


SAINT PAUL PORT AUTHORITY

MEMORANDUM

TO: BOARD OF COMMISSIONERS
(March 27, 2012 Regular Meeting) **DATE:** March 22, 2012

FROM: Laurie J. Hansen 

SUBJECT: ENERGY PARK UTILITY COMPANY (EPUC)
PUBLIC HEARING - ISSUANCE OF APPROXIMATELY \$8,500,000 OF
TAXABLE AND TAX EXEMPT BONDS, APPROVAL OF AMENDMENT OF
SCHEDULE A TO EPUC FRANCHISE, AND APPROVAL OF SECOND
AMENDMENT TO THE HOT AND CHILLED WATER SERVICE
AGREEMENT
RESOLUTION NO. 4417

Action Requested: Hold a public hearing and grant approval of the issuance of approximately \$8,500,000 of taxable and tax exempt bonds, approval of Amendment of Schedule A to EPUC Franchise Agreement, approval of the Second Amendment to the Hot and Chilled Water Service Agreement and ratification of prior actions with respect to the proposed project and financing.

Background:

The Port Authority owns and operates the Energy Park Utility Company ("EPUC") and thereby provides heating and cooling to all tenants in Energy Park. This system was constructed in the early 1980s and has only two pipes. This technology means that only heat or only cooling can be provided to all tenants at any point in time. The conversion between heating and cooling requires several days. During the spring and fall when nights are cool and days are warm, with both business and residential users, it is difficult to satisfy all users' utility needs.

A conversion to a four-pipe system will address this issue. It allows us to provide both heating and cooling to each building at all times. Each building can then select heating or cooling based on their tenant's needs.

The Port Authority Board has previously taken several actions relating to the four-pipe conversion including a public hearing to approve a similar bond issue. Under federal tax law, a public hearing is only valid for one year, and due to project delays the bonds previously approved were not issued within that one-year period, and a new public hearing is required. Federal tax law also requires City Council approval for these bonds, which has not yet been obtained.

In an effort to reduce the cost of this conversion, District Energy has obtained US Bank's preliminary approval to a structure which would have District Energy St. Paul, Inc. act as the borrower under the pooled financing mechanism used for District Energy's overall system financing with further security provided by EPUC customer contract revenues and assets of the EPUC system. This structure would need to accommodate requirements of the Port

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Authority as well as US Bank and District Energy. If these issues cannot be reconciled, it is possible that a fixed rate bond issue will be determined to be more appropriate. In that case, the bonds would be issued as revenue bonds backed solely by the EPUC customer contract revenues and assets of the EPUC system. In either case, the bonds will be non-recourse to the Port Authority.

Bond Terms:

Type: Approximately \$3,200,000 tax exempt Public Facilities Pool Allocation Bonds.
Approximately \$5,300,000 taxable bonds.
Total principal not to exceed \$8,500,000.

Term: 24 years with final maturity 5/1/2036.

Rate: If initially as a variable rate, with weekly interest rate reset and the ability to convert to a fixed rate, but in no event will the interest rate ever exceed 12%. If initially issued as a fixed rate, the rate would be approximately 6 – 8%.

Issuer: Saint Paul Port Authority

Borrower/Guarantor: * District Energy St. Paul, Inc.

Letter of Credit Provider:* US Bank National Association

Letter of Credit Term:* Approximately 5.5 years with a maturity date of 10/2/2017

Letter of Credit Fee:* 1.80% per annum

Financing Fee:* 1.25% to District Energy for using their credit capacity to obtain a letter of credit from US Bank

Underwriter: Piper Jaffray & Company

Bond Counsel: Leonard, Street & Deinard

Underwriter's Counsel: Kennedy & Graven

Collateral: Pledge of all revenues from EPUC customer service agreements.
Mortgage on entire Energy Park Utility Company system.

* Applicable only if District Energy's pooled financing mechanism is used.

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Regardless of the financing structure ultimately used, the bonds will be limited obligations of the Port Authority which are payable solely from revenues derived from customers of EPUC and the assets of the Energy Park Utility Company system. These bonds are not a pecuniary liability of the Port Authority or the City and are not a charge against the general taxing powers or the full faith and credit or the general taxing powers of the Port Authority or City.

On the assumption that the bonds will bear interest at a variable rate initially, payments by EPUC customers are based on a target rate of 6% on the bonds with total annual payments increasing between 2.0-3.0% per year. Any excess funds will be used to pay off principal early, and excess debt service charges above the target 6% rate will be assessed to the customers of EPUC. If issued on a fixed rate, the EPUC customers would be charged actual interest rates.

In connection with this transaction, if the District Energy pooled financing mechanism is used, there will be an extension of the Operation and Maintenance Agreement with District Energy's affiliate Ever-Green Energy, LLC.

Schedule A to EPUC Franchise:

The EPUC Franchise Ordinance Section 6(e) requires the Port Authority Board to approve any changes in the schedule of rates and charges and then submit the amended Schedule A to the City Council for approval. Schedule A of Rates and Charges includes the necessary increase to cover debt service on the bonds. The debt service has been calculated assuming a target rate of 6% interest rate on the bonds and is consistent with the representations made to the customers in our financial projections. Any excess debt service payments generated due to the difference in actual interest rates (including the letter of credit fee and fee to District Energy) vs. the 6% assumed rate will be used to retire principal early.

We are requesting Board approval of the proposed amended rates and approval of submission of the amended rates to the City Council for approval by resolution.

Second Amendment to Hot and Chilled Water Service Agreement:

The Second Amendment to the Hot and Chill Water Service Agreement is necessary due to the time delays in financing and beginning construction on this project. Under the Franchise Agreement, this Second Amendment requires Board approval and submission to the City Clerk and Office of Financial Services at least 30 days prior to the effective date.

We are requesting approval of the Second Amendment by the Board and approval of submission of the amendment to the City Council for approval by resolution.

SEC Disclosure:

The Port Authority Commissioners by SEC rules are obligated to disclose any risks of facts you may be aware of that would affect the probability of repayment on these bonds.

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Recommendation:

We recommend approval of the issuance of approximately \$8,500,000 of taxable and tax exempt bonds in such format as is determined by management to be the most cost effective and appropriate; amendment of Schedule A to EPUC Franchise, and the Second Amendment to the Hot and Chilled Water Service Agreement; and ratification of prior actions with respect to the proposed project and financing.

LJH:ca

Attach.