



Date: October 12, 2016

To: Menasha City Council

From: Melanie Krause, General Manager

RE: Approval of the Revenue Obligation Trust Fund Loan for the buyout of the WPPI Lease Agreement

In 2010 the Public Service Commission along with the City of Menasha approved a sale of the majority of the Electric Utility assets to WPPI Energy as well as entered into a lease agreement in order to continue to operate our municipal utility. This transaction provided a funding source to resolve the outstanding obligation with the bondholders for the Steam Utility. The transaction closed on April 6, 2011 and the lease term was set as 20 years with an annual return on investment of 6.5% however at any time the Utility has the option to buy-out the lease.

Menasha Utilities is looking to buy-out of the WPPI lease and transfer the assets back to the Utility. At the August 24, 2016 Commission meeting the Menasha Utilities Commission recommended to the City Council the approval of the Revenue Obligation Trust Fund Loan in order to accomplish this.

The Board of Commissioners of Public Lands (BCPL) State Trust Fund Loan Program has a revenue loan program that would allow the Utility to pledge the revenues of the Electric Utility for the repayment of the obligation. As part of the revenue loan agreement the Utility will be establishing a Debt Service Reserve fund equal to one years of debt payments as additional security which provides protection until a rate case would be approved by the Public Service Commission and ensures the revenues of the Utility are there to meet the obligation.

The State Trust Fund Loan Program has frequently been used by the City for General Obligation Debt. The Revenue Obligation Trust Fund Loan does include some similar covenants and some very different pledges. The Revenue Obligation Trust Fund Loan pledges the revenues of the Electric Utility generated by rates and fees to repay the Loan and not the levying of taxes on all taxable property in the City as is required for a General Obligation State Trust Fund Loan. The Revenue Obligation Trust Fund Loan does not count against the City's legal borrowing limit because it is not general obligation debt. The Revenue Obligation Loan does require a reserve account to be maintained with approximately one-year's debt service payment on deposit which is not included on the General Obligation Debt. The Revenue Obligation Loan also requires the Electric Utility to maintain rates and fees that will produce sufficient net income exceeding 1.25 times the annual debt service payment. Similar to a general obligation State Trust Fund Loan, the BCPL is required under Wisconsin Statute Section 24.70 to intercept any statements due the City of Menasha in the event of a default.

In the agreement dated August 11, 2016 the State Trust Fund Loan program extended a 90 day interest lock and requires approval by the City Council in that timeframe and documents returned to them for BCPL action. Once approved by the City Council and the BCPL the Utility would have 120 days to close on the loan with the possibility of a 30 day extension.

The Utility explored several different options with BCPL and felt the best option to maximize the savings to the customers is the one proposed. This transaction will require a slight buy-down of principal which the Utility has in reserves, decreased the term by 2 years as well as lowered the interest rate from 6.5% to 4.25% in order to provide over a \$2.7 million savings over the term of the original lease. The Utility did have some discussions whether going to the bond market would yield better results. There was a lot of uncertainty in the market and the rate we could get on revenue bonds. Going to the bond market does incur issuance costs and felt a potential interest savings would be offset. Given the interest rate we received from the state and that they have a program based on the pledge of the revenues of the Electric Utility we felt this was the best program to use to buy-out the lease.

Assuming a closing of 12/1/16 the balances and payments would be as follows:

	Lease 12/1/16	State Trust Fund	Savings
Principal Amount	\$11,135,332.42	\$10,800,000.00	
Interest Rate	6.5% interest	4.25% interest	
Term	4/6/31	3/15/29	
Monthly Payment	\$ 99,328.87	\$ 98,438.34	\$890.53
Annual Payment	\$ 1,191,946.44	\$ 1,181,260.06	\$10,686.38
Total Interest Savings over term of the lease			\$2,733,967.59

In addition to Menasha Utilities Commission and City Council approval the Utility also needs the approval from the Public Service Commission (PSC). A joint application with WPPI Energy was filed with the PSC on September 16, 2016 seeking the certificate of authority to reacquire the assets and the approval to obtain a State Trust fund loan for the outstanding balance. We received word from the Wisconsin Paper Council and our largest industrial customer they have no objection to the actions described in the application nor anticipate intervening or requesting party status. The application has not been formally approved yet by the PSC and we would only proceed with the Loan once all approvals are in place.



RESOLUTION R-29-16

RESOLUTION APPROVING APPLICATION TO BOARD OF COMMISSIONERS OF PUBLIC LANDS TO BORROW \$10,800,000.00 FROM THE STATE TRUST FUNDS, AND AUTHORIZING THE BORROWING AND THE ISSUANCE OF CERTIFICATES OF INDEBTEDNESS AND PLEDGE THE REVENUES OF THE ELECTRIC UTILITY

INTRODUCED BY MAYOR MERKES.

WHEREAS, pursuant to the provisions of Chapter 66 Subchapter VIII or Chapter 67 of the Wisconsin Statutes, municipalities may borrow money for purchasing, acquiring, constructing, extending, adding to, improving operating and managing a public utility and repay such loan from revenues received from any source, and

WHEREAS, pursuant to the provisions of Chapter 24 of the Wisconsin Statutes, the Board of Commissioners of Public Lands ("BCPL") is authorized to make loans from the State Trust Funds to municipalities for such purposes, and

WHEREAS, the City of Menasha owns and operates the Menasha Electric Utility (the "System") for the generation, transmission and distribution of electric power and energy, and

WHEREAS, certain improvements to the System necessary to meet the needs of the City of Menasha and the residents thereof (the "Project") were funded by a lease agreement between WPPI and the City of Menasha, and

WHEREAS, the City of Menasha deems it to be necessary, desirable and in its best interest to obtain a Revenue Obligation Trust Fund Loan from BCPL for refinancing capital assets subject to a lease agreement between WPPI and the City of Menasha, and such Loan is to be payable from the income and revenues of the System.

NOW, THEREFORE, BE IT RESOLVED that the City of Menasha is hereby authorized to borrow from the Trust Funds of the State of Wisconsin the sum of Ten Million Eight Hundred Thousand And 00/100 Dollars (\$10,800,000.00) for the purpose of refinancing capital assets subject to a lease agreement between WPPI and the City of Menasha and for no other purpose. Such loan shall be payable within 13 years from the 15th day of March preceding the date the loan is disbursed. The loan will be repaid in full on the 15th day of March, 2029 with interest at the rate of 4.25 percent per year from the date of disbursement of the loan to the date the loan is repaid. Such loan may be prepaid before the maturity date in accordance with the limitations set forth in Chapter 24 of the Wisconsin Statutes.

BE IT FURTHER RESOLVED that the revenues of the System are hereby pledged to BCPL to repay this loan and that such pledge shall be senior and superior to all other pledges of such revenues. No notes, bonds or other obligations payable out of the revenues of the System may be issued in such manner as to enjoy priority over this Loan. Any and all payments made to the City of Menasha out of the revenues of the System, including any required tax equivalent payments, shall be subordinate to payments required under this obligation. Notwithstanding the foregoing or anything to the contrary herein, payment by the City of Menasha to WPPI Energy

pursuit to the Long Term Power Supply Contract for participating members between WPPI Energy and the City of Menasha entered into under Section 66.0825 (8) of Wisconsin Statutes (as the same may be now or hereafter amended) shall be payable from revenues of the System prior to payment of any amounts to BCPL to repay this loan, and any agreement or instrument entered into by the City of Menasha in connection with the loan shall reflect the same.

BE IT FURTHER RESOLVED that a debt service reserve fund is hereby pledged to BCPL as additional security for this loan. This debt service reserve fund shall be fully funded at closing into a segregated account and maintained in an amount equal to or greater than the maximum annual debt service payment required under this loan agreement and associated loan repayment schedule.

BE IT FURTHER RESOLVED that all ordinances, resolutions, or orders, or parts thereof which were previously enacted, adopted or entered, in conflict with the provisions of this Resolution, are hereby repealed, and this Resolution shall be in effect from and after its passage.

BE IT FURTHER RESOLVED, we acknowledge that should the City of Menasha default on this loan, BCPL is required under Wisconsin Statute Section 24.70 to intercept any state payments that may be otherwise due the City of Menasha.

BE IT FURTHER RESOLVED, we acknowledge that the Certificate of Indebtedness will contain a covenant requiring that the utility rates and fees charged to customers of the System will be sufficient to ensure adequate maintenance and repair, adequate replacement reserves when considering the current functional age of the System and expected timing and costs of future capital expenditures, and a debt service coverage ratio (defined as net operating income divided by total debt service) exceeding 1.25.

BE IT FURTHER RESOLVED that if BCPL agrees to make such loan, that the Mayor and Clerk of City of Menasha are authorized and empowered in the name of the City to execute and deliver to BCPL, those Certificates of Indebtedness in such form as required by BCPL, for the sum of money that may be loaned to City of Menasha pursuant to this resolution. The Mayor and Clerk are authorized and directed to perform all actions reasonably necessary to fully carry out the provisions of Chapter 24 of the Wisconsin Statutes, and these resolutions.

BE IT FURTHER RESOLVED, that these recitals and these resolutions and the votes by which they were adopted, shall be recorded, and that the Clerk of the City of Menasha shall forward this certified record, along with the application for the loan, to BCPL.

Passed and approved this ____ day of _____, 2016.

Recommended by: _____
Motion/Second: _____
Vote: _____
Pass/Fail: _____
Requires: Majority Vote

Donald Merkes, Mayor

ATTEST:

Deborah A. Galeazzi, City Clerk