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Public Facilities Authority

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mn.gov/pfa

AT A GLANCE

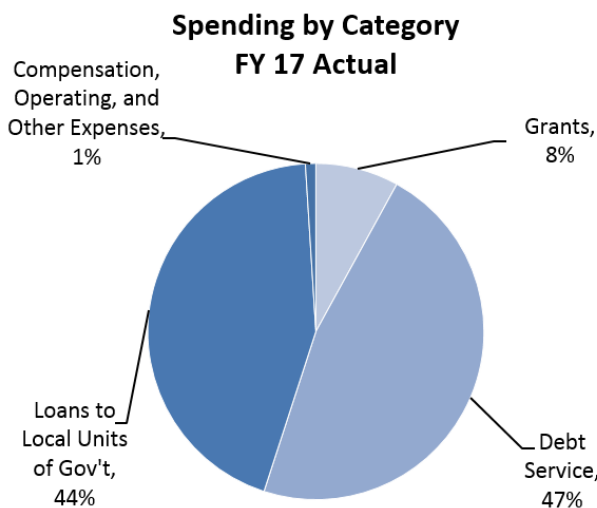
- PFA manages revolving loan funds and grant programs to help local governments statewide build wastewater, storm water, drinking water and transportation infrastructure.
- Since 1990, PFA has made 1,030 loans to local governments totaling \$4.1 billion. These below-market-rate loans have provided an estimated \$911 million in interest savings to local governments and their residents.
- Over the past ten years PFA has awarded \$464 million in grants to local governments based on affordability criteria and to address specific water quality goals and objectives.
- PFA has allocated \$90.8 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 \$268 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.

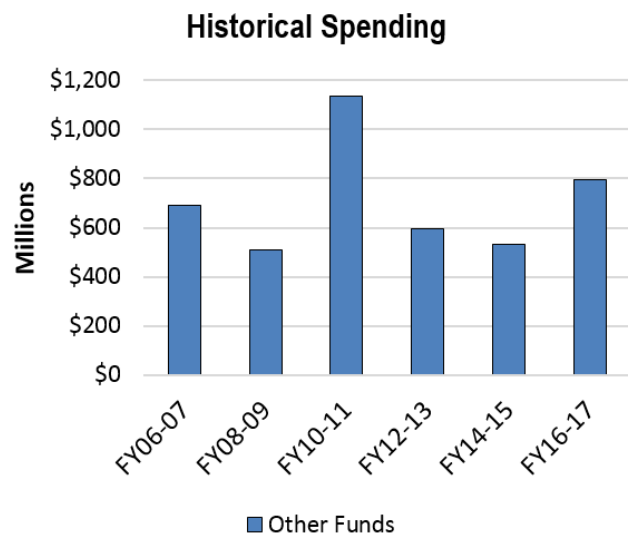
PFA priorities are to 1) manage capital assets (currently \$2.3 billion) to ensure a stable source of infrastructure financing in perpetuity; 2) provide financing programs to support water quality, public health, and other priorities identified by PFA member agencies; and 3) help local governments maintain 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

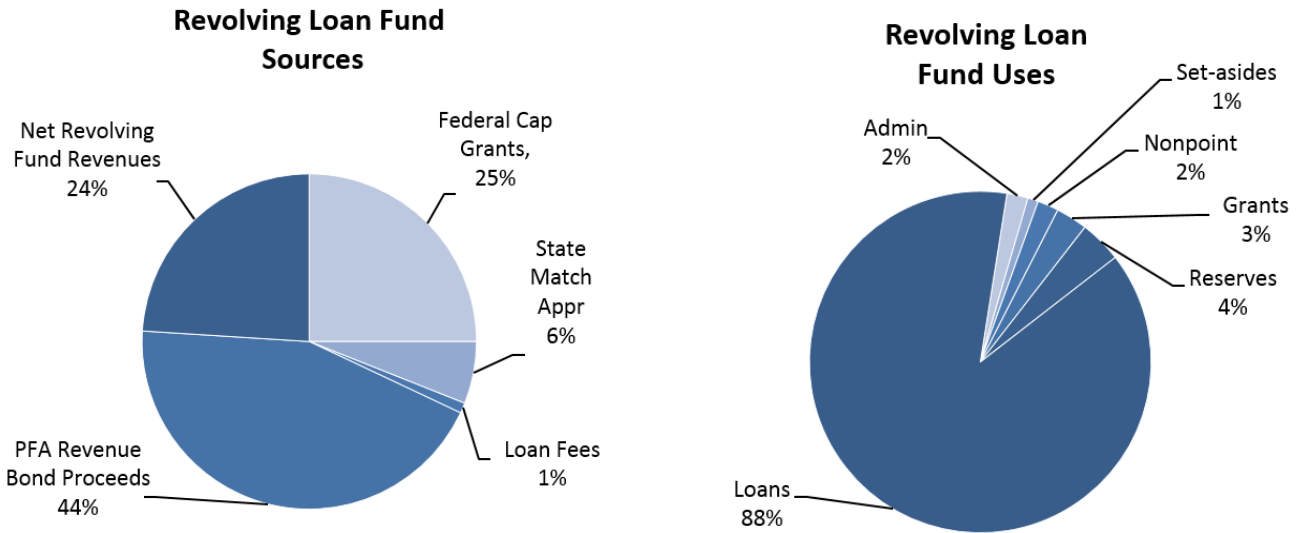


Note: FY 2010-2011 expended high due to two factors: 1) Federal ARRA stimulus funding, and 2) early bond redemptions due to low market rates.

Source: Consolidated Fund Statement

PFA receives no general fund appropriations for its programs or for administrative costs. 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, Drinking Water, 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 funds has generated \$16 in construction funding and \$3 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>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	Loan Awards (count / \$ millions)	272/\$1,018	188/\$662	2009-2013; 2014-2018
Quantity	Interest Savings on Loans (\$ millions)	\$204	\$99	2009-2013; 2014-2018
Quantity	Grant Awards (count / \$ millions)	222/\$210	169/\$254	2009-2013; 2014-2018

Note 1: Measures compare the five year periods of state fiscal years 2009-2013 to 2014-2018.

Note 2: Sustained historically low market rates in the current 5 year period have resulted in lower interest savings on loans.

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

Public Facilities Authority

Agency Expenditure Overview

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base		Governor's Recommendation	
					FY20	FY21	FY20	FY21
<i>Expenditures by Fund</i>								
1000 - General			900					
2000 - Restrict Misc Special Revenue	83	78	62	644	309	308	309	308
2302 - Clean Water	14,142	26,225	14,602	20,953			9,125	9,125
8200 - Clean Water Revolving	204,498	108,670	106,997	113,565	155,751	101,188	155,751	101,188
8201 - Drinking Water Revolving	131,883	25,728	20,280	23,383	24,424	24,256	24,424	24,256
8202 - Transportation Revolving	4,915	1,710	1,484	753	778	406	778	406
Total	355,521	162,410	144,325	159,298	181,262	126,158	190,387	135,283
Biennial Change				(214,309)		3,797		22,047
Biennial % Change				(41)		1		7
Governor's Change from Base								18,250
Governor's % Change from Base								6

Expenditures by Program

Public Facilities Authority	355,521	162,410	144,325	159,298	181,262	126,158	190,387	135,283
Total	355,521	162,410	144,325	159,298	181,262	126,158	190,387	135,283

Expenditures by Category

Compensation	919	1,041	1,018	1,196	1,113	1,125	1,113	1,125
Operating Expenses	1,035	325	348	445	926	724	926	724
Grants, Aids and Subsidies	26,429	29,999	19,511	32,860	9,146	9,145	18,271	18,270
Other Financial Transaction	327,138	131,046	123,447	124,797	170,077	115,164	170,077	115,164
Total	355,521	162,410	144,325	159,298	181,262	126,158	190,387	135,283

Total Agency Expenditures	355,521	162,410	144,325	159,298	181,262	126,158	190,387	135,283
Internal Billing Expenditures	132	114	128	146	157	158	157	158
Expenditures Less Internal Billing	355,389	162,297	144,196	159,152	181,105	126,000	190,230	135,125

Full-Time Equivalent

	9.03	10.09	9.80	10.01	10.02	10.02	10.02	10.02
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Public Facilities Authority

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base FY20 FY21		Governor's Recommendation FY20 FY21	
1000 - General								
Direct Appropriation			1,800					
Transfers Out			600					
Cancellations			300					
Expenditures			900					
Biennial Change in Expenditures				900		(900)		(900)
Biennial % Change in Expenditures								
Governor's Change from Base								0
Governor's % Change from Base								

2000 - Restrict Misc Special Revenue

Balance Forward In	272	335	432	667	84	63	84	63
Receipts	47	82	105	99	95	94	95	94
Net Loan Activity	99	92	192	(38)	193	193	193	193
Balance Forward Out	335	432	667	84	63	42	63	42
Expenditures	83	78	62	644	309	308	309	308
Biennial Change in Expenditures				545		(89)		(89)
Biennial % Change in Expenditures				338		(13)		(13)
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	0.17	0.42	0.55	0.63	0.63	0.63	0.63	0.63

2302 - Clean Water

Balance Forward In	36,561	30,368	19,767	10,435				
Direct Appropriation	9,250	9,250	5,307	10,693	0	0	9,125	9,125
Transfers In			1,048					
Transfers Out			1,048					
Net Loan Activity	(269)	(942)	(38)	(175)				
Cancellations	1,034							
Balance Forward Out	30,365	12,452	10,435					
Expenditures	14,142	26,225	14,602	20,953			9,125	9,125
Biennial Change in Expenditures				(4,812)		(35,555)		(17,305)
Biennial % Change in Expenditures				(12)		(100)		(49)
Governor's Change from Base								18,250

Public Facilities Authority

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base FY20 FY21		Governor's Recommendation FY20 FY21	
Governor's % Change from Base								

8200 - Clean Water Revolving

Balance Forward In	258,530	301,997	268,036	253,202	22,961	14,398	22,961	14,398
Receipts	326,477	58,433	41,805	78,050	153,539	90,571	153,539	90,571
Transfers In	133,263	136,353	143,555	179,610	206,236	162,722	206,236	162,722
Transfers Out	211,978	135,720	133,970	169,970	196,116	154,557	196,116	154,557
Net Loan Activity	202	15,643	40,772	(204,366)	(16,471)	(7,402)	(16,471)	(7,402)
Balance Forward Out	301,997	268,036	253,201	22,961	14,398	4,544	14,398	4,544
Expenditures	204,498	108,670	106,997	113,565	155,751	101,188	155,751	101,188
Biennial Change in Expenditures				(92,606)		36,377		36,377
Biennial % Change in Expenditures				(30)		16		16
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	5.39	5.78	5.47	4.87	4.88	4.88	4.88	4.88

8201 - Drinking Water Revolving

Balance Forward In	55,432	147,705	129,435	114,034	2,531	3,190	2,531	3,190
Receipts	180,206	12,852	23,140	33,820	69,378	65,981	69,378	65,981
Transfers In	126,072	44,412	49,133	52,924	52,123	52,497	52,123	52,497
Transfers Out	48,922	47,207	60,923	65,852	64,531	62,950	64,531	62,950
Net Loan Activity	(33,200)	(2,599)	(6,472)	(109,012)	(31,887)	(31,618)	(31,887)	(31,618)
Balance Forward Out	147,705	129,435	114,033	2,531	3,190	2,844	3,190	2,844
Expenditures	131,883	25,728	20,280	23,383	24,424	24,256	24,424	24,256
Biennial Change in Expenditures				(113,948)		5,017		5,017
Biennial % Change in Expenditures				(72)		11		11
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	3.19	3.62	3.54	4.13	4.13	4.13	4.13	4.13

8202 - Transportation Revolving

Balance Forward In	39,027	28,836	32,951	37,219	615	554	615	554
Receipts	1,130	1,166	1,266	1,283	1,185	1,147	1,185	1,147

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base		Governor's Recommendation	
					FY20	FY21	FY20	FY21
Transfers In	8,100	2,023	1,739	849	831	934	831	934
Transfers Out	8,100	2,023	1,739	849	831	934	831	934
Net Loan Activity	(6,407)	4,594	4,486	(37,134)	(468)	(1,285)	(468)	(1,285)
Balance Forward Out	28,836	32,885	37,219	615	554	10	554	10
Expenditures	4,915	1,710	1,484	753	778	406	778	406
Biennial Change in Expenditures				(4,388)		(1,053)		(1,053)
Biennial % Change in Expenditures				(66)		(47)		(47)
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	0.28	0.27	0.24	0.38	0.38	0.38	0.38	0.38

(Dollars in Thousands)

	FY19	FY20	FY21	Biennium 2020-21
Direct				
Fund: 2302 - Clean Water				
FY2019 Appropriations	10,693	10,693	10,693	21,386
Base Adjustments				
One-Time Legacy Fund Appropriations		(10,693)	(10,693)	(21,386)
Forecast Base	10,693	0	0	0
Change Items				
Municipal Clean Water Infrastructure		9,125	9,125	18,250
Total Governor's Recommendations	10,693	9,125	9,125	18,250
Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Planned Spending	644	309	308	617
Forecast Base	644	309	308	617
Total Governor's Recommendations	644	309	308	617
Fund: 8200 - Clean Water Revolving				
Planned Spending	113,565	155,751	101,188	256,939
Forecast Base	113,565	155,751	101,188	256,939
Total Governor's Recommendations	113,565	155,751	101,188	256,939
Fund: 8201 - Drinking Water Revolving				
Planned Spending	23,383	24,424	24,256	48,680
Forecast Base	23,383	24,424	24,256	48,680
Total Governor's Recommendations	23,383	24,424	24,256	48,680
Fund: 8202 - Transportation Revolving				
Planned Spending	753	778	406	1,184
Forecast Base	753	778	406	1,184
Total Governor's Recommendations	753	778	406	1,184
Revenue Change Summary				
Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Forecast Revenues	99	95	94	189
Total Governor's Recommendations	99	95	94	189
Fund: 8200 - Clean Water Revolving				

(Dollars in Thousands)

	FY19	FY20	FY21	Biennium 2020-21
Forecast Revenues	78,050	153,539	90,571	244,110
Total Governor's Recommendations	78,050	153,539	90,571	244,110
Fund: 8201 - Drinking Water Revolving				
Forecast Revenues	33,820	69,378	65,981	135,359
Total Governor's Recommendations	33,820	69,378	65,981	135,359
Fund: 8202 - Transportation Revolving				
Forecast Revenues	1,283	1,185	1,147	2,332
Total Governor's Recommendations	1,283	1,185	1,147	2,332

Public Facilities Authority

FY 2020-21 Biennial Budget Change Item

Change Item Title: Municipal Clean Water Infrastructure

Fiscal Impact (\$000s)	FY 2020	FY 2021	FY 2022	FY 2023
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	9,125	9,125	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	9,125	9,125	0	0
FTEs	0	0	0	0

Request:

The Governor recommends \$9,125,000 in FY 2020 and \$9,125,000 in FY 2021 from the Clean Water Fund to the Public Facilities Authority for municipal clean water infrastructure. The recommendation includes \$9.0 million per year for the Point Source Implementation Grants (PSIG) program and \$125,000 per year for the Small Community Wastewater Treatment program. This recommendation reflects the collaborative recommendation of the executive branch water agencies, which includes 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).

Rationale/Background:

The PSIG program provides grants to help cities upgrade water infrastructure treatment facilities to reduce the discharge of specific pollutants to comply with wasteload requirements and more stringent water-quality based effluent limits for phosphorus, chlorides, 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 2017, in response to growing project needs and requests from cities for more state assistance, the Legislature appropriated \$33.7 million from state general obligation bonds to supplement Clean Water Funds. In 2018, the Legislature appropriated an additional \$33.3 million for the program from Environmental Trust Fund appropriation bonds. The constitutionality of that appropriation has been challenged and the funds are not available at this time.

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 of up to \$7 million to municipalities for 80% of eligible project costs for infrastructure construction necessary to meet more stringent permit requirements to achieve specific water quality goals. 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 funds. Through its monitoring and enforcement activities, the PCA verifies that completed projects meet the required permit limits and conditions, and monitors progress toward overall water quality goals through its watershed monitoring program.

In FY 2018 the PFA awarded PSIG grants totaling \$39.3 million for nine projects, an average of \$4.375 million per project. The PFA currently has 31 unfunded PSIG applications with estimated grant needs totaling \$110 million. Of these, seven projects for \$22 million have already been approved and are ready for construction. The requested \$18 million will fund the first five of these projects in priority order.

The Small Community Wastewater Treatment program provides technical assistance grants of up to \$60,000 for site evaluations and feasibility studies, and construction financing of 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 the 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.

The PCA’s project priority list includes 13 unsewered areas that are potential Small Community construction projects and additional projects may be identified. Six projects have received technical assistance grants and are currently evaluating possible treatment alternatives. The requested \$250,000 will provide funding for an additional 5-6 technical assistance grants.

Equity and Inclusion:

All residents in eligible cities and other local government jurisdictions will benefit from the requested funds which will reduce the financial cost of providing appropriate wastewater treatment.

Results:

The results and trends of these two programs in terms of projects funded and dollars awarded are shown below. In addition, the PCA measures permit compliance, pollutant load reductions, and progress toward meeting water quality protection and restoration goals through its monitoring and enforcement activities.

Point Source Implementation Grant Program:

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	Grant awards to help municipalities comply with permit requirements (count)	18	17	FY15-16 FY17-18
Quantity	Grant awards to help municipalities comply with permit requirements (\$ millions)	\$15.7	\$65.9	FY15-16 FY17-18

Small Community Wastewater Treatment program:

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	Technical assistance grants to help small communities evaluate wastewater treatment alternatives (count / \$ thousands)	3 / \$122	8 / \$354	FY15-16 FY17-18
Quantity	Construction loans and grants to build community soil-based treatment systems (count / \$ millions)	5 / \$4.3	2 / \$1.9	FY15-16 FY17-18

The executive branch water agencies prepare a Clean Water Fund Performance Report every two years that describe their joint clean water programs, activities and outcomes. The reports are available here:

<http://www.legacy.leg.mn/funds/clean-water-fund/clean-water-fund-performance-reports>

Statutory Change(s):

Not applicable.

(Dollars in Thousands)

Federal Agency and CFDA #	Federal Award Name and Brief Purpose	New Grant	FY2018 Actuals	FY2019 Budget	FY2020 Base	FY2021 Base	Required State Match or MOE?	FTEs
Environmental Protection Agency, CFDA #66.458	Capitalization Grants for Clean Water State Revolving Funds. These funds will pass-through to local units of government for wastewater infrastructure projects. Approximately 90% will be used for low-interest loans and 10% for Principal Forgiveness grants.		\$9,310	\$45,350	\$29,501	\$29,501	20% match	4.9
Environmental Protection Agency, CFDA #66.468	Capitalization Grants for Drinking Water State Revolving Funds. Approximately 22% will be used for MN Department of Health Drinking Water Set-Aside programs. The remainder will pass thru to local units of government for loans and Principal Forgiveness grants, for funding local drinking water infrastructure projects.		\$11,416	\$22,424	\$15,809	\$15,809	20% match	4.1
	Federal Fund – Agency Total		\$20,726	\$67,774	\$45,310	\$45,310		9.0

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, the excess revenues over the debt service requirements are used for making additional loans or debt service reserves.

The state must provide a minimum 20% match to the capitalization grants. Historically this has been appropriated thru the capital budget process.

Estimated awards for 2020-2021 are based on historical trends and information available at the time biennial budgets are prepared; actual awards may be more or less than estimated. Amounts shown for 2018-2019 reflect actual and budgeted federal draws. Timing of federal grant awards can significantly impact state fiscal year to year receipts totals because awards in any year may be before or after June 30th, and receipts will generally begin immediately.

FTEs related to these programs are paid from the fee portion of loan repayments. Approximately 9 of PFA’s 10 FTE support these programs.

(Dollars in Thousands)

Program Name Federal or State or Both (citation)	Purpose	Recipient Type(s) Eligibility Criteria	FY 2018	FY 2019
Clean Water SRF low-interest Loans 446A.07 federal + state + SRF revolving	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)	\$46,707	\$100,000
Clean Water SRF Principal Forgiveness Grants 446A.07 federal funded	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.	\$2,237	\$3,763
Drinking Water low-interest Loans 446A.081 federal + state + SRF revolving	Provides low interest loans for drinking water infrastructure.	MN local units of government. Must be on the MDH's PPL.	\$54,403	\$65,000
Drinking Water SRF Principal Forgiveness Grants 446A.081 federal funded	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.	\$5,373	\$1,427
Water Infrastructure Financing 446A.072 state funded	Provides supplemental grants for high cost wastewater and drinking water projects based on affordability criteria established by statute.	MN local units of government. Must be on the PCA's PPL.	\$23,603	\$36,397
Clean Water Legacy: Point Source Implementation Grants 446A.073 state funded	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.	\$39,383	\$16,617
Clean Water Legacy: Small Community Wastewater Treatment Program 446A.075 state funded	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.	\$168	\$82
Transportation Revolving Loan Fund 446A.085 federal + state + RLF revolving	Provides low interest loans for transportation infrastructure.	MN local units of government. MN DOT prioritizes, recommends.	\$0	\$0

Note: amounts represent net awards made during fiscal year 2018 and projected for 2019.