

INFO ITEM 1: PRELIMINARY CAPITAL FINANCE PLAN

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Environment Committee 9/10/13



Today's Agenda

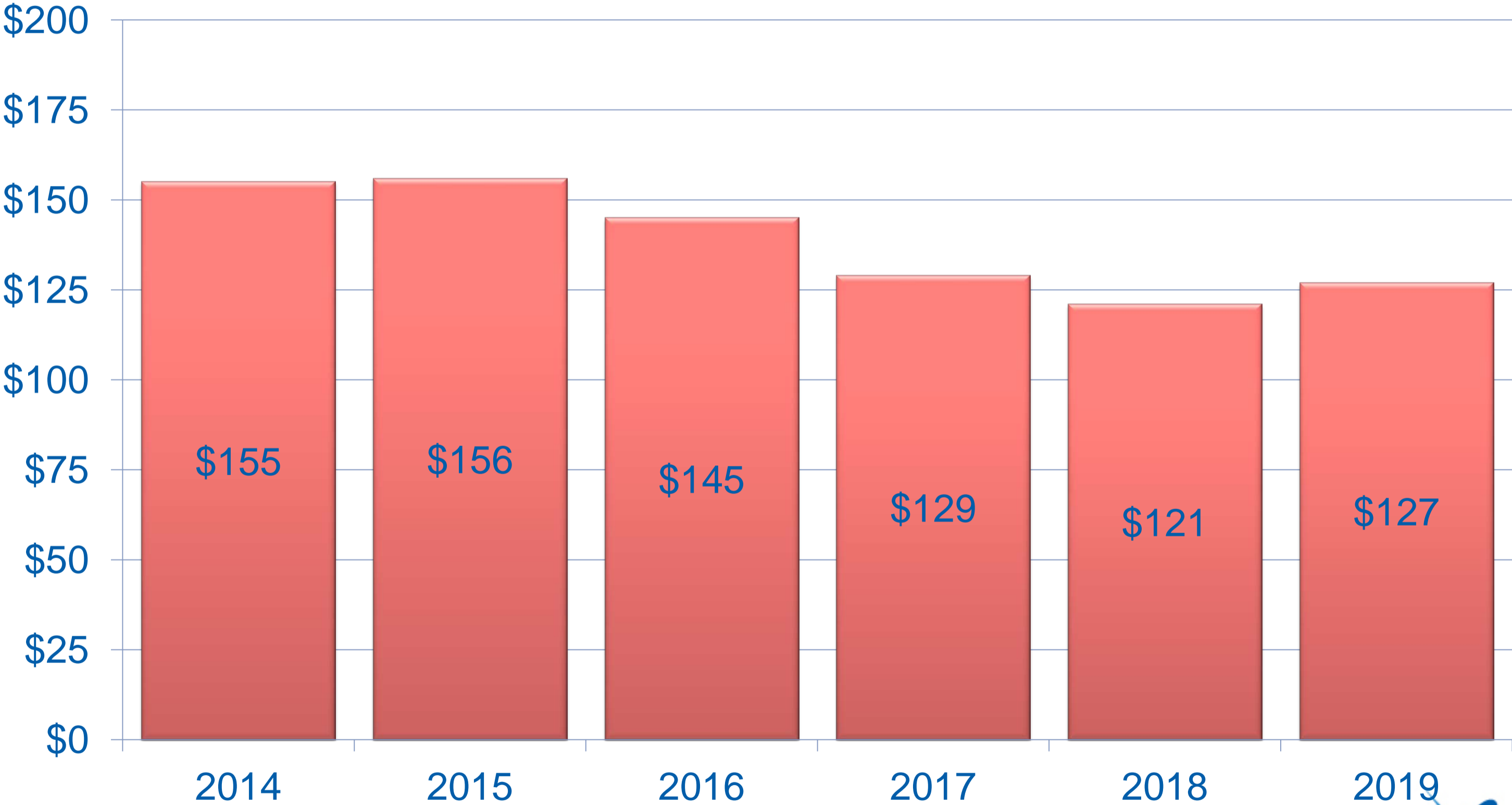
- Sources of Capital Funding
- MCES Capital Finance Plan
- Debt Service and Debt Outstanding
- Comparative Data
- Conclusions

Capital Improvement Plan

2014-2019 Capital Spending

(millions)

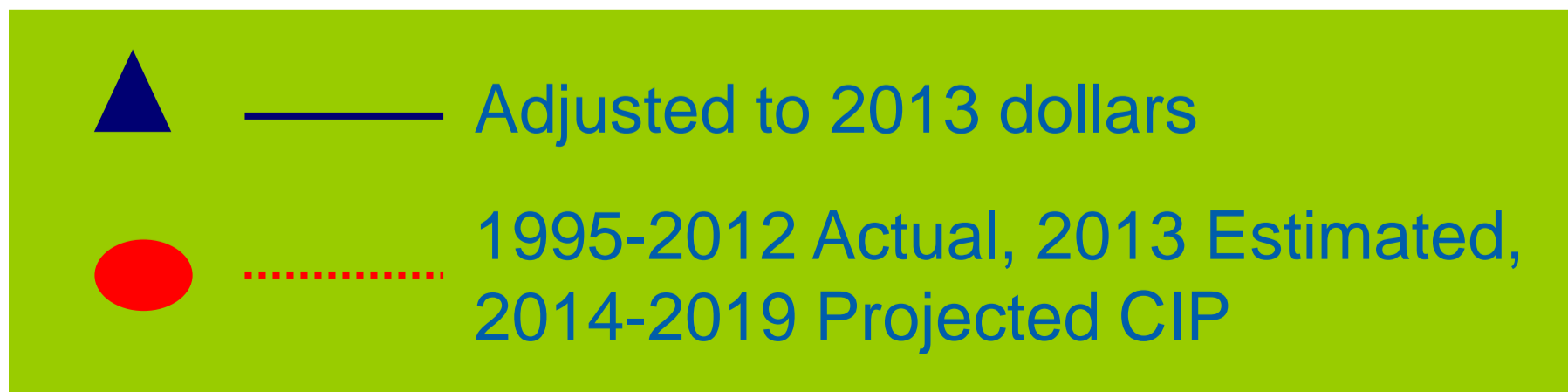
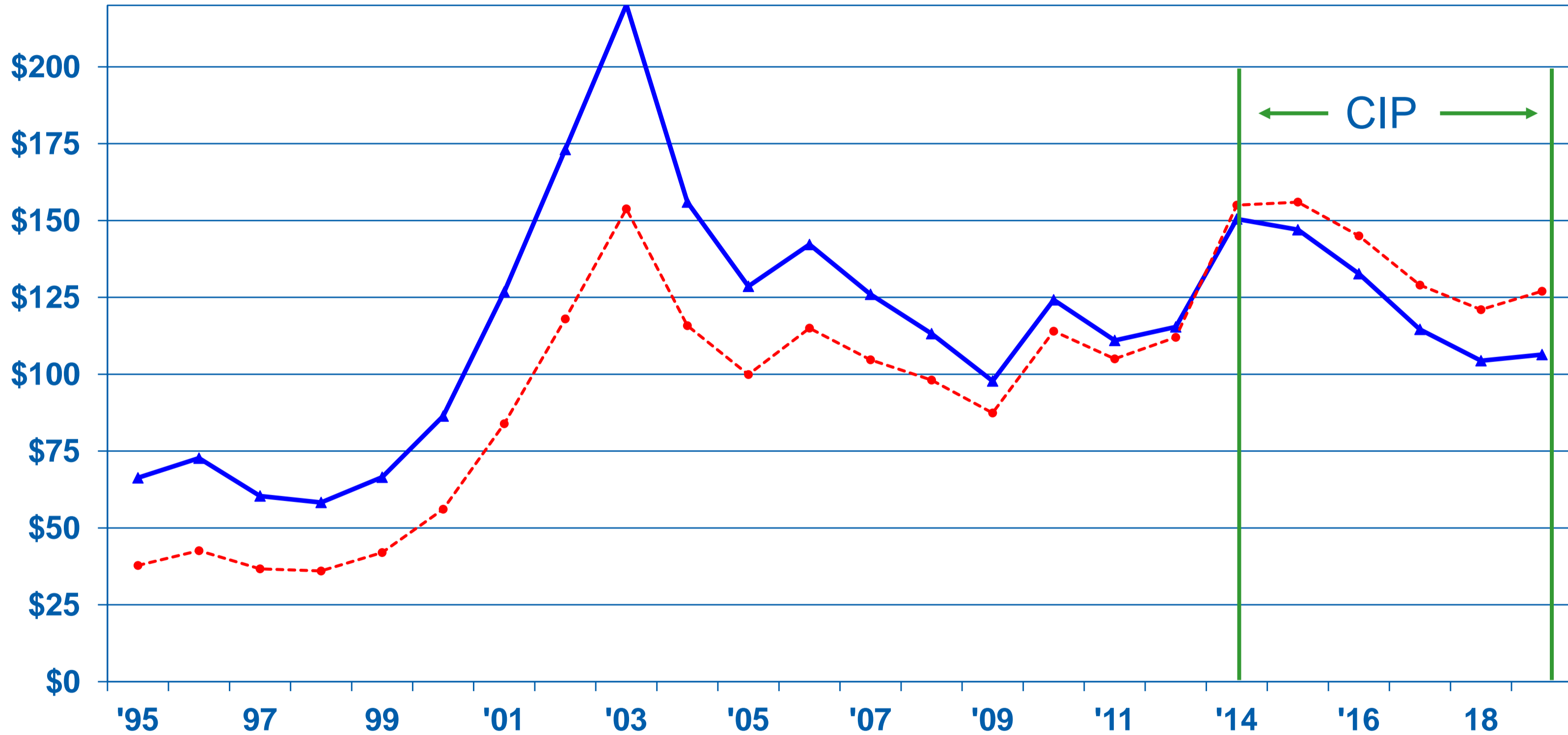
Total projected spending: \$833 million



Capital Spending

(millions)

History and projections



CIP Comparison

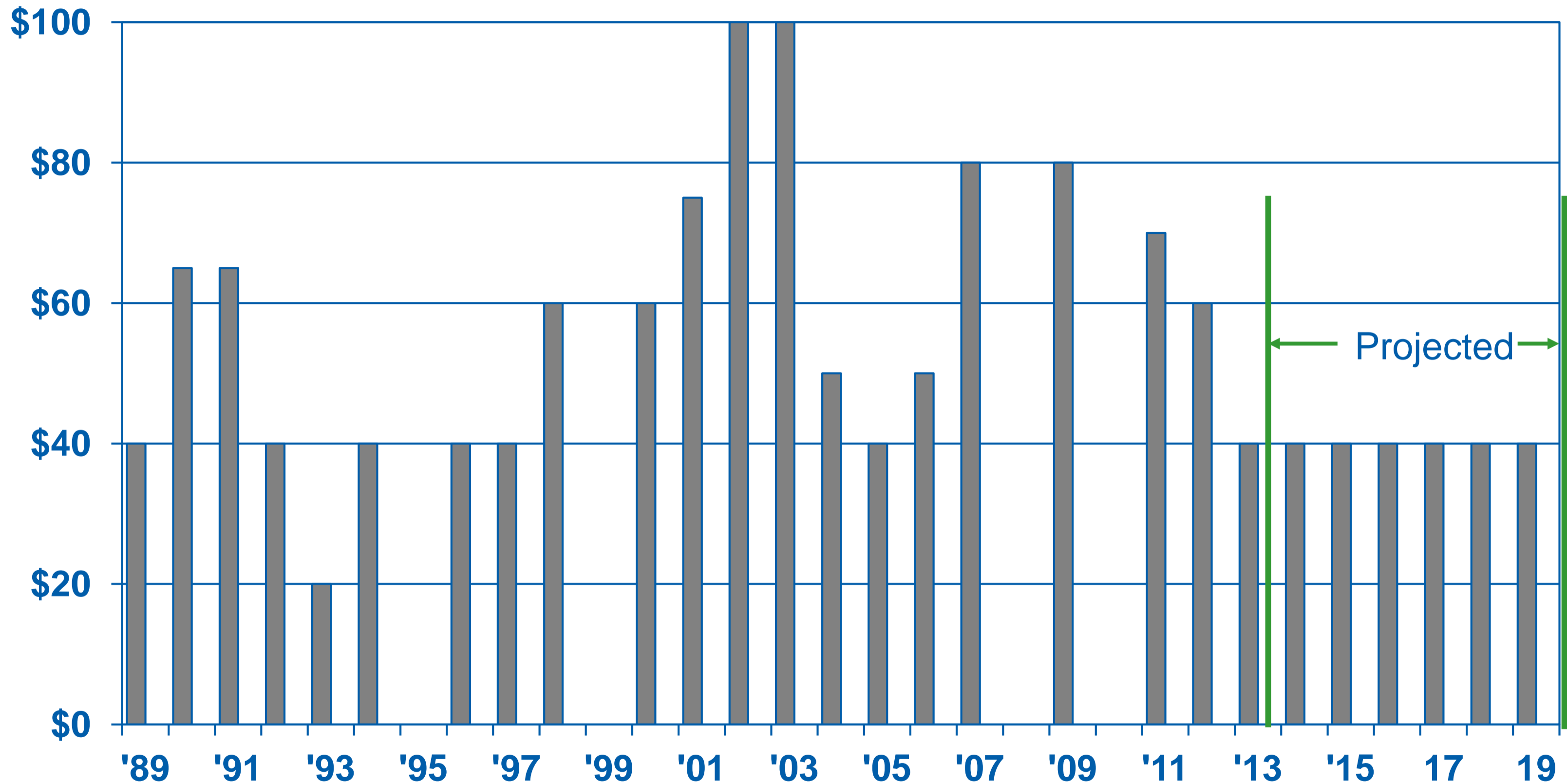
Capital Spending:	<u>Average Annual (\$millions)</u>	
	nominal	2013 \$s
Next 6 years:	\$139	\$126
Last 10 years:	\$106	\$123
Last 40 years:	\$67	\$123

Sources of Capital Funding for Wastewater Projects

1. PFA Loans
2. Council Bonds
3. Pay-as-you-go
4. Grants
5. Private Capital

PFA Loans (Actual and Projected)

(millions)



Actual through 2013, projected thereafter



PFA Clean Water State Revolving Loan Program

- 22 wastewater loan agreements 1989-2013 totaling \$1.27 billion
- Interest rates from 1.00% to 6.42%
- PFA normally offers below market interest rates
 - 150 basis point subsidy currently limited to \$40M
- Council pledges its General Obligation (i.e. taxes if needed)

Impact of PFA Subsidy

For a \$40 million loan

(\$ millions)	Total Debt Service	Present Value
4.0% Council bond	\$58.9	\$40.0
2.5% PFA loan	51.3	34.9
Interest savings to ratepayers	\$7.6	\$5.1
Bond underwriters discount		\$0.5
Cost of issuance saved		\$0.1
Funds received only after capital spending occurs		\$0.4
Total Present Value Savings		\$6.1

Negatives of Borrowing From PFA

- Refunding or prepayment savings
- Sale of assets and management contracts restricted
- Metro Plant Facilities Improvement projects have extra restrictions and must have declaration recorded against title
- Federal & State prevailing wage rates
- MMBE and WBE requirements

Greater Borrowing From PFA

Typically, higher borrowing allowed;

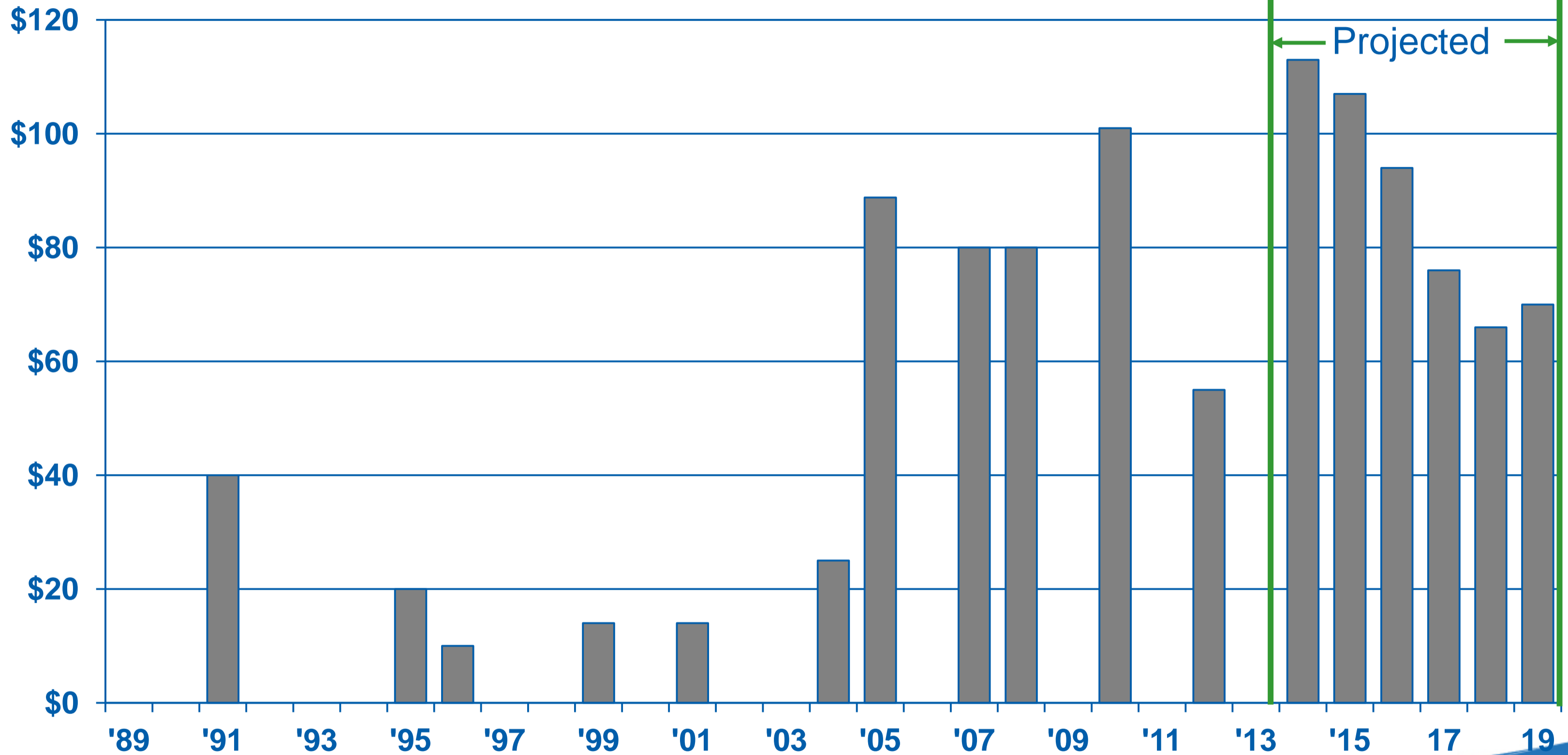
- But, a 1.25 basis point reduction in the subsidy for each \$1M over \$40M.
 - For a 4.0% bond rate, this results in PFA loan rates of:

Amount Borrowed	Subsidized Loan Rate
\$40M	2.50%
\$50M	2.63%
\$60M	2.75%
\$70M	2.88%
\$80M	3.00%
\$90M	3.13%
\$100M	3.25%
\$160M (breakeven)	4.00%

Council Wastewater Bonds

(millions)

Actual & Projected



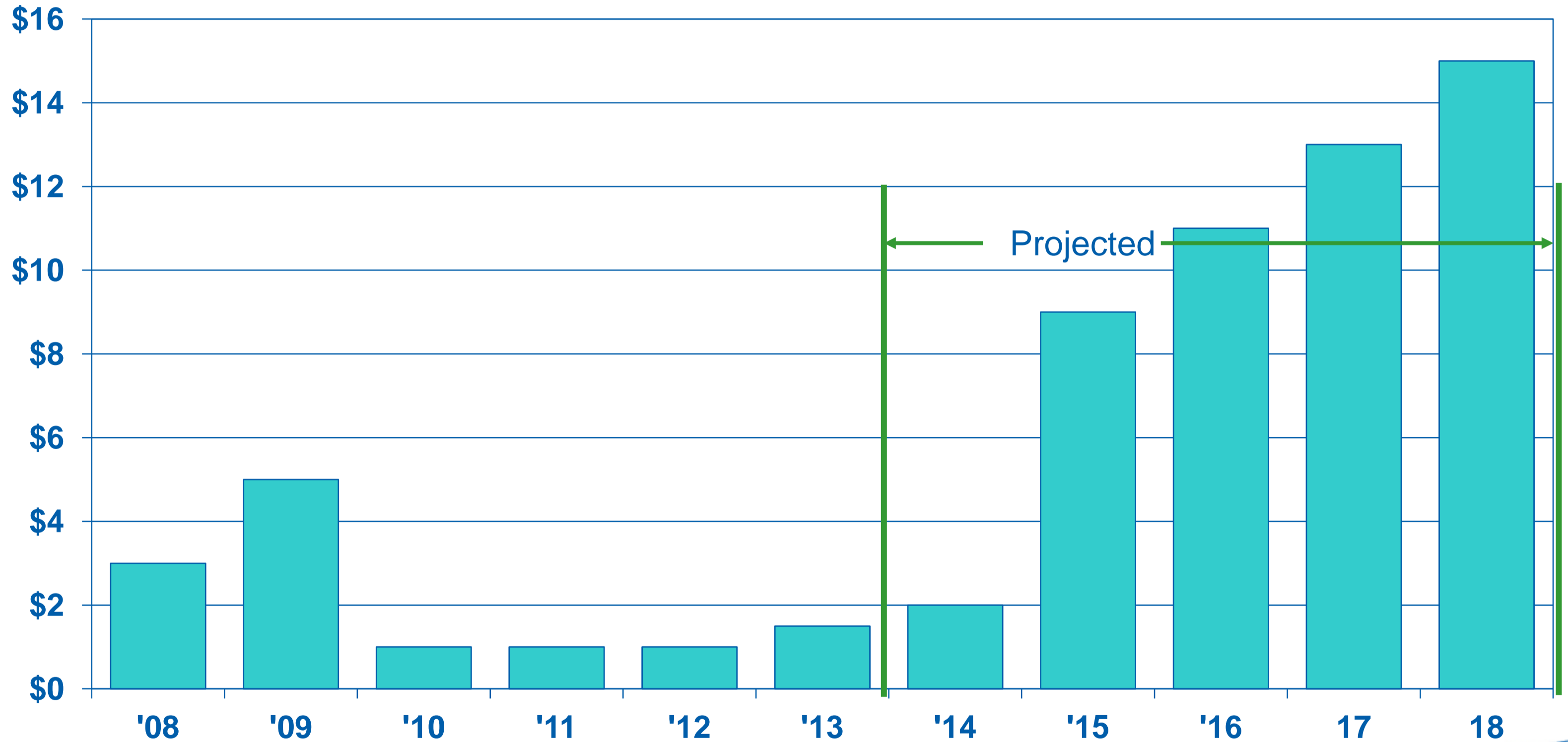
Actual through 2013 Projected thereafter

Council Wastewater Bonds

- No statutory limit on amounts (M.S. 473.541)
- Must be “necessary or desirable to metro wastewater system (M.S. 473.535)
- Must be for projects listed in the CIP & budget
- Council pledges its General Obligation
 - Taxes, if needed
 - However, fee revenue is used

Pay-As-You-Go

(millions)



 Annual Budget

PAYG Pros/Cons Summary

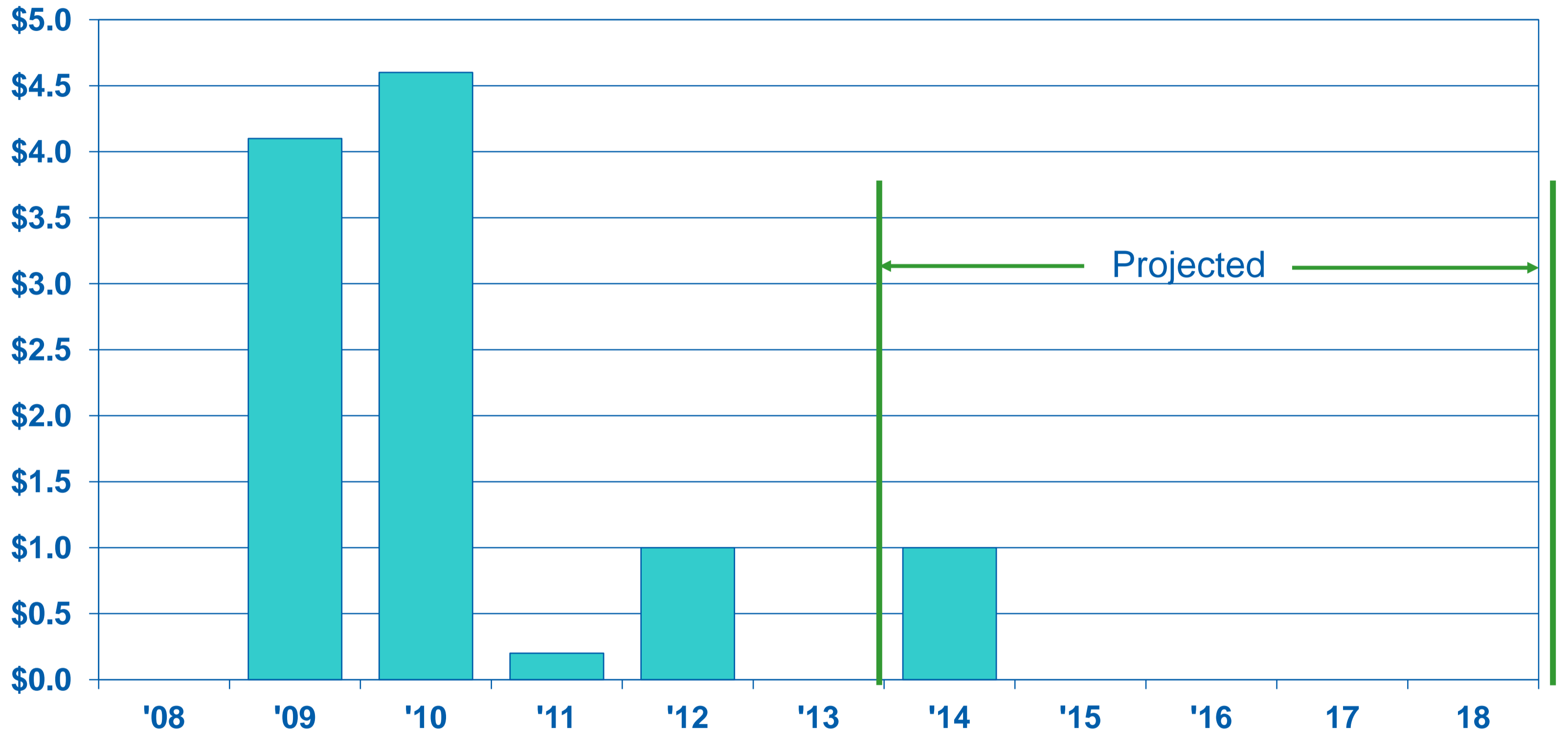
- Pros:
- 1) Avoided interest expense
 - 2) More flexibility in Annual Budget
 - 3) Positive bond rating factor

- Cons:
- 1) Higher Wastewater Charges during transition
 - 2) Opportunity Cost

Controversial: debt financing costs paid by future beneficiaries of the system

Grants

(millions)



 Total Grant Money Received

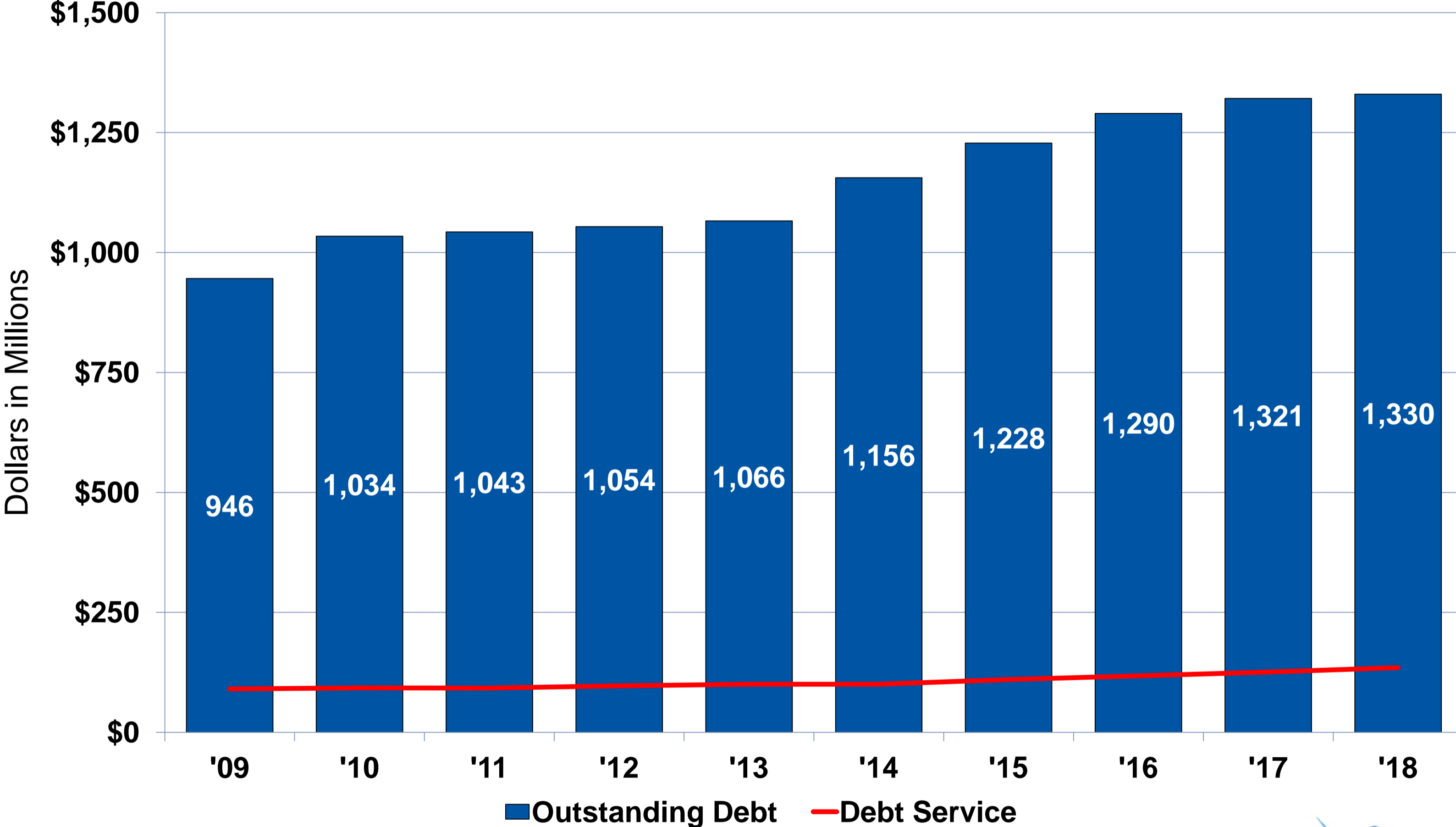
Grants

- PFA ARRA: \$8.2 million in 2009-2010
- PFA State Phosphorus: \$0.5 million in 2009-2010
- Commerce/DER Local Govt. Energy Grant: \$.2M in 2011
- PFA Green grants: \$1 million in 2012
 - \$525,000 Metro non-condensing steam turbine generator project
 - \$450,000 Metro aeration tanks improvements project
- **Projected:** \$1M PFA Green grant for pumps

Private Capital

- Investment Tax Credit (ITC) - through 2016
- Accelerated depreciation
- Guaranteed Energy Performance Contracting

Wastewater Debt Service & Bonds Outstanding



Wastewater Debt Service

(\$ millions)

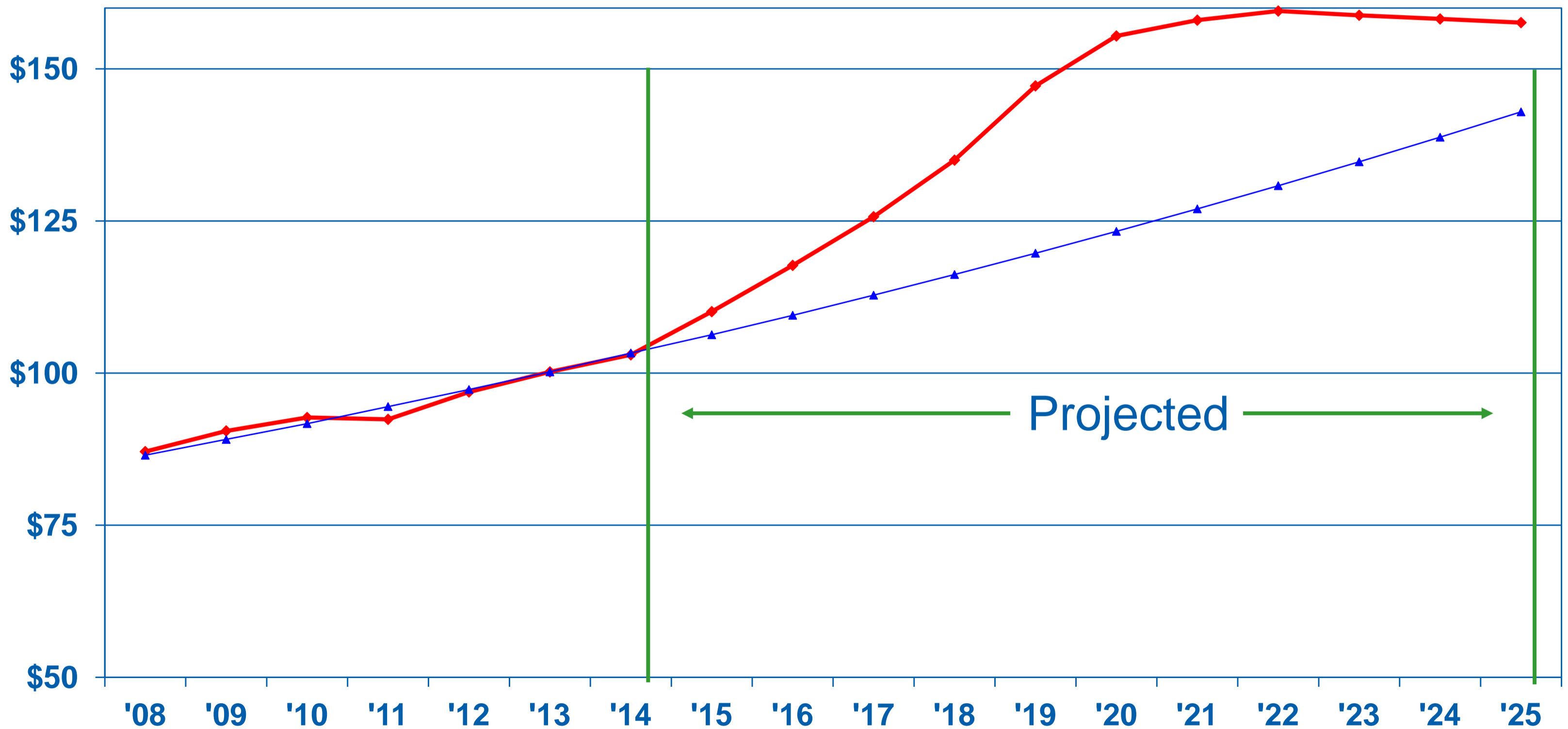
	Debt Service	Pre-funded D.S.	Budgeted D.S.	Increase
2013	100.7	(.5)	100.2	3.5%
2014	103.5	(.5)	103.0	2.7%
2015	113.6	(3.5)	110.1	6.9%
2016	117.7	0	117.7	6.9%
2017	126.7	(1.0)	125.7	6.9%
2018	135.0	0	135.0	7.3%
2019	150.1	(2.9)	147.2	9.0%



Budgeted Debt Service

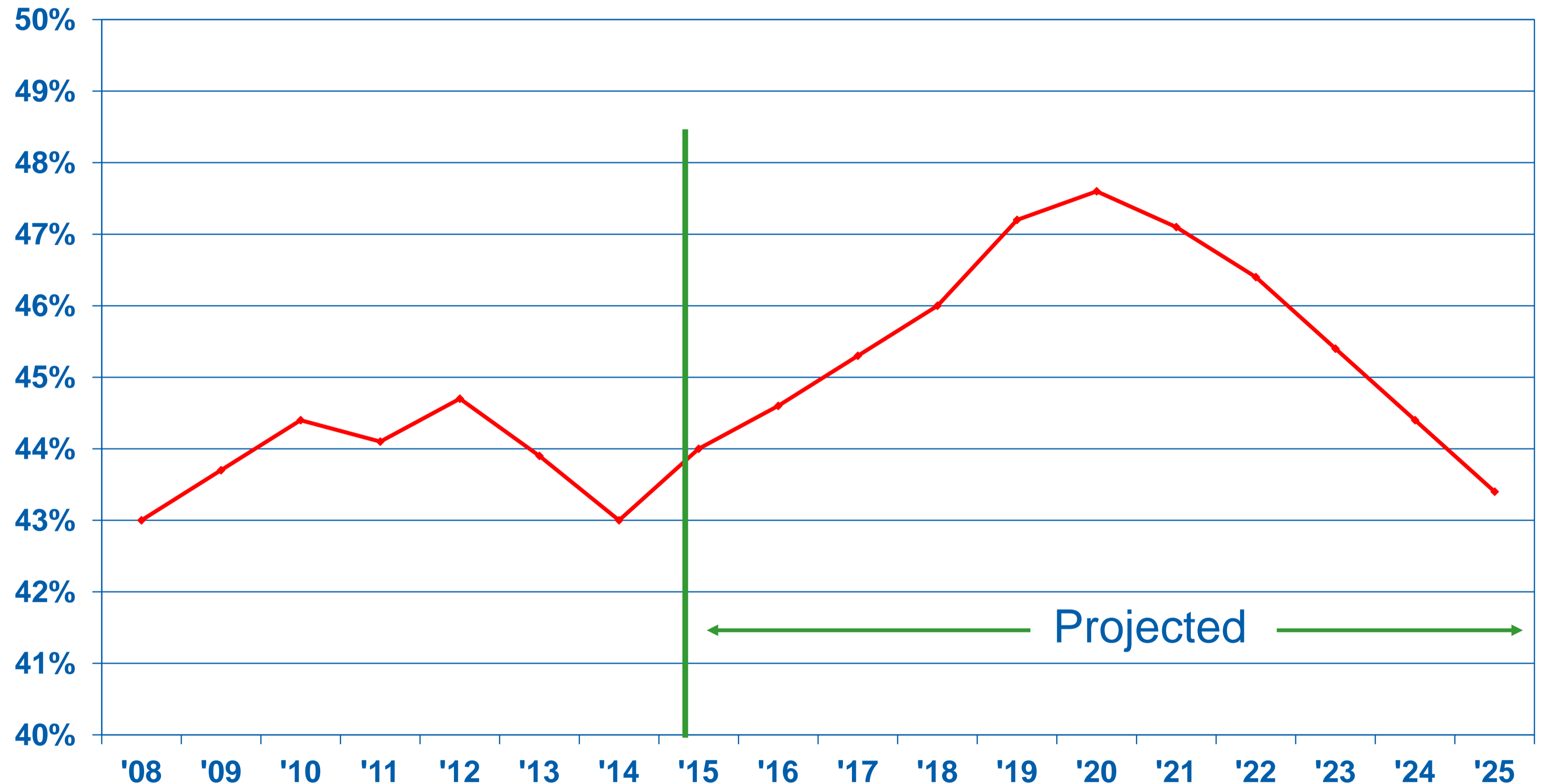
History and projections

- (millions)
- ◆ 2008-2013 Actual Debt Service, projected thereafter
 - ▲ 2013 Debt Service with 3% inflation (in 2013 dollars)



Debt Service Projections

As a percent of annual all-uses MCEs budget*



**Includes portion of debt service paid by SAC transfer;
assumes O&M portion of budget increases 3% per year.*

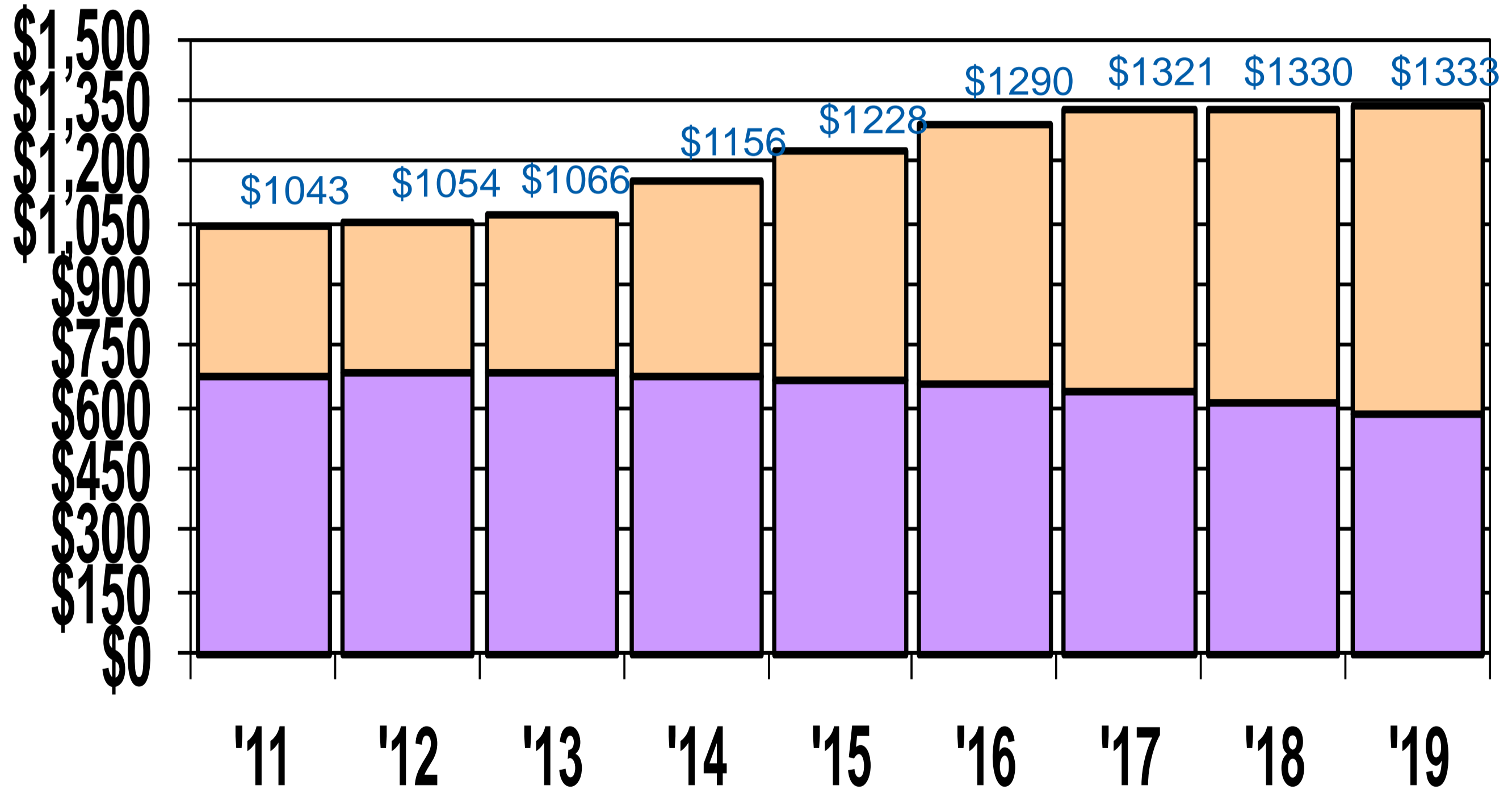


Outstanding Debt (PFA vs. Bonds)

2011 and 2012 are actual; other years projected

(millions)

Wastewater Council Bonds PFA Loans



Impact of Possible Nutrient Regulations

- If new regulations require additional capital spending, this ratio increases to:

Additional Capital	Max. D.S. Ratio*
\$0	48%
\$200 million	50%
\$500 million	53%
\$1 billion	57%
\$1.5 billion	61%
\$2 billion	65%

*Debt Service Ratio (annual) = debt service / total MCES budget

*Max. Ratio = maximum any year, during 20-year projection

Peer Agencies

Debt Service as a % of budget*

Rochester, NY	22%	San Antonio	41%	Washington, DC	52%
St. Louis	22%	Cincinnati	43%	Columbus OH	55%
Virginia Beach	24%	Sayreville NJ	44%	Philadelphia	58%
Memphis	30%	Phoenix	45%	Seattle	59%
Chicago	31%	MCES	45%	Austin	59%
Denver	33%	Honolulu	48%	Charlestown MA	60%
San Diego	35%	Sacramento	49%	Arlington TX	60%
Cleveland	37%	Detroit	49%		
Fort Worth	40%	Milwaukee	51%		

*2010 data from 2011 NACWA survey

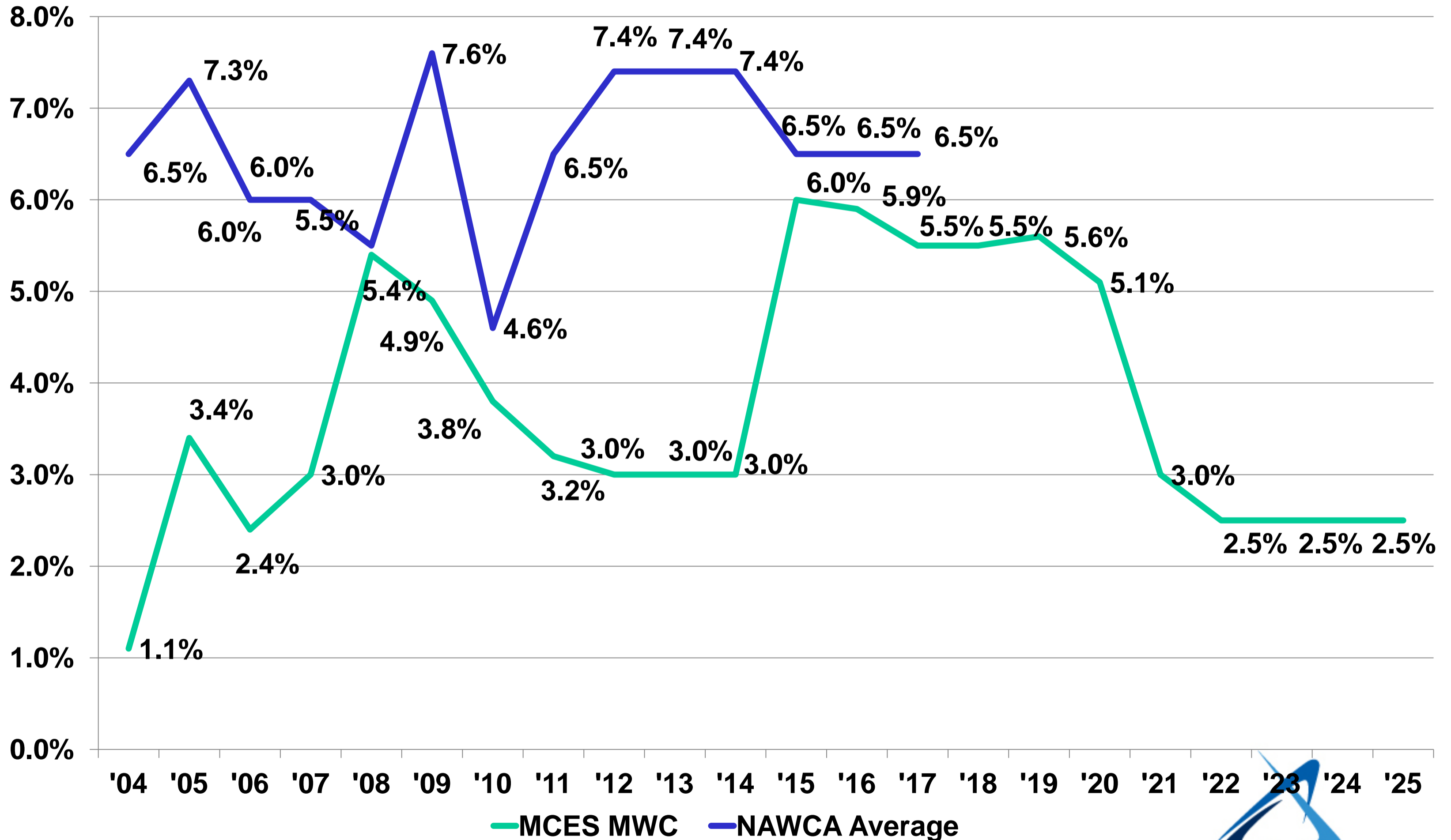
Peer Agencies

Debt per capita (person)*

Memphis	\$145	Washington, DC	\$577	Columbus	\$1,624
Denver	\$237	Arlington	\$593	Honolulu	\$2,345
Sayreville, NJ	\$306	San Antonio	\$660	Seattle	\$2,381
Virginia Beach	\$347	Philadelphia	\$723	Austin	\$2,464
Phoenix	\$362	Dallas/Ft Worth	\$736	Charlestown	\$2,657
MCES	\$370	Cleveland	\$880		
Chicago	\$374	Milwaukee	\$940		
San Diego	\$414	Sacramento	\$1,094		
St. Louis	\$450	Cincinnati	\$1,098		

**2010 data from 2011 NACWA survey*

MWC Increases Compared to NACWA Average



Conclusions

- PFA subsidies are important
- Council's "Aaa" bond rating and G.O. backing also very important
- Debt service ratio may exceed 50%
- Financing load is reasonable for wastewater
 - Will not cause uncompetitive rates
- Next financings projected:
 - \$50-60M PFA loan next 6 months
 - ~\$100M Council bonds early 2014

Next Steps

- Today: Committee information & discussion
- October: Council approves preliminary unified capital budget, authorized capital program, CIP and Capital Financing Plan
- November: Public hearing
- December: Council adoption