

Public Sector Advisors



## Municipal Wastewater Infrastructure Financing Options and Processes

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Public Sector Advisors



## Springsted: Who We Are

- Independent Advisors to the Public Sector
  - We only serve municipalities, other public/non-profit entities
- Public Finance - Bond Issuance
- Financial Management Consulting
  - Infrastructure Financing Analysis and Strategies
  - Long-Term Capital Improvement Planning
  - Growth / Fiscal Impact Studies
- Housing and Economic Development

## Three “Typical” Projects

- Wastewater Infrastructure Improvements
- Municipal Hall / Community Center
- Snow Plow / Dump Truck
  
- First Decision: Cash or Credit?
  - What is financially feasible given levy and tax base?
  - Which form best meets needs of project and municipality?

## Financing Policy Decisions

- **Pay-As-You-Go (Cash)**
  - Pay project costs from cash on hand using either current revenues or reserve funds.
    - *Example:*
    - Regular Budgetary Items/Replacement Items
      - Computers
      - Vehicles
      - Minor Improvements/Maintenance
- **Pay-As-You-Use (Debt)**
  - Issue debt and pay project costs from bond proceeds.
  - Debt is repaid over time by the users of the project.
    - *Example:*
    - Large Capital Costs/Long Useful Life
      - Land Acquisition
      - Public Structures
      - Major Improvements/Equipment

## Financing Policy Decisions *cont.*

- **Factors to Consider**
  - *Equity*  
Are the beneficiaries of the project or service paying for it?
  - *Effectiveness*  
Will the funding be sufficient and received in a timely fashion?
  - *Efficiency*  
What financing method is most cost-effective?

## Wastewater – Special Assessments

- Town/City: G.O. Improvement Bonds – Chapter 429
  - Primary Payment Source: Special Assessments (at least 20%)
  - Projects typically benefit specific users, but with town's G.O.
  - Benefit received must equal or exceed assessment on parcel
- Special Assessment Proceedings
  - Petition of Waiver or Improvement / Assessment Hearings
  - Prepayments, Deferrals and Early Payments
  - Filing of Assessments with County
- For more information, see LMC, MAT & Briggs Publications

## Wastewater – Utility Revenues, “Opt Out”

- Town/City: G.O. Utility Revenue Bonds – Chapter 444
  - Primary Payment Source: Utility Revenues
  - User rates, access/availability charges and/or connection fees must be adequate to pay costs of operations and debt service
  - Projects typically benefit entire community, but sometimes specific users (often if 100% assessment financing is not viable)
  - Utility revenues may be combined with assessments, other funds
- Town/City: G.O. Disposal System Bonds – Section 115.46
  - “Opt out” exemption from above requirements for disposal systems
  - Debt service may be paid entirely from tax levy, without referendum

## Wastewater – Subordinate Service District

- Defined area for which town provides a function or service (or level thereof) not provided to the town as a whole
  - Requires petition, public hearing, option for reverse referendum following board approval
  - Addition property tax levy or service charge on benefiting parcels
- SSD can fund capital improvements and/or maintenance
  - Utility Improvements
  - Blacktop, Curb, Gutter
  - Seasonal Grading, Plowing
- No financing mechanism linked to SSD – Entity may dedicate SSD revenues toward debt service on other bonds/certificates

## Wastewater – Certificates of Indebtedness

- Town: Certificates of Indebtedness – Sec. 366.095
  - Primary Payment Source: Levy and/or SSD Taxes/Charges
  - Project benefiting community (levy) or portion thereof (SSD)
  - Subject to reverse referendum if > 0.25% of town's value
  - Maximum certificate duration is 5 years – makes a less likely option for major wastewater projects
- Note: The four bonding options described above are general obligations of the Town/City. If the intended revenue sources are inadequate to fund debt service, the entity is obligated to cover shortfalls with reserves and/or general property taxes.

## Municipal Hall / Community Center

- Financing Options
  - Town/City: G.O. Referendum Bonds
  - Urban Town/City: G.O. Capital Improvement Bonds
    - Primary Payment Source: Levy
    - Includes municipal hall, public safety and public works facilities
    - Excludes parks, roads, bridges, and other admin buildings
    - Must be detailed in 5-year CIP approved following public hearing
    - Debt service may not exceed 0.16% of taxable market value
  - Town: G.O. Certificates of Indebtedness

## Municipal Hall / Community Center

- Financing Options
  - Town/City: Lease Purchase Agreement
    - Municipality (lessee) leases asset from bank or another party (lessor). Lease payments are structured similar to principal and interest payments on a mortgage.
    - Payments subject to annual appropriation. Non-appropriation must not expose entity to any penalty (other than loss of asset)
    - May have higher interest cost than general obligation – extent depends on essentiality of project/use

## Snow Plow / Dump Truck

- Financing Options
  - Town/City: G.O. Referendum Bonds
  - Town/City: Lease Purchase Agreement
  - City: G.O. Equipment Certificates
    - Primary Payment Source: Levy
    - Maximum certificate duration is 10 years
    - Subject to reverse referendum if issue exceeds 0.25% of TMV
  - Town: G.O. Certificates of Indebtedness

## Issuance Process

- Method of Sale: Competitive vs. Negotiated
  - Par amount and duration of bond repayments
  - Timing considerations – how soon is \$ needed?
  - General Rules of Thumb:
    - Certs/Bonds < \$100,000: Negotiate with local bank
    - Certs/Bonds > \$100,000: Solicit competitive bids from local banks for private placement with one institution
    - Certs/Bonds > \$250,000: Offer to regional/national underwriters through “full” competitive sale
  - Financial Advisor can help choose optimal approach

## Issuance Process *cont.*

- Typical Competitive Sale Milestones
  - **Week 1:** Work out issue amount, structuring, sale method with financial advisor
  - **Week 2:** “Set Sale” discussion with town board
  - **Weeks 3-5:** Prepare official statement, advertise with underwriters, credit rating (if applicable)
  - **Week 6:** Accept bids and award bonds
  - **Weeks 7-10:** Coordinate closing documents and receive bond proceeds

## Questions

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