Committee Report

Item: 2010-33

M Management Committee

For the Metropolitan Council meeting of January 27, 2010

ADVISORY INFORMATION

Date Prepared: January 15, 2010

Subject: Authorization to Award General Obligation Revenue Bonds Within Established Financial Parameters

Proposed Action:

That the Metropolitan Council adopt Resolutions 2010-01 and 2010-02, authorizing the issuance, sale and award of general obligation waste water revenue bonds primarily for refunding, and asset acquisition and betterment purposes, and execution of other necessary documents to complete these events.

Summary of Committee Discussion / Questions:

The resolutions were presented by MCES Finance Director, Jason Willett, and the Council's Senior Manager, Treasury, Allen Hoppe. Background information about taxable Build American Bonds (the "BABs") was provided by Council financial advisor, Dave MacGillivray, Chairman of Springsted, Inc. Presenters described the characteristics, parameters, and benefits for each bond issue. These are parameters resolutions, i.e., so long as the bond bids are within the parameters stated in the resolutions, the Council's Chief Financial Officer (or designee) is likely to confirm the bond sales to the bond underwriters.

If market conditions continue to be favorable, the bond sales will occur on, or about, February 9, 2010. The 2010A Bonds refund a 1996 loan with the Minnesota Public Facilities Authority (the "PFA"). The refunding should generate total net present value savings of about $1 million with about half of this savings being shared with the Minnesota Public Facilities Authority on the basis of past agreements and the need for PFA cooperation. The new money bonds for wastewater asset acquisition and betterment are expected to be issued as two series with the initial maturities (2010C) likely being tax exempt and the later maturities (2010B) being taxable. This tax exempt/BABs combination may save $0.5 million vs. a traditional (all) tax exempt bond issue. The underlying capital project expenses have already been authorized in the Unified Capital Budget and CIP.

Several committee members asked general questions about the refunding bonds and the structure of BABs. Although all the bonds being issued are general obligations, none are expected to require property tax support, but all are anticipated to be fully funded by wastewater revenues.

Business Item
Item: 2010-33

M Management Committee

Meeting date: January 13, 2010

ADVISORY INFORMATION

Date:	January 7, 2010
Subject:	Authorization to Award General Obligation Revenue Bonds Within Established Financial Parameters
District(s), Member(s):	All
Policy/Legal Reference:	Policy 3-1-2
Staff Prepared/Presented:	Allen Hoppe, Sr. Manager Treasury (651-602-1629) Jason Willett, MCES Finance Director (651-602-1196)
Division/Department:	All

Proposed Action

That the Metropolitan Council adopt Resolutions 2010-01 and 2010-02, authorizing the issuance, sale and award of general obligation waste water revenue bonds primarily for refunding, and asset acquisition and betterment purposes, and execution of other necessary documents to complete these events.

Background

The Council is issuing waste water bonds for two purposes: (1) refunding of a 1996 loan with the Minnesota Public Facilities Authority (the "PFA") so as to lower interest costs, and (2) new money to finance a portion of the next 12-18 months of costs for asset acquisition and betterment projects included in the Capital Improvement Plan (the "CIP").

Refunding Bonds Background (2010A)

Council 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 8% of its remaining interest and 3% of combined principal and interest (a.k.a, "debt service). Currently, this refunding is projected to have an NPV of about 50% of interest costs and 6% of debt service (equivalent to more than $1 million).

In conjunction with the refunding, the Council will be sharing 50% of the debt service savings with PFA. This arrangement is a continuation of a past practice whereby the Council and PFA split refunding savings with each other whenever one of the two entities refunds debt of mutual interest. The PFA has shared such savings with the Council in the past.

New Money Bonds Background (2010B & 2010C)

This resolution authorizes two possible series of bonds in order to achieve the lowest possible financing costs within the repayment objectives of the Council's Environmental Services division. Combined debt repayment will occur over a 20-year span. The Council is expected to benefit by issuing 2010B Build America Bonds (BABs) and the more traditional (2010C) tax exempt bonds. The 2010B BABs bonds will likely have maturities covering the last 10 years of the repayment plans while the 2010C tax exempt bonds will likely cover the first 10 years of maturities. To increase investor appeal, the later maturities (BABs) will be callable whereas the demand for the tax exempts is expected to be strong enough for the Council to forgo the embedded cost of a call feature.

Parameters Resolutions

This action item authorizes staff to award sale of the bonds within specific parameters adopted by the Council as summarized in the below Rationale section. It provides specific up-front information to the Council on expectations for the sale yet provides flexibility in setting the sale date to take advantage of the most advantageous interest rate conditions in the market place. Once the bids have been authorized, staff will return to the Management Committee and Council with agenda "informational" items that report the results of the bond sales.

Note: At the moment, no additional Council bonding is expected in 2010.

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:

Item	2010A Bonds Refund 1996 PFA Loan	Combined 2010B & 2010C New Money Bonds
Sale Authorization Period	120 days	90 days
Par to Refund	$17.3 million	n.a.
Maximum Par to be Issued	$18.0 million	$45.0 million
Minimum Savings on Loan Debt Service	3.0%	n.a.
Minimum Savings on Loan Interest	8.0%	n.a.
Maximum Shared Savings With PFA	50.0%	n.a.
Maximum (net) True Interest Cost*	n.a. (see savings %)	4.25%*
Type	Tax Exempt	Tax Exempt & Taxable BABs

*** For BABs bonds, the gross TIC is reduced by a 35% federal credit (cash rebate), resulting in a net TIC.*

Funding--The refunding is being undertaken to lower interest expense on debt. The new money debt is being issued in support of the Council's CIP. All three bond series contain a general obligation pledge but no part of this pledge is expected to be needed during the repayment periods; all of the debt service is expected to be paid from net revenues of the waste water disposal system.

Known Support / Opposition—None.