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## ***2017 AIC Conference***

### ***Tools to Finance City Infrastructure***

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# Overview

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- Capital Planning
- Type of Bonds
- Infrastructure Funding Options
- Municipal Bond Interest Rates
- Post Funding Requirements

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# Capital Planning

# Capital Planning

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"If you don't know where you are going, you'll end up someplace else."

— Yogi Berra



# Capital Planning

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- 1) Short-term vs. Long-term needs
  - ↳ Have a plan that goes beyond one year
- 2) How will you finance needs
  - ↳ Cash vs. Debt
- 3) Sufficient cash flows to maintain/repair/replace infrastructure
  - ↳ Rate studies/Revenue Projections/Covenants
- 4) Sustainability of Plan
  - ↳ Growth paying for growth?  
or  
Is growth paying to maintain?

# Options for Financing

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## Cash

- Pay as you go
  - ↳ Tax Revenue
  - ↳ Impact Fees
  - ↳ Charges for Services

## Debt

- Loan (Bank Financing)
- Capital Markets (Bonds)
- Federal Programs (DEQ/USDA)

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# Types of Bonds



# Market Funding Options

Type	General Obligation (“G.O.”)	Revenue
<b>Uses</b>	General government purposes – Full faith and credit pledge	Issued to finance facilities with definable user or revenue base, often for enterprise fund
<b>Revenue Source of Payment</b>	Special property tax - (Bond Levy)	Pledge of revenue from project
<b>Other Considerations</b>	<ul style="list-style-type: none"> <li>➤ Idaho cities are limited to a general obligation debt capacity that cannot exceed 2.00% of their taxable market value (Section 50-1019, Idaho Code).</li> <li>➤ No reserve requirement</li> <li>➤ 2/3rds voter approval</li> </ul>	<ul style="list-style-type: none"> <li>➤ Maintain coverage requirements</li> <li>➤ Fund a debt service reserve fund</li> <li>➤ Additional Bonds Test</li> </ul>

# Market Funding Options

Type	Local Improvement Districts (“LID”)	Certificate of Participation (“COP”) – AKA Capital Leases
<b>Uses</b>	Generally for extension or additions of roads, sewers, water, etc. into partially developed area; Or - Improvements that benefits specific properties	General government purposes
<b>Revenue Source of Payment</b>	Secured by additional property assessments within district	Appropriation from general fund or enterprise fund
<b>Other Considerations</b>	<ul style="list-style-type: none"> <li>➤ Reserve or Guaranty Fund</li> <li>➤ Payments based on relative benefits derived by project</li> <li>➤ No coverage requirement but typically need at least 3 to 1 value to Assessment Ratio if developed (5 to 1 if undeveloped)</li> <li>➤ Does not require a vote</li> <li>➤ Effort to track assessments</li> </ul>	<ul style="list-style-type: none"> <li>➤ Credit evaluation for COP’s is project specific               <ul style="list-style-type: none"> <li>(1) Essentiality of facility,</li> <li>(2) Potential revenue sources,</li> <li>(3) Political considerations</li> </ul> </li> <li>➤ Currently requires judicial confirmation in most circumstances</li> </ul>

# Market Funding Options

Type	Urban Renewal	Revenue/Tax Anticipation Notes
Uses	Often used for infrastructure improvements in a “blighted area”	Issued for cash flow purposes when there is a mismatch between the timing of revenues and expenditures during the fiscal year
Revenue Source of Payment	<i>Incremental</i> property taxes or other <i>new</i> tax revenues in a TIF District	“Anticipated” Revenues or Taxes
Other Considerations	<ul style="list-style-type: none"> <li>➤ Typically need to have tax increment revenue history before issuing public debt</li> <li>➤ Tax base growth induced by project pays for project</li> <li>➤ Issuer has no direct control over revenues</li> </ul>	Specific Federal and State rules govern the issuance of tax-exempt notes

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# Infrastructure Funding Sources

# Access to debt Financing

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## Debt Funding Options:

### Public Sale



Issue municipal bonds directly to investors through a public sale process

### Private Placement



Direct placement with a single investor or bank

### Idaho Bond Bank



State Pooled Program

### Federal Funding



Loan Programs for Water/Waster projects

# Market Funding Options

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## **Issue Bonds Directly:**

- Best for highly-rated cities and strong security pledges (G.O. Bond, Water/Sewer Revenue Pledge)
- Financial advisor or underwriter (or both) help to facilitate bond sale
- Bonds can be sold through competitive bid or negotiated sale
- Security Pledge (G.O., Revenue, Lease, Assessment) and bond rating will have significant impact on interest cost
- Issuer controls timing and process

# Market Funding Options

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## Private Placements/Bank Loans:

- Typically used for smaller issues, weaker credit pledges or unusual circumstances.

Examples:

<b>Local Improvement District (LID) Bonds</b>	<b>Tax Increment (URA) Bonds</b>
<b>Community Infrastructure District (CID) Financing</b>	<b>Tax and/or Revenue Anticipation Notes</b>

- Maturities tend to be 10 years or less

# Market Funding Options

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## **Private Placements/Bank Loans (Continued):**

- Interest rates generally higher than market sales.
- Typically lower expenses.
- Loan funding timeline is shorter.
- Avoid annual continuing disclosure requirements.



# Market Funding Options

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## Issue Bonds through the Idaho Bond Bank Authority (“IBBA”)

- Pooled loan program managed through the Idaho State Treasurer’s Office
- “Aa1” bond rating provides low interest rates
- Can be used for all sizes of issues, however smaller issuers will lose bank-qualified benefit
- Economies of scale from pooled sale depend on size of issue and number of participants
- Streamline process reduces staff time for issuing bonds



# Market Funding Options

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## Idaho Bond Bank Authority Continued:

- Can be used for most types of City bond sales except:

<b>Local Improvement District (LID) Bonds</b>	<b>Tax Increment (URA) Bonds</b>
<b>Community Infrastructure District (CID) Financing</b>	<b>Tax and/or Revenue Anticipation Notes</b>

- Refunding Policy - Minimum 5% Present Value Savings
- Other Policy Requirements:
  - Annual continuing disclosure requirements
  - Minimum coverage requirements for revenue bonds
  - Debt service reserves for revenue bonds (can be waived)

# Department of Environmental Quality Loans

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Who do they fund?

- Wastewater systems
  - Government entities and nonprofit corporations that have authority to collect, treat, or dispose of sewage or industrial wastewater.
- Drinking Water systems
  - Community water systems and nonprofit non-community water systems

# Department of Environmental Quality Loans

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## Type of projects that are funded

- Planning Grants
- Construction projects
- Nonpoint sponsored projects

## Growth Related Projects

- Wastewater Project
  - Yes, but won't score high
  - No subsidy
- Drinking Water
  - Not more than 50% of the project

# Department of Environmental Quality Loans

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## Loans

- For CWSRF Loans
  - Principal Forgiveness for disadvantage communities
  - Term ranges from 20-30 years
- For DWSRF Loans
  - Principal Forgiveness for disadvantage communities
  - Term for 20 years. Disadvantage communities up to 30 years

	20 Year	30 Year
Rates for All	2.75%	3.00%
Disadvantaged Community	1.50%	1.75%

# U.S. Department of Agriculture

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## Water and Environmental Programs

- Regular Loan and Grant Program
- Available for:
  - Public Bodies, Non-Profits, Tribes (no developers)
  - Development, land, design, permits, legal, admin, etc.
  - Population < 10,000
- Term: up to 40 years Interest Rate: 2.0 – 4.5%
- Grants – Eligibility depends on
  - Median Household Income,
  - Health/Sanitary Standard Violations
  - Availability of funds

# U.S. Department of Agriculture

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## Water and Environmental Programs

- Pre-development Planning Grant available state-wide to low income communities.
- SEARCH Planning Grant available state-wide to low income communities < 2,500.
- Emergency Community Water Assistance Grants (ECWAG) –
  - natural disasters, or significant decline in quality and/or quantity of water as result of an emergency (limit of \$150,000 or \$500,000).

# U.S. Department of Agriculture

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## Community Facilities

- Regular Loan and Grant Program
- Construction, land, design, equipment, legal, admin, etc. of any “Essential Community Facility” for:

City Hall	Equipment	Community Centers
Fire Station	Hospitals	Schools (Public & Stated approved charter
Library	Medical Clinics	Roads

**No recreational projects**

- Public Bodies, Non-Profits, Tribes
- Communities with population < 20,000
- Term: up to 30 years Interest Rate: 3.375 – 4.5%
- Minimal Grant – around \$200k for whole state



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# Municipal Bond Interest Rates



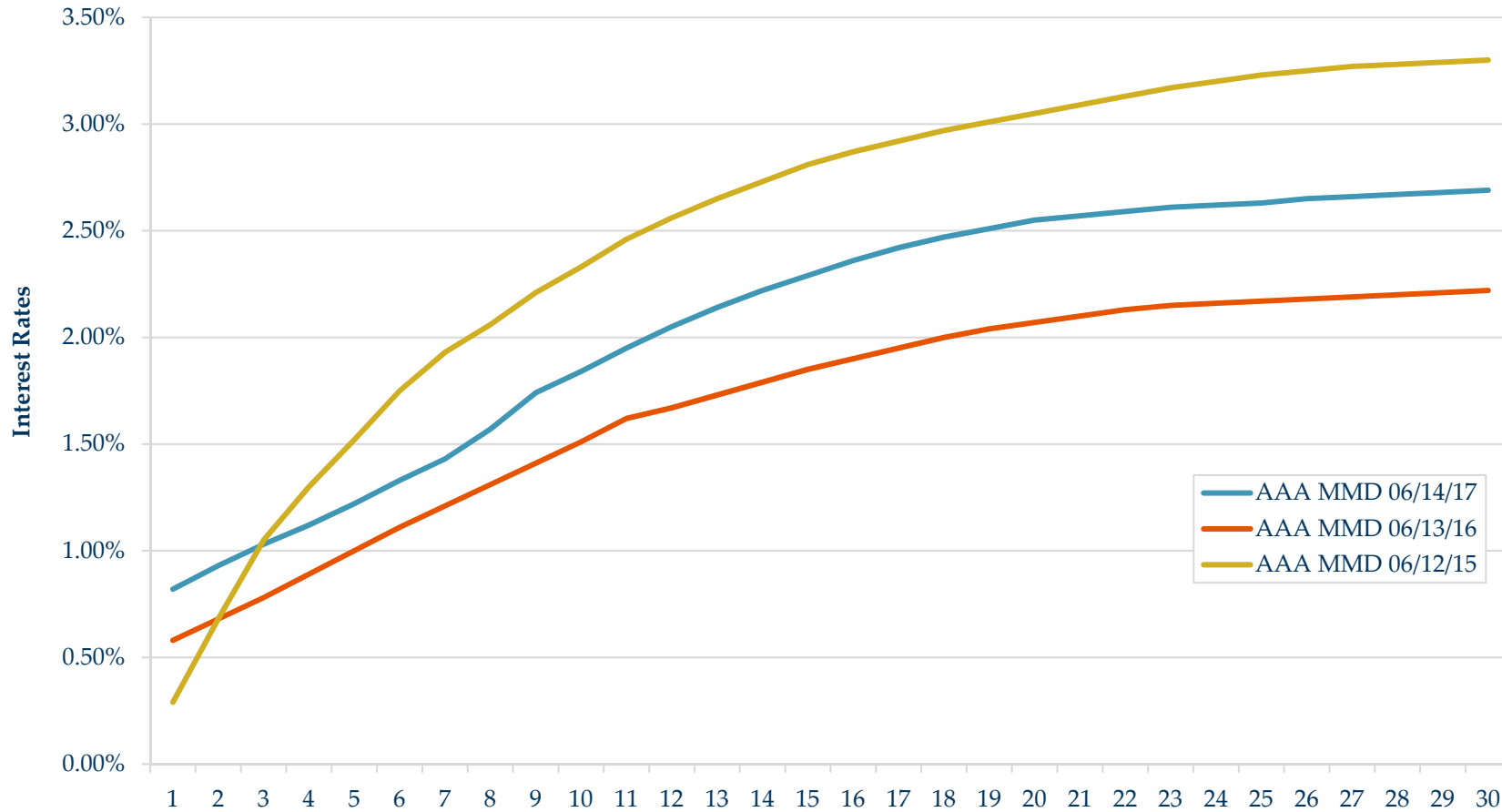
# Municipal Bond Interest Markets

## Tax Exempt Interest Rate History: 20-Year AAA MMD



# Municipal Bond Interest Markets

## Tax Exempt Interest Rate Yield Curve



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# Post Funding Requirements

# Things to remember

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## Bond/Loan Covenants

- Net Revenue Coverage requirements
- Debt Service Reserve requirements
- Additional Bonds Test
- Parity Requirements
- Other on going compliance

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# Questions