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# Debt Structuring 101

**WGFOA Spring Conference**  
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## Wisconsin Debt Options



## General Obligation Debt

### ● General Obligation Notes

- Must mature within 10 years
- Can be issued for any public purpose, "including but not limited to paying any general and current municipal expense, and refunding any municipal obligations, including interest on them"
- Commonly used, relatively straightforward issuance process
- Have wide market appeal
- Easy to reallocate proceeds between projects



## General Obligation Debt

### ● General Obligation Bonds

- Generally must mature within 20 years (exception under Section 67.07)
- Can only be issued for specific purposes (e.g., streets, libraries, etc.)
- New money bonds must be issued via a competitive sale
- Refunding bonds can be issued via either a competitive sale or negotiation
- Potential Referendum (Section 67.05)
  - Permissive Referendum with a 30-day Petition Period vs. Required Referendum

#### CHAPTER 67 - MUNICIPAL BORROWING AND MUNICIPAL BONDS

67.07 Maturity and place of payment. ....payable not later than 20 years after the original date of the bonds, except that when the bonds are issued for the acquisition of lands by a county having a population of 150,000 or over, for public, municipal purposes or for the permanent improvement thereof, by a sewerage district or county having a population of 150,000 or over for sewerage purposes and by any city for sewerage purposes, all installments of principal and interest shall be made payable within a period not exceeding 50 years from the original date of the bonds. The terms of the bonds shall comply with the initial resolution.




## General Obligation Debt

### ● General Obligation State Trust Fund Loan

- The State of Wisconsin Board of Commissioners of Public Lands makes general obligation loans to local units of government
- Not tax-exempt debt
- Rates set at 2, 5, 10, and 20 year increments

Loan Term	Interest Rate
1 - 2 Years	3.00%
3 - 5 Years	3.00%
6 - 10 Years	3.50%
11 - 20 Years	4.00%

Last changed on November 22, 2016




## Revenue Bonds

- Revenue Bonds
  - No legal limit to how much revenue debt can be issued
  - Must mature within 40 years
  - First principal payment must occur within 3 years of issuance
  - Can be issued on a parity or junior lien
  - Debt service coverage
    - Revenue less operating expenses (net of depreciation) / debt service
    - Minimum coverage ratio established by bond covenants

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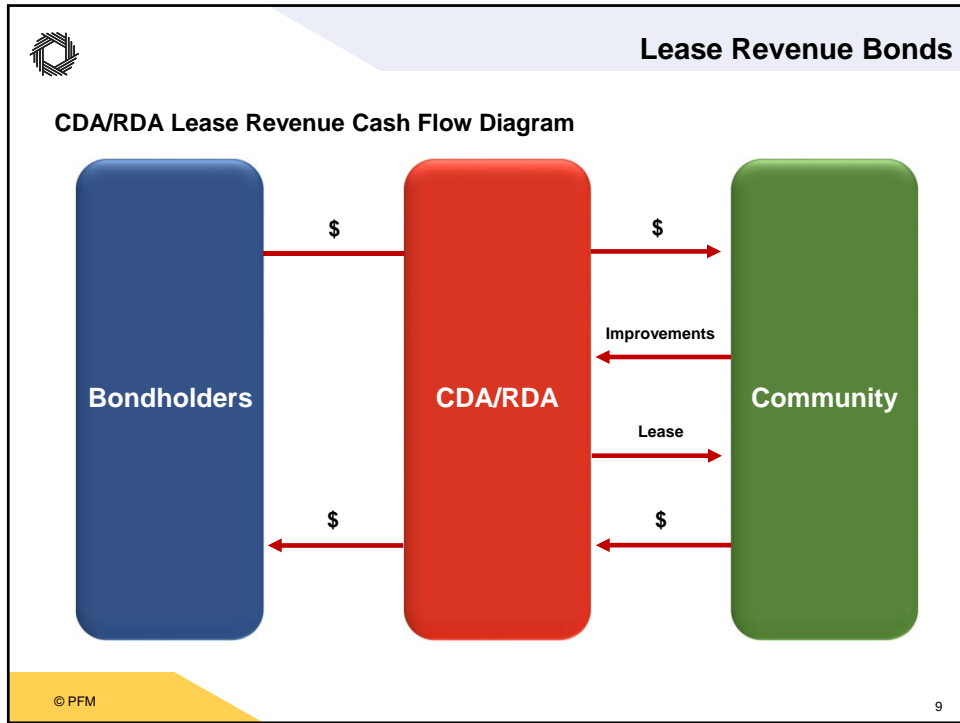


## Revenue Bonds

- Revenue Bonds
  - Wisconsin State Statutes provide broad ability for municipalities to issue revenue bonds for "public utilities"
  - "Public utility" means any revenue producing facility or enterprise owned by a municipality and operated for a public purpose"
  - Typical Revenue Bonds in Wisconsin include:
    - Water
    - Electric
    - Sewerage
    - Other

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- Special Assessment B Bonds**
- Special Assessment B Bonds
    - Secured by assessment against property - not subject to the 5% debt limitation
    - Lien is placed against properties which benefit from the project being financed
    - Mature at the same rate as the assessment
    - Must be structured as level principal payments, plus interest
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## Anticipation Notes

### • Anticipation Notes

- Interim financing issued in anticipation of future borrowing
- NANs
- BANs
- Must mature within 5 Years
- If anticipation notes are used in anticipation of general obligation debt, the "20 year clock" is started when the general obligation issue is sold to refund the anticipation notes



## Other Considerations




## Sources of Repayment

- Debt Service Levy
- Utility Revenues
- TID Revenues
- Special Assessments
- Other

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## Federal Tax Status

- Federal Tax Status from most advantaged to not advantaged:
  - I. Bank Qualified Tax-Exempt
  - II. Tax-Exempt
  - III. Tax-Exempt subject to the Alternative Minimum Tax (AMT)
  - IV. Taxable
    - The combination of private benefit and private pay trigger taxable financings

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## Bank Qualification

### Bank Qualified Tax-Exempt

- Generally limited to \$10,000,000 per year, with certain exceptions
- New money issues and advanced refunding issues always count to \$10,000,000 limit
- Current refunding issues do not count to \$10,000,000 limit so long as:
  - Refunded debt is bank qualified
  - Average life of refunded debt is less than refunding debt (unless NANs/BANs)
  - Refunded NANs/BANs must have had an original term of 3 years or less



## Market Considerations

- Call Dates
- Block sizes
- Term bonds
- Interest rate environment
- Rating agency considerations



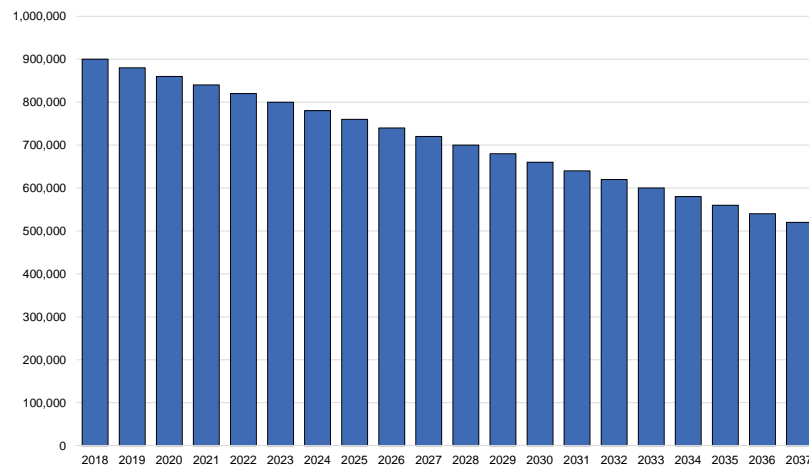


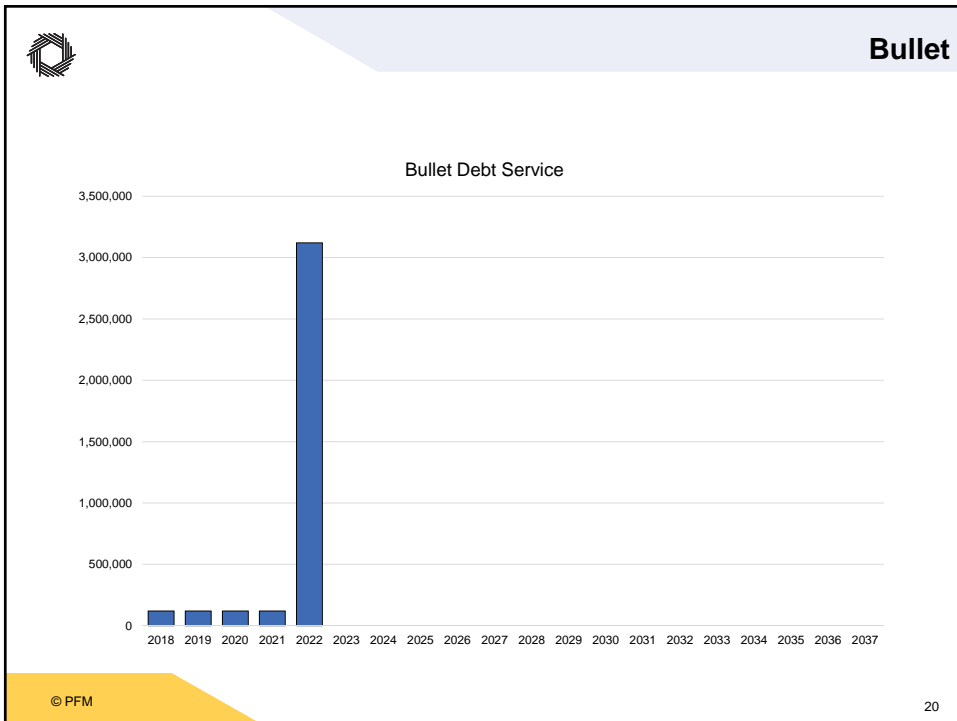
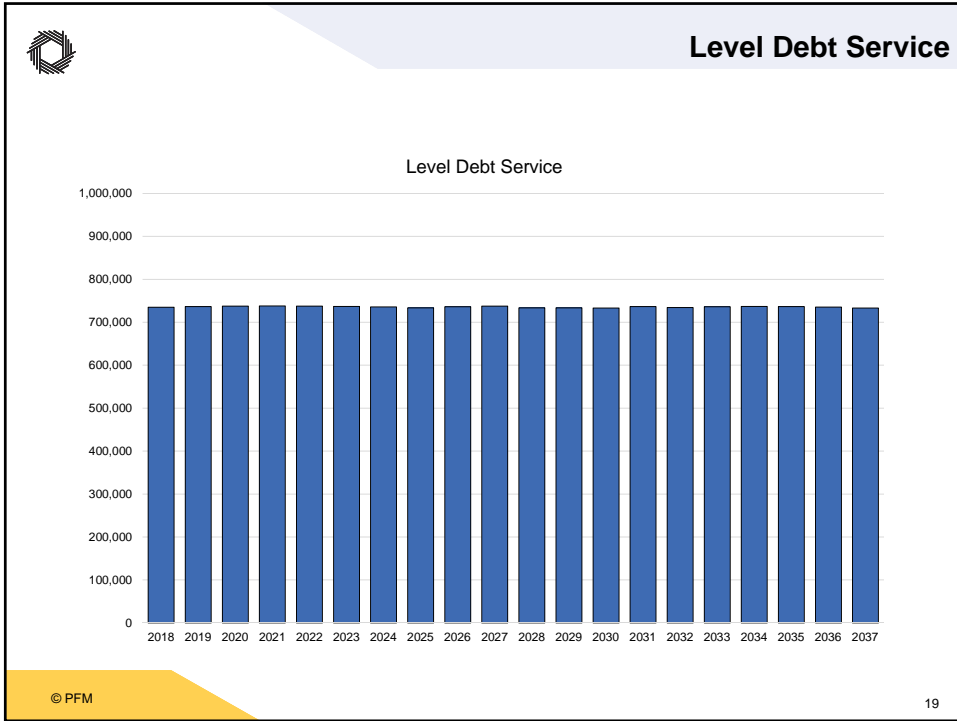
## Basic Structuring Options

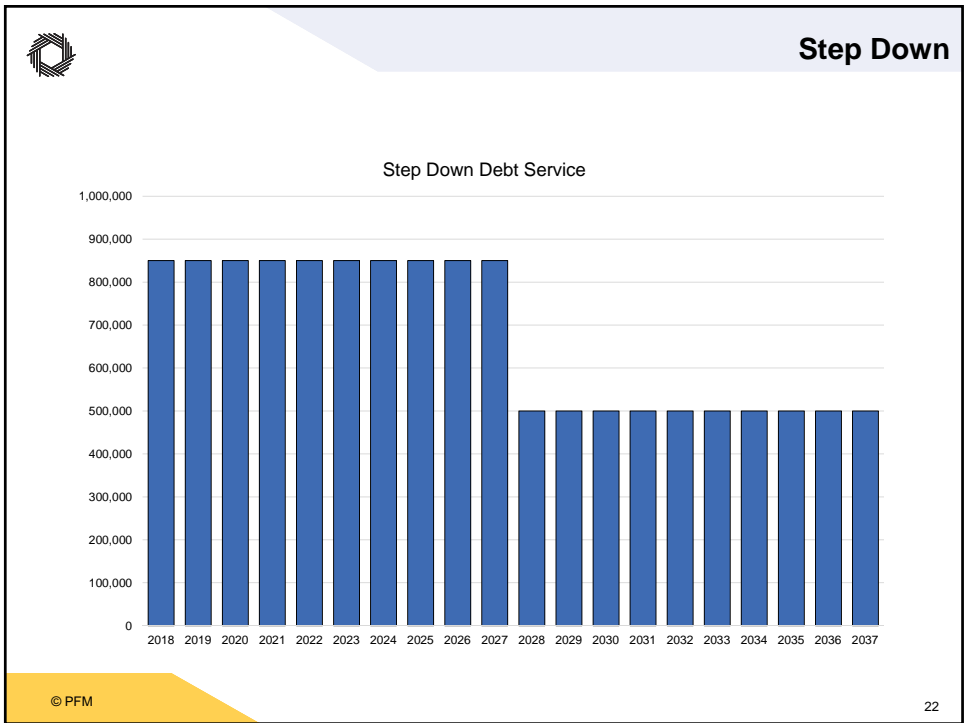
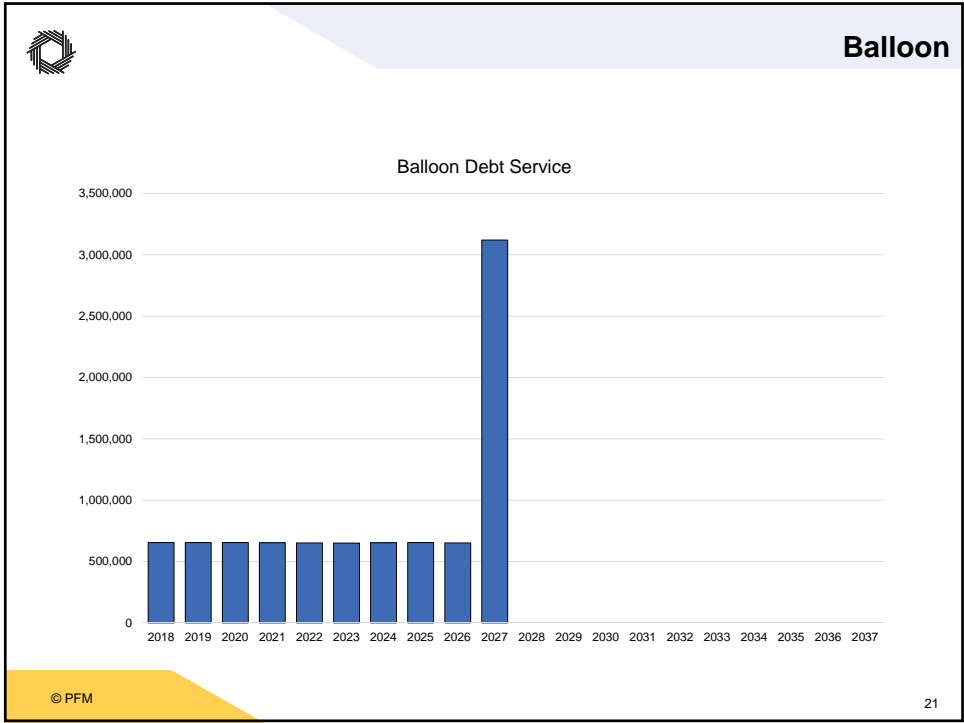


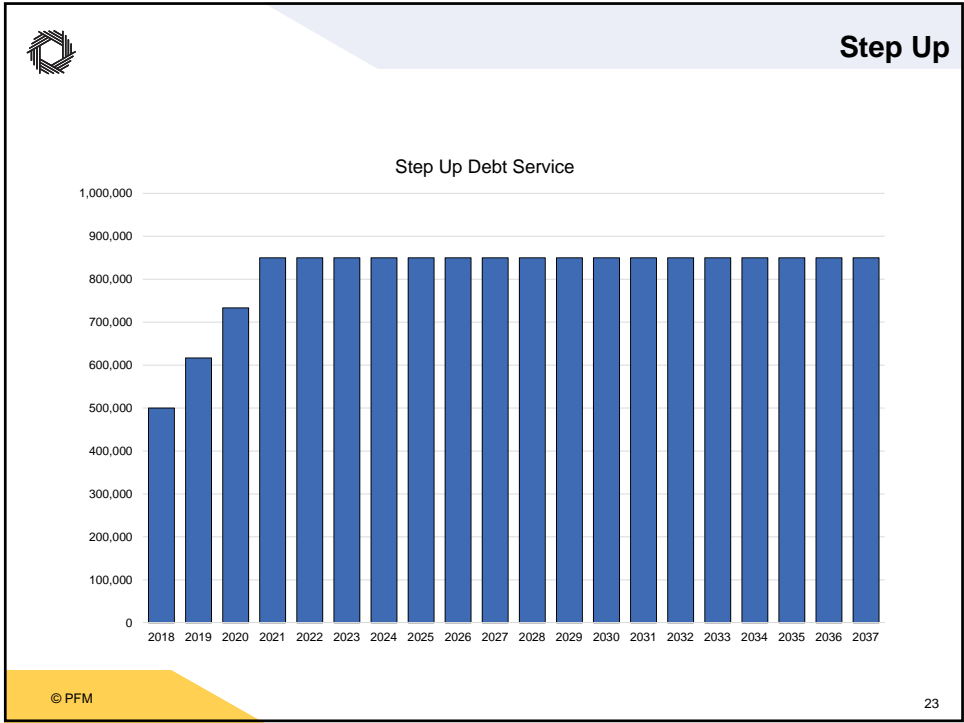
## Level Principal

Level Principal Payments










**Capital Planning Considerations**

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## Capital Planning Considerations

- Strategic Plan
  - What are the policy goals?
- Long-term Capital Improvement Plan (CIP)
  - Regular Annual Investments:
    - (e.g., roads, utility pipe, building mechanicals)
    - Assess existing assets and determine appropriate replacement cycle
  - Special Major Investments:
    - (e.g., new city hall or public works building)
  - Create a range of dollar amounts and timing of projects
  - Should include specific projects for five years, as well as long-term needs


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## Capital Planning Considerations

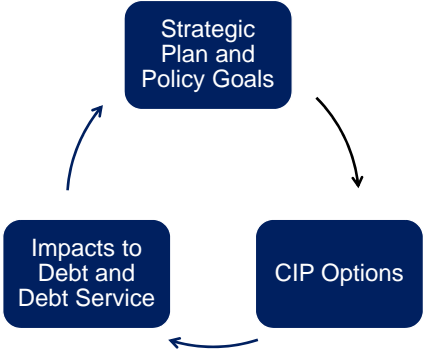
- Funding Sources
  - Current revenues (property taxes, utility revenues, fees and charges, county sales tax)
  - Grants
  - Debt
  - Other
- Debt Policy
  - What are the policy goals?
  - Parameters for borrowings, types of borrowings, credit rating considerations, etc.
  - Compliance and managing existing debt

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### Capital Planning Considerations

- Long-term Capital Improvement Plan and Debt Projections
  - Both inform each other
  - Should be an iterative process



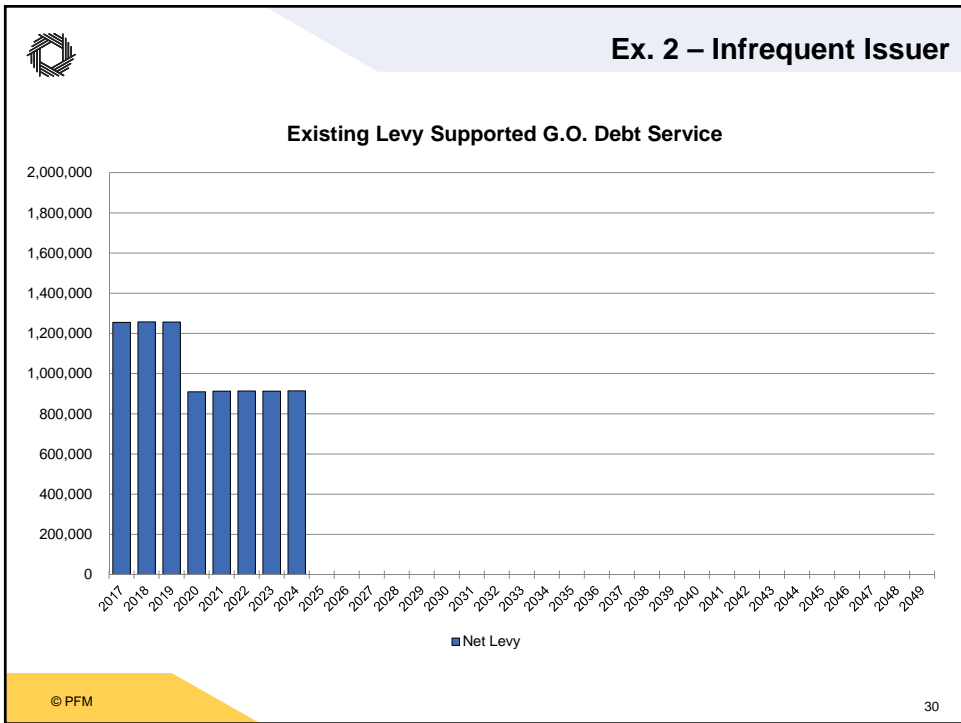
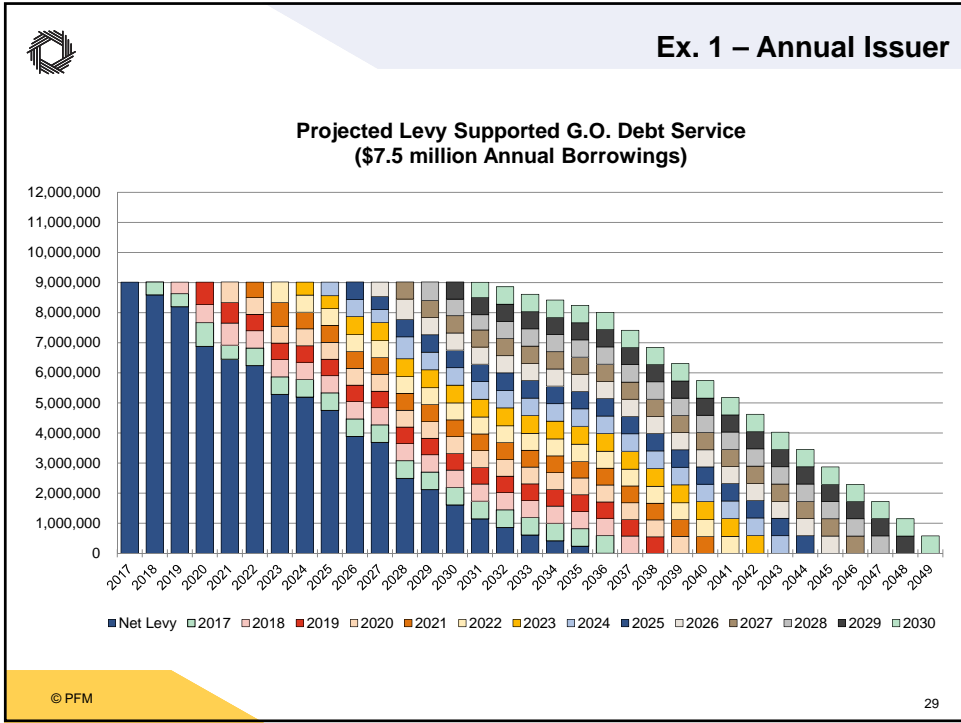
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graph TD; A[Strategic Plan and Policy Goals] --> B[Impacts to Debt and Debt Service]; B --> C[CIP Options]; C --> A;
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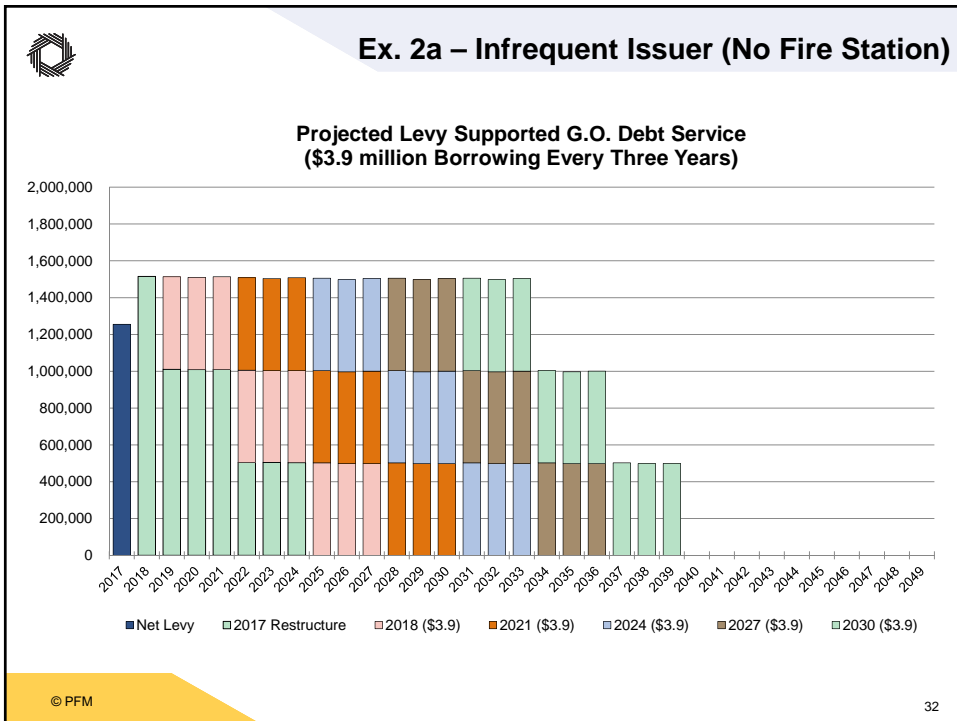
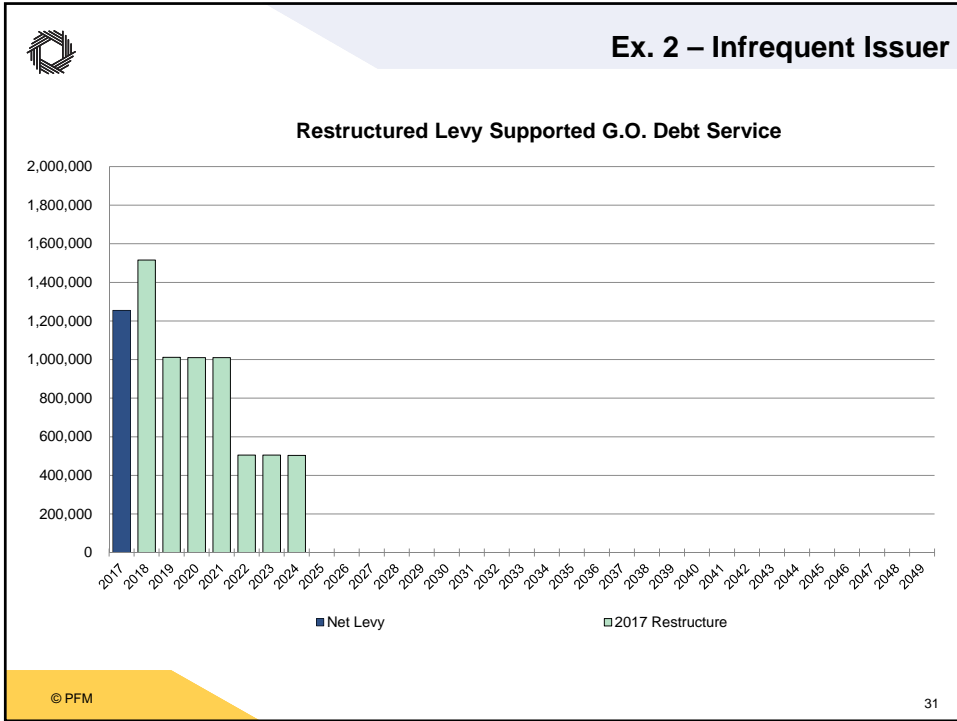
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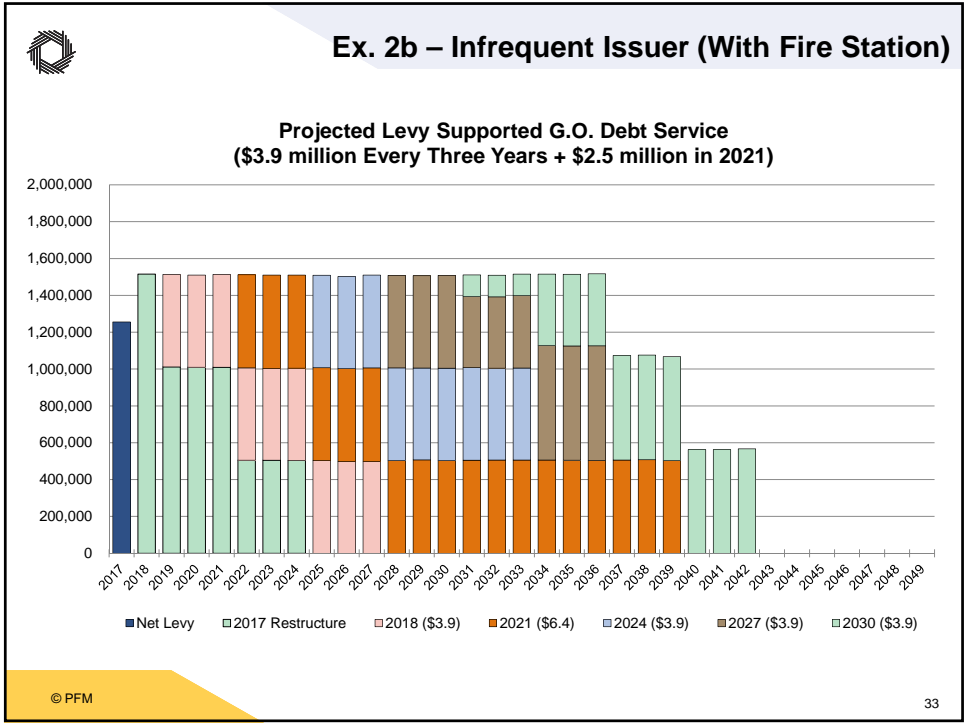
### Long-Term Example Plans of Finance

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**Summary**

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## Summary

- Know your options under State law
- Know how you're going to pay for your debt
- Structure long-term to meet policy goals

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