

Management Committee

For the Metropolitan Council meeting of August 14, 2019

Subject: Internal Loans for Cashflow of Environmental Services Capital Funds

Proposed Action

The Metropolitan Council authorized internal loans to cover the cash flow needs of Environmental Services capital funds.

Summary of Committee Discussion/Questions

Council policy #3, "Finance and Asset Management", allows short-term loans across units. Any loan for more than three months or \$10 million must be approved by the Council.

The Minnesota Public Facilities Authority (PFA) offers a Clean Water Revolving Fund Program which the Council participates in annually. This program is a capital financing tool Environmental Services uses in which PFA offers a loan program with the interest rates often 1% to 1.5% lower than we can issue debt on our own.

The 2018 PFA loan of \$45 million is expected to be fully drawn in the middle of August of 2019. The Council cannot start the process for the new 2019 loan until the middle of August with the anticipation the loan will be closed by early December. Due to this timing, Environmental Services PFA capital funds will go negative for more than 3 months prompting the need for this action. When the new loan is secured and its first draw in January 2020 is made, the internal loan will be paid back in full with interest.

Council member Johnson asked the reason for the 2018 PFA loan being fully drawn before the 2019 loan could be placed. Staff explained the monthly capital expenditures for the 2018 loan were larger than expected which resulted in the 2018 loan being fully drawn faster than anticipated. Staff also explained this year's timing of loans was the exception, not the norm.

Committee Chair Ferguson asked how the interest rate to pay back the Council on the loan is determined the mechanics of the internal loan process. Staff explained to the committee how the interest rate is determined and how the capital funds can go negative.

Motion by Lee, seconded by Lilligren, motion carried: Yes

Management Committee

Meeting date: July 24, 2019

For the Metropolitan Council meeting of August 14, 2019

Subject: Internal Loans for Cashflow of Environmental Services Capital Funds

District(s), Member(s): All

Policy/Legal Reference: Policy #3, Finance and Asset Management

Staff Prepared/Presented: Richard Koop, Senior Manager, Treasury (651-602-1629)

Division/Department: Finance / Environmental Services

Proposed Action

The Metropolitan Council authorize internal loans to cover the cash flow needs of Environmental Services capital funds.

Background

In accordance with the Council's invest policy #3, "Finance and Asset Management", short-term loans may be made across units. Any loan for more than three months or \$10 million must be approved by the Council. Loan recipients will pay interest charges to the pool.

Rationale

The Minnesota Public Facilities Authority (PFA) operates a Clean Water Revolving Fund Program in which the Council participates in annually. This program loans organizations money for clean water capital projects. The total loan amount is approved by PFA with the Council submitting documentation monthly to reimburse itself from the loan its expenditures until the loan is fully drawn. The rate on the loan is typically one percent lower than the Council could bond for on its own.

The 2018 loan of \$45,000,000 was executed on July 18, 2018. As of July 12, 2019, the loan has approximately \$4.3 million remaining to be drawn. This total is expected to be drawn in August which will fully draw the 2018 loan. The Council can't begin the process to obtain the 2019 until the middle of August with the anticipated closing date in early December. This timing of the loans means cashflows will go negative for more than three months.

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.

Funding

PFA Loans principal and interest payments will be paid from the revenues of the Wastewater System. A General Obligation backing is provided for the PFA Loan.

Known Support / Opposition

None