

Management Committee

Meeting date: October 28, 2020

For the Metropolitan Council meeting of November 4, 2020

Subject: Parameter Resolutions - General Obligation Grant Anticipation Notes (GANs) and General Obligation Refunding Bonds

District(s), Member(s): All

Policy/Legal Reference: Minnesota Statutes: 473.39, subd. 5, and 475.522; Council Policy FM 2-2 Finance and Asset Management and FM 3-2 Debt Management

Staff Prepared/Presented: Mark Thompson, Senior Manager, Treasury (651-602-1629) and Marie Henderson, Acting Chief Financial Officer (651-602-1387)

Division/Department: All

Proposed Action

The Metropolitan Council adopt the three attached parameters Resolutions 2020-20, 2020-21 and 2020-22 authorizing the issuance, sale and award of general obligation debt within established financial parameters, the incurrence of related issuance expenses and execution of necessary documents to secure the financing.

Resolution 2020-20 authorizes the Council to issue a Grant Anticipation Note of approximately \$125 million which will be new debt. Resolution 2020-21 authorizes the Council to issue approximately \$17.22 million of General Obligation Transit Refunding bonds. Resolution 2020-22 authorizes the Council to issue approximately \$36.14 million of General Obligation Wastewater Refunding bonds.

The individual bond issues are comprised of the following:

New Debt:

\$125.0 million General Obligation Grant Anticipation Notes (GANs), Series 2020C

Refunding Debt:

1. \$17.22 million General Obligation Transit Refunding bonds, Series 2020D (2009A and 2010E)
2. \$36.14 million General Obligation Wastewater Revenue Refunding Bonds, Series 2020E (2010F)

Background

The Council's Southwest Corridor Light Rail Transit (SWLRT) project is being funded by local partners (53.14%) and by the U.S. Federal Transit Administration (FTA) (46.86%). The specific FTA financial commitment is spelled out in the Full Funding Grant Agreement (FFGA) which was signed by the FTA and the Council on September 14, 2020. FTA payments to the Council will be received on a reimbursement basis (after the Council has paid contractors and sought reimbursement from FTA). These GANs will provide interim cash flow to the project while awaiting receipt of FTA reimbursement payments. This issuance is part of the SWLRT cash flow financing plan and is the first in an expected series of GANs issuances needed to finance the project's cash needs in a manner which best minimizes total financing costs.

The Council plans to issue a Grant Anticipation Note of approximately \$125 million which will be used to provide cash flow to cover some expenses of the SWLRT project during the period 2021-2023 pending receipt of federal grant payments. This GAN will have a 3-year final maturity.

Refunding debt, the Council’s policy requires that a debt instrument which is refinanced for the purpose of lowering interest costs must realize a net present value (“NPV”) savings of at least 3% of the future principal and interest of the refunding bonds. This proposed refunding is projected to have an NPV savings of 10.51% (about \$ 4.97 million) for refunding the 2010F Wastewater bonds (2010F), an NPV savings of 10.37% (about \$ 0.65 million) for refunding the 2009A Transit bonds, and an NPV savings of 10.76% (about \$1.84 million) for refunding the 2010E Transit bonds. All savings will be realized over the remaining term of the debt.

Parameters Resolutions

This action item authorizes staff to award sale of the debt within parameters adopted by the Council as summarized in the below Rationale section and specified in the attached parameters resolutions. The parameters provide specific up-front information to the Council on expectations for the debt sales yet provide flexibility in setting the sale date to take advantage of the interest rate conditions in the market place, make minor adjustments to the structure of bonds, and give quicker award certainty to the underwriters which increases the attractiveness of the debt to investors. After the sale, staff will provide the results to the Management Committee and Council.

Rationale

The parameters established for the bond sales are included in the attached resolutions and their exhibits and appendices. Council staff will keep award of the bonds within the following parameters:

Parameter	2020C	2020D	2020E
Purpose	Grant Anticipation Notes	Wastewater Refunding	Transit Refunding
Sale Authorization (days)	90	90	90
Max Par to Issue (million \$)	\$126.0	\$39.0	\$20.0
Minimum NPV Savings	N/A	3%*	3%*
Min purchase price/issue	100%	100%	100%
Max True Interest Cost (%)	2.25%	N/A	N/A

*Refunding’s use Net Present Value Savings as parameter, 3% is policy minimum

Thrive Lens Analysis

Stewardship – Providing a funding mechanism to leverage borrowing needs at low interest rates to complete capital projects.

Sustainability - The Capital program is in place for the preservation of the Metropolitan Council's infrastructure. Leveraging borrowing needs through issuing General Obligation bonds provides an efficient and cost-effective model in preserving this infrastructure.

Funding

The GANs' financing costs include interest expense (net of interest revenue on positive balances), financial advisor and bond counsel fees, rating agencies' fees, printing fees, etc. The GANs are expected to be will be paid from the collection of the federal grants anticipated under the Federal Transit Administrates Full Funding Grant Agreement awarded to the SWLRT project. The GANs will also carry the full faith and credit backing of the Council, in the form of our general obligation pledge and ad valorem taxes.

The refunding's are being undertaken to lower interest expense on debt. The refunding bonds contain a general obligation pledge, but no part of this pledge is expected to be needed during the repayment periods. The General Obligation Wastewater Revenue Refunding bonds will be paid from wastewater systems revenues; although available as revenue, no property tax levies are expected for wastewater debt. The Transit Refunding bonds will be paid from property tax levies.

Known Support / Opposition

There is no known opposition.