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Public Facilities Authority

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

AT A GLANCE

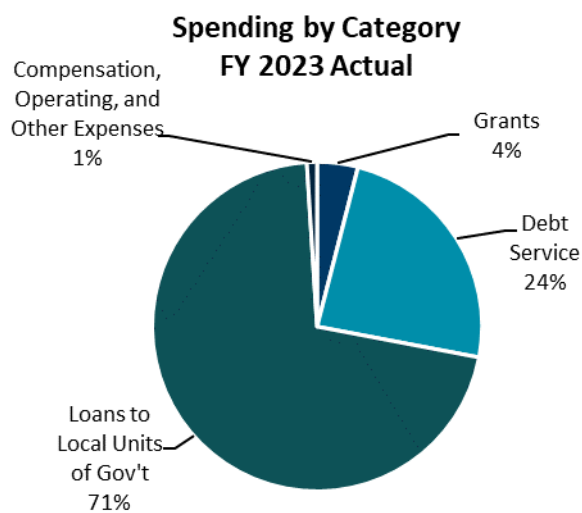
- PFA manages revolving loan funds and grant programs to help local governments statewide build wastewater, storm water, drinking water and transportation infrastructure.
- Through June 30, 2024, PFA has made 1,283 loans to local governments totaling \$5.2 billion. These below-market-rate loans have provided an estimated \$1.0 billion in interest savings to local governments and their residents.
- Over the past ten fiscal years PFA has awarded \$533 million in grants to local governments based on affordability criteria and to address specific water quality goals and objectives.
- PFA has allocated \$94.8 million within its clean water revolving fund to nonpoint source loan programs administered by other agencies. The Minnesota Department of Agriculture's Best Management Practices program and the Pollution Control Agency's Clean Water Partnership program have used these funds and revolving loan repayments to provide \$383 million in low and no-interest loans to help landowners reduce nonpoint source pollution.

PURPOSE

The Minnesota Public Facilities Authority (PFA) is a multi-agency authority that provides financing and technical assistance to local governments for infrastructure projects that support a thriving economy and a clean, healthy environment. These projects support the *One Minnesota Plan* priorities of: Minnesota's Environment, and Healthy Minnesotans.

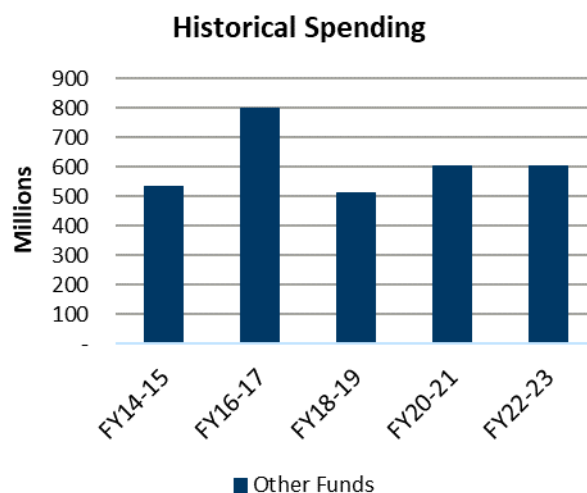
PFA priorities are to 1) manage revolving fund assets (currently \$2.1 billion) to ensure a stable source of infrastructure financing in perpetuity; 2) provide financing programs to support water quality, public health, and other priorities identified by PFA member agencies; and 3) help local governments maintain and improve the condition of their water infrastructure assets while keeping costs affordable for their residents.

BUDGET



Note: Debt Service on PFA revenue bonds comes solely from PFA bond fund revenues (loan repayments and investment earnings).

Source: SWIFT

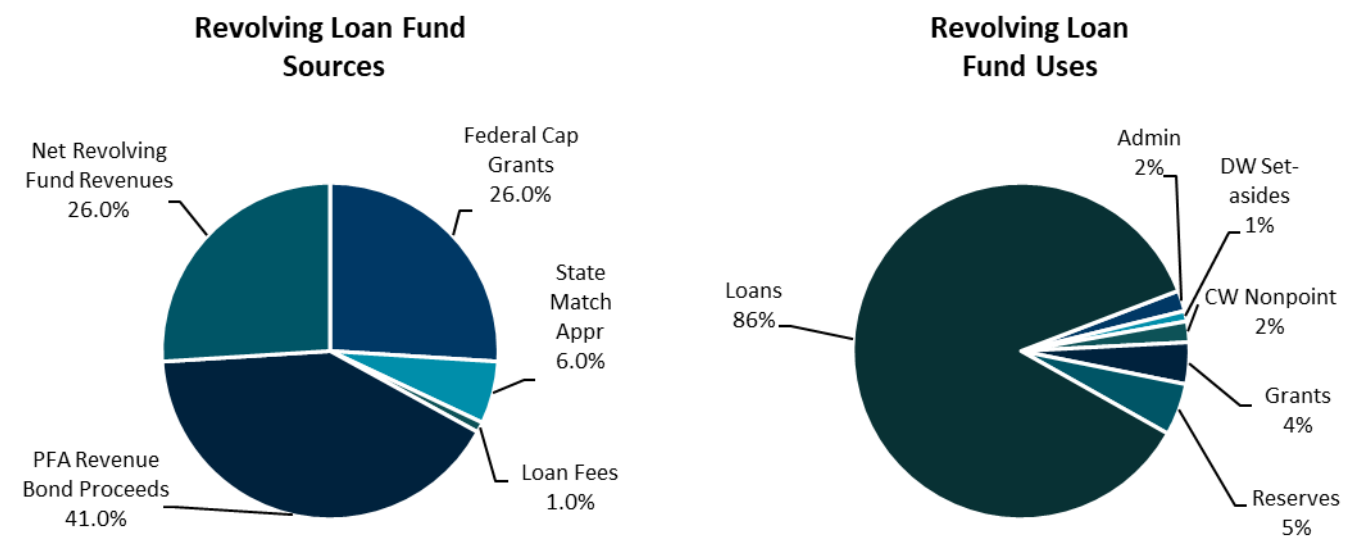


Note: FY 2016-2017 expended high due to early bond redemptions due to low market rates.

Source: Consolidated Fund Statement

PFA receives no general fund appropriations for administrative costs. PFA received a \$240 million one-time general fund appropriation from the 2023 legislature for the newly created program under 446A.077 for lead service line replacement. Revolving loan fund resources include federal grants and state matching appropriations from bond proceeds. These resources are leveraged by selling PFA AAA-rated revenue bonds. Other programs are funded with state appropriations from bond proceeds and from the Clean Water Legacy Fund. Administrative costs are paid from loan servicing and grant application fees.

Sources and Uses to-date for PFA’s Clean Water (CW), Drinking Water (DW), and Transportation revolving loan funds



Notes: Revenues (loan repayments and investment earnings) are net of debt service on bonds.
Source: PFA Internal records

STRATEGIES

The PFA Board is composed of commissioners of the Departments of Employment and Economic Development, Minnesota Management and Budget, Health, Agriculture, Transportation, and the Pollution Control Agency. PFA manages its infrastructure financing programs to maximize economic, environmental, and public health outcomes. PFA partner agencies are responsible for determining project priorities, conducting technical and environmental reviews, and certifying approved projects to the PFA for funding.

PFA staff is responsible for determining that full project financing is in place and that the applicant has established dedicated revenues to pay debt service and operation and maintenance costs. When an application is approved and construction bids are accepted by the applicant, PFA executes a project financing agreement, disburses funds as eligible project costs are incurred, and collects loan repayments. During project planning and design stages, PFA coordinates funding activities with other state and federal partners to leverage resources and minimize duplication, administrative costs, and confusion for the applicants.

RESULTS

The PFA’s revolving loan funds are an efficient tool to provide low-cost financing to help local governments replace and improve water infrastructure systems to meet permit requirements, improve water quality, and protect public health. To date, each \$1 of state match funds has generated \$15 in construction funding and \$4 in interest savings to the communities and their residents. In addition, PFA’s upfront credit review and analysis of loan applications and systematic post loan award surveillance monitoring has helped borrowers achieve a record of no defaults on PFA loans.

Annual project funding is a function of fund availability and demand from local governments. Local government demand for funding varies significantly from year to year, driven by economic factors, the need to replace aging infrastructure, growth and development pressures, and more stringent treatment requirements. The PFA's authority to issue revenue bonds allows it to leverage additional loan funds based on demand. PFA tax-exempt revenue bonds are rated AAA by all three major national rating agencies and are well received in the bond market.

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Measure Data Source</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	Loan Awards (count / \$ millions)	Agency grant and loan contracts data	189/ \$654	214/ \$1,030	2014-18; 2019-23
Quantity	Interest Savings on Loans (\$ millions)	Agency grant and loan contracts data	\$97	\$70	2014-18; 2019-23
Quantity	Grant Awards (count / \$ millions)	Agency grant and loan contracts data	169/ \$248	193/ \$400	2014-18; 2019-23

Note 1: Measures compare the five-year periods of state fiscal years 2014-2018 and 2019-2023.

Note 2: Sustained historically low market rates in the current five-year period resulted in significantly lower interest savings on loans.

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

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
<u>Expenditures by Fund</u>								
1000 - General			1,203					
2000 - Restrict Misc Special Revenue	103	42	46	2,751	559	672	559	672
2302 - Clean Water	15,683	5,646	12,597	16,164			8,270	8,270
8200 - Clean Water Revolving	84,262	66,184	133,756	96,101	76,139	77,932	76,139	77,932
8201 - Drinking Water Revolving	20,249	19,466	62,779	138,657	114,672	114,780	114,672	114,780
8202 - Transportation Revolving	57	33	32	62	66	64	66	64
Total	120,354	91,370	210,413	253,735	191,436	193,448	199,706	201,718
Biennial Change				252,423		(79,264)		(62,724)
Biennial % Change				119		(17)		(14)
Governor's Change from Base								16,540
Governor's % Change from Base								4

Expenditures by Program

Public Facilities Authority	120,354	91,370	210,413	253,735	191,436	193,448	199,706	201,718
Total	120,354	91,370	210,413	253,735	191,436	193,448	199,706	201,718

Expenditures by Category

Compensation	1,283	1,453	1,659	2,265	2,389	2,354	2,389	2,354
Operating Expenses	296	377	1,147	648	954	947	954	947
Grants, Aids and Subsidies	20,268	12,733	28,017	154,565	98,610	100,408	106,880	108,678
Other Financial Transaction	98,508	76,807	179,589	96,257	89,483	89,739	89,483	89,739
Total	120,354	91,370	210,413	253,735	191,436	193,448	199,706	201,718

Full-Time Equivalents

10.50	12.83	12.96	12.96	18.01	18.01	18.01	18.01
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Public Facilities Authority

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base FY26 FY27		Governor's Recommendation FY26 FY27	
1000 - General								
Balance Forward In				216,000				
Direct Appropriation			241,294					
Transfers Out			24,000	216,000				
Cancellations			91					
Balance Forward Out			216,000					
Expenditures			1,203					
Biennial Change in Expenditures				1,203		(1,203)		(1,203)
Biennial % Change in Expenditures								
Governor's Change from Base								0
Governor's % Change from Base								
2000 - Restrict Misc Special Revenue								
Balance Forward In	1,544	1,741	2,059	2,513	73	67	73	67
Receipts	56	119	214	186	196	196	196	196
Net Loan Activity	244	241	287	125	357	470	357	470
Balance Forward Out	1,741	2,059	2,513	73	67	61	67	61
Expenditures	103	42	46	2,751	559	672	559	672
Biennial Change in Expenditures				2,652		(1,566)		(1,566)
Biennial % Change in Expenditures				1,828		(56)		(56)
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	0.75	0.40	0.39	0.39	0.51	0.51	0.51	0.51
2302 - Clean Water								
Balance Forward In	8,832	9,643	12,065	7,819				
Direct Appropriation	8,068	8,068	8,350	8,350	0	0	8,270	8,270
Transfers In	152	14	84					
Transfers Out	152	14	84					
Net Loan Activity				(5)				
Balance Forward Out	1,217	12,065	7,819					
Expenditures	15,683	5,646	12,597	16,164			8,270	8,270
Biennial Change in Expenditures				7,432		(28,761)		(12,221)
Biennial % Change in Expenditures				35		(100)		(42)

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base FY26 FY27		Governor's Recommendation FY26 FY27	
Governor's Change from Base								16,540
Governor's % Change from Base								

8200 - Clean Water Revolving

Balance Forward In	170,199	152,233	130,704	303,143	9,721	9,408	9,721	9,408
Receipts	42,887	48,459	279,659	106,128	107,810	106,651	107,810	106,651
Transfers In	149,695	160,988	170,649	172,299	162,272	162,676	162,272	162,676
Transfers Out	144,854	153,965	164,308	172,458	164,374	164,778	164,374	164,778
Net Loan Activity	18,568	(10,833)	20,195	(303,290)	(29,882)	(26,935)	(29,882)	(26,935)
Balance Forward Out	152,233	130,699	303,144	9,721	9,408	9,090	9,408	9,090
Expenditures	84,262	66,184	133,756	96,101	76,139	77,932	76,139	77,932
Biennial Change in Expenditures				79,411		(75,786)		(75,786)
Biennial % Change in Expenditures				53		(33)		(33)
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	4.94	6.52	6.10	6.10	8.12	8.12	8.12	8.12

8201 - Drinking Water Revolving

Balance Forward In	99,398	67,274	20,778	257,512	5,515	2,599	5,515	2,599
Receipts	22,495	17,978	303,878	154,748	145,777	149,797	145,777	149,797
Transfers In	54,885	57,392	63,667	67,348	66,051	60,816	66,051	60,816
Transfers Out	65,227	67,242	73,238	69,833	66,051	60,816	66,051	60,816
Net Loan Activity	(24,043)	(35,132)	5,207	(265,603)	(34,021)	(35,016)	(34,021)	(35,016)
Balance Forward Out	67,259	20,804	257,513	5,515	2,599	2,600	2,599	2,600
Expenditures	20,249	19,466	62,779	138,657	114,672	114,780	114,672	114,780
Biennial Change in Expenditures				161,721		28,016		28,016
Biennial % Change in Expenditures				407		14		14
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	4.41	5.70	6.28	6.28	9.13	9.13	9.13	9.13

8202 - Transportation Revolving

Balance Forward In	47,391	50,512	54,783	60,231	136	118	136	118
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Public Facilities Authority

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base		Governor's Recommendation	
					FY26	FY27	FY26	FY27
Receipts	655	2,069	3,210	3,351	3,349	3,307	3,349	3,307
Net Loan Activity	2,524	2,234	2,270	(63,384)	(3,301)	(3,259)	(3,301)	(3,259)
Balance Forward Out	50,512	54,783	60,230	136	118	102	118	102
Expenditures	57	33	32	62	66	64	66	64
Biennial Change in Expenditures				4		36		36
Biennial % Change in Expenditures				5		38		38
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	0.40	0.21	0.19	0.19	0.25	0.25	0.25	0.25

(Dollars in Thousands)

	FY25	FY26	FY27	Biennium 2026-27
Direct				
Fund: 2302 - Clean Water				
FY2025 Appropriations	8,350	8,350	8,350	16,700
Base Adjustments				
One-Time Legacy Fund Appropriations		(8,350)	(8,350)	(16,700)
Forecast Base	8,350			
Change Items				
Clean Water Legacy - Municipal Clean Water Infrastructure		8,270	8,270	16,540
Total Governor's Recommendations	8,350	8,270	8,270	16,540
Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Planned Spending	2,751	559	672	1,231
Forecast Base	2,751	559	672	1,231
Total Governor's Recommendations	2,751	559	672	1,231
Fund: 8200 - Clean Water Revolving				
Planned Spending	96,101	76,139	77,932	154,071
Forecast Base	96,101	76,139	77,932	154,071
Total Governor's Recommendations	96,101	76,139	77,932	154,071
Fund: 8201 - Drinking Water Revolving				
Planned Spending	138,657	114,672	114,780	229,452
Forecast Base	138,657	114,672	114,780	229,452
Total Governor's Recommendations	138,657	114,672	114,780	229,452
Fund: 8202 - Transportation Revolving				
Planned Spending	62	66	64	130
Forecast Base	62	66	64	130
Total Governor's Recommendations	62	66	64	130
Revenue Change Summary				
Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Forecast Revenues	186	196	196	392
Total Governor's Recommendations	186	196	196	392
Fund: 8200 - Clean Water Revolving				

(Dollars in Thousands)

	FY25	FY26	FY27	Biennium 2026-27
Forecast Revenues	106,128	107,810	106,651	214,461
Total Governor's Recommendations	106,128	107,810	106,651	214,461
Fund: 8201 - Drinking Water Revolving				
Forecast Revenues	154,748	145,777	149,797	295,574
Total Governor's Recommendations	154,748	145,777	149,797	295,574
Fund: 8202 - Transportation Revolving				
Forecast Revenues	3,351	3,349	3,307	6,656
Total Governor's Recommendations	3,351	3,349	3,307	6,656

Public Facilities Authority

FY 2026-27 Biennial Budget Change Item

Change Item Title: Clean Water Legacy - Municipal Clean Water Infrastructure

Fiscal Impact (\$000s)	FY 2026	FY 2027	FY 2028	FY 2029
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Clean Water Fund				
Expenditures	8,270	8,270	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	8,270	8,270	0	0
FTEs	0	0	0	0

Recommendation:

The Governor recommends an appropriation of \$8,270,000 in FY 2026 and \$8,270,000 in FY 2027 from the Clean Water Fund to the Public Facilities Authority for municipal clean water infrastructure. The recommendation includes \$8,220,000 per year for the Point Source Implementation Grants (PSIG) program and \$50,000 per year for the Small Community Wastewater Treatment program.

Rationale/Background:

The Clean Water Fund provides funding for programs and activities to improve water quality in specific water bodies throughout Minnesota. Funding for these specific PFA programs is recommended by the Clean Water Council and is part of collaborative package from executive branch water agencies, including the Pollution Control Agency (PCA), Department of Natural Resources, Department of Agriculture, Department of Health, Board of Water and Soil Resources, Metropolitan Council, and the Public Facilities Authority (PFA).

The PSIG program provides grants to help cities upgrade water treatment facilities to meet more protective requirements to improve water quality. Eligible project costs are those necessary to meet wasteload reduction requirements under Total Maximum Daily Load (TMDL) implementation plans and to reduce the discharge of phosphorus, chlorides, nitrogen, and other pollutants. The PFA administers the program in partnership with the PCA which determines eligible projects and priorities. Through Minnesota's interagency water management framework, specific water bodies are identified by the PCA where pollutant reductions are needed to meet water quality standards. Watershed restoration and protection strategies are then developed to guide implementation activities, including permit requirements for more stringent effluent limits.

The PSIG program has received Clean Water Fund appropriations each year since 2010. In addition, state general obligation bond appropriations have been used to supplement program funding in response to growing project needs and requests from cities for more state assistance. G.O. appropriations have been: 2017 \$33.7 million, 2019 \$38.3 million, and 2020 \$44.6 million, and 2023 \$80.0 million.

The Small Community Wastewater Treatment program provides grants and loans to assist small unsewered communities with technical assistance and construction funding to replace non-complying septic systems with community subsurface sewage treatment systems (SSTS). The PFA administers the program in partnership with the PCA which determines eligible projects and priorities. Minnesota has many very small unsewered communities with serious environmental and public health problems from failing septic systems. In many of these communities, individual private systems are not feasible or affordable due to small lots, poor soils and limited financial capacity.

The Small Community Wastewater Treatment program has received Clean Water Fund appropriations each year since 2010.

Proposal:

- The Point Source Implementation Grants (PSIG) program provides grants up to \$7 million to municipalities for 80% of eligible project costs for infrastructure construction necessary to meet more stringent permit requirements to improve water quality. Proposed projects must be ranked on the PCA's project priority list and the PCA reviews and approves projects prior to grant award. PFA does not award a grant until full project funding is in place and the project is ready to start construction. In many cases PSIG grants are awarded in conjunction with loans from PFA's low interest revolving loan fund. The program currently has 27 unfunded projects with \$126 million in grant need.
- The Small Community Wastewater Treatment program provides technical assistance grants up to \$60,000 for site evaluations and feasibility studies, and construction financing up to \$2 million through low interest loans and grants based on affordability criteria. All proposed projects must be ranked on the PCA's project priority list. The outcome of a technical assistance grant is a community assessment report that evaluates potential wastewater treatment alternatives with a focus on decentralized soil-based treatment alternatives. The PCA reviews community assessment reports and construction plans and specifications to ensure that new community systems are designed in accordance with state statutes and rules. The PFA reviews construction applications to ensure the borrower has the necessary technical, managerial, and financial capacity to build, operate, and maintain their system. PFA does not award construction loans and grants until full project funding is in place and the project is ready to start construction.

Impact on Children and Families:

PFA programs are available to local governments throughout Minnesota to provide essential wastewater treatment infrastructure to protect public health and the environment for all residents.

Equity and Inclusion:

PFA programs are available to local governments throughout Minnesota to provide essential wastewater treatment infrastructure to protect public health and the environment while helping to keep costs affordable for residents.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐ Yes
☒ No

IT Costs:

N/A

Results:

Eligible projects are ranked on the PCA project priority list based on water quality standards and public health criteria. Projects are reviewed and approved by PCA prior to award. Through its monitoring and enforcement activities, the PCA verifies that completed projects meet required permit limits and conditions, and monitors progress toward overall water quality goals through watershed monitoring.

Statutory Change(s):

N/A

Minnesota Public Facilities Authority

Federal Funds Summary

(Dollars in Thousands)

Federal Agency and ALN	Federal Grant Name Brief Purpose	FY 2024 Actual	FY 2025 Budget	FY 2026 Base	FY 2027 Base	Required State Match or MOE?	FTEs
Environmental Protection Agency 66.458	Capitalization Grants for Clean Water State Revolving Funds. - These funds are deposited into the MN Clean Water State Revolving Fund and will pass-through to local units of government for wastewater infrastructure projects. Approximately 80% will be used for low-interest loans and 20% for Principal Forgiveness grants.	\$ 29,849	\$ 68,207	\$ 58,364	\$ 61,597	see note (1)	7
Environmental Protection Agency 66.468	Capitalization Grants for Drinking Water State Revolving Funds. - These funds are deposited into the MN Drinking Water State Revolving Fund and will pass-through to local units of government for wastewater infrastructure projects. Approximately 80% will be used for low-interest loans and 20% for Principal Forgiveness grants.	\$ 28,844	\$ 136,112	\$ 114,320	\$ 114,322	see note (1)	8
Federal Fund – Agency Total		\$ 58,693	\$ 204,319	\$ 172,684	\$ 175,919		15

Narrative

The federal capitalization grants are deposited into the revolving loan funds and are used, together with state match, fund revenues, and net proceeds of Authority revenue bond issuances, to provide financial assistance to local units of government to fund wastewater and drinking water infrastructure. The primary form of assistance is low interest rate loans. Loan repayments and all fund assets and revenues are pledged to Authority bondholders for payment of the revenue bond debt service. Annually, excess revenues over the debt service requirements are used for making additional loans or debt service reserves.

States are required to deposit match into the funds also (1), and are required to maintain the funds such that they will be available in perpetuity to provide low cost financing to eligible recipients.

Amounts above are directly from BPAS. Estimates include amounts from the Infrastructure Investment and Jobs Act (IIJA). IIJA awards will include amounts for 1) Supplemental awards to the SRF programs, 2) Emerging Contaminants, and 3) Lead Service Line Replacement for the Drinking Water SRF.

FTEs related to these programs are paid from the fee portion of loan repayments, and/or federal grant receipts.

(1) State match requirements:

- Ongoing SRF appropriations will require, as always, a 20% match.
- IIJA Supplemental SRF appropriations will require state match of:
 - years 1-2 (2022-2023): 10%
 - years 3-5 (2024-2026): 20%
- IIJA appropriations for Emerging Contaminants and for Lead Service Line Replacement will not require a state match.

Public Facilities Authority

Grants and Loans Funding Detail

(Dollars in Thousands)

Program Name Federal or State or Both (citation)	Purpose/ Recipient Type(s) Eligibility Criteria	FY 2024	FY 2025	FY 2026	FY 2027
Clean Water SRF low-interest Loans federal + state + SRF revolving 446A.07	Provides low interest loans for wastewater and storm water infrastructure. MN local units of government. Must be on the PCA's Project Priority List (PPL)	\$ 114,865	\$ 436,331	\$ 153,000	\$ 153,000
Clean Water SRF principal-forgiveness grants federal \$ only 446A.07	Provides principal forgiveness grants, in conjunction with low interest loans, for wastewater infrastructure. MN local units of government. Must be on the PCA's PPL.	\$ 2,790	\$ 39,937	\$ 27,162	\$ 28,847
Drinking Water SRF low-interest Loans federal + state + SRF revolving 446A.081	Provides low interest loans for drinking water infrastructure. MN local units of government. Must be on the MDH's PPL.	\$ 47,985	\$ 313,706	\$ 85,948	\$ 85,948
Drinking Water SRF principal-forgiveness grants federal \$ only 446A.07	Provides principal forgiveness grants, in conjunction with low interest loans, for drinking water infrastructure. MN local units of government. Must be on the MDH's PPL.	\$ 11,428	\$ 95,777	\$ 70,955	\$ 70,955
Clean Water Legacy: Point Source Implementation Grants state funded 446A.073 Note (1)	Provides grants to assist with the cost of wastewater or storm water projects to reduce the discharge of phosphorus, nitrogen and other pollutants. MN local units of government. Must be on the PCA's PPL.	\$ 40,998	\$ 32,338	\$ 8,250	\$ 8,250
Clean Water Legacy: Small Community Wastewater Treatment state funded 446A.075 Note (1)	Provides technical assistance grants and construction grants+loans to assist small unsewered communities replace noncomplying sewage treatment systems.❏ MN local units of government. Must be on the PCA's PPL.	\$ 1,028	\$ 886	\$ 50	\$ 50
Transportation Revolving Loan Fund federal + state + RLF revolving 446A.085	Provides low interest loans for transportation infrastructure. MN local units of government. MN DOT prioritizes, recommends.		\$ 65,695	\$ 5,651	\$ 5,651

Notes:

(1) These reflect the expected budget requests from the Clean Water fund.