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2016 - 17 Governor's Budget - Public Facilities Authority

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AT A GLANCE

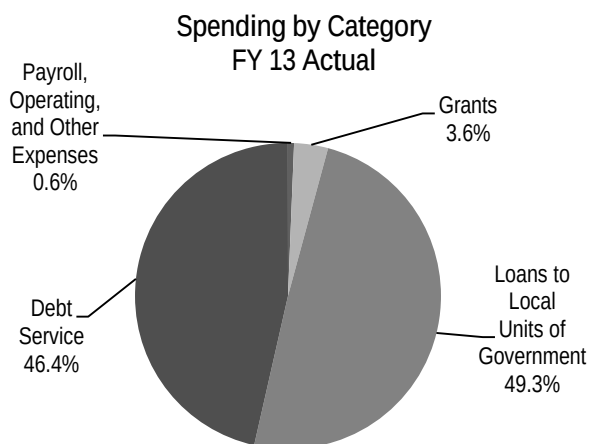
- PFA manages three revolving loan funds and several other funding programs to help local governments build wastewater, storm water, drinking water and transportation infrastructure projects throughout the state.
- From 1990 to 2014, PFA has made 880 loans to local governments totaling \$3.5 billion.
- Below market interest rates on PFA loans have provided an estimated \$824 million in interest savings to local governments and their residents.
- Over the past ten years, the PFA has awarded \$290 million in grants to local governments for infrastructure projects based on affordability criteria and to address specific environmental goals and objectives.
- PFA has allocated \$89.6 million within its clean water revolving fund to nonpoint source loan programs administered by other agencies. These funds have generated a total of \$220 million in loans to implement almost 3,000 best management practices.

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 that encourages business growth and employment opportunities, and a clean, healthy environment with sustainable uses of natural resources.

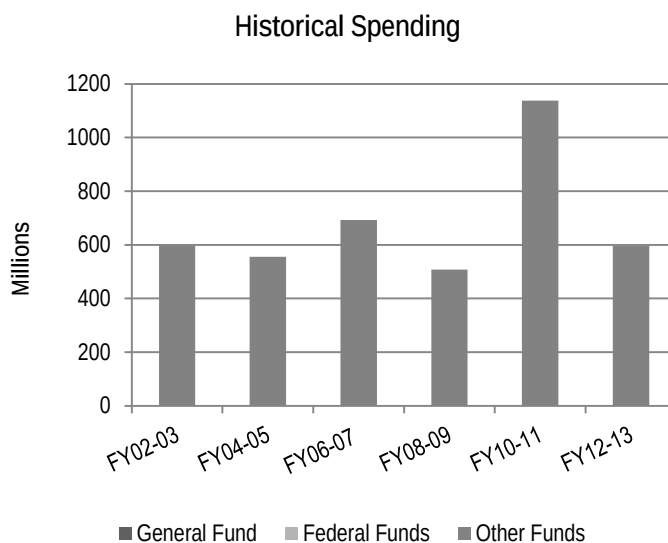
PFA priorities are to 1) manage capital assets (currently \$2.3 billion) to ensure a stable source of infrastructure financing in perpetuity; 2) provide financing programs to support water quality, public health, and other priorities identified by PFA member agencies; and 3) help local governments maintain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

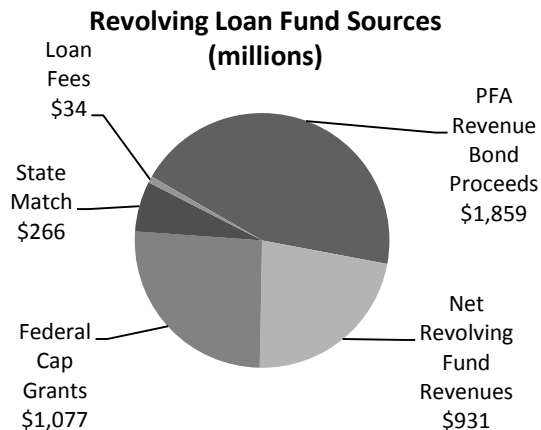
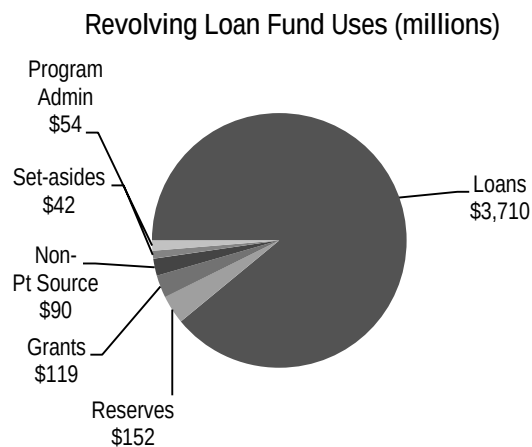
Source: SWIFT



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

Source: MAPS & SWIFT

The PFA receives no general fund appropriations. Funding for the PFA's revolving loan funds comes from federal capitalization grants and state matching funds appropriated from state general obligation bond proceeds. The PFA leverages these federal and state funds by selling its AAA-rated revenue bonds to generate additional loan funds as appropriate to maximize project outcomes while maintaining capacity to meet future needs. Project funding also comes from state bond appropriations for the Wastewater Infrastructure Funding (WIF) program and from dedicated Clean Water Legacy Funds appropriated for specific point source implementation programs. Administrative costs are paid primarily from service fees on loan repayments. The following charts reflect to-date amounts for the 3 major 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 from the Departments of Employment and Economic Development, Minnesota Management and Budget, Health, Agriculture, and Transportation, and the Pollution Control Agency. The multi-agency structure of the PFA helps it to focus and manage its infrastructure financing activities to maximize economic, environmental, and public health outcomes. PFA partner agencies are responsible for determining project priorities, including the Pollution Control Agency for wastewater and storm water projects and the Department of Health for drinking water projects. In addition, partner agencies conduct technical and environmental reviews and certify 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 a financing application is approved and construction bids are accepted by the applicant, the PFA executes the project financing agreement, disburses funds as eligible project costs are incurred, and collects loan repayments. During the planning and design stages of a project, the PFA works with other state and federal partners to leverage resources and coordinate funding activities to 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 local governments for important infrastructure projects. To date, each \$1 of state funds has generated \$15 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.

Type of Measure	Name of Measure		Previous	Current	Dates (fiscal years)
Quantity	Loan Awards	(count / \$ millions)	192 / \$830	262 / \$960	2005-2009; 2010-2014
Quantity	Loan Awards	Interest Savings on Loans (\$ millions)	\$190	\$190	2005-2009; 2010-2014
Quantity	Grant Awards	(count / \$ millions)	123 / \$95	219 / \$195	2005-2009; 2010-2014

Note 1: Measures compare the five year periods of state fiscal years 2005-2009 to 2010-2014.

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.

Expenditures By Fund

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY13	FY14	FY15	FY16	FY17	FY16	FY17
1000 - General	0	0	603	0	0	0	0	0
2000 - Restricted Misc Special Rev	76	159	75	112	89	49	89	49
2302 - Clean Water Fund	7,981	4,981	6,613	43,271	0	0	9,250	9,250
8200 - Clean Water Revolving	231,377	105,269	103,630	106,438	107,013	97,798	107,013	97,798
8201 - Drinking Water Revolving	85,043	24,677	27,709	30,270	26,452	26,196	26,452	26,196
8202 - Transportation Revolving	3,826	2,581	2,505	2,505	2,470	2,434	2,470	2,434
Total	328,304	137,668	141,136	182,596	136,024	126,478	145,274	135,728
Biennial Change				(142,240)		(61,230)		(42,730)
Biennial % Change				(31)		(19)		(13)
Governor's Change from Base								18,500
Governor's % Change from Base								7

Expenditures by Program

Program: Public Facilities Authority	328,304	137,668	141,136	182,596	136,024	126,478	145,274	135,728
Total	328,304	137,668	141,136	182,596	136,024	126,478	145,274	135,728

Expenditures by Category

Compensation	894	776	786	912	920	919	920	919
Operating Expenses	398	896	280	741	497	498	497	498
Other Financial Transactions	304,803	124,869	125,367	124,928	127,262	117,756	127,262	117,756
Grants, Aids and Subsidies	22,209	11,076	14,703	56,015	7,345	7,305	16,595	16,555
Capital Outlay-Real Property		50						
Total	328,304	137,668	141,136	182,596	136,024	126,478	145,274	135,728
Total Agency Expenditures	328,304	137,668	141,136	182,596	136,024	126,478	145,274	135,728
Internal Billing Expenditures	126	101	104	141	147	147	147	147
Expenditures Less Internal Billing	328,179	137,567	141,032	182,455	135,877	126,331	145,127	135,581

Full-Time Equivalents

	10.6	7.9	8.0	9.0	9.0	9.0	9.0	9.0
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(Dollars in Thousands)

1000 - General

	Actual		Actual FY 14	Estimate FY15	Forecast Base		Governor's Recommendation	
	FY12	FY 13			FY16	FY17	FY16	FY17
Open Appropriation	0	0	603	0	0	0	0	0
Expenditures	0	0	603	0	0	0	0	0
<i>Biennial Change in Expenditures</i>				603		(603)		(603)
<i>Biennial % Change in Expenditures</i>						(100)		(100)
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0

2000 - Restricted Misc Special Rev

	Actual		Actual FY 14	Estimate FY15	Forecast Base		Governor's Recommendation	
	FY12	FY 13			FY16	FY17	FY16	FY17
Balance Forward In	203	197	126	145	81	39	81	39
Receipts	70	65	94	48	48	48	48	48
Expenditures	76	159	75	112	89	49	89	49
Balance Forward Out	196	103	145	81	39	37	39	37
<i>Biennial Change in Expenditures</i>				(48)		(48)		(48)
<i>Biennial % Change in Expenditures</i>				(20)		(26)		(26)
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0
FTEs	0.0	0.1	0.5	0.4	0.4	0.4	0.4	0.4

2302 - Clean Water Fund

	Actual		Actual FY 14	Estimate FY15	Forecast Base		Governor's Recommendation	
	FY12	FY 13			FY16	FY17	FY16	FY17
Balance Forward In	19,874	28,828	42,563	34,344				
Direct Appropriation	16,710	16,710	11,000	11,000	0	0	9,250	9,250
Cancellations			12,607	2,073				
Expenditures	7,981	4,981	6,613	43,271	0	0	9,250	9,250
Balance Forward Out	28,603	40,557	34,344					
<i>Biennial Change in Expenditures</i>				36,921		(49,884)		(31,384)
<i>Biennial % Change in Expenditures</i>				285		(100)		(63)
<i>Gov's Exp Change from Base</i>								18,500

8200 - Clean Water Revolving

(Dollars in Thousands)

8200 - Clean Water Revolving

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Balance Forward In	296,733	233,460	398,881	319,989	210,297	139,782	210,297	139,782
Receipts	171,460	74,081	54,188	60,925	154,892	154,892	154,892	154,892
Net Transfers	(3,343)	(1,318)	(2,380)	(1,511)	(1,511)	(1,511)	(1,511)	(1,511)
Expenditures	231,377	105,269	103,630	106,438	107,013	97,798	107,013	97,798
Balance Forward Out	233,472	398,862	319,989	210,297	139,782	143,865	139,782	143,865
<i>Biennial Change in Expenditures</i>				(126,578)		(5,257)		(5,257)
<i>Biennial % Change in Expenditures</i>				(38)		(3)		(3)
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0
FTEs	6.4	4.8	4.6	5.1	5.1	5.1	5.1	5.1

8201 - Drinking Water Revolving

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Balance Forward In	96,224	59,350	51,861	56,181	31,927	11,812	31,927	11,812
Receipts	48,133	21,172	17,893	31,064	26,337	45,577	26,337	45,577
Net Transfers	0	0	0	0	0	0	0	0
Expenditures	85,043	24,677	27,709	30,270	26,452	26,196	26,452	26,196
Balance Forward Out	59,313	51,852	56,181	31,927	11,812	11,193	11,812	11,193
<i>Biennial Change in Expenditures</i>				(51,741)		(5,331)		(5,331)
<i>Biennial % Change in Expenditures</i>				(47)		(9)		(9)
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0
FTEs	4.1	2.9	2.7	3.3	3.3	3.3	3.3	3.3

8202 - Transportation Revolving

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Balance Forward In	21,302	26,418	31,057	35,689	1,536	1,536	1,536	1,536
Receipts	8,943	1,377	1,314	1,158	862	728	862	728
Net Transfers	0	0	0	0	0	0	0	0
Expenditures	3,826	2,581	2,505	2,505	2,470	2,434	2,470	2,434
Balance Forward Out	26,419	31,056	35,689	1,536	1,536	1,535	1,536	1,535
<i>Biennial Change in Expenditures</i>				(1,397)		(106)		(106)
<i>Biennial % Change in Expenditures</i>				(22)		(2)		(2)
<i>Gov's Exp Change from Base</i>								0

(Dollars in Thousands)

8202 - Transportation Revolving

<i>Gov's Exp % Change from Base</i>									
FTEs	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3

Public Facilities Authority

FY 16-17 Biennial Budget Change Item

Change Item Title: Clean Water Fund

Fiscal Impact (\$000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	9,250	9,250	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	9,250	9,250	0	0
FTEs	0	0	0	0

Recommendation:

The Governor recommends a Clean Water Fund appropriation of \$9,250 each year in FY 2016 and FY 2017 to the Public Facilities Authority for Clean Water Fund programs. The recommendation includes \$9 million per year for the Point Source Implementation Grants program and \$250k per year for the Small Community Wastewater Treatment program. The recommendation also cancels two appropriations to make the funds available for future appropriations. This reflects the collaborative recommendation of the executive branch water agencies, which includes the Department of Agriculture, Department of Health, Minnesota Pollution Control Agency, Board of Water and Soil Resources, Department of Natural Resources.

Rationale/Background:

The Small Community Wastewater Treatment program provides loans and grants to help small communities evaluate wastewater treatment alternatives and replace non-complying individual septic systems with community subsurface sewage treatment systems. Minnesota has numerous very small unsewered communities with serious environmental and public health problems from noncomplying 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 Point Source Implementation Grants (PSIG) program provides grants to help municipalities construct wastewater and stormwater infrastructure projects when the Pollution Control Agency determines that higher levels of treatment are necessary to meet water quality goals. Through Minnesota's interagency water management framework, specific water bodies are identified where pollutant reductions are needed to meet water quality standards, and watershed restoration and protection strategies are developed to guide point source and nonpoint source implementation activities. These include projects to meet Total Maximum Daily Load (TMDL) requirements, reduce phosphorus and other pollutants required by water quality based effluent limits, and meet nitrogen limits for soil-based wastewater treatment systems.

The recommendation also cancels two prior Clean Water appropriations to make the funding available for appropriation in the FY16-17 biennial budget. Due to programmatic changes, the money provided for phosphorus reduction grants could not be used.

Proposal:

Through the existing Small Community Wastewater Treatment program, the Public Facilities Authority (PFA) 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. The Small Community Wastewater Treatment program is administered by the PFA in partnership with the Pollution Control Agency (PCA). All proposed projects must be ranked on the PCA's project priority list. The PCA reviews feasibility studies (Community Assessment Reports) prepared by a community and its technical assistance provider that evaluate potential wastewater treatment alternatives, and reviews construction plans and specifications to ensure the community systems to be built are designed in accordance with PCA 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. Unsewered community needs are significant, with more than 70 potential projects with documented needs on the PCA's project priority list. However, it can often take a number of years for a small unsewered community to evaluate treatment alternatives and determine an appropriate course of action. The recommended appropriation is based on the estimated funding needs for the biennium.

Point Source Implementation Grants provides grants of up to \$3 million to municipalities for 50% of eligible project costs for infrastructure construction necessary to meet more stringent permit requirements to achieve specific water quality goals. The Public Facilities Authority (PFA) administers the program in partnership with the Pollution Control Agency (PCA). 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. The PFA and PCA track project completions by watershed. 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. The recommended appropriation is based on the estimated project needs for the biennium.

IT Related Proposals:

Not applicable.

Results:

The chart below shows the number and dollar amount of Small Community grants and loans awarded in the previous biennium and current biennium to date.

<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 / \$ millions)	5 / \$0.115	3 / \$0.101	FY12-13 FY14-15
Quantity	Construction loans and grants to build community soil-based treatment systems (count / \$ millions)	1 / \$0.376	2 / \$1.643	FY12-13 FY14-15

For Point Source Implementation Grants, the recommended appropriation will help an estimated 15-20 municipalities implement wastewater and stormwater projects to comply with more stringent permit limits needed to achieve specific water quality goals. The chart below shows the number and dollar amount of PSIG grants awarded in the previous biennium and current biennium to date. (Data prior to FY 2014 is from the TMDL and Phosphorus Reduction grants programs that were merged in FY 2014 to create the PSIG 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)	13	10	FY12-13 FY14-15
Quantity	Grant awards to help municipalities comply with permit requirements (\$ millions)	\$12.7	\$7.8	FY12-13 FY14-15

The 2014 Clean Water Fund Performance Report prepared by the clean water agencies documents performance measures and water quality outcomes from Clean Water Fund investments:

http://legacy.leg.mn/sites/default/files/resources/2014_CleanWaterFund_Performance_Report.pdf

Statutory Change(s):

No statutory changes are required. The existing Small Community Wastewater Treatment Program is established in Minnesota Statutes, Section 446A.075; the existing PSIG program is established in Minnesota Statutes, Section 446A.073.

FY16-17 Federal Funds Summary

Federal Agency and CFDA #	Federal Award Name and Brief Purpose	New Grant	2014 Actuals (000's)	2015 Budget (000's)	2016 Base (000's)	2017 Base (000's)	State Match or MOE Required?	FTEs
U.S. EPA; 66.458	Capitalization Grants for Clean Water State Revolving Funds To provide a long term source of State financing (mostly loans, some grants) to MN local governments for wastewater infrastructure.	no	\$20,776	\$28,107	\$26,000	\$26,000	Match	
U.S. EPA; 66.468	Capitalization Grants for Drinking Water State Revolving Funds To provide a long term source of State financing (mostly loans, some grants) to MN local governments for drinking water infrastructure.	no	\$12,096	\$25,477	\$16,000	\$16,000	Match	
	Federal Fund – Agency Total							

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.

Estimated revenues for 2016 thru 2017 are based on historical trends and information available at the time biennial budgets are prepared; actual awards may be more or less than estimated. Timing of federal grant awards can impact state fiscal year receipts totals because awards in any year may be before or after June 30th, and receipts will generally begin immediately.