



Effective Planning Strategies for Large Utility Projects

2024 Wisconsin Public Finance Seminar

Session Agenda

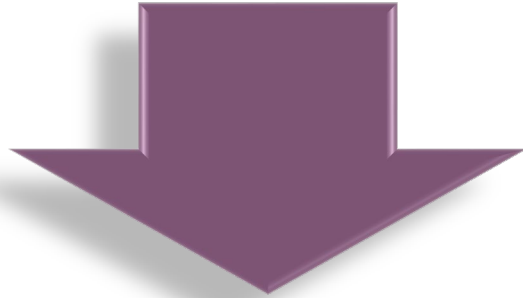
Introduction

Financing
Options

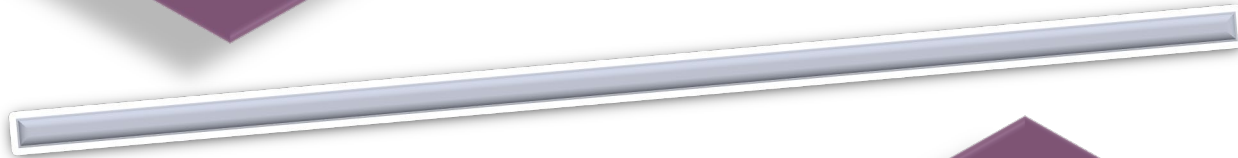
Building
Utility Rates

Seeking
Other
Revenue
Options

Foundations: Goals of a Utility



**Reliable &
Safe Service**

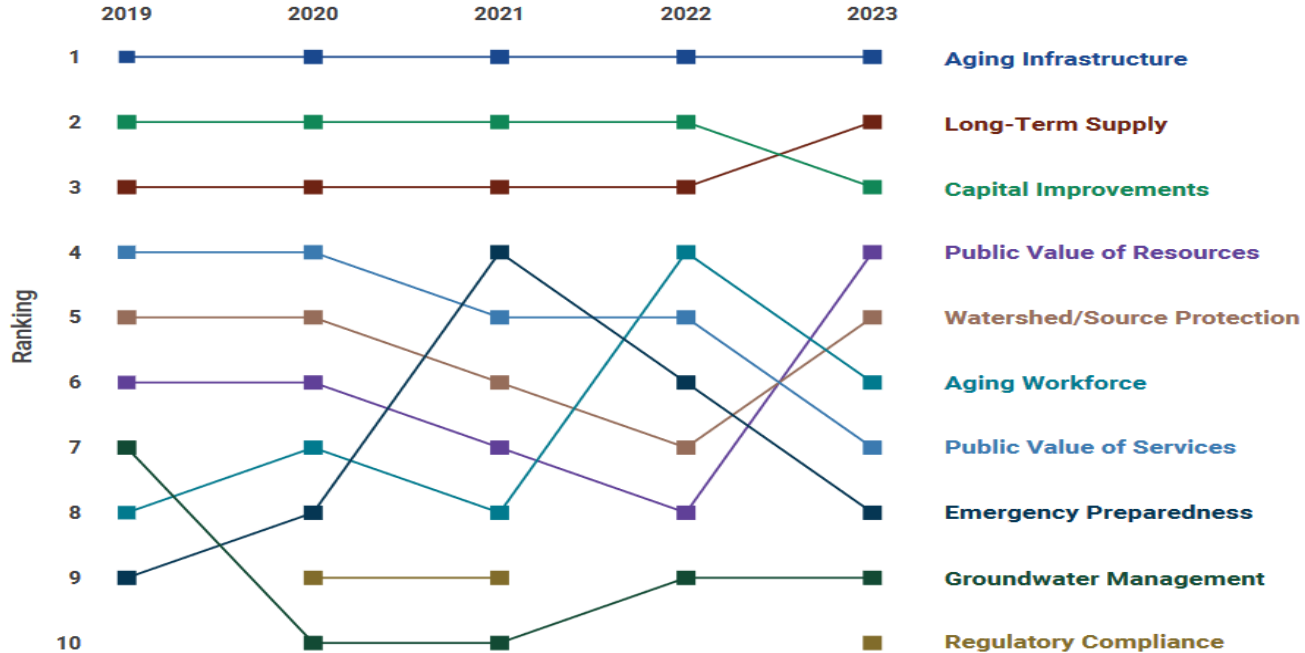


**Most
Appropriate
Cost**



Foundations: Specific Challenge for Utilities

Figure 2. Top 10 issues facing the water sector as ranked by all respondents, 2019–2023



Foundations: Specific Challenge for Utilities

- Capital Intensive
 - ✓ Compared to other industries
 - ✓ US EPA estimates nationwide capital spending \$625B for water infrastructure over 20 years
 - Fitch estimates funding gap >\$85 billion over next 5 years that must be covered by paygo or additional debt.
 - ✓ 2022 WI average asset efficiency = \$13.50
 - Class AB = \$10.75
 - Class C = \$12.82
 - Class D = \$14.71





Effective Planning Strategies for Large Utility Projects

FUNDING OPTIONS

Funding Options

Open Market
Securities

Local Bank Loans

Environmental
Improvement
Fund (EIF)

Loan Program
State Trust Fund
Loan (STFL)
Program

United States
Department of
Agriculture
(USDA) Loan
Program

Open Market Securities

General Obligation

Pledge: Irrepealable tax

Interest Rate: Typically, lower than revenue

Maximum Term: 20 years

Debt Limit: 5% of Equalized Value

Covenants: None

Revenue

Pledge: Revenue of the utility(ies)

Interest Rate: Typically higher than G.O.

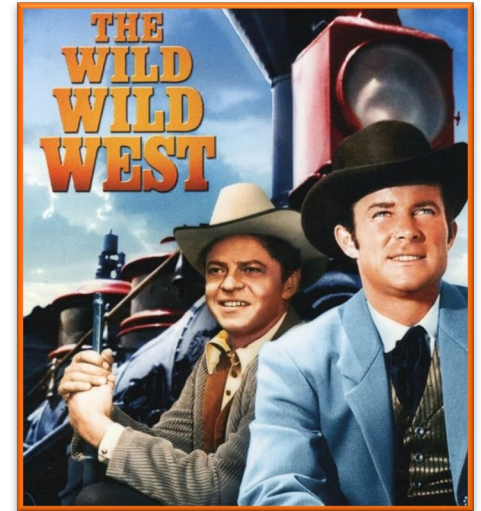
Max Term: 40 years

Debt Limit: None

Covenants: Debt service reserve & coverage

Local Bank Loans

- Can work with local/regional banking institution to complete financing
 - ✓ Competitive or non-competitive
- Rate typically dependent on comfort level
- Usually, can get favorable terms
 - ✓ Prepayment ability
 - ✓ Reduced covenants
- Work best for low par amount or “stories”



Environmental Improvement Fund (EIF)

- State Revolving Loan Fund combining:
 - ✓ EPA capitalization grants, state revolving loan fund (SRF's) & state funding
 - ✓ Pledge loan as G.O., revenue or combination without changing interest rate
 - ✓ Issue as taxable without changing rate; requires taxable variance request
 - Can be used in situations when an industrial service agreement or bank qualification status is needed

EIF: Two Programs

Clean Water Fund Loan (CWF): 1991

- Sewer replacement and rehab, wastewater treatment facility/plant upgrades
- Requires Equipment Replacement Fund: funds mechanical assets with less than a 20-year lifespan (itemized or percentage method)

Safe Drinking Water Fund Loan (SDWF): 1998

- New wells, wellhouse rehabilitation, storage, watermain replacements

EIF: Eligibility

Who?

Municipalities or local governments

What?

Planning, design & construction work

CWF
Program

[Check Eligibility Index](#)

SDWF
Program

[Check Eligibility Index](#)

EIF: Ineligible Project Costs



**Including, but
not limited
to:**

- Private lateral work (funded via separate program)
- Projects that benefit new development
- Projects intended solely for flood control & drainage
- Building or rehabbing a dam
- Project primarily needed for fire protection
- Project not needed to address a public health concern

EIF: Timeline

October 31:

- CWFP & SDWLP Intent to Apply (ITA) deadline for following state fiscal year funding cycle

June 30:

- SDWLP Application deadline for upcoming state fiscal year funding cycle

Had to submit ITAs by 10/31/23 deadline if seeking funding in SFY 2025 (7/1/24 - 6/30/25)

September 30:

- CWFP Application deadline if requesting principal forgiveness for current funding cycle.

Applications accepted year-round for CWFP projects not seeking principal forgiveness

EIF: Interim Financing Considerations

- Bridge
 - ✓ Project starts prior to EIF closing
 - ✓ User rates implementation
- Structure
- Limitations
 - ✓ Project costs in loan application
 - ✓ Issuance costs limited to \$15,000 plus 0.5% of eligible face amount of interim financing
 - ✓ Interest recovery

EIF: Pros & Cons

Pros

- Program subsidy buys down the market rate on the loan
- Possible principal forgiveness
- Term up to 30 Years
- Draw loans

Cons

- Loans are generally not prepayable
- Not guaranteed funding
- Project bidding requirements

State Trust Fund Loan Program (STFL)

Eligibility:

Municipalities & other entities (sanitary districts, rehabilitation districts, etc.)

Term:

From 2-20 years

Rates locked for 60 days from loan request

Annual Payments

Due March 15th

Loans funded between September 1st & March 14th = no payment the following March

Prepayment:

generally allowed with 30-day written notice

Except from September 1st to December 31st

State Trust Fund Loan Program (STFL)

- Loans considered taxable
- Flexible repayment schedule upon request
- Issued as a revenue obligation
 - ✓ Interest rate determined at time of application & based upon BCPL risk assessment
 - ✓ Applicable program for utilities & tax increment projects
 - Parity considerations for utility revenue bonds
 - TID projects limited to 80% of shared revenue amount in prior year

USDA Rural Development Loans

- Loan program for water & wastewater system upgrades
- Eligible for communities with populations < 10,000
- Low interest loan & grant options

Current Interest Rates for 2nd quarter FY 2024, effective January 1, 2024

Poverty:	2.250%
Intermediate:	3.000%
Market:	3.750%

- Up to 40-year term option
- Generally prepayable

USDA Rural Development Loans

Typically requires interim financing through completion of project

If significant industrial users, USDA may require letter of commitment from industrial customers

USDA may be flexible with debt coverage requirements upon request

Case Study: Debt Options Components

1: Safe Drinking Water Fund Loan	2: USDA RD Loan	3: Municipal Bond (Market Debt)
DNR/DOA Program	USDA Program	Muni Security
Non-prepayable	Prepayable anytime	Prepayable upon call
Subsidized Int. Rate (55% Market)	Subsidized Int. Rate (80% Market)	Rate subject to market conditions
Level P&I	Level P&I	Open Structure
Subject to Application/SFY Timing	Subject to Application/Timing	Can be done at any time
No Debt Service Reserve/Low COI	Debt Service Reserve/Fund over time	Debt Service Reserve/Add COI
Coverage 1.10x	Coverage 1.10x	Coverage Generally 1.25x
Max 30 yr. term	Max 40 yr. term	Typically, 20 yr. term

Long-Term Financing Results

	1: Safe Drinking Water Fund Loan (20-yr)	2: USDA RD Loan (40-yr)	3: Market (Rev; 20-yr)
Additional Annual Debt Service	\$248k	\$226k	\$305k
Water Rate Adjustment	92.5%	100.5%	120%
Water Rate Above Minimum	59.3%	67.3%	75%



Effective Planning Strategies for Large Utility Projects

BUILDING UTILITY RATES

Building Utility Rates: Revenue Requirement

How much revenue should we generate from user rates?

Cash Basis

- + Op. & Maint. Expenses
- + Taxes/Transfer Payments
- + Debt Service (P&I)
- + Capital funded from rates
- Less Non-rate Revenue
- = Total Revenue Requirements

Utility Basis

- + Op. & Maint. Expenses
- + Taxes/Transfer Payments
- + Depreciation
- + Rate of Return on Rate Base
- Less Non-Rate Revenue
- = Total Revenue Requirements

Building Utility Rates: Water

- Regulated by Public Service Commission (PSC)
- Understand your windows of opportunity
 - ✓ Conventional rate case
 - Utility basis (PSC Math)
 - One-step vs. two-step
 - ✓ Simplified rate case
 - ✓ Purchased water adjustment



Water Case Study: Historical Rate Performance

		Shown with no increase				Est	Budget
Revenue Requirement							
Component	Description	2018	2019	2020	2021	2022	2023
Cash Basis							
1	Operating and Maintenance	\$481,696	\$734,700	\$457,684	\$591,440	\$526,511	\$565,306
2	Debt	\$332,764	\$380,341	\$442,999	\$475,356	\$424,315	\$489,453
3	Cash Funded Capital ¹	\$83,191	\$120,671	\$526,426	\$118,839	\$298,079	\$122,363
Less:							
	Other Revenue	\$79,730	\$79,580	\$70,931	\$86,218	\$75,100	\$141,149
	Interest Income	\$20,082	\$23,423	\$8,096	\$1,001	\$1,030	\$16,015
	Revenue Requirement (Costs less Other Income)	\$797,839	\$1,132,709	\$1,348,082	\$1,098,416	\$1,172,775	\$1,019,958
	User Rates Revenue	\$962,606	\$853,856	\$831,570	\$844,648	\$819,500	\$826,000
	Rate Adequacy	\$164,767	(\$278,853)	(\$516,512)	(\$253,768)	(\$353,275)	(\$193,958)
	Proj. Rate Rev. Adj. Needed	0.00%	32.66%	62.11%	30.04%	43.11%	23.48%
Utility Basis (PSC)							
1	Operating and Maintenance	\$481,696	\$734,700	\$457,684	\$591,440	\$526,511	\$565,306
2	Depreciation	\$241,182	\$256,404	\$259,721	\$272,543	\$274,176	\$290,329
	NIRB	\$3,438,694	\$3,962,042	\$4,040,398	\$4,519,004	\$4,738,047	\$5,052,085
3	Recommended ROI (6%)	\$206,322	\$237,722	\$242,424	\$271,140	\$284,283	\$303,125
Less:							
	Other Revenue	\$79,730	\$79,580	\$70,931	\$86,218	\$75,100	\$141,149
	Interest Income	\$20,082	\$23,423	\$8,096	\$1,001	\$1,030	\$16,015
	Revenue Requirement (Costs less Other Income)	\$829,388	\$1,125,823	\$880,802	\$1,047,904	\$1,008,840	\$1,001,596
	User Rates Revenue	\$962,606	\$853,856	\$831,570	\$844,648	\$819,500	\$826,000
	Rate Adequacy	\$133,218	(\$271,967)	(\$49,232)	(\$203,256)	(\$189,340)	(\$175,596)
	Proj. Rate Rev. Adj. Needed	0.00%	31.85%	5.92%	24.06%	23.10%	21.26%

O & M
Increasing
'21-'23



Water Case Study: Where are we Going?

	Budget		Projected							
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenues										
Total Revenues from User Rates ¹	\$826,000	\$1,008,306	\$1,008,306	\$1,008,306	\$1,008,306	\$1,008,306	\$1,008,306	\$1,008,306	\$1,008,306	\$1,008,306
Percent Increase to User Rates	0.00%	22.07%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cumulative Percent Rate Increase	0.00%	22.07%	22.07%	22.07%	22.07%	22.07%	22.07%	22.07%	22.07%	22.07%
Dollar Amount Increase to Revenues		\$182,306	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Revenues										
Interest Income	\$16,015	\$16,055	\$16,135	\$16,216	\$16,297	\$16,379	\$16,460	\$16,543	\$16,708	\$16,875
Other Income	\$152,133	\$69,993	\$70,693	\$71,400	\$72,114	\$72,835	\$73,563	\$74,299	\$75,785	\$77,301
Total Other Revenues	\$168,148	\$86,048	\$86,828	\$87,616	\$88,411	\$89,214	\$90,024	\$90,842	\$92,493	\$94,176
Total Revenues	\$994,148	\$1,094,354	\$1,095,134	\$1,095,922	\$1,096,717	\$1,097,519	\$1,098,330	\$1,099,148	\$1,100,799	\$1,102,482
Less: Expenses										
Operating and Maintenance ²	\$380,306	\$391,715	\$403,467	\$415,571	\$428,038	\$440,879	\$454,105	\$467,728	\$481,760	\$496,213
PILOT Payment	\$185,000	\$190,550	\$196,267	\$202,154	\$208,219	\$214,466	\$220,900	\$227,527	\$234,352	\$241,383
Net Before Debt Service and Capital Expenditures	\$428,842	\$512,089	\$495,401	\$478,197	\$460,460	\$442,175	\$423,325	\$403,893	\$384,686	\$364,886
Debt Service										
Existing Debt P&I	\$489,453	\$349,496	\$337,071	\$324,753	\$218,965	\$214,648	\$215,243	\$210,709	\$211,038	\$211,350
New (2023-2032) Debt Service P&I	\$0	\$110,930	\$118,984	\$134,893	\$145,204	\$145,591	\$140,833	\$131,151	\$126,540	\$116,995
Total Debt Service	\$489,453	\$460,426	\$456,055	\$459,645	\$364,169	\$360,239	\$356,076	\$341,860	\$337,577	\$328,345
Transfer In (Out)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Capital Improvements & COI	\$849,783	\$341,000	\$175,461	\$130,000	\$105,000	\$0	\$0	\$0	\$0	\$0
Debt Proceeds	\$845,000	\$0	\$265,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Annual Cash Flow	(\$65,394)	(\$289,337)	\$128,886	(\$111,448)	(\$8,709)	\$81,936	\$67,249	\$62,033	\$47,109	\$36,540
Restricted and Unrestricted Cash Balance:										
Balance at first of year	\$1,375,621	\$1,310,227	\$1,020,890	\$1,149,776	\$1,038,327	\$1,029,618	\$1,111,554	\$1,178,803	\$1,240,836	\$1,287,945
Net Annual Cash Flow Addition/(subtraction)	(\$65,394)	(\$289,337)	\$128,886	(\$111,448)	(\$8,709)	\$81,936	\$67,249	\$62,033	\$47,109	\$36,540
Balance at end of year	\$1,310,227	\$1,020,890	\$1,149,776	\$1,038,327	\$1,029,618	\$1,111,554	\$1,178,803	\$1,240,836	\$1,287,945	\$1,324,486
"All-in" Debt Coverage	0.88	1.11	1.09	1.04	1.26	1.23	1.19	1.18	1.14	1.11
PSC Days Cash on Hand	474	343	378	391	386	440	487	525	554	574

Notes:
1) Assumes no changes in customer count or usage beyond Test Year.

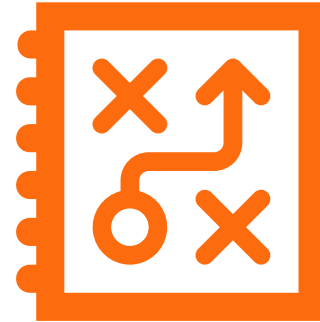
2) Assumes 3.00% annual inflation beyond budget year.

Legend:

Simplified Rate Case (if eligible)
 Conventional (Full) Rate Case

Water Case Study: Alternatives

- To lower CRC impact:
 - ✓ Request lower ROR from PSC
 - ✓ Reserves could go below recommended benchmark
- Utility could use simplified rate case process to implement rates over time
 - ✓ As new projects come up, consider using debt instead of cash
 - ✓ Eligible now



Water Case Study: SRC Alternative

	Budget	Projected								
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenues										
Total Revenues from User Rates ¹	\$859,040	\$905,461	\$932,625	\$960,604	\$989,422	\$1,004,044	\$1,004,044	\$1,004,044	\$1,004,044	\$1,004,044
Percent Increase to User Rates	8.00%	3.00%	3.00%	3.00%	3.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cumulative Percent Rate Increase	8.00%	11.24%	14.58%	18.01%	21.55%	21.55%	21.55%	21.55%	21.55%	21.55%
Dollar Amount Increase to Revenues		\$46,421	\$27,164	\$27,979	\$28,818	\$14,622	\$0	\$0	\$0	\$0
Other Revenues										
Interest Income	\$16,015	\$16,055	\$16,135	\$16,216	\$16,297	\$16,379	\$16,460	\$16,543	\$16,708	\$16,875
Other Income	\$152,133	\$69,993	\$70,693	\$71,400	\$72,114	\$72,835	\$73,563	\$74,299	\$75,785	\$77,301
Total Other Revenues	\$168,148	\$86,048	\$86,828	\$87,616	\$88,411	\$89,214	\$90,024	\$90,842	\$92,493	\$94,176
Total Revenues	\$1,027,188	\$991,509	\$1,019,453	\$1,048,220	\$1,077,833	\$1,093,257	\$1,094,068	\$1,094,886	\$1,096,537	\$1,098,220
Less: Expenses										
Operating and Maintenance ²	\$386,954	\$398,563	\$410,519	\$422,835	\$435,520	\$448,586	\$462,043	\$475,905	\$490,182	\$504,887
PILOT Payment	\$185,000	\$190,550	\$196,267	\$202,154	\$208,219	\$214,466	\$220,900	\$227,527	\$234,352	\$241,383
Net Before Debt Service and Capital Expenditures	\$455,234	\$402,397	\$412,667	\$423,230	\$434,094	\$430,206	\$411,125	\$391,454	\$372,003	\$351,950
Debt Service										
Existing Debt P&I	\$489,453	\$349,496	\$337,071	\$324,753	\$218,965	\$214,648	\$215,243	\$210,709	\$211,038	\$211,350
New (2023-2032) Debt Service P&I	\$0	\$110,930	\$118,984	\$134,893	\$145,204	\$145,591	\$140,833	\$131,151	\$126,540	\$116,995
Total Debt Service	\$489,453	\$460,426	\$456,055	\$459,645	\$364,169	\$360,239	\$356,076	\$341,860	\$337,577	\$328,345
Transfer In (Out)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Capital Improvements & COI	\$839,783	\$265,000	\$261,461	\$130,000	\$105,000	\$0	\$0	\$0	\$0	\$0
Debt Proceeds	\$845,000	\$0	\$265,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Annual Cash Flow	(\$29,002)	(\$323,029)	(\$39,848)	(\$166,415)	(\$35,075)	\$69,967	\$55,049	\$49,595	\$34,426	\$23,604
Restricted and Unrestricted Cash Balance:										
Balance at first of year	\$1,375,621	\$1,346,619	\$1,023,590	\$983,742	\$817,327	\$782,251	\$852,219	\$907,268	\$956,862	\$991,288
Net Annual Cash Flow Addition/(subtraction)	(\$29,002)	(\$323,029)	(\$39,848)	(\$166,415)	(\$35,075)	\$69,967	\$55,049	\$49,595	\$34,426	\$23,604
Balance at end of year	\$1,346,619	\$1,023,590	\$983,742	\$817,327	\$782,251	\$852,219	\$907,268	\$956,862	\$991,288	\$1,014,892
"All-in" Debt Coverage	0.93	0.87	0.90	0.92	1.19	1.19	1.15	1.15	1.10	1.07
PSC Days Cash on Hand	496	339	248	227	202	248	287	317	338	351

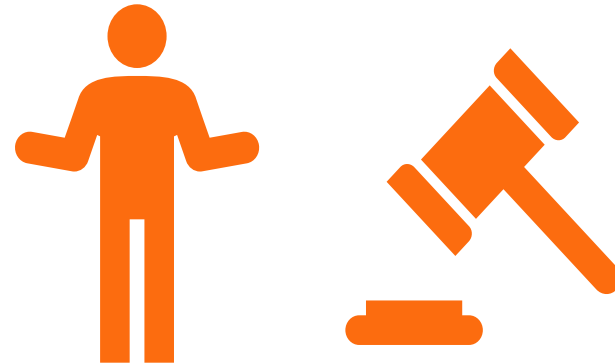
Notes:
1) Assumes no changes in customer count or usage beyond Test Year.
2) Assumes 3.00% annual inflation beyond budget year.

Legend:
 Simplified Rate Case (if eligible)
 Conventional (Full) Rate Case

Building Water Utility Rates: Best Practices

- Do your PSC homework
- Control windows of opportunity
 - ✓ LRCFA first
- Engage customers

Blame PSC!



Building Utility Rates: Sewer

- With no PSC regulation, a municipal sewer utility has more options for straightforward planning
 - ✓ No windows of opportunity; phase-in as desired
 - ✓ More opportunities for error?
- Still want fair & equitable rates to face rate challenges
 - ✓ Consider completing a cost-of-service study
 - ✓ How are user classes affecting system?
 - ✓ Rate structure changes/considerations

Building Utility Rates: Sewer Case Study

City of Wausau, WI

	Actual 2018	Estimated 2019	Budget 2020	2021	2022	2023
Revenues						
Total Revenues from User Rates	\$5,433,929	\$6,096,778	\$6,285,460	\$7,605,169	\$8,755,880	\$11,737,476
Percent Increase to User Rates Required			22.00%	22.00%	19.00%	18.00%
Cumulative Percent Rate Increase			22.00%	48.84%	77.12%	109.00%
Dollar Amount Increase to Revenues Required			\$188,682	\$1,319,710	\$1,150,710	\$2,981,596
Other Revenues						
Interest Income	\$43,863	\$93,055	\$43,000	\$43,108	\$24,348	\$25,877
Other Income	\$54,388	\$34,949	\$36,000	\$4,040	\$4,080	\$4,121
Total Other Revenues	\$98,251	\$128,004	\$79,000	\$47,148	\$28,428	\$29,998
Total Revenues	\$5,532,180	\$6,224,782	\$6,364,460	\$7,652,317	\$8,784,308	\$11,767,474
Expenses						
Operating and Maintenance	\$3,228,465	\$3,480,549	\$3,474,290	\$3,578,519	\$3,685,874	\$3,796,450
PILOT Payment	\$450,000	\$488,596	\$450,000	\$450,000	\$450,000	\$450,000
Net Before Debt Service and Capital Expenditures	\$1,853,715	\$2,255,637	\$2,440,170	\$3,623,798	\$4,648,434	\$7,521,023
Debt Service						
Existing Debt P&I ¹	\$5,882,065	\$1,358,741	\$5,552,004	\$1,495,900	\$1,166,725	\$1,142,525
New (2020-2029) Debt Service P&I			\$593,219	\$1,826,456	\$2,111,186	\$4,618,590
Total Debt Service	\$5,882,065	\$1,358,741	\$6,145,223	\$3,322,356	\$3,277,911	\$5,761,115
Transfer In (Out)/ Advances from (to)	\$191,000	\$145,603	\$180,000	\$140,000	\$140,000	\$140,000
Capital Improvements	\$2,809,666	\$7,261,126	\$50,790,828	\$51,587,285	\$2,422,000	\$3,290,000
Bonds Issued/Grants/Aid	\$4,040,000	\$7,088,758	\$54,116,463	\$51,323,385	\$1,522,963	\$1,522,726
Net Annual Cash Flow	(\$2,607,016)	\$870,131	(\$199,418)	\$177,542	\$611,485	\$132,634
Restricted and Unrestricted Cash Balance:						
Balance at first of year		\$8,412,244	\$9,282,375	\$9,082,957	\$9,260,499	\$9,871,984
Net Annual Cash Flow Addition/(subtraction)		\$870,131	(\$199,418)	\$177,542	\$611,485	\$132,634
Balance at end of year	\$8,412,244	\$9,282,375	\$9,082,957	\$9,260,499	\$9,871,984	\$10,004,618

Building Utility Rates: Sewer Best Practices

- Follow industry standards
 - ✓ Fair & equitable
- Consider trends & long-term assumptions
 - ✓ Maintenance expense volatility
 - ✓ Unidentified projects
 - ✓ Debt coverage capacity
 - ✓ Healthy reserve amount
- Build a sewer utility financial policy





Effective Planning Strategies for Large Utility Projects

OTHER REVENUE OPTIONS

Alternative Revenue Sources

- Larger projects' designs are more likely to include growth elements
- Consideration for methodologies to revenue recovery aligning with growth costs

- ✓ Using all appropriate fees

- Water: <https://psc.wi.gov/Pages/ServiceType/Water/WaterTariffs.aspx>

- ✓ Connection/Impact Fees

- ✓ TIF

Impact & Connection Fees

Impact Fees

- Wisconsin Statutes 66.0617
- Pay for the proportionate share of facilities needed to serve new development
- Not authorized by PSC, but monitored

Connection Fees

- Wisconsin Statutes 66.0821
- Meet all or part of the requirements for the construction, reconstruction, improvement, or extension of the sewerage system, and for the payment of all or part of the principal and interest of any indebtedness incurred for those purposes

Alternative Revenue Sources: Case Study

- \$25M WWTP for 1,035 customers
 - ✓ Needed 216% increase to close on loan
- Current Plant at capacity & 33% scoped for growth SEWRPC/DNR Facility Plan
- TIF provided alternative revenue source
 - ✓ But-for: Can't issue permits without new plant capacity
 - ✓ Project eligible: TIF only pays for 33%
- If increment realized, eliminated 20% of adjustment needed



Download the Presentation!



Your Presenters



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Important Disclosures

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