Information

E Environment Committee

Meeting date: August 26, 2008

ADVISORY INFORMATION

Date:	August 19, 2008
Subject:	2009-2018 Preliminary Capital Finance Plan
District(s), Member(s):	All
Policy/Legal Reference:	MN Stat. 473.541 Debt Obligations; Council Policy 3-1-1 & 3-1-2
Staff Presented/Prepared:	Jason Willett (651-602-1196)
Division/Department:	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 $140 million per year for the next 10 years (this is $120 million in 2008 dollars). This compares to an average $118 million/year of annual capital expenses spent over the last 10 years and $115 million over the last 38 years, both adjusted to 2008 dollars.

Debt Load: Debt service is projected to be 42.5% of total MCES Annual Budget expenses in 2009 and increase thereafter until peaking at about 48% in ten years. See attachment A for a projection of this ratio during the 10-year period. Outstanding debt, which was $888 million at year-end 2007, is projected to increase to $1 billion by year-end 2010 (also shown on Attachment A).

Pay-as-you-go: One method of limiting future debt is to pay directly for capital project 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.

$3 million of pay-as-you-go is being funded in 2008 and $5 million is budgeted for 2009. Staff will analyze the impact of increasing this amount each year in the future and has included in this Capital Finance Plan $2 million per year of increases in pay-as-you-go, from the wastewater charge revenues.

Key Assumptions in this Plan

- 2008 capital spending of $104 million.
- A 2009-2018 CIP of $1.397 billion (with a capital budget of $159 million in 2009).
- $5 million of pay-as-you-go from revenues in 2009, increasing $2 million per year thereafter.
- SAC rates increased as necessary to meet the “reserve capacity” requirements.
- 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) projected at $50 million in 2009 and each year thereafter.
- Capital project spending - beyond that funded by PFA - 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 approval requested as part of that process.

Attachment A

Summary of Capital Finance Plan

Dollars in 000s; Projections

	Capital Required*	Municipal Wastewater Revenue	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
2008	$104,000	$153,800	31.5%	$87,140	6.6%	42.3%	$955,000
2009	$159,000	$161,500	33.4%	$90,479	3.8%	42.5%	$973,000
2010	165,000	$169,800	32.9%	94,342	4.3%	42.5%	1,033,000
2011	157,000	$174,900	31.9%	95,775	1.5%	41.8%	1,108,000
2012	135,000	$181,900	31.5%	103,135	7.7%	42.6%	1,152,000
2013	131,000	$189,600	31.4%	110,954	7.6%	43.4%	1,183,000
2014	144,000	$202,100	32.8%	121,650	9.6%	44.6%	1,218,000
2015	135,000	$216,800	34.8%	136,530	12.2%	46.5%	1,232,000
2016	124,000	$230,600	36.1%	149,624	9.6%	47.8%	1,222,000
2017	121,000	$244,200	37.2%	160,114	7.0%	48.6%	1,201,000
2018	126,000	$252,800	37.0%	164,179	2.5%	48.3%	1,182,000
10-yr Total	1,397,000			1,226,782	Average = 6.6%	Average.= 44.9%	

* Based on proposed CIP as of 8/4/08.
** Assumes annual budget expenses (all expenses other than debt service) increase about 3% per year.