



# ECICA Spring 2020 Meeting

## Developing a Plan to Fund Capital Projects

May 12, 2020

# Introduction

- Presenters: Michael Hart and Chip Schultz

# COVID-19 Impacts

- Impacts on City Finances
- Impacts on Municipal Bond Markets
- Considerations for City Disclosures to the Bond Market
- Things to watch

**Coronavirus disclosures up 25% in the past week**

By Sarah Wynn

May 05, 2020, 1:55 p.m. EDT

Source: The Bond Buyer

# Impacts on City Finances

- Decreases or delayed revenues
  - Road Use Taxes
  - Sales Taxes
  - Hotel/Motel Taxes
  - Utility Fees
- Local Government Finance usually sees delayed impact from recession compared to private business

# Impacts on City Finances

- Keep close eye on revenues as they come in
  - Track monthly looking back to previous months and years
  - Track statewide receipts of sales tax and RUT tax <https://www.legis.iowa.gov/publications/fiscal/dailyReceipts>
  - Track changes in use from larger industrial/commercial users that may have business disruptions

# Cash Flow Borrowing

- Some local governments nationwide beginning to talk about short term cash flow borrowing
  - Can help fill the gap if revenues are decreased or delayed

**Iowa's local governments need help to manage coronavirus budget crisis**

Source: Cedar Rapids Gazette

**Georgia state tax collections fell precipitously in April**

By Shelly Sigo

May 08, 2020, 3:11 p.m. EDT

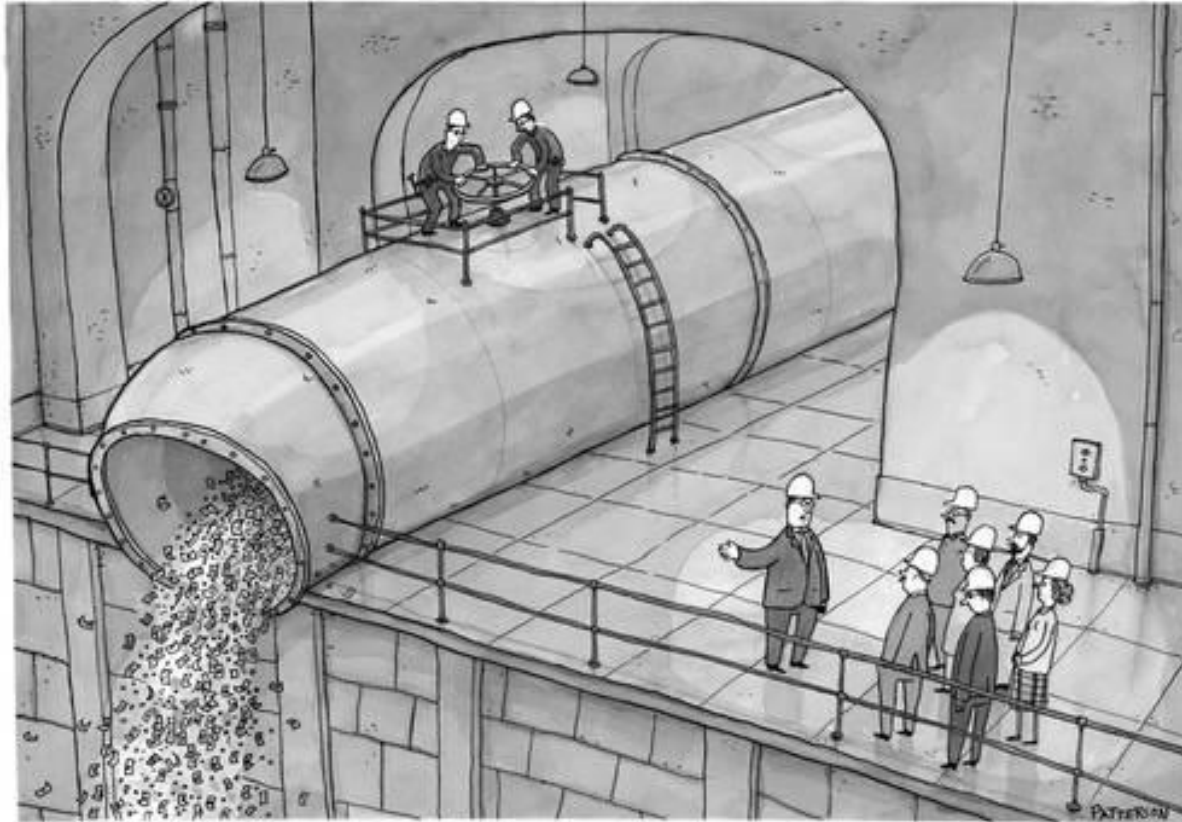
**Hard hit by COVID-19, New Orleans plans borrowing for operations**

By Shelly Sigo

May 07, 2020, 4:14 p.m. EDT

Source: The Bond Buyer

# Impacts on Municipal Debt Markets



*“And this is where we adjust the interest rate.”*

Source: The New Yorker

# Impacts on Municipal Debt Markets



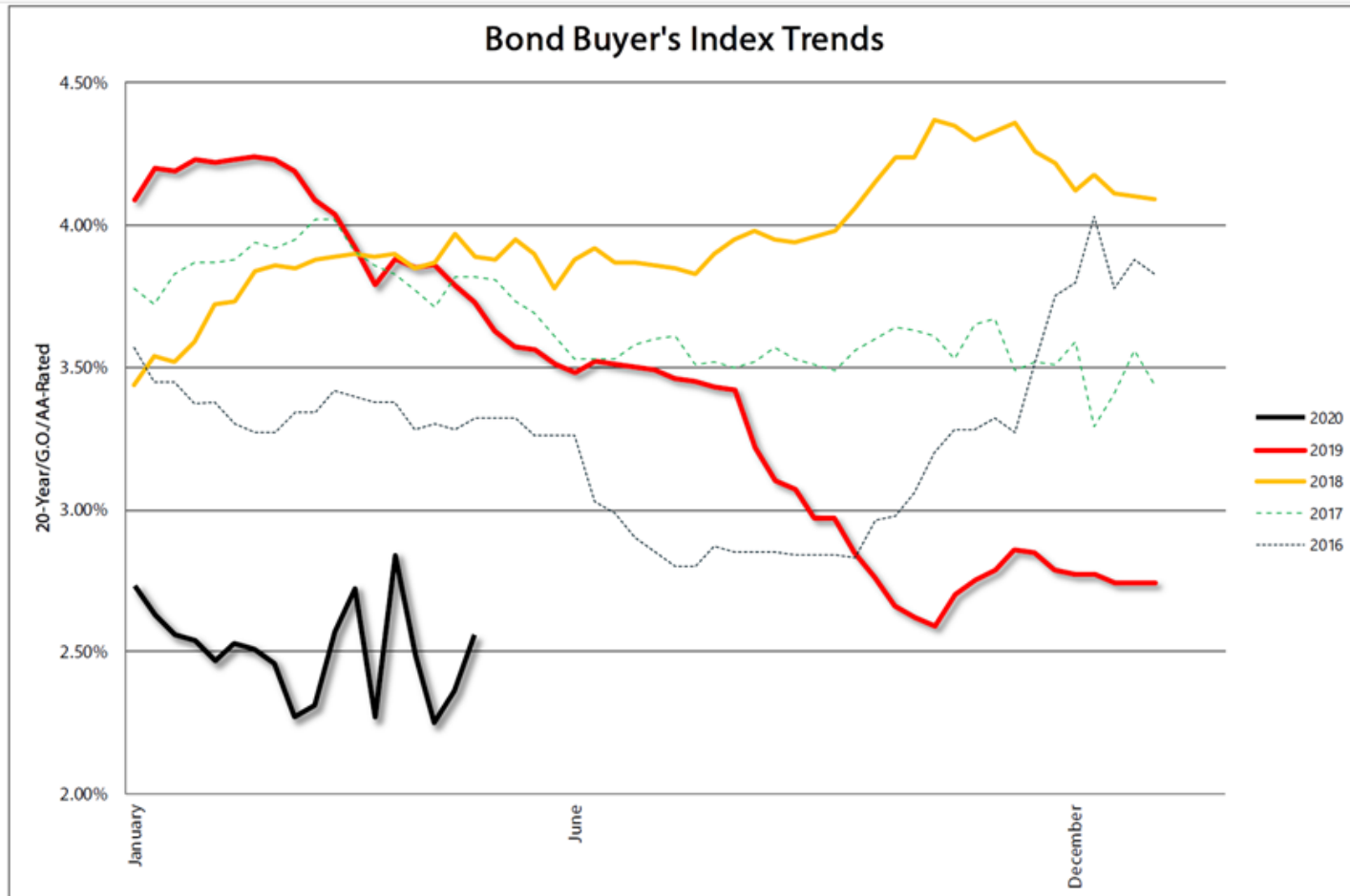
INCREASED MARKET VOLATILITY



FEDERAL RESERVE REDUCED INTEREST RATES & BEGAN UNPRECEDENTED ACTION TO STABILIZE MUNICIPAL MARKETS

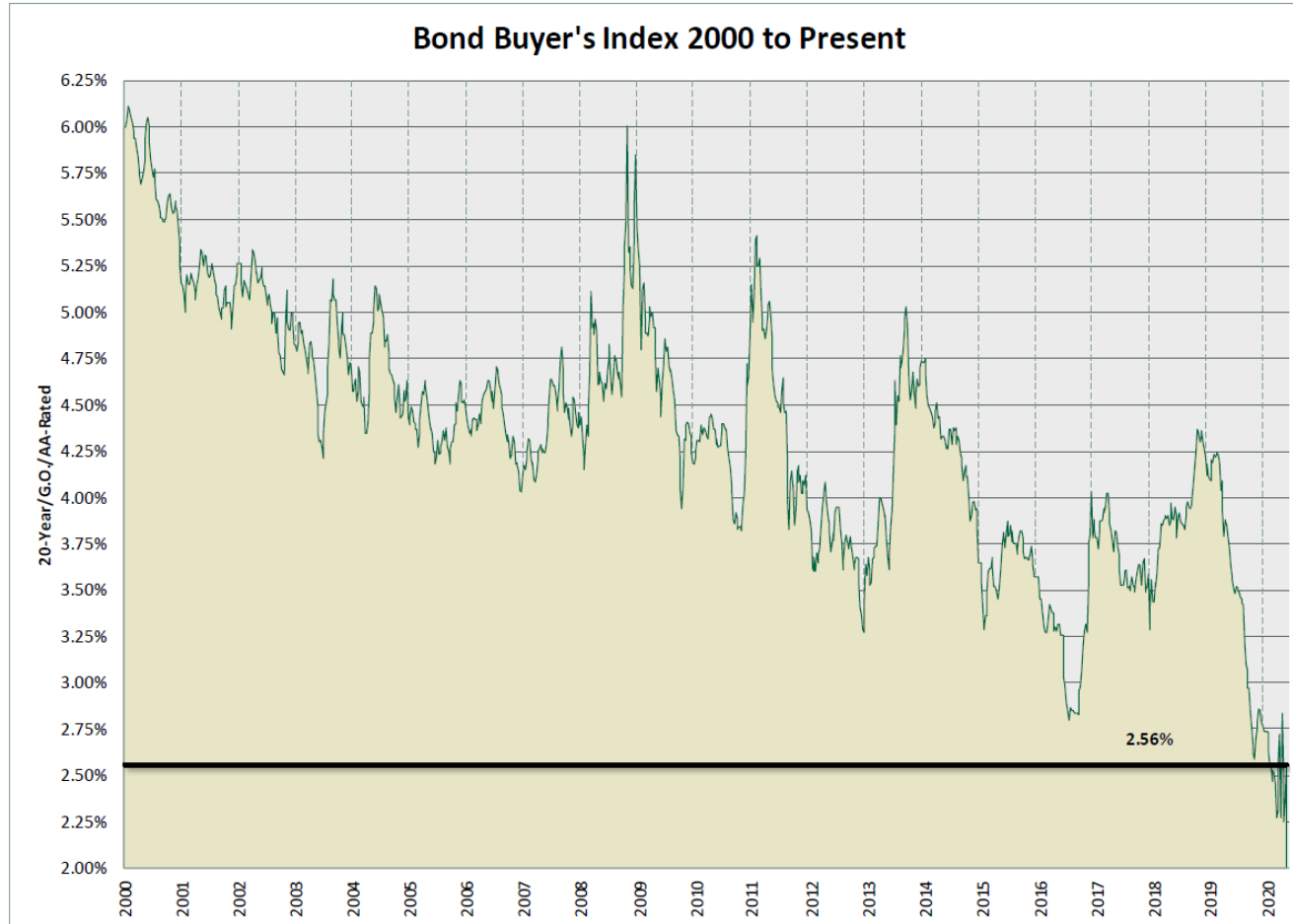


# Impacts on Municipal Debt Markets



Source: Data compiled by Northland Securities from published Bond Buyer's Index

# Impacts on Municipal Debt Markets



Source: Data compiled by Northland Securities from published Bond Buyer's GO 20-Bond Index

# Impacts on Municipal Debt Markets

- Increased scrutiny on credit quality by banks and bond investors
- Markets continue to change quickly as new information is revealed



# Bond Market Disclosures

- Scrutiny on quality and timeliness of disclosure likely to increase

## **Analysts call for better organization of coronavirus disclosures**

By Sarah Wynn

May 07, 2020, 12:13 p.m. EDT

Source: The Bond Buyer

# Increased Importance of Disclosure

- SEC Statement, May 4, 2020
  - “Today, in light of the potentially significant effects of COVID-19 on the finances and operations of many municipal issuers, we increase this focus and request that municipal issuers provide investors with as much information about their current financial and operating condition as is reasonably practicable.”
    - Source: SEC.gov

# Things we are watching

- Stimulus 4 legislation
  - Federal aid to state and local governments?
  - Direct pay bond program? (Build America Bonds)
  - Raising Bank Qualification Limits for smaller issuers of municipal debt?
  - Reinstatement of tax exempt advance refundings?

# Things we are Watching

THE BOND BUYER

DATA WORKSTATION

WASHINGTON

REGIONAL NEWS

MARKETS

EVENTS

MORE

## Support builds for direct federal aid to counties, municipalities

By Brian Tumulty

May 07, 2020, 2:12 p.m. EDT

“Support is building in the House and Senate for direct federal aid to counties and municipalities in addition to separate funding for states to address their revenue shortfalls.”





# Part 2

## Financing Planning for Capital Projects



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# Plan Early, Plan Often

- The best project financing plans start well before the project is underway and adjust frequently as new information is identified

# Why Plan?

- Identify and seize opportunities
  - Outside funding
  - Project coordination
  - Debt Service levy reduction
- Effective use of limited financial resources



# Why Plan?

- Educate
  - Decision makers
  - Public
- Build commitment to act
  - Allows time for decision making
  - Span Council terms



# Why Plan?

- Avoid problems
  - Sudden/large increases in levy or utility rates
  - Emergencies
  - Deteriorating infrastructure and facilities
  - Infrastructure needed to support new development



# Why Plan?

- Provides for funding of projects on a priority basis and keeps a governmental unit within its financial bounds
- Can provide for stable payments and tax rates over a period of time.
- Can promote better planning and installation or construction since the acquisition will be before the crisis time

## Planning Process



Identify Scope of Plan



Identify and Describe Projects



Prioritize Projects



Create Funding Plan for each Project

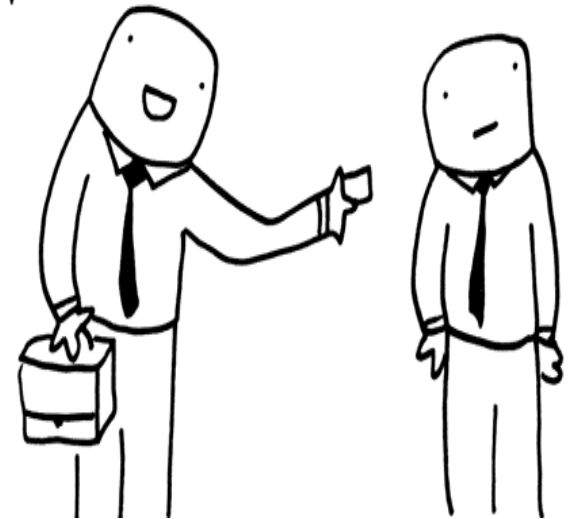


Develop Project Timeline and  
Required Action

# Effective Use of Others to Help

- What role can a consultant play for you
- Who to engage when
  - Engineering consultants
  - Financial/accounting consultants
  - Planning consultants
  - Legal/bond counsel

i'm a consulting consultant...  
i can help you with consulting.  
here's my card... all the consulting  
consultant consultants agree  
i'm the best





# Features of a Good Plan



EASY TO UPDATE



SPECIFIC ENOUGH TO  
DEFINE ACTION BUT NOT SO  
SPECIFIC IT PREVENTS  
UPDATES



CLEARLY DEFINED SCOPE



REVIEWED REGULARLY BY  
KEY STAKEHOLDERS

# Questions?

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