

Public Facilities Authority

Projects Summary

(\$ in Thousands)

Project Title	2014 Agency Priority Ranking	Agency Project Request for State Funds (\$ by Session)				Governor's Recommendations 2014	Governor's Planning Estimate	
		2014	2016	2018	Total		2016	2018
State Matching Funds for USEPA Capitalization Grants	1	\$13,000	\$13,000	\$13,000	\$39,000	\$0	\$0	\$0
Wastewater Infrastructure Fund	2	40,000	40,000	40,000	120,000	0	0	0
Total Project Requests		\$53,000	\$53,000	\$53,000	\$159,000	\$0	\$0	\$0

State Matching Funds for USEPA Capitalization Grants

2014 STATE APPROPRIATION REQUEST: \$13,000,000

AGENCY PROJECT PRIORITY: 1 of 2

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 \$13 million in state funds to match estimated EPA funds for federal FY 2015-16 at the rate of 1:5 (20%) 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. The state matching funds, as well as all other revolving loan funds, are used only for publicly-owned improvements.

FY	Clean Water		Drinking Water	
	Est. Federal	State Match	Est. Federal	State Match
2015	\$18,500	\$3,700	\$14,000	\$2,800
2016	<u>\$18,500</u>	<u>\$3,700</u>	<u>\$14,000</u>	<u>\$2,800</u>
Total	\$37,000	\$7,400	\$28,000	\$5,600

Impact on Agency Operating Budgets (Facilities Notes)

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 provide for 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 \$243.6 million to match federal grants from 1989-2014.

Other Considerations

Eligible projects are prioritized based on environmental and public health criteria and ranked by the MPCA (for wastewater and stormwater projects) and the MDH (for drinking water projects) on their annual project priority lists.

Low-cost financing through the PFA's clean water and drinking water loan programs is an important tool to help communities throughout the state contain costs and remain economically competitive, while providing essential infrastructure to serve their residents and businesses. Through FY 2013 the PFA has made below market rate loans from these two revolving funds in excess of \$3.2 billion, resulting in interest savings to local taxpayers of over \$756 million compared to market rate financing.

Each year the PFA receives funding requests for more than 100 wastewater and stormwater infrastructure projects totaling over \$200 million, more than double the sustainable long-term annual lending capacity of the Clean Water Revolving Fund. Additional federal and state support is needed to build future lending capacity in order to continue to meet high priority wastewater and stormwater project needs. Demand for clean water loans is driven by cities' need to replace aging facilities, provide additional treatment capacity, meet more stringent treatment requirements, and address problems from failing individual sewage treatment systems and straight pipes.

Each year the PFA also receives funding requests for more than 100 drinking water infrastructure projects totaling over \$100 million, more than double the lending capacity of the Drinking Water Revolving Fund. Additional federal and state support is needed to build future lending capacity in order to continue to meet high priority drinking water project needs. Drinking water project requests include new and rehabilitated treatment plants, water towers, watermains, wells and pumphouses. In particular, funding demand for watermain replacement has grown in recent years as cities work to fix their aging underground infrastructure to minimize water loss and problems from major watermain breaks.

State Matching Funds for USEPA Capitalization Grants

Since the beginning of the revolving fund programs, federal and state funds have been leveraged 2.6 to 1 through loan repayments and the PFA's issuance of its AAA rated revenue bonds. Overall, each dollar of state matching funds 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.

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 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.

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Wastewater Infrastructure Fund

2014 STATE APPROPRIATION REQUEST: \$40,000,000

AGENCY PROJECT PRIORITY: 2 of 2

Project At A Glance

The Wastewater Infrastructure Funding Program (WIF) provides supplemental assistance grants to municipalities in conjunction with funding from the Public Facilities Authority's Clean Water Revolving Fund or USDA Rural Development for high cost wastewater projects. WIF grant awards are based on affordability criteria and follow the Pollution Control Agency's Project Priority List.

Project Description

The Public Facilities Authority (PFA) is seeking \$40 million 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 municipalities to supplement low-interest loans from the PFA's Clean Water Revolving Fund or to match grant and loan funding from the U.S. Department of Agriculture (USDA) Rural Development .

Municipalities that receive Clean Water Revolving Fund loans are eligible for WIF grants if their average per household system cost exceeds 1.4% of the 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. In either case 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.

Impact on Agency Operating Budgets (Facilities Notes)

The WIF program is administered in conjunction with other PFA clean water programs and follows the same basic project prioritization and funding

process. Administrative costs of the PFA and MPCA 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. Thus, small rural communities that need the most help in working their way through the process have local USDA field staff available to assist them. USDA also has ability to take on the communities with the highest credit risks, which helps the PFA's AAA bond ratings.

Previous Appropriations for this Project

Previous WIF appropriations from 1996-2012 total \$222 million. As of June 2013, the PFA has awarded \$211 million in WIF funds to 172 projects. The remaining \$11 million is reserved for 9 projects that have met the required deadlines and are waiting for final approvals prior to bidding.

Other Considerations

WIF funds are directed to the highest priority projects from an environmental and public health standpoint based on their ranking on the MPCA 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 and less confusing 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

Wastewater Infrastructure Fund

communities. The Minnesota Rural Development office has been very successful in getting additional federal funds from the pool because of the leveraging they are able to show with the state WIF funds.

The PFA will survey projects on the MPCA's 2014 project priority list and provide its report on WIF needs to the appropriate legislative committees by February 1, 2014.

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