

Table of Contents

Public Facilities Authority

Agency Profile.....	1
Expenditures Overview (REVISED).....	4
Financing by Fund (REVISED).....	5
Change Item: Public Facilities Authority Point Source Implementation Programs (REVISED).....	7
Federal Funds Summary.....	9
Pass Thru Funding Detail.....	10

AT A GLANCE

- PFA manages revolving loan funds and grant programs to help local governments statewide build wastewater, storm water, drinking water and transportation infrastructure.
- Since 1990, PFA has made 967 loans to local governments totaling \$3.8 billion. These below-market-rate loans have provided an estimated \$881 million in interest savings to local governments and their residents.
- Over the past ten years PFA has awarded \$389 million in grants to local governments based on affordability criteria and to address specific environmental goals and objectives.
- PFA has allocated \$89.6 million within its clean water revolving fund to nonpoint source loan programs administered by other agencies. These funds have generated a total of \$234 million in loans to implement 17,594 best management practices.

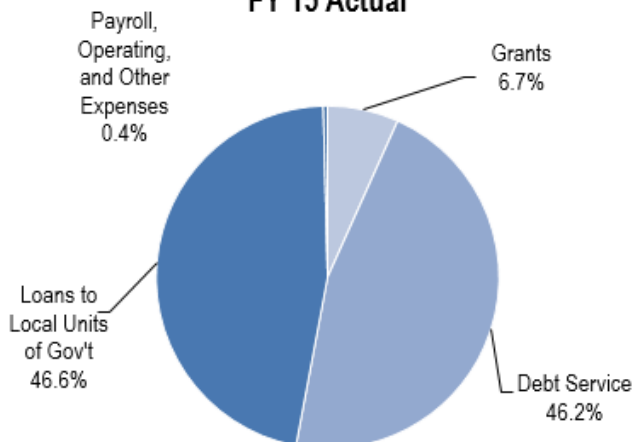
PURPOSE

The Minnesota Public Facilities Authority (PFA) is a multi-agency authority that provides financing and technical assistance to local governments for infrastructure projects that support a thriving economy that encourages business growth and employment opportunities, and a clean, healthy environment with sustainable uses of natural resources.

PFA priorities are to 1) manage capital assets (currently \$1.9 billion) to ensure a stable source of infrastructure financing in perpetuity; 2) provide financing programs to support water quality, public health, and other priorities identified by PFA member agencies; and 3) help local governments maintain and improve the condition of their water infrastructure assets while keeping costs affordable for their residents.

BUDGET

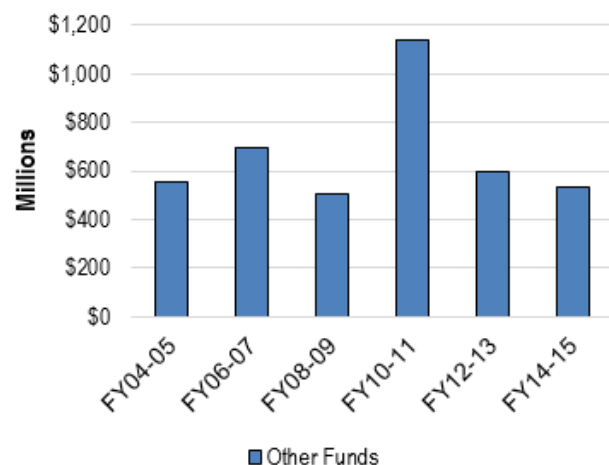
Spending by Category
FY 15 Actual



Note: Debt Service on PFA revenue bonds comes solely from PFA bond fund revenues (loan repayments and investment earnings).

Source: SWIFT

Historical Spending

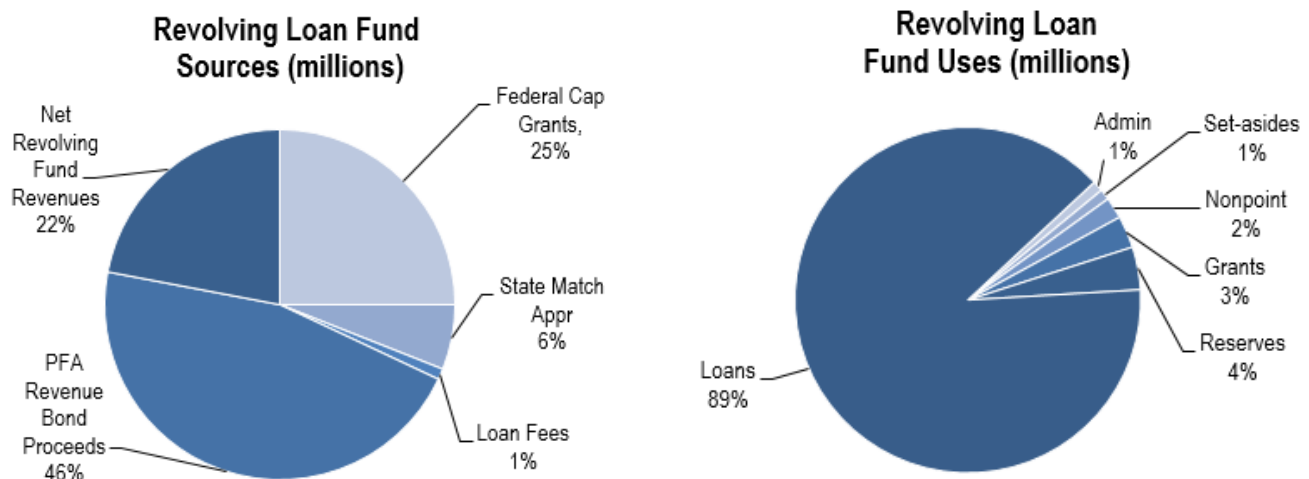


Note: FY 2010-2011 expended high due to two factors: 1) Federal ARRA stimulus funding, and 2) early bond redemptions due to low market rates.

Source: Consolidated Fund Statement

PFA receives no general fund appropriations. Revolving loan fund resources include federal grants and state matching appropriations from bond proceeds. These resources are leveraged by selling PFA AAA-rated revenue bonds. Other programs are funded with state appropriations from bond proceeds and from the Clean Water Legacy Fund. Administrative costs are paid from loan servicing and grant application fees.

Sources and Uses to-date for PFA's Clean Water, Drinking Water, and Transportation revolving loan funds



Notes: Revenues (loan repayments and investment earnings) are net of debt service on bonds.

Source: PFA Internal records

STRATEGIES

The PFA Board is composed of commissioners of the Departments of Employment and Economic Development, Minnesota Management and Budget, Health, Agriculture, and Transportation, and the Pollution Control Agency. PFA manages its infrastructure financing programs to maximize economic, environmental, and public health outcomes. PFA partner agencies are responsible for determining project priorities, conducting technical and environmental reviews, and certifying approved projects to the PFA for funding.

PFA staff is responsible for determining that full project financing is in place and that the applicant has established dedicated revenues to pay debt service and operation and maintenance costs. When an application is approved and construction bids are accepted by the applicant, PFA executes a project financing agreement, disburses funds as eligible project costs are incurred, and collects loan repayments. During project planning and design stages, PFA coordinates funding activities with other state and federal partners to leverage resources and minimize duplication, administrative costs, and confusion for the applicants.

RESULTS

The PFA's revolving loan funds are an efficient tool to provide low cost financing to help local governments replace and improve water infrastructure systems to meet permit requirements, improve water quality, and protect public health. To date, each \$1 of state funds has generated \$16 in construction funding and \$3 in interest savings to the communities and their residents. In addition, PFA's upfront credit review and analysis of loan applications and systematic post loan award surveillance monitoring has helped borrowers achieve a record of no defaults on PFA loans.

Annual project funding is a function of fund availability and demand from local governments. Local government demand for funding varies significantly from year to year, driven by economic factors, the need to replace aging infrastructure, growth and development pressures, and more stringent treatment requirements. The PFA's authority to issue revenue bonds allows it to leverage additional loan funds based on demand. PFA tax-exempt revenue bonds are rated AAA by all three major national rating agencies and are well received in the bond market.

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	Loan Awards (count / \$ millions)	280 / \$1,193	204 / \$703	2007-2011; 2012-2016
Quantity	Loan Awards Interest Savings on Loans (\$ millions)	\$263	\$119	2007-2011; 2012-2016
Quantity	Grant Awards (count / \$ millions)	219 / \$169	170 / \$185	2007-2011; 2012-2016

Note 1: Measures compare the five year periods of state fiscal years 2007-2011 to 2012-2016.

Note 2: Sustained historically low market rates in the current 5 year period have resulted in lower interest savings on loans.

M.S. 446A (<https://www.revisor.mn.gov/statutes/?id=446A>) provides the legal authority for PFA.

(Dollars in Thousands)

Expenditures By Fund

	Actual FY14	Actual FY15	Actual FY16	Estimate FY17	Forecasted Base		Governor's Recommendation	
					FY18	FY19	FY18	FY19
2000 - Restrict Misc Special Revenue	75	22	83	316	123	148	123	148
2302 - Clean Water Fund	6,613	8,554	14,142	39,060	0	0	7,525	9,725
8200 - Clean Water Revolving Fund	103,630	104,455	204,498	113,123	108,981	110,932	108,981	110,932
8201 - Drinking Water Revolving Fund	27,709	28,931	131,883	30,903	19,516	19,474	19,516	19,474
8202 - Transportation Revolving Fund	2,505	2,498	4,915	1,728	1,506	750	1,506	750
Total	140,533	144,460	355,521	185,130	130,125	131,304	137,650	141,029
<i>Biennial Change</i>				255,658		(279,222)		(261,972)
<i>Biennial % Change</i>				90		(52)		(48)
<i>Governor's Change from Base</i>								17,250
<i>Governor's % Change from Base</i>								7

Expenditures by Program

Program: Public Facilities Authority	140,533	144,460	355,521	185,130	130,125	131,304	137,650	141,029
Total	140,533	144,460	355,521	185,130	130,125	131,304	137,650	141,029

Expenditures by Category

Compensation	786	864	919	1,103	1,149	1,165	1,149	1,165
Operating Expenses	280	468	1,035	1,484	501	504	501	504
Other Financial Transactions	124,764	124,916	327,138	129,867	122,422	123,559	122,422	123,559
Grants, Aids and Subsidies	14,703	18,213	26,429	52,676	6,052	6,076	13,577	15,801
Total	140,533	144,460	355,521	185,130	130,125	131,304	137,650	141,029
Total Agency Expenditures	140,533	144,460	355,521	185,130	130,125	131,304	137,650	141,029
Internal Billing Expenditures	104	129	132	130	139	141	139	141
Expenditures Less Internal Billing	140,429	144,332	355,389	185,000	129,987	131,163	137,512	140,888
<u>Full-Time Equivalents</u>	8.0	8.6	9.0	10.4	11.0	11.0	11.0	11.0

2000 - Restrict Misc Special Revenue

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Balance Forward In	126	146	272	335	52	46	52	46
Receipts	94	38	47	71	78	85	78	85
Net Loan Activity	0	110	99	(37)	38	56	38	56
Expenditures	75	22	83	316	123	148	123	148
Balance Forward Out	145	272	335	52	46	40	46	40
<i>Biennial Change in Expenditures</i>				302		(129)		(129)
<i>Biennial % Change in Expenditures</i>				310		(32)		(32)
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0
Full-Time Equivalents	0.5	0.2	0.2	0.6	0.6	0.6	0.6	0.6

2302 - Clean Water Fund

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Balance Forward In	42,563	34,271	36,561	30,365	0	0	0	0
Direct Appropriation	11,000	11,000	9,250	9,250	0	0	7,525	9,725
Net Loan Activity	0	(157)	(269)	(555)	0	0	0	0
Cancellations	12,607	0	1,034	0	0	0	0	0
Expenditures	6,613	8,554	14,142	39,060	0	0	7,525	9,725
Balance Forward Out	34,344	36,561	30,365	0	0	0	0	0
<i>Biennial Change in Expenditures</i>				38,035		(53,202)		(35,952)
<i>Biennial % Change in Expenditures</i>				251		(100)		(68)
<i>Gov's Exp Change from Base</i>								17,250

8200 - Clean Water Revolving Fund

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Balance Forward In	398,881	319,989	258,530	301,997	51,998	50,758	51,998	50,758
Receipts	54,188	58,296	326,477	61,461	110,378	79,005	110,378	79,005
Net Transfers	(2,380)	(1,461)	(78,714)	(1,567)	(1,567)	(1,567)	(1,567)	(1,567)
Net Loan Activity	(27,070)	(13,910)	202	(196,771)	(1,070)	3,501	(1,070)	3,501
Expenditures	103,630	104,455	204,498	113,123	108,981	110,932	108,981	110,932
Balance Forward Out	319,989	258,459	301,997	51,998	50,758	20,765	50,758	20,765
<i>Biennial Change in Expenditures</i>				109,535		(97,708)		(97,708)

8200 - Clean Water Revolving Fund

<i>Biennial % Change in Expenditures</i>			53		(31)	(31)
<i>Gov's Exp Change from Base</i>						0
<i>Gov's Exp % Change from Base</i>						0
Full-Time Equivalents	4.6	5.1	5.4	5.8	6.3	6.3

8201 - Drinking Water Revolving Fund

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Balance Forward In	51,861	56,181	55,432	147,705	2,944	2,680	2,944	2,680
Receipts	17,893	31,388	180,206	27,933	32,442	29,823	32,442	29,823
Net Transfers	0	0	77,150	(595)	(595)	(595)	(595)	(595)
Net Loan Activity	14,137	(3,271)	(33,200)	(141,196)	(12,595)	(9,984)	(12,595)	(9,984)
Expenditures	27,709	28,931	131,883	30,903	19,516	19,474	19,516	19,474
Balance Forward Out	56,181	55,368	147,705	2,944	2,680	2,449	2,680	2,449
<i>Biennial Change in Expenditures</i>				106,146		(123,797)		(123,797)
<i>Biennial % Change in Expenditures</i>				187		(76)		(76)
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0
Full-Time Equivalents	2.7	3.0	3.2	3.6	3.8	3.8	3.8	3.8

8202 - Transportation Revolving Fund

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Balance Forward In	31,057	35,689	39,027	28,836	765	619	765	619
Receipts	1,314	1,208	1,130	1,042	996	924	996	924
Net Transfers	0	0	0	0	0	0	0	0
Net Loan Activity	5,823	4,628	(6,407)	(27,384)	364	(201)	364	(201)
Expenditures	2,505	2,498	4,915	1,728	1,506	750	1,506	750
Balance Forward Out	35,689	39,026	28,836	765	619	591	619	591
<i>Biennial Change in Expenditures</i>				1,640		(4,387)		(4,387)
<i>Biennial % Change in Expenditures</i>				33		(66)		(66)
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0
Full-Time Equivalents	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4

Public Facilities Authority

FY18-19 Biennial Budget Change Item

Change Item Title: Public Facilities Authority Point Source Implementation Programs

Fiscal Impact (\$000s)	FY 2018	FY 2019	FY 2020	FY 2021
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	7,525	9,725	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	7,525	9,725	0	0
FTEs	0	0	0	0

Recommendation:

The Governor recommends a Clean Water Fund appropriation of \$7,525,000 in FY 2018 and \$9,725,000 in FY 2019 from the Clean Water Fund to the Public Facilities Authority for municipal clean water infrastructure. The recommendation includes \$7.4 million in FY 2018 and \$9.6 million in FY 2019 for the Point Source Implementation Grants program and \$125,000 per year for the Small Community Wastewater Treatment program. This reflects the collaborative recommendation of the executive branch water agencies, which includes the Pollution Control Agency (PCA), Department of Natural Resources, Department of Agriculture, Department of Health, Board of Water and Soil Resources, Metropolitan Council, and the Public Facilities Authority (PFA).

Rationale/Background:

The Point Source Implementation Grants program provides grants to help cities upgrade water infrastructure treatment facilities to reduce the discharge of specific pollutants to comply with wasteload requirements and more stringent water-quality based effluent limits for phosphorus, chlorides, and other pollutants. The PFA administers the program in partnership with the PCA which determines eligible projects and priorities. Through Minnesota's interagency water management framework, specific water bodies are identified by the PCA where pollutant reductions are needed to meet water quality standards, and watershed restoration and protection strategies are developed to guide implementation activities, including municipal discharge permit requirements for more stringent effluent limits.

The Small Community Wastewater Treatment program provides grants and loans to assist small unsewered communities with technical assistance and construction funding to replace non-complying septic systems with community subsurface sewage treatment systems (SSTS). The PFA administers the program in partnership with the PCA which determines eligible projects and priorities. Minnesota has many very small unsewered communities with serious environmental and public health problems from failing septic systems. In many of these communities individual private systems are not feasible or affordable due to small lots, poor soils and limited financial capacity.

Proposal:

The existing Point Source Implementation Grants (PSIG) program provides grants of up to \$3 million to municipalities for 50% of eligible project costs for infrastructure construction necessary to meet more stringent permit requirements to achieve specific water quality goals. Proposed projects must be ranked on the PCA's project priority list and the PCA reviews and approves projects prior to grant award. PFA does not award a grant until full project funding is in place and the project is ready to start construction. In many cases PSIG grants are awarded in conjunction with loans from PFA's low interest revolving loan funds. Through its monitoring and enforcement activities, the PCA verifies that completed projects meet the required permit limits and conditions, and monitors progress toward overall water quality goals through its watershed monitoring program.

From FY12 to FY16 the PFA awarded 41 PSIG grants averaging slightly less than \$1 million each. Through listening sessions in fall 2015, city officials strongly communicated that they need additional assistance to meet these more stringent requirements. The Governor's 2017 bonding proposal recommends increasing the PSIG grant percentage to 80% and the maximum grant to

\$7 million, and proposes to supplement Clean Water Fund appropriations with state bond funds. At the beginning of FY 2017, 34 cities had submitted PSIG grant applications with a total grant need of \$100 million based on the higher grant amounts proposed by the Governor. The recommended appropriation, plus the \$62 million in bond funds recommended by the Governor and available funds from prior appropriations, is necessary to meet the current grant need and expected new FY 2018-19 project needs.

The existing Small Community Wastewater Treatment program provides technical assistance grants up to \$60,000 for site evaluations and feasibility studies, and construction financing up to \$2 million through low interest loans and grants based on affordability criteria. All proposed projects must be ranked on the PCA's project priority list. The outcome of a technical assistance grant is a community assessment report that evaluates potential wastewater treatment alternatives with a focus on decentralized soil-based treatment alternatives. The PCA reviews the community assessment reports and construction plans and specifications to ensure that new community systems are designed in accordance with PCA statutes and rules. The PFA reviews construction applications to ensure the borrower has the necessary technical, managerial, and financial capacity to build, operate, and maintain their system. PFA does not award construction loans and grants until full project funding is in place and the project is ready to start construction. Unsewered community needs are significant, with more than 30 potential projects with documented needs on the PCA's project priority list. However, it can often take a number of years for a small unsewered community to evaluate treatment alternatives and determine an appropriate course of action. The recommended appropriation is based on an estimated need for 4-6 technical assistance grants for the biennium.

Results:

The results and trends of these two programs in terms of projects funded and dollars awarded are shown below. In addition, the PCA measures permit compliance, pollutant load reductions, and progress toward meeting water quality protection and restoration goals through its monitoring and enforcement activities.

Point Source Implementation Grant Program:

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	Grant awards to help municipalities comply with permit requirements (count)	14	18	FY13-14 FY15-16
Quantity	Grant awards to help municipalities comply with permit requirements (\$ millions)	\$12.7	\$15.9	FY13-14 FY15-16

Small Community Wastewater Treatment program:

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	Technical assistance grants to help small communities evaluate wastewater treatment alternatives (count / \$ thousands)	4 / \$62k	3 / \$127k	FY13-14 FY15-16
Quality	Construction loans and grants to build community soil-based treatment systems (count / \$ millions)	4 / \$0.7	10 / \$4.3	FY13-14 FY15-16

The executive branch water agencies prepare a Clean Water Fund Performance Report every two years that describe their joint clean water programs, activities and outcomes. The reports are available here: <http://www.legacy.leg.mn/funds/clean-water-fund/clean-water-fund-performance-reports>

Statutory Change(s):

The Governor's 2017 bonding proposal for the Point Source Implementation Grant program includes statutory changes to MS 446A.073 to increase the PSIG grants to 80% of eligible costs with a maximum grant of \$7 million.

FY 2018-19 Federal Funds Summary

(Dollars in Thousands)

Federal Agency and CFDA #	Federal Award Name and Brief Purpose	New Grant	FY2016 Actuals	FY2017 Budget	FY2018 Base	FY2019 Base	Required State Match or MOE?	FTEs
Environmental Protection Agency, CFDA #66.458	Capitalization Grants for Clean Water State Revolving Funds. These funds will pass-through to local units of government for wastewater infrastructure projects. Approximately 90% will be used for low-interest loans and 10% for <i>Principal Forgiveness</i> grants,		\$26,367	\$25,837	\$26,000	\$26,000	20% match	5.8
Environmental Protection Agency, CFDA #66.468	Capitalization Grants for Drinking Water State Revolving Funds. Approximately 22% will be used for MN Department of Health <i>Drinking Water Set-Aside</i> programs. The remainder will pass thru to local units of government for loans and <i>Principal Forgiveness</i> grants, for funding local drinking water infrastructure projects.		\$15,090 \$10,724 B24-PFA plus \$4,366 H12-MDH	\$15,044 \$11,344 B24-PFA plus \$3,700 H12-MDH	\$17,000 \$13,260 B24-PFA plus \$3,740 H12-MDH	\$17,000 \$13,260 B24-PFA plus \$3,740 H12-MDH	20% match	3.8
	Federal Fund – Agency Totals		\$37,092	\$37,181	\$43,000	\$43,000		9.6

Narrative:

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.

The state must provide a minimum 20% match to the capitalization grants. Historically this has been appropriated thru the capital budget process.

Estimated awards for 2018-2019 are based on historical trends and information available at the time biennial budgets are prepared; actual awards may be more or less than estimated. Amounts shown for 2016-2017 reflect actual and budgeted federal draws. Timing of federal grant awards can impact state fiscal year receipts totals because awards in any year may be shortly before or after June 30th, and receipts will generally begin immediately.

Pass-thru (Grants & Loans) Funding Detail

(Dollars in Thousands)

Program Name Federal or State or Both (citation)	Purpose	Recipient Type(s) Eligibility Criteria	FY 2015	FY 2016
Clean Water Legacy: Point Source Implementation Grants 446A.073 state funded	Provides grants to assist with the cost of wastewater or storm water projects to reduce the discharge of phosphorus, nitrogen and other pollutants.	MN local units of government. Must be on the PCA's Project Priority List (PPL).	\$8,098	\$7,778
Clean Water Legacy: Small Community WW 446A.075 state funded	Provides grants and loans to help very small unsewered communities evaluate wastewater alternatives and replace failing septic systems with community subsurface treatment systems.	MN local units of government. Must be on the PCA's PPL.	\$2,142	\$2,274
Wastewater Infrastructure Financing 446A.072 state funded	Provides supplemental grants for high cost wastewater projects based on affordability criteria established by statute.	MN local units of government. Must be on the PCA's PPL.	\$13,907	\$7,892
Clean Water SRF Principal Forgiveness Grants 446A.07 federal funded	Provides principal forgiveness grants, in conjunction with low interest loans, for wastewater infrastructure.	MN local units of government. Must be on the PCA's PPL.	\$3,054	\$8,419
Drinking Water SRF Principal Forgiveness Grants 446A.081 federal funded	Provides principal forgiveness grants, in conjunction with low interest loans, for drinking water infrastructure.	MN local units of government. Must be on the MDH's PPL.	\$7,349	\$2,857
Clean Water SRF low- interest Loans 446A.07 federal funded + state + SRF revolving	Provides low interest loans for wastewater and storm water infrastructure.	MN local units of government. Must be on the PCA's PPL.	\$90,771	\$106,104
Drinking Water low- interest Loans 446A.081 federal funded + state + SRF revolving	Provides low interest loans for drinking water infrastructure.	MN local units of government. Must be on the MDH's PPL.	\$59,931	\$45,845
Transportation Revolving Loan Fund 446A.085 federal funded + state + RLF revolving	Provides low interest loans for transportation infrastructure.	MN local units of government and MN DOT prioritizes, recommends.	\$18,000	

Note: amounts represent awards made during the most recent two full fiscal years.