Project Financing Tools

City Engineers Association of Minnesota
January 30, 2013

Presenters
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Presentation Overview

• Funding from Cash
• GO Minnesota State Aid Bonds
• GO Street Reconstruction Bonds
• GO Disposal System Bonds
• GO Improvement Bonds (Special Assessments)
• GO Utility Revenue Bonds
• Tax Increment Financing & Tax Abatement
• GO Temporary Bonds
• PFA Financing
• Bonding Process
Financing Methods & Techniques

• Pay-As-You-Go (Cash)
  – Pay project costs from cash on hand using either current revenues or reserve funds
    ⊘ 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.
    ⊘ Structures
    ⊘ Land
    ⊘ Major improvements
Minnesota State Aid Bonds

(MSA Bonds)

• Defined in Minnesota Statutes 162.18 and Chapter 475.

• Cities with a population over 5,000 may issue or sell obligations for the purpose of establishing, relocating, constructing and improving municipal state-aid streets.

• City irrevocably pledges state aids sufficient to pay the bonds.
**MSA Bonds**

Maximum Bond Size

- A City may issue MSA bonds if the combined average annual debt service of the new bonds and any existing MSA obligations does not exceed 90% of the City’s last annual allotment for construction.
## MSA Bonds
### Maximum Bond Size Limits

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<th>Description</th>
<th>Limit</th>
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<td>2012 State Aid Construction</td>
<td>$1,093,842</td>
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<td>Times maximum</td>
<td>* 90%</td>
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<td>Average Annual Debt Service</td>
<td>$ 984,457</td>
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### $4,000,000 Bond Example

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<th>Debt Service Period</th>
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<th>Other MSA Debt Service</th>
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MSA Bonds
General Obligation Payment Structure

• Bonds may be issued as General Obligation.
• State Aid monies, to the extent available, must be used to pay debt service.
• If other sources provide an internal loan, it must be repaid from the money received the following year by the City.
  – The resolution would pledge an appropriation to the sinking fund from which the obligations are payable from its capital state-aid fund (interest may be paid from maintenance account)
MSA Bonds
State Aid Allotments

- Certified to the Commissioner of Management and Budget.
- Commissioner shall issue a warrant annually in the amount to be deposited in the sinking fund from which the obligations are paid.
- Payment dates are April and October as opposed to February and August typically used for tax supported bonds.
GO Street Reconstruction Bonds
(Minnesota Statutes, Section 475.58, Subd. 3b)

• What is street reconstruction?
  – Street reconstruction includes: utility replacement and relocation and other activities incidental to the street reconstruction, turn lanes and other improvements having a substantial public safety function, realignments, other modifications to intersect with state and county roads, and the local share of state and county road projects.
  – Cannot widen a street or add curb and gutter where none existed, unless in case of turn lanes, safety improvements, realignments, intersection modifications.
GO Street Reconstruction Bonds
(Minnesota Statutes, Section 475.58, Subd. 3b)

- Statutory requirements for authority to issue bonds:
  - 5-year street reconstruction plan is prepared, which describes streets to be reconstructed and costs.
  - Hold a public hearing on plan and principal amount of bonds to be issued after notice is published in official newspaper at least 10 days prior to public hearing.
  - 100% of governing body present at the meeting must adopt plan and amount of bonds to be issued.
GO Street Reconstruction Bonds
(Minnesota Statutes, Section 475.58, Subd. 3b)

– Subject to reverse referendum requirement (election) if 5% of voters at last municipal general election submit a petition to the City within 30 days of public hearing.

– Bonds subject to debt limit of the municipality.

– Street reconstruction can be specially assessed against benefited property owners at discretion of City.
GO Disposal System Bonds
(Minnesota Statutes, Section 115.46)

- Issue GO Bonds to finance disposal systems.
- Disposal systems are defined as systems for disposing of sewage, industrial waste and other wastes, including sewer system and treatment works.
- No public hearing requirement.
- Bonds payable from special assessments, net revenues and tax levy individually or a combination of these sources.
GO Improvement Bonds
(Minnesota Statutes, Chapter 429)

- Improvements Authorized:
  - Street and sidewalk improvements
  - Storm and sanitary sewer
  - Steam heating
  - Street lighting systems
  - Water works systems
  - Parks, open space, playgrounds, recreational facilities
  - Planting, trimming and tree removal
  - Abatement of nuisances; drain swamps
  - Dikes and flood control works
  - Retaining walls
  - Pedestrian skyway systems
  - Underground pedestrian concourses
  - Public malls, plazas and courtyards
  - District heating systems
  - Fire protection systems
  - Highway sound barriers
  - Gas and electric distribution facilities
  - Signs, posts and markers for 911 telephone service
GO Improvement Bonds
(Minnesota Statutes, Chapter 429)

• Before a contract for an improvement is awarded:
  – Secure from city engineer a preliminary report that the improvement is necessary, cost-effective and feasible.
  – Hold a public hearing on proposed improvement after 10 days mailed notice to property owners proposed to be assessed and published notice two weeks apart and hearing at least 3 days after second publication.
GO Improvement Bonds
(Minnesota Statutes, Chapter 429)

– Notice of public hearing shall contain:
  - The general nature of the improvement
  - The estimated cost
  - The area proposed to be assessed
  - A statement that a reasonable estimate of the impact of the assessment will be available at the hearing.

– Public hearing not required if 100% of property owners abutting the street named as location of the improvement petition the City to construct the improvement and agree to pay 100% of the costs.
GO Improvement Bonds
(Minnesota Statutes, Chapter 429)

- Within 6 months of the date of public hearing the council must order the improvement by a vote of not less than 4/5ths of all members of the council.
- 3/5ths vote required if improvement petitioned by property owners of 35% of frontage of property abutting the street named in the petition.
- Resolution ordering improvement can reduce, but not increase, the improvement described in the notice of hearing.
- After adoption of resolution ordering City has legal authority to issue bonds; provided that not less than 20% of the cost to the municipality is assessed to benefitted property owners.
GO Improvement Bonds
(Minnesota Statutes, Chapter 429)

• Other statutory procedures:
  – Adopt resolution ordering plans and specifications.
  – Advertise for construction bids.
  – Prepare an assessment roll.
  – Hold special assessment hearing.
  – Mail and publish notice of assessment hearing once no less than 2 weeks prior to hearing.
GO Improvement Bonds
(Minnesota Statutes, Chapter 429)

– Notice of assessment hearing shall contain:
  - The date, time, and place of such meeting
  - The general nature of the improvement
  - The area proposed to be assessed
  - The total amount of the proposed assessment
  - The proposed assessment roll is on the file with the clerk
  - Written or oral objections thereto by any property owner will be considered
  - No appeal may be taken as to the amount of any assessment, unless a written objection signed by the affected property owner is filed with the municipal clerk prior to the assessment hearing or presented to the presiding officer at the hearing
  - An owner may appeal an assessment to District Court
  - The existence of any deferment procedure established
GO Improvement Bonds
(Minnesota Statutes, Chapter 429)

- Mailed notice shall contain:
  - The amount to be specially assessed against the particular lot, piece, or parcel of land
  - Adoption by the council of the proposed assessment may be taken at the hearing
  - The right of the property owner to prepay the entire assessment and the person to whom prepayment must be made
  - Whether partial prepayment of the assessment has been authorized by ordinance

- Adopt resolution adopting special assessments.
- Certify assessment roll to County Auditor.
GO Revenue Bonds
(Minnesota Statutes, Chapter 444)

- Authority to finance improvements to water, sanitary sewer and storm sewer systems.
- No public hearing requirements.
- Bonds secured by a covenant to charge rates and charges sufficient to generate net revenues sufficient to pay 105% of debt service on bonds, after taking into account any special assessments pledged to the bonds.
- Tax levy for the payment of the bonds can only be on a temporary basis.
Economic Development Tools

• TIF and Tax Abatement can be used to fund infrastructure improvement.
• Nexus between funded improvements and revenue generating development.
• Typical expenditures include, street improvement/realignment (including ROW acquisition), extension of public utilities to development site, on site stormwater improvements, and reimbursement of private special assessment costs.
• Additionally Abatement has been used as a tool for funding highway interchange projects.
Economic Development Tools

TIF

• Tax Increment Financing (TIF) Definition.
  – TIF captures the incremental increase in local (City, County, ISD) property taxes resulting from new development over a period of years.
  – Captured property tax revenue is used to fund project cost associated with the new development.
  – District is a geographic area in which revenue is generated and the majority of expenditures must be made.
TIF

- TIF Eligibility: Certain criteria must be met for a project to be eligible for the creation of a TIF District.
  - Eligibility is based on either existing site condition or the type of development proposed.
    - Site-condition based TIF districts
      o Redevelopment (25-Year District)
      o Renewal and Renovation (15-Year District)
    - Development type based TIF Districts
      o Housing (25-Year District)
      o Economic Development (8-Year District)
  - Determination that project would not proceed “but-for” TIF must be made.
Economic Development Tools

TIF

• TIF Revenue Generation
  – TIF is generated by the increase in property value resulting from the proposed development.
    □ Post development market value: $5,000,000
    □ Pre-development market value: $1,000,000
    □ Incremental growth in value: $4,000,000
      ◦ This incremental growth in value multiplied by the local property tax rate generates the TIF revenue
  – TIF revenue is generated annually over the term of District, with term length determined by District Type.
Economic Development Tools

TIF

• Use of TIF Revenue
  – TIF revenue is used to fund eligible project costs as defined by statute, which can include public improvements.
  – Eligible costs can be related to both publicly or privately incurred improvement costs.
  – Majority of TIF is required to be spent within the District boundary; 75%-85% depending on District type.
Economic Development Tools

TIF

• District Creation Process
  – Statutorily required process for creating District.
    - A public hearing is required prior to approval
    - District creation timeline is approximately 60-90 days depending on timing of meetings and publications
Economic Development Tools

Tax Abatement

• Tax Abatement Definition
  – Tax Abatement provides the opportunity to capture or allocate specific market value for funding of projects.
  – Market value captured can be new value growth resulting from development, but also existing market value.
  – Each taxing jurisdiction (City, County, ISD) has option of participating.
  – Must be a nexus between parcels being abated and project cost being funded.
Economic Development Tools

Tax Abatement

• Tax Abatement Eligibility
  – Required findings:
    □ Benefit of abatement will at least equal cost, or is to phase in property tax increase; and
    □ That abatement is in public interest because it will:
      1. Increase or preserve tax base
      2. Provide employment opportunities
      3. Provide or help acquire public facilities
      4. Help redevelop or renew blighted areas
      5. Help provide access to services
      6. Finance or provide public infrastructure
      7. Phase in property tax increase
Economic Development Tools

Tax Abatement

• Tax Abatement Revenue Generation
  – Tax abatement is generated by each participating taxing jurisdiction levying their abatement amount.
  – A jurisdiction’s max annual amount for each parcel abated is equal to its tax rate $\times$ net tax capacity of each of the parcels.

• Abatement may be limited to:
  – Specific dollar amount per year or in total.
  – Increase in property taxes resulting from improvement to the property.
  – Increase in property taxes resulting from increases in market value.
  – Any other manner the governing body of the jurisdiction determines is appropriate.
Economic Development Tools

Tax Abatement

• Use of Tax Abatement Revenue
  – Private Assistance Scenario.
    - If tax abatement is used to assist private development, the annual revenue is provided on a pay-as-you-go basis as a reimbursement of some portion of the annual property tax cost
  – Public Project Scenario.
    - If the tax abatement is used for the funding of public projects, the annual revenue is captured for the funding of the improvements, typically through the payment of all or a portion of debt-service on a bond issue
    - Tax abatement essentially becomes a special levy amount sized around required debt-service
Economic Development Tools

Tax Abatement

• Tax Abatement Limitations
  – In any year the total amount of property taxes abated by a taxing jurisdiction may not exceed (1) 10% of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies, or (2) $200,000, whichever is greater.
Tax Abatement Creation Process

- A statutorily required process for creating Abatement.
  - A public hearing is required prior to approval
  - Abatement creation timeline is approximately 45-120 days depending on timing of meetings, publications, and response of other taxing jurisdictions
G.O. Temporary Bonds
M.S. 475.61

• Useful when a City has approved a grant or loan from a state or federal agency and the funds are not available until the project is complete.
• Matures in three years.
• Typically, interest accrues and is not paid until retirement.
• Must know that grants and cash will pay-off the bonds or that a new bond will be authorized to provide permanent financing.
• Additional temporary bonds may be issued, once.
Public Facilities Authority

Financing Requirements

• Systems for purifying, storing and distributing drinking water. Safe and sanitary wastewater treatment. They provide financing for the construction of the basic infrastructure they need to protect public health and safety.

• Land costs are not allowed.

• Must comply with statutes for issuance.

• 20 year maximum term; Restrictions on calling bonds.
Public Facilities Authority
Financing Requirements

• Interest based on an index.
• Projects must be included on the Minnesota Pollution Control Agency’s Project Priority List and the PFA’s Intended Use Plan (IUP). Projects must be certified by the MPCA before the PFA may approve a loan.
• Applications are accepted within six months after the intended use plan is approved using the PFA's loan application forms. The IUP is compiled once a year but may be amended.
• Applicants must demonstrate the financial capacity to repay the loan and that complete financing of the project is in place.
The Bond Issuance Process

• Planning Phases
  - Revenue streams (feasibility study).
  - Term.
  - Existing debt considerations.
  - Future debt considerations.
  - Method of Sale - competitive vs. negotiated.
  - Market Strategy.
    - Credit rating and Official Statement Disclosure
    - Investors to target
# Rating Impact

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**Lowest**

(Investment Grade)
Financing Timetable

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