

# E Environment Committee

Meeting date: September 22, 2009

## ADVISORY INFORMATION

<b>Date:</b>	September 15, 2009
<b>Subject:</b>	2010-2019 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 division anticipates obtaining 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 \$126 million per year for the next six years (this is \$114 million in 2009 dollars). This compares to an average \$123 million of annual capital spending over the last 10 years and \$113 million over the last 40 years, both adjusted to 2009 dollars.

**Debt Load:** Debt service is projected to be 43.3% of total MCES Annual Budget expenses in 2010 (see attachment A for a six-year projection of this ratio). Outstanding debt, which was \$958 million at year-end 2008, is projected to increase to \$1 billion by year-end 2010 (see Attachment A).

**Pay-as-you-go:** One method of limiting future debt is to pay directly for capital expenses, known as a pay-as-you-go approach. Paying cash instead of borrowing for some capital spending reduces interest expense and debt outstanding, which can be a positive factor for bond rating agencies. In addition, it adds flexibility to manage unexpected conditions such as the increase in the municipal wastewater charge caused by the improvement to the reserve capacity methodology. Only \$1 million of pay-as-you-go is budgeted for 2010 (down from \$5 million in 2009) to help mitigate the increase in Municipal Wastewater Charges. Staff will analyze the impact of increasing pay-as-you-go each year in the future and has included in this Capital Finance Plan \$2 million per year of increases beginning in 2013 (from annual municipal wastewater charges).

### *Key Assumptions in this Plan*

- 2009 capital spending of \$99.5 million.
- A 2010-2015 capital plan of \$754 million (with a capital budget of \$158 million in 2010).
- Beginning in 2010, the methodology is changed for how reserve capacity is calculated. The current methodology based on flow will change to a SAC-unit based methodology. This change is phased in over three years (2010-2012).
- No pay-as-you-go from the SAC reserve fund.
- \$1 million of pay-as-you-go from annual revenues in 2010, 2011 and 2012, increasing \$2 million per year thereafter.
- 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 annual debt service.
- \$80 million in loans from the Public Facilities Authority (PFA) in 2009 and \$50 million each year thereafter (with a 150 basis point discount from market rates).
- Capital project spending beyond that funded by PFA will be financed from Council issued bonds.
- Bonding 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

	Capital Required*	Municipal Waste-water Revenue	Increase	Portion of MW revenue needed for Debt Service	Budget for Debt Service	% incr. from prior year	Debt Service as a % of Budget**	Debt Outstanding at Year-end
2009	\$99,500	\$161,322	4.9%	33.1%	\$90,479	3.8%	42.3%	\$967,000
2010	\$158,000	\$167,410	3.8%	36.9%	\$92,147	1.8%	43.3%	\$1,010,000
2011	130,000	\$178,100	6.4%	37.7%	94,000	2.0%	43.0%	1,076,000
2012	107,000	\$188,500	5.8%	39.3%	96,065	2.2%	42.8%	1,114,000
2013	108,000	\$198,600	5.4%	39.6%	102,400	6.6%	43.3%	1,145,000
2014	124,000	\$208,500	4.9%	39.8%	110,400	7.8%	44.1%	1,182,000
2015	127,000	\$223,000	7.0%	41.2%	121,500	10.0%	45.4%	1,208,000
6-yr Total	754,000		Average = 5.5%		616,512	Average = 5.1%	Average = 43.6%	

\* Based on CIP projections as presented to Environment Committee on 8/11/09.

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