

# Utility Financing Alternatives and The Financing Team

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ATTORNEYS AND  
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# Overview

- Financing Options for Utilities
  - Revenue Bonds
  - GO Bonds
  - IPC/COPs
  - BANs/USDA
- The Financing Team
  - Members
  - Roles

# Revenue Bonds

- Security - Net Revenues
- Legal Authority – No voter approval required
- Required Covenants
  - Rate Covenant
  - Additional Bonds Test
  - Debt Service Reserve
- Structure – Typical 25-year term
- Rating Factors
- Publicly-offered; Negotiated

# General Obligation Bonds

- Security – General taxing power
- Legal Authority – Voter approval required
  - Exception – Two-Thirds
- No Special Covenants
- Structure – Typical 20-year term
- Rating Factors
- Publicly-offered; Competitive

# Installment Financing

- Security
  - Pledge to appropriate for DS
  - Lien on financed asset
- Legal Authority – No voter approval required
- No Special Covenants
- Problems with putting lien on utility assets
- Structure – Typical 20-year term
- Rating Factors
- Public or Private offerings (IPC vs. COPs)

# BANs/USDA Financing

- Two-Step Process
- Interim BAN to be taken out with USDA Loan
- Authorized and Issued like a GO
- Must abide by USDA requirements for bidding, project funding, documentation
- Structure – Typical 40-year term
- Typically unrated
- Limited availability
- Privately offered to USDA

# Members of a Financing Team

- Issuer - Finance Director, Utility Manager, Attorney
- Local Government Commission
- Underwriter – More than one if over \$20 million
- Financial Advisor, if desired
- Attorneys – Bond Counsel, Underwriter's Counsel
- Feasibility Consultant (Revenue Bonds)
- Bond Insurer
- Rating Analyst
- Financial Advisor (if desired)
- Trustee (Revenue Bonds, COPs)

# Role of Financing Team Members

- Issuer
  - Finance Director and Utility Manager to develop project plan, cost estimates, financing plan
  - Attorney to review documents, coordinate approvals, provide opinion as to proper authorization
- Local Government Commission
  - Oversight of financing process
- Underwriter
  - Work with Issuer to develop financing plan
  - Quarterback the deal - coordinating schedule, meetings, contact with bond insurer/rating agencies, development of financing team
  - Responsible for sale of bonds

# Role of Financing Team Members

- Bond Counsel
  - Work with Issuer to develop financing plan and identify best financing structure
  - Draft bond documents and necessary approvals
  - Coordinate closing
- Underwriter's Counsel
  - Draft disclosure documentation and bond purchase agreement
  - Ensure underwriter complies with securities regulations
- Feasibility Consultant
  - Prepare feasibility study for inclusion in disclosure document
  - Develop rate model for future rate adjustments

# Role of Financing Team Members

- Bond Insurer
  - Provide municipal bond insurance policy for DS payments
  - Provide surety policy for DSR
  - Often have consent rights in bond documents
- Rating Analyst
  - Review transaction and provide credit rating
- Financial Advisor
  - Work with Issuer to develop financing plan
  - Often coordinates with rating agencies and bond insurers
- Trustee
  - Serve as depository and paying agent under bond documents
  - Require documentation for disbursement from bond funds

# Questions?

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