



Public Sector Advisors



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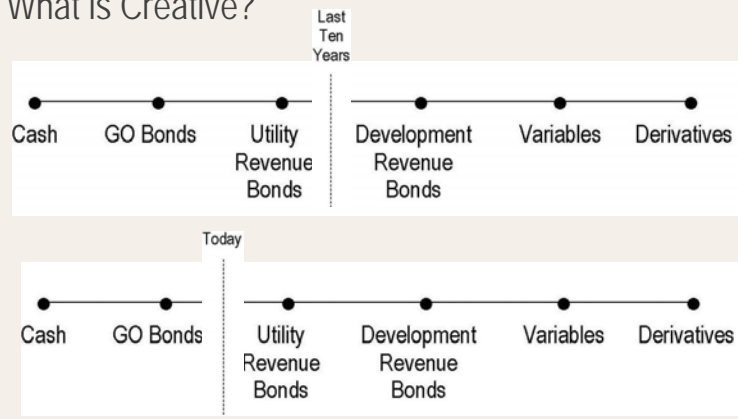
**Creative Financing
“Sustainability in an
Unstable Financial World”
KSGFOA – Fall 2008**

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Creativity in (Unstable) Municipal Bond World

- So What is Creative?



Today: Creative Can Be...

- GO Bonds and Notes
- Development Revenue Bonds
 - TIF, TDD, STAR
- Master Leasing

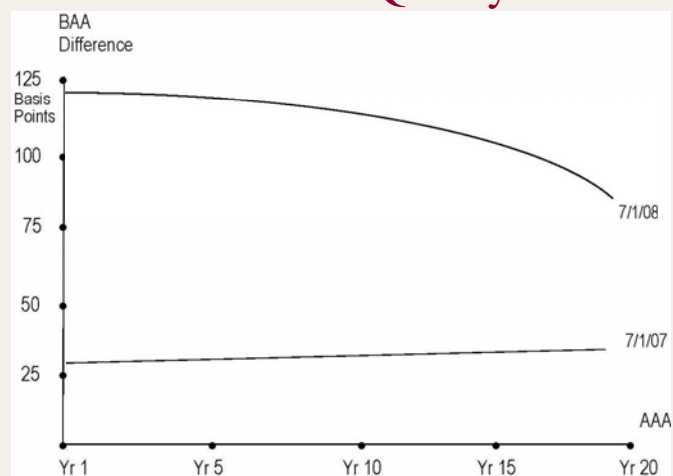
Today's Municipal Bond Market

- CHAOTIC! Completely Foreign
- Credit Worthiness of all Capital Markets
 - Before 60%+ of Market: Bond Insurance
 - Today: 2 AAA Insurers Left; Questions on Those
- Investment Banking Industry Consolidation
 - Bear Stearns/Merrill Lynch/Lehman Brothers - ?
 - AG Edwards/More
- Reduced Bond Insurance & Research Staffs

Impact on Bond Issuers

- Investors – Much More Selective
- Less Bidders – More Selective
- Lower Credit Quality = Higher Rates
- Poor Credit Quality = Marketability Threshold Raised
- NOT GOING AWAY SOON!

Cost of Lower Credit Quality



* Source: MMD GO Scales

Positioning Your GO Bonds and Notes

- Abnormalities Will Cost You
 - Optional Call Provision
 - Smaller Sizes: \$1.0 mill +
 - Small/Odd-lot Annual Principal Amounts
- Better Credit Quality
- OS's Distributed Early
- Variants of Competitive Sale Processes

Development Revenue Bonds (Un-enhanced TIF, TDD & STAR)

- Threshold of Marketability
 - Construction Risk – Generally Not Fundable
 - Partial Construction with Leases
 - Who and Under What Terms?
 - Yesterday's Coverage Levels Don't Work
 - Property Lower than Sales/Hospitality Taxes

Development Revenue Bonds (Un-enhanced TIF, TDD & STAR)

- Desirable Characteristics (Composite)
 - Broad Geographic Base
 - Single-family Residential is Difficult
 - Developer with Proven Track Record
 - Development Locked-in (Construction, Leases)
 - Development Agreement with Teeth
 - Higher Coverage
- Result – Funding Less Costs Later

Development Revenue Bonds If You Enhance...

- By Enhancement is Meant...
 - Access to General Revenues or Security
 - General Revenues: All Sales Taxes, Capital Fund
 - Security: GO, Annual Appropriation, Moral Ob
 - Estimate Total Potential Impact on Jurisdiction
 - Incentives for Developer to Perform
 - Conditional Access
 - Release Triggers: Development/Financial Performance

Master Leasing Link to Financing Operations

- Contract with a Financial Leasing Firm with Established Terms and Duration for the Acquisition of Capital Assets
- Bundling of Capital Assets Over a Multi-year Period
 - Equipment & Vehicles/Park Improvements
 - Real Estate: Land and/or Buildings
- Asset Categories Tied to Security Source
 - General Fund/Utility Fund

Master Leasing

- Advantages
 - Avoid Expenditure Peaks & Valleys: Stable Revenue
 - More Timely Funding
 - Can be Ease of Administration
 - Initiating ONE Financing Instrument
 - Consolidating Procurement: Avoid Department Level
- Disadvantages
 - Interest Costs
 - Long-Term Financial Obligations

Master Leasing How to Initiate Program

- Review Current Procurement Methods
- Estimate Amount of Eligible Capital Expenditures Over Multi-years (CIP)
- Internal Integration of a Management
- Research Legal/Procurement Areas
- Introduce Competition
- Draft RFQ Expressing Your Objectives
- Negotiate Terms to Meet Objectives
- Flexibility

Summary

- Municipal Bond Market – Unusual
- Rethink Certain Basics – Best Positioning
- Development Financing – New Game
- Look at Master Leasing for Budget Relief