







Basic Municipal Borrowing Tools



- General Obligation Bonds
- Revenue Bonds
- Lease-Purchase Agreements
- Tax Increment Bonds (TIF)
- Interim Financing
- Special Tax-Based Financing
- Municipal Improvement Districts (MID)

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Knowing Your Professionals



- Bond Counsel: Required to deliver validity opinion for borrowing
- Local Counsel: Know day to day operations; required to deliver an opinion as to underlying documents and litigation
- Trustee: Fiduciary for bondholders (not involved in every transaction)
- Financial Advisor (FA): Evolving role, far more involved in transactions; perform roles that Bond Counsel in South Carolina has traditionally performed. Should have discussions with Counsel or existing FA about role in transactions or on-going operations
- Underwriter: Only for Market-sold deals
- Other Counsel: Represent Trustee, Underwriter, Issuers (i.e. Disclosure or Special Tax matters)

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General Obligation Issues



Full Faith and Credit

- The borrowing is secured by the taxing power of the municipality.
- If taxes are insufficient to pay debt service, the municipality must raise taxes.
- Typically used for brick & mortar or real estate projects
- Generally the project will be a "general benefit" for the residents of the municipality (public purposes – an ever evolving concept)

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General Obligation Issues



Bond Counsel Involvement

- General obligation issues require the assistance of bond counsel
 - * Eight percent of the assessed (not appraised) value of property in the municipality
 - * Referendum exception
- Ordinance (two readings) at public meetings
- Debt filing (applies to all debt)
- Debt limit certificate

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General Obligation Issues



Debt Limit - How to Calculate:

Fiscal Year	Tax Year	Real Property	Personal Property	Total AV*
2013-2014	2013	\$70,000,000	\$30,000,000	\$100,000,000

$\$100,000,000 \times 0.08 = \$8,000,000$ of Debt Limit

If \$5,000,000 in GO Bonds are outstanding, \$3,000,000 of capacity remains

* Does not include merchant's inventory, motor carrier reimbursement, manufacturer's depreciation or property in a multi-county park

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General Obligation Issues



- Unless the debt is (a) less than \$1,500,000 and (b) repayable over ten years or less, it must be sold at a public competitive sale
- Notice of public sale must be published at least seven days prior to the sale date
- For private sales, notice must be published at least seven days prior to the closing date

***** Important *****

- Be sure payments are structured to come due in Spring time (March, April, May) so that taxes can be levied

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Revenue Issues for Infrastructure



Types of Revenue Streams

- Typically utility services, including water/sewer systems, solid waste, gas, and electrical
- Recreation fees
- Parking fees
- Other dedicated sources of non-tax revenues

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Revenue Issues for Infrastructure



Secured by Revenue Stream

- A limited pledge
- Bond documents will establish a "waterfall" to control the flow of revenues
- Generally debt service on the bonds will come before O&M expenses (gross pledge) or after (net pledge)

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Revenue Issues for Infrastructure



Coverage Ratios

- Rate Covenant – requires that rates be maintained at a certain level (a multiple of O&M and debt service)
- Additional Bonds Test – requires certain coverage before the issuance of new debt

Additional Debt

- "Parity" bonds enjoy the same lien status as the prior bonds, and must meet the additional bonds test
- Junior lien bonds may be issued at any time
- Special projects, lease/purchase exceptions in bond documents

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Revenue Issues for Infrastructure



Other Considerations

- A feasibility study will be important
- Among other things, the municipality should compare revenues to expenses (including debt service) and thoroughly plan the improvements

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Lease Purchase Agreements



Not a "True" Lease

- Financing institution provides funds and "leases" the assets to the municipality
- Lease payments have principal and interest components
- Assets will pass to municipality free and clear upon conclusion of lease term

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Lease Purchase Agreements



Debt Limit Considerations

- Previously all lease-purchase transactions were exempt from the debt limit
- Statute passed in 1995 disallows debt-limit exemption for real property and fixtures
- Now lease-purchase agreements are used almost exclusively for vehicles, equipment, and rolling stock
- Paid out of Operations; Not considered debt – Now limited by Act 388

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Lease Purchase Agreements



Importance of Appropriate Documentation

- Approving resolution
- Lease Purchase Agreement (non-appropriation, no non-substitution)
- IRS filing, closing certificates
- Retention of bond counsel: does your liability insurance allow for validity opinion to be issued?

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Tax Increment Bonds



Municipal Redevelopment Tool

- Allows a municipality to foster growth in a "blighted" or "conservation" area
- Upon creation of a TIF District, all taxes from growth in tax base will be available to the municipality for improvements
- Used to redevelop downtown or other depressed areas
- Limited by amendments (other taxing entities and Act 388)

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Tax Increment Bonds



Other Considerations

- May use utility revenues as secondary revenue pledge to support debt
- Recent statute allows counties to form tax increment districts and prohibits municipalities from including tax increment of entities that do not consent
- Use of IGA – recent MASC legislative action

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Interim Financing



- Tax Anticipation Notes (TANS)
- Bond Anticipation Notes (BANS)
- Grant Anticipation Notes
- Interim Financing for Federal Programs

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Special Tax-Based Financing



- Capital Project Sales Tax
- Hospitality and/or Accommodations Taxes
- Lease-Lease Back Transactions

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Tax Credit Financing



- New Markets Tax Credits
- Historic Tax Credits
- Low-Income Housing Tax Credits
- Other local-based tax credits and incentives

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Municipal Improvement Districts (MIDs) 

- Creation process for a MID takes several months
- Assessments on real property which allows development to pay for development
- Assessments can take several different forms which gives flexibility to the municipality in structuring its needs for a particular area
- City is issuer

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Credit Issues: More Important Than Ever Before 

- Long Term: Fund Balance/Reserves
- Short Term: Cash Flow Ratios
- Leverage Ratio: Net Assets in comparison to Total Liabilities
- Tax Base Changes-Fluctuations in Revenue
- Large Capital Outlays
- Political Issues: Annexation, etc.

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Transaction Structures 

- Taxable v. Non-Taxable
- "Bank Qualified" v. "Non-Bank Qualified"
- Private Placement v. Publicly Sold Transaction

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Borrowing Processes and Roles of Involved Parties



- Council-Governing Body
- Finance Director
- Public Sale v. Negotiated
- Role of Financial Institution
- Role of Bond Counsel
- Financial Advisor

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Additional Legal Considerations



- Continuing Disclosure
- FOIA
- Arbitrage and rebate
- Spend down requirements
- Bank-Qualified
- Tax Covenants (Ownership)

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Tips for a Smoother Borrowing Experience



- Financial Statements (be timely)
- Define the project: sizing of issue
- Stability in financial administration
- Stability in professionals, including bank and bond counsel
- Pricing is important, but not sole determining factor
- Discussion on front end of expectations – don't agree to things you do not understand

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Basic Determining Factors



- Term
- Issue Size/Type
- Flexibility
- Issuance Costs
- Disclosure Issues
- Rate Differentials

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Terms of Transactions



- Bank Loans
 - * Terms Typically from 1-15 years
 - * Amortization period may be longer, but may involve rate resets or calls
- Underwritten Transactions
 - * May provide longer term options
 - * Most Transactions twenty years or longer are underwritings

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Issue Size and Type



- Issue size often drives the decision for a shorter or longer term (coverage ratios, etc.)
- Type of issue may also impact the decision:
 - * Security interest/Pledged revenue stream
 - * Historical performance

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Transaction Flexibility



- Ability to prepay transactions
 - * Bank Loans provide a high level of flexibility
 - * Useful especially for dynamic, changing entities
- Investor Call protection

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Issuance Costs



- Differential between Bank Loan and Underwritings typically substantial
- Cost/Benefit analysis essential
- Components of Issuance Costs
 - * Official Statements
 - * Ratings
 - * Insurance
 - * Legal
 - * Underwriting fees
 - * Debt Service Reserves

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Bank Qualification



- "Small" Issuer: \$10,000,000 or less in calendar year
- Tax treatment by Banks
- Rate Differential: May be important determining factor in decision for underwriting or bank loan

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