

# M Management Committee

Meeting date: April 25, 2012

## ADVISORY INFORMATION

<b>Date:</b>	April 19, 2012
<b>Subject:</b>	Authorizations to Reduce Interest Costs on Outstanding Public Facilities Authority (PFA) Loans
<b>District(s), Member(s):</b>	All
<b>Policy/Legal Reference:</b>	Council Policy 3-1-2; M.S 473.541
<b>Staff Prepared/Presented:</b>	Jason Willett, MCES Finance Director (651-602-1196)
<b>Division/Department:</b>	MCES

### Proposed Action

That the Metropolitan Council authorize the Regional Administrator to: 1) amend certain loan agreements with the PFA to effect reduced interest costs, or 2) pursue Council resolution to sell and award general obligation bonds and execute other necessary documents to secure financing(s) for the purpose of prepaying outstanding PFA loans where such transaction(s) materially reduce the net interest costs to the Council, or 3) a combination of the above.”

### Background

The Council has 15 outstanding loans from the PFA for wastewater purposes issued in prior years. Due to the very low interest rate environment, our financial advisor has reviewed the loans for possible interest savings through Council issuance of refunding bonds to provide proceeds to prepay the loans with the PFA. All the loans are technically callable at any time (with minimal notice required), however some of the issues require explicit PFA permission to do so. PFA has indicated they will not consent (as use of so much loan proceeds by them is not feasible in a short period of time, and investment of the prepaid funds would be at very low rates). Further PFA has already refunded their bonds underlying these loans and paid us a portion (typically 50%) of the net present value of the savings they realized on the portion of their bonds used to fund our loans.

There are 5 outstanding loans for which the potential savings is substantial and about which we have been trying to negotiate a reasonable solution that would provide MCES ratepayers some savings but not put inordinate pressure on the funds of the PFA. PFA’s Clean Water Fund has generally (and is expected to) provide about \$50 million of below-market loans to the Council each year; and that interest subsidy amounts to about \$6-\$7 million of savings with each annual issuance. PFA is considering our proposal to simply amend some of the loan agreements (reducing the interest we pay), so that the Council does not issue refunding bonds and PFA does not have to deal with a substantial amount of unanticipated proceeds (for which earnings would be much less than anticipated under the existing loan agreements).

### Rationale

Secure interest savings for MCES ratepayers.

### Funding

Any of the options contemplated would reduce debt service costs in MCES budgets for many years.

### Known Support / Opposition

The PFA would prefer we did none of the above options, but understands our fiduciary responsibility to MCES ratepayers.