

Public Facilities Authority

Projects Summary
(\$ in Thousands)

Project Title	2010 Agency Priority Ranking	Agency Project Request for State Funds (\$ by Session)				Governor's Recommendations	Governor's Planning Estimate	
		2010	2012	2014	Total		2010	2012
State Matching Funds for USEPA Capitalization Grants	1	\$30,000	\$30,000	\$30,000	\$90,000	\$30,000	\$30,000	\$30,000
Wastewater Infrastructure Fund	2	30,000	30,000	30,000	90,000	20,000	20,000	20,000
Wastewater Infrastructure Fund - Admin	3	600	600	600	1,800	400	400	400
Total Project Requests		\$60,600	\$60,600	\$60,600	\$181,800	\$50,400	\$50,400	\$50,400

At A Glance

- ◆ PFA finances local government infrastructure, primarily clean water and drinking water systems, through low interest loans and grants.
- ◆ PFA leverages federal and state seed funds through its statutory authority to issue revenue bonds to raise capital for revolving loan funds.
- ◆ During FY 2009, PFA financed high priority local government infrastructure needs by making 40 grants totaling \$40 million (including \$17 million ARRA principal forgiveness) and 47 loans totaling \$238 million.
- ◆ Since 1989, PFA has leveraged \$881 million in federal and state contributions to finance over \$2.4 billion for clean water and drinking water infrastructure projects.

Agency Purpose

The mission of the Minnesota Public Facilities Authority (PFA) is to utilize its interagency authority to provide municipal financing expertise and infrastructure financing programs to enhance the environmental and economic vitality of the State. The PFA is governed by a board consisting of six state commissioners representing the departments of Employment and Economic Development (DEED), Management and Budget (MMB), Health (MDH), Agriculture, Transportation (MnDOT), and the Pollution Control Agency (PCA).

The PFA is established in M.S. Chapter 446A. The commissioner of DEED serves as the Chair and is responsible for hiring an Executive Director with the consent of the Board. The Executive Director is responsible for staffing, program administration, debt issuance as authorized by the Board, and compliance with laws, regulations and disclosure requirements related to the PFA programs. The PFA has statutory authority to issue up to \$1.5 billion in outstanding revenue bonds to raise capital to make loans.

To achieve its goals the PFA implements the following strategies:

- ◆ Target limited resources to high priority projects identified by regulatory agencies through their project priority lists.

- ◆ Coordinate project funding with all other state and federal funding programs to leverage resources necessary to keep projects affordable.
- ◆ Coordinate activities of various funding partners to minimize duplication, administrative costs, and confusion.
- ◆ Maintain the credit quality (AAA rated) and viability of the PFA's revolving loan funds.
- ◆ Balance the current demand for project funding (including nonpoint source and point source needs) with the long term lending capacity of the PFA's revolving funds to maintain their critical role as important financing tools for high priority projects in perpetuity.

Core Functions

The core functions of the PFA are: administration of infrastructure financing programs (offering both loans and grants to political subdivisions of the state); investment of funds; issuance of revenue bonds to make loans; and loan servicing. The PFA manages three revolving loan funds and several other grant and loan programs in conjunction with member agencies of the PFA board, which establish priorities and provide technical reviews of projects before the PFA approves funding. The PFA also administers a credit enhancement program and a bond pool program to reduce borrowing costs for local governments for certain types of projects.

PFA programs include the following:

Clean Water Revolving Fund (CWRF)

- ◆ Low interest loans to municipalities for wastewater and stormwater projects
 - ⇒ Total loans made FY 1989-2009: 351 for \$2.0 billion
 - ◆ Interest savings to communities/taxpayers: \$473 million
 - ⇒ Funding priorities set by PCA Project Priority List
 - ⇒ Future needs: 381 projects for \$2.1 billion on 2010 priority list
- ◆ PFA has also allocated \$84.1 million for programs to control nonpoint source pollution (Agriculture Best Management Practices Loan Program, PCA Clean Water Partnership Loan Program, Tourism Septic System Loan Program)
- ◆ PFA also provides program administration funds to PCA.

Drinking Water Revolving Fund (DWRF)

- ◆ Low interest loans to municipalities and other public water suppliers for drinking water infrastructure improvements
 - ⇒ Loans made FY 1999-2009: 222 for \$439 million
 - ◆ Interest savings to communities/taxpayers: \$88.4 million
 - ◆ Funding priorities set by Health Department Project Priority List
 - ◆ Future needs: 404 projects for \$531 million on 2010 priority list
 - ⇒ PFA also provide funds to Health Dept for program administration, wellhead protection, public water supply supervision, technical assistance

Transportation Revolving Loan Fund (TRLF)

- ◆ Low interest loans to governmental entities for eligible transportation projects, including road and bridge projects and transit projects.
 - ⇒ Loans made FY 1999-2009: 28 for \$148 million
 - ◆ Interest savings to communities/taxpayers: \$21 million
 - ◆ MnDOT periodically solicits project proposals and ranks them on a competitive basis as loan repayments become available for new loans.

Wastewater Infrastructure Funding (WIF) Program

- ◆ Supplemental assistance for high cost, high priority wastewater projects
 - ⇒ Grants to match USDA Rural Development for small rural communities
 - ⇒ Non-Rural Development projects receive 0% deferred loans to package with CWRF loans
- ◆ Funding priorities set by PCA Project Priority List

Total Maximum Daily Load (TMDL) Grant Program

- ◆ 50% grants to assist municipalities with wastewater or stormwater projects needed to meet TMDL implementation plan requirements
- ◆ 2009 appropriations from dedicated Clean Water Fund: FY 2010 = \$8,816,000; FY 2011 = \$12,834,000
- ◆ Funding priorities are based on PCA's Project Priority List and project readiness to proceed

Clean Water Legacy Phosphorus Reduction Grant Program

- ◆ 75% grants up to \$500,000 to assist municipalities with wastewater treatment projects that will reduce discharge of total phosphorus to 1 mg/l or less. Grant percentage drops to 50% in FY 2011
- ◆ 2009 appropriations from dedicated Clean Water Fund: FY 2010 = \$4,125,000; FY 2011 = \$4,425,000
- ◆ Funding order based on PCA Project Priority List and readiness to proceed

Small Community Wastewater Treatment Program

- ◆ Loans and grants to assist small communities with costs to replace non-complying septic systems with new individual and small cluster subsurface sewage treatment systems (SSTS) that are publicly owned and operated
- ◆ Technical assistance grants to help small communities contract for services to conduct preliminary site evaluations and contract with U of M Extension Service for advice and technical assistance to develop their capacity to own and operate the systems.
- ◆ 1% construction loans for up to 100% of project costs, communities that have below average median household income can receive 50% of funding as a grant
- ◆ 2009 appropriation from dedicated Clean Water Fund: FY 2010 = \$500,000; FY 2011 = \$2,000,000
- ◆ Funding order based on PCA Project Priority List

Credit Enhancement Program

- ◆ Provides limited state guarantee of local government general obligation bonds issued for certain purposes.
- ◆ Eligible county projects include construction of jails, correctional facilities, law enforcement facilities, and social services and human services facilities.
- ◆ Eligible city projects include construction of wastewater, drinking water, and storm water facilities, and publicly owned buildings or infrastructure that has received partial funding from grants awarded by certain DEED Programs
- ◆ Reduces borrowing costs on general obligation bonds issued for certain purposes by providing a limited state guarantee of the bond payments.

- ◆ Total participation through FY 2009:
 - ⇒ Counties – 52 bond issues, \$349.6 million
 - ⇒ Cities – 42 bond issues, \$99.1 million

Credit Enhanced Bond Program

- ◆ Created in 2008 to reduce borrowing costs for local government projects by pooling local government general obligation debt into a single revenue bond issue of the PFA, with the Credit Enhancement Program used to provide additional security for the underlying bonds.
 - ⇒ Limited to projects partially funded by other DEED infrastructure grant programs.

Operations

The PFA and DEED operate under an interagency agreement through which DEED provides office space and general administrative support services for PFA staff and the PFA executive director manages DEED's Small Cities and Brownfield/Redevelopment programs. This direct interagency coordination permits alignment of State funding priorities among multiple infrastructure programs, both between the PFA and DEED and with other funding partners including the USDA Rural Development and the US Army Corps of Engineers.

Communities that have drinking water or clean water needs are directed to the appropriate agency (MDH and MPCA) to list the project on the appropriate project priority list and begin the environmental and technical review processes required to permit and certify projects to the PFA for funding. Each year the PFA solicits requests for placement on the Intended Use Plan (a federal requirement used to report each fiscal year to the US Environmental Protection Agency and the public on how the State will use the Clean Water and Drinking Water Revolving Funds). To be placed on the Intended Use Plan, a project must have approval of its preliminary engineering report or facility plan and be scheduled to start work during the fiscal year. Each year the PFA determines how far down the priority list it can fund based on current demand, projected future needs, and the short-term and long-term lending capacity.

The PFA manages capital assets for the making of loans through receipt of federal capitalization grants, state matching funds, loan repayments, investment interest, and proceeds of revenue bond issuances. Communities issue their general obligation bonds to the PFA to secure the loans. The combination of equity assets, general obligation bonds from a large and diverse pool of borrowers, and the experienced staff and management practices of the PFA have achieved AAA bond ratings from all three bond rating agencies.

The WIF program follows the PCA's project priority list and provides supplemental funding for high cost projects that qualify for grant funding by the USDA Rural Development or when project costs exceed 5% of the market value of property in the service area for projects financed under the Clean Water Revolving Fund. For USDA Rural Development projects, the WIF program provides up to 65% of the grant eligible amount determined by Rural Development. For Clean Water Revolving Fund projects, the WIF program provides a zero interest loan, with payments deferred until the revolving fund loan is paid in full.

All other programs have specific application cycles. The application material for each program is available on the PFA website and, for clean water and drinking water infrastructure projects, notices are sent out to all eligible recipients on the Project Priority List notifying them of the deadlines and contacts for assistance.

Key Goals

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

- ◆ Economy: Minnesota will have sustainable, strong economic growth.
 - ⇒ Goal 38: Growth in gross state product
 - ⇒ Goal 39: Employment of working-age population
- ◆ Environment: Minnesota will improve the quality of the air, water, and earth.
 - ⇒ Goal 64: Water quality in lakes and rivers
 - ⇒ Goal 65: Nitrates in ground water
 - ⇒ Goal 66: Erosion of cropland

Program output is measured primarily by the volume of grants and low-interest loans made. The amount of interest savings to local government borrowers and their taxpayers is one measure of program outcome.

Key measures		FY 2006	FY 2007	FY 2008	FY 2009
Grant Awards:	Count	14	23	43	40
	Amount (\$ 000's)	13,146	15,142	21,210	39,908
Loans made:	Count	25	55	35	47
	Amount (\$ 000's)	74,594	261,355	184,836	237,548
	Interest savings to borrowers (\$ 000's)	12,696	66,020	40,632	37,938

Budget

Under MS 446A.11, Subd. 13, funds available to the PFA, unless otherwise indicated, are statutorily appropriated to the PFA and available until expended. The PFA's expense budget for FY 2010 is approximately \$514 million. This includes \$342 million available for low interest loans, \$96.5 million for debt service on outstanding revenue bonds, \$74 million for grants (including ARRA principal forgiveness), \$1.0 for general administrative costs (10 FTEs), \$800,000 for arbitrage rebate liabilities, and \$200,000 for bond issuance and related costs including bond counsel, financial advisor, auditor, and arbitrage rebate contractors. PFA administrative expenses are paid from application fees and service fees on loan repayments. The PFA receives no general funds for administration.

In addition to these amounts, PFA annually provides administrative support funding to the Pollution Control Agency and the Department of Health for their work with the Clean Water and Drinking Water Revolving Funds. These amounts for FY 2010 are \$2,340,741 (of which \$907,796 is one time funding for ARRA activities), and \$733,578 respectively.

PFA also allocates funds in the Clean Water Revolving Fund to the PCA and the MDA for non-point source revolving loan programs. The anticipated funding level for FY 2010 is \$2.0 million.

Funding for the PFA activities come from US Environmental Protection Agency capitalization grants for the Clean Water and Drinking Water Revolving Funds, appropriations from state general obligation bonds for state matching funds and a variety of funding programs, appropriations from dedicated Clean Water Funds, revenue bonds issued by the PFA payable solely from revenues derived from loan repayments and investment earnings, a small general fund appropriation to provide technical assistance grants to small communities, and fees charged to clients to cover the administrative costs.

Contact

Terry Kuhlman, Executive Director
 Minnesota Public Facilities Authority
 1st National Bank Building
 332 Minnesota Street, E200
 Saint Paul, Minnesota 55101-1351
 Phone: (651) 259-7468
 Cell: (952) 297-5528
 Fax: (651) 296-8833
 Email: terry.kuhlman@state.mn.us

At A Glance: Agency Long-Range Strategic Goals

The Minnesota Public Facilities Authority (PFA), Minnesota Statutes Chapter 446A, is an interagency financing authority governed by a board consisting of six state commissioners representing the Departments of Employment and Economic Development, Finance, Health, Agriculture, Transportation, and the Pollution Control Agency. The Commissioner of DEED serves as the PFA chair. The executive director is responsible for staffing, debt issuance authorized by the PFA, and compliance with laws, regulations and disclosure requirements.

The PFA manages three revolving funds, several grant and loan programs, and has authority to issue \$1.5 billion in revenue bonds to raise the capital to make loans. All major programs of the PFA are managed in conjunction with member agencies, which establish priorities and provide technical reviews of projects before the PFA approves funding.

The mission of the PFA is to utilize its interagency authority to provide municipal financing expertise and infrastructure financing programs to enhance the environmental and economic vitality of the state.

To achieve its goals the PFA implements the following strategies:

- ◆ Target limited resources to high priority projects identified by regulatory agencies by following their project priority lists.
- ◆ Coordinate project funding with all other state and federal funding programs to leverage resources necessary to keep projects affordable.
- ◆ Coordinate activities of various funding partners to minimize duplication, administrative costs, and confusion.
- ◆ Maintain the credit quality (AAA rated) and viability of the PFA's revolving funds.
- ◆ Balance the current demand for project funding (including nonpoint source and point source needs) with the long-term lending capacity of the PFA's funds to maintain their critical role as an important financing tool for high priority projects in perpetuity.

Trends, Policies and Other Issues Affecting the Demand for Services, Facilities, or Capital Programs

There are many factors affecting the growing demand for infrastructure financing in Minnesota. They include aging municipal infrastructure which is at or beyond its useful life; population growth and shifts resulting in rapid growth in some areas and population loss in others, both of which create challenges for infrastructure investment; the overall economic downturn, putting pressure on local government budgets and reducing their ability to fund projects locally; growing awareness of the impacts from stormwater discharges and failing individual septic systems in unsewered communities and lakeshore areas; new standards imposed on drinking water to protect public health and safety; and an increased focus on impaired waters and the development and implementation of total maximum daily load (TMDL) studies to restore the ability of those waters to meet their designated uses. In addition there are the challenges of meeting these needs while being mindful of the importance of energy and water conservation, and doing so in the context of a global economy that puts pressure on communities to keep costs of public services priced competitively.

Clean Water

The PFA's base clean water programs are the Clean Water Revolving Fund (CWRP) and the Wastewater Infrastructure Funding (WIF) program. The CWRP is the largest program and provides assistance through low interest loans to municipalities of all sizes throughout the state. The WIF program provides supplemental assistance to communities with high priority projects based on affordability criteria. In addition to the base programs, funds were appropriated in 2009 from the dedicated Clean Water Fund for three other programs: the Total Maximum Daily Load Grant Program, Phosphorus Reduction Grant Program and Small Community Wastewater Treatment Program. These programs were created to provide assistance to communities that are being required to provide an increased level of treatment. Funding priorities for all PFA clean water programs follow the PCA's Project Priority List.

The Pollution Control Agency (PCA) 2010 Project Priority List includes 381 projects totaling \$2.1 billion. The CWRP program is the primary source of financing for municipal wastewater projects and is expected to receive federal funding (\$48 million annually) through FFY 2012. States are required

to provide a minimum \$1 state match for every \$5 of federal funding. The WIF program provides grants to help small communities deal with the high cost of wastewater construction. WIF makes up about 10 percent of the total state assistance for wastewater.

Drinking Water

The Drinking Water Revolving Fund provides low interest loans to municipalities for improvements to their drinking water infrastructure and is the state's primary source of financing for these projects. Threats to drinking water can come from contamination such as bacteria, viruses or nitrates from animal or human activities, naturally occurring inorganic chemicals such as arsenic, or radioactive elements such as radon. In addition, municipalities have growing needs to rehabilitate and replace infrastructure such as wells, water mains, water towers, and treatment plants. The Health Department's 2010 Project Priority List includes 404 projects totaling \$531 million, more than double the 2009 list due to increasing needs and greater awareness of the program. The Drinking Water SRF is expected to receive federal funding (\$27 million annually) through FFY 2012. States are required to provide a \$1 state match for every \$5 of federal funding.

American Recovery and Reinvestment Act (ARRA)

Through the federal American Recovery and Reinvestment Act (ARRA) of 2009 the PFA received \$79.7 million for clean water projects and \$24.6 million for drinking water projects. Under federal law, not less than 50% of these funds must be provided as principal forgiveness (grants) and at least 20% must be used to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. Minnesota Laws of 2009, Chapter 16 provide the state's specific eligibility criteria. All ARRA funds are expected to be committed to projects and under contract by the fall of 2009.

Describe the Agency's Long-Range Strategic Goals in Relationship to Capital Request:

State Match for the Clean Water Revolving Fund: In conjunction with PCA, the PFA manages the very successful Clean Water Revolving Fund, which provides low interest loans to municipalities for wastewater projects. This fund is the primary wastewater financing tool available to municipalities and historically has provided over 80 percent of all state funding of wastewater

construction. The Clean Water Fund also provides money to PCA and Agriculture for their nonpoint source loan programs. Demand for wastewater loans has grown to more than \$400 million per year, more than four times the average annual long-term lending capacity of the fund. To capture the federal USEPA capitalization grants the state is required to provide a \$1 to \$5 match.

State Match for the Drinking Water Revolving Fund: PFA manages the Drinking Water Revolving Fund (DWRF) in conjunction with the Minnesota Department of Health (MDH), which provides similar technical service as PCA. The DWRF provides low interest loans to municipalities for drinking water projects and also funds a variety of technical services (including public water supply supervision, wellhead protection, and technical assistance to small communities). To capture the federal USEPA Capitalization Grants the state is required to provide a \$1 to \$5 match.

Wastewater Infrastructure Fund: The Wastewater Infrastructure Fund Program (WIF) provides supplemental assistance to communities that are unable to finance projects solely through CWRP loans. For communities eligible to receive grants from the United States Department of Agriculture Rural Development (RD), the WIF matches RD grants by providing up to 65% of the grant need. Communities not eligible for RD grants may receive zero interest deferred loans based on the funding criteria in M.S. 446A.072.

Small Community Wastewater Treatment Loan and Grant Program.

This program is designed to allow the construction of publicly owned and operated onsite sewage systems on a voluntary basis by the homeowner in very small communities (too small to require a permit by MPCA). It provides 100 percent financing in the form of a loan, or 50 percent loan and 50 percent grant when the income levels are below the state average. This is a critical program to eliminate straight pipe discharges and the pollution caused by failing septic systems as part of the state's effort to restore impaired waters.

Total Maximum Daily Load (TMDL) Grants. The TMDL grant program provides 50 percent grants to communities that are required to make improvements to their wastewater treatment systems based on a TMDL study and implementation plan. As of 6/24/2009 the MPCA has completed 25 TMDL studies and identified approximately 358 communities as contributors

to impaired waters. There are another 119 studies underway that will most likely expand this list. Funding priorities follow the PCA’s Project Priority List so the funds will be directed to the highest priority construction projects and can be used in conjunction with the Clean Water Revolving Fund to provide complete project financing. This is a key program in providing assistance to communities to address impaired waters.

Phosphorus Reduction Grants. The Phosphorous Reduction Grant program provides 75 percent grant for the treatment of phosphorous to address MPCA’s phosphorous requirements of one milligram per liter. The grant percentage drops to 50% in FY 2011. Funding priorities follow the MPCA’s Project Priority List and can be used in conjunction with the Clean Water Revolving Fund for major wastewater treatment upgrades.

Provide a Self-Assessment of the Condition, Suitability, and Functionality of Present Facilities, Capital Projects, or Assets

The PFA does not own or operate facilities covered by this request.

Agency Process Used to Arrive at These Capital Requests

PFA staff worked with its funding and regulatory partners (Health, PCA, DNR, USDA Rural Development, Army Corps of Engineers, and DEED’s Community Assistance Unit) to assess the demand for funding and the opportunities to maximize other funding to fully fund those projects that should be ready to proceed during the next two years. The proposals were brought to the PFA Board on 5-28-2009 and were approved for submission to Minnesota Management and Budget and the Governor’s Office.

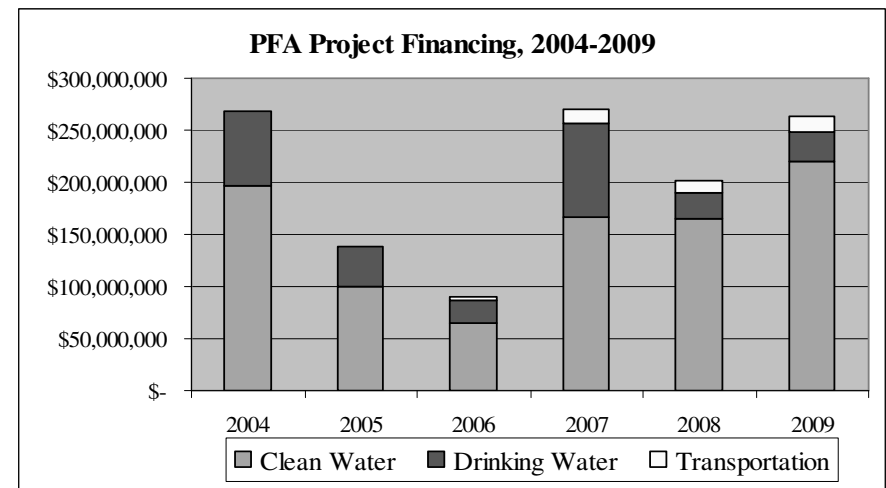
Agency Capital Budget Projects During The Last Six Years (2002-2007):

The PFA made its first loan in July of 1989 and has since provided over \$2.8 billion dollars of financing to local governments throughout the state for wastewater, drinking water, roads, bridges and transit projects. From FY 2004 through 2009, the PFA has provided \$1.1 billion in 340 revolving fund loans, including \$821 million for 204 Clean Water loans, \$268 million for 127 Drinking Water loans, and \$24 million for 9 Transportation loans.

Also during the period of FY 2004 through 2009, the PFA allocated \$12.9 million from the Clean Water Revolving Fund to the MDA and PCA for their nonpoint source loan programs. These funds, combined with previous loan repayments, resulted in over \$83 million in loans to private landowners to implement over 7,000 projects to reduce nonpoint source pollution.

From FY 2004 through 2009, the PFA also funded 67 projects for \$65.6 million in grants and deferred loans under the Wastewater Infrastructure Funding program. In addition, from FY 2007 through 2009, the PFA funded 14 projects for \$6.4 million under the Total Maximum Daily Load (TMDL) Grant Program, 7 projects for \$2.3 million under the Phosphorus Reduction Grant Program, and 12 projects for \$543,000 under the Small Community Wastewater Treatment Program.

PFA Revolving Loan Fund capital project funding by state FY 2004 through 2009:



State Matching Funds for USEPA Capitalization Grants

2010 STATE APPROPRIATION REQUEST: \$30,000,000

AGENCY PROJECT PRIORITY: 1 of 3

PROJECT LOCATION: Statewide

Project At A Glance

State matching funds for U.S. Environmental Protection Agency (EPA) Capitalization Grants for Clean Water and Drinking Water Revolving Funds

Project Description

The Public Facilities Authority (PFA) is seeking \$30 million in state funds to match expected EPA funds for federal FY 2011-12 at the rate of 1:5 for the Clean Water Revolving Fund (M.S. 446A.07), and the Drinking Water Revolving Fund (M.S. 446A.081). These funds will be used to leverage PFA revenue bonds to provide low interest loans for clean water projects (wastewater and stormwater) and drinking water projects. In both programs, the state matching funds are used only for municipal, publicly-owned improvements.

2010 Legislative Session Request (\$ in thousands): \$30,000

FY	Clean Water		Drinking Water	
	Fed Cap. Grant	State Match	Fed Cap. Grant	State Match
2011	\$48,000	\$ 9,600	\$27,000	\$ 5,400
2012	48,000	9,600	27,000	5,400
Total	\$96,000	\$19,200	\$54,000	\$10,800

Impact on Agency Operating Budgets (Facilities Notes)

PFA operates on federal administrative funds and special revenues generated from fees on loan payments, which together provide for all administrative expenses for these programs incurred by the PFA, the Minnesota Pollution Control Agency (MPCA), and the Minnesota Department of Health (MDH).

Previous Appropriations for this Project

Previous state match appropriations total \$197.12 million to match federal grants from 1989-2010.

Other Considerations

Low-cost financing under the PFA's clean water and drinking water loan programs is an important element in helping communities contain costs and remain economically competitive, while providing essential infrastructure.

Funds are awarded to projects based on their ranking on Project Priority Lists prepared by the MPCA for clean water projects and the MDH for drinking water projects. Through FY 2009 (as of 05/31/09), the PFA has made below market rate loans from these two revolving funds in excess of \$2.398 billion which will result in interest savings to local taxpayers of almost \$556 million compared to market rate financing.

Over the past several years demand for wastewater loans from the PFA has grown to well over \$300 million per year, almost four times the sustainable annual long-term lending capacity of the Clean Water Revolving Fund. With the federal stimulus funding available from the American Recovery and Reinvestment Act (ARRA), total requests in FY 2009 grew to \$519 million and the MPCA has received 150 new project proposals for the 2010 Project Priority List, compared to 50 new proposals for the 2009 list. In its 2008 report on infrastructure needs over the next 20 years, the MPCA identified over \$4.5 billion in wastewater collection and treatment needs and \$1.1 billion in estimated stormwater needs.

State Matching Funds for USEPA Capitalization Grants

Demand for clean water loans is driven by the need to replace aging facilities, provide additional treatment to meet more stringent phosphorus and other permit limits required by Total Maximum Daily Load implementation plans to address impaired waters, and address communities with problems from failing individual sewage treatment systems and straight pipes. These factors, coupled with the poor economy and the decline in other revenues for cities to pay for improvements, has led to the growing demand for PFA financing. Demand will continue to grow as pressure to meet Clean Water Act requirements for impaired waters puts greater emphasis on storm water infrastructure improvements to help improve water quality.

Demand for drinking water loans has also been strong, with \$97 million in total requests in FY 2009 and 275 new project proposals submitted to the MDH for the 2010 Project Priority List. The Drinking Water Revolving Fund has significant leveraging capacity, and with the expected federal capitalization grants and requested state match the PFA believes the fund's lending capacity should be sufficient to continue to finance high priority projects.

To date, federal and state funds have been leveraged 2.6:1 through the PFA's issuance of AAA rated revenue bonds. Overall, each dollar of state matching funds has generated over \$12 in project construction. It should be noted that every dollar spent on municipal water and wastewater construction generates an estimated 4.6 cents in general fund revenues directly from the income tax, corporate income tax, and sales tax. The interest savings from PFA loans for local taxpayers has been almost \$3 for every \$1 of state matching funds.

The Clean Water and Drinking Water Revolving Funds have shown considerable financial strength to finance municipal water and wastewater projects. The AAA ratings of the PFA's clean water and drinking water bonds from Standard and Poors Rating Group, Fitch Ratings, and Moody's Investor Services reflects the financial strength of the funds, the credit quality of Minnesota communities, and the PFA's experienced staff and sound financial management of the programs.

Project Contact Person

Terry Kuhlman, Executive Director
Minnesota Public Facilities Authority
1st National Bank Building
332 Minnesota Street, E200
St. Paul, Minnesota 55101-1351
Phone: (651) 259-7468
Fax: (651) 296-8833
Email: Terry.Kuhlman@state.mn.us

Linda Bruemmer, Environmental Health Manager
Minnesota Department of Health
625 North Robert Street
St. Paul, Minnesota 55155
Phone: (651) 201-4647
Fax: Not available
Email: Doug.Mandy@state.mn.us

Lisa Thorvig, Director, Municipal Division
Minnesota Pollution Control Agency
520 Lafayette Road
St. Paul, Minnesota 55155
Phone: (651) 296-8811
Fax: (651) 297-1456
Email: Lisa.Thorvig@state.mn.us

Governor's Recommendations

The Governor recommends general obligation bonding of \$30 million for this project. Also included are budget planning estimates of \$30 million in 2012 and 2014.

TOTAL PROJECT COSTS All Years and Funding Sources	Prior Years	FY 2010-11	FY 2012-13	FY 2014-15	TOTAL
1. Property Acquisition	0	0	0	0	0
2. Predesign Fees	0	0	0	0	0
3. Design Fees	0	0	0	0	0
4. Project Management	0	0	0	0	0
5. Construction Costs	2,679,773	500,000	500,000	500,000	4,179,773
6. One Percent for Art	0	0	0	0	0
7. Relocation Expenses	0	0	0	0	0
8. Occupancy	0	0	0	0	0
9. Inflation	0	0	0	0	0
TOTAL	2,679,773	500,000	500,000	500,000	4,179,773

CAPITAL FUNDING SOURCES	Prior Years	FY 2010-11	FY 2012-13	FY 2014-15	TOTAL
State Funds :					
G.O Bonds/State Bldgs	152,573	30,000	30,000	30,000	242,573
General Fund Projects	24,500	0	0	0	24,500
General	4,444	0	0	0	4,444
Infrastructure Dev	15,600	0	0	0	15,600
State Funds Subtotal	197,117	30,000	30,000	30,000	287,117
Agency Operating Budget Funds	0	0	0	0	0
Federal Funds	710,752	150,000	150,000	150,000	1,160,752
Local Government Funds	0	0	0	0	0
Private Funds	0	0	0	0	0
Other	1,771,904	320,000	320,000	320,000	2,731,904
TOTAL	2,679,773	500,000	500,000	500,000	4,179,773

CHANGES IN STATE OPERATING COSTS	Changes in State Operating Costs (Without Inflation)			
	FY 2010-11	FY 2012-13	FY 2014-15	TOTAL
Compensation -- Program and Building Operation	0	0	0	0
Other Program Related Expenses	0	0	0	0
Building Operating Expenses	0	0	0	0
Building Repair and Replacement Expenses	0	0	0	0
State-Owned Lease Expenses	0	0	0	0
Nonstate-Owned Lease Expenses	0	0	0	0
Expenditure Subtotal	0	0	0	0
Revenue Offsets	0	0	0	0
TOTAL	0	0	0	0
Change in F.T.E. Personnel	0.0	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS (for bond-financed projects)	Amount	Percent of Total
General Fund	30,000	100.0%
User Financing	0	0.0%

STATUTORY AND OTHER REQUIREMENTS	
Project applicants should be aware that the following requirements will apply to their projects after adoption of the bonding bill.	
No	MS 16B.335 (1a): Construction/Major Remodeling Review (by Legislature)
No	MS 16B.335 (3): Predesign Review Required (by Administration Dept)
No	MS 16B.335 and MS 16B.325 (4): Energy Conservation Requirements
No	MS 16B.335 (5): Information Technology Review (by Office of Technology)
Yes	MS 16A.695: Public Ownership Required
No	MS 16A.695 (2): Use Agreement Required
No	MS 16A.695 (4): Program Funding Review Required (by granting agency)
Yes	Matching Funds Required (as per agency request)
Yes	MS 16A.642: Project Cancellation in 2015

Wastewater Infrastructure Fund**2010 STATE APPROPRIATION REQUEST:** \$30,000,000**AGENCY PROJECT PRIORITY:** 2 of 3**PROJECT LOCATION:** Statewide**Project At A Glance**

The Wastewater Infrastructure Funding Program (WIF) provides supplemental assistance in conjunction with funding from either USDA Rural Development or the Public Facilities Authority's Clean Water Revolving Fund to keep high cost projects affordable. WIF provides matching grants with Rural Development based on their affordability criteria, or zero interest deferred loans to supplement loans from the Clean Water Revolving Fund. All WIF funds follow the Minnesota Pollution Control Agency's (MPCA) Project Priority List.

Project Description

The Public Facilities Authority (PFA) is seeking \$30 million for the Wastewater Infrastructure Funding (WIF) program (M.S. 446A.072). For high cost projects, WIF monies are used either as grants to match grant assistance provided by the U.S. Department of Agriculture (USDA) Rural Development, or as 0% deferred loans for up to 40 years to supplement loans from the Clean Water Revolving Fund.

For USDA Rural Development projects, the WIF program provides up to 65 percent of the grant eligible amount determined by Rural Development. Rural Development's grant calculations are determined by first looking at the amount of debt service and operation and maintenance costs a city can afford to pay based on a figure of 1.5 percent of its median household income, with the total grant then providing for 100 percent of construction costs above that level.

For projects that do not receive Rural Development funding, the WIF program provides a zero interest loan for up to 40 years for eligible project costs that exceed 5 percent of the market value of the project area.

Impact on Agency Operating Budgets (Facilities Notes)

The partnership with USDA Rural Development is a cost effective strategy that has the field staff at USDA undertaking most of the field work involved in monitoring and reviewing the project through construction. Thus, communities that need the most help in working their way through the process have local USDA staff to assist them.

Previous Appropriations for this Project

Previous appropriations from 1996-2009 for projects under the WIF program total \$160.6 million. As of June 2009, the PFA has awarded \$140.6 million in grants and loans to 129 projects. The remaining \$20 million is reserved for projects that have met required deadlines and are waiting for final approvals prior to bidding and for projects that are expected to receive USDA Rural Development funding commitments by 12-31-2009.

Other Considerations

WIF funds are directed to the highest priority projects from an environmental and public health standpoint based on their ranking on the Pollution Control Agency's Project Priority List. The WIF program helps small communities address their existing wastewater problems while keeping costs affordable for their residents.

The WIF program was designed to be a gap-financing tool used in conjunction with the Clean Water Revolving Fund and the USDA's Rural Development grant program for wastewater. Communities are required to seek grant assistance from other sources before becoming eligible for either WIF or the USDA Rural Development grant program. The unique state/federal partnership with Rural Development was designed to coordinate assistance to communities to keep the systems affordable, as well as make it easier and less confusing for many of the smaller communities to access funding.

Wastewater Infrastructure Fund

An additional benefit is that the WIF grant match helps the Minnesota Rural Development office obligate all of its allotted federal grant and loan funds, making it eligible to go to the national pool for additional funds for Minnesota communities. In 2009, USDA received twice the normal level of funding in part due the American Recovery and Reinvestment Act. Rural Development must commit these funds to projects within one year and have the projects ready to begin construction within two years. It is important to have WIF funds available to match as many Rural Development funding commitments as possible so that the full allocation of federal funds stays in Minnesota.

The PFA will survey projects on the MPCA's 2010 project priority list and provide its report on WIF needs to the appropriate legislative committees by February 1, 2010.

Project Contact Person

Terry Kuhlman, Executive Director
Minnesota Public Facilities Authority
1st National Bank Building
332 Minnesota Street, E200
St. Paul, Minnesota 55101-1351
Phone: (651) 259-7468
Fax: (651) 296-8833
Email: Terry.Kuhlman@state.mn.us

Lisa Thorvig, Director, Municipal Division
Minnesota Pollution Control Agency
520 Lafayette Road
St. Paul, Minnesota 55155
Phone: (651) 757-2189
Fax: (651) 297-1456
Email: Lisa.Thorvig@state.mn.us

Governor's Recommendations

The Governor recommends general obligation bonding of \$20 million for this project. Also included are budget planning estimates of \$20 million 2012 and 2014.

TOTAL PROJECT COSTS All Years and Funding Sources	Prior Years	FY 2010-11	FY 2012-13	FY 2014-15	TOTAL
1. Property Acquisition	0	0	0	0	0
2. Predesign Fees	0	0	0	0	0
3. Design Fees	0	0	0	0	0
4. Project Management	0	300	300	300	900
5. Construction Costs	425,517	52,700	52,700	52,700	583,617
6. One Percent for Art	0	0	0	0	0
7. Relocation Expenses	0	0	0	0	0
8. Occupancy	0	0	0	0	0
9. Inflation	0	0	0	0	0
TOTAL	425,517	53,000	53,000	53,000	584,517

CAPITAL FUNDING SOURCES	Prior Years	FY 2010-11	FY 2012-13	FY 2014-15	TOTAL
State Funds :					
G.O Bonds/State Bldgs	156,761	30,000	30,000	30,000	246,761
General Fund Projects	1,700	0	0	0	1,700
General	3,000	0	0	0	3,000
Infrastructure Dev	1,101	0	0	0	1,101
State Funds Subtotal	162,562	30,000	30,000	30,000	252,562
Agency Operating Budget Funds	0	0	0	0	0
Federal Funds	88,676	8,000	8,000	8,000	112,676
Local Government Funds	9,618	0	0	0	9,618
Private Funds	0	0	0	0	0
Other	164,661	15,000	15,000	15,000	209,661
TOTAL	425,517	53,000	53,000	53,000	584,517

CHANGES IN STATE OPERATING COSTS	Changes in State Operating Costs (Without Inflation)			
	FY 2010-11	FY 2012-13	FY 2014-15	TOTAL
Compensation -- Program and Building Operation	0	0	0	0
Other Program Related Expenses	0	0	0	0
Building Operating Expenses	0	0	0	0
Building Repair and Replacement Expenses	0	0	0	0
State-Owned Lease Expenses	0	0	0	0
Nonstate-Owned Lease Expenses	0	0	0	0
Expenditure Subtotal	0	0	0	0
Revenue Offsets	0	0	0	0
TOTAL	0	0	0	0
Change in F.T.E. Personnel	0.0	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS (for bond-financed projects)	Amount	Percent of Total
General Fund	30,000	100.0%
User Financing	0	0.0%

STATUTORY AND OTHER REQUIREMENTS	
Project applicants should be aware that the following requirements will apply to their projects after adoption of the bonding bill.	
No	MS 16B.335 (1a): Construction/Major Remodeling Review (by Legislature)
No	MS 16B.335 (3): Predesign Review Required (by Administration Dept)
No	MS 16B.335 and MS 16B.325 (4): Energy Conservation Requirements
No	MS 16B.335 (5): Information Technology Review (by Office of Technology)
Yes	MS 16A.695: Public Ownership Required
No	MS 16A.695 (2): Use Agreement Required
No	MS 16A.695 (4): Program Funding Review Required (by granting agency)
Yes	Matching Funds Required (as per agency request)
Yes	MS 16A.642: Project Cancellation in 2015

Wastewater Infrastructure Fund - Admin

2010 STATE APPROPRIATION REQUEST: \$600,000

AGENCY PROJECT PRIORITY: 3 of 3

PROJECT LOCATION: Saint Paul

Project At A Glance

The Wastewater Infrastructure Funding Program (WIF) is designed to keep high cost projects affordable in conjunction with funding from either USDA Rural Development or the Public Facilities Authority's (PFA) Clean Water Revolving Fund. Past appropriations for the WIF program have generally been accompanied by an additional two percent to provide needed staff assistance to these communities and coordination with Rural Development and other funding agencies.

Project Description

See Wastewater Infrastructure Funding Program (WIF) priority #2

Impact on Agency Operating Budgets (Facilities Notes)

The Public Facilities Authority requests \$600,000 (two percent of the requested amount for WIF project funding) from the general fund for program administrative costs by the Minnesota Pollution Control Agency (MPCA) and PFA. Of this amount, 90 percent would be used by the MPCA to provide substantial project oversight, technical and environmental review, and project review coordination with USDA Rural Development. The remaining ten percent would be for the PFA to cover program administrative costs for coordinating funding with USDA Rural Development and other funding agencies, but not for costs associated with the Clean Water Revolving Fund projects.

Previous Appropriations for this Project

Since 2000, \$1.519 million has been appropriated for WIF program administration. Of this amount \$619,000 was appropriated from the general fund in 2000 and 2006, with the balance from state bond funds in 2005 and 2008. The Department of Management and Budget does not consider administration and project implementation costs to be an appropriate use of

state bond funds. The activities of the PFA are not eligible for reimbursement from bond proceeds and only limited activities by PCA staff can be charged to state bond funds.

Other Considerations

The WIF program provides supplemental assistance to small communities with high priority wastewater projects that are very expensive on a per household basis. These communities lack the economies of scale needed to make their projects affordable and they also generally lack staff resources to oversee all the activities necessary for successful project implementation. These communities require significant staff assistance and administrative time to help them through all phases of the funding process, to coordinate funding with other state and federal funding agencies, and to provide assistance and oversight through initiation of operation and the first year of operation.

Project Contact Person

Terry Kuhlman, Executive Director
Minnesota Public Facilities Authority
1st National Bank Building
332 Minnesota Street, E200
St. Paul, Minnesota 55101-1351
Phone: (651) 259-7468
Fax: (651) 296-8833
Email: Terry.Kuhlman@state.mn.us

Lisa Thorvig, Director, Municipal Division
Minnesota Pollution Control Agency
520 Lafayette Road
St. Paul, Minnesota 55155
Phone: (651) 757-2189
Fax: (651) 297-1456
Email: Lisa.Thorvig@state.mn.us

Governor's Recommendations

The Governor recommends a general fund appropriation of \$400,000 for this project. Also included are budget planning estimates of \$400,000 for 2012 and 2014.

TOTAL PROJECT COSTS All Years and Funding Sources	Prior Years	FY 2010-11	FY 2012-13	FY 2014-15	TOTAL
1. Property Acquisition	0	0	0	0	0
2. Predesign Fees	0	0	0	0	0
3. Design Fees	0	0	0	0	0
4. Project Management	1,519	600	600	600	3,319
5. Construction Costs	0	0	0	0	0
6. One Percent for Art	0	0	0	0	0
7. Relocation Expenses	0	0	0	0	0
8. Occupancy	0	0	0	0	0
9. Inflation	0	0	0	0	0
TOTAL	1,519	600	600	600	3,319

CAPITAL FUNDING SOURCES	Prior Years	FY 2010-11	FY 2012-13	FY 2014-15	TOTAL
State Funds :					
G.O Bonds/State Bldgs	900	0	0	0	900
General Fund Projects	619	600	600	600	2,419
State Funds Subtotal	1,519	600	600	600	3,319
Agency Operating Budget Funds	0	0	0	0	0
Federal Funds	0	0	0	0	0
Local Government Funds	0	0	0	0	0
Private Funds	0	0	0	0	0
Other	0	0	0	0	0
TOTAL	1,519	600	600	600	3,319

CHANGES IN STATE OPERATING COSTS	Changes in State Operating Costs (Without Inflation)			
	FY 2010-11	FY 2012-13	FY 2014-15	TOTAL
Compensation -- Program and Building Operation	0	0	0	0
Other Program Related Expenses	0	0	0	0
Building Operating Expenses	0	0	0	0
Building Repair and Replacement Expenses	0	0	0	0
State-Owned Lease Expenses	0	0	0	0
Nonstate-Owned Lease Expenses	0	0	0	0
Expenditure Subtotal	0	0	0	0
Revenue Offsets	0	0	0	0
TOTAL	0	0	0	0
Change in F.T.E. Personnel	0.0	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS (for bond-financed projects)	Amount	Percent of Total
General Fund	0	0%
User Financing	0	0%

STATUTORY AND OTHER REQUIREMENTS	
Project applicants should be aware that the following requirements will apply to their projects after adoption of the bonding bill.	
No	MS 16B.335 (1a): Construction/Major Remodeling Review (by Legislature)
No	MS 16B.335 (3): Predesign Review Required (by Administration Dept)
No	MS 16B.335 and MS 16B.325 (4): Energy Conservation Requirements
No	MS 16B.335 (5): Information Technology Review (by Office of Technology)
No	MS 16A.695: Public Ownership Required
No	MS 16A.695 (2): Use Agreement Required
No	MS 16A.695 (4): Program Funding Review Required (by granting agency)
No	Matching Funds Required (as per agency request)
Yes	MS 16A.642: Project Cancellation in 2015