

MN PUBLIC FACILITIES AUTHORITY
BOARD MEETING - Minutes
PFA Board Room
August 19, 2015

MEMBERS and DELEGATES PRESENT:

Katie Clark Sieben, Chair, Dept. of Employment and Economic Development
Myron Franz, Management and Budget
Randy Ellingboe, Department of Health
Jim Boerboom, Department of Agriculture
Rebecca Flood, Pollution Control Agency
Tracy Hatch, Department of Transportation

Also present:

Jeff Freeman, Executive Director
Christie Eller, Attorney General's Office
Paula Rindels, Housing Finance Agency
Bill Dunn, Pollution Control Agency
Bill Priebe, Pollution Control Agency
Richard Koop, Met Council
Steve Walter, PFA Staff
Becky Sabie, PFA Staff
Melissa Ralph, PFA Staff
Jennifer Frasl, PFA Staff

I. CALL TO ORDER:

Chair Katie Clark Sieben called the meeting of the Public Facilities Authority to order on August 19, 2015 at 9:05 am in the PFA Board Room, 1st National Bank Building, Saint Paul, Minnesota.

Roll call taken, voting yes: Katie Clark Sieben, DEED; Myron Franz, MMB; Randy Ellingboe, MDH; Jim Boerboom, MDA; Rebecca Flood, PCA and Tracy Hatch, MDOT.

A quorum was established.

II. APPROVAL OF AGENDA

Chair Katie Clark Sieben entertained a motion to approve the agenda. Motion made by Tracy Hatch, seconded by Rebecca Flood.

Approval of the agenda passed unanimously.

III. APPROVAL OF JUNE 19, 2015 MINUTES

Chair Clark Sieben entertained a motion to approve the minutes from the June 19, 2015 meeting. Motion made by Jim Boerboom, seconded by Tracy Hatch.

Approval of the June 19, 2015 Meeting minutes passed unanimously.

IV. 2016 INTENDED USE PLAN – DRINKING WATER REVOLVING FUND

Jeff Freeman discussed the background of the Drinking Water Revolving Fund and process of the Intended Use Plan (IUP). In addition to identifying projects eligible to apply for loans, the draft 2016 IUP also identifies recommended set aside percentages for DWRF administration and MHD-administered programs. The total percentage recommended for the set asides is 26%; 4% for program administration; 2% for technical assistance, 10% for public water supply supervision, and 10% for wellhead protection.

Steve Walter reviewed the DWRF capacity model, indicating that the current approximate annual lending capacity is \$43 million and further discussed scenarios as provided in the board packet handout. If all projects on the draft IUP proceed during this fiscal year, then FY 2016 lending would be \$164 million, and future lending capacity would be reduced to approximately \$40 million. If, as more realistically expected, FY 2016 actual loans are \$78 million, future capacity would be reduced less, to about \$42 million.

Becky Sabie reviewed the draft 2016 Drinking Water Intended Use Plan. The IUP project list is divided into two parts: Part A includes 29 carryover projects from the 2015 IUP and Part B lists 66 new project requests with 7 or more points. Staff recommends a 7 point cut-off for new projects, which is an increase from last year of 5 points due to the increase in lending activity.

Jeff explained that for drinking water loans made under the 2016 IUP, staff recommends a base interest rate discount of 1.5% for eligible loans up to \$20 million, and a reduction in the discount of 1.25 basis points for each \$1 million in loan above \$20 million. In addition, the federal principal forgiveness grants provide additional subsidy to those project with affordability issues. Steve noted that the principal forgiveness grants do not contribute to the DWRF's lending capacity.

Chair Katie Clark Sieben entertained a motion to approve Resolution 15-04. Motion made by Randy Ellingboe, seconded by Rebecca Flood.

Roll call taken, voting yes: Katie Clark Sieben, DEED; Myron Franz, MMB; Randy Ellingboe, MDH; Jim Boerboom, MDA; Rebecca Flood, PCA and Tracy Hatch, MDOT.

Voting no: None

Absent: none

V. 2016 INTENDED USE PLAN – CLEAN WATER REVOLVING FUND

Jeff briefly reviewed the draft 2016 Clean Water Revolving Fund Intended Use Plan. The IUP project list is divided into three parts: Part A includes 68 carryover projects from the 2015 IUP, Part B which lists 29 new project requests and Part C lists 13 additional projects that are not eligible at this time because their project plans have not received preliminary approval by the MPCA. Some of all of the Part C projects will be added to the fundable range if MPCA is able to issue preliminary approvals during the IUP comment period.

Jeff reviewed the CWRF capacity model indicating an approximate average annual lending capacity of \$100 million. If actual loans for FY 2016 are \$159 million as estimated, the projected

future lending capacity would be \$97 million. If all projects on the draft IUP are able to proceed total loans would be \$245 million, reducing the future lending capacity to approximately \$95 million per year.

Jeff explained that staff recommends a 38 point cut-off for new projects and staff recommends a base discount of 1.5% off the Authority's Bond rate, or the AAA market scale when no bond proceeds are available, for loans up to \$40 million. For loans that exceed \$40 million staff recommends reducing the base discount by 1.25 basis points for each \$1 million in loan amount over \$40 million. Both programs have a minimum interest rate of 1.00%.

Jeff also noted the Department of Agriculture and the MPCA Clean Water Partnership program staff have evaluated funding needs for their nonpoint source loan programs and determined again this year that existing funding levels and revolving loan repayments are sufficient to meet expected 2016 loan demand and they are not requesting a new funding allocation in 2016.

Jim Boerboom asked if the requested amount for carryover vs. new projects is consistent with other years. Jeff responded that the requested dollar amount is consistent however the number of carryover projects is larger. Jeff believes this is due to many certified projects still working on final details and getting through the bidding process. Jeff also noted that the PFA has noticed a lot of projects being approved and certified late in the fiscal year.

Chair Katie Clark Sieben entertained a motion to approve Resolution 15-05. Motion made by Rebecca Flood, seconded by Randy Ellingboe.

Roll call taken, voting yes: Katie Clark Sieben, DEED; Myron Franz, MMB; Randy Ellingboe, MDH; Jim Boerboom, MDA; Rebecca Flood, PCA and Tracy Hatch, MDOT.

Voting no: None

Absent: none

VI. OVERVIEW OF PFA FEE REVENUES

At the June Board meeting, members had some questions about the PFA fee revenues. Jeff provided an overview of the PFA programs and the size of the loan portfolio. He explained that because of its long-term responsibilities, assets and obligations, the PFA must have a reliable long-term source of revenue to cover its administrative expenses. He described the fee language in Minnesota Statutes, Section 446A.04, Subdivision 5 which allows the Authority to charge a service fee of up to 2% on loan repayments for its administrative expenses and expenses of its member agencies for their administrative costs related to PFA programs. Subdivision 5 also provides authority to charge a fee to applicants of up to one-half of 1% upon executing a grant or loan agreement.

Jeff explained the PFA receives no state general funds to manage its revolving funds and administer its programs. The loan fees do not impose an extra cost to PFA borrowers. The service fee is included within the interest rate on each loan. The fee portion of each loan repayment (up to 2%) is deposited to the SRF administrative accounts prior to the remainder of the repayment being deposited to revenue accounts that are pledged to bondholders for payment of debt service. Per SRF bond resolutions and federal law, the loan servicing fees must not exceed interest

collections on the loan. With historically low market rates in recent years, PFA loans have been at or near the minimum interest rate of 1%, which means the fee taken from a particular repayment may be less than the 2% authorized.

Jeff explained that, in addition to fees, up to 4% of the annual capitalization grants can be used for administrative costs. The PFA's general practice has been to put as much of the federal cap grant as possible into loans. On the clean water side, the MPCA and PFA administrative costs are fully funded by fee revenues. The DW fee revenue is not yet sufficient to pay all of the administrative costs of both the PFA and the MDH, however we project DW fee revenues will be sufficient for both MDH and PFA in 2017. Jeff discussed the long-term goal to maintain a balance in each fee account of roughly one year's expenses and the active management of the fee accounts to achieve the long-term goal. Charts on the Clean Water and Drinking Water Fees with actual and projected revenues, expenditures and cash balances were provided.

The PFA is required by statute to submit an annual report to the Legislature on the Fee Account, and MMB oversees fees through the accounting system and budget process.

Jeff commented on the proposal at the June meeting to use fee revenue as a potential funding source for small local government asset management grants, and noted that staff has put that idea on hold. Staff will continue to explore ideas to promote asset management and will work with Minnesota Rural Water Association on their asset management pilot program. Randy Ellingboe noted the value and importance of assisting small communities to help them with asset management.

Jim Boerboom asked for more information on when the fees are collected. Jeff responded that the service fees are collected at the time a debt service payment is received and application fees are collected at the time an agreement is awarded. The PFA has authority to collect an application fee on all loan and grant awards applications, however currently only charges the application fee on grant awards for projects that do not exceed established affordability criteria.

Tracy asked if fees are taken from loans under the Transportation Revolving Loan Fund (TRLF). Steve Walter responded that we have never charged an application fee on any of the revolving loan fund programs (CWSRF, DWRP and TRLF). With respect to loan service fees, Steve noted that the full amount of service fees are not needed to cover TRLF administrative costs, so the full amount is not charged. Fee revenues are taken each year to cover the administrative costs but the amount is less than what is allowed by statute.

Tracy asked if fee accounts are separated from other account. Steve confirmed that the fees are kept separate. Jeff also indicated that EPA conducts oversight of the Drinking and Clean Water fees as the use of the fees is restricted under federal law.

VII. AMENDMENT TO FY 2016 ADMINISTRATIVE BUDGET

Jeff mentioned the PFA is a relatively small agency of 9 staff and noted the need to create a new entry level Loan Officer Position to address the PFA's increasing workload and prepare for staffing transitions due to anticipated retirements. Over the past few years PFA loan and grant

awards have increased more than 50% and from \$103 million in FY 2013 to \$228 million in FY 2015.

Jeff expects to post the position this fall and have it filled by the end of calendar year. The attached resolution amends the PFA's FY 2016 administrative budget increasing it by \$50,000 to a total of \$1,230,000.

Myron Franz asked if the additional \$50,000 will be taken from the PFA's Fee account. Steve answered yes and noted that the fee account can absorb the increase in the short term and that if necessary in the future the administrative set-aside from the federal cap grant awards could be used.

Chair Katie Clark Sieben entertained a motion to approve Resolution 15-06. Motion made by Jim Boerboom, seconded by Tracy Hatch.

Roll call taken, voting yes: Katie Clark Sieben, DEED; Myron Franz, MMB; Randy Ellingboe, MDH; Jim Boerboom, MDA; Rebecca Flood, PCA and Tracy Hatch, MDOT.

Voting no: None

Absent: none

VIII. NEXT MEETING

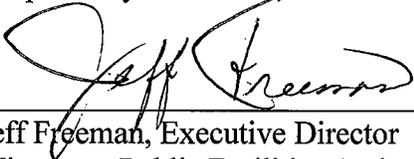
Jeff Freeman mentioned the next Board meeting will be held in December; which will include the Wastewater Infrastructure Funding (WIF) program report to the Legislature and a review of the Authority's 2015 independent audit. Also during the December meeting there is a possibility for authorization to issue bonds.

IX. ADJOURN

Chair Katie Clark Sieben entertained a motion to adjourn the meeting of the Public Facilities Authority. Motion made by Tracy Hatch, seconded by Rebecca Flood. Board members unanimously approved the adjournment for this meeting.

The meeting adjourned at approximately 10:00 am

Respectfully Submitted,



Jeff Freeman, Executive Director
Minnesota Public Facilities Authority