects financed under the Clean Water Revolving Fund. For USDA Rural Development projects, the WIF program provides up to 65% of the grant eligible amount determined by Rural Development. For Clean Water Revolving Fund projects, the WIF program provides a zero interest loan, with payments deferred until the revolving fund loan is paid in full.

All other programs have specific application cycles. The application material for each program is available on the PFA website and, for clean water and drinking water infrastructure projects, notices are sent out to all eligible recipients on the Project Priority List notifying them of the deadlines and contacts for assistance.

Key Goals

By providing for affordable basic infrastructure needs, PFA programs support the following specific *Minnesota Milestones* statewide goals:

- ◆ **Economy: Minnesota will have sustainable, strong economic growth.**
 - ⇒ Goal 38: Growth in gross state product
 - ⇒ Goal 39: Employment of working-age population.
- ◆ **Environment: Minnesotans will improve the quality of the air, water, and earth.**
 - ⇒ Goal 64: Water quality in lakes and rivers
 - ⇒ Goal 65: Nitrate in ground water
 - ⇒ Goal 66: Erosion of cropland

Key Measures

Program output is measured primarily by the volume of grants and low-interest loans made. The amount of interest savings to local government borrowers and their taxpayers is one measure of program outcome.

| key measures | | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---------------|--|---------|---------|---------|---------|
| Grant awards: | count | 6 | 14 | 23 | 43 |
| | amount (\$ 000's) | 6,196 | 16,146 | 15,142 | 21,210 |
| Loans made: | count | 30 | 25 | 55 | 35 |
| | amount (\$ 000's) | 132,353 | 74,594 | 261,355 | 184,836 |
| | interest savings to borrowers (\$ 000's) | 29,881 | 12,696 | 66,020 | 40,632 |

Budget

Under M.S. 446A.11, Subd. 13, funds available to the PFA, unless otherwise indicated, are statutorily appropriated to the PFA and available until expended. The PFA's expense budget for FY 2009 is approximately \$404 million. This includes \$300.1 million available for low interest loans, \$100.6 million for debt service on outstanding revenue bonds, \$1.57 million for grants, \$916,000 for general administrative costs (8.9 FTEs), \$420,000 for arbitrage rebate liabilities, and \$400,000 for bond issuance and related costs including bond counsel, financial advisor, auditor, and arbitrage rebate contractors. PFA administrative expenses are paid from application fees and service fees on loan repayments. The PFA receives no general funds for administration.

In addition to these amounts, PFA annually provides administrative support funding to the PCA and MDH for their work with the Clean Water and Drinking Water Revolving Funds. These amounts for FY 2009 are \$1,194,361 and \$521,593, respectively.

PFA also allocates funds in the Clean Water Revolving Fund to the PCA and the Department of Agriculture for non-point source revolving loan programs. The anticipated funding level for FY 2009 is \$2.0 million.

Funding for the PFA activities come from US Environmental Protection Agency capitalization grants for the Clean Water and Drinking Water Revolving Funds, appropriations from state general obligation bonds for state matching funds and a variety of funding programs, revenue bonds issued by the PFA payable solely from revenues derived from loan repayments and investment earnings, a small general fund appropriation for technical assistance grants to small communities, and fees charged to clients to cover the administrative costs.

Contact

Terry Kuhlman, Executive Director
 Minnesota Public Facilities Authority
 1st National Bank Building
 332 Minnesota Street, E200
 St. Paul, Minnesota 55101-1351
 Phone: (651) 259-7468
 Cell: (612) 730-3959
 Fax: (651) 296-8833
 Email: Terry.Kuhlman@state.mn.us

Dollars in Thousands

| | Current | | Forecast Base | | Biennium 2010-11 |
|---|----------------|----------------|----------------|----------------|---------------------|
| | FY2008 | FY2009 | FY2010 | FY2011 | |
| <u>Direct Appropriations by Fund</u> | | | | | |
| General | | | | | |
| Current Appropriation | 6,232 | 100 | 100 | 100 | 200 |
| Forecast Base | 6,232 | 100 | 100 | 100 | 200 |
| Change | | 0 | 0 | 0 | 0 |
| % Biennial Change from 2008-09 | | | | | -96.8% |
| <u>Expenditures by Fund</u> | | | | | |
| Direct Appropriations | | | | | |
| General | 100 | 100 | 100 | 100 | 200 |
| Statutory Appropriations | | | | | |
| Clean Water Revolving Fund | 276,476 | 265,349 | 190,704 | 170,186 | 360,890 |
| Drinking Water Revolving Fund | 43,813 | 107,465 | 70,665 | 59,603 | 130,268 |
| General | 2 | 3 | 6 | 6 | 12 |
| Miscellaneous Special Revenue | 0 | 150 | 17 | 16 | 33 |
| Transportation Revolving Fund | 14,736 | 31,017 | 14,684 | 9,574 | 24,258 |
| Total | 335,127 | 404,084 | 276,176 | 239,485 | 515,661 |
| <u>Expenditures by Category</u> | | | | | |
| Total Compensation | 784 | 836 | 862 | 886 | 1,748 |
| Other Operating Expenses | 1,275 | 900 | 1,235 | 2,413 | 3,648 |
| Local Assistance | 1,354 | 1,569 | 1,519 | 1,518 | 3,037 |
| Other Financial Transactions | 331,714 | 400,779 | 272,560 | 234,668 | 507,228 |
| Total | 335,127 | 404,084 | 276,176 | 239,485 | 515,661 |
| <u>Expenditures by Program</u> | | | | | |
| Public Facilities Authority | 335,127 | 404,084 | 276,176 | 239,485 | 515,661 |
| Total | 335,127 | 404,084 | 276,176 | 239,485 | 515,661 |
| <u>Full-Time Equivalents (FTE)</u> | | | | | |
| | 8.8 | 8.9 | 8.9 | 8.9 | |

PUBLIC FACILITIES AUTHORITY

Agency Revenue Summary

Dollars in Thousands

| | Actual FY2008 | Budgeted FY2009 | Current Law | | Biennium 2010-11 |
|--------------------------------------|--------------------------|----------------------------|--------------------|----------------|-----------------------------|
| | | | FY2010 | FY2011 | |
| <u>Non Dedicated Revenue:</u> | | | | | |
| Other Revenues: | | | | | |
| General | 0 | 0 | 1 | 1 | 2 |
| Other Sources: | | | | | |
| General | 0 | 5 | 7 | 4 | 11 |
| Total Non-Dedicated Receipts | 0 | 5 | 8 | 5 | 13 |
| <u>Dedicated Receipts:</u> | | | | | |
| Departmental Earnings: | | | | | |
| Clean Water Revolving Fund | 1,785 | 1,817 | 1,743 | 1,984 | 3,727 |
| Drinking Water Revolving Fund | 407 | 483 | 524 | 528 | 1,052 |
| General | 4 | 3 | 4 | 4 | 8 |
| Miscellaneous Special Revenue | 5 | 5 | 5 | 5 | 10 |
| Grants: | | | | | |
| Clean Water Revolving Fund | 19,672 | 12,507 | 12,507 | 12,507 | 25,014 |
| Drinking Water Revolving Fund | 19,504 | 12,121 | 12,121 | 12,121 | 24,242 |
| Other Revenues: | | | | | |
| Clean Water Revolving Fund | 47,626 | 42,957 | 38,894 | 38,048 | 76,942 |
| Drinking Water Revolving Fund | 9,928 | 8,247 | 8,314 | 7,783 | 16,097 |
| Miscellaneous Special Revenue | 1 | 3 | 3 | 3 | 6 |
| Transportation Revolving Fund | 3,082 | 2,570 | 2,055 | 1,713 | 3,768 |
| Other Sources: | | | | | |
| Clean Water Revolving Fund | 252,291 | 224,988 | 105,763 | 118,359 | 224,122 |
| Drinking Water Revolving Fund | 12,595 | 71,408 | 38,109 | 38,837 | 76,946 |
| Transportation Revolving Fund | 16,012 | 11,989 | 11,655 | 7,728 | 19,383 |
| Total Dedicated Receipts | 382,912 | 389,098 | 231,697 | 239,620 | 471,317 |
| Agency Total Revenue | 382,912 | 389,103 | 231,705 | 239,625 | 471,330 |