Committee Report

Item: 3010-352

Consent

M Management Committee

For the Metropolitan Council meeting of October 27, 2010

ADVISORY INFORMATION

Date Prepared: October 4, 2010

Subject: Revision of Debt Management Policy (3-1-2)

Proposed Action:
The Metropolitan Council approve revision of the Debt Management Policy as outlined to provide definitions and benchmarks for current and advance refunding.

Summary of Committee Discussion / Questions:

Mary Bogie, Deputy Chief Financial Officer and Jason Willett, Finance Director Environmental Services presented this business item to the committee. Mary highlighted changes to the debt management policy. The Council's Financial Advisor, Public Financial Management, assisted with the policy revision and was also in attendance.

There were no questions from the committed and the Chair place the approved item as consent to the Council.

M Management Committee

Business Item

Agenda Item 2010-352

Meeting date: October 13, 2010

ADVISORY INFORMATION

Date:	October 4, 2010
Subject:	Revision of Debt Management Policy (3-1-2)
District(s), Member(s):	All Members
Policy/Legal Reference:	MS 475.67
Staff Prepared/Presented:	Mary Bogie, Deputy Chief Financial Officer , 651-602-1359
Division/Department:	Regional Administration/Fiscal Services

Proposed Action

The Metropolitan Council approve revision of the Debt Management Policy as outlined to provide definitions and benchmarks for current and advance refundings.

Background

The Council's Debt Management Policy establishes debt management goals and requirements for issuing and managing long-term indebtedness.

Rationale

The proposed policy revision provides definition of current and advance refundings and establishes benchmarks for consideration of when and whether to pursue refunding opportunities.

An advance refunding is an opportunity that by law can only be taken advantage of once for each obligation, therefore staff recommend an independent financial advisor be asked to provide analysis and recommendation of the timing likely to maximize interest savings to the Council. While Minnesota Statute sets a required benchmark to achieve at least three percent net present value savings of refunded debt service, other factors including call option values and the impact of negative arbitrage should also be considered.

Funding

No impact.

Known Support/Opposition

None.

Metropolitan Council

~~SUB-POLICY –~~ **DEBT MANAGEMENT**

Section/Number:	3-1-2	Total Pages:	~~4~~3
Dept. Responsible:	Finance	Effective Date:	~~9/11/98~~10/27/10
Special Note:	~~Replaces 3/10/94 policy~~	Revision No.	

I. Policy:

The Metropolitan Council will issue and manage its long-term indebtedness (more than three years) in accordance with the highest standards of industry, law and government practice and in the most cost-efficient and professional manner.

The Metropolitan Council's debt-management goals are to:

- maintain top credit ratings on long-term debt issued by the Council to the extent possible while pursuing its long-term debt management goals;
- minimize borrowing costs;
- maintain the ability to finance regional services and capital facilities; and to
- minimize long-term and year-to-year financial impact of regional debt service on taxpayers and ratepayers.

~~**Guidance:**~~

In accordance with the ~~policy and~~ goals, the following ~~guidelines~~ practices are established:

A. Eligible Uses

Long-term debt ~~will~~ may be issued to finance capital improvement and fixed assets included in capital improvement program (CIP) budgets. Long-term debt will not be issued to finance operating costs. The Council, by its resolution must authorize the issuance and sale of long-term debt (e.g. bonds and notes payable).

B. Debt Limits

No specific limits on regional debt issuance or outstanding debt are established. Staff will monitor and analyze debt indicators.

C. Type of Debt

Alternative types of long-term debt ~~will~~ may be considered. These may include variable rate instruments. Each outstanding variable rate bond issue shall be analyzed at least twice each year to determine the advisability of converting the issue to fixed-rate debt. Variable rate debt shall be limited to 25 percent of total debt outstanding.

~~BWA/dkj~~

D. Method of Sale

Fixed rate long-term general obligation or revenue debt will normally be issued through public competitive sale. Negotiated or private placement sales may be considered if the complexity and/or timing of the transaction so warrants or if below market rates are offered (e.g. Notes Payable to Public Facilities Authority).

E. Term of Debt

Principal payment schedules will not exceed 80 percent of the economic life of the asset(s) being financed, the limits of state or federal law or related prior bond covenants. For long-term assets involving major components with significantly different economic lives, the assets should be divided into the major component parts and principal payment schedules for the principal related to each component will not exceed 80 percent of the economic life of that component of the asset.

F. Refunding Practices

Outstanding debt will be analyzed and recommendations will be made regarding refunding in order to achieve interest rate savings, restructure principal payments or eliminate burdensome covenants with bondholders.

Debt reserves that are released after a refunding shall not be used to fund operating costs.

Current Refundings. Current refunding bonds are bonds issued 90 days or fewer in advance of the stated redemption date or call date of the refunding bonds.

Current refundings to achieve interest savings may be pursued for Council approval whenever the refunding transaction will achieve net savings deemed by the Chief Financial Officer to be reasonable.

Advance Refundings. Advance refunding bonds are bonds issued more than 90 days in advance of the stated redemption date or call date of the refunded bonds.

Advance ~~R~~refundings to achieve interest savings will be considered when the present value of the net savings is ~~:~~

~~1. at least 8 percent of the present value of interest refunded *and*~~

~~2.~~ at least 3 percent of the present value of the refunded debt service, without material change in the length of the borrowing. Given that, by law, such advance refundings may only be done once for each obligation, an independent financial advisor shall be asked to provide analysis and recommendation of the timing likely to maximize the call option value of the maturities to be refunded. Advance refundings otherwise meeting the criteria above, may be deferred if such analysis indicates a higher net present value may occur by waiting.

Other Refundings – Refundings undertaken for purposes other than interest savings (e.g. bond covenant changes) will be reviewed and pursued for Council approval on a case by case basis.

G. Credit Enhancement

~~BWA/dkj~~

Credit enhancement may be considered on revenue bonds or other bonds not secured by a general obligation pledge to improve the marketability of debt or where the cost of credit enhancement is less than the financial benefit of lower interest rates. Credit enhancement providers will normally be selected by competitive proposal, absent special circumstances.

H. Professional Services

Specialized consultants may be retained for complex or unique financing when doing so is deemed to be in the best interest of the Council. All contracts for professional services will be in accordance with the Council's affirmative action plan and procurement policies and procedures for general contracting or its policy on the selection of bond counsel. Competitive proposals will be taken periodically for services to be provided.

1. ~~1.~~ Independent financial advisors will be retained on all of the Council's long-term debt issues and interest rate swap agreements. Financial advisors may not underwrite Council debt for which they are acting as financial advisor.

~~1.~~2. Financial advisors will be requested to certify their independence; potential conflicts of interested will be disclosed.

~~2.~~3.~~2.~~ A bond counsel will be retained to render opinions on the validity, enforceability and tax exempt status of the long-term debt and related legal matters, and to prepare the necessary resolutions, agreements, and other documents.

~~3.~~4.~~3.~~ An advisor or auditor may be retained to provide arbitrage-related services in order to comply with federal arbitrage rebate requirements.

~~4.~~5.~~4.~~ Other professionals may also be retained when required, including but not limited to, managing underwriters, credit agencies, escrow agents, trustees, verification agents, printers, and others.

~~5.~~6.~~5.~~ When doing a negotiated or private placement sale, a Request for Proposal process will normally be used for the selection of investment banking services. The criteria to be evaluated in selection will include the following:

- Capability of public finance department
- Experience in development of similar type issues
- Marketing capability
- Philosophy and procedure for establishing bond sale prices
- Creativity and practicality in structuring bond issues
- Firm's "equity capital position" (net capital) and "excess net capital position"
- Fee structure
- Participation of minority vendors
- Certificate of Compliance from Commissioner of Human Rights

I. Disclosure

Official statements and other financial disclosure materials will be prepared based upon industry practices, regulatory requirements and Secondary Market Disclosure Rules.

J. Credit Rating Relations

The Chief Financial Officer will inform the proper credit rating services regarding material changes in financial conditions and developing events which may influence outstanding or future credit ratings. Information will also be submitted to the credit rating services upon their request for new issues or issues which have outstanding ratings.

K. **Compliance with Internal Revenue Service Code**

The Council will comply with the IRS Code provisions related to the issuance of tax-exempt and federally subsidized debt by (1) maintaining written procedure(s): i) to account for the expenditure of bond proceeds for purposes permitted under the provisions of the IRS Code and ii) for compliance with arbitrage restrictions, and (2) to the extent required by applicable law and specific circumstances, monitoring the ownership and use of assets financed with the proceeds of tax-exempt or federally subsidized debt until the debt obligations are discharged.

II. Purpose of policy:

Each long-term debt financing is to be completed in accordance with the highest standards of industry, law, and governmental practice and in the most cost-efficient and professional manner.

This policy applies to any long-term indebtedness of the Metropolitan Council where long-term indebtedness refers to debt issued for capital financing with terms of three or more years.

III. Background and reasons for policy:

A. The policy establishes the permitted framework for the staff to plan and implement capital financings in accordance with approved budgets.

B. The policy establishes minimum thresholds for action and structuring.

IV. Implementation/Accountability:

The Chief Financial Officer is responsible for ensuring that this policy is followed.