Management Committee

Meeting date: November 12, 2014

For the Metropolitan Council meeting of: December 10, 2014

Subject: Approval of PFA Loan Agreement

District(s), Member(s): All

Policy/Legal Reference: MN Stat. 473.541(3) and Council Policy 3-1-1

Staff Prepared/Presented: Jim Chang, Debt Analyst, 651-602-1366 and Allen Hoppe, Senior Manager, 651-602-1629

Division/Department: Regional Administration/Finance

Proposed Action

That the Metropolitan Council approves the attached parameters Resolution 2014-23 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 does provide a negotiated 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 fully drawn in September, 2014 through PFA's reimbursement of eligible expenses.

The $60 million available from this loan is expected to provide funds to finance the cash flows on those MCES capital projects that are or will be PFA-eligible for about 12-14 months starting with the remaining eligible expenses from September. Expenses incurred before the new loan settles are authorized to be reimbursed through the new loan via a "reimbursement declaration" executed by Mary Bogie, the Council's CFO. Capital borrowing for MCES that is beyond what can be funded by PFA loans typically comes from bonds issued by the Council or from wastewater fees ("pay-as-you-go").

The default loan structure provided by PFA for this 20-year loan used level principal payments but was subsequently modified to better fit with existing debt service requirements and smooth the total debt service component of the MCES wastewater budget and fees. This modification lengthened the average maturity of loan from about 10.2 years to 10.6 years.

<u>Parameters Resolution</u>

This action item authorizes staff to administer the issuance of the Notes as summarized in the below Rationale section and specified in the attached parameters resolutions. The parameters provide specific up-front information to the Council and provide flexibility in setting the interest rate lock-in date so as to optimize conditions in the market place and allow for minor adjustments to the loan.

METROPOLITAN COUNCIL

Attachments to this item are:

Attachment A: Staff summary of the key terms of the transaction

Attachment B: The proposed Resolution with draft Note (drafted by Kennedy and Graven, our bond counsel)

Attachment C: The proposed Commitment and Loan Agreement (drafted by PFA and reviewed by our bond counsel).

Rationale

Conventional PFA loans are less expensive than Council bonding because of the PFA subsidy mechanism. At current interest rates, the savings compared to a traditional Council tax-exempt bond is about $8.7 million in present value dollars as calculated by the Council. On a preliminary basis, the PFA subsidy has an $8.1 million nominal value as calculated by PFA.

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.

The parameters established for the proposed action are included in the attached resolutions and their exhibits and appendices. Council staff will keep the loan within the following parameters:

90	Loan authorization period (days)
$60	Maximum par Note to issue ($million)
3%	Maximum interest rate

Funding

This loan/note, and all MCES debt service, is expected and has always been paid from revenues of the Wastewater system; however, the note carries the general obligation backing of the Council.

Since the interest rate on this loan will tentatively be locked in sometime between the preparation of this Business Item and the unspecified closing date, the attached amortization table is a draft and is subject to change. The final interest rate is currently expected to be about 1-2%. The rate is typically determined by the market and a formula in PFA rules; however, 1.0% is the lowest rate the PFA will allow.

Known Support / Opposition

None.

Attachment A

KEY TERMS OF THE PROPOSED LOAN AGREEMENTS

1) The Council is financing $60 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 is currently expected to be approximately 1-2%.

5) The principal repayment schedule provides a modification to level annual debt service so as to smooth Wastewater’s overall annual debt service requirements. As a result, the average length of time that the funds are loaned to us is slightly longer than a loan structure with even payments every year.

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 under this loan agreement, the Project 8059, Metro Plant Rehabilitation and Facilities Improvement family of projects 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 benefitted real estate parcel 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 any benefitted project facilities are restricted;
B. Funds can not be used for “private uses”;
C. Insurance requirements must be met;
D. Information disclosure requirements for the investment community must be met;
E. Projects funded must meet EPA diversity requirements; and,
F. Loan funded contractors must pay prevailing wages in accordance with state and federal requirements.