

MISSOURI MUNICIPAL LEAGUE
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PLAYS WELL WITH OTHERS

*Getting Along in the
Local Development Game*

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Plays Well With Others...

Scenes from Local Development...



"Negotiating"



"The Public Hearing"

Plays Well With Others...

- Practical “tips” to limit friction with:
 - ▶ Developers
 - ▶ Other Local Governments
 - ▶ Citizens Groups
 - ▶ Others

Plays Well With Others...

■ Rules of the Godfather School of Business:

- ▶ Make Friends
- ▶ Don't Leave Enemies Alive
- ▶ So, ...Make Friends



Plays Well With Others...

■ Starts with UNDERSTANDING...

▶ City Risks

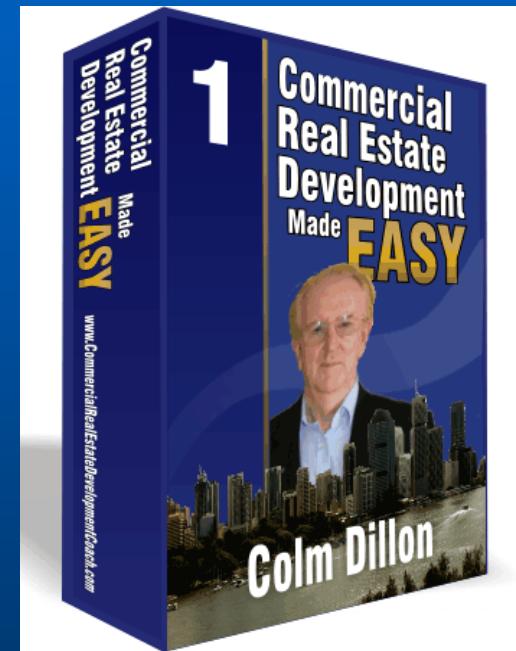
- Financial
- Political

▶ Other Stakeholders' Objectives

- Developer
- Other Taxing Jurisdictions
- Neighborhood Organizations
- Special Interest Groups

Plays Well With Others...

- Developer Issues:
 - ▶ Making Money
 - ▶ Minimizing Time
 - ▶ Avoiding Other Risks/Uncertainty



Plays Well With Others...

- Taxing District Issues:
 - ▶ Money/Tax Revenues
 - How Much ("Share")
 - When Received



Plays Well With Others...

- Neighborhood Issues:
 - ▶ Dynamic/Complex
 - ▶ Function of Distance?



Plays Well With Others...

- Special Interest Group Issues:
 - ▶ “Mission” Related
 - ▶ Financial Support/Organizing Capacity



Plays Well With Others...

- Risk Mitigation – Developer
 - ▶ Initial Funding Agreement
 - City Benefits:
 - Coverage of City Expenses
 - Developer has “Skin in the Game”
 - Developer Benefits:
 - Project Reimburses Initial Costs
 - Even If Another Selected

Plays Well With Others...

- Risk Mitigation – Developer
 - ▶ **Development Agreement**
 - Limit Type & Amount of Incentive
 - Timing and Performance Guarantees
 - Provide for Administrative Costs/Long-term Control
- You Only Get What You Negotiate!

Plays Well With Others...

- Risk Mitigation – Taxing Districts
 - ▶ Learn to Share
 - Immediate “Up-side”
 - Don’t Wait to be Asked
 - ▶ Communicate Early
 - Talk to “Big Players”
 - Talk to Each, Individually

Plays Well With Others...

■ Risk Mitigation – Neighborhood Groups

▶ Land Assembly

- “Take the Pledge”
- Limit Authority to True “Holdouts”
 - Include in Development Agreement
 - Publicize Decision
- “Get Out In Front” – Model Procedures



Plays Well With Others...

- Risk Mitigation –Interest Groups
 - ▶ Assess Resources & Popular Support
 - ▶ Communicate Early
 - ▶ Provide a “Balanced” Opportunity to be Heard

Plays Well With Others...

■ Other “Tips”

- ▶ Convert Potential Opposition into Support
- ▶ Can't Eliminate Controversy, but Can Learn to Manage It
- ▶ Be Active, NOT Re-Active

Plays Well With Others...

- Debt Financing
- Other “Stakeholders”
 - ▶ The Underwriter
 - ▶ Bond Counsel
- Things Your Underwriter Never Told You . . .

Plays Well With Others...

Playing the Development Game

Only one problem . . .

Plays Well With Others...



Plays Well With Others...

■ Municipal Bonds

▶ Complex Debt Instruments

- Definition

- “A security evidencing the issuer’s obligation to repay a specified principal amount on a date certain (maturity date), together with interest . . .”
– MSRB Glossary

- Law involved

- State law
- Federal Law

- Financial world

Plays Well With Others...

■ Municipal Bond Jargon

▶ Based on combination of law involved and financial world

- Examples: Accrued Interest, Capitalized Interest, Refunding, Defeasance, Arbitrage, Rebate, Redemption, Yield, Underwriter, etc.

▶ Resource

- Municipal Securities Rulemaking Board
 - Glossary at www.msrb.org/MSRB1/glossary/default.asp

Plays Well With Others...

- The “Bond Man” (aka the Underwriter)
 - ▶ What the Bond Man may do
 - Act as Financial Adviser
 - Recommend Bond Counsel
 - Prepare POS/OS
 - May prepare bond documents
 - **Buy bonds to resell at profit**



Plays Well With Others...



Remember the
Godfather's Rules



Plays Well With Others...

■ Risks to City as Bond Issuer:

- ▶ Financial (Taxpayers)
- ▶ Disclosure Issues (SEC)

See City of San Diego SEC Settlement

- www.signonsandiego.com/news/metro/images/061114sandiego_sec.pdf

Plays Well With Others...

How Do You Mitigate Risk?

Plays Well With Others...



One option to mitigate municipal bond risks

Plays Well With Others...

- **First Step: Assess Risk by...**
 - ▶ **Understanding Motivation of Parties**
 - Issuer
 - Underwriter
 - Bond Counsel
 - Bond Owner
 - Financial Adviser

Plays Well With Others...



“I pledge my never-
ending **loyalty...**”

-- Luca Brasi to the Godfather

Plays Well With Others...

- Minimize Risk - Make your friends take pledge of loyalty
 - ▶ Underwriter
 - Should not act as Financial Adviser
 - Understand compensation
 - Keep at arm's length

Plays Well With Others...

- Minimize Risk - Make your friends take pledge of loyalty
 - ▶ Bond Counsel
 - Selection
 - Understand compensation
 - Scope of representation
 - Issuer's Counsel?

Plays Well With Others...

- Minimize Risk - Make your friends take pledge of loyalty
 - ▶ Independent Financial Adviser
 - **Manages Costs of Issuance (Primary Role)**
 - Calculate Underwriters' compensation
 - Competitive v. Negotiated Bond Sale
 - Competitive Bond Sale
 - » Decreased underwriters' spread
 - » Lower Interest Costs
 - Handles certain administrative matters

Plays Well With Others...

■ Mitigating Disclosure Risks:

- ▶ Official Statement
- ▶ Continuing Disclosure
- ▶ **Special Disclosure Counsel**
 - Complicated deals may require
 - Opinion addressed to Issuer

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- Mitigating Tax Risks:

Don't rely on non-experts!

Use the Opinion Test

Plays Well With Others...

- Make Friends...
- Understand Their Motivations...
- Assess Your Risk...
- Take Action



Plays Well With Others...

Questions & Answers



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