



Financing Complex Projects

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Session summary

- Introductions
 - Federal & state regulations
 - Security type
 - Case study: John Mehan
 - Case study: David Mullen
 - Q & A
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Introduction

- Well-planned debt use can greatly enhance ability to complete projects
 - Debt issuance & management is successful only when you:
 - ✓ Understand financing options
 - ✓ Receive clear information on implications of decisions
 - ✓ Have a basic understanding of rules & regulations
 - ✓ Know the players, their roles & for whom they “work”
 - ✓ Understand how bonds are sold
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Security type

- Debt must be secured by something
 - Two main security types for municipal debt in Wisconsin:
 1. General obligation (G.O.)
 - Backed by full faith & credit of municipality (subject to 5% of EV)
 - Commitment to levy a tax if no other revenues available
 - Typically considered most secure pledge, meaning lowest interest rates
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Security type (continued)

2. Revenue

- ✓ Backed by specific revenue source, most commonly utilities but also TID, lease, hospital or other revenues
 - ✓ Interest rates depend on source of financing, source of revenue (essential vs. non-essential service) and revenue history
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State regulations

- Maximum term
 - ✓ General obligation: 20 years (*statutorily defined*)
 - ✓ Revenue: 40 years (*typically market driven*)
 - Use of proceeds
 - ✓ Notes (*term of 10 years or less*): any public purpose
 - ✓ Bonds (*term longer than 10 years*): restricted purposes
 - If issued for purpose not specifically enumerated, referendum required
 - General obligation debt limit
 - ✓ Outstanding G.O. debt can't exceed 5% of municipality's EV
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Federal tax-exempt regulations

Tax-exempt financing considers 2 tests:

- ✓ if either are met = taxable issue

1. Private loan test:

- ✓ Are there loans to private parties greater than either \$5M or 5% of proceeds (which ever is the lesser amount)?
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Federal tax-exempt regulations

1. Private activity test: additional considerations:

- ✓ Private Use: Are 10% of the proceeds used for benefit of private entity?
 - ✓ Private Pay: Are 10% of debt service payments secured by private parties?
 - ✓ Both tests must be met to require taxable issue
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Financing issues & concerns

- You determined project doesn't fit cleanly in either bucket (*GO or a Essential Purpose Revenue*)
 - ✓ Limited borrowing capacity or don't want to use GO for TID/Economic Development projects
 - ✓ Local financial institution isn't willing to participate due to cost of project, credit or term needed
 - ✓ How to fund large water/sewer projects
 - ✓ How to access interim financing for projects with a takeout coming from USDA/CWF & SDW



Financing issues & concerns

When most of these conditions are met, a negotiated sale may be a better option.



Current market issues



Case studies

- John Mehan
- Dave Mullen



Your presenters



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