

JOINT POWERS WATER BOARD MINUTES
Regular Meeting of
February 28, 2005
6:00 PM JPWT Plant Board Room

6:00 PM **Call to Order** by Don Peterson

Board Members Present: Joyce Paullin, Joe Hagerty, Gerhardt Kottke, Jerry Zachman

Board Members Absent: John Vetsch

Staff Present: Chris Catlin, H.R. Green, Kelly Browning, Veolia Water NA, Shelly Keyes, Veolia Water NA

Staff Absent: None

MOTION BY ZACHMAN, SECOND BY PAULLIN, TO ADOPT THE AGENDA AS PRESENTED. MOTION CARRIED UNANIMOUSLY.

There was no one present under the **Citizen Forum**.

MOTION BY ZACHMAN, SECOND BY PAULLIN, TO APPROVE THE MINUTES OF THE JANUARY 24, 2005 REGULAR MEETING. MOTION CARRIED UNANIMOUSLY.

MOTION BY PAULLIN, SECOND BY ZACHMAN, TO APPROVE THE CONSENT AGENDA AS PRESENTED. MOTION CARRIED UNANIMOUSLY.

Under **Unfinished Business**, Browning reintroduced the discussion of bond funding for current and future capital projects as listed on the Capital Improvements Drawdown Schedule. The Water Treatment Expansion is currently being paid for with cash on hand, but the anticipated project schedule will require bonding to continue. Browning noted that combining the refunding of the large St Michael bond along with bonding for current and new projects would create a debt obligation which belongs solely to JPWB. Browning introduced Dick Asleson of Northland Securities to address more specific cash flow projections.

Asleson began by pointing out the two components of the bonding package, refinancing and new money. Combining the two components into one financial transaction is beneficial from a financing standpoint. Asleson stated JPWB's borrowing history and strong financial position should allow for a revenue bond issuance with a strong credit rating, possibly with Triple A insurance, which could lower the interest rate.

Asleson suggested using the fairly strong cash position to pay off the 1999 Bond as of April or May 1st, depending on how quickly the refinancing issue goes. The objective of refinancing the large St. Michael bond was to achieve full defeasance, where the money from the refinancing part of the bond is put in escrow to pay off all remaining debt service of the St. Michael bonds until the call date of February 1, 2009. That debt would then disappear from St. Michael's financial statements except for a footnote that the bond was outstanding and the amount would not be used in calculating their debt ratio. Asleson

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explained that interest rates bottomed out February 9th and have risen approximately 1.5% since then. That increase negates any savings associated with refinancing the large St. Michael bond. Asleson noted the increased interest rates favor a similar scenario called crossover financing.

Crossover financing involves refinancing all maturities after the year 2010, depositing the proceeds in an escrow account and continuing regular bond payments on the St Michael bond until February 1, 2009 when the escrow funds would be used to pay off the St. Michael bonds. The debt remains on the St. Michael books, but would be footnoted that escrow exists to cover the debt. Crossover financing is not as desirable as full defeasance, but would still be material in regards to St. Michael's credit rating.

Asleson reviewed the Projected Cash Flow Schedule with Board Members. He began by reviewing the current cash position and debt service coverage ratio, acknowledging JPWB's strong 2.1 coverage ratio. The Schedule shows \$9.7 million in capital improvement projects can be achieved with a combination of cash on hand, \$4 million in new money and refinancing the remainder of the existing debt service. Chris Catlin added the Capital Improvement Planning schedule, which the bonding package is based on, incorporates the Aquifer Storage and Recovery (ASR) process as the least cost option compared to large diameter transmission mains or satellite treatment facilities. Browning noted that the ASR process is still being reviewed and the bonding should proceed regardless of which option is ultimately chosen. Catlin assured Members that a final recommendation regarding ASR would be forthcoming with additional testing.

Peterson questioned when the credit rating would be issued and Asleson explained that the rating would be based on the financing level determined once specific numbers were submitted and if the rating was not favorable the process could be halted without any costs being incurred. Peterson also questioned if the rating would be affected by the fact that JPWB has no way to levy taxes if a catastrophe occurred. Asleson noted the rating is based on past payment history and future cash projections, but the debt is not supplemented by any city's obligation. The \$9.7 capital improvement plan is being partially funded by \$5 million in projected water revenue, so that if finances became tight, the number of planned projects could be scaled back. Catlin added that the capital improvement plans are incremental, so that if an economic downturn occurred, then capital improvements wouldn't be necessary and debt service could still be paid with water revenue.

(Don Peterson left the meeting at 6:25 pm to attend another meeting obligation.)

Hagerty requested confirmation that the St Michael bond would remain on the books, but would be footnoted so that debt ratio was not affected and Asleson confirmed that JPWB would continue to make payments on the bond until February 2009 at which time the debt service would be footnoted with information that an escrow account for the remaining amount exists.

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Asleson continued the review of the Projected Cash Flow Schedule by explaining that projected water revenue sales were estimated at a 3% increase annually, while expenses were estimated at a 5% annual increase through 2007 and 4% annual increase from 2007 through 2010. New connections were estimated at 400 per year through 2010 with 3% annual increase in connection fees.

Browning explained that JPWB staff chose fairly conservative estimates to create realistic financial numbers for the bond package, and Asleson suggested the Board authorize Northland Securities to move forward in March with a feasible bond package based on the higher interest rates. Asleson estimated that if the financial data supports a positive Moody's rating and bond insurance, the interest rate would be approximately 4.25%. The old bonds are currently at 5.1%. Browning added that staff recommends at least \$4 million is needed to proceed with the current projects, due to uncertain cash flow and in regards to timeliness of user fees and WAC fee receipts, as well as some discrepancies in 2004 water sales versus water usage from Albertville. There may be additional monies due for 2004 water sales, which the auditors are currently addressing. Browning also explained that higher than anticipated construction costs for the treatment plant expansion are also a major factor in the need to bond. Catlin reiterated the fact that capital improvements are growth-driven, so that if growth ceases, so would capital improvement, completely changing the cash balance at year's end. Cash on hand would then be available to meet debt service needs. Catlin also suggested JPWB has the option to raise rates if a hardship occurred.

Zachman questioned if a special meeting should be authorized and Asleson stated a meeting in 2 weeks time would allow Northland Securities to prepare a bond package using the most accurate information available. The bonds would be pre-marketed by the regular March meeting, so a special meeting would allow Board Members time to review the package before making a final decision. MOTION BY PAULLIN, SECOND BY HAGERTY TO AUTHORIZE NORTHLAND SECURITIES TO PREPARE A \$4 MILLION BOND PACKAGE WITH A REFINANCING OPTION TO THE EXTENT FEASIBLE AND TO CALL A SPECIAL MEETING WEDNESDAY, MARCH 16TH AT 6 PM. MOTION CARRIED UNANIMOUSLY.

Under **Engineering**, Catlin recommended payment of water analysis fees previously withheld for \$760 to Traut Wells on Well #7. MOTION BY PAULLIN, SECOND BY ZACHMAN TO APPROVE PAYMENT OF WATER ANALYSIS FEES ON WELL #7 TO TRAUT WELLS IN THE AMOUNT AS PRESENTED. MOTION CARRIED UNANIMOUSLY.

Catlin also recommended payment of \$4700 to JR Ferche as final payment for Well #6 Valve Station. MOTION BY PAULLIN, SECOND BY KOTTKE TO APPROVE FINAL PAYMENT OF WELL #6 VALVE STATION IN THE AMOUNT PRESENTED. MOTION CARRIED UNANIMOUSLY.

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Catlin recommended payment of \$273,542.05 to Rice Lake Construction Group as Partial Pay Estimate #1 for the Water Treatment Plant Expansion. MOTION BY PAULLIN, SECOND BY HAGERTY TO APPROVE PARTIAL PAYMENT #1 OF THE WATER PLANT EXPANSION TO RICE LAKE CONSTRUCTION GROUP IN THE AMOUNT PRESENTED. MOTION CARRIED UNANIMOUSLY.

Under **Operations/Office**, there were no items to discuss.

MOTION BY PAULLIN, SECOND BY ZACHMAN, TO APPROVE THE LIST OF CLAIMS AS PRESENTED. MOTION CARRIED UNANIMOUSLY.

MOTION BY PAULLIN, SECOND BY HAGERTY, TO ADJOURN AT 6:59 P.M.
MOTION CARRIED UNANIMOUSLY.

Recording Secretary