Information

E Environment Committee

Meeting date: August 28, 2012

ADVISORY INFORMATION

Date:	August 17, 2012
Subject:	Preliminary Capital Finance Plan
District(s), Member(s):	All
Policy/Legal Reference:	MN Stat. 473.541 Debt Obligations; Council Policy 3-1-1 & 3-1-2
Staff Presented/Prepared:	Jason Willett (651-602-1196)
Division/Department:	MCES

Discussion of Capital Finance Plan Elements:

The MCES Capital Finance Plan (CFP) defines how the division anticipates obtaining funds for capital expenses. In doing so, the CFP provides a link between the Capital Improvement Plan (CIP) and the MCES Annual Budget. Below is a summary of the key numbers. Staff will present and discuss additional information at the meeting.

Capital Plan: The CIP averages $133.5 million per year for the next six years (this is $121 million in 2012 dollars). This compares to an average $130 million of annual capital spending over the last 10 years and $119 million over the last 40 years, both adjusted to 2012 dollars.

Debt Load: Debt service is projected to be $101,367,000 in 2013, with budgeted debt service of $100,245,000 after using $1,122,000 of debt service funds. Outstanding debt, which was $1.043 billion at year-end 2011, is projected to increase to $1.262 billion by year-end 2018 (see Attachment A). Importantly, all MCES debt is backed by the 7-county general obligation pledge of taxes, even though none have been or are planned to be used.

Pay-as-you-go: One method of limiting future debt is to pay directly for capital expenses, known as a pay-as-you-go (or paygo) approach. Paying cash instead of borrowing for some capital spending reduces interest expense and debt outstanding. Paygo is a positive factor for bond rating agencies. In addition, it adds flexibility to manage unexpected conditions that might affect operating expenses (because paygo can be reduced at any time). $1.5 million of pay-as-you-go is budgeted for 2013 and $2 million for 2014. Staff will analyze the impact of increasing pay-as-you-go each year in the future and has included in this Capital Finance Plan $2 million per year of increases beginning in 2015 as this was the plan prior to the SAC fiscal distress. Also, included in this CFP is an additional one-time $5 million increase in paygo in 2015 (this is money from prior budgets that is not anticipated to be needed for OPEB funding beginning in 2015).

<u>Key Assumptions in this Plan</u>

- Capital spending for 2012 ends at $112 million.
- $801 million of capital spending in 2013-2018 (with a capital budget of $147 million for 2013).
- $1.5M of pay-as-you-go from annual revenues in 2013, $2M in 2014, increasing as described above.
- Partial use of the division's "pre-funded" debt service funds is included over the next five years (see Attachment A). A minimum balance will be kept in the fund equal to 5% of total annual debt service.
- $40 million in loans from the Public Facilities Authority (PFA) each year with a 150 basis point discount from market rates.
- Capital financing beyond that funded by PFA will be financed from Council issued bonds.
- Bonding interest based on current market rates, AAA rating, and General Obligation pledge. A 3.5% bond rate is assumed through 2014, increasing to 5.0% every year thereafter.
- No additional refinancings are achieved.

This information will be incorporated into the Council's Unified Capital Budget and approved as part of that process.

Attachment A

Summary of Capital Finance Numbers

Dollars in 000s

	Capital Required*	Anticipated New Financing Needed**		Budget for Debt Service	% incr. from prior year		Balance of pre-funded Debt Service Funds***	Debt Outstanding at Year-end
2012	$112,000			$96,889	4.7%		$12,677	$1,086,000
2013	$147,000	$103,000		$100,245	3.5%		$12,050	$1,081,000
2014	$129,000	$128,000		$104,885	4.6%		$12,540	$1,141,000
2015	$129,000	$122,000		$111,035	5.9%		$12,030	$1,185,000
2016	$131,000	$120,000		$117,616	5.9%		$12,115	$1,223,000
2017	$138,000	$123,000		$125,383	6.6%		$10,570	$1,254,000
2018	$127,000	$122,000		$134,746	7.5%		$8,960	$1,262,000
6-yr Total	$801,000	$678,000		$693,910	Average= 5.7%			

* Based on preliminary CIP as presented to Environment Committee on 8/14/12.
** $40M each year from PFA loans, remaining from bonds.
*** Minimum balance of this reserve fund is 5% of annual debt service (about $5 million in 2013 and $7 million in 2018).