

NAMA

NATIONAL ASSOCIATION OF MUNICIPAL ADVISORS

2017 ANNUAL CONFERENCE
SCOTTSDALE

HOT TOPICS **TRANSACTIONS**

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OVERVIEW

- Swaps
- Public Private Partnerships
- Capital Leasing

Swaps

- General Trends
- What You Need to Know
- LIBOR Changes
- Tools to Ask the Right Questions
- Additional Resources

Derivatives & Structured Products Update

- Focus on monitoring and reporting of existing swaps
 - ✓ Understanding the risks and demonstrating sound risk-management practices to various constituents
- New swap transactions have improved risk profile
 - ✓ Callable synthetic fixed /callable fixed-payer swaps
 - ✓ Maturities/calls matching maturity/roll-date of the committed funding
- Changes in yield-curve environment and/or relative value (swaps vs bonds) may present opportunities
 - ✓ Synthetic floating (receive-fixed swaps) as a floating-rate solution
 - ✓ Re-invest products
- Regulations and market environment continue to bring changes to ISDA and loan documentation
 - ✓ Most clients have effectuated Dodd-Frank related ISDA amendments, but clients with “dormant” derivatives transactions may still need to do so if they want to transact /discuss swaps with dealers
 - ✓ New language additions: related to European regulations, LIBOR-replacement, etc.
 - ✓ Change in corporate tax rate in direct-placement documents and TRS
- LIBOR Replacement (See next slide)
 - ✓ Some swap dealers have started showing swaps based on Fed Funds

LIBOR Replacement

- Background
 - ✓ UK FCA will not use its powers to persuade/compel panel banks to make LIBOR submissions after the end of 2021
 - ✓ Uncertainty as to the future of LIBOR and the possible transitions
- Regulators and market participants have already been working on replacement
 - ✓ Alternative Reference Rate Committee (ARRC) announced Broad Treasury Financing Rate (BTFR)
 - Secured overnight rate based on repurchase transactions on US Treasuries
 - Expected to start being published 1H 2018;
 - Questions regarding its performance, liquidity, market acceptance for both derivatives and debt markets
- Possible implications for issuers
 - ✓ Swaps with LIBOR components (MTM, cashflows, hedge accounting)
 - ✓ LIBOR-indexed debt instruments
 - ✓ Changes in ISDA documentation and loan documentation

Some Key Considerations for Generalist MA

- Ensure appropriate level of derivatives expertise
 - ✓ Municipal Advisor (MA) regulations put the responsibility on the MA to ensure its competency when providing advice, including advice on swaps:
“A municipal advisor must possess the degree of knowledge and expertise needed to provide the municipal entity or obligated person client with informed advice”
 - ✓ Access to market data, ability to price the swap, documented analyses
 - ✓ Partner with experts – internal or external
- Ensure that the transaction is appropriate for your client
- Ensure that your client understands transactions’ risks and rationale
- Review of non-derivatives alternatives is a prudent practice to ensure risk/benefit trade off is adequate
- Keep abreast with market and regulatory developments that can affect the clients’ existing or new transactions

P3s

- Trends
- What You Need to Know
- DC Infrastructure Debate and P3s
- Tools to Ask the Right Questions
- Additional Resources

P3 - Trends

- Public Private Partnerships are an alternative to the traditional project delivery model
 - Important to recognize that all infrastructure projects involve the private sector partnering with the public sector
- Large public infrastructure projects
- Focus on transportation, including road, bridges, airports & ports
- New construction and major renovations/expansions
- Access to unique funding, specifically through proposed Infrastructure program

P3s – What You Need to Know

- Delivery Models
 - Design-Bid-Build
 - Design-Build
 - Design-Build-Finance
 - Design-Build-Finance-Maintain
 - Design-Build-Finance-Operate-Maintain
- Availability Payment
- Revenue Concession
- Similar to interest rate swaps, P3s are governed by contracts
- Players

P3s – DC Infrastructure Debate & P3s

- Infrastructure... its kind of a big deal for a developer
- Timing is “fall” of 2017
- Key to plan is providing incentives that will generate \$1 trillion worth of projects
- Another aspect is getting projects started sooner and completed faster
- Bifurcation between large urban and small rural projects
- Shockingly... there’s a bit of controversy involved

P3s – Tools & Resources

- Ask the right questions
 - Is this a good fit for a P3
 - What are the true lifecycle costs of the project
 - How much risk does the governmental entity want
 - What additional funding is available
- Talk to a specialist
- Follow the progress of the proposed infrastructure plan
- Case studies
 - Centers of innovation like Chicago, Denver and Texas
 - Long Beach Courthouse
 - Ohio River Bridges
 - Projects in progress

Capital Leasing

- Introduction
- Basics of Lease Purchase Financing
- Trends and Hot Topics
- What You Should Know

Baystone Government Finance

- Specializing in municipal and nonprofit financing nationwide since 1987
- Corporate office in Manhattan, KS
- A Division of KS StateBank
- One of the largest municipal finance teams in the country
- Funded over a billion dollars of municipal leases
- Approximately 1500 new leases processed and funded each year

Basics of Lease Purchase Financing

- Lease purchase financing (LPF) is the purchase of an asset through installment lease payments.
- Hybrid structure with features similar to both a Loan and a Lease
 - Like a Loan – Lessee owns the asset subject to Lessor’s security interest, and has lien-free ownership at end of term after making all payments
 - No FMV end-of-term purchase option
 - Like a Lease – Lease payments are subject to annual renewal, and the Lease may be terminated by Lessee
 - Not a “debt” from a constitutional perspective
 - Why: Non-Appropriation Clause

What Can Be Leased

- Personal Property Examples:

- Vehicles,
 - Fire Trucks, Police Cars, Ambulances, Street Sweepers & School Buses
- Telecommunications Equipment
- Computers & Software
- Copiers & Other Office Equipment
- Safety Equipment (911 Systems)
- Energy Equipment
 - HVAC, LED, Building Controls & Solar Panels
- Medical Equipment
- Modular Buildings

- Real Property Examples:

- School Facilities
- Courthouses
- City Halls
- Fire Houses
- Hospitals
- Nursing Homes
- Correctional Facilities
- Public Utility Facilities
- Libraries
- Airport Facilities
- Recreational Facilities
- Manufacturing Facilities

Leasing Trends and Hot Topics

1. Increased market for energy efficiency financings

- Various types of collateral: LED, HVAC, Boilers, etc.
- **Case Study:** Connecticut Energy Efficiency Fund
 - On-bill repayment program through the Utility.
 - Capital is provided by third parties – KSSB
 - Utility offers interest rate buy-down through funds within CEEF

2. Legislation promoting lease purchase financing

- **Case Study:** Public Acts 119-123 and Public Act 23 of Michigan
 - Public Acts 119-123 of 2016: permits counties, cities, villages and townships to use lease purchase agreements to finance energy efficiency upgrades
 - Public Act 23 of 2017: expanded previous law to permit school districts to use of lease purchase agreements to finance energy efficiency retrofits – effective April 2017

3. Technology

- Law Enforcement: Body Cameras, retrofits to emergency vehicles, emergency communication and 911 related collateral
- Efficiency software - procurement
 - Vendor provided subsidies to buy down rates

4. Real Property

Hot Topics cont.

5. Increased regulation of the Municipal Securities Market
 - Some changes have been beneficial for Municipal Leasing
 - Rules for Advisors, Underwriters, and Broker-Dealers regarding bonds;
 - Disclosure requirements for bond issuances; and
 - Treatment of lease purchase agreements as private placement bank loans, not municipal securities.
 - Recent changes cause some concern
 - Blurring of the lines – municipal lease vs. municipal security
 - Introduction of the “Municipal Advisor” role, and a broad, yet unclear, definition of what is “Advice”
 - Proposed 15c2-12/Material Event Disclosures
 - Disclosure of the incurrence of a [lease] *if material*... which affect security holders, *if material*...”
 - Continuing disclosure agreements for leases?

What You Need To Know

1. Lease Purchase Agreements remain a viable financing option for equipment and real property transactions
 - Especially for smaller sized transactions (\$2M and below)
2. Energy Efficiency and technology are trending markets
3. When competitively structuring a deal:
 - Accommodate the lessee's requests
 - Minimize lessor's risk of non-appropriation
 - Essential use of equipment
 - Useful life of equipment
4. Increased regulation of securities market can be beneficial to leasing market. But, recent proposed changes could complicate the market, and weaken one of its advantages over debt issuance

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