Environment Committee

Meeting date: September 10, 2013

Subject: Preliminary Capital Finance Plan

District(s), Member(s): All

Policy / Legal Reference: MN Stat. 473.541 and 473.535; Council Policy 3-1-1 & 3-1-2

Staff Prepared / Presented: Jason Willett, 651-602-1196

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Discussion of Capital Finance Plan Elements:

The MCES Capital Finance Plan (CFP) identifies how the division anticipates obtaining funds for capital project expenses. Sources of funding for MCES approved capital projects include:

- Council wastewater bonds
- PFA loans
- pay-as-you-go (PAYGO) directly from annual fee revenue.
- grants (rarely available) and
- private partnership capital (in rare situations)

Annual debt service paid on Council bonds and PFA loans and PAYGO are funded entirely by MCES's annual fee revenue. Multi-year financial planning for capital project costs is necessary for good financial management of our rates and bond ratings.

Below is a summary of key information and CFP assumptions:

1. Capital spending in the 6-year CIP period is projected to average $138.8M per year ($126M in 2013 dollars)
2. PFA loans are anticipated to be limited to $40M per year
3. Grants and private capital are not anticipated for this spending
4. Some capital project spending will be funded directly from annual fee revenue (PAYGO):
   a. $2M of PAYGO is proposed for 2014.
   b. Thereafter, the plan is a $2M increase in PAYGO each year, until it reaches the average annual cost of MCES rehabilitation capital projects (not regulatory, quality improvement or growth projects).
   c. An additional one-time $5M (approximately) increase in PAYGO is anticipated for 2015, but subject to another actuarial study of the OPEB (Other Post Employment Benefit) liability and fund.

   Impacts of PAYGO include:

   i. A reduction in interest expense and debt outstanding,
   ii. A positive factor for bond rating agencies,
   iii. Added flexibility to smooth rate increases while managing unexpected financial situations,
   iv. Increases the annual revenue budget and rate pressures in the short and mid-term,
   v. Intergenerational equity impacts are debatable.

5. $700 - $800M of new borrowing is anticipated to be needed in the 6 year period.
6. Outstanding wastewater debt is projected to increase to $1.33B by year-end 2019.
7. It is important and anticipated that all MCES debt continue to be backed by the 7-county general obligation pledge of taxes, even though such taxes haven't been used nor are planned to be used, and that the Council's AAA bond ratings are maintained.
8. This results in budgeted debt service projected to be $102,967,000 in 2014 increasing about 6-7% per year in the 6 year period.

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