

MN PUBLIC FACILITIES AUTHORITY

BOARD MEETING - Minutes

PFA Board Room

August 22, 2019

MEMBERS and DELEGATES PRESENT:

Jennifer Hassemer, Vice - Chair, Management and Budget

Katrina Kessler, Pollution Control Agency

Kristi Schroedl, Department of Transportation

Tom Hogan, Department of Health

Andrea Vaubel, Department of Agriculture

Also present:

Jeff Freeman, Executive Director

Paula Rindels, Housing Financing Agency

Adam Sorenson, Attorney General

Evan Owens, Met Council

Cory McCullough, Met Council

Steve Walter, PFA

Becky Sabie, PFA

Kathe Barrett, PFA

Steve Lafontaine, PFA

Anita Gallentine, PFA

Mary Jane Schultz, PFA

Peter Bradshaw, PFA

Charlotte Paulson, PFA

Jennie Brown, PFA

I. CALL TO ORDER:

Vice Chair Hassemer called the meeting of the Public Facilities Authority to order on August 22, 2019 at 2:02 pm in the PFA Board Room, 1st National Bank Building, Saint Paul, Minnesota.

Roll call taken, present: MMB; MDH; PCA; MDOT; MDA

Absent: DEED

A quorum was established.

II. APPROVAL OF AGENDA

Vice Chair Hassemer entertained a motion to approve the agenda. Motion made by Andrea Vaubel, seconded by Kristi Schroedl.

Approval of the agenda passed unanimously.

III. APPROVAL OF JUNE 4, 2019 MINUTES

Vice Chair Hassemer entertained a motion to approve the minutes from the June 4, 2019 meeting. Motion made by Tom Hogan, seconded by Katrina Kessler.

Approval of the June 4, 2019 Meeting minutes passed unanimously.

IV. 2020 INTENDED USE PLAN – CLEAN WATER REVOLVING FUND

Jeff Freeman provided an overview of the 2020 Clean Water Revolving Fund Intended Use Plan (IUP) and discussed some key policy issues.

With respect to interest rates, Jeff noted that under PFA rules, loan interest rates are set by providing a base interest rate discount from the AAA market rate at the time each loan is made. The base discount is set annually by the PFA board as part of the IUP process. For many years the PFA has set the base discount at 150 basis points (1.5%). With market rates at historically low levels for a number of years, that discount has pushed PFA's average CWRP loan rates down to 1.1% or less for the past five years, and many loans have been at the 1% minimum. Comparing nationally to Clean Water State Revolving Funds in other states Minnesota's loan rates are very low, averaging 28% below the national average over the past nine years. Given strong and growing loan demand and continuing low market rates, Jeff stated it is necessary for PFA to make an adjustment to the base interest rate discount. For the 2020 IUP staff recommends reducing the base interest rate discount to 25 basis points (0.25%). At the current extremely low AAA market rate for 20 year bonds, this will put the PFA loan rate for a city locking in today at approximately 1.08%. Cities under 2500 will continue to be eligible for additional discounts under PFA rules.

Another issue is the allocation of CWRP funds to the nonpoint source programs – the AgBMP program administered by MDA, the Clean Water Partnership program administered by PCA, and the Tourism loan program administered by DEED. Jeff explained that last spring MDA staff meet with PFA staff to discuss the strong growth in AgBMP loan demand relative to the program lending capacity. Over the past two years total loans have increased from approximately \$10 million per year to almost \$20 million, driven by economic conditions, increased program awareness, and implementation of the Minnesota buffer law. MDA staff have indicated that without additional capitalization, the program will have to reduce future loans to approximately \$8 million per year. In the 2019 IUP, the PFA allocated an additional \$1 million to the program. However the strong growth in wastewater loan demand makes it very difficult to make additional new money allocations to the nonpoint programs.

Jeff explained that, in looking at each of the nonpoint programs with respect to available funds, projected loan repayments and projected loan demand, it seems appropriate for the PFA to rebalance the capitalization amounts to maximize the effective utilization of resources. PFA and MPCA staff have discussed the idea of reducing the CWP allocation by \$5 million, which would still leave sufficient resources to for MPCA to continue to implement new strategies and meet future projected lending demand. PFA staff also discussed with DEED reducing the much smaller Tourism Loan Program allocation by \$500,000 which would leave a small amount of available funds if needed. These steps will allow PFA to increase the AgBMP allocation by \$5.5 million. Jeff recommends the PFA make these adjustments to the nonpoint source allocations as part of the 2020 IUP. Staff will monitor the status of each program and potentially revisit the nonpoint funding allocations in future IUPs.

PCA delegate Katrina Kessler and MDA delegate Andrea Vaubel both acknowledged the staff discussions of the proposed reallocations and indicated their support.

Becky Sabie summarized the process of preparing the IUP and reviewed the draft 2020 IUP. The IUP project list is divided into two parts: Part A includes 36 carryover projects from the 2019 IUP totaling \$145 million in estimated CWRP loans, a number of these projects are also eligible for federal principal

forgiveness (grants), state WIF and PSIG grants, and funding from other sources. Part B maintains the same 40 point fundable range from recent years for new projects, which adds 45 new project requests totaling \$110 in estimated loans. The bottom of Table 1 identifies nine IUP project requests that are not eligible at this time, including six that are ranked below the 2020 fundable range, that are being referred to USDA Rural Development for possible funding.

Steve Walter reviewed the CWRP capacity model, indicating that the approximate annual lending capacity is currently \$103 million per year. While this is less than 30% of the potential maximum of \$362 million in the proposed FY 2020 fundable range, we know that, if necessary, we could use CWRP reserves and PFA bonding authority to increase lending in the short-term to fund all requests. A more likely scenario would be FY 2020 loans of approximately \$180 million, roughly 50% of the potential maximum.

Vice Chair Hassemer asked if the PFA has been in contact with cities regarding the rate increase. Jeff indicated that staff has been in contact with a few communities that are close to locking in rates and noted the net impact will not be significant for most. Smaller communities with affordability issues will likely see an increase in their WIF grant amount which will help offset the increase. Steve Walter also pointed out that communities under 2500 population will still be eligible for additional discounts that will limit the impact of the change to the base discount. Jeff noted the net effect will be to strengthen the long term sustainability of the program without a significant impact to individual borrowers.

Resolution 2019-04 approves a 40 point cut-off for new projects; authorizes the Executive Director to solicit public comments on the draft IUP and to approve the 2020 IUP after correcting any errors and adding additional eligible projects based on comments received; authorizes the Executive Director to prepare and execute Interagency Agreements to make the changes to nonpoint source program allocations described above; authorizes the Executive Director to apply for and execute a FY 2020 grant agreement with EPA following appropriation by Congress; authorizes the Chair to approve loan agreements for eligible projects certified by the MPCA and recommended for funding by the Executive Director; and sets the base interest rate discount for loans under the 2020 IUP at 0.25% below the AAA bond rate for loan amounts up to \$50 million.

Vice Chair Hassemer entertained a motion to approve Resolution 2019-04. Motion made by Andrea Vaubel, seconded by Katrina Kessler.

Roll call taken, voting yes: Jennifer Hassemer, MMB; Tom Hogan, MDH; Katrina Kessler, MPCA; Kristi Schroedl, DOT; Andrea Vaubel, MDA.

Voting no: None

Absent: DEED

V. 2020 INTENDED USE PLAN – DRINKING WATER REVOLVING FUND

Jeff gave an overview of the 2020 Drinking Water Revolving Fund Intended Use Plan. The IUP project list is divided into two parts: Part A includes 21 carryover projects from the 2019 IUP totaling \$27 million in DWRF loans. Part B maintains the same 7 point fundable range from recent years for new projects, which adds lists 45 new project loan requests totaling \$150 million. The bottom of Table 1 identifies potential new projects that are not eligible for the IUP at this time along with other small community projects that submitted IUP requests that are being referred to USDA Rural Development for possible loan and grant funding.

Jeff also discussed the recommendation to reduce the base interest rate discount for DWRF loans to 25 basis points (.025%) for the same reasons as described for the CWRF. Becky Sabie then reviewed the 2020 IUP in further detail.

Steve reviewed the DWRF capacity model which shows an approximate annual lending capacity of \$45 million, assuming no additional federal grants or state match. While this is only 25% of the potential maximum of \$176 million in the proposed FY 2020 fundable range, we know that, if necessary, we could use DWRF reserves and PFA bonding authority to increase lending in the short-term to fund all requests. A more likely scenario would be FY 2020 loans of approximately \$64 million, roughly 36% of the potential maximum.

Resolution 2019-05 approves a 7 point fundable range; approves the MDH requested set-aside percentages, authorizes the Executive Director to solicit public comments on the draft IUP and to approve the 2020 IUP; authorizes the Executive Director to apply for and execute a FY 2020 grant agreement with EPA; authorizes the Chair to approve loan agreements for eligible projects certified by the Department of Health and recommended for funding by the Executive Director; and sets the base interest rate discount for loans under the 2020 IUP at 0.25% below the AAA bond rate for loan amounts up to \$22 million.

Vice Chair Hassemer entertained a motion to approve Resolution 2019-05. Motion made by Tom Hogan, seconded by Katrina Kessler.

Roll call taken, voting yes: Jennifer Hassemer, MMB; Tom Hogan, MDH; Katrina Kessler, MPCA; Kristi Schroedl, DOT; Andrea Vaubel, MDA.

Voting no: None

Absent: DEED

VI. 2020 LEGISLATIVE INITIATIVE – DRINKING WATER LEAD SERVICE LINES

Jeff explained that PFA staff and MDH have been in discussions about a possible legislative initiative to make funding available to replace drinking water lead service lines, specifically the privately-owned portion of the service lines. The proposal would require amending the Drinking Water Revolving Fund (DWRF) statutes and also MDH rules for ranking projects on the Project Priority List (PPL).

Cities regularly implement watermain replacement projects to replace aging pipes within the publicly-owned portion of their drinking water systems. Over the years the PFA has provided DWRF financing for many of these projects. However, replacement of the service line connections (connecting houses to the public water main in the street) are more difficult for cities to finance because they are privately-owned, meaning they can't be financed with tax-exempt bonds.

MDH is looking at possible amendments to their PPL rules to rank project proposals from cities to replace lead service lines. These projects are eligible under federal law and PFA could provide loans for these projects under the existing DWRF program using federal funds or loan repayments. (PFA carefully manages the different sources of funds within the DWRF and never uses state bond appropriations or PFA revenue bond proceeds for private activity projects.)

The cost to replace a service line is estimated at \$3,000 - \$5,000 per property. To reduce the net assessment to each house and encourage property owners to participate, we are proposing to use federal principal forgiveness (grant) funds to cover 50% of the costs. Using federal principal forgiveness funds for this purpose would require an amendment to Minnesota Statutes, Section 446A.081. Staff has identified some language in Section 446A.081, Subdivision 9 that could be modified for this purpose.

Tom Hogan provided a Lead Service Line Replacement program handout to members and showed an example of a section of lead service pipe. Further discussion between Board members continued.

Resolution 2019-06 authorizes the Executive Director to continue to work with MDH on this initiative, including seeking proposed changes to the PFA statutes, if the Governor's office make the decision to proceed.

Vice Chair Hassemer entertained a motion to approve Resolution 2019-06. Motion made by Andrea Vaubel, seconded by Katrina Kessler.

Roll call taken, voting yes: Jennifer Hassemer, MMB; Tom Hogan, MDH; Katrina Kessler, MPCA; Kristi Schroedl, DOT; Andrea Vaubel, MDA.

Voting no: None

Absent: DEED

VII. NEXT MEETING

The next PFA Board meeting will be in mid-December. The agenda will include review of the PFA's 2019 independent audit report, review of the draft 2019 Annual Report to the Governor and Legislature, and the draft WIF and PSIG grant needs report to the Legislature.

VIII. ADJOURN

Vice Chair Hassemer made a motion to adjourn the meeting of the Public Facilities Authority.

The meeting adjourned at approximately 3:00 pm.

Respectfully Submitted,



Jeff Freeman, Executive Director
Minnesota Public Facilities Authority