Committee Report

M Management Committee

Item: 2011-170

For the Metropolitan Council meeting of June 22, 2011

Date Prepared: June 16, 2011

Subject: Approval of Bond Rating Agencies (Sole Source)

Proposed Action:

That the Council authorize the Regional Administrator to execute any necessary contracts in an aggregate amount to not exceed $625,000, and for a time period to not exceed five years, for bond rating services with two firms: Moody's Investors Service and Standard and Poor's (S&P). Such services are to be secured as Council sole source services.

Summary of Committee Discussion / Questions:

Background about the Council's use of bond rating agencies was presented by Senior Manager, Treasury, Allen Hoppe. Additional information was provided by CFO Wes Kooistra.

The Council needs to have its bonds rated by the rating agencies in order for investors to be interested in buying our debt/bonds. The Council has utilized two bond rating agencies since 1981. Due to the fees involved, there is not sufficient value added by employing a third rating agency. From the standpoint of investors, there are strong negative connotations for issuers changing away from their current bond rating agencies.

The $625,000 amount was derived from past fees paid and expected future debt issuances needing ratings. Fees are paid from bond proceeds.

Business Item
Item: 2011-170

M Management Committee

Meeting date: June 15, 2011

ADVISORY INFORMATION

Date:	**June 9, 2011**
Subject:	**Approval of Bond Rating Agencies (Sole Source)**
District(s), Member(s):	**All**
Policy/Legal Reference:	**Policy 3-4-3 (Procurement); Minnesota's broad debt issuance statute #475 and Council-related #473**
Staff Prepared/Presented:	**Allen Hoppe, Senior Manager, Treasury**
Division/Department:	**Regional Administration/Finance**

Proposed Action

That the Council authorize the Regional Administrator to execute any necessary contracts in an aggregate amount to not exceed $625,000, and for a time period to not exceed five years, for bond rating services with two firms: Moody's Investors Service and Standard and Poor's (S&P). Such services are to be secured as Council sole source services.

Background

The Council already utilizes these two bond rating agencies when it issues debt. This practice goes as far back as thirty years to 1981. In order to pay the lowest interest rate on our debt, we need to make our debt as attractive as possible to investors (bond buyers). The first thing our investors look for is a high bond rating from a widely recognized rating agency (similar to getting an audit opinion from one of the most established auditing firms). In our case, other rating agencies do not have a strong enough appeal among our investors. At the present, there are diminishing benefits to getting more than two bond ratings for our type/size of debt; there is a great advantage to using the most recognized firms; and, investors strongly prefer that we stay with the same rating agencies from one bond issue to the next. Changing rating agencies can have negative connotations.

Rationale

Council approval is required for expenditures in excess of $250,000 in order to meet Council procurement policies and thereby satisfy Federal Transit Administration (FTA) requirements for any reimbursement of CCLRT debt issuance expenses.

Funding

Rating agency fees are paid from debt proceeds which are used to fund capital budgets.

Known Support / Opposition

None.