



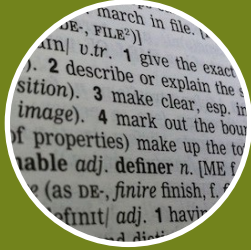
Municipal Debt 101

Pre-seminar Workshop

Municipal Debt 101: Today's Topics



Key
Concepts



Terms



Market
Players



Issuance
Process



Post
Issuance
Obligations



Why Wisconsin Governments Borrow

Facilities

- Administrative & operational
- Public safety
- Recreational

Infrastructure

- Streets
- Utility systems
- Sidewalks & trails

Equipment

- Machinery
- Vehicles
- Transit assets

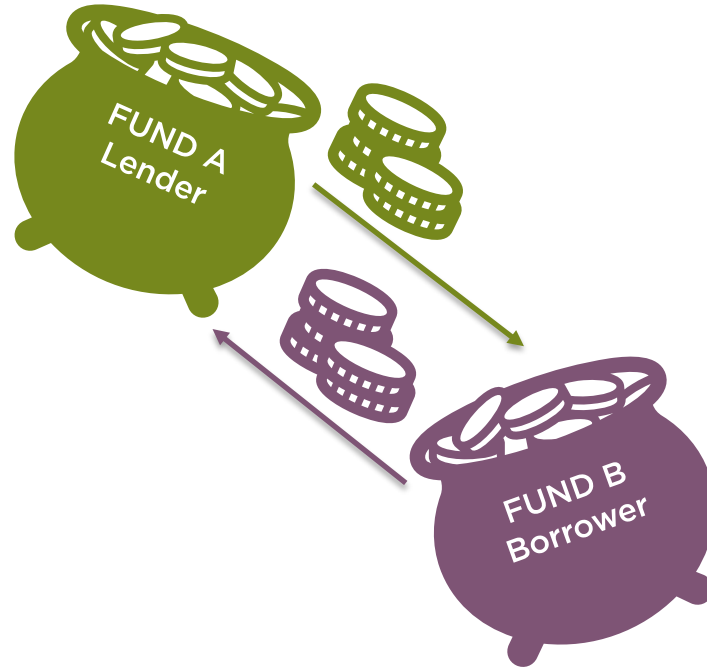
Types of Municipal Capital Financing

- “Pay as you go”
 - ✓ Use existing cash & reserves
 - ✓ Efficient for short-lived assets
 - ✓ Sometimes difficult to save enough
 - ✓ Those who “paid” may not benefit



Types of Municipal Capital Financing

- “Internal loans”
 - ✓ One fund lends to another
 - ✓ Both borrowing & lending should be treated fairly
 - ✓ Can create fund balance, cash flow issues



Types of Municipal Capital Financing

- Debt issuance
 - ✓ Preserve existing cash & resources
 - ✓ Cost of asset amortized over useful life
 - ✓ Asset paid for & benefited by users
 - ✓ Manage & stabilize tax rates, user fees
 - ✓ Some debt service exempt from levy limitation



Types of Pledge & Security

- General obligation
- Revenue obligation
- Appropriation pledge



General Obligation (G.O.) Debt

- Total amount outstanding – at any time – limited to 5% of total equalized valuation (Wisc. state statutes)
- Must be fully retired no later than 20 years from original issue date
- Debt service exempt from municipal levy limits

**G.O. Promissory
Notes**

G.O. Bonds

General Obligation Promissory Notes

Can be issued for nearly “any municipal purpose”

Stated maturity date no later than 10 years from original issue date

Can carry longer amortization & be refinanced, but must be fully retired no later than 20 years from original issue date

General Obligation Bonds

Can be issued for up to 20 years from original issue date

Must be issued for authorized purpose under law without prior elector approval

Governing body must adopt initial resolution of intent to issue for specific purpose(s)

May be subject to petition & “reverse referendum”

Bonds issued for new money purposes carry “public sale” requirement

Revenue Obligations

- Can be issued to finance “**any revenue producing facility or enterprise owned by a municipality and operated for a public purpose**”
 - ✓ Water, sanitary sewer, electric, nursing home, housing, etc.
 - ✓ Tax increment financing (TIF) projects
- No dollar limit
- Stated maturity no later than 40 years after original issue date
- Can levy for revenue insufficiency under levy limits

Appropriation Obligations

- Annual appropriation of specific funds to service debt
- Must have right of non-appropriation
- No dollar limit
- Typical structure for lease revenue obligations
- Applicable to operating & capital leases
- Most subject to levy limits



Key Terms

Bonds

Notes

Securities

Obligations

All general
terms for
DEBT

Key Terms

Maturity:

- Refers to the date the contract between debt issuer & investor(s) ends
- Debt issuer makes final principal payment



Key Terms

Par:

- The face value or principal amount of debt issued



Key Terms



Coupon: The stated interest rate of debt issued

Fixed
Variable



Yield: The measure of investor return on debt issued over life of that debt

Yield MAY NOT equal coupon
Dependent on price

Key Terms

Optional Redemption or “Call” Feature:

- The ability for an issuer to pay debt PRIOR to maturity at specified times & prices
- “Par call” = date debt can be paid at face value.

Official Statement:

- Municipal securities offering & disclosure document

Tax Exempt Debt

A modern, multi-story building with a facade of light-colored stone tiles and dark grey panels. The building features large windows and a prominent entrance area with a glass canopy. The sky is blue with scattered white clouds. A semi-transparent text box is overlaid on the building's facade.

Municipal debt issued for public purposes is typically tax exempt & carries favorable interest rates.

Tax Exempt Debt

- Interest paid to debt holders exempt from income tax
 - ✓ Federal & State
- Tax-exemption is a privilege
 - ✓ Must comply with federal regulations
 - ✓ U.S. Treasury is governing body
 - ✓ IRS enforces regulations

Municipal issuers can also issue taxable debt.

Eligible Borrowing Purposes

- Capital projects with valid authorization under state law
 - Projects already completed or planned for future
- ✓ Federal & sometimes State tax exemption rules apply for expenditure reimbursement & timely spending of debt proceeds



Debt Issuance Players

- Who are they?
- What role do they play?
- Who do they represent?
- How do they get paid?

Municipal Advisor

- Advises on financing plan & calendar
- Assists with assembly of financing team
- Recommends structure, size, timing, terms & method of sale
- Helps prepare offering & disclosure documents
- Represents issuer's interests throughout process
- Maintains fiduciary obligation to issuer
- Typically paid flat fee from issuance proceeds

Bond Counsel

- Provides validity & tax opinions
- Helps support debt authorization under state law
- Prepares legal documentation & agenda language
- Drafts & reviews specific sections of official statement
- Prepares continuing disclosure agreement
- Represents issuer
- Typically paid via flat fee from issuance proceeds

Rating Agency

- Renders independent credit assessment of issuer & specific transaction
 - ✓ Better rating = better market access, lower cost of capital
 - ✓ Not all municipal issuers or transactions rated
- Monitors issuer via ongoing surveillance
- Paid direct fee from issuers, but doesn't represent them

S&P Global

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INVESTORS SERVICE

FitchRatings

Underwriter

- Purchases bonds & sells to investors
- Represents their own commercial interests that may differ from issuer's
- Adheres to suitability & fair dealing standard, not fiduciary
- Paid by issuer via “underwriter discount”

\$10 Discount = \$10/\$1,000 or 1.00% face value	
\$1,000,000 issue	\$10,000 discount
Underwriter pays \$990,000 for \$1,000,00 in bonds	

Paying/Fiscal Agent

- Bank or trust company that:
 - ✓ Helps issuer complete scheduled payments to bondholders
 - ✓ Disseminates certain notices on issuer's behalf
 - ✓ Acts as issuer's agent with Depository Trust & Clearing Corporation (DTCC)
- If not engaged, issuer must work directly with DTCC
- Paid flat fee at closing & annual fee over life of debt



Issuing Debt: Process & Timing



Planning & Authorization

What	Who
<ul style="list-style-type: none">• Determine amount to borrow• Structure transaction (type, terms, etc.)• Establish timing of debt sale	<ul style="list-style-type: none">• Issuer• Municipal Advisor
<ul style="list-style-type: none">• Obtain legal authorization<ul style="list-style-type: none">✓ Initial authorization & public notice✓ Report or study adoption?✓ Referendum?• Determine tax-exempt status	<ul style="list-style-type: none">• Issuer• Municipal Advisor• Bond Counsel

Legal Documents & Official Statement

Bond Marketing & Sale: Borrowing Options

Securities Offering:

- Bonds sold in capital markets through underwriter
- Can achieve fixed rates up to 30 years
- Official Statement serves as offering document

New Issue	Rating Application Made: Moody's Investors Service, Inc.
CITY OF RIVER FALLS, WISCONSIN (Pierce and St. Croix Counties)	
\$6,250,000* GENERAL OBLIGATION CORPORATE PURPOSE BONDS, SERIES 2020A	
BID OPENING: June 9, 2020, 10:00 A.M., C.T.	CONSIDERATION: June 9, 2020, 6:30 P.M., C.T.
PURPOSE/AUTHORITY/SECURITY: The \$6,250,000* General Obligation Corporate Purpose Bonds, Series 2020A (the "Bonds") of the City of River Falls, Wisconsin (the "City"), are authorized pursuant to Section 67.04, Wisconsin Statutes, for the public purposes of paying the cost of a fire engine, constructing a police facility and current refunding certain outstanding general obligations of the City as more fully described herein. The Bonds are general obligations of the City, and all taxable property in the City is subject to the levy of a tax to pay the principal of and interest on the Bonds as they become due which tax may, under current law, be levied without limitation as to rate or amount. Delivery is subject to receipt of an approving legal opinion of Quarles & Brady LLP, Milwaukee, Wisconsin.	

Bond Marketing & Sale: Borrowing Options

Negotiated Underwriting

Issuer works with Municipal Advisor to select underwriter

Effective for unique features, new or challenged credit, difficult market conditions

Competitive Underwriting

Bonds offered through competitive bid

Sale awarded to lowest interest cost proposal

Bond Marketing & Sale: Borrowing Options

Direct Placement:

- Banks & other institutions active lenders to public entities
- No official statement required
- Attractive for smaller issues, unique features
- Bank demand changes over time
 - ✓ Compare “all-in” costs to capital market options



Still must follow process when working with banks!

Bond Marketing & Sale: Borrowing Options

**State
Environmental
Improvement
Fund**

Loan programs
for sewer &
water projects

**USDA Rural
Development**

Loan programs
for community
facilities, sewer
& water projects

Bond Sale & Closing

Sale

- Rates & terms are fixed
- Governing body approves final documents
- If securities offering, final Official Statement prepared & distributed

Closing

- Funds delivered to borrower
- Costs of issuance paid to professionals
- Funds invested until needed

You've Secured Funding! Now What?



Debt Administration

Post Issuance Obligations

Arbitrage:

- Tax-exempt securities with a lower interest rate and investing in taxable securities at a higher interest rate
- Yield restrictions and timing of spending proceeds

Continuing Disclosure:

- SEC Rule 15c2-12
 - ✓ Financial & Operating Information
 - ✓ Material Events

Final Thoughts

- Many eligible reasons for issuing public debt
- Several financing options available, many tax-exempt
- Proper planning & authorization is critical
- Prudent debt administration is as – if not more – important than issuing debt itself
- Seek guidance from public finance professionals



Let's Talk!



Your Presenter



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