

Project Title	2008 Agency Priority Ranking	Agency Project Request for State Funds (\$ by Session)				Governor's Recommendations 2008	Governor's Planning Estimate	
		2008	2010	2012	Total		2010	2012
State Matching Funds for USEPA Capitalization Grants	1	\$45,000	\$45,000	\$45,000	\$135,000			
Wastewater Infrastructure Fund	2	15,300	15,300	15,300	45,900			
Small Community Wastewater Treatment	3	2,000	2,000	2,000	6,000			
Total Maximum Daily Load Grants	4	15,000	15,000	15,000	45,000			
Phosphorus Reduction Grants	5	10,000	10,000	10,000	30,000			
Phosphorus Reduction Grants - Reimbursement Projects	6	10,000	10,000	10,000	30,000			
Water Conservation Through Wastewater Reuse	7	5,000	0	0	5,000			
Total Project Requests		\$102,300	\$97,300	\$97,300	\$296,900			

State Matching Funds for USEPA Capitalization Grants

2008 STATE APPROPRIATION REQUEST: \$45,000,000

AGENCY PROJECT PRIORITY: 1 of 7

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 \$45 million in state funds to match expected EPA funds for federal FY 2009-10 at the rate of 1:1 for the Clean Water Revolving Fund (MN Statutes 446A.07), and at the minimum required match of 1:5 for the Drinking Water Revolving Fund (MN Statutes 446A.081). These funds will be used to leverage PFA revenue bonds to provide low interest loans for clean water and drinking water projects. In both programs, the state matching funds are used only for municipal, publicly-owned improvements.

2008 Legislative Session Request (\$ in thousands): \$45,000

FY	Clean Water		Drinking Water	
	Fed Cap. Grant	State Match	Fed Cap. Grant	State Match
2009	\$19,500	\$19,500	\$15,000	\$3,000
2010	<u>19,500</u>	<u>19,500</u>	<u>15,000</u>	<u>3,000</u>
Total	\$39,000	\$39,000	\$30,000	\$6,000

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 Pollution Control Agency, and the Department of Health.

Previous Appropriations for this Project

Previous state match appropriations total \$167.12 million to match federal grants from 1989-2008.

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 Pollution Control Agency for clean water projects and the Health Department for drinking water projects. Through FY 2007, the PFA has made below market rate loans in excess of \$2 billion which will result in interest savings to local taxpayers of almost \$500 million compared to market rate financing.

Demand for wastewater loans from the PFA has grown to \$300 million per year, more than four times the average annual long-term lending capacity of the Clean Water Revolving Fund. The demand for these loans has been driven by economic growth and population shifts, TMDL implementation plans to address impaired waters, the need to replace aging facilities, and greater attention to the impacts of individual sewage treatment systems. Demand will continue to grow as pressure to meet Clean Water Act requirements for impaired waters puts greater emphasis on storm water infrastructure needs in addition to wastewater needs. The focus on impaired waters will also increase demand for funds from nonpoint source pollution loan programs. The PFA, through the Clean Water Revolving Fund, has provided 79.4 million to nonpoint source loan programs since 1995. Recognizing these growing needs, the Legislature appropriated Clean Water matching funds at a 1:1 level in 2006. For 2008, the PFA is seeking to maintain the 1:1 match level, adjusting for an anticipated moderate increase in federal funds for 2009-10. Despite the small increase in expected federal funds, maintaining the 1:1 state match is still badly needed to continue to fund high priority project needs.

State Matching Funds for USEPA Capitalization Grants

Demand for drinking water loans, while strong, has not grown as fast relative to the long-term lending capacity of the Drinking Water Revolving Fund. The request for drinking water matching funds remains at the minimum 20% necessary to access the federal funds. This should be sufficient for the Drinking Water Revolving Fund to continue to finance high priority projects.

To date, federal and state funds have been leveraged 2.5:1 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 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/AAA/Aaa ratings of the PFA's clean water and drinking water bonds from Standard and Poors Rating Group, Fitch I.C.B.A., Inc., and Moody's Investor Services reflects the financial strength of the Funds, the credit quality of Minnesota communities, and the sound financial management of the programs.

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Governor's Recommendations

Wastewater Infrastructure Fund

2008 STATE APPROPRIATION REQUEST: \$15,300,000

AGENCY PROJECT PRIORITY: 2 of 7

PROJECT LOCATION: Statewide

Project Description

The Public Facilities Authority (PFA) is seeking \$15.3 million for the Wastewater Infrastructure Funding (WIF) program (MN Statutes 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% loans for up to 40 years to supplement loans from the Clean Water Revolving Fund.

For USDA Rural Development projects, the WIF program provides 50% 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 1.7% of its median household income, with the total grant then providing for 100% 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% of the market value of the project area.

Impact on Agency Operating Budgets (Facilities Notes)

The requested amount includes a \$300,000 general fund appropriation for program administrative costs by the Pollution Control Agency (PCA) and PFA. Of that amount, 90% would be used by the PCA to provide substantial project oversight, technical and environmental review, prioritizing projects, and permitting, and 10% would be for the PFA to cover program administrative costs not associated with the Clean Water Revolving Fund.

Previous Appropriations for this Project

Previous appropriations from 1996-2006 for projects under the WIF program total \$116 million. As of June 2007, the PFA has awarded \$102.8 million in

grants and loans to 87 projects, and an additional \$9.1 million is reserved for projects that have met required deadlines and are waiting for final approvals prior to bidding. The remaining balance of \$4.1 million is available for new projects that are expected to receive USDA Rural Development funding commitments by December 31, 2007.

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 gives small communities the opportunity to share in the benefits of a growing economy by addressing their 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 for many of the smaller communities to access funding.

An additional benefit is that the WIF grant match helps the Minnesota Rural Development office obligate all of its federal grant and loan funds, making it eligible to go to the national pool for additional funds for Minnesota communities. The potential for the Federal Farm Bill to provide a one time injection of capital to reduce the back log of projects on USDA Rural Development's list makes it important to have this money available to get as many federal funding commitments as possible for federal FY 2008-09.

The PFA will survey projects on the PCA's 2008 project priority list and provide its report on WIF needs to the appropriate legislative committees by February 1, 2008.

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Wastewater Infrastructure Fund

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Governor's Recommendations

Small Community Wastewater Treatment**2008 STATE APPROPRIATION REQUEST:** \$2,000,000**AGENCY PROJECT PRIORITY:** 3 of 7**PROJECT LOCATION:****Project At A Glance**

The Small Community Wastewater Treatment Program provides loans and grants to small communities to replace non-complying septic systems with new individual sewage treatment systems or small cluster systems that are publicly owned and operated.

Project Description

The Public Facilities Authority (PFA) is seeking \$2 million for the Small Community Wastewater Treatment Program (MN Statutes 446A.075). The program provides 1% loans for 100% of the project costs to replace failing septic systems with new individual sewage treatment systems or small soil-based cluster systems. Communities with median household incomes below the statewide average can receive grants for up to 50% of the project costs. The program requires public ownership of the systems being financed. The program also provides technical assistance grants for feasibility studies and to assure the communities have the technical, financial, and managerial capacity to operate and maintain the systems built under the program. This is a critical feature in making lasting improvements that will restore and protect water quality.

The requested funds will finance publicly owned capital improvements as a loan or combination loan and grant. Property owners that voluntarily choose to participate in a project must donate utility easements to the community to allow for installation and maintenance of the systems. The systems must comply with Minnesota Statutes Section 115.55 for soil-based treatment systems and must be less than the Pollution Control Agency's (PCA's) permit threshold of 10,000 gallons per day. The program is a critical component of the State's effort to reduce pollution going into impaired waters from failing

septic systems and straight pipes. Funds are awarded based on the project ranking on the PCA's Project Priority List.

Impact on Agency Operating Budgets (Facilities Notes)

Administrative costs of the PFA are captured through fees assessed on loan repayments.

Previous Appropriations for this Project

In 2006 \$1 million was appropriated from state G.O. bonds and \$100,000 from the state General Fund as part of the Clean Water Legacy funding package.

Other Considerations

In 2007, the Public Facilities Authority was appropriated \$100,000 per year in its base budget to award up-front technical assistance grants to unsewered small communities based on their ranking on the PCA's Project Priority List. Grants of \$10,000 plus \$500 per household can be used by the community to hire a licensed professional to conduct site evaluations and determine the feasibility of installing soil-based systems, and to contract with the University of Minnesota Extension Service to advise the community on treatment alternatives and help the community develop the technical, managerial and financial capacity to operate and maintain the systems once installed.

Given the very small size and low income of many unsewered communities, financial assistance from the State is often the only option to address the pollution problems generated by failing septic systems. The PFA plays a major role in coordinating funding from the various state financing programs and with other funding partners to minimize administrative duplication and confusion for small communities.

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Governor's Recommendations (To be completed by the Department of Finance at a later date)

Total Maximum Daily Load Grants

2008 STATE APPROPRIATION REQUEST: \$15,000,000

AGENCY PROJECT PRIORITY: 4 of 7

PROJECT LOCATION:

Project At A Glance

The Total Maximum Daily Load Grant Program provides 50% grants for wastewater treatment and storm water projects that are needed to comply with point source wasteload allocations required by approved TMDL implementation plans.

Project Description

The PFA is seeking \$15 million for the Total Maximum Daily Load (TMDL) grant program (MN Statutes 446A.073). The Pollution Control Agency (PCA) has approved 13 completed TMDL studies as of June 2007. Within these 13 TMDL areas 217 different communities have been identified as contributing to the water impairments (127 unsewered communities with straight pipes from homes discharging into surface waters, 46 communities with wastewater treatment or bypass issues, and 44 communities needing to undertake improvements to reduce pollution caused by storm water flowing into an impaired water). The TMDL grant program provides 50% grants up to a maximum of \$3 million for the improvements necessary to reduce the pollutant load to the limits identified in the TMDL implementation plan. Projects are prioritized based on their ranking on the PCA's Project Priority List. The priority system will assure the available funds are directed to the projects that are the highest environmental priorities.

Impact on Agency Operating Budgets (Facilities Notes)

The PFA covers its administrative costs for the program from a 0.5% (one half on one percent) fee charged to grantee at the time of the contract issuance.

Previous Appropriations for this Project

A total of \$7 million was appropriated for the program from the 2005 and 2006 bonding bills. The PFA received 23 eligible applications for over \$12 million in requests for the \$7 million appropriated to the PFA. The requests were limited to the first two TMDL study areas to be completed. As of June 2007 the PFA has awarded three TMDL grants for \$1.6 million. Three communities are working with USDA for additional grant and loan funds to undertake their project and should be awarded this fall for a total of \$1.48 million. The remaining funds the PFA expects to award by the end of the December 2007.

Other Considerations

As the Clean Water Legacy Act continues to provide the framework to restore up impaired waters throughout the State, the list of needed wastewater and storm water improvements by local governments will continue to grow. Most communities required to upgrade a component of their treatment works will undertake other improvements to upgrade and expand capacity at the same time to save costs. This creates additional construction jobs, reduces future costs of modernizing the systems as they wear out, and provides capacity necessary for residential and industrial growth. The PFA will coordinate TMDL grants with other funding sources to minimize administrative duplication and confusion for cities.

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Governor's Recommendations (To be completed by the Department of Finance at a later date)

Phosphorus Reduction Grants

2008 STATE APPROPRIATION REQUEST: \$10,000,000

AGENCY PROJECT PRIORITY: 5 of 7

PROJECT LOCATION:

Project At A Glance

The Phosphorus Reduction Grant Program was created as part of the Clean Water Legacy Act to provide 75% grants to cities for wastewater treatment improvements to reduce the discharge of phosphorus.

Project Description

The Public Facilities Authority is seeking \$10 million to provide grants for new projects under the Phosphorus Reduction Grant Program (MN Statutes 446A.074). The program provides grants to local governments to assist with the cost of wastewater treatment projects to reduce the discharge of total phosphorus to 1 milligram per liter or less. The Pollution Control Agency (PCA) requires that all wastewater treatment facilities that discharge more than 200,000 gallons per day to surface waters provide treatment to reduce phosphorus to at least the 1 milligram per liter standard. The program was established to assist local governments in meeting this mandate by providing a grant for 75% of eligible capital costs, up to a maximum of \$500,000.

By law the PFA accepts application in the month of July and will reserve funds for projects based on their ranking on the PCA's Project Priority List. Projects have until May 1st the following year to bid and have the eligible cost certified by PCA to obtain grant funds for the project. Under the program statute, any remaining balance can be used to reimburse local governments for phosphorus reduction projects that were previously built, provided it is an eligible use of funds.

Impact on Agency Operating Budgets (Facilities Notes)

The PFA recovers its administrative costs with a 0.5% (one half on one percent) fee charged to grantee at the time of the contract issuance.

Previous Appropriations for this Project

In 2006 the PFA received \$2.31 million in the bonding bill. In July of 2006 the PFA requested applications for Phosphorus Reduction Grants and received 47 eligible requests totaling \$17.6 million for the \$2.31 million available. As of June 2007, the PFA awarded five grants for \$1.3 million and reserved the remaining \$1 million for three other projects expected to be under contract in the near future.

Other Considerations

Most communities required to upgrade a component of their treatment works will undertake other improvements to upgrade and expand capacity at the same time to save cost in the future. This creates additional construction jobs, reduces future costs of modernizing the system as it wears out and provides capacity necessary for residential and industrial growth

The PFA will coordinate Phosphorus Reduction Grants with other funding sources to minimize administrative duplication and confusion for cities.

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Governor's Recommendations (To be completed by the Department of Finance at a later date)

Phosphorus Reduction Grants - Reimbursement Projects

2008 STATE APPROPRIATION REQUEST: \$10,000,000

AGENCY PROJECT PRIORITY: 6 of 7

PROJECT LOCATION:

Project At A Glance

One time request for the Phosphorus Reduction Grant Program for funds to reimburse local governments that implemented wastewater improvements for phosphorus reduction between March 28, 2000 and July 1, 2006. This requires funding from sources other than General Obligation Bond proceeds.

Project Description

The Public Facilities Authority (PFA) is seeking \$10 million from non-bond funds for reimbursement grants to local governments under the Phosphorus Reduction Grant Program (MN Statutes 446A.074). The Pollution Control Agency (PCA) adopted a statewide phosphorus reduction strategy on March 28, 2000 and began requiring all permittees with discharges in excess of 200,000 gallons per day to reduce their phosphorus discharge to one milligram per liter or less. In July 2006 after the Clean Water Legacy Act passed, the PFA received 23 applications for \$8.65 million for reimbursement projects. Since that time several more communities have had to proceed with phosphorus reduction projects that did not receive funding due to the lack of appropriation in 2006.

Impact on Agency Operating Budgets (Facilities Notes)

The PFA recovers its administrative costs with a 0.5% (one half on one percent) fee charged to grantee at the time of the contract issuance.

Previous Appropriations for this Project

In 2006 the PFA received \$2.31 million for the Phosphorus Reduction Grant Program in the bonding bill.

Other Considerations

Although no additional environmental benefits are expected by reimbursing local units of government for costs incurred, it does make it a matter of fairness to treat those local governments that were required to undertake phosphorus reduction improvements prior to the program being established the same as those that are now eligible to receive grants from the program for those improvements.

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Governor's Recommendations (To be completed by the Department of Finance at a later date)

Water Conservation Through Wastewater Reuse

2008 STATE APPROPRIATION REQUEST: \$5,000,000

AGENCY PROJECT PRIORITY: 7 of 7

PROJECT LOCATION:

Project At A Glance

This request will provide \$5 million for a pilot program to seek opportunities to reuse treated municipal wastewater to support sound industrial development through reusing wastewater for non-contact cooling water applications versus using ground water.

Project Description

The Public Facilities Authority (PFA), in conjunction with the Department of Natural Resources (DNR) and the Pollution Control Agency (PCA), is seeking \$5 million for a pilot program to encourage water conservation through the reuse of treated wastewater for industrial purposes. Development in many Minnesota communities is constrained by limited availability of ground and surface water supplies. This proposal will conserve ground and surface water at 2-3 municipally owned demonstration projects. These demonstrations will assess and explore the opportunity to recycle treated wastewater as non-contact cooling water, a major point of industrial water consumption. The demonstration projects will drive more efficient use of natural resources to support continued community and economic development throughout Minnesota.

Factors to be considered in the assessment include; scale of water constraint, volume of treated wastewater supply, quality of water supplied and treatment implications for the industrial user, impacts to stream flow and downstream users, appropriation and discharge permit considerations, construction and on-going operational costs, and user fees.

Impact on Agency Operating Budgets (Facilities Notes)

The PFA recovers its administrative costs with a 0.5% (one half on one percent) fee charged to grantee at the time of the contract issuance.

Previous Appropriations for this Project

None

Other Considerations

The PFA will work with the DNR and the PCA to explore potential projects that could be used to demonstrate how treated municipal wastewater can be reused as non-contact cooling water at industrial facilities. Special emphasis will be placed on existing ethanol plants to determine if opportunities exist to reduce overall groundwater consumption

If needed the PFA will coordinate funding of the pilot projects with other funding sources to get the projects financed in a timely manner with a minimum of confusion.

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