

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: DECEMBER 13, 2017

REGARDING: RESOLUTION AUTHORIZING THE ISSUANCE OF CONDUIT REVENUE REFUNDING BONDS FOR DISTRICT ENERGY ST. PAUL, INC., WITH FACILITIES THROUGHOUT DOWNTOWN SAINT PAUL AND SURROUNDING AREAS, UNDER MINNESOTA STATUTES, SECTIONS 469.152 THROUGH 469.1655 AND APPROVING RELATED DOCUMENTS, DISTRICT 17, WARD 2

Requested Board Action

Public hearing and authorization to issue conduit revenue refunding bonds for District Energy St. Paul, Inc., a nonprofit corporation (the “Borrower”), in an amount not to exceed \$50,000,000 and authorization to execute required documents.

Background

District Energy St. Paul, Inc. (the “Borrower”), a Minnesota non-profit corporation, was organized in July, 1979, to develop, construct and operate a hot water district heating system to serve the central business district and adjacent areas of the city. In November, 1988, District Cooling was established to enhance the capacity of the district energy system to provide both heating and cooling on an environmentally sound basis. In 2015, District Cooling merged with District Energy. Today, the system provides heating to over 80 percent of the available heating load in downtown Saint Paul and the surrounding area, including approximately 190 downtown-area buildings as well as approximately 300 individual residences, and cooling to over 110 downtown buildings. Their operating revenues are in excess of \$30 million annually and they support employment of over 49 FTE jobs.

In 2013, the HRA issued bonds for District Heating and District Cooling (the “Prior Bonds”) as follows:

District Heating:

- \$18,640,000 – Series 2013A, currently outstanding in the amount of \$17,895,000
- \$3,690,000 – Series 2013B, currently outstanding in the amount of \$3,230,000

District Cooling:

- \$15,635,000 – Series 2013A, currently outstanding in the amount of \$15,135,000
- \$4,810,000 – Series 2013B, currently outstanding in the amount of \$4,205,000

The HRA has received a request from the Borrower to issue conduit revenue refunding bonds to refund the Prior Bonds currently outstanding in the principal amount of \$40,465,000 (the “Series 2017 Bonds”). The Prior Bonds previously financed or refinanced the cost of the equipping, betterment, and improvements to the heating and cooling distribution systems of District Energy, located throughout downtown and surrounding areas, and its heating and cooling plants located at 76 West Kellogg and 229 10th Street East. A map of the plant locations is attached.

Additionally, included with the Prior Bonds, the HRA also issued two additional series of bonds for District Energy in the amount of \$10,000,000. The current principal balance outstanding is \$7,790,000. These bonds are not included in the refunding proposal.

Budget Action

This is a conduit bond issue. The bonds shall not constitute an indebtedness, liability, general or moral obligation, or pledge of the faith or credit or taxing power of the HRA, City of Saint Paul, or any agency or political subdivision thereof, and shall not constitute indebtedness of any of the foregoing within the meaning of any constitutional, statutory, or charter provision, nor be a charge against their respective general assets, credit or taxing powers, and do not grant the owners or holders of the bonds any right to have the HRA, City of Saint Paul or any agency or political subdivision thereof to levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. Principal and interest on the bonds are payable solely out of the revenues and other sources pledged to the payment thereof as described in the bond documents.

Future Action

No future action is needed. The closing will occur by December 29, 2017.

Financing Structure

Piper Jaffray & Co. is underwriting the bond financing. The Series 2017 Bonds will be sold on a negotiated basis to the public in \$5,000 denominations, based on an expected investment grade bond rating from Standard and Poor, estimated to be A-. The Series 2017 Bonds will be sold as tax-exempt, fixed rate bonds. The final maturity will be extended to 10/1/2037, an addition of four years when compared to the Prior Bonds. Piper Jaffray projects debt service savings of approximately \$1 million annually through 2033 with the proposed refunding structure, producing total net present value savings of approximately \$5,112,000. These savings are the result of lower interest rates, with the average coupon reducing from 5.25% to around 4%, and the extended maturity date.

The bond offering will be consistent with PED's conduit bond policy regarding minimum denominations with rated bonds for public sale.

The total estimated cost of the refunding is \$46,489,640 as shown in the table below.

Sources and Uses of Funds

| Sources of Funds | Amount |
|----------------------------------|---------------------|
| Par Amount of Series 2017A Bonds | \$36,225,000 |
| Par Amount of Series 2017B Bonds | \$6,885,000 |
| Premium | 2,391,039 |
| Cash/Prior Bonds DSRF Release | 988,601 |
| Total Sources | \$46,489,640 |
| | |
| Uses of Funds | Amount |
| Deposit to Refunding Escrow | \$41,320,666 |
| Debt Service Reserve Fund | 4,550,104 |
| Underwriter's Discount | 318,507 |
| Costs of Issuance | 300,363 |
| Total Uses | \$46,489,640 |

The financing team includes Piper Jaffray & Co. as underwriter, Barnes and Thornburg as bond counsel, and Dorsey & Whitney as Issuer counsel.

PED Credit Committee Review

The PED Credit Committee reviewed the proposal for conduit bonds on December 4, 2017, and found it to be consistent with PED's conduit bond policy.

Compliance

The Borrower has acknowledged receiving notice of the City/HRA compliance requirements that may be applicable to the proposed refunding. There is no construction associated with the refunding and therefore the only compliance required is Affirmative Action, Chapter 183.04 for the Borrower.

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

The primary public purpose of the proposed bond issue is to refund existing bonds to fix annual debt service expenses at significantly lower interest rates.

Statement of Chairman (for Public Hearing)

"Being duly authorized by the Board of Commissioners to conduct this Public Hearing, the hearing is now open. This is a Public Hearing called for the purpose of approving the issuance of approximately \$50,000,000 in conduit revenue refunding bonds by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (HRA) for District Energy St. Paul Inc. Notice of time, place, and purpose of this hearing was published in the Legal Ledger, the official newspaper of the Authority on the 30th of November, 2017, and in the Pioneer Press, a newspaper of general circulation in the City on the 27th of November, 2017. The Affidavits of

Publication of each of the Notice of Public Hearing will be made a part of these proceedings. Is there anyone who wishes to be heard on this matter? If not, the Chair will declare this Public Hearing adjourned.”

Recommendation:

HRA Executive Director recommends approval of the Resolution, which provides final approval for the issuance of up to \$50,000,000 in conduit revenue refunding bonds for District Energy St. Paul, Inc. and authorizes the execution of related documents.

Sponsored by: Commissioner Noecker

Staff: Jenny Wolfe, 266-6680

Attachments

- **Map**