

Management Committee

For the Metropolitan Council meeting of December 11, 2013

Subject: Issuance of Loan and Note with Public Facilities Authority

Proposed Action

That the Metropolitan Council approves the attached parameters Resolution 2013-24 to authorize the Regional Administrator to execute a loan agreement with the Minnesota Public Facilities Authority (PFA) and to issue a related and securing \$60 million General Obligation Wastewater Revenue Note, both substantially in the form in the attachments.

Summary of Committee Discussion/Questions

Allen Hoppe, Senior Manager, Treasury, reviewed the authorizing parameters and pointed out that the loan is significantly subsidized by PFA and will likely receive an interest rate under 2% although the parameters allow for up to 3.0% in the event interest rates should rise before the lock-in date.

Committee Chair Brimeyer asked about the status of relations with the PFA because the significant amount of PFA loans that the Council refunded in 2012. PFA was not able to replace our higher paying loans with similar yielding investments, thus experiencing reduced investment income. Jason Willett, Finance Director for Environmental Services, explained that we worked closely with PFA at every step of the refinancing process last year and that PFA understood the Council's fiscal responsibility to our stakeholders and rate payers.

Management Committee

Meeting date: November 13, 2013

For the Metropolitan Council meeting of: December 11, 2013

Subject: Authorization To Execute a Loan Agreement With The Minnesota Public Facilities Authority (PFA) And Issuance Of a General Obligation Sewer Note Included in Resolution 2013-24

District(s), Member(s): All

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

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

Division/Department: RA Finance/Treasury

Proposed Action

That the Metropolitan Council approves the attached parameters Resolution 2013-24 to authorize the Regional Administrator to execute a loan agreement with the Minnesota Public Facilities Authority (PFA) and to issue a related and securing \$60 million General Obligation Wastewater Revenue Note, both substantially in the form in the attachments.

Background

This approval does not authorize any capital spending which is done via the adoption of the capital budget but does provide 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 fully drawn in September, 2013 as part of 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 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 existing debt service requirements of the Wastewater system. This modification lengthened the average maturity of loan from about 10.1 years to 10.7 years.

In addition to the loan, the resolution and agreement include \$984,748 as part of PFA's "Green Reserve" funding which is based on a September, 2013 certification from the Minnesota Pollution Control Agency. Like a grant, this amount of principal will be forgiven (and is appropriately described as Principal Forgiveness) except for situations as provided in Section 2.4, Article VI of the Agreement. The principal associated with the Green Reserve is a special, limited revenue obligation of the Wastewater System and not a general obligation of the Council. The Council has received these forgiveness designations before and has complied with all the requirements and thus not needed to repay any of them.

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 provides flexibility in setting the interest rate lock-in date so as to optimize conditions in the market place, allow for minor adjustments to the loan, Results of the PFA loan and Principal Forgiveness will be provided to the Management Committee and 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 Bond Purchase and and Loan Agreement (drafted by PFA 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 \$7.8 million in present value dollars.

Terms of the loan are deemed by Council 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 award of the COPS within the following parameters:

90	Loan authorization period (days)
\$60	Maximum par Note to issue (million\$)
\$984,748	Maximum par Forgiveness Loan
3%	Maximum interest rate

Funding

This loan/Note is expected to be paid from net revenues of the Wastewater system; however, the Note carries the general obligation backing of the Council.

The interest rate on this loan will be locked in between now and the closing date. The final interest rate is currently expected to be around 2% or less and is determined by the bond market conditions and a formula in PFA rules.

Known Support / Opposition

None.

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 will be about 2.0% but not more than 3.0%.
- 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 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 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.