

(\$ in thousands)

| Project Title   | Priority Ranking | Funding Source | Project Requests for State Funds |                  |                  |
|---|------------------|----------------|----------------------------------|------------------|------------------|
|   |                  |                | 2016                             | 2018             | 2020             |
| State Matching Funds for U.S. EPA SRF Capitalization Grants | 1                | GO             | \$ 17,000                        | \$ 17,000        | \$ 17,000        |
| Wastewater Infrastructure Fund                              | 2                | GO             | \$ 50,000                        | \$ 50,000        | \$ 50,000        |
| <b>Total Project Requests</b>                               |                  |                | <b>\$ 67,000</b>                 | <b>\$ 67,000</b> | <b>\$ 67,000</b> |
| <b>General Obligation Bonds (GO) Total</b>                  |                  |                | <b>\$ 67,000</b>                 | <b>\$ 67,000</b> | <b>\$ 67,000</b> |

**State Matching Funds for U.S. EPA SRF Capitalization Grants**

**AT A GLANCE**

**2016 Request Amount:** \$17,000

**Priority Ranking:** 1

**Project Summary:** The Public Facilities Authority (PFA) is requesting \$17,000,000 to provide the required 20% state match for estimated federal FY 2017-18 capitalization grants for the Clean Water Revolving Fund (M.S. 446A.07), and the Drinking Water Revolving Fund (M.S. 446A.081). The state and federal funds will be used together with loan repayments and PFA revenue bonds to provide low interest loans to local governments for clean water (wastewater and stormwater) and drinking water infrastructure projects.

**Project Description**

The Clean Water Revolving Fund provides financing for municipal wastewater treatment facilities, sewer collection systems and interceptors, and also for infiltration basins, rain gardens, and other components for stormwater treatment. Demand for clean water loans is driven by cities' need to replace aging facilities, provide additional treatment capacity, and meet more stringent treatment requirements including stormwater requirements.

The Drinking Water Revolving Fund provides financing for municipal drinking water systems, including treatment plants, water towers, watermains, 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 watermains 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 \$400 million, more than double the sustainable long-term annual lending capacity of the Clean Water and Drinking Water Revolving Funds. Additional federal and state support is needed to build future lending capacity in order to continue to meet high priority water infrastructure needs.

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.

**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, while providing 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. Through FY 2015, the PFA has made low interest loans from these two revolving funds in excess of \$3.3 billion, resulting in interest savings to local taxpayers of over \$782 million 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 over \$13 in project construction. The interest savings for local taxpayers from PFA low-interest loans is more than \$3 for every \$1 of state matching funds.

## **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**

The PFA operates the Clean Water and Drinking Water Revolving Funds from a combination of federal administrative funds and special revenues generated from fees on loan repayments, which together 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 | \$ 6,000,000 |
| 2005 | \$ 4,380,000 |
| 2006 | \$38,800,000 |
| 2008 | \$30,000,000 |

2010 \$30,000,000

2012 \$ 8,500,000

2013 \$ 8,000,000

2014 \$12,000,000

**Project Contact Person**

Jeff Freeman

Executive Director, Minnesota Public Facilities Authority

651-259-7465

Jeff.Freeman@state.mn.us

**Wastewater Infrastructure Fund**

**AT A GLANCE**

**2016 Request Amount:** \$50,000

**Priority Ranking:** 2

**Project Summary:** The Public Facilities Authority (PFA) is requesting \$50,000,000 for the Wastewater Infrastructure Funding (WIF) program (M.S. 446A.072). For municipalities with high cost wastewater projects on the Minnesota Pollution Control Agency’s (MPCA) project priority list, WIF funds are awarded as grants to supplement low-interest loans from the PFA’s Clean Water Revolving Fund or to match funding from the U.S. Department of Agriculture (USDA) Rural Development .

**Project Description**

WIF grants are targeted to the highest priority projects based on environmental and public health criteria as determined by MPCA through its project priority list. The WIF program helps communities address their existing wastewater problems 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 that submit design plans and specifications and receive MPCA certification or receive a funding commitment from USDA Rural Development.

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 Rural Development office fund more projects and obligate all of its allotted federal funds, making it eligible to go to the national pool for additional funds for Minnesota communities. The Minnesota Rural Development office has been very successful in getting additional federal funds from the national pool because of the leveraging they are able to show with the state WIF funds.

**Project Rationale**

WIF grants are needed when high priority wastewater projects would otherwise not be affordable for local residents based on affordability criteria established in M.S. 446A.072, Subd. 5a. Municipalities that receive Clean Water Revolving Fund loans are eligible for WIF grants if the average per household system cost exceeds 1.4% 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. WIF grants are capped at \$4,000,000 or \$15,000 per connection, whichever is less, unless specifically approved by law. WIF eligible project costs include only those costs necessary to meet existing needs, not to address future growth.

## Other Considerations

The MPCA will finalize its 2016 project priority list in July 2015. That list is expected to include approximately 30 WIF eligible projects that will carry over from the previous list with estimated grant needs in excess of \$50 million, plus 30-40 new projects that have requested placement on the 2016 list. In the fall of 2015 the PFA will survey potential WIF projects on the 2016 project priority list to collect preliminary project information in order to calculate estimated WIF grant needs for the PFA's biennial WIF report to the Legislature in February 2016.

## Impact on Agency Operating Budgets

The WIF program is administered in conjunction with other PFA clean water programs and follows the same project prioritization and funding process. Therefore, the program does not have a direct impact on administrative costs of the PFA and MPCA, which are paid from special revenues generated from fees on Clean Water Revolving Fund loan repayments. For projects receiving WIF grants to match funding from USDA Rural Development, the state/federal partnership is a cost effective strategy that has USDA field staff undertaking most of the field work involved in monitoring and reviewing the 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 |

**Project Contact Person**

Jeff Freeman

Executive Director, Minnesota Public Facilities Authority

651-259-7465

Jeff.Freeman@state.mn.us