

Project Title	2012 Agency Priority Ranking	Agency Project Request for State Funds (\$ by Session)				Governor's Recommendations	Governor's Planning Estimate	
		2012	2014	2016	Total		2012	2014
State Matching Funds for USEPA Capitalization Grants	1	\$17,077	\$17,077	\$17,077	\$51,231	\$0	\$0	\$0
Wastewater Infrastructure Fund	2	31,000	25,000	25,000	81,000	0	0	0
Total Project Requests		\$48,077	\$42,077	\$42,077	\$132,231	\$0	\$0	\$0

State Matching Funds for USEPA Capitalization Grants

2012 STATE APPROPRIATION REQUEST: \$17,077,000

AGENCY PROJECT PRIORITY: 1 of 2

PROJECT LOCATION: Statewide

Project At A Glance

State Matching Funds for U.S. Environmental Protection Agency (EPA) and Capitalization Grants for Clean Water and Drinking Water Revolving Funds.

Project Description

The Public Facilities Authority (PFA) is seeking \$17,077 million in state funds to match expected EPA funds for federal FY 2013-14 at the rate of 1:5 (20%) for the Clean Water Revolving Fund (M.S. Sec. 446A.07), and the Drinking Water Revolving Fund (M.S. Sec. 446A.081). The State and Federal funds will be used to leverage PFA revenue bonds to provide low interest loans for clean water projects (wastewater and stormwater) and drinking water projects. In both programs, the state matching funds are used only for municipal, publicly-owned improvements.

FY	Clean Water		Drinking Water	
	Fed Cap. Grant	State Match	Fed Cap. Grant	State Match
2013	\$27,141	\$5,428	\$15,553	\$3,110.5
2014	\$27,141	\$5,428	\$15,553	\$3,110.5
Total	\$54,282	\$10,856	\$31,106	\$6,221.0

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 payments and grant applications, 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 \$227 million to match federal grants from 1989-2012.

Other Considerations

Low-cost financing through the PFA's clean water and drinking water loan programs is an important tool to help communities contain costs and remain economically competitive, while providing essential infrastructure to serve people and businesses throughout the State.

Funds are awarded to projects based on their ranking on Project Priority Lists prepared by the MPCA for clean water projects and the MDH for drinking water projects. Through FY 2011 the PFA has made below market rate loans from these two revolving funds in excess of \$3.1 billion which will result in interest savings to local taxpayers of over \$681 million compared to market rate financing.

Over the past several years demand for wastewater loans from the PFA has grown to well over \$300 million per year, more than three times the sustainable long-term annual lending capacity of the Clean Water Revolving Fund. Demand for clean water loans is driven by the need to replace aging facilities, provide additional treatment capacity, address more stringent phosphorus and other permit limits required by Total Maximum Daily Load implementation plans to address impaired waters, and address communities with problems from failing individual sewage treatment systems and straight pipes. These factors, coupled with the poor economy and the decline in other revenues for cities to pay for improvements, has led to the growing demand for PFA financing.

Demand for drinking water loans has also been strong, with \$170 million in total requests in FY 2012 IUP for 120 projects. The Drinking Water Revolving Fund has significant leveraging capacity, and with the expected federal capitalization grants and requested state match the PFA believes the fund's lending capacity should be sufficient to continue to finance all the high priority projects.

State Matching Funds for USEPA Capitalization Grants

To date, federal and state funds have been leveraged 2.7:1 through the PFA's issuance of AAA rated revenue bonds. Overall, each dollar of state matching funds has generated over \$13 in project construction. It should be noted that every dollar spent on municipal water and wastewater construction generates an estimated 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 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.

Project Contact Persons

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Governor's Recommendations (To be completed by MMB at a later date.)

Wastewater Infrastructure Fund

2012 STATE APPROPRIATION REQUEST: \$31,000,000

AGENCY PROJECT PRIORITY: 2 of 2

PROJECT LOCATION: Statewide

Project At A Glance

The Wastewater Infrastructure Funding Program (WIF) provides supplemental assistance in conjunction with funding from either USDA Rural Development or the Public Facilities Authority's Clean Water Revolving Fund to keep high cost projects affordable. WIF provides grants based on statutory affordability criteria for projects getting loans from the Clean Water Fund or match USDA Rural Development grants based on their affordability criteria. All WIF funds follow the Minnesota Pollution Control Agency's (MPCA) Project Priority List.

Project Description

The Public Facilities Authority (PFA) is seeking \$31 million for the Wastewater Infrastructure Funding (WIF) program (M.S. 446A.072). For high cost projects, WIF monies are used as grants either to match grant assistance provided by the U.S. Department of Agriculture (USDA) Rural Development, or to supplement loans from the Clean Water Revolving Fund when the average household costs exceed 1.4% of the median household income.

For USDA Rural Development projects, the WIF program provides up to 65 percent 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 1.5 percent of its median household income, with the total grant then providing for 100 percent of construction costs above that level.

Impact on Agency Operating Budgets (Facilities Notes)

The partnership with USDA Rural Development is a cost effective strategy that has USDA field staff undertaking most of the field work involved in monitoring and reviewing the project through construction. Thus, 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 the ability to take on the communities with the highest credit risks, which help the PFA's AAA bond ratings.

A very small portion of the WIF funds will be provided through an interagency agreement from the PFA to the Pollution Control Agency to pay staff costs that are directly attributed to WIF projects in accordance with accounting policies developed by the Commissioner of Management and Budget.

Previous Appropriations for this Project

Previous appropriations from 1996-2011 for projects under the WIF program total \$187 million. As of June 2011, the PFA has awarded \$174 million in grants and loans to 143 projects. The remaining \$13 million is reserved for projects that have met required deadlines and are waiting for final approvals prior to bidding and for projects that are expected to receive USDA Rural Development funding commitments by 12-31-2011.

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 that also have a demonstrated financial need for grant assistance. The WIF program helps small communities address their existing 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

Wastewater Infrastructure Fund

assistance to communities to keep the systems affordable, as well as make it easier and less confusing 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 allotted federal grant and loan funds, making it eligible to go to the national pool for additional funds for Minnesota communities. It is important to have WIF funds available to match as many Rural Development funding commitments as possible so that the full allocation of federal funds stays in Minnesota.

The PFA will survey projects on the MPCA's 2012 project priority list and provide its report on WIF needs to the appropriate legislative committees by February 1, 2012.

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