

Municipal Finance Alternatives

Ohio GFOA

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Why Does a Municipality Finance outside of Bonds?

- **Alternative Financing without voter approval**
- **No Long-term debt for lease structure**
- **Budgetary constraints - Stretches the budget**
- **All in cost can be lower**
- **Ease of Implementation**

Tax-Exempt Financing – Who Qualifies

- Obligor must be a state, political subdivision, possession of the U.S. or the District of Columbia
- Any entity that possesses any of the following powers can qualify to use a tax-exempt instrument:
 1. Taxation
 2. Policing powers
 3. Eminent domain
- Large Non-Profit 501©3 entities through conduit structure (You may be approached by a non-profit to provide your tax-exempt status as a conduit)

Municipal Market Size for Financing

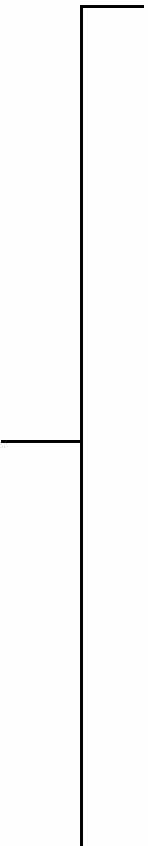
Municipal Financing Opportunities
(Excluding Muni Bond Market)
\$22 Billion Annually

Highly Structured Financings
(e.g., Certificate of Participations)
\$14 Billion Annually

Municipal Leases
(single investor leases)
\$8 Billion Annually

Products Offered

Municipal Finance



**Municipal
Leases**

**Bank Notes
and Bonds**

When does it make sense for an issuer to sell its notes or bonds to a bank purchaser

- **Size of the issue**
- **Desired maturity of the issue**
- **Ability to prepay**
- **Relationship with banker**
- **Need to “keep it local”**

Ease of implementation

- Notes or Bonds not resold in the market place
- Trustee not required
- Official statement not required
- Out of pocket expenses limited to the cost of a legal opinion from Bond Counsel

Transaction Structuring

Term:	1 to 15 years
Minimum size:	\$250,000
Fees:	Bond counsel opinion only
Interest rate:	Fixed rate financing with the ability to lock the rate prior to closing
Amortization:	Semi-Annual principal and interest payments

Credit Considerations

- **Require three years audited financial statements**
- **Rated and non-rated entities will be considered**
- **Issue can be General Obligation or Special Obligation**

Documentation Issues

- Authorizing legislation must be passed by issuer's legislative body
- Certificates that need to be completed:
 - Debt limitation
 - Tax compliance
 - Signature
 - Non-litigation

Characteristics of a Municipal Lease

- The interest portion of the finance payments are exempt from federal income taxes; this is passed on to the lessee in the form of a lower interest rate
- Debt is not created for state law purposes
- Requires an annual appropriation of funds by the governing board

What is typically financed with a Tax-Exempt structure?

- School buses
- Fire trucks
- Police cars
- Medical equipment
- Telecommunications systems
- 911 systems
- Refuse trucks
- Public works equipment
- Computer equipment
- Software
- Energy savings projects
- HVAC equipment
- Office equipment
- Water treatment plants
- Utility equipment

Basically, any essential use equipment can be financed

Transaction Structuring

- Term:** Typically 2 to 15 years; specific term dependent on asset
- Dollar Amount:** Typically deals greater than \$100,000
- Escrow:** Can provide escrow arrangement for uneven disbursements and project financings
- Fees:** Minimal Fees – sometimes zero
Escrow accounts require set-up fee
- Interest Rate:** Fixed rate financing
- Documentation:** Internal Lease documentation with \$0 cost
- Legal Opinion:** Provided by internal counsel or bond counsel depending on deal size

Credit Considerations

- **Rated and non-rated entities will be considered**
- **Will require a minimum of three years audited financial statements and a copy of their next year's budget**

For more information

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