

Fundamentals of Municipal Debt

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Financing Authority

Wisconsin Statutes	Debt Instrument
67.01; 67.03	General Obligation Bonds
67.12(12)	General Obligation Notes
67.12(1)(b)	Bond or Note Anticipation Notes
66.0621	Utility Revenue Bonds
66.1333; 66.1335	CDA or RDA Lease Revenue Bonds
66.0621(4)(2)	Revenue Bond Anticipation Notes
67.12(1)(a)	Tax & Revenue Anticipation Notes
66.0713(4)	Special Assessment B Bonds
Subchapter II, Chapter 24	State Trust Fund Loans

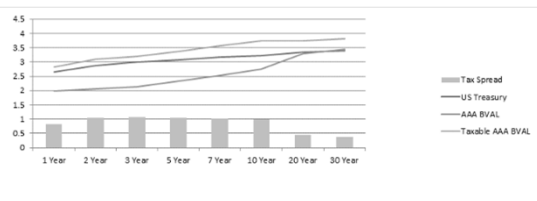
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Tax Exemption

- Interest paid on most municipal debt obligations is exempt from federal income tax
 - Interest on debt issued by a Community Development or Redevelopment Authority also exempt from Wisconsin income tax
- Taxable debt
 - Required when a project is deemed to constitute “private activity”
 - A common example is financing issued for development incentives where developer guarantees debt service repayment

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Tax Exemption (cont.)



Source: The Bond Buyer

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Security Pledge for Debt

- Municipal debt obligations can be secured in one of two ways:
 - General Obligation (G.O.) pledge
 - Repayment of obligation secured by an irrevocable tax levy imposed at the time the obligation is issued
 - Revenue pledge
 - Repayment of obligation secured by a pledge of specified revenues such as water or sewer system revenues, tax increments or special assessments

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G.O. Debt

- Principal amount outstanding cannot exceed 5% of a municipality's TID IN EV (Constitutional limit)
- Wisconsin G.O. debt is considered "unlimited tax" (vs. "limited tax")
- G.O. Notes – term up to 10 years issued for any public purpose.
- G.O. Bonds – maximum term up to 20 years issued for specific purposes provided by in statutes.

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G.O. Debt (cont.)

- Abatement
 - Repayment of G.O. debt is secured by an irrevocable tax levy, but it is common to use other revenue sources to reduce, or "abate" the tax levy required
 - Common abatement sources include:
 - Utility revenues
 - Tax increments
 - Special assessments
 - Impact fees

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Revenue Debt

- Debt limit not applicable
- Viewed as less secure credit than a G.O.
 - For essential purpose utility, interest rate .10% - .25% greater than G.O. rate
- Reserve fund typical
- More costly to issue than G.O. debt

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Revenue Debt (cont.)

- Utility Revenue Bonds
 - Maximum term of forty years
 - Market appetite normally dictates a shorter term
 - Typical utility operations include water, sanitary sewer, storm water management, parking and airports
 - Must be issued to pay for system improvements
 - Rate covenant – requires municipality to maintain a utility rate structure that produces net revenues equal to a specified percentage of the annual debt service payment (125% typical)
 - May be sold via competitive sale, negotiated sale or private placement

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Revenue Debt (cont.)

- CDA or RDA Lease Revenue Bonds
 - TID financing mechanism
 - Maximum term limited to life of TID
 - Bonds are issued by the municipality's CDA or RDA
 - CDA/RDA uses bond proceeds to pay TID project costs and "owns" the funded improvements
 - CDA/RDA leases the funded improvements to the municipality
 - Municipality uses the tax increments collected to pay the lease payments
 - Most often sold using the negotiated sale method

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Revenue Debt (cont.)

- Special Assessment B Bonds
 - Means to fund the cost of public improvements that confer a special benefit on specific properties
 - Municipality must levy special assessments on the benefitted properties
 - As assessments are collected, they are use to make the debt service payments
 - Term of bonds the same as the term over which the special assessments are levied
 - Most often sold using the negotiated sale method

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Typical Capital Financing Sources

- Municipal Bond Market
- Private Placement
- DNR Environmental Improvement Fund (EIF) Loans
- BCPL State Trust Fund Loan program
- USDA Rural Development Loans

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Key Players

- Issuing debt may involve many entities:
 - Municipal Advisor
 - Bond Counsel
 - Disclosure Counsel
 - Purchaser
 - Rating Agency
 - Paying Agent
- Understanding what each player does, what their interests are and how they are paid can help for a more successful debt issuance.

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Municipal Bond Market

- Debt issued in the form of tradeable municipal securities
- Regulated by the Securities and Exchange Commission (SEC) and Municipal Securities Rulemaking Board (MSRB)
- Purchased by broker-dealer firms (underwriters) and sold to investor customers
 - Institutional investors (e.g. mutual funds, pension funds, banks)
 - Individuals
 - Other governments

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Municipal Bond Market (cont.)

- Competitive Sale
 - Multiple bids sought
 - Typically awarded based on lowest True Interest Cost (TIC)
 - Provides for transparency
- Negotiated Sale
 - Purchaser selected in advance, rates agreed to on day of sale
 - Often used when credit concerns exist, broad market appeal does not exist, revenue stream not yet established.

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Private Placement

- Municipality sells debt obligation directly to an investor, typically a bank, which holds the loan in its own portfolio
- Cannot ordinarily be bought or sold like a municipal security
- Why municipalities use:
 - When placed with community banks, a desire to “keep it local”
 - Less documentation as compared to a public securities offering
 - Typically no need to obtain a third party bond rating
 - Not subject to continuing disclosure requirements

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DNR Environmental Improvement Fund Loans

- Two primary programs
 - Clean Water Fund (waste water and urban storm water runoff)
 - Safe Drinking Water Fund
 - Projects must meet eligibility criteria
- Security pledge can be G.O. or revenue
- Term is always twenty years with level payments
- Subsidized interest rate – nearly always the lowest cost option for a qualifying project
- Not pre-payable

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BCPL State Trust Fund Loan Program

- Maximum term of twenty years for G.O. secured loans and thirty years for revenue secured loans
- Interest rates set by Board of Commissioners of Public Lands
 - Interest payments received fund public school library aids
 - Current G.O. loan rates (as of October 17, 2018)

Term	Interest Rate
1 – 2 years	4.25%
3 – 5 years	4.25%
6 – 10 years	4.50%
11 – 20 years	4.75%

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USDA Rural Development Loans

- Community Facilities Direct Loan & Grant Program
 - Loans for "essential community facilities in rural areas"
 - Population of community must be 20,000 or less
 - Commercial credit must be unavailable at reasonable rates and terms
- Subsidized interest rate (market rate effective 10/1/2018 is 4.00%)
- Loan may include a grant component
- Security pledge can be G.O. or revenue (usually the latter)
- Term of up to forty years
- Pre-payable

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