



POPE FLYNN
GROUP

COLUMBIA | CHARLOTTE | SPARTANBURG

www.PopeFlynn.com



POPE FLYNN
GROUP

COLUMBIA | CHARLOTTE | SPARTANBURG

South Carolina Association of Municipal Power Systems

“Utility System Financing Options”

August 10, 2015

Background

- Municipalities generally cannot “sign a note” at a local bank



POPE FLYNN
GROUP

3. Find x .

4 cm

3 cm

Here it is

SIMPLICITY

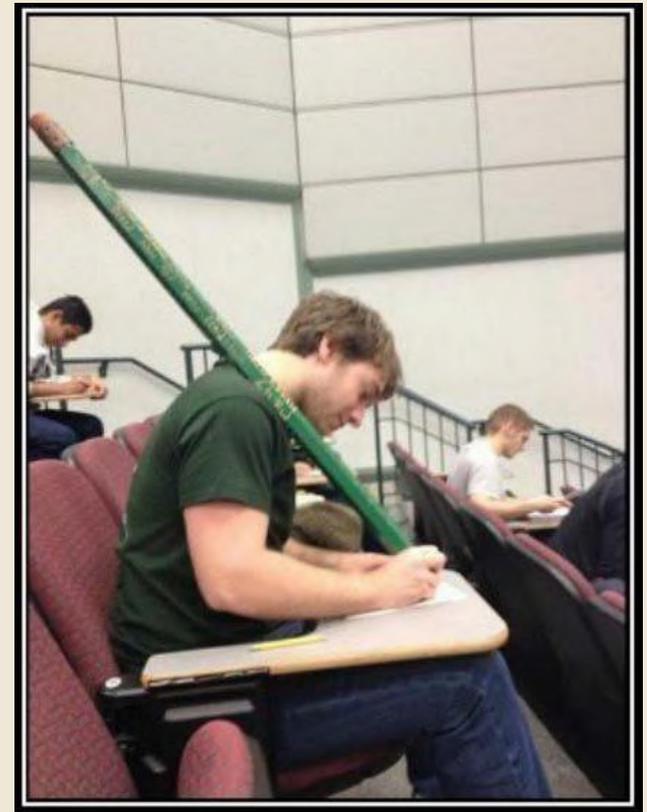
The simplest solutions are often the cleverest
They are also usually wrong



POPE FLYNN
GROUP

Background

- Dillon's Rule v. Home Rule
- Role of Bond Counsel
- Restrictions under State law – relate to validity of the borrowing
- Restrictions under Federal law - relate to “tax exemption” of interest
- General Fund v. Proprietary/Enterprise Fund
- Municipal boundary v. service area – S.C. Code Section 5-7-60





Basic Utility Borrowing Tools

- General Obligation Bonds
- Revenue Bonds
- Lease-Purchase Agreements
- Tax Increment Bonds (TIF)
- Interim Financing (BANs, TANs, GANs)



POPE FLYNN
GROUP

Revenue Bonds

- Why? Pay as you go v. Long-term borrowing

- Capital planning process

- SC Constitution (1895): Article X, Section 14(10): “[i]ndebtedness payable solely from a revenue-producing project or from a special source, which source does not involve revenues from any tax or license, may be issued upon such terms and conditions as the General Assembly may prescribe by general law.”

- State law authority: (1) Revenue Bond Refinancing Act (S.C. Code Section 6-17-10 et seq.); and (2) Revenue Bond Act for Utilities (S.C. Code Section 6-21-10 et seq.)

- Constitution; State law; Federal law; Local law

- Action/contract of council:

- Bond Ordinance; Master/Trust Indenture

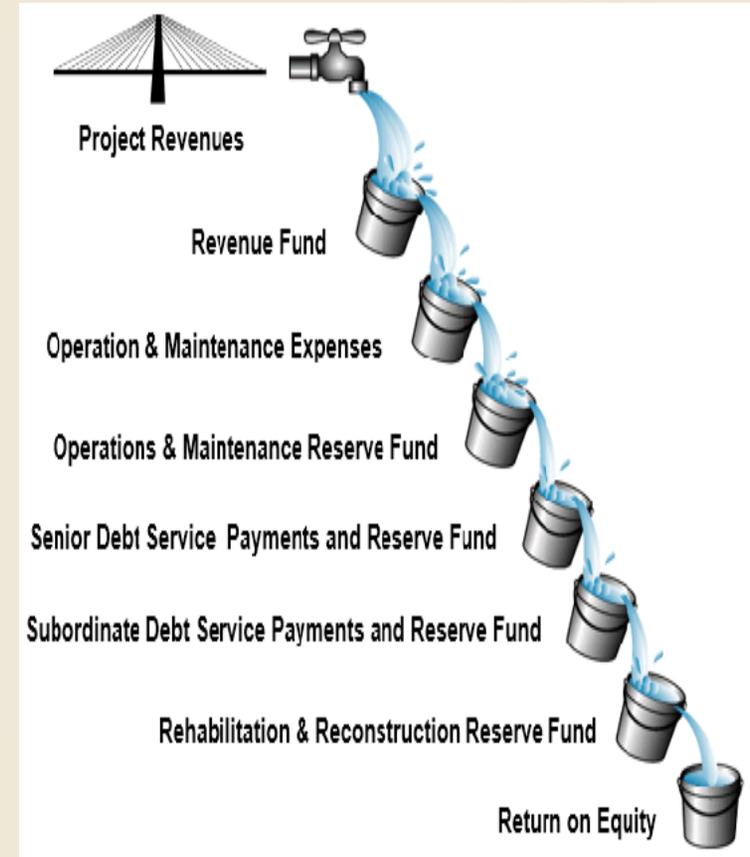
- Series/Supplemental Ordinance; Supplemental Indenture

**Constitution of
the State of South
Carolina, Ratified
in Convention,
December 4, 1895**

South Carolina

Revenue Bonds

- Pledge of revenues: Gross v. Net (No mortgage – Statutory/Contractual lien)
- Waterfall (day to day and default) – controls flow of funds
- Coverage Ratio: Annual Rate Covenant (usually 1.20x annual debt service) v. Additional Bonds Test (usually 1.20 x. max annual debt service)
- Parity Debt, Junior Bonds, Special Facilities Bonds; Lease-financing
- Refunding: Current v. Advance
- Redemption/Notice/Modifications/Trustee
- Covenants: asset ownership; no free service; audit requirement; insurance; sale of assets/system; surplus appropriations; efficient operation





POPE FLYNN
GROUP

Knowing Your Professionals

- Bond Counsel: Required to deliver validity opinion for borrowing
- Local Counsel: Know day to day operations; required to deliver an opinion as to underlying documents and litigation
- Trustee: Fiduciary for bondholders (not involved in every transaction)
- Financial Advisor (FA): Evolving role, far more involved in transactions; perform roles that Bond Counsel used to perform.
- Bank/SRF/USDA/Underwriter: Lender
- Other Counsel: Represent Trustee, Underwriter, Issuers (i.e. Disclosure or Special Tax matters)





POPE FLYNN
GROUP

Tips for a Smoother Borrowing Experience

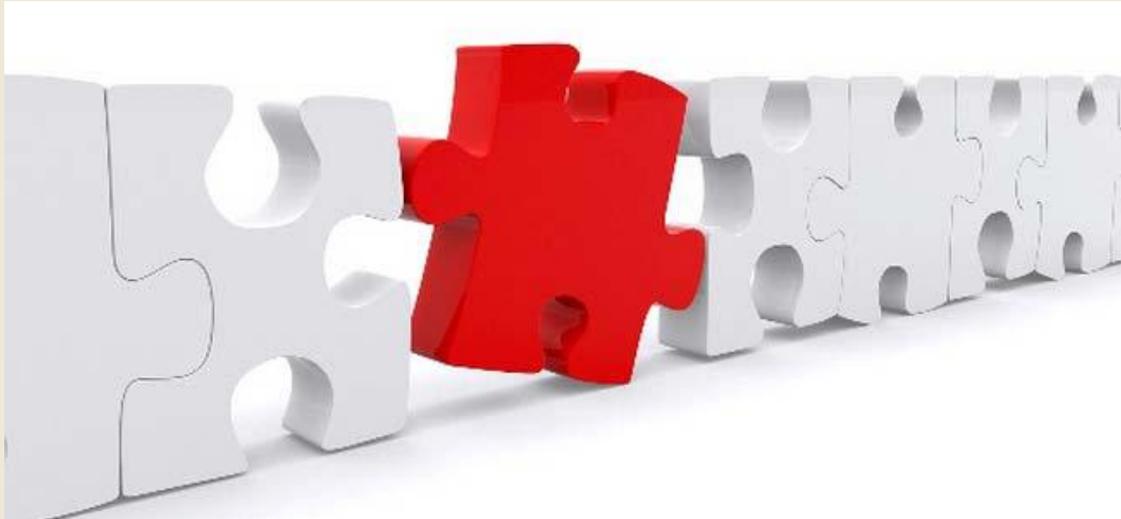
- Financial Statements (be timely)
- Define the project: sizing of issue
- Stability in financial administration
- Stability in professionals, including bank and bond counsel
- Pricing is important, but not sole determining factor
- Discussion on front end of expectations – don't agree to things you do not understand
- Policies and Procedures (debt administration, tax, disclosure, coverage, OPEB, Pension, cash management)





POPE FLYNN
GROUP

Transactional Building Blocks



- Taxable v. Non-Taxable
- “Bank Qualified” v. “Non-Bank Qualified”
- Private Placement v. Publicly Sold Transaction: Term, Size, Flexibility, Issuance Costs, Disclosure practices, rate differentials, credit-worthiness; insurance or other liquidity providers



POPE FLYNN
GROUP

“Bank Loans”

- Potential Problems:
 - * Not a recognized structure
 - * No council action typically taken
 - * Ignores public notice requirements - generally no ordinance
 - * No IRS reporting
 - * No debt filing with State Treasurer
- Use Banks that understand your limitations
- More structuring capabilities; terms limited; capacity limited
- Like “Bank-Qualified” paper



“Government Loans”

State Revolving Loan (SRF)

- - Federal program with State match
- - Water and Sewer Only
- - 20 to 30 years
- - Interest rates trail market
- - Reduced cost for low-income systems or green energy projects
- - Becoming more streamlined
- - DSRF not funded for “A” rated credits
- - Straight quarterly amortization
- - Easy call features

USDA, Rural Development

- - Lender of last resort
- - Protect service area
- - Rates higher
- - 40 years
- - No tax work
- - Little structuring flexibility
- - May require interim financing
- - DSRF required (funded over time)
- - Require consent for other debt

“Public Market Deals”

- Publicly underwritten transaction (size may dictate number of underwriters)
- Requires a rating
- Interest rate tied to rating and market
- Official Statement required
- Disclosure counsel (to be considered, different than Bond Counsel)
- Underwriter represented by counsel
- Continuing Disclosure is required and must be current
- May require insurance (credit support)
- Sold in denominations of \$5,000+
- Electronic dissemination through the Depository Trust Company
- Disclosure of purchase power arrangements





Credit Ratings

- Rating agencies (S&P, Moody's, Fitch, others) are moving toward a quantitative "scorecard" approach; charge for electric utility surveillance
- Moody's Utility Methodology is provided below (Dec. 2014)

System Characteristics (30%)

- Asset Condition (10%)
- Service Area Wealth (12.5%)
- System Size (7.5%)

Financial Strength (40%)

- Annual Debt Service Coverage (15%)
- Days Cash on Hand (15%)
- Debt to Operating Revenues (10%)

Moody's Updated Utility Methodology

Management (20%)

- Rate Management (10%)
- Regulatory Compliance and Capital Planning (10%)

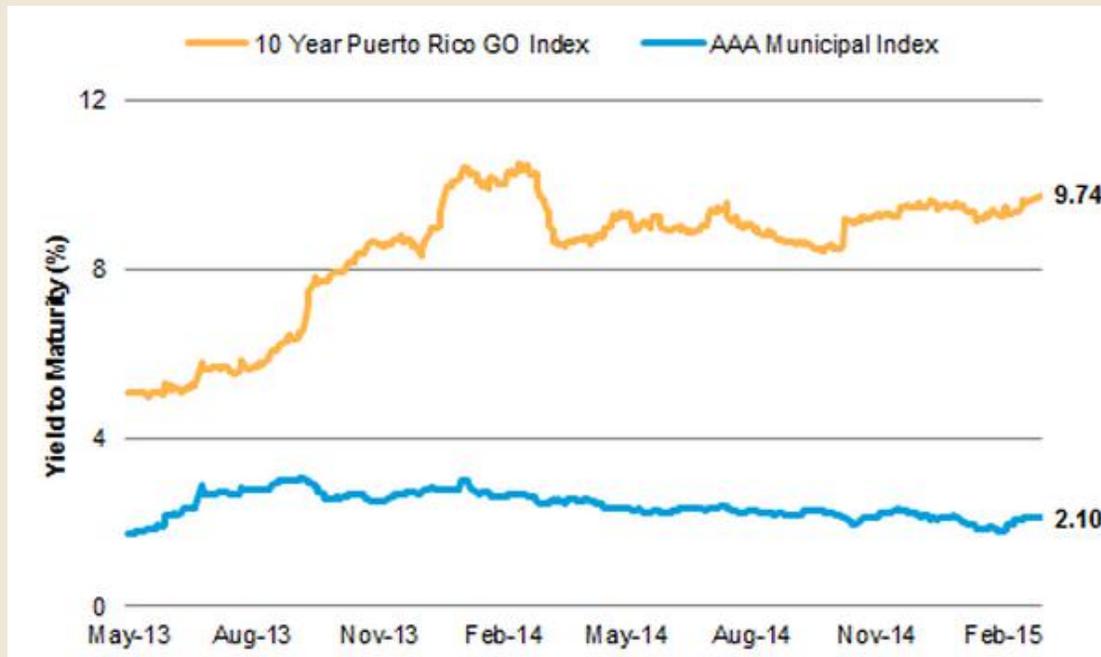
Legal Provisions (10%)

- Rate Covenant (5%)
- Debt Service Reserve Requirement (5%)



POPE FLYNN
GROUP

Credit Issues: More Important Than Ever Before



- Long Term: Fund Balance/Reserves
- Short Term: Cash Flow Ratios
- Leverage Ratio: Net Assets in comparison to Total Liabilities
- Customer Changes-Fluctuations in Revenue
- Large Capital Outlays
- Political Issues: Annexation, etc.



POPE FLYNN
GROUP

Additional Legal Considerations

- FOIA
- Arbitrage and rebate
- Spend down requirements
- Tax Covenants (Ownership)
- Continuing Disclosure





Continuing Disclosure Defined:

- “Continuing disclosure consists of important information about a municipal bond and its issuer that arises after the initial issuance of the bond. This information generally reflects the financial or operating condition of the issuer as it changes over time, as well as specific events occurring after issuance that can have an impact on the ability of issuer to make payments on the bond, the value of the bond if it is traded prior to its maturity, the timing of repayment of principal, and other key features of the bond.”
- Enforced through SEC regulation of Broker-Dealers; Required in Primary Offer as an Aid to Secondary Market
- Exempt from Registration and Reporting Requirements of ‘33 Act and ‘34 Act (Tower Amendment – Pre-sale) – But see Rule 10b-5 and Rule 15c2-12 and SEC’s 1994 Interpretative Release (not private placements)

What are my continuing disclosure responsibilities?



Established in the Continuing Disclosure Agreement (CDA) executed at the closing of your Bonds.

Issuer may engage a Dissemination Agent to assist with disclosure responsibilities.

Generally Requires:

- Disclosure of Financial and Operating Information
- Material Event Notices

Quick Search

Enter CUSIP or Name



ADVANCED SEARCH

BROWSE ISSUERS

FIND 529 PLANS

MARKET ACTIVITY ▾

EMMA HELP

Home > Muni Search > Issuer Details > Issue Details

Issue Details

TOWN OF MOUNT PLEASANT, SOUTH CAROLINA WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING BONDS SERIES 2012 (SC) MT PLEASANT S C WTR & SWR REV REF (SC)*

Dated Date: 09/07/2012

Underwriting Spread Amount: Disclosed in Official Statement

Closing Date: 09/07/2012

Time of Formal Award: 08/15/2012 11:28 AM

Time of First Execution: 08/15/2012 02:30 PM

→ View issuer homepage ^{Pilot}: [MOUNT PLEASANT S C WTR & SWR REV](#) | → See other issues by this issuer

Maturities and issue-related documents

View all maturities of an issue and download the official statement and other documents available from EMMA for this issue. Click on a CUSIP number for security-specific data, including trade price data.

Securities

Official Statement

Continuing Disclosure

Trade Activity

Displaying 11 maturities.

CUSIP *	Maturity Date	Interest Rate (%)	Principal Amount At Issuance (\$)	Initial Offering Price or Yield (%)	Security Description *	Current Fitch LT Rating	Current KBRA LT Rating	Current S&P LT Rating
622634ER0	12/01/2012	2	180,000	100.405	REF			
622634ES8	12/01/2013	4	1,990,000	104.424	REF			
622634ET6	12/01/2014	4	2,055,000	107.693	REF			
622634EU3	12/01/2015	4	2,150,000	110.7	REF			AA+
622634EV1	12/01/2016	5	2,235,000	117.538	REF			AA+
622634EW9	12/01/2017	5	2,350,000	120.23	REF			AA+
622634EX7	12/01/2018	5	1,490,000	122.149	REF			AA+
622634EY5	12/01/2019	5	1,565,000	123.287	REF			AA+
622634EZ2	12/01/2020	4	765,000	116.43	REF			AA+
622634FA6	12/01/2021	4	600,000	116.599	REF			AA+
622634FB4	12/01/2022	4	620,000	116.909	REF			AA+

NOTICE: * CUSIP numbers and certain related descriptive information are copyrighted by the [American Bankers Association \(ABA\)](#) and are used with permission from the [CUSIP Service Bureau](#) managed on behalf of the ABA by Standard & Poor's. © 2015 ABA See [EMMA's Terms and Conditions of Use](#) for a description of proprietary rights in and restrictions on use of such data. "CUSIP" is a registered trademark of ABA.



POPE FLYNN
GROUP

COLUMBIA | CHARLOTTE | SPARTANBURG

Questions?

Lawrence Flynn
lflynn@popeflynn.com
(803) 354-4902