FGFOA South Florida Chapter
2025 Investment Seminar

Planning for and Issuing Municipal Debt

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PRAG

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Introduction

Molly Clark

Ms. Clark is a senior managing director with Public Resources Advisory Group. She spent the first 17 years of her 24-year municipal finance career as a public finance investment banker and joined PRAG as a municipal advisor in 2018.

Ms. Clark works with state and local governments throughout Florida, with a focus on utility systems, general obligation, revenue, and appropriation backed debt. Ms. Clark is a founding member of the Florida chapter of Women in Public Finance. She has a B.A. in Economics from Carleton College. She is a Municipal Advisor Registered Representative (Series 50) and an Investment Advisor Representative (Series 65).

Presentation Overview

Developing a CIP

- Overview
- Key Steps
- Funding Considerations

Financing a CIP

- Long-Term Financing Options
- Short-Term / Interim Financing Options
- Case Studies

Additional “Plan of Finance” Case Studies

- Interim Financing followed by Long-Term Financing
- Funding a Large CIP

Developing a Capital Improvement Program

Overview of a Capital Improvement Plan (“CIP”)

- Governments are tasked with providing various essential public services.

- **Capital assets** are government facilities, infrastructure, equipment, networks, etc., that enable the delivery of essential services.

- A **Capital Improvement Plan** is a planning tool used by governments to maintain and replace its capital assets.
  - Usually 5 to 7 years
  - Prioritizes projects and identifies funding sources

- A Capital Improvement Plan is the outcome of a government’s strategic planning process and can ultimately help governments to **effectively deliver essential services.**

- In the absence of a formal Capital Improvement Plan, governments make plans to maintain and/or replace their capital assets **on an ongoing, case-by-case basis.**

Establishing a Capital Improvement Program

- Should be included and adopted at the same time as the annual budget.
  - The first year of the CIP is included in the adopted budget
  - Future years await funding and move up in future budget cycles
    - *As time moves forward, projects may not be funded if other higher priority items arise – the CIP is a planning <u>tool</u>; can be modified if needed*

- Identifying Capital Improvement Projects:
  - Inventory and measurement of condition of existing capital assets – identify needs among existing assets
  - Identify needs for new assets
  - Review status of previously approved projects
  - Consider alternatives to projects if any

- Prioritizing Capital Improvement Projects – Considerations:
  - Is the project critical or optional (need vs want)?
  - What is the cost of the project? What are the ongoing operating costs?
  - How many citizens will benefit?
  - Any public safety concerns to delaying / not funding the project?

Considerations for Funding a Capital Improvement Program

	Project Type	Revenues Used	Advantages	Disadvantages
PAYGO	• Smaller projects • Shorter term assets replaced more often (i.e., vehicles; IT equipment)	• Current revenues (Impact Fees, Gas Taxes, Infrastructure Surtax Revenues)	• Interest free	• High upfront cost • Cost borne by current taxpayers; benefit may go to current and future taxpayers
Debt Financed	• Larger projects • Assets with a long useful life (i.e., water and sewer system assets)	• Debt proceeds, with specific revenues pledged to make periodic debt payments	• Lower Upfront Cost • Creates "Intergenerational Equity" • Preserves reserves	• Financing Costs • Reduces Future Financial Flexibility

Government's Roles & Responsibilities: Unanticipated Events & Expenses

- A Government's responsibility to provide essential public services is continuous, even in the face of
  - Unforeseen events
  - Unanticipated expenses

- Even when projects are unanticipated, **governments must determine how to fund them if necessary to continue normal functions** (i.e., post hurricanes)**:**
  - Debris Removal (Public Health concerns / essential)

  - Replacement of Capital Assets
    - Police Department Headquarters (Public Safety – essential)
    - Fire Department Headquarters (Public Safety – essential)
    - Other (Level of essentiality will vary)

  - Repairs to Capital Assets (Level of essentiality will vary)

- Deferring projects can expose citizens to severe risks—Jackson, MS "perfect storm" (Winter 2021; Summer 2022)

Municipal Advisor’s Role

- Once a government has identified necessary capital projects and created a CIP, a municipal advisor can help evaluate appropriate funding options for the project

- If debt financing will be used, the municipal advisor can help determine appropriate financing structure
    - Term / Maturity
    - Prepayment options
    - Source of Security
    - Timing for issuance; number of issuances

- The municipal advisor works closely with issuer staff and other external team members to develop the overall plan of finance
    - Issuer finance staff
    - Issuer internal counsel
    - Bond counsel
    - Disclosure counsel
    - Rating agencies
    - Feasibility consultant

- These financings can be time consuming and issuer staff still has regular, ongoing work responsibilities; the municipal advisor guides the financing process in an effort to alleviate the burden on issuer staff

Financing a Capital Improvement Program

Overview

Typically, when an issuer has determined it will use financing to pay to a long-lived asset, it is appropriate to lock in long-term financing. There can be instances when short-term or interim financing is more effective.

- Long-Term Financing – Situations and Structures
- Short-Term Financing – Situations and Structures
    - When Would a Municipal Entity Use Interim versus Long-Term Financing?
    - Why Are We Seeing Increased Use of Interim Financing?
    - What Are the Advantages and Considerations of Using Long-Term Financing vs. Short-Term Financing?

Long-Term Financing:
Overview & Financing Options

Financing Options – Long-Term Financing

- **Long-term financing is typically used in the following situations:**
  - Certainty on project amounts and timing
  - Funding of long-term assets (matching long-term assets with long-term debt)
  - Market conditions are favorable for long-term issuance
  - Issuer feels comfortable certifying spend-down requirements associated with tax-exempt debt

  - Generally fixed rate, but some options allow for long-term variable rate debt

  - Standard long-term financing structures include:
    - **Bond Issue**
    - **Bank Loan/Direct Placement**

What is a Municipal Bond?

- The municipal bond market is the **largest and most important U.S. capital market for state and local governments** and can be used by a variety of issuer types – states, counties, cities, school districts, transportation authorities, special districts, conduit can all issue municipal bonds to finance projects
- Issuers borrow funds from an investor (bondholder/lender) to finance qualified projects (government buildings, utility systems, roads, schools); bonds may also be issued to refinance existing debt
- The debt is repaid from certain pledged revenues or security sources – typically taxes (ad valorem taxes, sales taxes, other) or user fees (water and sewer revenues, toll revenues, other)
- Typically, interest is paid semi-annually and principal is paid annually
- Bonds can be issued with a long-term or short-term maturity; fixed or variable rate of interest
- Generally, when we refer to “muni bonds” we assume they are tax-exempt
  - *Tax-exemption is the primary feature that distinguishes muni bonds from other debt obligations, although there are instances where municipalities issue bonds that are taxable or subject to the alternative minimum tax (AMT) (private activity bonds); tax status depends on the nature of the project.*
- The tax-exemption component has resulted in significant federal and state regulation

Advantages of Issuing Tax-Exempt Debt

The key advantage to issuing tax-exempt debt is the **lower cost of financing** for the issuer because interest paid by the issuer / received by the investor is tax-exempt.

With interest being exempt from income taxes (generally, tax-exempt bonds are exempt from <u>federal income taxes and state income taxes to investors who reside within the state where the bonds are issued)</u>, investors are willing to receive a lower yield, provided the tax-exempt yield generally aligns with (or is advantageous to) the taxable equivalent yield.

Taxable Equivalent Yield is the return that a taxable bond would need to yield in order to equal the yield on a comparable tax-exempt bond.

Taxable Equivalent Yield = Tax-Exempt Bond Yield / (1-Tax Rate)

If a Tax-Exempt Bond Yields 4.00% and Investor's Tax Bracket is 35%...
the Taxable Equivalent Yield is: (4.00%) / (1.00-0.35) =6.15%

Key Elements of Issuing Long-Term Financing

- Identify the Financing Team and Timing Requirements
- Adopt Reimbursement Resolution, *if applicable*
- Identify the Financing Structure
- Selection of Bond Underwriter or Bank
- Document Preparation
  - Bond / Loan Documents
  - Marketing Document, *if applicable*
- Ratings, *if applicable*
- Governing Body Approvals
- Execution of Documents / Funding / Closing
- Compliance with Post-Closing Requirements (i.e., continuing disclosure, arbitrage rebate)

Various elements to the process; Some happening simultaneously. Municipal advisor guides process.

An Underwriter or Bank is typically selected through an RFP process.

An Underwriter will be represented by Underwriter's Counsel; a Bank will be represented by Bank's Counsel.

The debt issuance process typically takes 2-6 months depending on issuer's needs, structure, complexity of the transaction, and other matters; can also be much longer.

When Would a Municipal Entity Issue Publicly Offered Long-Term Bonds?

- Long Term Bonds Generally Work for:
  - **Large Projects**:
    - Capital markets can accommodate very large financings; banks' lending limits are lower than what is available through the capital markets.
  - **Long Maturity Date**:
    - Capital markets can accommodate issues with 30-year or longer maturity date; while many banks are comfortable lending within 5-10 years, fewer banks go 15-20 years; beyond a 20-year final maturity there is a limited number of banks who will lend.
      - Maturity may be based on the useful life of the asset being financed or availability of revenues to support the debt service required to finance the project.
      - Most often – maturity is based on a combination of the useful life and the available revenues.
  - **Complex Credits**:
    - Capital markets investors are accustomed to reviewing "story credits," and doing credit analysis required for complex credits. Generally, banks prefer traditional, straightforward credits.

Bond Issuance Considerations (Public Offering)

- **Term** Up to 30 years or more depending on the useful life of the asset being financed
- **Documentation** Requires an offering document/official statement ("OS"); Requires Feasibility Study and Engineer's Report for new money utility projects
- **Ongoing Annual Disclosure** Requirements include Annual Report and financial operating data as described in the OS
- **Prepayment Provisions** Standard is 10-year optional call (can be shorter; can be noncallable)
- **Ratings / Insurance** Generally requires rating or possible insurance depending on ratings
- **Pricing** Reflects the shape of the yield curve, allowing the Issuer to take advantage of rates throughout the yield curve
- **Timeline to Close** 90 to 150 days, depending on documentation and approval requirements / timing (including Feasibility Study, Engineer's Report, Board workshops, agenda deadlines, etc.)
- **Costs of Issuance** Higher than a bank loan (rating, offering documents, paying agent / registrar)

When Would a Municipal Entity Issue a Bank Loan?

- Bank Loans Generally Work for:
  - **Smaller to Medium Sized Projects**:
    - From ~$1 million to $50 million financing size is a good bank loan candidate

    Due to the financing costs associated with a tax-exempt issuance, below a certain minimum threshold amount there could be inefficiencies associated with issuing tax-exempt debt versus issuing a taxable loan or paying with funds on hand.

  - **Short- to Medium-Term Maturity Date**:
    - Many banks are comfortable lending within 5-10 years, fewer banks go 15-20 years; beyond a 20-year final maturity there is a limited number of banks who will lend. With a more limited lender base, the issuer may end up paying a higher interest rate.

    - Projects with an Expected Life Appropriate to the Loan Maturity
      - Equipment / Firetrucks / Other Vehicles
      - Refunding of Prior Long-Term Debt

  - **Straightforward Credits**

Bank Loan Considerations (Direct Placement)

- **Term** Up to 15 years; ~10 years most common

  Some banks will offer 20 to 25-year fixed rates for loans of certain sizes, credits, and/or structures

  After 10-15 years, certain banks will require a "put" option during the term of the loan, which subjects the Issuer to interest rate and refinancing risk

- **Documentation** No offering document

- **Ongoing Annual Disclosure** Typically limited to Annual Report and Budget

- **Prepayment Provisions** Range from a make-whole call with a prepayment penalty to a par call any time without penalty; more flexible prepayment provisions are more costly

- **No Ratings / Insurance** Does not require that the transaction be rated or insured

- **Pricing** Reflects a lender's cost of funds plus a spread; pricing is less transparent than public markets

- **Timeline to Close** ~60 days

- **Costs of Issuance** Lower than a public bond offering

Advantages / Considerations of Fixed Rate, Long-Term Financing

Advantages

- **Budgeting Certainty / Elimination of Interest Rate Risk** – Lock in long-term fixed rate for the life of the debt issue, offering budgeting certainty and eliminating future interest rate risk for the issuer
- **Credit** - Rating agencies view fixed-rate debt more favorably than variable rate
- **Structuring** – structuring can take existing debt and future borrowing needs into account
- **Asset/ Liability Match** – Term of the debt based on the assets being financed is matched with the repayment amortized over the assets' useful lives

Considerations

- **Short-Term Cost** – in a typical upward sloping yield curve environment, mid to long term fixed rates are higher than short term variable rates
- **Prepayment Provisions** – most banks require prepayment provisions that include a penalty or higher interest rates to add prepayment flexibility; bond issues typically include a 10-year par call or shorter call options are available at a cost
- **Interest Expense/ Carrying Costs** – all funds are taken up-front with no ability to draw when needed; interest expense on total borrowing incurred and payable from day one
- **Disclosure/ Reporting Requirements** – public bond issues require a primary offering document, engineering/ feasibility reports and continuing disclosure responsibilities
- **Costs of Issuance** – public bond issues typically have the highest cost of issuance compared to bank loans and interim financing options

Case Study: Publicly Issued Bonds

Case Study: Long-Term Bond Program

- In 2018, City of Palm Bay voters approved a $150 million General Obligation Bond referendum to fund road improvements – to be issued in 3 separate $50 million G.O. Bond issues.
- PRAG was engaged by the City in 2020. We closed the second of the three G.O. issues in February 2021 and we closed the third of the three G.O. issues on September 7, 2023.
- In each transaction, PRAG worked closely with the Finance Director and staff to develop preliminary numbers, rating agency presentation, review documents, and plan for the <u>competitive</u> sale of the bonds.
  - With G.O. credit and straightforward debt repayment structure / no unusual "story," these issues were excellent candidates for competitive issuance.
  - The 2021 Bonds were issued during the COVID pandemic, and the offering document included information about the effects of the pandemic on the City: *Excerpt: "Due to the unprecedented nature of the spread of COVID-19, the duration and extent of the impact of COVID-19 on the City's revenues, expenses, and cash flow or ratings are uncertain and cannot be quantified at this time."*
  - The 2021 Bonds closed on Feb 4, 2021 at a TIC of 1.51% (11.6 yr average life) Ratings: S&P: AA (insured) / A+ (underlying) Fitch: AA (underlying only)
  - The 2023 Bonds are closing on Sept 7, 2023 at a TIC of 4.18% (15.5 yr average life) Ratings: S&P: AA- (underlying) / Fitch: AA (underlying)

$150,000,000
CITY OF PALM BAY, FLORIDA

GENERAL OBLIGATION BOND REFERENDUM
Consisting of 3 separate G.O. Bond Issuances

General Obligation Bonds, Series 2019
Closed: July 15, 2019

General Obligation Bonds, Series 2021
Closed: February 4, 2021

General Obligation Bonds, Series 2023
Closed: September 7, 2023

Financial Advisor:

(Series 2021 & Series 2023 only)

Case Study: Bank Loan

Case Study: Bank Loan

- In early 2020, PRAG presented a taxable restructuring of certain Non-Ad Valorem Revenue Bonds offering the City an opportunity to defer principal to years when the City had more debt service capacity.
- By Spring 2020, the City had begun to see the impacts of the economic slowdown resulting from the COVID-19 outbreak and shutdowns.
- PRAG expanded our review of the City's debt profile to determine whether additional bonds could be restructured to generate further near-term debt service relief; PRAG identified outstanding maturities from 4 separate series of bonds.
- PRAG developed a plan of finance including 2 bank loans to refund the various bonds. PRAG drafted and distributed 2 RFPs on the City's behalf and assisted the City in identifying the 2 best proposals.
- *The City financing team worked efficiently to simultaneously document and close the two loans by mid-June 2020.* **The need to close quickly drove the decision to issue the debt as bank loans.**
- In aggregate, the restructuring generated $43.4 million in debt service relief from fiscal year 2021 through fiscal year 2023.

CITY OF TAMPA, FLORIDA

City of Tampa Florida

$13,236,000 TAXABLE NON-AD VALOREM REVENUE REFUNDING NOTE, SERIES 2020A
&
$45,302,900 TAXABLE NON-AD VALOREM REVENUE REFUNDING NOTE, SERIES 2020B

Closed: June 12, 2020 & June 15, 2020

Financial Advisor:

PRAG

Interim Financing:
Overview & Financing Options

When Would a Municipal Entity Use Interim Financing?

- Interim Financing Can Work for:
  - **Large Projects which are certain to occur**, but:
    - **May occur over several years, in separate phases**
    - **Elements of a project are not all financed at the same time** / issuer needs access to funds until the project is built
    - Need funding to meet requirements (i.e., let contracts, grant matching funds)
    - **Market conditions are not favorable for long-term debt, but the project needs to begin / continue** (interest rates high / expected to fall)
    - Financing plans / amounts for all phases not known at the outset
      - Issuer portion / Other funding (Federal / State)

How is Interim Financing Most Frequently Implemented?

- **Cash on Hand / Reserves, if available**
  - Consider adopting a Reimbursement Resolution if long-term financing will be issued to complete the project (funds used up front can then be reimbursed later)

- **Bank Facilities**
  - Variable Rate: Bank Line of Credit
    - Up to ~$100 million, sometimes higher but fewer providers
    - Maximum Maturity ~3 years

  - Fixed Rate: Short-Term Bank Loan / Direct Placement

- **Capital Markets Structures**
  - Variable Rate: Commercial Paper program
    - Rolling Maturity; Refinance at expiration date of underlying letter of credit

  - Fixed Rate: Bond Anticipation Note
    - Maximum Maturity ~3 years (typically shorter)

Determining Need / Evaluating Available Debt Structures

- Identify the Situation (Timing, Cost Estimates, Project Status, Market Conditions)
- Determine Whether Interim Financing is Preferable to Long-Term Financing
- Determine Whether Reserves are Available to Pay Initial Project Costs
- Evaluate Available Debt Structures
  - Size
  - Target Maturity
  - Prepayment Option?
  - Fixed vs. Variable Rate
  - Refinancing Plan
- Identify Structure Best Suited to the Current Need
  - Bank Structure – Somewhat Size Constrained; Shorter Execution; Less Documentation; No Rating
  - Capital Markets – Not Sized Constrained; Longer Execution; More Documentation; Rating

Key Elements of Executing Interim Financing

- Identify the Internal Financing Team and Timing Requirements
- Identify the Financing Structure
- Selection of Bond Underwriter or Bank (RFP / other selection process)
- Document Preparation
  - Bond / Loan Documents
  - Marketing Document, *if applicable*
- Ratings, *if applicable*
- Governing Body Approvals
- Execution of Documents / Funding / Closing
- Compliance with Post-Closing Requirements
- **Refinance to Long-Term Fixed Rate When Ready**

Various elements to the process;
Some happening simultaneously.
Municipal advisor guides process.

Why Are We Seeing Increased Use of Interim Financing?

- Uncertainty About **Project Costs**
  - Trend of rapidly increasing project costs during planning phase
  - Inconvenience and cost of having to issue “completion bonds”

- Uncertainty About **Project Timing** (Materials / Labor)
  - Long-term fixed rate cost of carry begins from Day 1, whether or not the project is ready to begin
  - “Reasonable expectation” of 3-year spend down for long-term tax-exempt bonds

- Uncertainty About **Market Conditions**
  - Is there a market for a long-term issuance backed by the proposed security?
    - Example: TDT Bonds during COVID Pandemic
  - Expectations For Reductions to Interest Rates
    - Long-term
    - Short-term: Although unappealing from an interest cost perspective, when short-term rates are high, short term investment earnings can be used to offset interest cost *under certain interim financing structures*

Advantages/ Considerations of Variable Rate, Short-Term Financings

Advantages

- **Short-Term Advantage** – in a typical upward sloping yield curve environment, short-term rates are lower than long-term rates; Treasury yield curve has been flattening to inverted in 2022 YTD
- **Prepayment Provisions** - variable rate debt typically provides more flexible prepayment options with no penalty
- **Draw-Down Ability** – many short-term funding options include the ability to draw down funds as needed; interest accrues only on the drawn amount (although the undrawn portion may be subject to unused fees – see below)
- **Interest Only through Maturity** – interest only is due from closing through maturity; a balloon principal payment is due at maturity and repaid with proceeds of a long-term financing
- **Faster Execution** – can execute in ~2-3 months; No ratings and limited disclosure

Considerations

- **Interest Rate Risk**– issuer carries the risk of interest rates rising in the future; in a rising interest rate environment, variable rate options could prove costly
- **Market Access/ Refinancing Risk** - issuer carries the risk of market access to refinance or take-out the short-term financing with long-term debt in the future
- **Balloon Maturity** – issuer must consider how a balloon maturity impacts existing bond covenants (i.e. rate covenant, additional bonds test, senior/ subordinate lien)
- **Size/Structure** – certain banks will not offer these products based on size, credit and/or security structure (i.e. subordinate lien)
- **Budgeting Uncertainty** - more uncertainty with budgeting annual debt service
- **Other Fees** – certain short-term products include additional fees (i.e. unused fees)

Interim Financing Case Studies

Case Study: Peace River Manasota Regional Water Supply Authority

- In March 2022, PRAG began working with Peace River to evaluate financing options related to two pipeline projects that required funding in hand by October 2022.
  - Anticipated additional funding would also be needed for preliminary work on future projects. Some but not all of the project costs were known; some but not all of the timing considerations were known.
- PRAG evaluated and presented a variety of financing alternatives, including interim and long-term options.
- Based on the status of the projects, the need for expedited access to funding, and the unknowns related to project timing / cost, the Authority determined that a line of credit offered the optimal financing structure.
- PRAG worked closely with the Authority's team to develop and manage the RFP process and determine an appropriate structure that met the Authority's objectives in the context of any legal considerations.
  - The Authority received responses from 5 institutions, offering a range of interest rate structures, draw features, and prepayment options.
- Throughout the process, PRAG participated in presentations to the Authority's Board regarding the financing options, structuring, timing, and other terms.

$100,000,000
PEACE RIVER MANASOTA
REGIONAL WATER SUPPLY AUTHORITY

PEACE RIVER MANASOTA
REGIONAL WATER SUPPLY AUTHORITY

TAX-EXEMPT REVOLVING LINE OF CREDIT

Closed: October 7, 2022

Financial Advisor:

PRAG

“Plan of Finance” Case Studies

Case Study: City of Tampa Solid Waste Department

City of Tampa, Florida

$120,500,000
Non-Ad Valorem Revenue Note
(Waste-to-Energy Retrofit Project),
Series 2024
Closed: June 11, 2024

$130,000,000
Solid Waste System Revenue Note
(BANA Line of Credit),
Series 2025
Closed: January 21, 2025

- In 2023, the City of Tampa notified PRAG of upcoming Solid Waste Department capital needs:
  - ~$120MM to upgrade its waste-to-energy plant
  - ~$130MM to relocate administration building
- The appropriate revenue source to secure long-term debt would have been net revenues of the Solid Waste Department; however, the solid waste rate structure was not sufficient to support the necessary financing amount (or either project individually)
- At the same time, the City did not want to use its CB&A pledge as long-term security for an enterprise fund project
- PRAG and the City developed the following phased plan of finance:
  - **June 2024:** Short-term note to finance WTE plant retrofit (<u>urgent need</u>); backed by CB&A pledge
  - **June 2024:** New solid waste rate structure adopted by City Council; revenues generated by new rate structure sufficient to support $250MM in long-term debt
  - **January 2025:** Line of credit to finance relocation of administration building; backed by solid waste revenues; at closing, the City drew 50% of the line and invested the proceeds until needed thus earning interest and avoiding undrawn fees
  - **TBD (est. October 2027):** Long-term bonds to refinance the CB&A note and solid waste line of credit; backed by solid waste revenues

Case Study: Miami-Dade County Water and Sewer Department

MIAMI-DADE COUNTY

Miami-Dade County, Florida

$236,135,000
Subordinate Water and Sewer System Revenue Bonds, Series 2021

Closed: July 8, 2021

PRAG

- The County's Water and Sewer Department ("WASD") embarked on a $12B multi-year CIP in 2014 to finance mandated needs identified by a Federal consent decree and State ocean outfall legislation, as well as ongoing capital needs

- Since then, PRAG has advised the County on 10 W&S debt transactions totaling $5.3 billion, as well as a $400MM W&S commercial paper (CP) program

- Financing structures have included:
  - Long-term senior lien bonds (tax-exempt and taxable)
  - CP program (discontinued in 2019)
  - WIFIA loans (4 total)
  - Long-term subordinate lien bonds
  - Tender offer

- WASD has been innovative in its uses of financing tools: taxable advance refunding (2017); pre-funding of new money needs when rates were low (2019); first WIFIA loan in Florida (2019); development of subordinate bond resolution (2020); issuance of subordinate bonds to provide matching funds for WIFIA loans (2021); first successful municipal tender offer in Florida (2024); WIFIA loan arbitrage (2024)

- Over the course of these debt issuances, WASD has maintained its Moody's rating ("Aa3"), received a one-notch upgrade from Fitch (from "A+" to "AA-"), and received two one-notch upgrades from S&P (from "A+" to "AA")

Concluding Remarks

Conclusion / Considerations

Various decisions are required as a municipal issuer determines whether and how to issue debt to finance a project.

Certain items to bear in mind include:

Project Elements

- Asset – What is the useful life of the asset? Is the asset appropriate to be debt financed? Over what period of time could the asset be financed?
- Timing – Is the project ready to begin? Are some but not all elements of the project ready to begin?
- Costs – Are the project costs finalized? Are some but not all elements of the project costs finalized?

Issuer Elements

- Revenues – What source of revenues will be used to repay debt issued to finance the project? Are sufficient revenues available for repayment of long-term debt?

Market Elements

- We do not recommend "timing the market." If a project is ready and needs to be financed, it is appropriate to move forward. With that said, being aware of market conditions and dynamics is appropriate.
- Market Conditions – Is the market for long-term debt available for the proposed project? If not, are there potential interim financing solutions?