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Agency Purpose

The Minnesota Public Facilities Authority (PFA) is a multi-agency authority that provides municipal financing expertise and infrastructure financing programs to enhance the environmental and economic vitality of the state. The PFA manages three revolving loan funds and several other financing programs to help local governments upgrade and construct wastewater treatment and collection facilities, to upgrade and construct drinking water distribution and storage facilities, and to address transportation, public facilities and other high-cost infrastructure needs.

At a Glance

The PFA finances local government infrastructure, primarily clean water and drinking water systems, through low interest loans and grants. Since 1989, PFA has leveraged \$227 million in state funds and \$818 million in federal funds through its revolving loan funds to finance over \$2.8 billion in clean and drinking water projects.

Clean Water State Revolving Fund – FY 2010

- 30 loans for \$271 million made to local governments throughout the state, plus \$28 million granted as principal forgiveness
- \$47 million in interest savings to communities and their taxpayers

Wastewater Infrastructure Fund – FY 2010

- \$10.4 million awarded to projects in conjunction with CWRWF loans to address affordability needs
- \$4.0 million awarded to six projects for matching grants with U.S. Department of Agriculture (USDA) Rural Development

Clean Water Fund – FY 2010

- Total Maximum Daily Load (TMDL) grants: five awarded for \$4.6 million
- Phosphorus Reduction grants: six awarded for \$2.4 million
- Small Community WWT Program:
 - TA grants: six awarded for \$146,500

Drinking Water State Revolving Fund – FY 2010

- 40 loans for \$90 million made to local governments and public water suppliers throughout the state, plus \$18 million granted as principal forgiveness
- \$18 million in interest savings to communities and their taxpayers

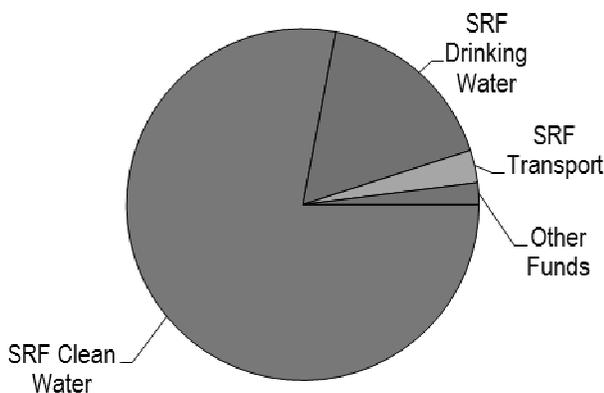
Transportation Revolving Loan Fund – FY 2010

- Two loans for \$2.8 million made to local governments for transportation improvements
- \$451,000 in interest savings to communities and their taxpayers

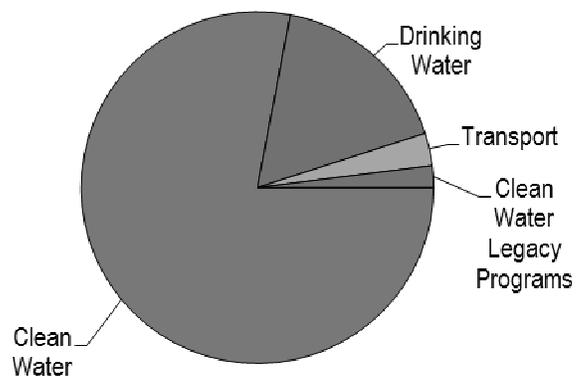
Credit Enhancement Program – FY 2010

- Provides limited state guarantee of general obligation bonds issued by counties (for law enforcement, social/human service facilities) and cities (for wastewater, stormwater, and drinking water facilities)
- FY 2010 participation: 25 bond issues for \$67 million

Est. FY 2010-11 Expenditures by Fund



Est. FY 2010-11 Expenditures by Program



Source: Minnesota Accounting and Procurement System (MAPS) 08/27/10. Note that federal grants are received and expended in the SRF Clean Water and SRF Drinking Water funds above.

Source: Minnesota Accounting and Procurement System (MAPS) 08/27/10 for BFY 2010 and Agency Spending Plan Certification for BFY 2011.

Strategies

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; and
- 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.

Operations

The PFA is governed by a board consisting of six state commissioners representing the departments of Employment and Economic Development (DEED), Management and Budget (MMB), Health (MDH), 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 staff of the PFA, 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 revenue bonds to raise capital to make loans.

The PFA operates infrastructure financing programs in cooperation with the departments and agencies represented on the PFA board, and closely coordinates project financing with other state and federal funding partners. For all direct financing programs the PFA reviews the financial status and creditworthiness of the applicants and determines that full project financing is in place and that dedicated revenues are established to pay debt service and operation and maintenance costs.

The PFA operates clean water financing programs in cooperation with the PCA, which is responsible for ranking eligible projects, conducting environmental and technical reviews, and certifying approved projects to the PFA for funding. All clean water financing programs follow the PCA's Project Priority List which ranks projects based on environmental and public health criteria. Based on the project priorities and readiness to proceed, the PFA prepares an annual Intended Use Plan to identify the projects eligible to apply for loans through the Clean Water Revolving Fund (CWRF). The Wastewater Infrastructure Funding (WIF) program provides grants in conjunction with CWRF loans or USDA Rural Development financing to address affordability needs. The PFA administers three programs funded by the Clean Water Fund (dedicated sales tax) to assist municipalities to meet requirements for additional treatment and address unmet needs in unsewered communities.

The PFA also allocates funds from the CWRF for nonpoint source loan programs administered by the PCA (Clean Water Partnership loan program) and the Department of Agriculture (Ag Best Management Practices loan program).

The PFA operates the Drinking Water Revolving Fund (DWRF) in cooperation with the Health Department, which is responsible for ranking eligible projects on the Project Priority List, conducting environmental and technical reviews, and certifying approved projects to the PFA for funding. Based on the project priorities and readiness to proceed, the PFA prepares an annual Intended Use Plan to identify the projects eligible to apply for loans through the DWRF.

The PFA operates the Transportation Revolving Loan Fund in cooperation with the Department of Transportation (MnDOT). The program provides low interest loans to governmental entities for eligible transportation projects, including road, bridge, and transit projects. MnDOT is responsible for soliciting project proposals as loan repayments become available for new loans and ranking them on a competitive basis.

The PFA manages the capital assets of the three revolving funds, including federal capitalization grants and state matching funds, loan repayments, investment interest, and proceeds of revenue bonds issued to generate additional capital to make loans. Communities issue their general obligation bonds to the PFA to secure the loans, which are pledged to the repayment of the PFA's bonds. 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 PFA receives no general funds for administration. PFA administrative expenses are paid from application fees, service fees on loan repayments, and allowable set-asides from federal capitalization grants. The PFA also annually provides administrative support funding to the Pollution Control Agency and the Department of Health for their work with the Clean Water and Drinking Water Revolving Funds. 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.

Key Activity Goals & Measures

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

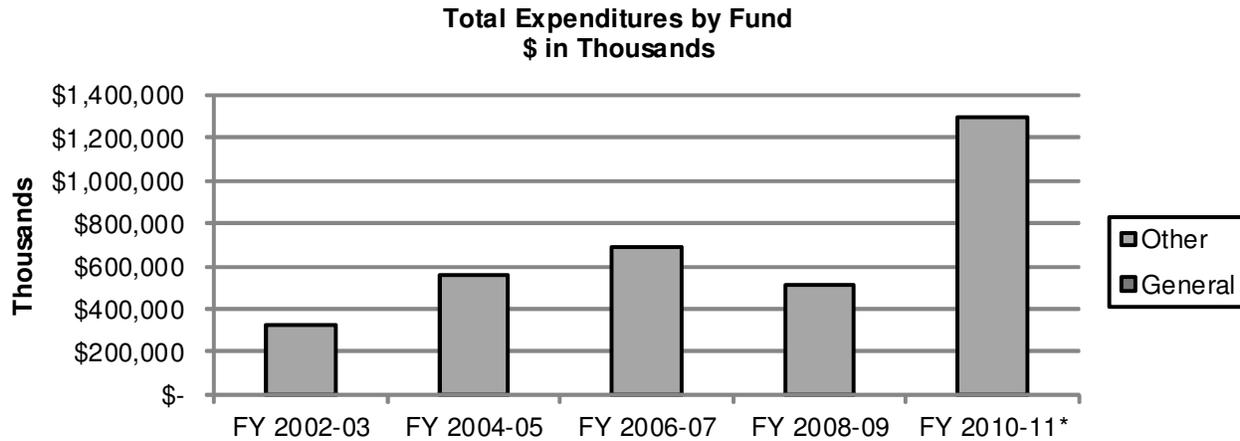
- Economy: Minnesota will have sustainable, strong economic growth.
 - Goal 38: Growth in gross state product
 - Goal 39: Employment of working-age population

- Environment: Minnesota will improve the quality of the air, water, and earth.
 - Goal 64: Water quality in lakes and rivers
 - Goal 65: Nitrates in ground water
 - Goal 66: Erosion of cropland

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 another measure of program outcome.

Key measures		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Grant Awards*:	Count	14	25	43	39	72
	Amount (\$ 000's)	16,121	14,783	20,831	39,886	69,101
Loans made:	Count	44	72	51	47	72
	Amount (\$ 000's)	74,068	254,652	182,373	200,881	363,465
	Interest savings to borrowers (\$ 000's)	12,817	65,344	40,529	39,712	76,129
<ul style="list-style-type: none"> • Includes principal forgiveness awarded from the CWRD and DWRF as provided under federal and state law. 						

Budget Trends



¹ FY 2010-11 is estimated, not actual.

² FY 2010 expenditures include \$343 million for refunding prior debt issuances.

Federal grants are received and expended in the SRF Clean Water and Drinking Water funds, shown above as "Other".

Source data for the previous chart is the Minnesota Accounting and Procurement System (MAPS) as of 08/27/10.

External Factors Impacting PFA- The large increase in estimated expenditures for FY 2010-11 is due in part to increased debt service payments from refunding bonds issued by PFA to take advantage of favorable interest rates. The increase is also driven by a significant increase in demand from local governments for financing for water infrastructure improvements. The economic slowdown has created a very favorable bidding climate for public infrastructure projects. Combined with historic low interest rates, local governments have seen this as a good time to make needed capital improvements. The PFA has been able to respond to this increase in demand with larger Intended Use Plan project lists due to recent increases in federal capitalization funds and state matching funds for the Clean Water and Drinking Water Revolving Funds. Another factor has been the additional subsidies available through grants from the WIF and dedicated Clean Water Fund programs and principal forgiveness through the CWRF and DWRF which have served as incentives to encourage local governments to move ahead with high priority projects.

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Dollars in Thousands

	Current		Governor Recomm.		Biennium 2012-13
	FY2010	FY2011	FY2012	FY2013	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	82	86	86	86	172
Recommended	82	86	86	86	172
Change		0	0	0	0
% Biennial Change from 2010-11					2.4%
Clean Water					
Current Appropriation	13,441	19,259	19,259	19,259	38,518
Recommended	13,441	19,259	16,200	16,200	32,400
Change		0	(3,059)	(3,059)	(6,118)
% Biennial Change from 2010-11					-0.9%
<u>Expenditures by Fund</u>					
Carry Forward					
Clean Water	0	0	13,741	0	13,741
Direct Appropriations					
General	82	86	86	86	172
Clean Water	4,700	14,259	16,200	16,200	32,400
Statutory Appropriations					
Clean Water Revolving Fund	585,762	364,547	314,012	312,525	626,537
Drinking Water Revolving Fund	57,227	127,037	110,514	109,989	220,503
General	4	0	0	0	0
Miscellaneous Special Revenue	12	142	54	54	108
Transportation Revolving Fund	15,101	26,434	22,779	21,343	44,122
Federal Stimulus	82,967	21,293	0	0	0
Total	745,855	553,798	477,386	460,197	937,583
<u>Expenditures by Category</u>					
Total Compensation	898	996	1,018	1,039	2,057
Other Operating Expenses	2,318	2,998	872	907	1,779
Local Assistance	63,557	33,565	43,604	30,593	74,197
Other Financial Transactions	679,082	516,239	431,892	427,658	859,550
Total	745,855	553,798	477,386	460,197	937,583
<u>Expenditures by Program</u>					
Public Facilities Authority	745,855	553,798	477,386	460,197	937,583
Total	745,855	553,798	477,386	460,197	937,583
Full-Time Equivalent (FTE)	10.9	10.9	11.3	11.3	

PUBLIC FACILITIES AUTHORITY

Change Summary

<i>Dollars in Thousands</i>				
	FY2011	Governor's Recomm.		Biennium
		FY2012	FY2013	2012-13
Fund: GENERAL				
FY 2011 Appropriations	86	86	86	172
Subtotal - Forecast Base	86	86	86	172
Total Governor's Recommendations	86	86	86	172
Fund: CLEAN WATER				
FY 2011 Appropriations	19,259	19,259	19,259	38,518
Technical Adjustments				
One-time Appropriations		(19,259)	(19,259)	(38,518)
Subtotal - Forecast Base	19,259	0	0	0
Change Items				
Clean Water Fund Appropriations	0	16,200	16,200	32,400
Total Governor's Recommendations	19,259	16,200	16,200	32,400
Fund: CLEAN WATER REVOLVING FUND				
Planned Statutory Spending	364,547	314,012	312,525	626,537
Total Governor's Recommendations	364,547	314,012	312,525	626,537
Fund: DRINKING WATER REVOLVING FUND				
Planned Statutory Spending	127,037	110,514	109,989	220,503
Total Governor's Recommendations	127,037	110,514	109,989	220,503
Fund: MISCELLANEOUS SPECIAL REVENUE				
Planned Statutory Spending	142	54	54	108
Total Governor's Recommendations	142	54	54	108
Fund: TRANSPORTATION REVOLVING FUND				
Planned Statutory Spending	26,434	22,779	21,343	44,122
Total Governor's Recommendations	26,434	22,779	21,343	44,122
Fund: FEDERAL STIMULUS				
Planned Statutory Spending	21,293	0	0	0
Total Governor's Recommendations	21,293	0	0	0
Fund: CLEAN WATER				
Planned Statutory Spending	0	13,741	0	13,741
Total Governor's Recommendations	0	13,741	0	13,741

PUBLIC FACILITIES AUTHORITY

Change Item: Clean Water Legacy Fund Appropriations

Fiscal Impact (\$000s)	FY 2012	FY 2013	FY 2014	FY 2015
Clean Water Fund				
Expenditures	\$16,200	\$16,200	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$16,200	\$16,200	0	0

Recommendation

The Governor recommends the following appropriations from the Clean Water Legacy Fund, for both fiscal years 2012 and 2013: \$11.2 million for Total Maximum Daily Load Grants (MS 446A.073), \$4 million for Phosphorus Reduction Grants (MS 446A.074), and \$1 million for the Small Community Wastewater Treatment Program (MS 446A.075).

Rationale

The Public Facilities Authority's (PFA's) Clean Water Legacy Fund point source implementation programs provide funds to assist municipalities to provide additional treatment and take other measures to address impaired waters and address unmet needs in unsewered communities. All PFA Clean Water Legacy Fund programs follow the Pollution Control Agency's Project Priority List which ranks projects based on environmental and public health criteria, and provide additional points to projects necessary to clean up impaired waters.

- The Total Maximum Daily Load (TMDL) grant program provides 50% grants up to \$3 million to assist municipalities to implement wastewater and stormwater projects to comply with wasteload reductions required under TMDL implementation plans. Eligible projects must be directly tied to specific wasteload reductions identified through the TMDL process as being critical to addressing particular water impairment.
- The Phosphorus Reduction grant program provides 50% grants up to \$500,000 to assist municipalities to meet additional capital costs to reduce the levels of phosphorus in their wastewater discharge to 1 milligram per liter or less. The Pollution Control Agency has identified phosphorus as a major contributor to water impairments.
- The Small Community Wastewater Treatment Program provides loans and grants to assist small communities to replace non-complying septic systems, in areas where private systems are not feasible, with new individual and cluster sub-surface sewage treatment systems (SSTS) that will be publicly owned and operated. The program provides technical assistance grants up to \$40,000 for site evaluations and feasibility studies, and construction financing up to \$500,000 per year through loans at 1%, with 50% grants if the community has below average median household income.

Under the TMDL and Phosphorus Reduction grant programs applications are accepted each fiscal year in July and funds are awarded to projects that submit as-bid costs and are approved and certified by June 30. Applications for the Small Community program are accepted year around. Small Community technical assistance grants are awarded as the communities are ready to proceed with feasibility studies. Small Community construction funds are awarded when they submit as-bid costs and are approved and certified by the Pollution Control Agency. Based on program eligibilities, funding from more than one program can be combined, and many projects also receive loans from the PFA's Clean Water Revolving Fund or other sources for the balance of the project funding.

PUBLIC FACILITIES AUTHORITY

Change Item: Clean Water Legacy Fund Appropriations

Key Goals and Measures

The Public Facilities Authority's Clean Water Fund programs contribute directly to water quality improvements in Minnesota lakes and rivers (Minnesota Milestones goal 64). The municipalities that build these projects are responsible for ensuring that the improvements to their wastewater and stormwater systems meet the pollutant load reductions and water quality standards required by the Pollution Control Agency. The Pollution Control Agency will monitor the load reductions achieved and the resulting water quality improvements.

In addition to the water quality improvements, the goal of the Public Facilities Authority through its water infrastructure financing programs is to help municipalities meet their water infrastructure needs to stay economically viable, and to do so at an affordable cost for their residents and businesses. (Minnesota Milestones economic goals: Minnesota will have sustainable, strong economic growth, goals 38 and 39.) In addition, the funding provided through these Clean Water Fund programs achieves significant leveraging of other funds while serving as an incentive to local governments to implement these high priority projects and achieve the specified wasteload reductions as soon as possible rather than waiting for enforcement deadlines.

Program output is measured by the volume of grants and loans made, the program eligible costs (to comply with the TMDL or phosphorus reduction requirements), and the total project costs leveraged by the Clean Water Fund program.

Key Measures		FY 2007	FY 2008	FY 2009	FY 2010
TMDL Grants	Count	3	9	2	5
	Grant Amount (\$000s)	1,564	3,969	523	4,645
	TMDL Eligible Cost (\$000s)	4,041	11,019	1,046	10,943
	Total Project Cost (leveraged funds, \$000s)	4,376	37,375	49,547	66,845
Phosphorus Reduction Grants	Count	4	3	-	6
	Grant Amount (\$000s)	1,305	1,005	-	2,394
	Phos. Eligible. Cost (\$000)	3,000	4,361	-	5,095
	Total Project Cost (leveraged funds, \$000s)	13,426	38,086	-	97,734
Small Community WWT Grants & Loans	Count	2	5	5	6
	Grant/Loan Amount (\$000s)	317	93	134	147
	Total Project Cost (leveraged funds, \$000s)	528	93	134	147

Statutory Change: Not Applicable.

Scope of Federal Funding for the MN Public Facilities Authority

The Authority receives federal capitalization grants from the US Environmental Protection Agency under the Clean Water State Revolving Fund (CWSRF) CFDA 66.458 and the Drinking Water State Revolving Fund (DWSRF) CFDA 66.468.

Federal requirements and state statutes for these programs mandated creation of unique funds to account for all receipts and expenditures under these programs. These funds are deposited in fund 050 for the CWSRF and fund 051 for the DWSRF.

Both programs received additional federal funding under the American Recovery and Reinvestment Act of 2009 (ARRA); \$82.6 million for the CWSRF and \$24.6 million for the DWSRF. \$2.9 million of the CWSRF award was budgeted for administrative costs of the MN Pollution Control Agency.

The CWSRF has received \$614.9 million total in annual federal grants since federal fiscal year 1989, the DWSRF \$263.2 million since 1997.

Purpose and use of federal funds

The federal capitalization grants are deposited into the revolving loan funds and are used, together with state match, fund revenues, and net proceeds of Authority revenue bond issuances, to provide financial assistance to local units of government to fund wastewater and drinking water infrastructure. The primary form of assistance is low interest rate loans. Loan repayments and all fund assets and revenues are pledged to Authority bondholders for payment of the revenue bond debt service. Annually, the excess revenues over the debt service requirements are used for making additional loans or debt service reserves.

Required state match

The state must provide a minimum 20% match to the capitalization grants, though this requirement did not apply to the ARRA awards.

Basis for estimates

Estimated revenues for 2011 thru 2013 are based on historical trends and information available at the time biennial budgets are prepared; actual awards may be less than estimated. Timing of federal grant awards can impact state fiscal year receipts totals because awards in any year may be before or after June 30th, and receipts will generally begin immediately.

Federal Award Name + Brief Purpose	New grant	Required state match/MOE? Yes/No		SFY 2010 Revenues	SFY 2011 Revenues	Estimated SFY 2012 Revenues	Estimated SFY 2013 Revenues
		Match	MOE				
Clean Water State Revolving Fund	No	Yes	No	77,055	52,585	37,499	37,449
Purpose: to provide a long term source of State financing for wastewater infrastructure.							
Drinking Water State Revolving Fund	No	Yes	No	30,439	25,905	23,200	23,200
Purpose: to provide a long term source of State financing for drinking water infrastructure.							
Total				107,494	78,490	60,649	60,649

PUBLIC FACILITIES AUTHORITY

Agency Revenue Summary

Dollars in Thousands

	Actual FY2010	Budgeted FY2011	Governor's Recomm.		Biennium 2012-13
			FY2012	FY2013	
<u>Non Dedicated Revenue:</u>					
Other Revenues:					
General	1	1	1	1	2
Other Sources:					
General	6	3	3	3	6
Total Non-Dedicated Receipts	7	4	4	4	8
<u>Dedicated Receipts:</u>					
Departmental Earnings:					
Clean Water Revolving Fund	2,113	2,100	2,100	2,100	4,200
Drinking Water Revolving Fund	542	600	700	710	1,410
General	13	0	0	0	0
Miscellaneous Special Revenue	19	25	22	22	44
Transportation Revolving Fund	0	20	20	20	40
Grants:					
Clean Water Revolving Fund	12,507	37,449	37,449	37,449	74,898
Drinking Water Revolving Fund	12,020	19,748	23,200	23,200	46,400
Federal Stimulus	82,967	21,293	0	0	0
Other Revenues:					
Clean Water Revolving Fund	37,087	34,519	39,400	38,200	77,600
Drinking Water Revolving Fund	8,757	9,703	11,163	10,642	21,805
Miscellaneous Special Revenue	1	3	2	2	4
Transportation Revolving Fund	2,096	1,832	1,637	1,386	3,023
Other Sources:					
Clean Water Revolving Fund	454,787	286,250	233,010	239,010	472,020
Drinking Water Revolving Fund	32,304	110,474	75,010	75,010	150,020
Miscellaneous Special Revenue	17	13	13	13	26
Transportation Revolving Fund	11,099	16,583	15,180	14,597	29,777
Total Dedicated Receipts	656,329	540,612	438,906	442,361	881,267
Agency Total Revenue	656,336	540,616	438,910	442,365	881,275