

MINNESOTA PUBLIC FACILITIES AUTHORITY

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CELEBRATING TEN YEARS OF INFRASTRUCTURE FINANCING

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Dear Stakeholders:

Since 1995, it has been my privilege to serve as Chair of the Minnesota Public Facilities Authority. The Authority is responsible for managing the investments and transactions of several revolving funds and administering financing programs that help local units of government improve sewer and drinking water systems across the state.

By helping local governments improve and expand their water and sewer systems, the Authority plays a vital role in the development and economic vitality of Minnesota's communities. These local infrastructure improvements also help to clean up the environment and protect the public health.

By combining federal and state resources with its AAA bond rating the Authority can provide below-market financing which significantly reduces the overall cost of these projects to the taxpayers and improves the business climate statewide.

The Authority has contributed to the state's economy through a half billion dollars in infrastructure investments over its 10-year history. These loans will result in interest savings to local taxpayers of over \$126 million.

Much work remains to be done. The Minnesota Pollution Control Agency estimates the state's wastewater infrastructure needs over the next five years exceed \$1.2 billion. The federal Environmental Protection Agency and Minnesota Department of Health estimate that total drinking water needs in the state exceed \$2 billion.

Transportation is another area of public infrastructure with major needs. Minnesota has recognized the value of using the revolving fund concept to help address these needs by creating the Transportation Revolving Loan Fund. This program will be administered by the Authority and the Minnesota Department of Transportation and will begin operation this year.

The Authority is charged to manage its revolving funds in perpetuity so they are a permanent resource to help Minnesota communities meet infrastructure needs well into the future. I am confident that with strong support and direction from the Legislature and new Governor, these funds will continue to make a positive impact on Minnesota communities.

Sincerely,

Jay Novak Chair, Minnesota Public Facilities Authority

A Banner Year!

This past year was a banner one for the Minnesota Public Facilities Authority (Authority), as a number of program accomplishments coincided with new responsibilities stemming from federal and state legislation. Success stories and progress were seen across the board, from upgrading local wastewater treatment systems to



establishing new financing programs through partnerships with other state agencies for the betterment of all Minnesotans.

The Public Facilities Authority Board, under the chairmanship of Department of Trade and Economic Development (DTED) Commissioner Jay Novak, provided oversight to the Authority. The Authority Board consists of Commissioners from six state agencies, including Finance, Pollution Control, Health, Transportation, Agriculture and DTED. Terry Kuhlman serves as the Authority's Executive Director.

The Authority has become the leader in providing infrastructure financing for municipalities throughout the state. Dedication and guidance by the Authority Board combined with an experienced staff have resulted in sound fiscal and management practices. As a result, the Authority maintained the highest bond ratings possible from Standard & Poors rating group (AAA) and Moody's (Aaa) for the Water Pollution Control Revolving Fund. The Authority has much to be proud of, but also has more work to do, as it focuses ahead on the continuing demand for infrastructure improvements.

This report looks back at the Authority's accomplishments over the last year and since its inception in 1987. It is intended to offer a clear perspective on a program that is complex in its detail, comprehensive in its approach and significant in its impact on Minnesotans, their communities and the state's quality of life. The Authority's programs are more than just dollars and numbers. They enable communities to build and maintain basic infrastructure that protects public health and the environment while keeping costs as low as possible.

The Year in Review

Water Pollution Control Revolving Fund (WPCRF)

During the past year, the Authority made a total of \$96 million in loans to finance 43 wastewater projects across the state under the 10-year-old Water Pollution Control Revolving Fund. These loans have ranged from \$55,000 for the City of St. Hilaire's wastewater planning and design work to \$40 million to the Metropolitan Council. The largest loan outside of the metropolitan area was for \$24.6 million to the City of Mankato to upgrade and expand its wastewater treatment plant.

With these low interest loans ranging from 1 to 3.4 percent, the Authority estimates that its 1998 local government borrowers will save \$20 million in interest costs over the life of the loans compared to market rate financing.

Wastewater Infrastructure Fund (WIF)

This program provides grant assistance to communities with serious wastewater needs requiring high cost projects. WIF grants for small rural communities are provided through a unique partnership created by the 1998 Minnesota Legislature to match grants with the U.S. Department of Agriculture's Rural Development. Combining the Authority's program with Rural Development's grants and loans leverages the maximum funds for rural Minnesota communities while simplifying the application process at the same time.

"The PFA financing saved the City \$290,000 in interest charges for the wastewater ponds improvement project. The application process reduced the cost of advertising and selling bonds for additional savings."

> Arlo L. Rude Director of Utilities City of Thief River Falls

Drinking Water Revolving Fund (DWRF)

The Drinking Water Revolving Fund (DWRF) was created to finance water projects that protect public health and achieve and maintain compliance with the Safe Drinking Water Act. The Authority, working in partnership with the Minnesota Department of Health, made its first loans in July 1998. Capitalization grants from the federal Environmental Protection Agency and state match funds totaling \$72 million will be available to make loans in the first year of the program. The Authority will raise additional loan funds as needed through the sale of Authority revenue bonds to finance projects on the Intended Use Plan, which contains 141 projects totaling an estimated \$121 million.

Transportation Revolving Loan Fund (TRLF)

First signed into law in May 1997, the state's Transportation Revolving Loan Fund (TRLF) allows the Authority to partner with the Minnesota Department of Transportation to establish and operate a revolving loan fund specifically earmarked for transportation projects. This fund may be used for projects ranging from highways and bridges to mass transit.

The fund is capitalized with seed money from the U.S. Department of Transportation and state matching dollars. Additional federal and state trust funds may be used in the TRLF to meet loan demand. The first loans are expected to be made in 1999.



Minnesota Public Facilities Authority

Municipal Wastewater Loans Fiscal Year 1998

Borrower	Interest Rate	Loan Amount	
Aitkin, City of	2.040%	525,000	
Bagley, City of	1.000%	1,857,134	
Buffalo Lake, City of	2.750%	615,750	
Clara City, City of	2.740%	2,227,000	
Clear Lake, City of	3.080%	225,000	
Clearwater, City of	2.080%	1,682,000	
Courtland, City of	1.540%	889,935	
Elysian, City of	2.130%	1,163,536	
Evansville, City of	1.250%	682,000	
Garfield, City of-2nd	1.040%	777,000	
Hackensack, City of	1.250%	320,000	
Hoffman, City of	1.790%	263,440	
Lake Mary Township	1.540%	2,144,948	
Mankato, City of	3.070%	24,682,000	
Metropolitan Council-9th: Bloomington River Siphon Blue Lake Groundwater Blue Lake/Seneca Centerville Interceptor Centrifuge Dewatering Chaska Phaseout Elm Creek Interceptor Empire Expansion Lino Lakes Interceptor MWWTP Liquid Treatment Mpls Meter Improvements MWWTP Works Process Control Rosemount Phaseout Secondary Treatment SE Regional Interceptor	3.405%	40,000,000	
Waconia Improvements	2 2000/	E02 401	
Moorhead, City of-3rd North Mankato, City of	3.290% 3.405%	503,401 1,073,220	
	3.290%	1,156,850	
Olivia, City of Park Rapids, City of-2nd	3.200%	1,205,000	
Pipestone, City of	1.790%	301,247	
Red Wing, City of-2nd	3.405%	700,000	
Red Wing, City of 3rd	3.340%	2,500,000	
Rockford, City of	3.990%	1,850,000	
St Cloud, City of	3.630%	4,812,000	
St Hilaire, City of	2.250%	55,000	
St Paul, City of-6th	3.250%	3,100,000	
Thief River Falls, City of	2.790%	1,016,617	
	TOTAL:	\$96,328,078	

"PFA and the **Metropolitan Council have** worked extremely well together to make the Twin Cities a better. more livable community for everyone. On a 1997 loan worth \$40 million, the **Council will save** \$5 million through PFA's reduced interest structure. We strongly believe that PFA is a valuable contributor to the vitality of this region."

Jim Solem Regional Administrator Metropolitan Council

History of the Authority

In 1998, the Authority marked its 10th year of providing below market rate loans to Minnesota municipalities for wastewater projects.

The Authority was created by the Legislature in 1987 to manage the State Revolving Fund created by Congress under the federal Clean Water Act. Under this program, the state receives annual federal capitalization grants and provides a 20 percent match. The Authority then leverages these funds through the issuance of revenue bonds.

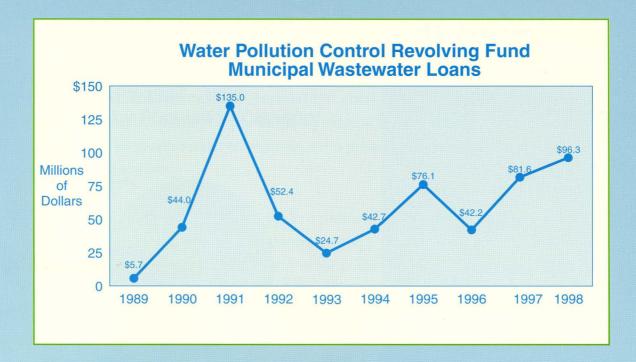


In Fiscal Year 1991, the Authority's bonds received a AA + rating from Standard and Poors rating group. The AA + rating marked the first time an open revenue bond pool program had received a higher rating than AA without insurance or a letter of credit guarantee.

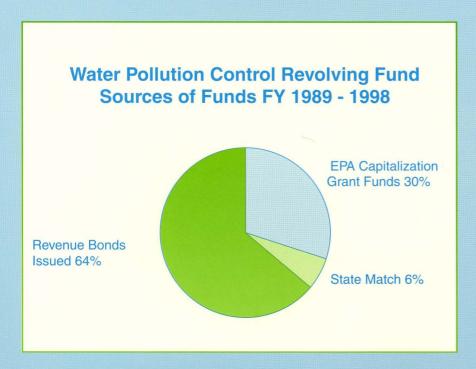
By 1995, Standard and Poors had raised their rating for the Authority's issuances to AAA, a rating which has been maintained through this year. Moody's Investor Services raised their rating on the Authority's bonds to Aaa in 1996, which has also stood the test of time through 1998. In 1998, Fitch IBCA also rated the Authority's bonds AAA.

Since its creation, the Authority has financed 228 wastewater projects totaling almost \$600 million. The communities benefitting from these loans will save approximately \$126 million in interest costs over the life of the loans.

The Authority's access to the municipal bond market benefits all borrowers in a number of ways. Since the Water Pollution Control Revolving Fund's (WPCRF) bond pool has a AAA rating, the Authority is able to make loans at the best possible rates. Participation in the bond pool also minimizes bond issuance costs for individual borrowers. Small unrated communities enjoy the pool's AAA rating and receive additional interest rate discounts.



"We found the PFA loan to be a very good method of financing. The rates received were lower than we could have received through bonding on our own. The reduced costs will result in savings to our utility customers. "



Wendell Sande City Administrator City of North Mankato In addition to financing municipal wastewater facilities, the Authority has provided over \$45 million from the Water Pollution Control Revolving Fund to three state agencies for non-point source pollution programs. The Department of Agriculture, Pollution Control Agency and Department of Trade and Economic Development administer these programs, which provide borrowers with the means to upgrade septic systems, improve farm operations and implement other measures to reduce non-point source pollution.

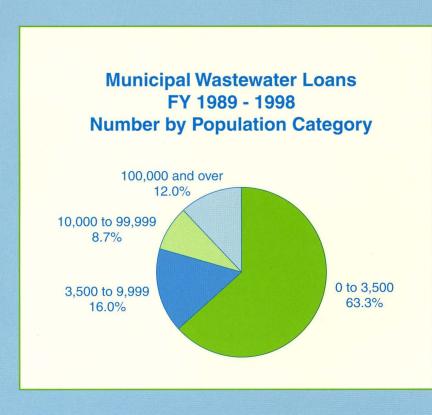
In 1995, the Legislature approved the creation of the Drinking Water Revolving Fund, also administered by the Authority. Congress approved the framework for the revolving fund in 1996 as part of the Safe Drinking Water Act.

In recognition of the success of the SRF program, the Legislature has steadily increased the Authority's bonding authority four times -- from the initial \$100 million in 1988 to the current level of \$850 million set in 1997.

In 1997, the Legislature created the Transportation Revolving Loan Fund which directed the Authority and the Minnesota Department of Transportation to bring additional resources and flexibility to bear in financing transportation improvements at the state, county and local level.

This past year the Authority has experienced tremendous program growth and success. The need for varying types of infrastructure improvements continues to grow. By creatively taking advantage of federal resources and combining them with unique state initiatives, the Authority, with strong support of the Governor and Legislature, has developed powerful financing tools to help Minnesota communities meet their infrastructure needs.

The development of the Drinking Water Revolving Fund (DWRF) and the Transportation Revolving Loan Fund (TRLF), along with improvements to the existing Wastewater Infrastructure Fund (WIF), are examples of how the Authority is responding to these needs.



"The WLSSD has obtained state loans for four projects dating back to 1991. Because of the interest rate savings and low issuance costs, the state loan will provide the WLSSD an estimated debt service savings of \$4.5 million over a period of 20 years." **Kurt Soderburg**

Executive Director West Lake Superior Sanitary District



Looking Ahead

Wastewater

With the demand for wastewater loans increasing, the Authority must strike a balance between the amount of loans made each year and the need to preserve the future lending capacity of the fund.

The MPCA estimates that projects needed to maintain and improve wastewater treatment throughout the state over the next five years will exceed \$1.2 billion.

These needs are being driven by three key factors:

 Increased population and economic growth statewide has placed many systems at their maximum capacity;

Systems built with state and federal grants 20-25 years ago are reaching the end of their design lives and need major rehabilitation; and,

More stringent state and local requirements for individual septic systems have generated a critical and growing demand for municipal wastewater service in many unsewered communities and lakeshore areas.

In recognition of the challenges facing unsewered areas of the state, the 1998 Legislature initiated a program to fund planning grants for these areas. The Authority will provide planning grants to governmental entities to determine the feasibility of providing wastewater treatment in these areas and to encourage multi-jurisdictional coordination of this effort.

Although the capitalization grants for the Clean Water funding were originally scheduled to end in 1994, they have been extended on an annual basis. In fact, last year's budget agreement between Congress and the President called for continuing this federal allocation to the states through 2003. These funds will allow the Authority to continue to meet the demand from Minnesota communities for low cost loans to improve and expand wastewater infrastructure throughout the state.

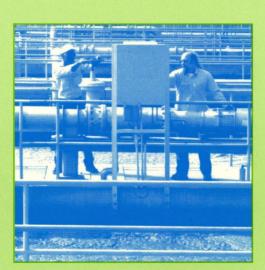
Water

Drinking water infrastructure needs are subject to many of the same pressures that are leading to increased wastewater needs, but are driven first and foremost by the need to protect public health. The U.S. Environmental Protection Agency estimates that Minnesota communities will need to make over \$2 billion in improvements to their drinking water systems over the next 20 years to stay in compliance with the federal Safe Drinking Water Act. The Minnesota Department of Health's current Project Priority List contains 259 projects totaling over \$200 million.

In Summary

The Authority is working hard to ensure that municipalities continue to have access to affordable infrastructure financing. To do this, the Authority will carry out its charge to maintain the revolving loan funds in perpetuity; work with the Legislature to obtain required state funds to match federal capitalization grants; and maximize all available resources through leveraging and coordination with other federal and state agencies.

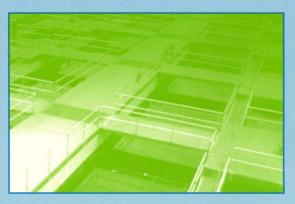
Maintaining and improving water and wastewater infrastructure in Minnesota's communities is essential to protecting public health and the environment, sustaining our state's long-term economic growth and providing continued prosperity for future generations.



Authority Programs

Water Pollution Control Revolving Fund (WPCRF)

Through the WPCRF, the Authority provides below-market rate loans to municipalities to build wastewater facilities. The maximum loan term is 20 years. Prospective applicants must have their projects included on the Minnesota Pollution Control Agency's (MPCA) Project Priority List and Intended



Use Plan in order to be considered for a loan. The MPCA also conducts technical and environmental reviews of the projects and must certify each project before the Authority can approve a loan.

Wastewater Infrastructure Fund (WIF)

The WIF provides state supplemental assistance grants to communities with high cost wastewater projects. Communities with median household incomes less than \$40,000 and residential user costs in excess of 1.4 percent of the median household income or \$25 per month, whichever is greater, are eligible for WIF assistance. For small rural communities, WIF grants are used to match grant funds provided by the U. S. Department of Agriculture's Office of Rural Development. Municipalities that must meet stringent wastewater standards to protect outstanding resource value waters are also eligible for WIF grants.

Drinking Water Revolving Fund (DWRF)

The Drinking Water Revolving Fund was patterned after the successful Water Pollution Control Revolving Fund. The Authority provides below-market rate loans to borrowers for improving and constructing drinking water facilities. The maximum loan term is 20 years. Prospective applicants must have their projects included on the Minnesota Department of Health's (MDH) Project Priority List and on the Authority's Intended Use Plan in order to be considered for a loan. Projects must be certified by MDH before the Authority can approve a loan. In addition to loans, the DWRF can provide grants for projects that are public health priorities where the average residential user rate exceeds 1.4 percent of median household income.

Transportation Revolving Loan Fund (TRLF)

The TRLF is an innovative approach to financing transportation projects in Minnesota. Instead of traditional pay-as-you-go financing, the Authority will provide below-market rate loans to borrowers. For example, a TRLF loan can allow a multi-year construction project to be compressed, saving costs to the taxpayers and minimizing traffic disruptions. TRLF projects must be certified by the Minnesota Department of Transportation before they can be considered for a loan. The maximum loan term is 30 years.

Public Facilities Authority Board

Six State Commissioners are represented on the Authority Board. The current board includes:

Department of Trade and Economic Development

Jay Novak, Commissioner

Department of Finance

Wayne Simoneau, Commissioner Peter Sausen, PFA Delegate

Pollution Control Agency

Peder Larson, Commissioner Laurie Martinson, PFA Delegate

Department of Health Anne Barry, Commissioner Kelli Johnson, PFA Delegate

Department of Transportation

James Denn, Commissioner Ed Cohoon, PFA Delegate William Schreiber, PFA Delegate

Department of Agriculture

Eugene Hugoson, Commissioner Paul Burns, PFA Delegate



Authority staff is provided by the Department of Trade and Economic Development Office of Community Finance.

PFA Staff, from left to right: Seated: Martin English, Senior Loan Officer, Terry Kuhlman, Executive Director, Becky Sabie, Senior Loan Officer, Kathe Barrett, Senior Loan Officer. Standing: Ellaura Ukofia, Senior Loan Officer, Milan Thoreson, Senior Loan Officer, Jeff Freeman, Assistant Director, Steve Walter, Program Accounting Officer, Dennis Feist, Senior Loan Officer

MINNESOTA PUBLIC FACILITIES AUTHORITY WATER POLLUTION CONTROL REVOLVING FUND BALANCE SHEETS JUNE 30, 1998 AND 1997

	1998	1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 68,361,185	\$ 24,571,648
Investments	78,918,428	33,957,921
Loans receivable	22,995,986	17,405,467
Federal grants receivable	17,225,271	25,285,783
Accrued interest receivable:		
Investments	4,911,985	4,045,983
Loans	7,161,268	6,770,135
Total current assets	199,574,123	112,036,937
INVESTMENTS	144,451,589	139,149,908
LOANS RECEIVABLE	452,267,020	409,829,678
FEDERAL GRANTS RECEIVABLE	6,103,003	17,973,740
DEFERRED BOND ISSUANCE COSTS	2,716,066	2,099,801
EQUIPMENT (net of depreciation)	10,732	15,791
	\$ 805,122,533	\$ 681,105,855
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES:		
Bonds payable	\$ 21,080,742	\$ 15,525,000
Accrued interest payable on bonds	8,402,308	6,526,998
Accrued salaries and other admin	221,354	217,718
Payable to federal grant subrecipients	16,830,914	16,056,415
Arbitrage rebate liability	900,695	435,096
Total current liabilities	47,436,013	38,761,227
BONDS PAYABLE	459,066,366	351,908,495
PAYABLE TO FEDERAL GRANT SUBRECIPIENTS	15,103,003	17,973,740
FUND EQUITY:		
Contributed capital:		
Federal	196,425,020	196,425,020
State	48,376,042	48,376,042
Retained earnings	38,716,089	27,661,331
Total fund equity	283,517,151	272,462,393
	\$ 805,122,533	\$ 681,105,855

MINNESOTA PUBLIC FACILITIES AUTHORITY WATER POLLUTION CONTROL REVOLVING FUND STATEMENT OF REVENUES, EXPENSES & CHANGES IN RETAINED EARNINGS YEARS ENDED JUNE 30, 1998 AND 1997

	1998	1997
REVENUES:		
Interest on loans	\$ 17,919,602	\$ 17,387,187
Investment earnings	17,697,331	12,565,188
Net increase in the fair value of investments	1,881,184	173,406
Total revenues	37,498,117	30,125,781
EXPENSES:		
Interest on bonds	25,023,110	22,277,286
Salaries and employee benefits	846,527	1,260,866
Indirect costs	303,928	181,394
Purchased Services	255,560	125,911
Depreciation	10,147	11,678
Supplies and Materials	4,087	6,142
Total expenses	26,443,359	23,863,277
NET INCOME	11,054,758	6,262,504
RETAINED EARNINGS AT BEGINNING OF YEAR	27,661,331	18,415,285
Adjustment for restatement of prior year *		2,983,542
RETAINED EARNINGS AT END OF YEAR	\$ 38,716,089	\$ 27,661,331

* Per Governmental Accounting Standards Number 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, investments must be reported at fair value. One of the effects of implementing this standard was to increase retained earnings at July 1, 1996 by \$2,938,542.

MINNESOTA PUBLIC FACILITIES AUTHORITY WATER POLLUTION CONTROL REVOLVING FUND STATEMENT OF CASH FLOWS YEARS ENDED JUNE 30, 1998 AND 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 11,054,758	\$ 6,262,504
Adjustments to reconcile net income to net cash		
flows used in operating activities:		
Investment earnings	(17,697,331)	(12,565,188)
Interest expense	25,023,110	22,277,286
Depreciation	10,147	11,678
Changes in assets and liabilities:		
Accrued interest receivable on loans	(391,133)	(925,175)
Accrued salaries and other admin	3,635	38,871
Other operating cashflows:		
Loan Principal Repayments	19,348,404	12,379,296
Loans Issued	(67,376,265)	(68,584,332)
Net cash flows used in operating activities	(30,024,675)	(41,105,060)
CASH FLOWS-NONCAPITAL FINANCING ACTIVITII	ES	
Proceeds from grant drawdowns:		
Federal	19,931,249	22,426,393
State	9,000,000	7,600,189
Amounts paid out to subgrantees	(11,096,238)	(7,580,003)
Proceeds from bond issuance	242,888,560	61,832,291
Funds (deposited in) refunded from escrow account	(114,516,448)	326,968
Repayment of bond principal	(15,525,000)	(11,520,000)
Bond interest paid	(22,204,576)	(19,085,400)
Bond issuance costs	(1,692,987)	(528,403)
Net cash flows provided by noncapital financing activities	106,784,560	53,472,035
CASH FLOWS-CAPITAL FINANCING ACTIVITIES		
Purchase of equipment	(5,088)	(22,021)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	95,545,382	71,454,331
Purchases of investments	(143,598,677)	(117,798,440)
Investment earnings received	16,969,220	11,810,039
Net Increase in the fair value of investments	(1,881,185)	(173,406)
Net cash flows used in investing activities	(32,965,260)	(34,707,476)
NET INCREASE (DECR) IN CASH AND CASH EQUIV.	43,789,537	(22,362,522)
CASH AND CASH EQUIVALENTS AT BEG OF YEAR	24,571,648	46,934,170
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 68,361,185	\$ 24,571,648

Minnesota

Minnesota Department of Trade and Economic Development

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