

**Metro Council – Labor,
Economic Development, and
Contracts Committee**

**MSD Commercial Paper
Program
June 19, 2018**



Commercial Paper

- CP is an unsecured promissory note with a fixed maturity of not more than 270 days issued to obtain funds to meet short-term obligations. Only firms with excellent credit ratings and liquidity are able to issue CP, or, supported by a Liquidity Facility provided by one or more highly rated banks (at a higher cost).
- CP is usually issued as part of a continuous rolling program, which can extend for months or years. As CP matures it is replaced with newly issued CP. There are approximately 1,700 companies in the US issuing CP with more than \$1.1 trillion in total CP outstanding.

KRS 76.150 District revenue bonds

(2)...the bonds shall be authorized by resolution of the board...

...the issuance of bonds shall first be authorized by ordinance passed by the legislative body of the city and approved by the mayor of the city.

...the bonds shall be sold at public sale...

(4) The bonds or other obligations of the district shall not constitute an obligation or indebtedness of the city or of the county...

Municipal Commercial Paper Issuers

- **Chicago O'Hare International Airport**

- \$1 Billion: Airport infrastructure projects



- **City of San Antonio Water System**

- \$500 Million: Capital improvement projects



- **State of Wisconsin**

- \$507 Million: Major highway and infrastructure projects



- **City of Dallas Waterworks & Sewer**

- \$300 Million: Improvements of the System



- **Lower Colorado River Authority**

- \$525 Million: System improvements and acquire facilities



- **University of Texas System**

- \$2 Billion: Campus improvements



- **Metro Washington Airports Authority**

- \$300 Million: Infrastructure for Ronald Reagan and Dulles Intn'l Airports



- **State of California Department of Water Resources**

- \$800 Million: Repair and maintenance of facilities



- **City of Houston**

- \$100 Million: Capital projects and public improvements



- **Port Authority of NY & NJ**

- \$250 Million: Capital projects for facilities



Benefits of a Commercial Paper Program

- Eliminates Cost of Carry from 1st Year of a new Revenue Bond
- Provides Source of Funds for Emergency Repairs
- Eliminates “Market Access Risk” on BAN
- Improves Rating Agency Key Ratios
 - Debt Service Coverage Ratio
 - Debt to Revenue Ratio

MSD's CP Program Costs

- Start Up Costs:

– Legal Fees	\$300,000
– RA/FA/IPA	<u>125,000</u>
Total	\$425,000

Annual Costs:	<u>Fixed</u>		<u>Variable</u>
– Liquidity Facility	\$2,000,000	Interest	LIBOR-40bps
– RA/FA/IPA	<u>125,000</u>	Dealer	5bps
Total	\$2,125,000		

All In Interest Cost 2.24%*

*based on \$250M average outstanding and 60 day LIBOR @ 1.6%

CP vs. Revenue Bond – 1st Year Carry Cost

- New Bond @ 3.8%
 - » \$250M Revenue Bond Interest Expense \$(9,500)
 - » Short Term Investment Income @ 1.5% 1,875
 - Net Cost of Carry for 1st Year \$(7,625)

- CP issued \$20M/month
 - » \$125M Average CP Outstanding Interest \$(2,000)
 - » CP Program Costs (2,500)
 - Net Cost of CP for 1st Year \$(4,500)

Annual Savings \$3,125

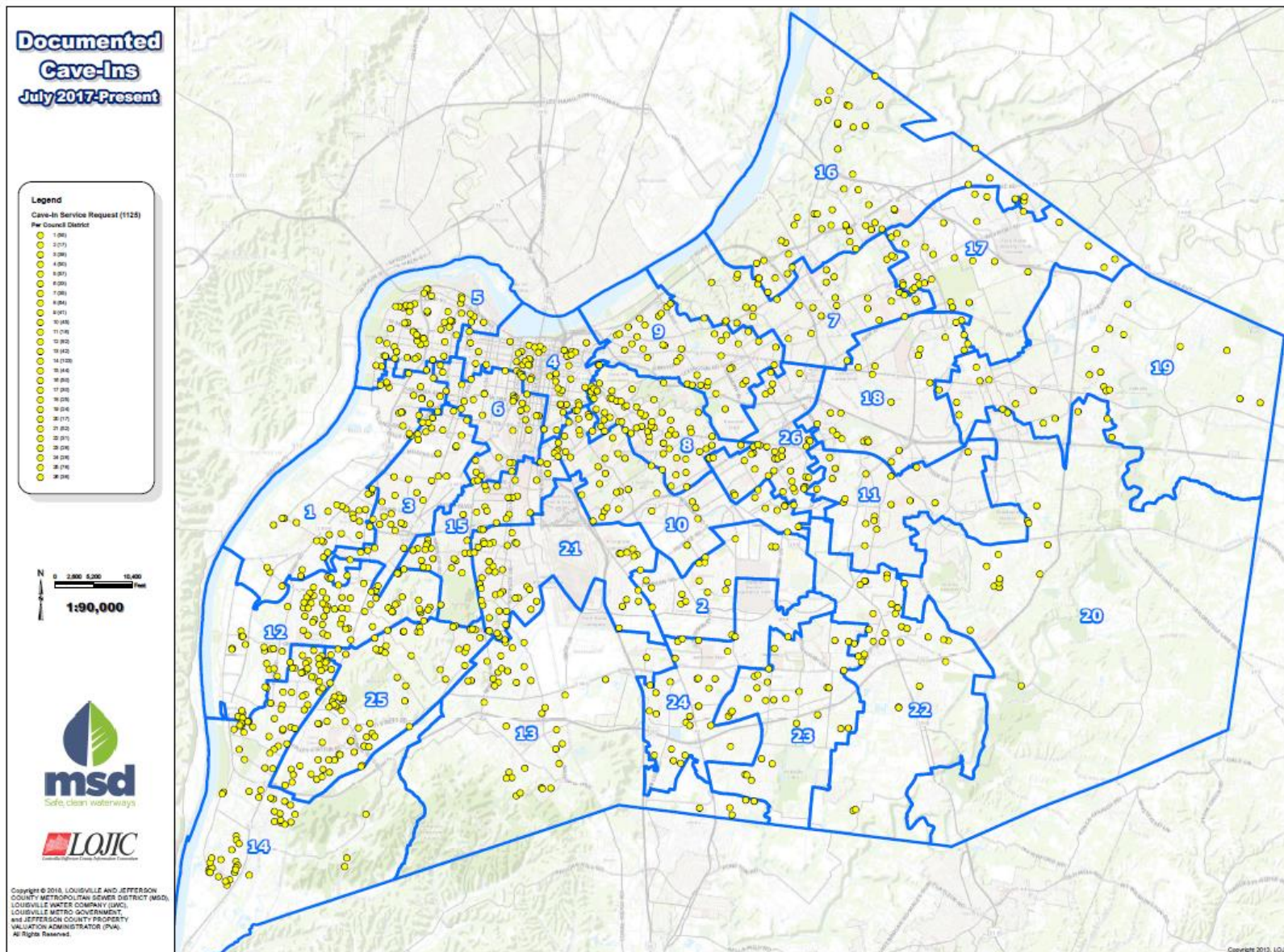
Questions – Request for Action



Critical Repair and Emergency Needs



Backups Across Louisville





Video and laser inspection show concrete worn away and exposed rebar due to corrosion from sewer gases, particularly between 4th and 7th streets along West Main St.



A different section of the Ohio River Interceptor, near E. Main and Hancock, caved-in last August, requiring a six-week repair.

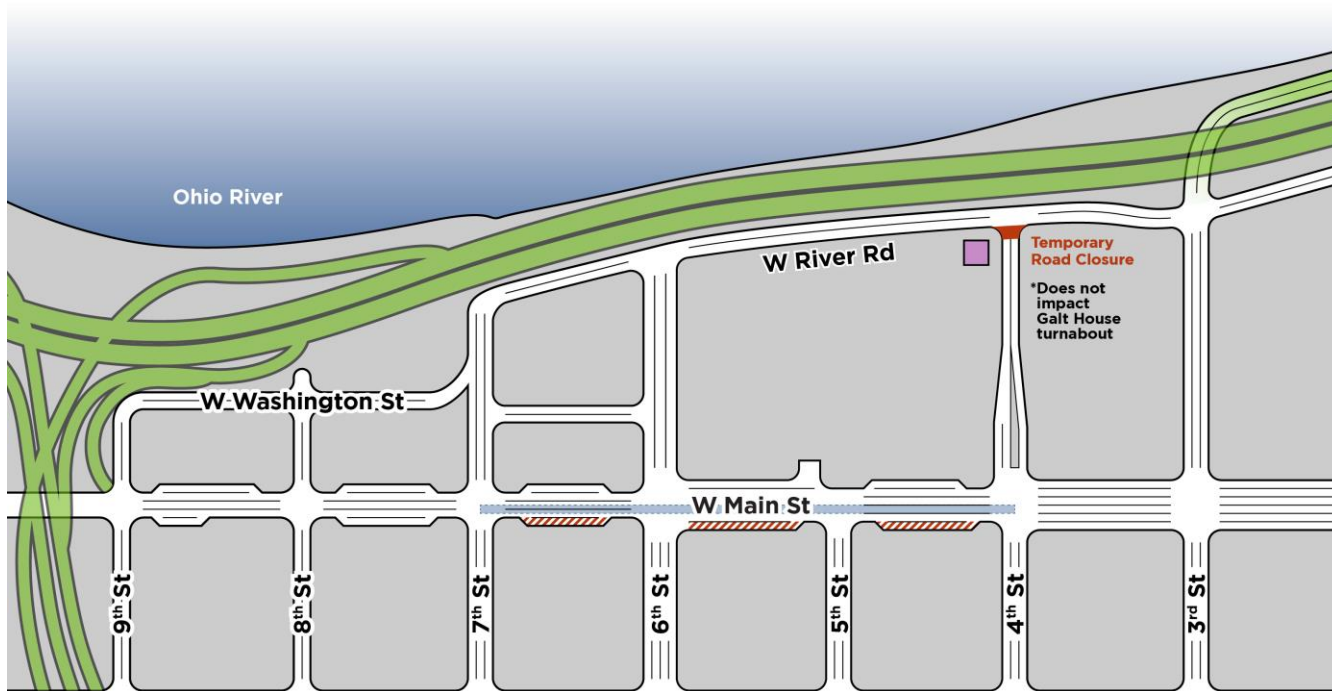
The repair between 4th and 7th streets will be conducted mostly underground, with a much smaller above-ground footprint in order to minimize impact in a busy downtown area.

WEST MAIN REPAIR PROJECT



#WestMainRepair

Fourth Street Closed at River Road
June 18 - Mid-July



First a temporary pump station will be built near 4th and River Road.

This will remove wastewater from the damaged pipe so crews can enter it for the repair.

- | | | |
|--------------------------|--------------------------|-------------------------------------|
| = Interstates | = Temporary Pump Station | = Main St. underground sewer repair |
| = Temporary Road Closure | = Parking lane closure | |

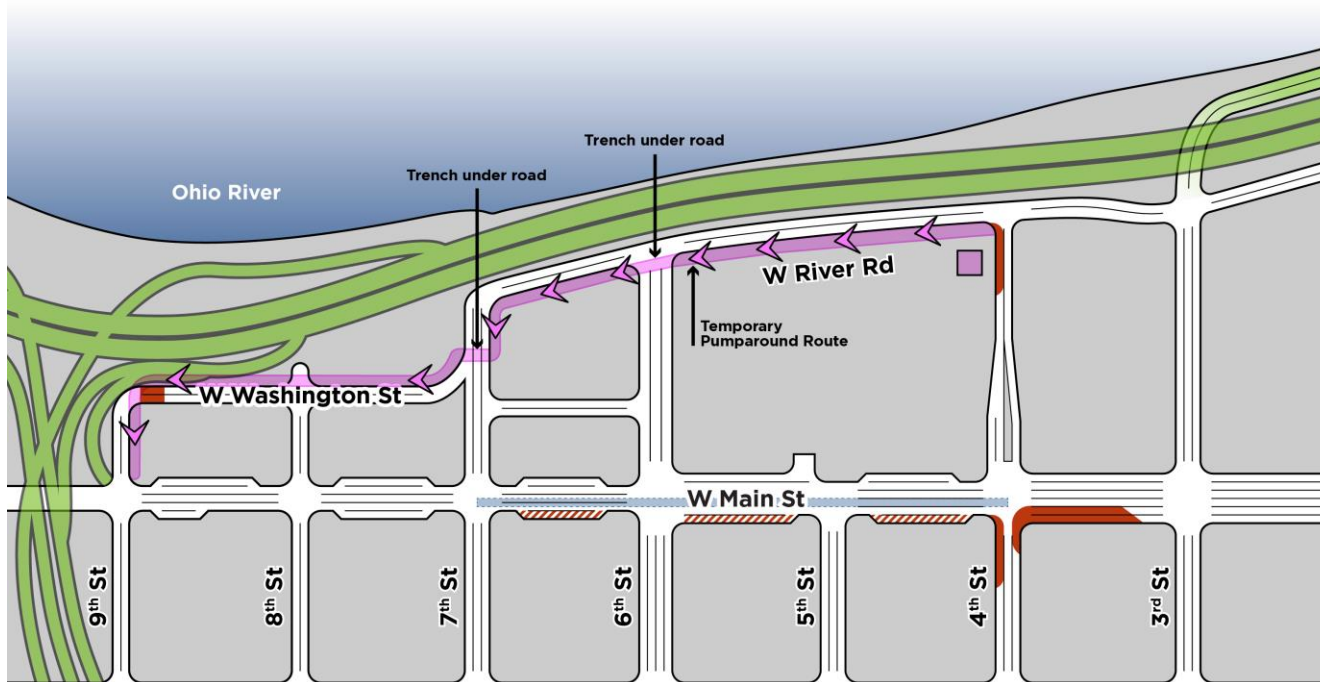


WEST MAIN REPAIR PROJECT



#WestMainRepair

Traffic Changes
July 9 - November



- = Interstates
- = Temporary Pump Station
- = Main St. underground sewer repair
- = Parking lane closure
- = Temporary Road/Lane Closure

When the pump-around is established and crews are underground, there will be some traffic changes.

However the pump-around approach keeps most of the work underground and prevents closing and excavating West Main Street.



Before-and-after example of a similar rehabilitation in another city

The Main Street sewer in Louisville will cost \$20 Million, that is unbudgeted, to repair 3 city blocks



Final Thoughts

- Louisville is facing the reality of aging systems, more extreme weather, and pipe/facility failures.
- In some areas, the city is literally crumbling beneath our feet.
- The only way to address solutions outside of the Consent Decree projects, at current funding levels, is to become a more innovative utility, leverage one-water efficiencies, and find creative ways to finance programs and projects—such as Commercial Paper.

Questions?

