



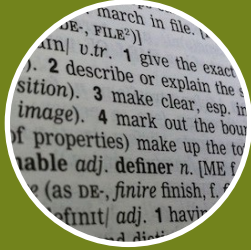
Municipal Debt 101

2024 Wisconsin Public Finance Seminar

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
- Computers

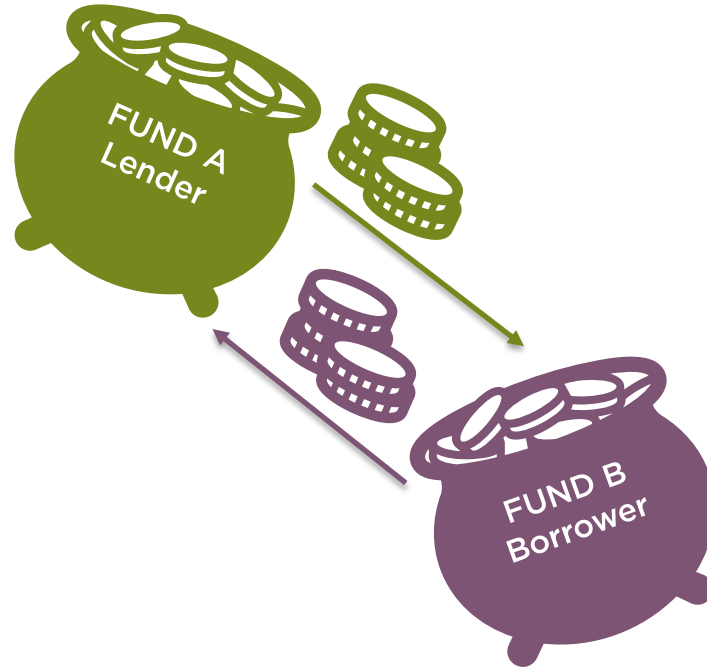
Types of Municipal Capital Financing

- “Pay as you go”
 - ✓ Use existing budget, cash &/or 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 funds should be treated fairly
 - ✓ Repayment terms should be memorialized
 - ✓ 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
 - ✓ Most 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

* Senate Bill SB 773 redefines a Note from max 10-year term to max 20-year term.

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 & permissive or “reverse referendum”

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

SB 773: Impact on G.O. Promissory Notes

Adopted by both houses in January; Governor expected to sign in April

Maximum term increases to 20-years

Can finance any public purpose; more flexible than G.O. bonds

Unlike bonds, notes carry no referendum requirement; mandatory or permissive

Unlike bonds, notes don't require public competitive offering; method of sale flexibility

Towns no longer need to seek elector approval to issue debt with more than 10-year term

SB 773: Impact on G.O. Promissory Notes

Improved administrative simplicity compared to G.O. bonds:

- Don't require multi-page authorizing resolutions
- Eliminate need for 2-step authorization & award resolution process
- Subject to permissive referendum; cities don't need to publish notice to electors to start petition period
- Not limited by “not-to-exceed” amounts by purpose; money can be moved between purposes

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 District (TID) 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
- Are 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 and large glass windows. The building is set against a clear blue sky with some light clouds. The architecture is contemporary, with dark horizontal panels and a prominent glass section. The building appears to be a public or institutional structure.

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 & Some States (Not exempt in Wisconsin)
- 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
- Typically paid via fee by issuer from issuance proceeds, but doesn't represent them

S&P Global

MOODY'S
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 \$1,000,000 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 20-years GO / 40-years Rev.
- 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 Trust Fund Loans

- General or revenue obligation 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 & investing in taxable securities at a higher interest rate
- Yield restrictions & 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 Presenters



Joe Murray
Senior Municipal Advisor
jmurray@ehlers-inc.com
262-796-6196



Ariana Schmidt
Financial Specialist
aschmidt@ehlers-inc.com
262-796-6181

Important Disclosures

Ehlers is the joint marketing name of the following affiliated businesses (collectively, the “Affiliates”): Ehlers & Associates, Inc. (“EA”), a municipal advisor registered with the Municipal Securities Rulemaking Board (“MSRB”) and the Securities and Exchange Commission (“SEC”); Ehlers Investment Partners, LLC (“EIP”), an SEC registered investment adviser; and Bond Trust Services Corporation (“BTS”), a holder of a limited banking charter issued by the State of Minnesota.

Where an activity requires registration as a municipal advisor pursuant to Section 15B of the Exchange Act of 1934 (Financial Management Planning and Debt Issuance & Management), such activity is or will be performed by EA; where an activity requires registration as an investment adviser pursuant to the Investment Advisers Act of 1940 (Investments and Treasury Management), such activity is or will be performed by EIP; and where an activity requires licensing as a bank pursuant to applicable state law (paying agent services shown under Debt Issuance & Management), such activity is or will be performed by BTS. Activities not requiring registration may be performed by any Affiliate.

This communication does not constitute an offer or solicitation for the purchase or sale of any investment (including without limitation, any municipal financial product, municipal security, or other security) or agreement with respect to any investment strategy or program. This communication is offered without charge to clients, friends, and prospective clients of the Affiliates as a source of general information about the services Ehlers provides. This communication is neither advice nor a recommendation by any Affiliate to any person with respect to any municipal financial product, municipal security, or other security, as such terms are defined pursuant to Section 15B of the Exchange Act of 1934 and rules of the MSRB. This communication does not constitute investment advice by any Affiliate that purports to meet the objectives or needs of any person pursuant to the Investment Advisers Act of 1940 or applicable state law.