



MEMORANDUM

To: MCWD Board of Managers

From: Anna Brown

Date: April 8, 2019

Re: OPC Committee Agenda Item 5.1: Short-Term Finance RFP

Purpose:

On March 8, 2019, the District released a request for proposals for short term financing to support project and land acquisition financing through the Carver County Master Finance Agreement in the Six Mile Creek-Halsted Bay Subwatershed. This memo summarizes critical background information on the Carver County Master Finance Agreement and the short-term line of credit that will support that program.

Background:

The Minnehaha Creek Watershed District (MCWD or District) has established the Six Mile Creek-Halsted Bay (SMCHB) Subwatershed as a focal geography for natural resource planning and implementation. This area was selected as a priority by the District's Board of Managers due to its abundant natural resources, its connection to Halsted Bay, the area's projected growth and development, and our existing strong regional partnership with the agencies in this geography.

Between 2016 and 2017, the District worked with the SMCHB Partnership to establish a shared understanding of natural resource issues, drivers, and strategies; evaluate partner agencies' goals and planned investments related to land use planning, parks and recreation, economic development, and other related non-water public priorities; identify areas where natural resource opportunities dovetail with these non-water priorities and initiatives; and develop a shared implementation strategy for the SMCHB Subwatershed. This effort was memorialized in the 2017 Watershed Management Plan, which includes approximately \$25 million dollars in capital project expenditures over the next 10 year plan cycle.

Financing Strategy:

Given the scale and jurisdictional complexity of SMCHB, and the corresponding level of investment required to make measurable change within the landscape, the District and its

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partners have identified the need to develop a funding strategy that leverages regional, state and federal resources to support implementation.

Under the umbrella of the funding strategies developed to implement the SMCHB Plan, MCWD and its partners have accomplished the following:

- Secured a \$250,000 Clean Water Legacy Grant to enhance public stormwater infrastructure and improve water quality draining from downtown Victoria into East Auburn Lake.
- Partnered with a national homebuilder, Lennar Corporation, to privately fund the restoration of 12 acres of wetland and upland buffer, draining to Wasserman Lake.
- Partnered with the City of Victoria to acquire 30.5 acres of land to address a legacy pollutant source on Lake Wassermann while creating upland park amenities for public recreation and lake access.
- Received approximately \$600,000 in Lessard Sams Outdoor Council Funding for a large-scale habitat and water quality improvement at the headwaters of Lake Minnetonka.

MCWD – Carver County Financing Partnership:

To support the outside funding strategy, and to leverage the District’s levy revenue to maximum effect, the District has worked to develop a Master Finance Agreement (MFA) with Carver County which provides for long-term public financing for programmed capital improvements through Carver County’s issuance of general obligation bonds backed by MCWD’s tax levy. This MFA, which provides up to \$25 million in permanently placed obligations, was approved in October of 2017 by both the Carver County Board of Commissioners and the MCWD Board of Managers.

Request for Proposals for Banking Service for Short Term Financing:

In lieu of the issuance of County bonds as the immediate source of funding of capital improvements, pursuant to Minnesota Statutes, Section 475.61, Subd. 6, and Section 103D.335, Subd. 1, the District may issue temporary obligations in anticipation of permanent financing. These negotiable notes may be issued for a maximum term of thirty-six months.

In consultation with MCWD financial advisors, bond counsel and general counsel, to provide the short term financing necessary to support the permanent placement outlined in the MFA, and in accordance with Minnesota statutes cited above, District staff prepared the attached request for proposals seeking a bank arrangement for a draw-down loan, line of credit, or similar instrument (Attachment 1 - RFP).

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The Board authorized the release of the RFP in January of 2018. At that time, there was ongoing development with Carver County staff of the final MFA and timing of the first draw was unknown, and it was therefore not immediately released.

Through project development for the Wassermann West Park and Natural Resource Improvement, the City of Victoria and District have tentatively proposed utilizing the Carver County MFA to finance both District and City project costs. The project will be moving into the next phase of design in May 2019, and financing may be initiated as soon as September 2019.

In anticipation of the first draw on the Carver County MFA, staff released the RFP on March 8, 2019. The RFP was open for 4 weeks, and closed last Friday, April 5 with five (5) responses.

April 11 Operations and Programs Committee Discussion:

This week, staff will be working with the District’s financial advisors to review and evaluate the responses received. At the April 11 OPC meeting, staff will summarize the responses and develop a preliminary recommendation for award and/or next steps. Staff anticipate seeking action to select a bank for short term finance at the April 25 Board Meeting

If there are questions in advance of the meeting, please contact: Anna Brown at (952) 641-4522 or abrown@minnehahacreek.org.

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REQUEST FOR PROPOSALS

Minnehaha Creek Watershed District, Minnesota

Draw-Down Loan, Line of Credit or Similar Debt Instrument

DATE OF REQUEST: March 8, 2019

RESPONSES DUE BY APRIL 5, 2019 4:00 P.M. (CT)

SUMMARY OF TERMS

Minnehaha Creek Watershed District, Minnesota Up to \$25 million Draw-Down Loan, Line of Credit or Similar Debt Instrument

Introduction

The Minnehaha Creek Watershed District (“District”) is seeking proposals from a limited number of banking institutions to assist in the financing of up to \$25 million for projects approved by Carver County pursuant to a Master Finance Agreement between the District and Carver County. The purpose of this Request for Proposals (“RFP”) is to review pricing options and terms for the proposed financing as detailed below under “The Financing”. The intent is the selected Bank will purchase the debt instrument to be held for their own account and not resold or participated without consent from the District and Bond Counsel.

Minnehaha Creek Watershed District Background

The Minnehaha Creek Watershed District (“District”) is a local unit of government responsible for managing and protecting the water resources of the Minnehaha Creek Watershed in parts of Minneapolis, Minnesota, and its western suburbs. The District is responsible for 181 square miles that drain into the Minnehaha Creek and ultimately the Mississippi River. The watershed includes Minnehaha Creek, Lake Minnetonka, the Minneapolis Chain of Lakes, and Minnehaha Falls. There are eight major creeks, 129 lakes, and thousands of wetlands within the District. The District also includes all or part of 27 cities and two townships in Hennepin and Carver counties.

The District’s budget outlines the annual financial plan for their programs, grants, regulatory/inspection duties, communications/education, and other work. The District structures its budget with a responsible, long-term management perspective to reach shared District and community goals for water quality and management while ensuring long-term capacity to provide quality service to residents. Funded through local property taxes, the District strives to be accountable to the public, state and local governments, and residents.

The Financing

The projects associated with this financing are included in the District’s watershed management plan under Minnesota Statutes, Section 103B.21 and are located in Carver County. The District has entered in to a Master Finance Agreement (“Agreement”) with Carver County whereby the County will provide permanent financing through the issuance of general obligation bonds of the County. The District will in turn provide a General Obligation Promissory Note to the County and pay debt service for projects approved by the County on the related County bonds.

It is expected the District will require short-term financing in anticipation of permanent financing of the County. (Throughout this RFP the terms “short-term financing”, “temporary financing”, “temporary debt obligations” and “loans” are used interchangeably.) The District has statutory authority and the Agreement allows for the District to issue temporary debt obligations for a maximum term of thirty-six (36) months. As the County determines the timing of its bond issues, the District has a need to draw on resources on a periodic basis and the flexibility to pay off temporary obligations as the County issues its bonds.

The Agreement states the permanent obligations shall not exceed \$25 million at any one time. To date, the District has identified seven projects totaling approximately \$6.8 million whose costs and timing are relatively certain over the next three years. However, given the fluid nature of the District’s projects and the need to respond to new opportunities as they arise, the District is seeking a financial commitment significantly greater than \$6.8 million, and possibly up to \$25 million.

Therefore, the District is looking to partner with a financial institution (“Bank”) to provide temporary financing in an economically and administratively efficient manner. Because the projects are scheduled over the next three years and the permanent financings may not occur for up to three years following the initial loan, the term of the partnership with the bank will likely be up to six years.

Outstanding Debt

The District has the following debt outstanding as of January 1, 2019:

Issue	Original Principal	Outstanding Principal
2010B Henn Cnty GO Bonds	3,190,000.00	2,145,000.00
2011A Henn Cnty GO Bonds	4,715,000.00	3,460,000.00
Wells Fargo 2012 Variable Rate Note.....	2,000,000.00	1,400,000.00
2013B Henn County GO Bonds	7,075,000.00	5,360,000.00
2013B Bonds Richfield	2,770,000.00	2,155,000.00
Wells Fargo 2018 Note	8,000,000.00	8,000,000.00
TOTAL.....	27,750,000.00	22,520,000.00

All of the District’s outstanding debt is fixed rate debt except for the Wells Fargo 2012 Note. Exhibit A to this RFP displays the District’s annual debt service by issue.

Credit Rating

The District will not seek a rating for this borrowing nor have they obtained a credit rating in the past.

Security and Source of Payment

Debt incurred under this arrangement will be payable primarily from permanent obligations of Carver County. If not paid from such source, the debt will be payable from the District’s General Fund and any other funds that may be legally available for payment.

Statutory Authority

Debt obligations of the District are authorized under Minnesota Statutes, Section 103D.335 and Chapter 475. The District may levy general ad valorem taxes under Minnesota Statutes, Section 103B.241 on all taxable property in the District without limitation as to rate or amount, if necessary, to pay the costs of the debt obligations.

Legal

Kutak Rock LLP will serve as bond counsel on matters relating to the financings.

Tax Status

No formal determination has been made by the District’s Bond Counsel as to the tax status of the debt obligations. It is expected that the majority of the projects requiring short-term financing will qualify for tax-exempt status and potentially “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code. However, it is expected there will also be portions of the projects that will not

qualify for tax-exempt status. This is primarily due to District owned land being sold to private parties for future development. As a result, the District is seeking both tax-exempt and taxable loans.

Financial Information

Financial information for the District including Fiscal Year 2017 Annual Financial Report can be found on the District's website: www.minnehahacreek.org

Responses and Financing Schedule

The District anticipates the first draw on the Loan to occur in September 2019. The following is a projected schedule of events:

District Board of Managers authorizes financing	January 25, 2018
RFP delivered to Banks	March 8, 2019
Last Day to Submit Questions on RFP	March 21, 2019
Responses to Proposer Questions Distributed	March 25, 2019
Response to RFP due	April 5, 2019
District Board of Managers formally selects Bank	April 25, 2019
Document drafting and Financing Team collaboration	Summer 2019
First draw on loan	September 2019

Inquiries

The preference for inquiries is via email so that the text of the question and response is accurate. However, verbal inquiries will be accepted, and then followed by an email from the District or the Municipal Advisor to communicate the information to all respondents. Inquiries are to be directed to the following individuals:

District Operations Manager	District Planner-Project Manager	District Municipal Advisor
Ms. Cathy Reynolds 952.641.4503 creynolds@minnehahacreek.org	Ms. Anna Brown 952.641.4522 abrown@minnehahacreek.org	Mr. Doug Green 651.223.3086 dgreen@springsted.com

No persons other than those listed above should be contacted during the solicitation process unless specifically directed to do so. The District reserves the right to reject the proposal of any respondent failing to comply with this provision. All questions received and their answers will be provided in writing to each firm known to be in receipt of this Request for Proposal.

Receipt of Proposals

The Bank proposal should be delivered via e-mail no later than Friday, April 5, 2019 at 4:00 p.m. CST to the individuals listed above.

Proposal Content

The District requests no extraneous promotional materials and would appreciate short, concise responses. Some of the following lend themselves less to discussion than others (e.g., structure, term of the loan, and loan payments). Nevertheless, if you consider alternatives to be beneficial to the District, please include those in your response.

1. Organizational Capacity: Provide brief descriptions of the principal Bank personnel who would work with the District and describe their responsibilities.

2. Potential Conflicts of Interest: Indicate if there is any litigation or regulatory action or any current or historical engagement or relationship with any public or private party that could potentially create a conflict of interest with the District or that would adversely affect the Bank's ability to engage in this financing.
3. Ratings: Indicate the Bank's current long-term and short-term credit ratings from each of the credit rating agencies.
4. Drawdown Financing: Discuss the Bank's willingness to establish a drawdown facility to finance several projects with a single instrument rather than creating separate loans for various projects. Include your fee for undrawn balances. Answers below with regard to term, loan payments, pricing, etc. should include references to a drawdown facility if they would be different from standalone loans.
5. Tender/Reset Term: The District expects the term will correspond to permanent financing through Carver County, which is expected to be no more than three years. However, if your maximum term is less than three years, indicate the date after the loan(s) are made when the District must tender payment in full or arrange for a new rate and amortization to extend the loan(s).
6. Loan Payments: Indicate how often principal and interest payments are to be made. The District's outstanding debt is structured with semiannual interest payments and annual principal payments.
7. Pricing: The District is open to fixed-rate and/or variable rate to provide temporary financing. For each method, indicate how the Bank will set the interest rate(s) for both tax-exempt and taxable loans.
 - Fixed Rate: Indicate the interest rate the Bank will charge and how it will be determined.
 - Variable Rate: Indicate the basis for calculating the rate and the frequency of rate resets (e.g., a percentage of LIBOR plus a spread).
 - Daycount: Indicate the daycount method of calculating interest (e.g., 30/360, Actual/360, etc.).
8. Covenants: Indicate whether the Bank will require financial covenants and the nature of those covenants.
9. Prepayment: Indicate the prepayment terms for the Loan, including the allowed frequency and denominations of prepayments, any prepayment penalties, and make-whole provisions. The District prefers prepayment flexibility in case it wishes to reduce outstanding Bank debt outside of and earlier than anticipated Carver County bond issuance.
10. Security: Indicate any security provisions the Bank would require in addition to a general obligation pledge of the District.
11. Credit Approval: Indicate whether Bank credit approval has been obtained and, if not, please indicate the timing and process for credit approval.
12. Fees and Expenses: Indicate any expenses for which the District would be responsible. If there will be ongoing fees, clearly identify them and the basis for their calculation.
13. Counsel: Indicate whether the Bank anticipates using outside legal counsel, and, if so, the name of the legal counsel you propose to use, including an estimate of counsel fees and expenses.
14. Loan Participation and/or Transfer: The Proposal assumes that the Bank will purchase the Loan (debt instrument) for their own account and it will not be resold or participated without the consent of the District and Bond Counsel.

Basis of Selection:

Selection of a Bank will be at the sole discretion of the District based on a combination of proposed interest rate(s), fees, ease of administration and the District's perception of the Bank that will add the most value as a member of the financing team.

The District reserves the right to negotiate the requested services and contract terms with any respondent that, in their opinion, will be in the best interest of District. The District does not plan to hold interviews but reserves the right to do so either in person or via conference call.