

# E Environment Committee

Meeting date: September 11, 2007

## ADVISORY INFORMATION

<b>Date:</b>	September 5, 2007
<b>Subject:</b>	2008-2017 Preliminary Capital Finance Plan
<b>District(s), Member(s):</b>	All
<b>Policy/Legal Reference:</b>	MN Stat. 473.541 Debt Obligations; Council Policy 3-1-1 & 3-1-2
<b>Staff Presented/Prepared:</b>	Jason Willett, 651-602-1196
<b>Division/Department:</b>	MCES c/o William G. Moore, 651-602-1162

### Discussion of Capital Finance Plan Elements:

The MCES Capital Finance Plan (CFP) defines how the organization finances and obtains funds for capital expenses. In doing so, the CFP provides a link between the Capital Improvement Plan (CIP) and the MCES Annual Budget. Below is a summary of the key numbers. Staff will present and discuss additional information at the meeting.

**Capital Plan:** The CIP averages \$155.4 million per year for the next 10 years which is \$132.3 million in 2007 dollars. This compares to an average \$102 million of capital expenses over the last 10 years and \$107 million over the last 37 years - both adjusted to 2007 dollars.

**Debt Load and Debt Service:** Debt service is projected to be 42.3% of total MCES Annual Budget expenses in 2008 and increase thereafter until peaking at about 50% in ten years. Outstanding debt, which was \$823 million at year-end 2006, is projected to increase to \$1 billion during 2009.

**Pay-as-you-go:** In 2006 and in 2007, \$1 million of pay-as-you-go was funded from annual revenues (mostly the municipal wastewater charges). \$3 million of pay-as-you-go is in the proposed 2008 budget. Staff will analyze the impact of increasing this amount each year in the future and has included in this Capital Finance Plan an increase of \$2 million per year, all from annual revenues.

### Key Assumptions

The 2008 MCES capital finance plan currently includes the following key assumptions:

- A 2008-2017 capital plan of \$1.554 billion (with a capital budget of \$188 million in 2008).
- \$3 million of pay-as-you-go from annual revenues in 2008, increasing \$2 million per year thereafter.
- Service Availability (SAC) rates will be increased as necessary to meet the "reserve capacity" requirement.
- Partial use of the division's "pre-funded" debt service funds over the next five years. A minimum balance will be kept in the fund equal to 5% of total debt service.
- Loans from the Public Facilities Authority (PFA) are projected to total \$50 million in 2008 and each year thereafter.
- Capital project spending - beyond that funded by PFA - will be financed from Council issued bonds.
- Bonding and PFA loans interest based on current market rates, AAA rating, and General Obligation pledge.

This information will be incorporated into the Council's Unified Capital Budget and approved as part of that process.

## Summary of Capital Finance Plan

Dollars in 000s

	Project Capital Required	Estimated Municipal Wastewater Revenue	Portion of MW revenue needed for Debt Service		Budgeted Debt Service	% incr. From prior year	Debt Service as a % of Budget*		Projected Debt Outstanding at Year-end
2008	\$188,000	\$153,840	31.5%		\$87,140	6.6%	42.3%		\$965,000
2009	192,000	\$163,400	32.0%		93,171	6.9%	42.9%		1,086,000
2010	181,000	\$171,800	32.4%		99,901	7.2%	43.6%		1,186,000
2011	155,000	\$178,800	32.2%		107,949	8.1%	44.6%		1,253,000
2012	167,000	\$188,400	32.4%		117,416	8.8%	45.5%		1,321,000
2013	139,000	\$199,100	33.2%		127,712	8.8%	46.6%		1,350,000
2014	127,000	\$211,400	34.4%		138,999	8.8%	47.7%		1,358,000
2015	134,000	\$224,700	35.7%		151,243	8.8%	48.8%		1,363,000
2016	141,000	\$238,800	37.0%		164,408	8.7%	49.9%		1,363,000
2017	130,000	\$252,700	38.1%		175,689	6.9%	50.6%		1,343,000
Total	1,554,000				1,263,628	Average = 8.0%	Average.= 46.3%		

\* Assumes annual budget expenses (all expenses other than debt service) increase about 3% per year.