

# Financial Advisor/Rate Consultant Roles and Responsibilities

ACEC Indiana  
Funding Sources Workshop  
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# Collaborative Process

- Financial and capital improvement project planning along with rate studies require collaboration
- The financial advisor cannot do it alone, need input and professional expertise from:
  - Utility management
  - Consulting engineers
  - Local legal counsel
  - Bond counsel
  - State funding agencies

# Financial Advisor's Role

- Compile financial statements and analyze historical financial information
  - Revenue and expense trend analysis
  - Normalize and estimate future revenues and expenses
    - Input required from management and consulting engineers on various expense items including
      - Maintenance, additional project related expense adjustments
- Develop capital improvement program
  - Input from management and consulting engineers

# Financial Advisor's Role (Cont'd)

- Assist with development of estimated costs for construction projects
  - Information needed from engineers
    - Construction costs
    - Construction contingencies
      - Normally 5% to 10% of estimated construction costs
    - Engineering, land, easement and other non construction costs
    - Green project reserve for SRF projects
- Financial advisor estimates
  - Issuance and other professional costs
  - Cash on hand applied

# Financial Advisor's Role (Cont'd)

- Develop financing scenarios for the proposed construction project
  - SRF, RD, open market
  - BANs needed?
  - Input from engineer on whether or not certain funding sources are a good fit for certain projects from an engineering, environmental and timing standpoint
  - Information from funding agencies on availability of funding, grants, interest rates, etc.

# Financial Advisor's Role (Cont'd)

- Based on the proposed funding scenarios develop estimates of debt service and DSR requirements
- Calculate proposed rate increases based on financing alternative and or other factors

# Financial Advisor's Role (Cont'd)

- With input from the management and engineers determine the best financing mechanism for the project
  - Costs and interest rates are not the only factor
- Structure debt
  - Taking into account any outstanding bond issues and other factors

# Financial Advisor's Role (Cont'd)

- When project is ready to finance
  - Provide information to attorneys for required ordinances and resolutions
  - Prepare offering documents for open market financings
  - Assist with obtaining bond rating when appropriate
  - Assist with the sale of the bond issue
  - Provide due diligence information for SRF/RD



# Sensitivity of Engineering Estimates

- Engineering estimates of project costs are very important.
  - If project cost estimates are too high
    - May scare client from doing needed project
    - Rates could be adopted resulting in excess revenues
  - If project cost estimates are too low
    - Utility management and public may end up unhappy when the bids come in
    - Rates may have to be adopted twice (in addition to other issues)

# Cost of Service Rate Studies

- Require additional engineering input regarding
  - Capacity information
  - Capital asset information
  - Allocation of assets/expenses to various cost categories
  - Other information

# Municipal Advisor Rule

- The new world we live in.....
- 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act established that those providing financial advice to issuers of bonds would be regulated. Thus, Municipal Advisors are required to:
  - Register with the SEC and MSRB
  - Act in the best interests of municipal clients by having fiduciary duty
  - Abide by rules promulgated by the SEC and MSRB through their oversight of Municipal Advisors

# Municipal Advisor Rule (Cont'd)

- “Municipal Advisory Activities” which is defined as advice to a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice on structuring, timing, terms, and other similar matters concerning such financial products or issues.

# Municipal Advisor Rule (Cont'd)

- Advice is considered a recommendation on “structuring, timing, terms or similar matters concerning a municipal financial product or issuance of municipal securities.”
- Advice is *not*:
  - Factual information
  - General information (not specific)
  - Widely disseminated information
  - General educational materials

# Municipal Advisor Rule (Cont'd)

- Exceptions
  - Public Officials
  - Underwriters (for certain activities)
  - Registered Investment Advisors
  - Attorneys
  - Engineers
  - In addition:
    - Banks, accountants, and swaps dealers
- Exceptions assume you are not acting in the capacity of a Municipal Advisor

# Project Funding Options

- Pay As You Go
- Grants
- Borrowing

# Project Funding Options (Cont'd)

- Pay as you go – rate funded
  - Best used for normal replacements with smaller costs
  - Likely high user rates if used to fund large projects
- Grants
  - Limited and heavily sought after
  - OCRA, RD, SRF



# Project Funding Options (Cont'd)

- Bonds – SRF – Subsidized Program
  - Very low subsidized interest rates
    - 2% - 2.8% - 3<sup>rd</sup> quarter 2014
  - Relatively quick process
  - Very competitive since everyone wants to get the subsidized rates
  - Additional engineering/regulatory costs
  - Very limited grant funding
- Pooled Program
  - Market rates
  - Timing could be a concern

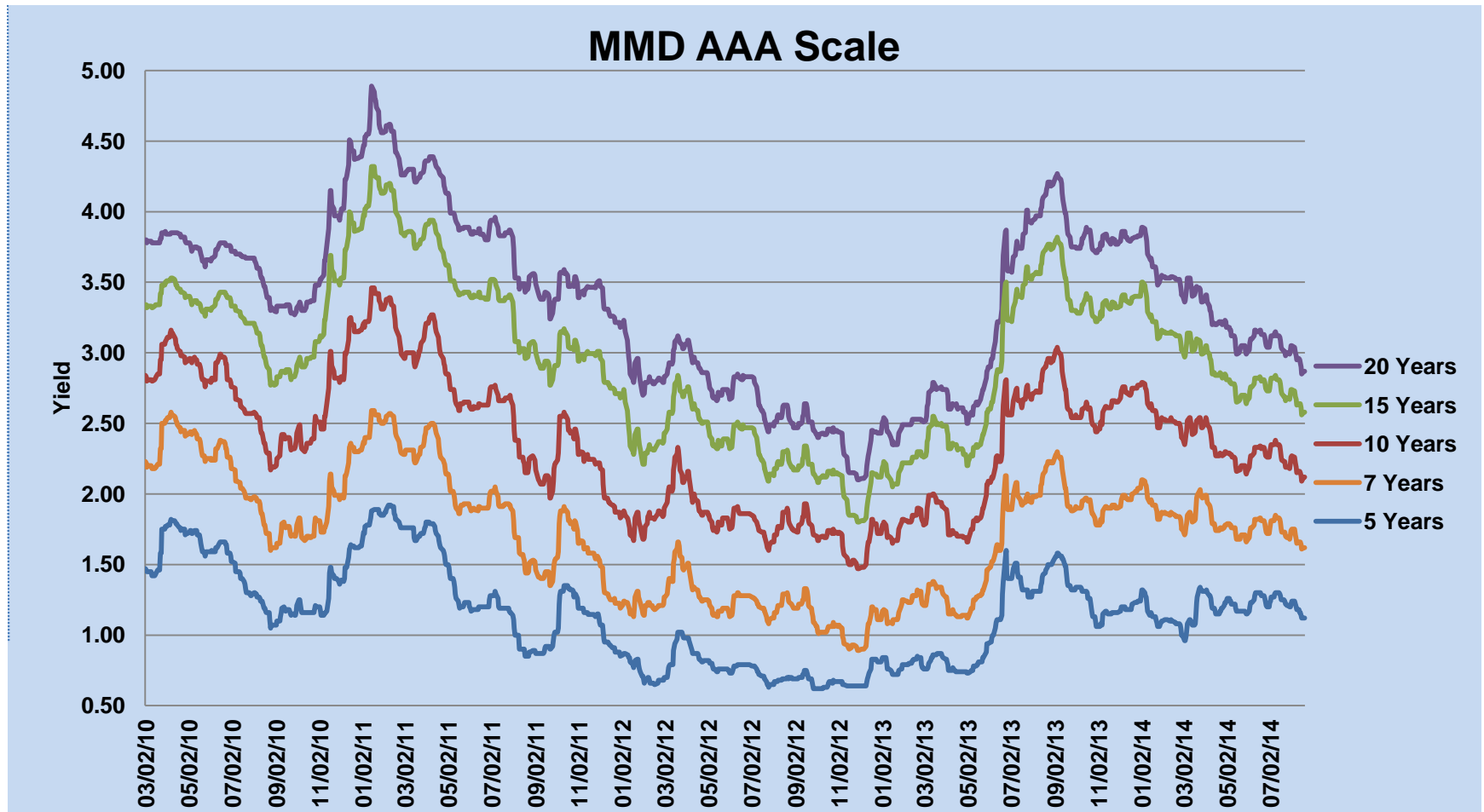
# Project Funding Options (Cont'd)

- Bonds – Rural Development
  - Low interest rates
    - 2.375% to 4% as of 7/1/14
  - Process duration sometimes extended
  - 40-year term
    - Helps fund a project with limited customer base
  - Additional engineering/regulatory costs
  - Limited grant funding – very competitive

# Project Funding Options (Cont'd)

- Bonds – Open Market
  - Historically low interest rates
  - Utility revenue bonds desired by purchasers due to stability
  - Higher issuance costs
  - Bond insurance rarely purchased
  - Credit quality very important!!

# Market Interest Rates



**UMBAUGH**

It's all about experience

# Significant Opportunities Presented

- Refinance Outstanding Debt
- Capture then peel-off of maturing debt
- Finance infrastructure improvements with long-term debt
  - We will all look back on this period or time and probably wish we had issued bonds

# Considerations

- Credit Quality Matters!
- Budgeting and demonstrated financial governance are mandatory
- Financial reporting is paramount
- Is issuer in compliance with continuing disclosure?

# In Conclusion

- The financial advisor's role is very important but services cannot be provided in a vacuum. Professional advice and input is required from various other professionals and utility management.

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