

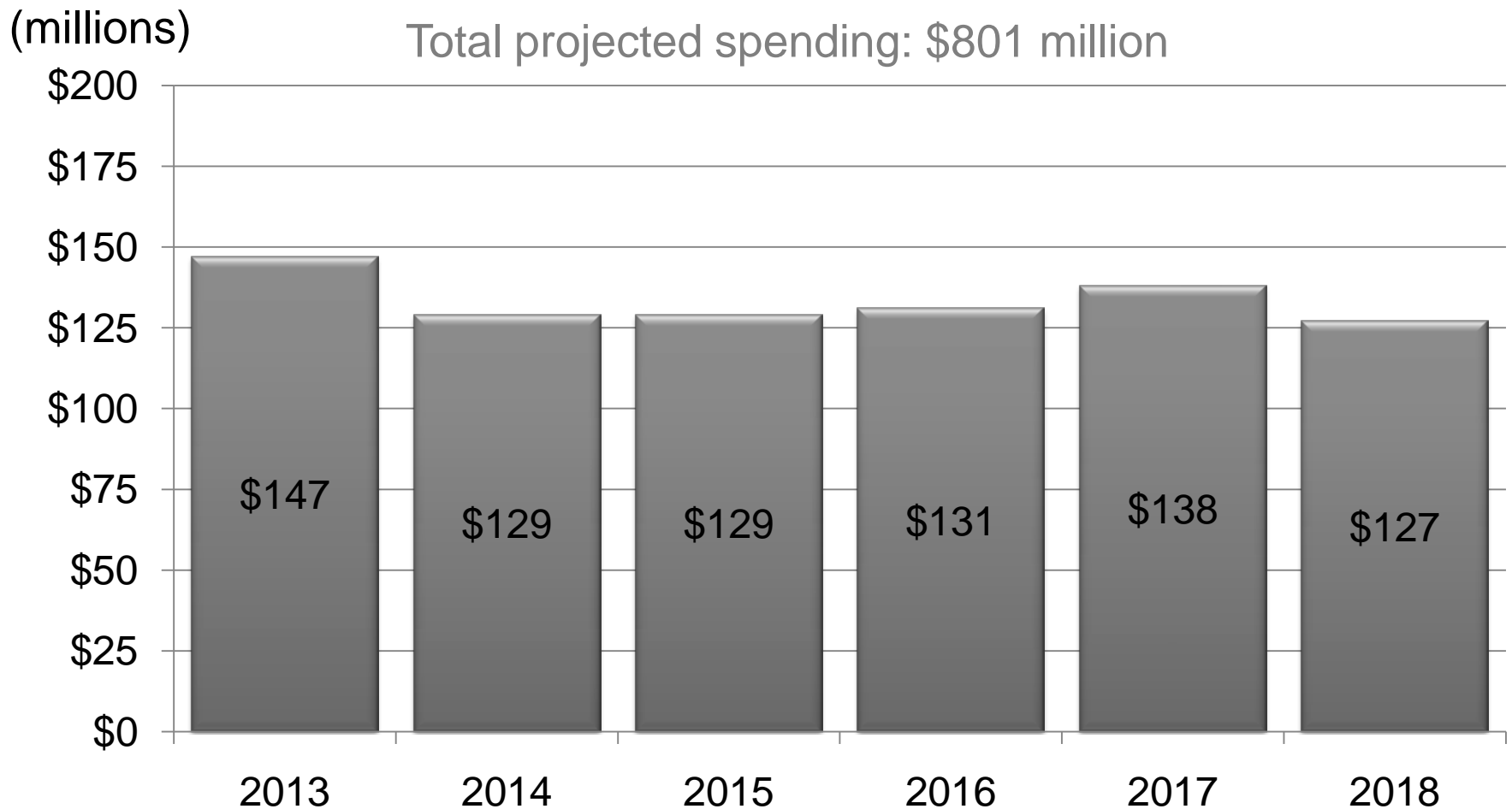
INFO ITEM 1: PRELIMINARY CAPITAL FINANCE PLAN

Environment Committee, August 23, 2012



Capital Improvement Plan

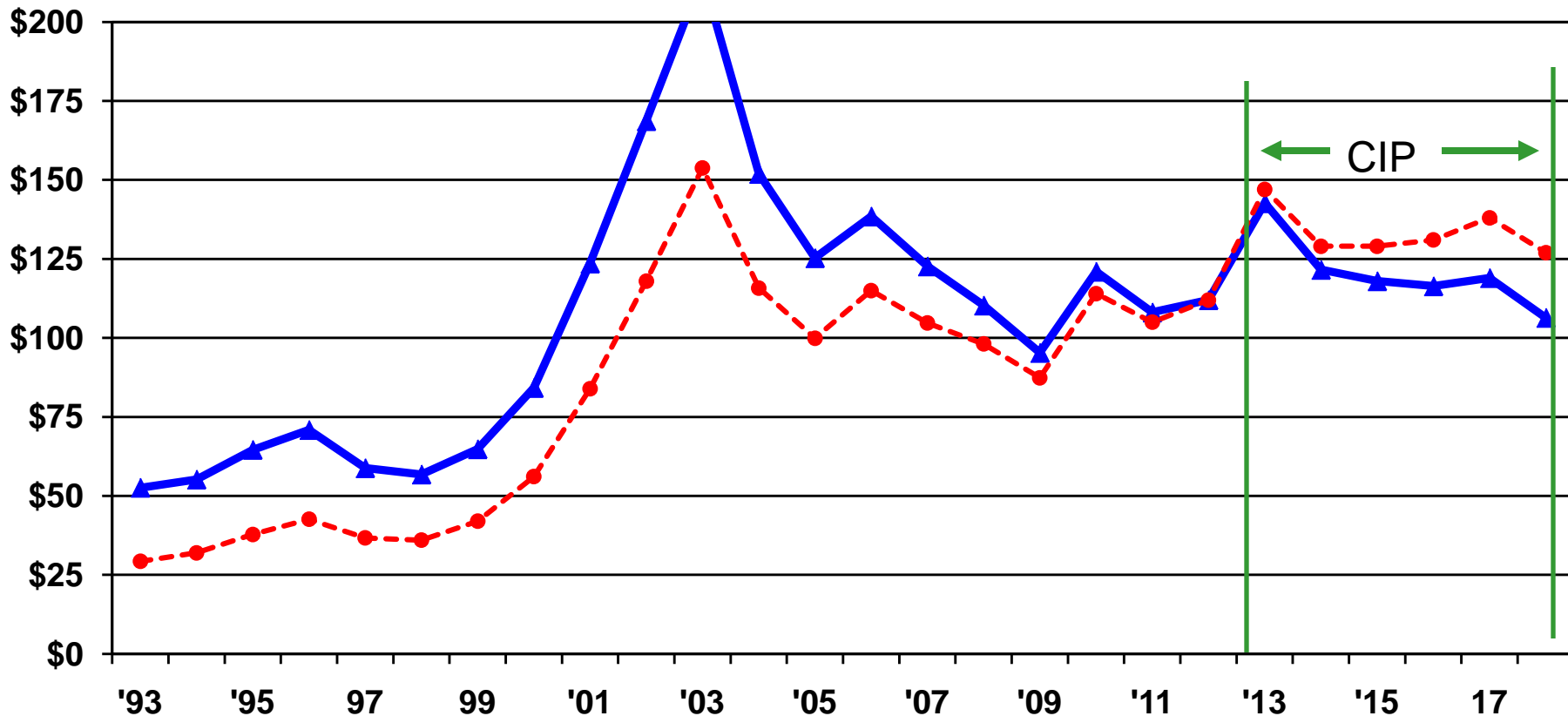
2013-2018 Capital Spending



Capital Spending

History and projections

(millions)



▲ — Adjusted to 2012 \$s
● - - - 1992-2011 Actual, 2012 Estimated, 2013-2018 Projected CIP

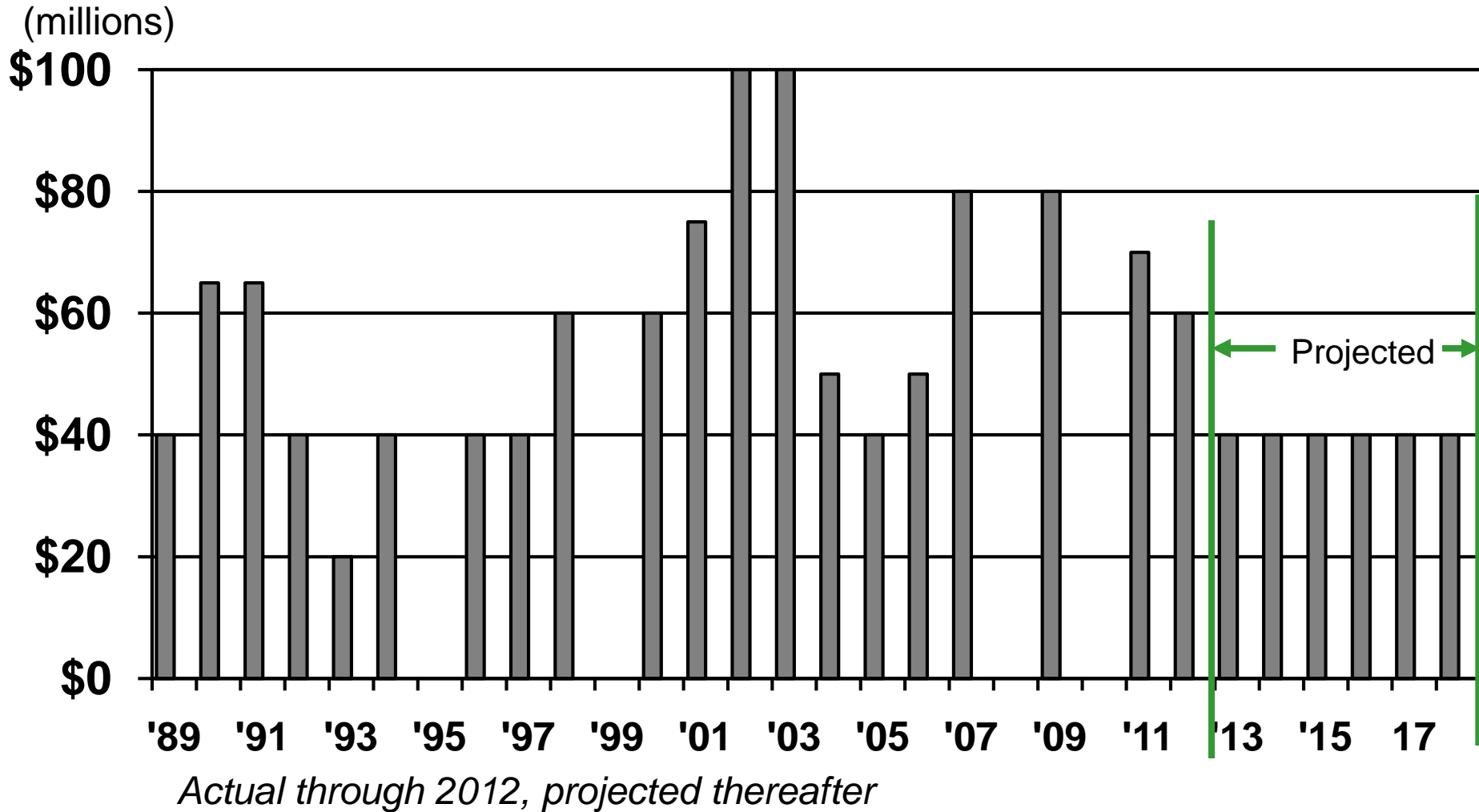
CIP Comparison

| Average Annual Capital Spending: | \$M. | In 2012 dollars |
|----------------------------------|---------|-----------------|
| Next 6 years: | \$133.5 | \$121 |
| Last 10 years: | \$110 | \$130 |
| Last 40 years: | \$65 | \$119 |

Sources of Capital Funding

1. PFA Loans
2. Council Bonds
3. Pay-as-you-go
4. Grants
5. Local Financing - Cost Sharing

PFA Loans (Actual and Projected)



PFA Clean Water State Revolving Loan Program

- 21 wastewater loan agreements (1989-2012) totaling \$1.23 billion
- Interest rates from 1.60% to 6.42%
- PFA normally offers below market interest rates (150 basis points or 1.5% for \$40M borrowed)
- PFA and Council pay limited costs of issuance
- Council pledges its General Obligation (i.e. taxes if needed)

Impact of PFA Subsidy

For a \$40 million loan

| (\$ millions) | Total Debt Service | Present Value |
|--------------------------------|--------------------|---------------|
| 4.0% Council bond | \$58.9 | \$40.0 |
| 2.5% PFA loan | 51.3 | 34.9 |
| Interest savings to ratepayers | \$7.6 | \$5.1 |
| Bond underwriters discount | | \$0.5 |
| Cost of issuance saved | | \$0.1 |
| Total Present Value Savings | | \$5.7 |

Greater Borrowing From PFA

- Lower subsidy is given for loans over \$40M
 - 1.25 basis point reduction in subsidy for each \$1M over \$40M
 - For 5.0% bond rate, this results in PFA loan rates of:

| Amount Borrowed | Subsidized Loan Rate |
|--------------------|----------------------|
| \$40M | 3.50% |
| \$50M | 3.63% |
| \$60M | 3.75% |
| \$70M | 3.88% |
| \$80M | 4.00% |
| \$90M | 4.13% |
| \$100M | 4.25% |
| \$160M (breakeven) | 5.00% |

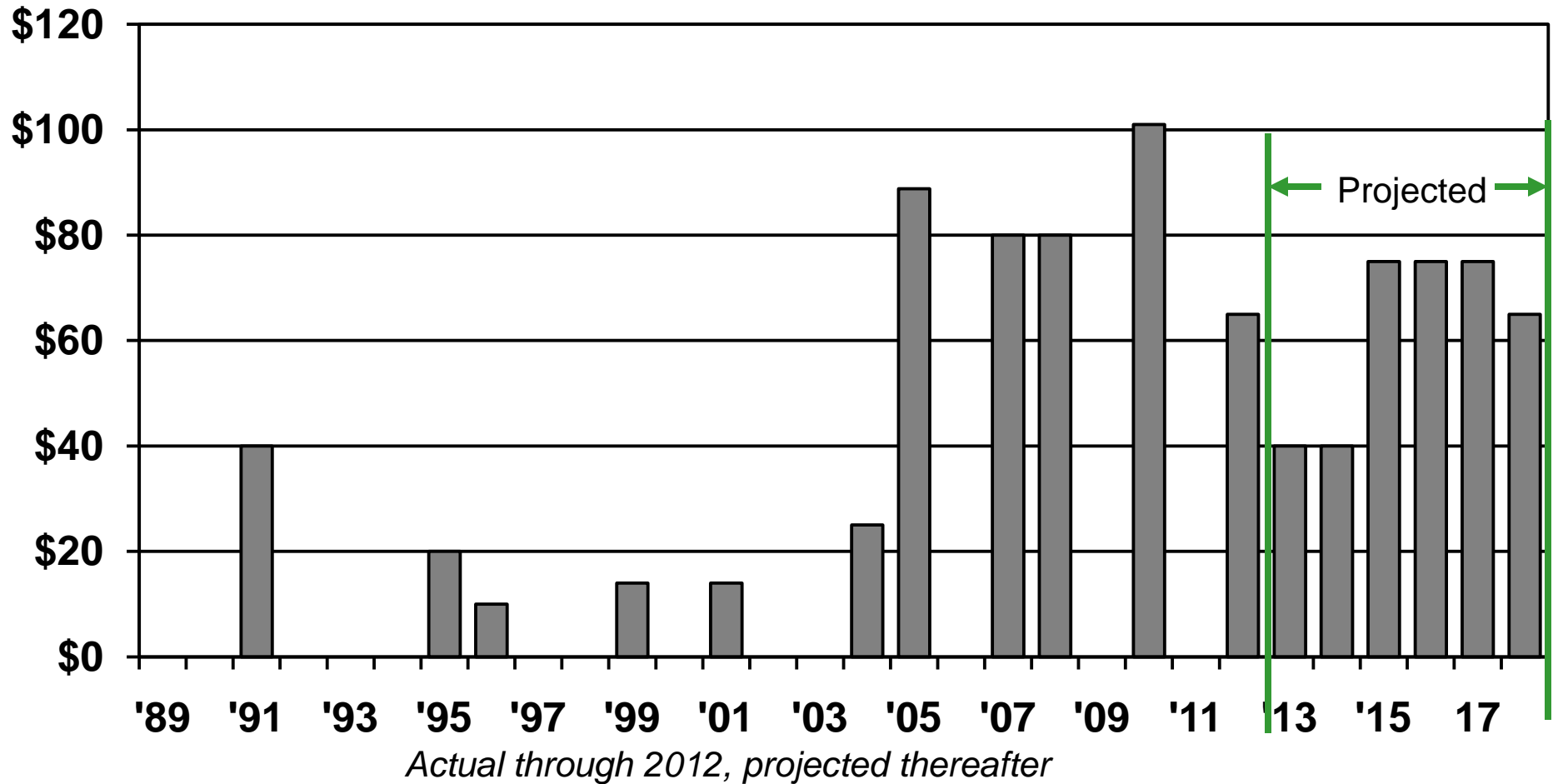
Recent PFA Activity

- \$30M of \$60M PFA loan dated 1/25/12 remains unspent
- In June 2012, Council refunded 5 loans for present value savings of \$16.2 million
 - Average rate of 3.4% was lowered to 1.5%

Council Wastewater Bonds

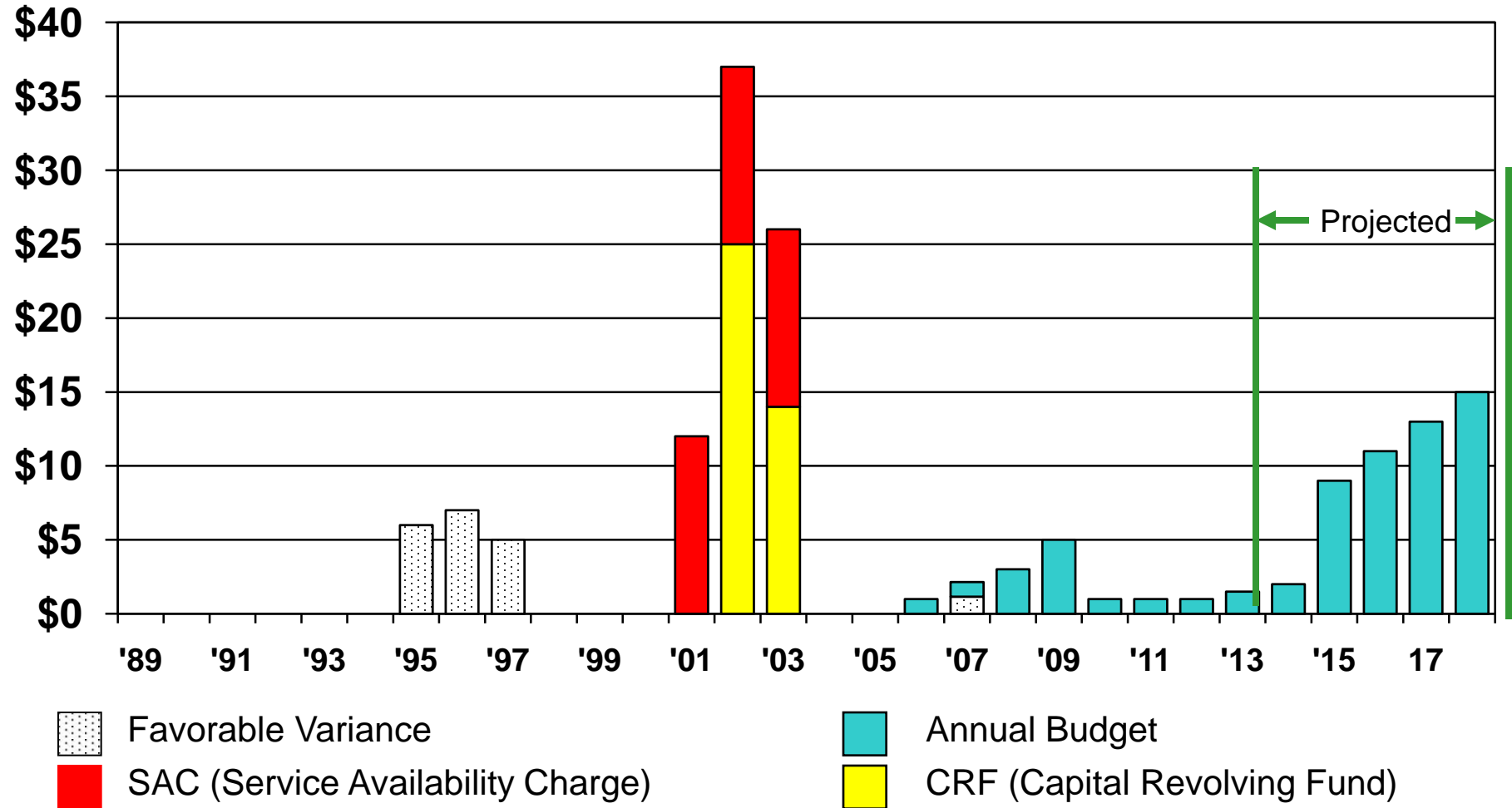
(millions)

Actual & Projected



Pay-As-You-Go

(millions)



Grants

- PFA ARRA: \$8.2 million in 2009-2010
- PFA State Phosphorus: \$0.5 million in 2009-2010
- Commerce/DER Local Govt. Energy Grant:
\$.2M in 2011
- PFA Green Project Reserve: \$1 million in 2012
 - \$525,000 Metro non-condensing steam turbine generator project
 - \$450,000 Metro aeration tanks improvements project

Cost Sharing

\$ in thousands

| | Brooklyn Park | Elko New Market* | East Bethel** | Total |
|------|---------------|------------------|---------------|-------|
| 2011 | \$123 | \$18 | | \$141 |
| 2012 | \$123 | \$18 | | \$141 |
| 2013 | | \$18 | \$35 | \$53 |

* \$239,000 to be repaid over 20 years at 4.07% interest (\$17,695/year).

** \$2.2M to be repaid over 30 years at 3.0% interest with increasing annual payments.

Summary Information

- Summary of MCES Capital Finance Plan
- Debt Service and Debt Outstanding
- Comparative Data
- Conclusions

Wastewater Debt Service

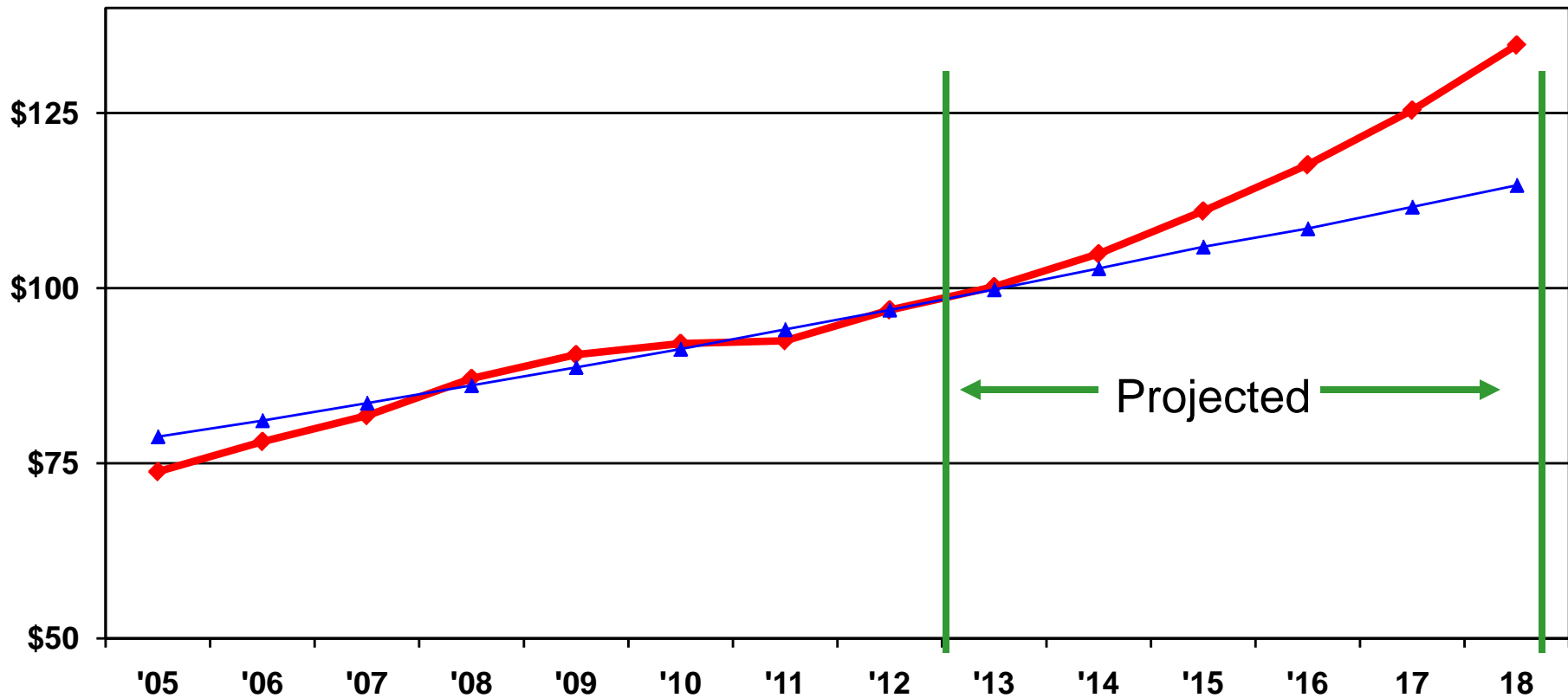
| (\$ millions) | Debt Service | Pre-funded D.S. | Budgeted D.S. | Increase |
|---------------|--------------|-----------------|---------------|----------|
| 2012 | 96.9 | 0 | 96.9 | 4.7% |
| 2013 | 101.4 | (1.1) | 100.2 | 3.5% |
| 2014 | 104.9 | 0 | 104.9 | 4.6% |
| 2015 | 112.0 | (1.0) | 111.0 | 5.9% |
| 2016 | 118.0 | (.4) | 117.6 | 5.9% |
| 2017 | 127.4 | (2.0) | 125.4 | 6.6% |
| 2018 | 136.7 | (2.0) | 134.7 | 7.5% |

Budgeted Debt Service

History and projections

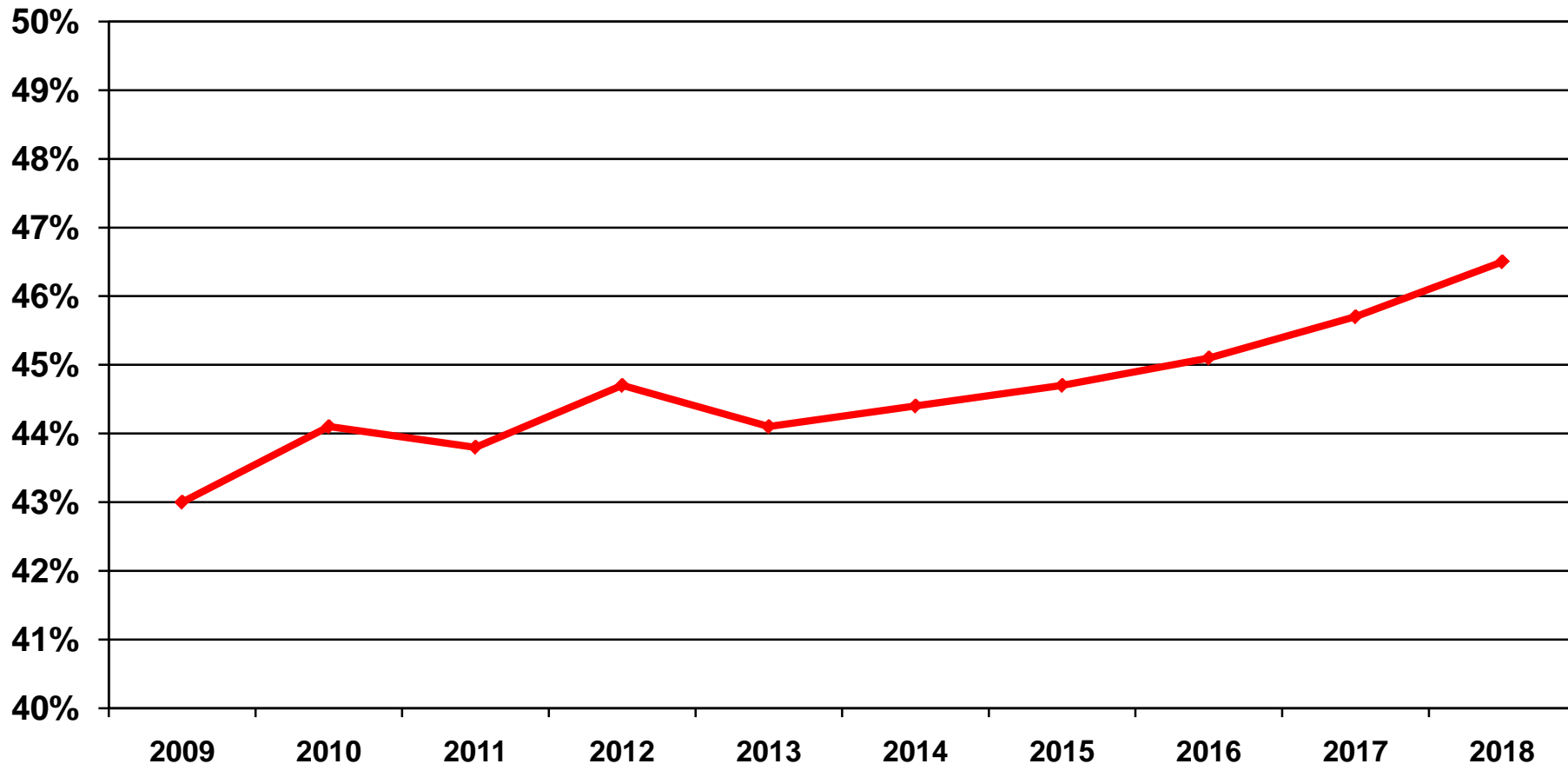
- ◆ 2005-2012 Actual Debt Service, projected thereafter
- ▲ 2012 Debt Service with 3% inflation (in 2012 dollars)

(millions)



Debt Service Projections

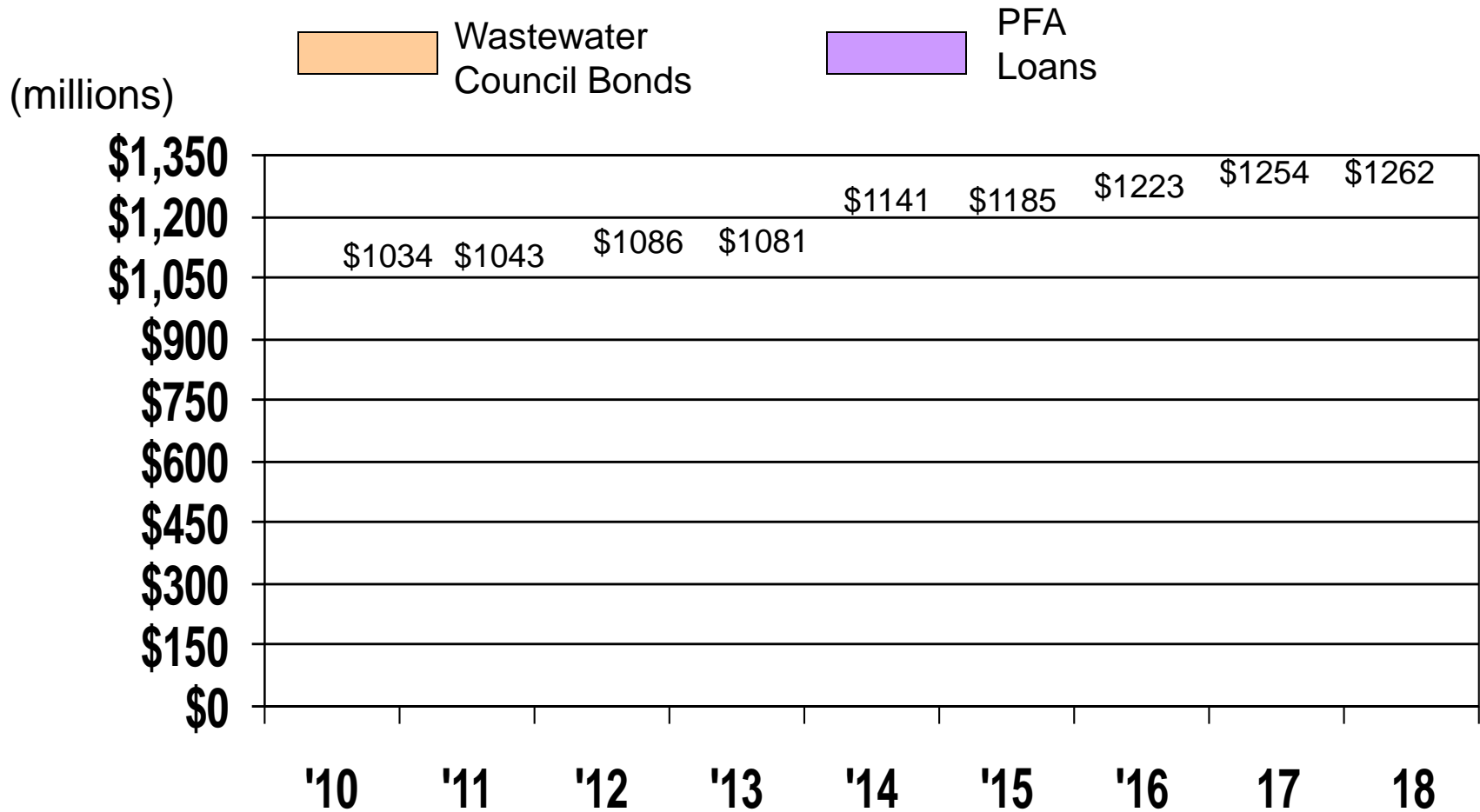
*As a percent of annual expense budget**



**Includes portion of debt service paid by SAC transfer; assumes O&M portion of budget increases 3% per year.*

Outstanding Debt

2010 and 2011 are actual; other years projected



Peer Agencies

Debt Service as a % of budget*

| | | | | | |
|----------------|-----|---------------|-----|----------------|-----|
| Rochester, NY | 22% | San Antonio | 41% | Washington, DC | 52% |
| St. Louis | 22% | Cincinnati | 43% | Columbus OH | 55% |
| Virginia Beach | 24% | Sayreville NJ | 44% | Philadelphia | 58% |
| Memphis | 30% | Phoenix | 45% | Seattle | 59% |
| Chicago | 31% | MCES | 45% | Austin | 59% |
| Denver | 33% | Honolulu | 48% | Charlestown MA | 60% |
| San Diego | 35% | Sacramento | 49% | Arlington TX | 60% |
| Cleveland | 37% | Detroit | 49% | | |
| Fort Worth | 40% | Milwaukee | 51% | | |

**2010 data from 2011 NACWA survey*

Peer Agencies

Debt per capita (person)*

| | | | | | |
|----------------|--------------|-----------------|---------|-------------|---------|
| Memphis | \$145 | Washington, DC | \$577 | Columbus | \$1,624 |
| Denver | \$237 | Arlington | \$593 | Honolulu | \$2,345 |
| Sayreville, NJ | \$306 | San Antonio | \$660 | Seattle | \$2,381 |
| Virginia Beach | \$347 | Philadelphia | \$723 | Austin | \$2,464 |
| Phoenix | \$362 | Dallas/Ft Worth | \$736 | Charlestown | \$2,657 |
| MCES | \$370 | Cleveland | \$880 | | |
| Chicago | \$374 | Milwaukee | \$940 | | |
| San Diego | \$414 | Sacramento | \$1,094 | | |
| St. Louis | \$450 | Cincinnati | \$1,098 | | |

**2010 data from 2011 NACWA survey*

Conclusions

- Financing load is reasonable
- Next financings projected:
 - \$50-70M PFA loan early 2013
 - \$25-50M Council bonds mid 2013
- PFA subsidies are important
- Council's "Aaa" bond rating and G.O. backing also very important

Next Steps

Today: Committee information & discussion

October: Council approves preliminary unified capital budget, authorized capital program, CIP and Capital Financing Plan

November: Public hearing

December: Council adoption