

Metropolitan Council Debt 101 Presentation

Presenting to Management Committee



Why We Issue Debt

- Council issues debt to fund cash flow needs of our CIP
- Cash flow needs of 12-18 months
- All projects in CIP rather than a single project

How We Repay Debt

- Transit / Parks – Property tax levy
- Environmental Services - Wastewater charges with no limit on Levy authority (Revenue Bonds with GO Pledge)

How Much Can We Issue

- Transit - Legislation sets specific amount in Statute
- Parks - \$40 million revolving authority
- Environmental Services - No Limit

Met Council Sale Process

- Bond issues are based on cash flow needs
- Size of the issue is determined
- Structure of the issue is determined
- Parameters Resolution to Management Committee & Council
- Prepare the Official Statement
- Competitive Bid
- Results of the sale
- Proceeds are received

Types of Financing

Bonds

- **General Obligation (GO)** A municipal bond, backed by the full faith and credit of the issuer with the debt payment source being property taxes.
- **Revenue** A government bond issued to pay for such projects as bridges and sewers where a payment source for the debt is a user fee.

Notes

- **Grant Anticipation Notes (GANs)** A short-term municipal financing issued in anticipation of receiving a grant.
- **Minnesota Public Facilities Authority (MPFA)** Manages loan funds to help local units of government construct facilities for clean water.

Other

- **Certificate of Participation (COP)** Holders of Certificates are entitled to receive a fractional share of the lease payments or other revenue generated from a specific project. Robert Street Building is an example.

Types of Structures

- **Fixed Rate Debt** A fixed rate bond is a long-term debt paper that carries a predetermined interest rate.
- **Variable Rate Debt** The interest rate on the debt issue varies.
- **Call Feature** A feature used by issuers to be able to have flexibility to restructure their debt. Issuers will use this feature to be able to refund (refinance) their debt if rates are below the bond issuance rate.
- **Refunding** The refinancing of debt by taking advantage of current interest rates that are lower than at the time the debt was issued. Statutorily, must be able to save a minimum of 3% in interest costs to be able to refund an issue.
- **Tax Exempt vs. Taxable Bonds** Interest income is, in general, exempt from federal income tax, and may also be exempt from state and local income taxes.

Types of Sales

- **Competitive Bond Sales** The issuer solicits bids from underwriting firms to purchase its bonds and sells the bonds to the firm or bond syndicate offering the lowest interest cost.

- **Advantages of Competitive Sale**
 - Bonds are typically sold at the lowest cost

 - Historically lower rates than negotiated sales

 - Promotes an open and fair process

- **Negotiated Bond Sale** The underwriting firm (purchaser of the bond) is selected early in the issuance process. The issuer negotiates a purchase price for the bonds with the underwriter at the time the bonds are sold. The City of St. Paul's issue for the Saints Stadium would be an example.

Sale of Bonds

- **Financial Advisor** The Financial Advisor works with the issuer to determine the structure and timing of the issue, prepare bond documents, assist with the Official Statement, evaluate the best bid and close the transaction.
- **Bond Counsel** The primary role of bond counsel is to certify both that the issuer has legal authority to issue the bonds and that the securities qualify for federal and (if applicable) state and local income tax exemptions.
- **Underwriter** The primary function of the underwriter in a bond transaction is to purchase securities from a government issuer and resell them to investors.
- **Official Statement** The official statement (OS) discloses pertinent information regarding the debt offering.

Bond Ratings

➤ Met Council bonds are rated by two credit rating agencies

Met Council has the top rating of triple A from both Standard & Poor's and Moody's.

➤ Credit rating is a measure of risk to investor

➤ AAA is the best rating (Moody's is Aaa)

➤ D bonds are in default

➤ The higher the credit rating the better the rate to the issuer (lower rate we get)

➤ Every higher level means typically a quarter of a percent better rate for the issuer (example: rating of AAA may be 3% and a AA rating is 3.25%)

Bond Ratings

S & P	Moody's	Meaning
AAA	Aaa	Best quality, with the smallest risk, issuers exceptionally stable and dependable
AA	Aa	High quality, with slightly higher degree of long-term risk
A	A	High-medium quality, with many strong attributes but somewhat vulnerable to changing condition
BBB	Baa	Medium quality, currently adequate but perhaps unreliable over long-term
BB	Ba	Some speculative element, with moderate security but not well safeguarded
B	B	Able to pay now but a risk of default in the future
CCC	Caa	Poor quality, clear danger of default
CC	Ca	Highly speculative quality, often in default
C	C	Lowest rated with poor prospects of repayment through may still be paying
*	D	In default

Met Council Rating Call

- The rating call is handled by the Finance Department
- Key staff from Environmental Services and Metro Transit are involved in the call to help tell the Council's story
- Topics discussed are the Council's financial position, key management issues and how those are addressed.
- Financial management policies discussed are:
 - 1) Reserve Targets
 - 2) OPEB
 - 3) Budget Process

Bond Ratings

➤ **Agencies** Three agencies exist in the rating of bonds. They are Standard & Poor's, Moody's and Fitch.

➤ **Rating Methodology**

	<u>Economy</u>	<u>Debt Management</u>	<u>Institution Framework</u>	<u>Management</u>	<u>Finances</u>	<u>Pensions</u>
S & P	30%	10%	10%	20%	30%	-
Moody's	30%	10%	-	20%	30%	10%

Note: Institution Framework at Moody's is included in Management. Also, this reflects Moody's change in the economy from 40% to 30%.

Met Council Debt Position

➤ Outstanding Debt as of:

(Dollars are in millions)

	2014	2013	2015 Issue
GO Park Bonds	\$ 12,470	\$ 7,105	6
GO Transit Bonds	202,525	205,095	45
MPFA Loans (Transit)	5,780	7,030	0
GANs	185,800	145,000	0
GO Sewer Bonds	780,585	789,640	100
MPFA Sewer Loans	536,843	484,379	0
Total	1,724,003	1,638,249	151

➤ **Paydown of Principal** The Met Council aggressively pays down its debt with typical issues being 5,10 and 20 years.