Business Item No. 2013-127

Management Committee

Meeting date: May 8, 2013

For the Metropolitan Council meeting of: May 22, 2013

Subject: Authorization to Execute Loan Agreements with the Public Facilities Authority (PFA) and Issuance of General Obligation Sewer Note Included in Resolution 2013-2

District(s), Member(s): All

Policy/Legal Reference: Minnesota Statute Section 473.541(3) and Council Policy 3-1-1

Staff Prepared/Presented: Allen Hoppe, Senior Manager, Treasury, 651-602-1629

Division/Department: Regional Administration/Finance

Proposed Action

That the Metropolitan Council approves the attached Resolution 2013-2 to authorize the Regional Administrator to execute a loan agreement with the Minnesota Public Facilities Authority (PFA) in substantially the same form as the attached agreement. And further, to issue the related General Obligation Sewer Note securing the loan agreement substantially in the form of the Note referenced in the resolution.

Background

This approval does not authorize any capital spending, which is done via the adoption of the capital budget, but rather provides a low-cost instrument to finance capital project expenses that are already approved. MCES capital projects that will be funded by this loan are ongoing. The prior loan for eligible projects was exhausted in April, 2013 as part of PFA's reimbursement of our March eligible expenses.

The $40 million available from this loan is expected to provide funds to finance the cash flows on those MCES capital projects that are PFA-eligible for about 12-14 months starting with the exhaustion date of the prior loan. Expenses incurred before the new loan settles and becomes active are authorized through a reimbursement declaration executed by Mary Bogie, the Council's CFO. Capital borrowing beyond what can be funded by PFA loans typically comes from bonds issued by the Council or from wastewater fees ("pay-as-you-go").

Attachments to this item are:
Attachment A: Staff summary of the key terms of the transaction
Attachment B: The proposed Resolution 2013-2 with Note (drafted by Kennedy and Graven, our bond counsel)
Attachment C: The proposed Commitment and Loan Agreement (drafted by Briggs and Morgan, PFA's bond counsel and reviewed by our bond counsel).

Rationale

Conventional PFA loans are less expensive than Council bonding. At current interest rates, the savings compared to a traditional Council tax-exempt bond is about $4.3 million in present value dollars.
Terms of the loan provide these savings and are deemed by staff, our financial advisors (Springsted) and our bond counsel (Kennedy & Graven) to be acceptable.

Funding

The interest rate on the Loan has been locked in at 1.00% (a below market interest rate that is determined by by a formula in PFA rules).

Known Support / Opposition

None.

Attachment B, Resolution 2013-2
Attachment C

Attachment A

KEY TERMS OF THE PROPOSED LOAN AGREEMENTS

1) The Council is financing $40 million for various portions of about a dozen approved wastewater projects and will pay debt service on the Loan over the next 20 years.

2) The Council must agree to complete all the projects, funded in any part by these loans, regardless of the availability of future PFA loans.

3) PFA funds are not drawn down by the Council until after eligible expenses are incurred (that is, on a “reimbursement basis”). Interest will accrue on the debt only as money is disbursed to the Council.

4) The net interest rate to be paid to the PFA will be 1.00%.

5) The principal repayment schedule provides a modification to level annual debt service so as to smooth Wastewater’s overall annual debt service requirements. The average maturity of this loan is about 10.9 years.

6) The Council must execute a General Obligation Note pledging its full faith and credit to secure repayment of the loan. This means that should wastewater revenues become inadequate, the Council must levy taxes to provide the necessary funds. However, no property taxes have ever been levied or anticipated for these PFA Notes or any other wastewater debt.

7) The Council agrees that funds for the Metro Plant Rehab and Facilities Improvement projects (project #8059 family) funded by the loan will be designated as coming from state bond funds and are thereby subject to extra restrictions for the life of the project and possibly repayment of the funds if the facility were sold. In addition,` a declaration of these covenants must be recorded against the real estate titles.

8) Unlike past loans, if either the PFA or the Council subsequently issue refinancing debt associated with this loan, neither party will be sharing with the other any part of the net present value of savings from the refinancing (refunding) process. The Council is required to get PFA approval to prepay the loan.

9) The Council agrees to standard terms and conditions of PFA’s financing and state law. Among these terms are:

A. Sale of project facilities are restricted;
B. Funds can not be used for “private uses”;
C. Insurance requirements must be met;
D. Iinformation disclosure requirements for the investment community must be met;
E. Projects funded must meet EPA diversity requirements; and,
F. Loan funded contractors must pay federally designated prevailing wages.