



MPUA

Missouri Public Utility Alliance

Post-“Credit Crisis” Financing Options for Municipal Utilities

September 30, 2010

Ewell Lawson

Missouri Public Utility Alliance

Leo Lawrenson

Lawrenson Services Inc.



Outline



- Debt Structuring
 - *Things to consider before going into debt*
- Debt Management
 - *How to keep debt under control*
- Debt Sources
 - *Grants, SRF, banks, bonds, MAMU*



Debt Structuring



Reasons for Debt

– Inadequate funds

- Essential public purpose (*e.g.* sewer, schools, streets, jails)
- Non-essential public purpose (*e.g.* economic development)
- Refinance (*consolidate, reduce/restructure payments*)

– Preserve funds

- Maintain reserves
- Investment earnings

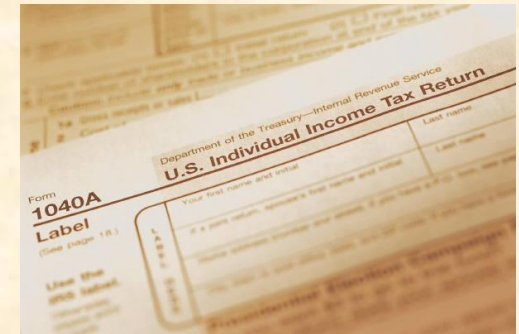




Keys to Cost-Effective Debt

(Key #1 - Tax Status)

- Tax-Exempt
 - Lower interest rates to borrower
 - Finance for essential public purposes
 - Refinance tax-exempt debt
 - More legal restrictions
- Taxable
 - Higher interest rates to borrower
 - (Re)finance for any legal purpose





Keys to Cost-Effective Debt

(Key #2 - Security)

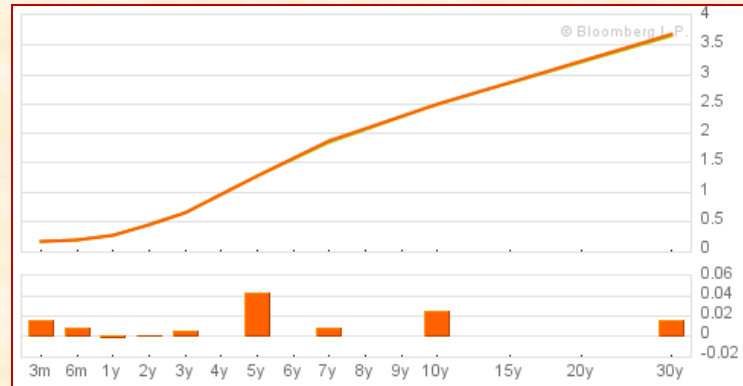
- General Obligation Pledge
 - Full faith & credit of borrower (*future taxes*)
 - Lower interest rates (*lower risk to creditors*)
 - Requires voter approval
 - Subject to statutory debt limits
- Revenue Pledge
 - Payable from project revenues (*fees, utility payments, etc.*)
 - Higher interest rates (*higher risk to creditors*)
- Annual Appropriation
 - Short-term debt payable from budget line item (*less impact on credit*)
 - Medium interest rates (*moderate risk to creditors*)
- Creditworthiness
 - Overall financial health (*tax base, coverage ratio, audits*)
 - Ratings (*Moody's, S&P, Fitch*)





Keys to Cost-Effective Debt

(Key #3 - Term)



- Economic life of project being financed
 - Equipment acquisition (*3-5 years*)
 - Capital building (*20-30 years*)
- Budgetary constraints
 - Shorter term, larger principal payments
 - Longer term, higher interest rates/payments





Keys to Cost-Effective Debt

(Key #4 - Form)

- Bonds/Notes/Warrants
 - Publicly traded
 - Highest degree of documentation
- Loans
 - Less liquidity
 - Simpler documentation
- Leases
 - Current expenditure, not long-term debt (*except CO, NM*)
 - Improve cash flow by expensing over useful life





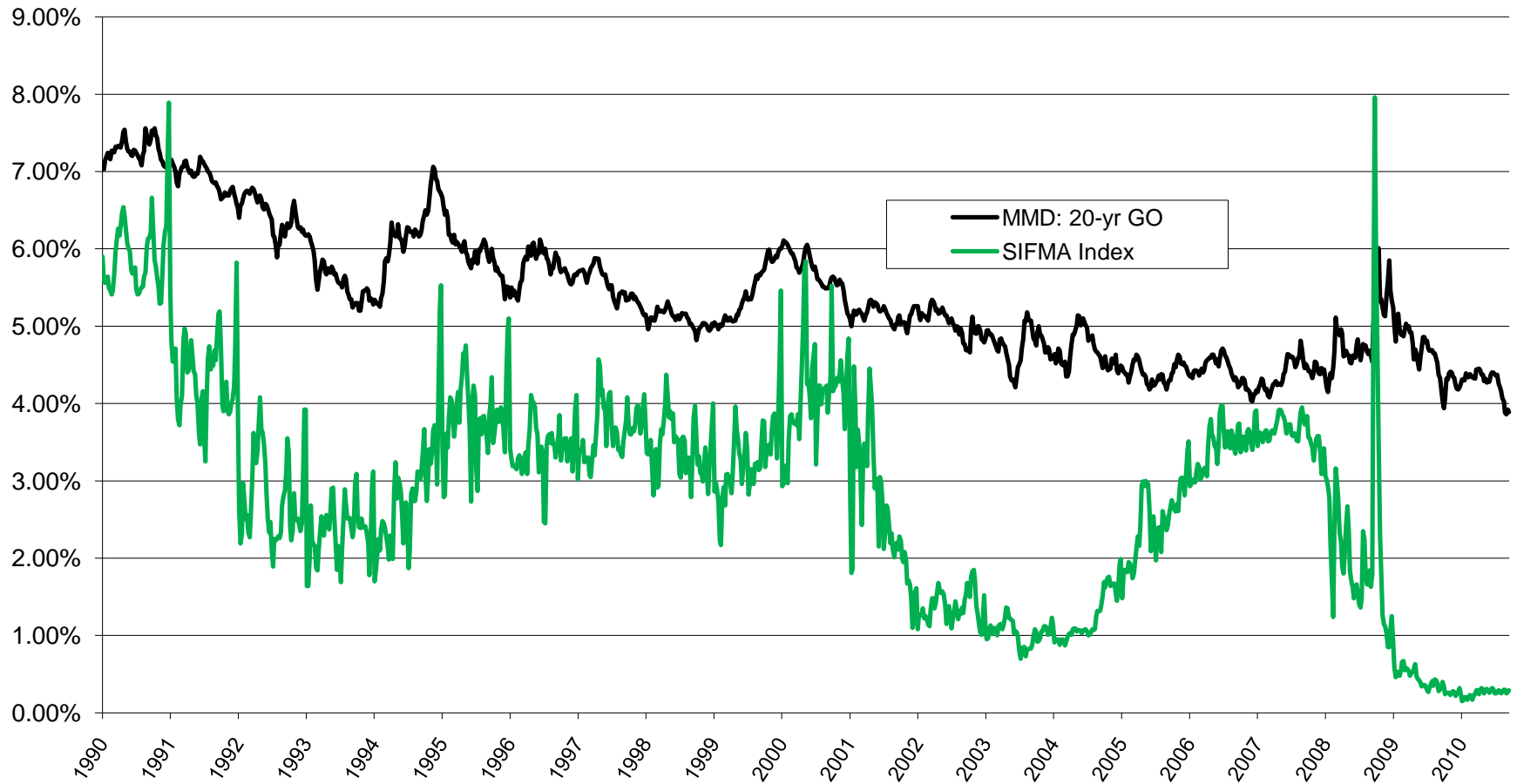
Keys to Cost-Effective Debt

(Key #5 - Mode)

- Fixed Rate
 - Single rate for term of debt
 - Harder to refinance (*call protection, breakage*)
 - Higher initial & historical average yield
 - Easier to budget
- Variable Rate
 - Rate changes periodically (*e.g. daily, weekly*)
 - Easily refinanced at any time
 - Lower initial & historical average yield
 - Match variable revenue sources



20-Yr GO (Fixed Rate) vs. SIFMA Municipal Swap Index (Variable Rate)





Keys to Cost-Effective Debt

(Key #6 - Costs)

- Up-Front (Closing) Costs
 - Underwriter Discount
 - Fees (*Counsel, Insurance, etc.*)
 - Staff Time (*Application, Documents*)
- Ongoing (Post-closing) Costs
 - Interest
 - Fees (*e.g. Trustee, Credit, Rating, Admin, Remarketing*)
 - Staff Time (*Accounting, Disclosure*)
- All-In Yield
 - Include ALL Up-Front & Ongoing Costs
 - Time-value of money (*Present Value*)





Keys to Cost-Effective Debt

(Key #7 - Timing)

- Rising Market
 - Rates going up
 - Use fixed rate to lock in lower rate
- Falling Market
 - Rates going down
 - Use variable rate to avoid locking in higher rates
- Difficulties in predicting
 - How long a trend?
 - Rates change until closing





Keys to Cost-Effective Debt Mini-Review

- Tax Status
- Security
- Term
- Form
- Mode
- Costs
- Timing



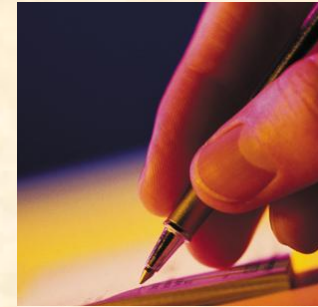
Debt Management



Debt Management Policy

“...written guidelines and restrictions that affect the amount and type of debt issued..., the issuance process, and the management of a debt portfolio.”

The Government Finance Officers Association (GFOA) recommends that all state and local governments adopt comprehensive written debt management policies, and that governments review them at least annually and revise them as necessary.



- Limits (*legal, public policy, financial*)
- Use of Derivatives (*types, evaluation, selection*)
- Debt Structuring Practices (*term, maturity, mode, capitalized interest, GO*)
- Debt Issuance Practices (*sale methods, refundings, use of professionals*)
- Debt Management Practices (*investment, disclosure, rebate*)



Adobe Acrobat
Document



Financing Sources



Grants



- Pros
 - No (low) costs (*upfront or ongoing interest/fees*)
 - No tax consequences
- Cons
 - Limited availability
 - Time-consuming application/approval process
 - May have “strings” attached (*use, reporting, funding*)
- Bottom line
 - “Free” money-- get ‘em if you can!



Government Subsidized Loans (e.g. State Revolving Fund)

- Pros
 - No closing costs
 - Low interest rate
- Cons
 - Limited availability (*project qualifications*)
 - Ongoing Admin fees (*0.5% water, 1% sewer*)
 - Two year loan approval and closing
 - Construction bidding requirements
 - Maximum 20-year term
- Bottom line
 - *Good source, but long lead time*



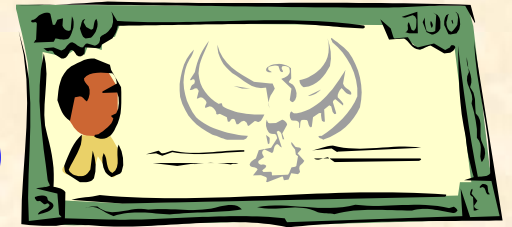
Banks & Finance Companies

- Pros
 - Low closing costs
 - Relatively simple documentation
 - “Local” providers
- Cons
 - Generally highest interest rates
 - Higher (if any) variable-rate
- Bottom line
 - Use when necessary, but negotiate rates/costs



Stand-alone Bonds

- Pros
 - Low rates for better credits
 - Low ongoing fees
 - Can be tailored for unusual needs or conditions
- Cons
 - High upfront closing costs
 - Higher rates for lower credits (*if available*)
 - Time-consuming closing process
 - Serious tax and legal considerations
 - Fixed-rate only, unless very large
 - Call protection
- Bottom line
 - Good for qualified, larger (multi-million \$) issuers



Build America Bonds

- Pros
 - Low effective interest rate (*after Fed rebate*)
 - Wider buyer market than traditional tax-exempts
- Cons
 - Limited availability (*project qualifications*)
 - Complicated bookkeeping for rebate
 - Highest upfront fees
 - Subsidy must be renewed by Congress
 - Subsidy declines over time
 - IRS could withhold subsidy (*FL suspended*)
- Bottom line
 - Good rates, but much uncertainty



MAMU Pooled Finance Program

- Pros
 - Easy and fast application/approval process
 - Low upfront closing costs (*economies of scale*)
 - Low fixed/variable rates for all credits (*credit enhanced*)
 - Pre-payable at any time (*no call protection*)
 - Administered by MAMU
- Cons
 - Higher ongoing fees
 - Fixed rate through use of derivatives
 - Fixed rate may have early termination fee
- Bottom line
 - Great “bang for the buck”, often even for large issuers



New MAMU Finance Program

- Pros
 - Easy and fast application/approval process
 - Not limited to utility projects or to Missouri munis
 - Low upfront closing costs (*economies of scale*)
 - Competitive fixed and variable rates for all credits
 - Pre-payable at any time (*no call protection*)
 - Administered by MAMU
- Cons
 - Must pass credit review
 - Normally, 20-yr term limit
- Bottom line
 - Easy, competitive funding of nearly any project



MAMU Program Details



MPUA

Missouri Public Utility Alliance



MAMU Pooled Financings

Pool	# of Leases	Total of Leases	9/30/10 Bal
Series 1999	18	41,570,000	540,000
Series 2003	6	30,100,000	22,055,000
Series 2005	24	44,195,000	35,472,000
Series 2006	13	33,827,000	28,618,000
Series 2008	14	35,113,000	32,234,000
Total	75	184,805,000	118,919,000



1999 Program – Leases

Lease	Close Date	Orig Bal	9/30/10 Bal
City of Albany (Street Overlay)	4/6/2000	645,000.00	
City of Bethany	8/17/2000	1,805,000.00	
City of Bull Creek (Sewer)	1/18/2001	890,000.00	
City of Butler (Generators,Water/Sewer/Elec)	6/13/2000	2,855,000.00	
City of Cabool (Police & Fire Equip)	6/6/2000	645,000.00	
City of Campbell (Sewer System & Firetruck)	2/27/2001	880,000.00	
City of Craig (Water & Sewer)	6/12/2000	300,000.00	95,000.00
City of Farmington (Power Generation)	1/15/2002	6,165,000.00	
City of Farmington (Water & Sewer Extensions)	7/27/2000	500,000.00	
City of Fredericktown - Substation	12/17/2002	780,000.00	
City of Liberty (Drainage Project)	5/31/2000	2,060,000.00	
City of Milan (Water Distribution Project)	6/29/2000	420,000.00	
City of Plattsburg (Sewer Repairs)	11/19/2002	600,000.00	445,000.00
City of Poplar Bluff (Power Plant Addition)	8/22/2001	15,150,000.00	
City of Rolla (Generation Project)	6/2/2000	6,000,000.00	
City of Trenton (Fire Truck)	8/23/2001	260,000.00	
City of Trenton (Sanitation/Safety/City Hall)	6/16/2000	585,000.00	
City of Waynesville (Water & Sewer)	10/25/2001	1,030,000.00	
18	Total	41,570,000.00	540,000.00



2003 Program – Leases

Lease	Close Date	Orig Bal	9/30/10 Bal
City of Farmington	7/8/2003	580,000.00	
City of Kennett CLGW Refinance	6/24/2003	7,335,000.00	5,450,000.00
City of Poplar Bluff Refinancing	6/30/2003	14,545,000.00	11,575,000.00
City of Rolla (Water Towers)	6/20/2003	2,485,000.00	1,850,000.00
City of Waynesville	7/15/2003	495,000.00	
City of Hannibal (Water/Lift/Electric)	4/23/2004	4,660,000.00	3,180,000.00
6	TOTAL	30,100,000.00	22,055,000.00



2005 Program – Leases

Lease	Close Date	Orig Bal	9/30/10 Bal
City of Albany - Community Center	8/25/2005	1,179,000.00	1,024,000.00
City of Butler - City Hall/Utility Office	7/28/2005	252,000.00	
City of Fredericktown - Electric Upgrades	7/28/2005	858,000.00	698,000.00
City of Kimberling City - Wastewater Facility Improvemen	6/29/2005	359,000.00	271,000.00
City of Lake Lotawana - Sewer Plant	10/14/2005	3,500,000.00	3,084,000.00
City of Lake Ozark - Refinance/Wastewater	6/29/2005	5,620,000.00	3,890,000.00
City of La Plata - Electric System Upgrade	6/29/2005	1,538,000.00	1,349,000.00
City of Macon - Wastewater Phase 1	12/16/2005	1,100,000.00	826,000.00
MJMEUC/MoPEP - Co-Generation Project	3/30/2006	8,715,000.00	6,902,000.00
City of Queen City	3/30/2006	411,000.00	320,000.00
City of St Robert #1 - Refinance+Wastewater/Others	7/28/2005	5,402,000.00	4,416,000.00
City of Trenton - Aquatic Center	7/28/2005	2,509,000.00	2,147,000.00
City of Warsaw - Wastewater Expansions	7/28/2005	2,358,000.00	1,700,000.00
City of Waynesville - Utility Expansion & Add'l Wastewat	6/29/2005	1,886,000.00	1,537,000.00
City of Carl Junction - Flouridation Project	6/7/2006	257,000.00	132,000.00
City of Crocker - Utility Extensions	6/7/2006	851,000.00	774,000.00
City of Lake Lotawana - Sewer Plant (Add'l)	6/7/2006	845,000.00	741,000.00
Nodaway County Public Water Supply District #1	6/7/2006	1,144,000.00	1,064,000.00
City of St. Clair - Water & Wastewater	6/7/2006	875,000.00	756,000.00
Butler Refunding	8/30/2006	1,360,000.00	1,042,000.00
City of Hayti - Water System	8/30/2006	466,000.00	415,000.00
Kimberling City - Water & Wastewater	8/30/2006	1,577,000.00	1,353,000.00
Nodaway County Public Water Supply District #1 - 2nd F	8/30/2006	770,000.00	721,000.00
Ripley County PWSD#1 - Ground Wells	8/30/2006	359,000.00	310,000.00
24 Total		44,195,000.00	35,472,000.00



2006 Program – Leases

Lease	Close Date	Orig Bal	9/30/10 Bal
City of Hannibal - Transfer Pumps Phase 1	12/19/06	1,000,000	673,000
City of Republic - Brookline Extension/Fire Stations	12/19/06	7,865,000	7,179,000
City of Republic - Brookline Extension/Fire Stations (Phase 2)	2/22/07	992,000	906,000
Steelville - Electric Feeder Circuit	7/12/07	769,000	691,000
City of Lamar - Trucks & Equipment	11/15/07	400,000	139,000
MJMEU/Laddonia	11/15/07	781,000	645,000
City of Bethany - Street Renovation	11/15/07	769,000	354,000
MJMEUC - Office Building	12/6/07	1,523,000	1,421,000
Farmington - Electric Generator Refinance	12/6/07	2,964,000	2,046,000
Higginsville - Swimming Pool	2/19/08	2,155,000	2,020,000
Albany - Water Tower Project	3/27/2008	243,000	183,000
Sullivan - Wastewater Treatment Plant	3/27/08	7,395,000	6,786,000
Hannibal - Transmission Line & Water Project	5/15/08	6,971,000	5,575,000
13	Total	33,827,000	28,618,000



2008 Program – Leases

Lease	Close Date	Orig Bal	9/30/10 Bal
Bethany - Water & Electric Upgrades	8/28/08	1,846,000	1,355,000
Centralia - Electric Substation	7/23/2009	1,637,000	1,548,000
City of Odessa - Aquatic Center	8/28/08	2,300,000	2,146,000
City of Fredericktown - Substation (MAMU'99 Lease Refinance)	11/25/08	652,000	586,000
Fredericktown - Equipment	3/26/09	556,000	400,000
PWSD #1 of Nodaway Co. - Water Mains	3/26/09	2,126,000	2,072,000
Rolla Municipal Utilities - Electric Power Supply Infrastructure	12/11/2008	15,000,000	14,590,000
City of Waynesville - Water & Sewer (MAMU'99 Lease Refinance)	11/25/08	890,000	714,000
Rogersville - Water Tower	6/4/09	787,000	760,000
Farmington - Wastewater Treatment Plant Expansion	9/10/09	3,075,000	2,060,000
Farmington - Fire Station	9/10/09	4,305,000	4,152,000
Aurora - Sewerage System Improvements	1/28/10	289,000	257,000
Shelbina - Aquatic Facilities	2/25/10	641,000	620,000
Fredericktown - Substation and Equipment	2/25/10	1,009,000	974,000
14	Total	35,113,000	32,234,000



Current MAMU Pool Interest Rates

All-in Yields include all Fees & Expenses

Current Variable Rate - 0.30% 1.74% All-in Yield (est.)

Wells Fargo MAMU'08 as of 9/30/10

Historical Avg Var Rates

SIFMA Index as of 9/15/09

Term (yrs)	Rate	All-in Yld (est.)
1	0.26%	1.70%
5	1.26%	2.37%
10	2.14%	3.01%
20	2.24%	3.11%
30	2.58%	3.45%

Current Fixed Rates

9/16/10 US Bank swap + 0.10%

Term (yrs)	Rate	All-in Yld (est.)
1	0.54%	1.98%
5	1.01%	2.45%
10	1.84%	3.24%
20	2.75%	4.15%
30	3.00%	4.44%



New MAMU Financing Program

Lease-Purchase

- Same as MAMU Pooled Finance Program
- Proven alternative to bond & cash purchase
- Contract for the acquisition of assets
- Annually appropriated lease payments
- No long term debt or public referendums



New MAMU Financing Program

What can be financed?

- Energy improvements
- Electric System improvements
- Public buildings
- Civic and senior centers
- Law enforcement/emergency facilities
- Equipment
- Gas facilities
- Vehicle purchases
- Renovation projects
- Wastewater improvements
- Water Towers
- Public infrastructure
- Underground facilities
- Any construction project or public infrastructure improvement



New MAMU Financing Program Rates

All-in Yields include all Fees & Expenses

Current Variable Rate - 0.17% 1.52% All-in Yield (est.)

Wells Fargo as of 9/29/10

Historical Avg Var Rates

65.7% x 1mo LIBOR Index as of 9/29/09

Term (yrs)	Rate	All-in Yld (est.)
1	0.18%	1.53%
5	1.98%	3.33%
10	1.82%	3.17%
20	2.67%	4.02%

Current Fixed Rates

Wells Fargo as of 9/28/10

Term (yrs)	Rate	All-in Yld (est.)
1		
5	3.25%	3.45%
10	4.20%	4.45%
20	5.35%	5.55%



Outline Review

- Debt Structuring
 - *Six keys to cost-effective debt*
- Debt Management
 - *Importance of controlling debt*
- Financing Sources
 - *Compare and get the best all-in yield!*





MPUA

Missouri Public Utility Alliance

Post-“Credit Crisis” Financing Options for Municipal Utilities

September 30, 2010

Ewell Lawson

Missouri Public Utility Alliance

Leo Lawrenson

Lawrenson Services Inc.

