

## Management Committee

Meeting date: January 25, 2012

### ADVISORY INFORMATION

**Date:** January 19, 2012  
**Subject:** Authorization To Execute Loan Agreements With The Public Facilities Authority (PFA) And Issuance Of General Obligation Sewer Note Included in Resolution #2012-1.  
**District(s), Member(s):** All  
**Policy/Legal Reference:** MN Stat. 473.541(3) and Council Policy 3-1-1  
**Staff Prepared/Presented:** Jason Willett, MCES Finance Director, 651-602-1196  
**Division/Department:** MCES c/o Bill Moore, Division Director, 651-602-1162

### Proposed Action

That the Metropolitan Council approves the attached Resolution 2012-1 to authorize the Regional Administrator to execute a loan agreement with the Minnesota Public Facilities Authority (PFA) in substantially the same form as the attached agreement. And further, to issue the related General Obligation Sewer Note securing the loan agreement substantially in the form of the Note referenced in the resolution.

### Background

This approval does not authorize any capital spending, which is done via the adoption of the capital budget, but rather provides a low-cost instrument to finance capital project expenses that are already approved. MCES capital projects that will be funded by this loan are ongoing. The prior loan for eligible projects was exhausted in December (except for funds needed for two projects to complete green project reserve requirements).

The \$60 million available from this loan is expected to provide funds to finance the cash flows on those MCES capital projects that are PFA-eligible for about 12-16 months, in addition to December 2011 and January 2012 expenses incurred since the prior PFA loan was exhausted. Capital borrowing beyond what can be funded by PFA loans typically comes from bonds issued by the Council or from wastewater fees ("pay-as-you-go").

Attachments to this item are:

Attachment A: Staff summary of the key terms of the transaction

Attachment B: The proposed Resolution with Note (drafted by Kennedy and Graven, our bond counsel)

Attachment C: The proposed Commitment and Loan Agreement (drafted by Briggs and Morgan, PFA's bond counsel; reviewed by our bond counsel).

### Funding

The interest rate on the Loan has been locked in at 1.60% (137.5 basis point discount below market rate per formula in PFA rules).

**Rationale**

Conventional PFA loans are less expensive than Council bonding. At current interest rates, the savings compared to a traditional Council tax-exempt bond is about \$8 million in present value dollars.

Terms of the loan provide these savings and are deemed by staff, our financial advisors (Springsted) and our bond counsel (Kennedy & Graven) to be acceptable.

**Known Support / Opposition**

None.

**Attachment A**  
**KEY TERMS OF THE PROPOSED LOAN AGREEMENTS**

- 1) The Council is financing \$60 million for about 20 approved wastewater projects, and will pay debt service on the Loan over the next 20 years.
- 2) The Council must agree to complete all the projects, funded in any part by these loans, regardless of the availability of future PFA loans.
- 3) PFA funds are not drawn down by the Council until after eligible expenses are incurred (that is, on a “reimbursement basis”). Interest will accrue on the debt only as money is disbursed to the Council.
- 4) The net interest rate to be paid to the PFA will be 1.603%.
- 5) The principal repayment schedule provides a slight modification to level annual debt service. To aid in smoothing total annual debt service for all wastewater debt over the next several years, a portion of principal payments in 2015-2018 were moved to future years, which increased the average life of this loan from 10.9 years to 11.6 years.
- 6) The Council must execute a General Obligation Note pledging its full faith and credit to secure repayment of the loan. This means that should wastewater revenues become inadequate, the Council must levy taxes to provide the necessary funds. However, no property taxes have ever been levied or are anticipated for these PFA Notes or any other wastewater debt.
- 7) The Council agrees that funds for the Metro Plant Rehab and Facilities Improvement projects (project #8059 family) funded by the loan will be designated as coming from state bond funds and are thereby subject to extra restrictions for the life of the project and possibly repayment of the funds if the facility were sold. In addition a declaration of these covenants must be recorded against the real estate titles.
- 8) If the PFA refunds bonds, the Council will get 50% of the net present value of the savings from the portion of such PFA bonds used as the source of funds for this loan, if any. Also note, the Council is required to get PFA approval to prepay the loan and if the Council sells a bond to prepay the loan, the Council will share 50% of the savings with the PFA as a prepayment fee.
- 9) The Council agrees to standard terms and conditions of PFA’s financing and state law. Among these terms are: 1) sale of project facilities are restricted; 2) funds can not be used for “private uses”; 3) insurance requirements must be met; 4) information disclosure requirements for the investment community must be met; 5) projects funded must meet EPA diversity requirements, and 6) Loan funded contractors must pay federally designated prevailing wages.