

(\$ in thousands)

Project Title	Rank	Fund	Project Requests for State Funds			Gov's Rec	Gov's Planning Estimates	
			2024	2026	2028	2024	2026	2028
State Match for Federal Grants to State Revolving Fund Loan Programs	1	GO	39,000	39,000	39,000	39,000	39,000	39,000
Water Infrastructure Funding Program	2	GO	90,000	90,000	90,000	23,485	23,485	23,485
Point Source Implementation Grants Program	3	GO	71,000	71,000	71,000	18,527	18,527	18,527
Emerging Contaminants Grant Program	4	GO	150,000	150,000	150,000	18,000	18,000	18,000
Lead Service Line Replacement Grant Program	5	GF	117,000	117,000	117,000	10,000	10,000	10,000
Total Project Requests			467,000	467,000	467,000	109,012	109,012	109,012
General Obligation Bonds (GO) Total			350,000	350,000	350,000	99,012	99,012	99,012
General Fund Cash (GF) Total			117,000	117,000	117,000	10,000	10,000	10,000

<https://www.mn.gov/pfa>

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.
- Through June 30, 2022, PFA has made 1,243 loans to local governments totaling \$5.1 billion. These below-market-rate loans have provided an estimated \$1.03 billion in interest savings to local governments and their residents.
- Over the past ten fiscal years PFA has awarded \$649 million in grants to local governments based on affordability criteria and to address specific water quality goals and objectives.
- PFA has allocated \$94.8 million within its clean water revolving fund to nonpoint source loan programs administered by other agencies. The Minnesota Department of Agriculture's Best Management Practices program and the Pollution Control Agency's Clean Water Partnership program have used these funds and revolving loan repayments to provide \$366 million in low and no-interest loans to help landowners reduce nonpoint source pollution.

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 and a clean, healthy environment.

PFA priorities are to 1) manage capital assets (currently \$2.1 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.

STRATEGIES

The PFA Board is composed of commissioners of the Departments of Employment and Economic Development, Minnesota Management and Budget, Health, Agriculture, 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.

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

AT A GLANCE

- 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 and a clean, healthy environment.
- The PFA manages three revolving funds, several grant and loan programs, and has authority to issue \$2.0 billion in revenue bonds to raise capital to make loans.
- All major programs are managed in conjunction with PFA member agencies, which establish priorities and provide technical review of projects before funding is approved.

Strategic goals of the PFA are:

- To manage capital assets (currently \$2.1 billion) to ensure a stable source of infrastructure financing in perpetuity.
- To provide financing programs to support water quality, public health, and other priorities identified by PFA member agencies.
- To help local governments maintain and improve their water infrastructure assets while keeping costs affordable for their residents.

Factors Impacting Facilities or Capital Programs

Factors affecting the demand for infrastructure financing include aging municipal infrastructure that is at or beyond its useful life, treatment upgrades needed to restore impaired waters and protect threatened waterbodies, improvements to address chemical and other contamination threats to drinking water systems and new standards to protect public health and safety, a growing awareness of water quality impacts from stormwater runoff and failing septic systems in unsewered communities, and population growth and economic trends. In addition, there are the challenges of meeting these needs while being mindful of the importance of energy and water conservation and climate resiliency, and in the context of a global economy that puts pressure on communities to keep costs of public services priced competitively.

The PFA manages its clean water loan and grant programs in conjunction with the Pollution Control Agency (PCA). Funding priorities for all PFA clean water programs follow the PCA's Project Priority List (PPL) that ranks wastewater and stormwater projects based on age and condition of existing infrastructure and environmental and public health factors. The 2024 clean water PPL lists 299 projects totaling \$3.1 billion that are seeking funding for construction over the next five years.

The PFA manages its drinking water loan and grant programs in conjunction with the Department of Health (MDH). Funding priorities follow the MDH Project Priority List (PPL) that lists drinking water projects based on age and condition of existing infrastructure and public health factors. The 2024 drinking water PPL lists 844 projects totaling \$2.3 billion that are seeking funding for construction over the next five years.

Self-Assessment of Agency Facilities and Assets

The PFA does not own or operate any facilities.

Agency Process for Determining Capital Requests

Local government requests for water infrastructure funding have been growing rapidly. 2024 requests exceed \$500 million for wastewater projects and another \$500 million for drinking water projects. The Clean Water

Revolving Fund (CWRF) and Drinking Water Revolving Fund (DWRF) loan programs are the state’s primary source of financial assistance to help local governments meet their water infrastructure needs, but demand exceeds the annual lending capacity of the revolving funds. Ongoing support from annual federal capitalization grants and state matching funds is needed to continue to build lending capacity. For small disadvantaged communities and communities implementing major water treatment upgrades, WIF and PSIG grants are used to supplement loan funds to make projects affordable.

State Match to Federal Grants to State Revolving Loan Programs. The PFA’s highest priority capital request is for state matching funds to federal capitalization grants for the Clean Water and Drinking Water Revolving Funds. The requested \$39 million will provide the required 20% match for estimated 2025-2026 federal grants up to \$195 million and help build future lending capacity. State match appropriations are directly used to make loans for eligible project costs. The impact of the state appropriations is magnified due to the revolving nature of the loan programs. Overall, since the beginning of the programs, each \$1 of state matching funds has generated \$15 in project construction and more than \$3 in interest savings for local taxpayers.

Water Infrastructure Fund (WIF). The WIF provides supplemental grants based on affordability criteria to communities for high cost wastewater and drinking water projects. WIF grants help communities implement high priority projects that would otherwise be unaffordable. WIF grants are awarded in conjunction with PFA loans or as match to USDA Rural Development funding for small rural communities. The PFA WIF request of \$90 million is based on estimated grant needs for projects expected to be ready for construction over the next two years.

Point Source Implementation Grants (PSIG) Program. The PSIG program provides grants to help cities upgrade treatment facilities to meet more stringent treatment requirements established by the Pollution Control Agency. The PFA PSIG request of \$71 million is based on estimated grant needs for projects expected to be ready for construction over the next two years.

Emerging Contaminants Grant Program. This program will make grants to local governments for the construction of drinking water treatment systems and/or alternative water supplies needed to address Emerging Contaminants such as manganese and polyfluoroalkyl (PFAS) substances. The requested \$150 million will combine state funds with available federal emerging contaminant funds to provide 80% of project costs up to a maximum of \$12 million.

Lead Service Line Replacement Grant Programs. This program will make grants available to municipalities and other community public water supplier to replace public and privately owned lead service lines. The requested \$117 million will move the state toward the goal of removing all lead service lines in public drinking water systems by 2033 as established in statute.

Major Capital Projects Awarded in 2022 and 2023

The following table lists the 80 local governments that received loans and grants during fiscal years 2022-2023 from PFA’s CWRF, DWRF, WIF, and PSIG programs for water infrastructure projects:

Ada	Dawson	Lake Park	Pipestone
Amboy	Detroit Lakes	Lakefield	Robbinsdale
Annandale	Duluth	Lanesboro	Royalton
Askov	Eden Valley	Le Sueur	Saint Cloud
Austin	Ely	Litchfield	Saint Paul
Babbitt	Eveleth	Long Prairie	Saint Paul Regional Water
Battle Lake	Fairmont	Melrose	Sherburn
Borup	Faribault	Menahga	Tracy
Boyd	Floodwood	Metropolitan Council	Two Harbors
Buhl	Foley	Mountain Iron	Warren
Caledonia	Frazee	Mower County	Watertown

Cascade Township
Chisago Lakes JSTC
Cosmos
Crosby
Dassel

Grand Meadow
Hanley Falls
Hawley
Henning
Kandiyohi County

Murdock
Oronoco
Ortonville
Owatonna
Perham

Waverly
Western Lake Superior SD
Wood Lake
Worthington
Zimmerman

(\$ in thousands)

State Match for Federal Grants to State Revolving Fund Loan Programs

AT A GLANCE**2024 Request Amount:** \$39,000**Priority Ranking:** 1

Project Summary: The Public Facilities Authority (PFA) requests \$39,000,000 for deposit to the Clean Water Revolving Fund and the Drinking Water Revolving Fund to make loans to local governments for clean water and drinking water infrastructure projects. The funds will provide the required state match for estimated federal FY 2025-26 US EPA capitalization grants. PFA also recommends statutory changes.

Project Description

The Clean Water Revolving Fund provides low cost financing for municipal wastewater treatment facilities, sewer collection systems and stormwater treatment facilities. Demand for clean water loans is driven by the need to replace aging facilities and sewer lines, provide additional treatment capacity, and meet more stringent treatment requirements.

The Drinking Water Revolving Fund provides low cost financing for municipal drinking water systems, including treatment plants, water towers, water mains, wells and pump houses. Demand for drinking water loans is driven by the need to replace aging facilities, provide additional treatment to meet required public health standards, and replace old water mains to minimize water loss and contamination problems.

Each year the PFA receives funding requests for more than 200 wastewater, stormwater, and drinking water infrastructure projects totaling over \$500 million, more than double the sustainable long-term annual lending capacity of the Clean Water and Drinking Water Revolving Funds.

The PFA's Clean Water and Drinking Water Revolving Funds have a proven track record as effective and efficient programs to finance municipal water infrastructure projects. The AAA ratings of the PFA's clean water and drinking water revenue bonds from Standard and Poors, Fitch, and Moody's reflects the financial strength of the Funds, the credit quality of Minnesota communities, and the PFA's experienced staff and sound financial management.

Policy Proposal: The Clean Water Revolving Fund and Drinking Water Revolving Fund program statutes include specific authorizations for the use of federal principal forgiveness grants as allowed under federal law. In addition to the existing authorizations, amendments to program statutes are proposed to authorize Clean Water principal forgiveness grants for 50% of project costs up to \$3 million for projects that address emerging contaminants as defined by the US EPA, and to authorize

Drinking Water principal forgiveness grants for 50% of project costs up to \$3 million for projects needed to comply with a maximum contaminant level as defined by the federal Safe Drinking Water Act.

Project Rationale

The PFA’s clean water and drinking water revolving loan programs are important infrastructure financing tools to help communities throughout the state reduce borrowing costs for essential infrastructure to serve their residents and businesses and meet public health and environmental requirements. Under federal and state law, PFA loans are made at below-market interest rates. Since inception the PFA has made \$5.0 billion in low interest loans from these two revolving funds, resulting in savings to local taxpayers of over \$1.2 billion compared to market rate financing.

Through the PFA’s revolving loan programs, the impact of the state match funds is leveraged by federal funds, loan repayments, and the PFA’s AAA rated revenue bonds. Overall, each dollar of state matching funds to date has generated \$15 in project construction. Savings to local taxpayers from PFA low-interest loans is approximately \$4 for every \$1 of state matching funds.

Project Timeline

Other Considerations

Eligible projects are prioritized based on environmental and public health criteria and ranked by the Pollution Control Agency (for wastewater and stormwater projects) and the Health Department (for drinking water projects) on their annual project priority lists, ensuring that limited funds are targeted to the highest priority projects.

Impact on Agency Operating Budgets

Operating costs for the Clean Water and Drinking Water Revolving Funds are paid from fees up to 2% collected on loan repayments. These fees are taken from the interest portion of the loan repayments and are not an additional cost to the borrowers. Fee revenues cover the administrative expenses for these programs incurred by the PFA, the Minnesota Pollution Control Agency (MPCA), and the Minnesota Department of Health (MDH).

Description of Previous Appropriations

Prior appropriations for state match to US EPA capitalization grants:

- 1987 \$ 3,200,000
- 1989 \$ 4,700,000
- 1990 \$15,600,000
- 1992 \$ 7,500,000
- 1993 \$ 4,000,000
- 1994 \$13,400,000
- 1996 \$ 4,000,000
- 1997 \$ 4,444,000
- 1998 \$24,000,000

1999 \$ 2,200,000
2000 \$14,893,000
2002 \$16,000,000
2005 \$14,380,000
2006 \$38,800,000
2008 \$30,000,000
2010 \$30,000,000
2012 \$ 8,500,000
2013 \$ 8,000,000
2014 \$12,000,000
2017 \$17,000,000

2018 \$14,000,000

2019 \$ 6,000,000

2020 \$ 25,000,000

2023 \$ 41,000,000

Project Contact Person

Jeff Freeman
Executive Director, Minnesota Public Facilities Authority
651-259-7465
Jeff.Freeman@state.mn.us

Governor's Recommendation

The Governor recommends \$39 million in general obligation bonds for this request. The Governor also recommends amending the program statutes to authorize Clean Water principal forgiveness grants for 50% of project costs up to \$3 million for emerging contaminants, and to authorize Drinking Water principal forgiveness grants for 50% up to \$3 million for projects needed to comply with a maximum contaminant level as defined by the federal Safe Drinking Water Act. Also included are budget estimates of \$39 million for each planning period for 2026 and 2028.

(\$ in thousands)

State Match for Federal Grants to State Revolving Fund Loan Programs

PROJECT FUNDING SOURCES

Funding Source	Prior Years	FY 2024	FY 2026	FY 2028
State Funds Appropriated and Requested				
General Obligation Bonds	\$ 86,000	\$ 39,000	\$ 39,000	\$ 39,000
State Funds Pending				
	\$	\$	\$	\$
Non-State Funds Already Committed				
Other Funding	\$ 1,147,736	\$ 0	\$ 0	\$ 0
Non-State Funds Pending				
Other Funding	\$ 0	\$ 561,000	\$ 561,000	\$ 561,000
TOTAL	\$ 1,233,736	\$ 600,000	\$ 600,000	\$ 600,000

TOTAL PROJECT COSTS

Cost Category	Prior Years	FY 2024	FY 2026	FY 2028
Property Acquisition	\$ 0	\$ 0	\$ 0	\$ 0
Predesign Fees	\$ 0	\$ 0	\$ 0	\$ 0
Design Fees	\$ 0	\$ 0	\$ 0	\$ 0
Project Management	\$ 0	\$ 0	\$ 0	\$ 0
Construction	\$1,233,736	\$ 600,000	\$ 600,000	\$ 600,000
Relocation Expenses	\$ 0	\$ 0	\$ 0	\$ 0
One Percent for Art	\$ 0	\$ 0	\$ 0	\$ 0
Occupancy Costs	\$ 0	\$ 0	\$ 0	\$ 0
Inflationary Adjustment	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL	\$ 1,233,736	\$ 600,000	\$ 600,000	\$ 600,000

IMPACT ON STATE OPERATING COSTS

Cost Category	FY 2024	FY 2026	FY 2028
IT Costs	\$ 0	\$ 0	\$ 0
Operating Budget Impact (\$)	\$ 0	\$ 0	\$ 0
Operating Budget Impact (FTE)	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS

	Amount	Percent of Total
General Fund	\$ 39,000	100 %
User Financing	\$ 0	0 %

STATUTORY REQUIREMENTS

The following requirements will apply to projects after adoption of the bonding bill.

Is this project exempt from legislative review under M.S. 16B.335 subd. 1a?	Yes
Predesign Review (M.S. 16B.335 subd. 3):	
Does this request include funding for predesign?	N/A
Has the predesign been submitted to the Department of Administration?	N/A
Has the predesign been approved by the Department of Administration?	N/A
Will the project design meet the Sustainable Building Guidelines under M.S. 16B.325?	N/A
Will the project designs meet applicable requirements and guidelines for energy conservation and alternative energy sources (M.S. 16B.335 subd. 4 and 16B.32)?	N/A
Have Information Technology Review Preconditions been met (M.S. 16B.335 subd. 5 & 6)?	N/A
Will the project comply with the targeted group purchasing requirement (M.S. 16C.16 subd. 13)?	Yes
Will the project meet public ownership requirements (M.S. 16A.695)?	Yes
Will a use agreement be required (M.S. 16A.695 subd. 2)?	No
Will program funding be reviewed and ensured (M.S. 16A.695 subd. 5)?	Yes
Will the matching funds requirements be met (M.S. 16A.86 subd. 4)?	N/A
Will the project be fully encumbered prior to the Cancellation Deadline (M.S. 16A.642): December 31, 2028?	Yes
M.S. 16A.502 and M.S. 16B.31 (2): Full Funding Required	Yes
M.S. 473.4485: Guideway Project	
Is this a Guideway Project?	No
Is the required information included in this request?	N/A

Water Infrastructure Funding Program

AT A GLANCE**2024 Request Amount:** \$90,000**Priority Ranking:** 2

Project Summary: The Public Facilities Authority requests \$90,000,000 for the Water Infrastructure Funding (WIF) program (MS 446A.072). WIF provides grants to local governments based on affordability criteria, supplementing low-interest loans from the PFA's clean water revolving fund, drinking water revolving fund or match funding from the U.S. Department of Agriculture Rural Development. PFA recommends \$50,000,000 for wastewater projects and \$40,000,000 for drinking water. PFA also recommends statutory changes.

Project Description

WIF grants are targeted to the highest priority projects based on environmental and public health criteria as determined by MPCA or MDH through their clean water and drinking water project priority lists. The WIF program supplements other funding to help communities address their existing water infrastructure needs while keeping costs affordable for their residents.

WIF grants are not awarded until projects are ready to start construction. Each year that WIF funds are available, funds are reserved for projects in priority order after design plans and specifications are approved and certified by MPCA or MDH, or after a funding commitment by USDA Rural Development.

Policy proposal: Language amending the program's statute to increase the maximum project award amount from \$5 million to \$10 million.

Project Rationale

WIF grants are needed to assist financially challenged communities with high priority water infrastructure projects that would otherwise not be affordable for local residents. WIF grants are capped at \$5,000,000 or \$20,000 per connection, whichever is less, unless specifically approved by law. WIF eligible project costs are only those costs necessary to meet existing needs, not to address future growth.

Based on criteria established in M.S. 446A.072, Subd. 5a, municipalities that receive CWRP loans are eligible for WIF grants if the average per household system cost exceeds 1.4% of median household income. Municipalities that receive Drinking Water Revolving Fund loans are eligible for WIF grants if the average per household system cost exceeds 1.2% of median household income.

For USDA Rural Development projects, the WIF program provides up to 65 percent of the grant need

as determined by USDA Rural Development based on their affordability criteria for small rural communities. The unique state/federal partnership with USDA Rural Development helps coordinate assistance for small rural communities, making it easier for them to access funding. Providing WIF grants to match USDA Rural Development funding helps the Minnesota USDA office fund more projects by obligating its allotted federal funds and then accessing the national pool for additional funds for Minnesota communities.

Project Timeline

Other Considerations

For cities to make the necessary up-front investments in pre-construction work, they need to have confidence that funding will be available when their projects are ready for construction. The MPCA and MDH project priority lists rank projects for which cities are seeking funding for construction within a five year period. The current priority lists include more than 100 projects with unfunded WIF needs over \$150 million, and additional WIF eligible projects are expected to submit proposals for the 2024 priority lists. In the fall of 2023 the PFA will survey cities with projects on the project priority lists to more accurately determine estimated WIF needs and project schedules for the PFA’s report on estimated funding needs to the Legislature in February 2024.

The federal infrastructure bill requires approximately half of the state revolving fund supplemental monies to be awarded as principal forgiveness grants, providing additional resources to address WIF affordability needs.

Impact on Agency Operating Budgets

The WIF program is administered in conjunction with the PFA’s Clean Water Revolving Fund and Drinking Water Revolving Fund programs and administrative costs are paid from fees collected on CWRP and DWRF loan repayments. For projects receiving WIF grants to match funding from USDA Rural Development, the state/federal partnership is a cost effective strategy that uses USDA field staff to conduct much of the field work involved in reviewing applications and monitoring projects through construction.

Description of Previous Appropriations

Prior appropriations for the WIF program:

1987	\$ 3,240,951
1989	\$ 390,000
1990	\$ 380,970
1996	\$ 17,500,000
1997	\$ 7,000,000
1998	\$ 15,300,000
1999	\$ 20,500,000
2000	\$ 17,300,000
2003	\$ 13,500,000
2005	\$ 26,903,338

2006 \$ 22,996,039
2008 \$ 15,028,056
2010 \$ 27,000,000
2011 \$ 20,000,000
2012 \$ 15,000,000
2014 \$ 18,333,000
2015 \$ 10,000,000
2017 \$ 55,000,000

2018 \$ 25,000,000
2019 \$ 14,652,000
2020 \$ 55,494,000
2023 \$ 87,200,000

Project Contact Person

Jeff Freeman
Executive Director, Minnesota Public Facilities Authority
651-259-7465
Jeff.Freeman@state.mn.us

Governor's Recommendation

The Governor recommends \$23.485 million in general obligation bonds for this request. The Governor also recommends amending the program's statute to increase the maximum project award amount from \$5 million to \$10 million. Also included are budget estimates of \$23.485 million for each planning period for 2026 and 2028.

(\$ in thousands)

Water Infrastructure Funding Program

PROJECT FUNDING SOURCES				
Funding Source	Prior Years	FY 2024	FY 2026	FY 2028
State Funds Appropriated and Requested				
General Obligation Bonds	\$ 182,346	\$ 90,000	\$ 90,000	\$ 90,000
State Funds Pending				
Non-State Funds Already Committed				
Non-State Funds Pending				
TOTAL	\$ 182,346	\$ 90,000	\$ 90,000	\$ 90,000

TOTAL PROJECT COSTS				
Cost Category	Prior Years	FY 2024	FY 2026	FY 2028
Property Acquisition	\$ 0	\$ 0	\$ 0	\$ 0
Predesign Fees	\$ 0	\$ 0	\$ 0	\$ 0
Design Fees	\$ 0	\$ 0	\$ 0	\$ 0
Project Management	\$ 0	\$ 0	\$ 0	\$ 0
Construction	\$ 182,346	\$ 90,000	\$ 90,000	\$ 90,000
Relocation Expenses	\$ 0	\$ 0	\$ 0	\$ 0
One Percent for Art	\$ 0	\$ 0	\$ 0	\$ 0
Occupancy Costs	\$ 0	\$ 0	\$ 0	\$ 0
Inflationary Adjustment	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL	\$ 182,346	\$ 90,000	\$ 90,000	\$ 90,000

IMPACT ON STATE OPERATING COSTS			
Cost Category	FY 2024	FY 2026	FY 2028
IT Costs	\$ 0	\$ 0	\$ 0
Operating Budget Impact (\$)	\$ 0	\$ 0	\$ 0
Operating Budget Impact (FTE)	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS		
	Amount	Percent of Total
General Fund	\$ 90,000	100 %
User Financing	\$ 0	0 %

STATUTORY REQUIREMENTS

The following requirements will apply to projects after adoption of the bonding bill.

Is this project exempt from legislative review under M.S. 16B.335 subd. 1a?	Yes
Predesign Review (M.S. 16B.335 subd. 3):	
Does this request include funding for predesign?	N/A
Has the predesign been submitted to the Department of Administration?	N/A
Has the predesign been approved by the Department of Administration?	N/A
Will the project design meet the Sustainable Building Guidelines under M.S. 16B.325?	N/A
Will the project designs meet applicable requirements and guidelines for energy conservation and alternative energy sources (M.S. 16B.335 subd. 4 and 16B.32)?	N/A
Have Information Technology Review Preconditions been met (M.S. 16B.335 subd. 5 & 6)?	N/A
Will the project comply with the targeted group purchasing requirement (M.S. 16C.16 subd. 13)?	Yes
Will the project meet public ownership requirements (M.S. 16A.695)?	Yes
Will a use agreement be required (M.S. 16A.695 subd. 2)?	No
Will program funding be reviewed and ensured (M.S. 16A.695 subd. 5)?	Yes
Will the matching funds requirements be met (M.S. 16A.86 subd. 4)?	N/A
Will the project be fully encumbered prior to the Cancellation Deadline (M.S. 16A.642): December 31, 2028?	Yes
M.S. 16A.502 and M.S. 16B.31 (2): Full Funding Required	Yes
M.S. 473.4485: Guideway Project	
Is this a Guideway Project?	No
Is the required information included in this request?	N/A

Point Source Implementation Grants Program

AT A GLANCE**2024 Request Amount:** \$71,000**Priority Ranking:** 3

Project Summary: The Public Facilities Authority (PFA) requests \$71,000,000 for the Point Source Implementation Grants (PSIG) program under MS 446A.073 to provide grants to cities to help pay for treatment plant upgrades to address water quality restoration and protection goals. PFA also recommends statutory changes.

Project Description

The PSIG program provides grants for infrastructure construction projects needed to improve water quality by meeting more stringent permit requirements to reduce the discharge of specific pollutants. The Public Facilities Authority (PFA) administers the program in partnership with the Pollution Control Agency (PCA). Proposed projects must be ranked on the PCA's project priority list (PPL) and the PCA reviews and approves projects prior to grant award. PFA does not award a grant until full project funding is in place, which may include local funds and other PFA funds.

Policy proposal: Language amending the program's statute to increase the maximum project award amount from \$7 million to \$12 million.

Project Rationale

The PSIG program provides grants for infrastructure construction projects needed to improve water quality by meeting more stringent permit requirements to reduce the discharge of specific pollutants. The Public Facilities Authority (PFA) administers the program in partnership with the Pollution Control Agency (PCA). Proposed projects must be ranked on the PCA's project priority list (PPL) and the PCA reviews and approves projects prior to grant award. PFA does not award a grant until full project funding is in place, which may include local funds and other PFA funds.

Project Timeline**Other Considerations**

The PSIG program provides grants for infrastructure construction projects needed to improve water quality by meeting more stringent permit requirements to reduce the discharge of specific pollutants. The Public Facilities Authority (PFA) administers the program in partnership with the Pollution Control Agency (PCA). Proposed projects must be ranked on the PCA's project priority list (PPL) and the PCA reviews and approves projects prior to grant award. PFA does not award a grant until full project funding is in place, which may include local funds and other PFA funds.

Impact on Agency Operating Budgets

Administrative costs are paid partially from PSIG grant application fees of 1/2 of 1%, collected under MS 446A.04 Subd. 5. The PSIG program is administered in conjunction with the PCA's Clean Water PPL, so a portion of the Clean Water Revolving Fund loan fees are also used for PSIG administration.

Description of Previous Appropriations

Previous appropriations for the PSIG program from FY 2013-2019 are shown below.

2013 \$18,000,000 Clean Water (Legacy) Fund

2015 \$18,000,000 Clean Water (Legacy) Fund

2017 \$15,750,000 Clean Water (Legacy) Fund

2017 \$33,737,000 G.O. Bond Proceeds Fund

2019 \$38,348,000 G.O. Bond Proceeds Fund

2019 \$18,000,000 Clean Water (Legacy) Fund

2020 \$44,553,000 G.O. Bond Proceeds Fund

2021 \$15,936,000 Clean Water (Legacy) Fund (\$7,968,000 each FY 2022-23)

2023 \$16,500,000 Clean Water (Legacy) Fund (\$8,250,000 each FY 2024-25)

2023 \$80,000,000 G.O. Bond Proceeds Fund

Project Contact Person

Jeff Freeman

Executive Director, Minnesota Public Facilities Authority

651-259-7465

Jeff.Freeman@state.mn.us

Governor's Recommendation

The Governor recommends \$18.527 million in general obligation bonds for this request. The Governor also recommends amending the program's statute to increase the maximum project award amount from \$7 million to \$12 million. Also included are budget estimates of \$18.527 million for each planning period for 2026 and 2028.

(\$ in thousands)

Point Source Implementation Grants Program

PROJECT FUNDING SOURCES

Funding Source	Prior Years	FY 2024	FY 2026	FY 2028
State Funds Appropriated and Requested				
General Obligation Bonds	\$ 162,901	\$ 71,000	\$ 71,000	\$ 71,000
Other Funding	\$ 50,436	\$ 0	\$ 0	\$ 0
State Funds Pending				
Non-State Funds Already Committed				
Other State Funds	\$ 15,936	\$ 0	\$ 0	\$ 0
Non-State Funds Pending				
TOTAL	\$ 229,273	\$ 71,000	\$ 71,000	\$ 71,000

TOTAL PROJECT COSTS

Cost Category	Prior Years	FY 2024	FY 2026	FY 2028
Property Acquisition	\$ 0	\$ 0	\$ 0	\$ 0
Predesign Fees	\$ 0	\$ 0	\$ 0	\$ 0
Design Fees	\$ 0	\$ 0	\$ 0	\$ 0
Project Management	\$ 0	\$ 0	\$ 0	\$ 0
Construction	\$ 229,273	\$ 71,000	\$ 71,000	\$ 71,000
Relocation Expenses	\$ 0	\$ 0	\$ 0	\$ 0
One Percent for Art	\$ 0	\$ 0	\$ 0	\$ 0
Occupancy Costs	\$ 0	\$ 0	\$ 0	\$ 0
Inflationary Adjustment	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL	\$ 229,273	\$ 71,000	\$ 71,000	\$ 71,000

IMPACT ON STATE OPERATING COSTS

Cost Category	FY 2024	FY 2026	FY 2028
IT Costs	\$ 0	\$ 0	\$ 0
Operating Budget Impact (\$)	\$ 0	\$ 0	\$ 0
Operating Budget Impact (FTE)	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS

	Amount	Percent of Total
General Fund	\$ 71,000	100 %

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS

	Amount	Percent of Total
User Financing	\$ 0	0 %

STATUTORY REQUIREMENTS

The following requirements will apply to projects after adoption of the bonding bill.

Is this project exempt from legislative review under M.S. 16B.335 subd. 1a?	Yes
Predesign Review (M.S. 16B.335 subd. 3):	
Does this request include funding for predesign?	N/A
Has the predesign been submitted to the Department of Administration?	N/A
Has the predesign been approved by the Department of Administration?	N/A
Will the project design meet the Sustainable Building Guidelines under M.S. 16B.325?	N/A
Will the project designs meet applicable requirements and guidelines for energy conservation and alternative energy sources (M.S. 16B.335 subd. 4 and 16B.32)?	N/A
Have Information Technology Review Preconditions been met (M.S. 16B.335 subd. 5 & 6)?	N/A
Will the project comply with the targeted group purchasing requirement (M.S. 16C.16 subd. 13)?	Yes
Will the project meet public ownership requirements (M.S. 16A.695)?	Yes
Will a use agreement be required (M.S. 16A.695 subd. 2)?	No
Will program funding be reviewed and ensured (M.S. 16A.695 subd. 5)?	Yes
Will the matching funds requirements be met (M.S. 16A.86 subd. 4)?	N/A
Will the project be fully encumbered prior to the Cancellation Deadline (M.S. 16A.642): December 31, 2028?	Yes
M.S. 16A.502 and M.S. 16B.31 (2): Full Funding Required	Yes
M.S. 473.4485: Guideway Project	
Is this a Guideway Project?	No
Is the required information included in this request?	N/A

Emerging Contaminants Grant Program

AT A GLANCE

2024 Request Amount: \$150,000

Priority Ranking: 4

Project Summary: The Public Facilities Authority (PFA) requests \$150,000,000 for grants to local governments for the construction of drinking water treatment systems and/or alternative water supplies needed to address impacts from Emerging Contaminants such as manganese and polyfluoroalkyl (PFAS) substances.

Project Description

The request will provide initial funding for a new grant program to assist local governments to construct projects to meet state drinking water standards for manganese and upcoming state and federal standards for per- and polyfluoroalkyl substances. The program will combine state funds with available federal emerging contaminant funds to provide grants for 80% of project costs up to a maximum of \$12,000,000. Eligible projects must be listed on the Department of Health (MDH) Drinking Water Revolving Fund Project Priority List and be reviewed and certified according to the MDH’s rules. The PFA shall not award a grant until the applicant has submitted as-bid construction costs.

Project Rationale

Not all municipal public water suppliers exceed state and federal standards for emerging contaminants. MDH testing shows that an estimated 40 municipalities across the state will not be able to meet the federal and state drinking water standards for PFAS and 24 municipalities are currently unable to meet the state drinking water guidance values for manganese.

The strongest and most consistently observed evidence for harmful impacts on human health from PFAS is immune suppression (such as decreased vaccination response), changes in liver function (such as higher cholesterol, elevated liver enzymes), and lower birth weight. In addition, perfluorooctanoic acid (PFOA) has also been associated with kidney cancer. There is evidence for additional health effects from different PFAS, including: nonalcoholic liver disease and dyslipidemia, preeclampsia and pregnancy-related hypertension, and hypothyroidism and increased thyroid disease. The latest information indicates that fetuses and infants are more vulnerable. Long term exposure to PFAS such as PFOA, perfluorooctane sulfonate (PFOS), and perfluorohexane sulfonate (PFHxS) leads to a buildup of these chemicals in the body. In women of child-bearing age who experience long term exposure, the buildup of these chemicals can be passed on to the fetus and breastfed babies.

Similarly, children and adults who drink water with high levels of manganese for a long time may have

problems with memory, attention, and motor skills. Infants (babies under one year old) may develop learning and behavior problems if they drink water with too much manganese in it.

Analysis by MDH has shown that the communities impacted by PFAS and manganese have no recourse other than to construct projects such as drinking water treatment facilities or new wells in order to be able to provide safe water to their residents. These project expenses are significant and over and above the costs that all local governments face to operate and maintain their public water supply systems.

Project Timeline

Project implementation in all impacted municipalities is expected to take up to ten years, with eligible projects requiring significant engineering predesign and design work and construction expected to be significantly impacted by persistent supply chain challenges.

The PFA's 2024 project list includes eight manganese projects and one PFAS project scheduled for 2024 construction.

Other Considerations

Financial considerations:

The program will be administered in conjunction with the PFA's Drinking Water Revolving Fund (DWRf) in partnership with the MDH. Through the DWRf, the agencies have a well-established process for jointly administering and regulating drinking water infrastructure work. This process has successfully invested millions of dollars in local government infrastructure projects statewide.

The federal Infrastructure Investment and Jobs Act (IIJA) included dedicated funding over five years to address emerging contaminants in community water systems. Minnesota expects to receive approximately \$120 million over five years, including federal funds through the DWRf and dedicated federal funds for small and disadvantaged communities. The requested state funds will supplement the available federal funds to provide 80% grants up to \$12 million to local governments for projects to address emerging contaminants. The MDH estimates the total cost to provide these grants to all impacted municipalities is \$450 million.

Local governments will be able to access PFA's DWRf low interest loans for project costs that exceed the limits for state emerging contaminant grants. Additionally, some projects may be eligible based on affordability criteria for Water Infrastructure Fund (WIF) grants to offset a portion of the DWRf loan.

Public Health and Safety:

The strongest and most consistently observed evidence for harmful impacts on human health from PFAS is immune suppression (such as decreased vaccination response), changes in liver function (such as higher cholesterol, elevated liver enzymes), and lower birth weight. In addition, perfluorooctanoic

acid (PFOA) has also been associated with kidney cancer. There is evidence for additional health effects from different PFAS, including: nonalcoholic liver disease and dyslipidemia, preeclampsia and pregnancy-related hypertension, and hypothyroidism and increased thyroid disease. The latest information indicates that fetuses and infants are more vulnerable. Long term exposure to PFAS such as PFOA, perfluorooctane sulfonate (PFOS), and perfluorohexane sulfonate (PFHxS) leads to a buildup of these chemicals in the body. In women of child-bearing age who experience long term exposure, the buildup of these chemicals can be passed on to the fetus and breastfed babies.

Similarly, children and adults who drink water with high levels of manganese for a long time may have problems with memory, attention, and motor skills. Infants (babies under one year old) may develop learning and behavior problems if they drink water with too much manganese in it.

Equity and Inclusion:

MDH and PFA strive to improve, maintain, and protect the health of all Minnesotans through the incorporation of affordability criteria in the project funding framework. All community public water systems provide water to Minnesotans in their homes, where they have the highest exposure to drinking water. Of these approximately 1,000 public water suppliers serve smaller cities in Minnesota, with half of these serving populations less than 500 and another third serving populations between 501 and 3,300. The small customer base and limited user revenues makes it very difficult for these cities to invest in the essential infrastructure needed to ensure an uninterrupted supply of safe drinking water while keeping user rates affordable. Access to the proposed state funding dedicated to addressing the human health risks posed by emerging contaminants will be especially important to those communities that most need the assistance.

Impact on Children and Families:

Children and families rely on the dependable delivery of safe drinking water. As explained earlier, the health impacts of both PFAS and manganese are magnified in sensitive populations such as infants and children and women of childbearing age. Children are typically more susceptible to drinking water contaminants than adults due to their consumption of much higher ratio of water to body weight. PFAS accumulates in the human body and can be transferred to fetuses and breastfed infants.

Safeguarding our drinking water sources and securing the quality of all water systems is an important foundation for protecting and improving the health of children and families, and for keeping our communities vibrant.

Impact on Agency Operating Budgets

The PFA administrative costs are paid from loan servicing and grant application fees.

Description of Previous Appropriations

None.

Project Contact Person

Jeff Freeman

Executive Director

651-259-7465

jeff.freeman@state.mn.us

Governor's Recommendation

The Governor recommends \$18 million in general obligation bonds for this request. Also included are budget estimates of \$18 million for each planning period for 2026 and 2028.

(\$ in thousands)

Emerging Contaminants Grant Program

PROJECT FUNDING SOURCES

Funding Source	Prior Years	FY 2024	FY 2026	FY 2028
State Funds Appropriated and Requested				
General Obligation Bonds	\$ 0	\$ 150,000	\$ 150,000	\$ 150,000
State Funds Pending				
Non-State Funds Already Committed				
Non-State Funds Pending				
TOTAL	\$ 0	\$ 150,000	\$ 150,000	\$ 150,000

TOTAL PROJECT COSTS

Cost Category	Prior Years	FY 2024	FY 2026	FY 2028
Property Acquisition	\$ 0	\$ 0	\$ 0	\$ 0
Predesign Fees	\$ 0	\$ 0	\$ 0	\$ 0
Design Fees	\$ 0	\$ 0	\$ 0	\$ 0
Project Management	\$ 0	\$ 0	\$ 0	\$ 0
Construction	\$ 0	\$ 150,000	\$ 150,000	\$ 150,000
Relocation Expenses	\$ 0	\$ 0	\$ 0	\$ 0
One Percent for Art	\$ 0	\$ 0	\$ 0	\$ 0
Occupancy Costs	\$ 0	\$ 0	\$ 0	\$ 0
Inflationary Adjustment	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL	\$ 0	\$ 150,000	\$ 150,000	\$ 150,000

IMPACT ON STATE OPERATING COSTS

Cost Category	FY 2024	FY 2026	FY 2028
IT Costs	\$ 0	\$ 0	\$ 0
Operating Budget Impact (\$)	\$ 0	\$ 0	\$ 0
Operating Budget Impact (FTE)	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS

	Amount	Percent of Total
General Fund	\$ 150,000	100 %
User Financing	\$ 0	0 %

STATUTORY REQUIREMENTS

The following requirements will apply to projects after adoption of the bonding bill.

Is this project exempt from legislative review under M.S. 16B.335 subd. 1a?	Yes
Predesign Review (M.S. 16B.335 subd. 3):	
Does this request include funding for predesign?	N/A
Has the predesign been submitted to the Department of Administration?	N/A
Has the predesign been approved by the Department of Administration?	N/A
Will the project design meet the Sustainable Building Guidelines under M.S. 16B.325?	N/A
Will the project designs meet applicable requirements and guidelines for energy conservation and alternative energy sources (M.S. 16B.335 subd. 4 and 16B.32)?	N/A
Have Information Technology Review Preconditions been met (M.S. 16B.335 subd. 5 & 6)?	N/A
Will the project comply with the targeted group purchasing requirement (M.S. 16C.16 subd. 13)?	Yes
Will the project meet public ownership requirements (M.S. 16A.695)?	Yes
Will a use agreement be required (M.S. 16A.695 subd. 2)?	No
Will program funding be reviewed and ensured (M.S. 16A.695 subd. 5)?	N/A
Will the matching funds requirements be met (M.S. 16A.86 subd. 4)?	N/A
Will the project be fully encumbered prior to the Cancellation Deadline (M.S. 16A.642): December 31, 2028?	Yes
M.S. 16A.502 and M.S. 16B.31 (2): Full Funding Required	Yes
M.S. 473.4485: Guideway Project	
Is this a Guideway Project?	N/A
Is the required information included in this request?	N/A

Lead Service Line Replacement Grant Program**AT A GLANCE****2024 Request Amount:** \$117,000**Priority Ranking:** 5

Project Summary: The Public Facilities Authority (PFA) requests \$117,000,000 for the Lead Service Line Replacement Program to make grants to municipalities and other community public water suppliers to replace public and privately owned lead service lines. The funds will continue to move the state toward the goal to remove all lead service lines in public drinking water systems by 2033 as established in MS 446A.078.

Project Description

The Lead Service Line Replacement Program was established in 2023 under MS 446A.077 to provide state funds to supplement federal funds in the Infrastructure Investment and Jobs Act (IIJA) for the replacement of drinking water lead service lines. Combining state and federal funds will allow all public and private costs for replacement of lead service lines to be covered which will greatly reduce barriers to achieving the stage goal of replacing all lead service lines by 2033. All eligible recipients must be listed on the Minnesota Department of Health (MDH) Priority Projects List to facilitate the coordination of state and federal funds.

The program requires each applicant to submit a plan for replacement of all lead service lines in the service area that describes how the recipient will prioritize the expenditure of grant funds, including targeting areas with children with elevated blood lead levels and children under the age of five, targeting lines that provide drinking water to schools and childcare facilities, and targeting areas with lower-income residents and other disadvantaged communities. The program allows up to 10% of funds appropriated to be used by MDH to provide technical assistance to community water suppliers for lead service line mapping and inventory activities.

Project Rationale

The 2019 Lead in Minnesota Water report issued by the state's Department of Health (MDH) states that Center for Disease Control (CDC) has found no safe level of lead exposure. The report identifies the removal of lead service lines as a high priority. The MDH estimates that 100,000 lead service lines remain in community water systems statewide. At an estimated average cost of \$10,000 to replace each line, the total estimated cost is \$1 billion. Subtracting federal IIJA funds and the 2023 state appropriation, the remaining estimated cost is \$584 million (\$117 per biennium to meet the 10 year state goal).

In most cities, ownership of water service lines is split between the public water supplier and the private property owner, creating significant funding challenges. Combining state general fund appropriations and federal funds through the Drinking Water Revolving Fund maximizes the effectiveness of funding to remove all lead service lines.

Project Timeline

The PFA's project list includes 64 lead service line projects in 43 cities for construction in 2024. The pace of projects is expected to accelerate in future years as more cities complete lead service line inventories and preliminary project planning.

Other Considerations

According to the 2019 MDH report, lead service lines contribute to about 50 percent of the total mass of lead measured at the tap. Nationwide more than 70 percent of cities with populations greater than 30,000 use lead water lines. The report states that lead service lines contribute significantly to lead in drinking water, thus the national effort to identify and remove these pipes.

Health equity:

According to the Lead Service Line Replacement Collaborative and highlighted in the 2019 MDH report, addressing lead hazards in water improves equity in high-risk communities. A comprehensive approach to lead service line replacement should include steps to protect people with low incomes and limited access to capital for lead service line replacement.

Impact on Agency Operating Budgets

The PFA administrative costs are paid from loan servicing and grant application fees.

Description of Previous Appropriations

None.

Project Contact Person

Jeff Freeman
Executive Director
651-259-7465
jeff.freeman@state.mn.us

Governor's Recommendation

The Governor recommends \$10 million in general fund cash for this request. Also included are budget estimates of \$10 million for each planning period for 2026 and 2028.

(\$ in thousands)

Lead Service Line Replacement Grant Program

PROJECT FUNDING SOURCES

Funding Source	Prior Years	FY 2024	FY 2026	FY 2028
State Funds Appropriated and Requested				
General Fund Cash	\$ 240,000	\$ 117,000	\$ 117,000	\$ 117,000
State Funds Pending				
Non-State Funds Already Committed				
Non-State Funds Pending				
TOTAL	\$ 240,000	\$ 117,000	\$ 117,000	\$ 117,000

TOTAL PROJECT COSTS

Cost Category	Prior Years	FY 2024	FY 2026	FY 2028
Property Acquisition	\$ 0	\$ 0	\$ 0	\$ 0
Predesign Fees	\$ 0	\$ 0	\$ 0	\$ 0
Design Fees	\$ 0	\$ 0	\$ 0	\$ 0
Project Management	\$ 0	\$ 0	\$ 0	\$ 0
Construction	\$ 240,000	\$ 117,000	\$ 117,000	\$ 117,000
Relocation Expenses	\$ 0	\$ 0	\$ 0	\$ 0
One Percent for Art	\$ 0	\$ 0	\$ 0	\$ 0
Occupancy Costs	\$ 0	\$ 0	\$ 0	\$ 0
Inflationary Adjustment	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL	\$ 240,000	\$ 117,000	\$ 117,000	\$ 117,000

IMPACT ON STATE OPERATING COSTS

Cost Category	FY 2024	FY 2026	FY 2028
IT Costs	\$ 0	\$ 0	\$ 0
Operating Budget Impact (\$)	\$ 0	\$ 0	\$ 0
Operating Budget Impact (FTE)	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS

	Amount	Percent of Total
General Fund	\$ 0	
User Financing	\$ 0	

STATUTORY REQUIREMENTS

The following requirements will apply to projects after adoption of the bonding bill.

Is this project exempt from legislative review under M.S. 16B.335 subd. 1a?	Yes
Predesign Review (M.S. 16B.335 subd. 3):	
Does this request include funding for predesign?	N/A
Has the predesign been submitted to the Department of Administration?	N/A
Has the predesign been approved by the Department of Administration?	N/A
Will the project design meet the Sustainable Building Guidelines under M.S. 16B.325?	N/A
Will the project designs meet applicable requirements and guidelines for energy conservation and alternative energy sources (M.S. 16B.335 subd. 4 and 16B.32)?	N/A
Have Information Technology Review Preconditions been met (M.S. 16B.335 subd. 5 & 6)?	N/A
Will the project comply with the targeted group purchasing requirement (M.S. 16C.16 subd. 13)?	Yes
Will the project meet public ownership requirements (M.S. 16A.695)?	Yes
Will a use agreement be required (M.S. 16A.695 subd. 2)?	No
Will program funding be reviewed and ensured (M.S. 16A.695 subd. 5)?	N/A
Will the matching funds requirements be met (M.S. 16A.86 subd. 4)?	N/A
Will the project be fully encumbered prior to the Cancellation Deadline (M.S. 16A.642): December 31, 2028?	Yes
M.S. 16A.502 and M.S. 16B.31 (2): Full Funding Required	Yes
M.S. 473.4485: Guideway Project	
Is this a Guideway Project?	N/A
Is the required information included in this request?	N/A