

**Public Facilities Authority**

**Projects Summary**  
(\$ in Thousands)

Project Title	2010 Agency Priority Ranking	Agency Project Request for State Funds (\$ by Session)				Governor's Recommendations 2010	Governor's Planning Estimate	
		2010	2012	2014	Total		2012	2014
State Matching Funds for USEPA Capitalization Grants	1	\$30,000	\$30,000	\$30,000	\$90,000	\$0	\$0	\$0
Wastewater Infrastructure Fund	2	30,000	30,000	30,000	90,000	0	0	0
Wastewater Infrastructure Fund - Admin	3	600	600	600	1,800	0	0	0
<b>Total Project Requests</b>		\$60,600	\$60,600	\$60,600	\$181,800	\$0	\$0	\$0

**State Matching Funds for USEPA Capitalization Grants**

**2010 STATE APPROPRIATION REQUEST:** \$30,000,000

**AGENCY PROJECT PRIORITY:** 1 of 3

**PROJECT LOCATION:** Statewide

**Project At A Glance**

State Matching Funds for U.S. Environmental Protection Agency (EPA) and Capitalization Grants for Clean Water and Drinking Water Revolving Funds

**Project Description**

The Public Facilities Authority (PFA) is seeking \$30 million in state funds to match expected EPA funds for federal FY 2011-12 at the rate of 1:5 for the Clean Water Revolving Fund (M.S. 446A.07), and the Drinking Water Revolving Fund (M.S. 446A.081). These funds will be used to leverage PFA revenue bonds to provide low interest loans for clean water projects (wastewater and stormwater) and drinking water projects. In both programs, the state matching funds are used only for municipal, publicly-owned improvements.

**2010 Legislative Session Request (\$ in thousands): \$30,000**

FY	Clean Water		Drinking Water	
	Fed Cap. Grant	State Match	Fed Cap. Grant	State Match
2011	\$48,000	\$9,600	\$27,000	\$5,400
2012	<u>48,000</u>	<u>9,600</u>	<u>27,000</u>	<u>5,400</u>
Total	\$96,000	<b>\$19,200</b>	\$54,000	<b>\$10,800</b>

**Impact on Agency Operating Budgets (Facilities Notes)**

PFA operates on federal administrative funds and special revenues generated from fees on loan payments, which together provide for all administrative expenses for these programs incurred by the PFA, the Minnesota Pollution Control Agency (MPCA), and the Minnesota Department of Health (MDH).

**Previous Appropriations for this Project**

Previous state match appropriations total \$197.12 million to match federal grants from 1989-2010.

**Other Considerations**

Low-cost financing under the PFA's clean water and drinking water loan programs is an important element in helping communities contain costs and remain economically competitive, while providing essential infrastructure.

Funds are awarded to projects based on their ranking on Project Priority Lists prepared by the MPCA for clean water projects and the MDH for drinking water projects. Through FY 2009 (as of 05/31/09), the PFA has made below market rate loans from these two revolving funds in excess of \$2.398 billion which will result in interest savings to local taxpayers of almost \$556 million compared to market rate financing.

Over the past several years demand for wastewater loans from the PFA has grown to well over \$300 million per year, almost four times the sustainable annual long-term lending capacity of the Clean Water Revolving Fund. With the federal stimulus funding available from the American Recovery and Reinvestment Act (ARRA), total requests in FY 2009 grew to \$519 million and the MPCA has received 150 new project proposals for the 2010 Project Priority List, compared to 50 new proposals for the 2009 list. In its 2008 report on infrastructure needs over the next 20 years, the MPCA identified over \$4.5 billion in wastewater collection and treatment needs and \$1.1 billion in estimated stormwater needs.

## State Matching Funds for USEPA Capitalization Grants

Demand for clean water loans is driven by the need to replace aging facilities, provide additional treatment to meet more stringent phosphorus and other permit limits required by Total Maximum Daily Load implementation plans to address impaired waters, and address communities with problems from failing individual sewage treatment systems and straight pipes. These factors, coupled with the poor economy and the decline in other revenues for cities to pay for improvements, has led to the growing demand for PFA financing. Demand will continue to grow as pressure to meet Clean Water Act requirements for impaired waters puts greater emphasis on storm water infrastructure improvements to help improve water quality.

Demand for drinking water loans has also been strong, with \$97 million in total requests in FY 2009 and 275 new project proposals submitted to the MDH for the 2010 Project Priority List. The Drinking Water Revolving Fund has significant leveraging capacity, and with the expected federal capitalization grants and requested state match the PFA believes the fund's lending capacity should be sufficient to continue to finance high priority projects.

To date, federal and state funds have been leveraged 2.6:1 through the PFA's issuance of AAA rated revenue bonds. Overall, each dollar of state matching funds has generated over \$12 in project construction. It should be noted that every dollar spent on municipal water and wastewater construction generates an estimated 4.6 cents in general fund revenues directly from the income tax, corporate income tax, and sales tax. The interest savings from PFA loans for local taxpayers has been almost \$3 for every \$1 of state matching funds.

The Clean Water and Drinking Water Revolving Funds have shown considerable financial strength to finance municipal water and wastewater projects. The AAA ratings of the PFA's clean water and drinking water bonds from Standard and Poors Rating Group, Fitch Ratings, and Moody's Investor Services reflects the financial strength of the funds, the credit quality of Minnesota communities, and the PFA's experienced staff and sound financial management of the programs.

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**Governor's Recommendations (To be completed by MMB at a later date)**

## Wastewater Infrastructure Fund

**2010 STATE APPROPRIATION REQUEST:** \$30,000,000

**AGENCY PROJECT PRIORITY:** 2 of 3

**PROJECT LOCATION:** Statewide

**Project At A Glance**

The Wastewater Infrastructure Funding Program (WIF) provides supplemental assistance in conjunction with funding from either USDA Rural Development or the Public Facilities Authority's Clean Water Revolving Fund to keep high cost projects affordable. WIF provides matching grants with Rural Development based on their affordability criteria, or zero interest deferred loans to supplement loans from the Clean Water Revolving Fund. All WIF funds follow the Minnesota Pollution Control Agency's (MPCA) Project Priority List.

**Project Description**

The Public Facilities Authority (PFA) is seeking \$30 million for the Wastewater Infrastructure Funding (WIF) program (M.S. 446A.072). For high cost projects, WIF monies are used either as grants to match grant assistance provided by the U.S. Department of Agriculture (USDA) Rural Development, or as 0% deferred loans for up to 40 years to supplement loans from the Clean Water Revolving Fund.

For USDA Rural Development projects, the WIF program provides up to 65 percent of the grant eligible amount determined by Rural Development. Rural Development's grant calculations are determined by first looking at the amount of debt service and operation and maintenance costs a city can afford to pay based on a figure of 1.5 percent of its median household income, with the total grant then providing for 100 percent of construction costs above that level.

For projects that do not receive Rural Development funding, the WIF program provides a zero interest loan for up to 40 years for eligible project costs that exceed 5 percent of the market value of the project area.

**Impact on Agency Operating Budgets (Facilities Notes)**

The partnership with USDA Rural Development is a cost effective strategy that has the field staff at USDA undertaking most of the field work involved in monitoring and reviewing the project through construction. Thus, communities that need the most help in working their way through the process have local USDA staff to assist them.

**Previous Appropriations for this Project**

Previous appropriations from 1996-2009 for projects under the WIF program total \$160.6 million. As of June 2009, the PFA has awarded \$140.6 million in grants and loans to 129 projects. The remaining \$20 million is reserved for projects that have met required deadlines and are waiting for final approvals prior to bidding and for projects that are expected to receive USDA Rural Development funding commitments by 12-31-2009.

**Other Considerations**

WIF funds are directed to the highest priority projects from an environmental and public health standpoint based on their ranking on the Pollution Control Agency's Project Priority List. The WIF program helps small communities address their existing wastewater problems while keeping costs affordable for their residents.

The WIF program was designed to be a gap-financing tool used in conjunction with the Clean Water Revolving Fund and the USDA's Rural Development grant program for wastewater. Communities are required to seek grant assistance from other sources before becoming eligible for either WIF or the USDA Rural Development grant program. The unique state/federal partnership with Rural Development was designed to coordinate assistance to communities to keep the systems affordable, as well as make it easier and less confusing for many of the smaller communities to access funding.

## Wastewater Infrastructure Fund

An additional benefit is that the WIF grant match helps the Minnesota Rural Development office obligate all of its allotted federal grant and loan funds, making it eligible to go to the national pool for additional funds for Minnesota communities. In 2009, USDA received twice the normal level of funding in part due the American Recovery and Reinvestment Act. Rural Development must commit these funds to projects within one year and have the projects ready to begin construction within two years. It is important to have WIF funds available to match as many Rural Development funding commitments as possible so that the full allocation of federal funds stays in Minnesota.

The PFA will survey projects on the MPCA's 2010 project priority list and provide its report on WIF needs to the appropriate legislative committees by February 1, 2010.

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**Governor's Recommendations (To be completed by MMB at a later date)**

## Wastewater Infrastructure Fund - Admin

**2010 STATE APPROPRIATION REQUEST:** \$600,000

**AGENCY PROJECT PRIORITY:** 3 of 3

**PROJECT LOCATION:**

#### Project At A Glance

The Wastewater Infrastructure Funding Program (WIF) is designed to keep high cost projects affordable in conjunction with funding from either USDA Rural Development or the Public Facilities Authority's (PFA) Clean Water Revolving Fund. Past appropriations for the WIF program have generally been accompanied by an additional 2 percent to provide needed staff assistance to these communities and coordination with Rural Development and other funding agencies.

#### Project Description

See Wastewater Infrastructure Funding Program (WIF) priority #2

#### Impact on Agency Operating Budgets (Facilities Notes)

The Public Facilities Authority requests \$600,000 (2 percent of the requested amount for WIF project funding) from the general fund for program administrative costs by the Minnesota Pollution Control Agency (MPCA) and PFA. Of this amount, 90 percent would be used by the MPCA to provide substantial project oversight, technical and environmental review, and project review coordination with USDA Rural Development. The remaining 10 percent would be for the PFA to cover program administrative costs for coordinating funding with USDA Rural Development and other funding agencies, but not for costs associated with the Clean Water Revolving Fund projects.

#### Previous Appropriations for this Project

Since 2000, \$1,519,000 has been appropriated for WIF program administration. Of this amount \$619,000 was appropriated from the general fund in 2000 and 2006, with the balance from state bond funds in 2005 and 2008. The Department of Management and Budget does not consider administration and project implementation costs to be an appropriate use of

state bond funds. The activities of the PFA are not eligible for reimbursement from bond proceeds and only limited activities by PCA staff can be charged to state bond funds.

#### Other Considerations

The WIF program provides supplemental assistance to small communities with high priority wastewater projects that are very expensive on a per household basis. These communities lack the economies of scale needed to make their projects affordable and they also generally lack staff resources to oversee all the activities necessary for successful project implementation. These communities require significant staff assistance and administrative time to help them through all phases of the funding process, to coordinate funding with other state and federal funding agencies, and to provide assistance and oversight through initiation of operation and the first year of operation.

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