

FOR BOARD ACTION

Agenda Item # 6

Meeting Date:

9/28/04

SUBJECT: MMUA Bond Financing

PREPARED BY: Larry Koshire, General Manager

ITEM DESCRIPTION:

For the past few months, we have been discussing the use of the Minnesota Municipal Utilities Association (MMUA) bond pool for a small financing to support the RPU capital program. Specifically, there were large one time projects that caused expenditures that would deplete the Utility reserves, and it was felt appropriate that a small borrowing would be appropriate to offset these expenditures. We had discussed an amount in the range of \$2 million to \$3 million.

With the recent award of a contract for the IBM genset, and receipt of cost increases for the steam project, RPU was able to do a preliminary analysis on its needs for a small financing while it developed the preliminary 2005 budget. The budget process includes a balance of cost reductions, bond financing, and a small rate increase that was projected in the 2004 budget last fall. Early projections indicate this approach will keep reserves within Board policy levels. Based on this preliminary analysis, and accumulated one time projects, staff is recommending that the Board approve a bond sale of \$5 million. For analysis, the borrowing would be variable rate debt with a ten year term.

We had anticipated that the MMUA bond pool would have documents available for the September meeting; however at this point they are not available for the Board's review. Once the necessary documents are available, we would return to the Board for formal approval. We have been working with our financial advisor, Springsted Inc., our bond counsel and the City Finance Director to evaluate the appropriateness of the borrowing and coordinate it with other outstanding debt. So far parties are in agreement as to this direction.

UTILITY BOARD ACTION REQUESTED:

Since we do not have formal documents prepared at this time, no action is being requested other than seeking consensus from the Board on the direction that we have established in order to provide the proper feedback both for MMUA bond pool purposes and internal budgeting.



General Manager



Date