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PLAYS WELL WITH OTHERS
*Getting Along in the
Local Development Game*

Presented By:

Thomas A. Cunningham

Joshua L. Payton

CUNNINGHAM, VOGEL & ROST, P.C.

legal counselors to local government

75 West Lockwood, Suite One

St. Louis, Missouri 63119

314.446.0800

www.municipalfirm.com

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

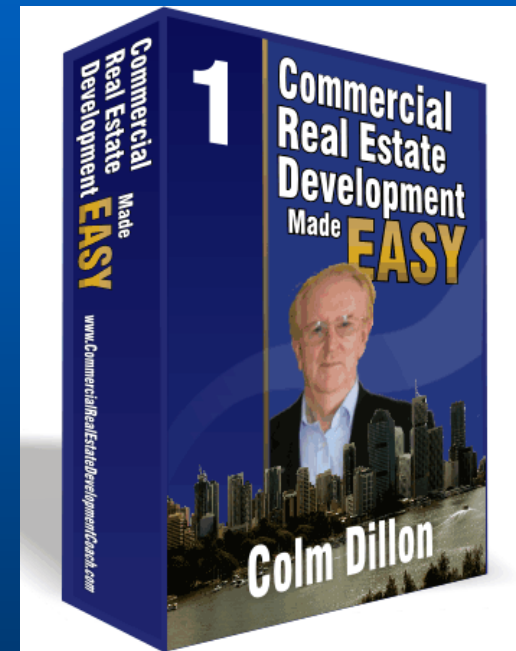
- Financial
- Political

▶ 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

Plays Well With Others...

- 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



CUNNINGHAM, VOGEL & ROST, P.C.

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www.municipalfirm.com

or contact us at: 314.446.0800
75 West Lockwood, Suite One
St. Louis, MO 63119

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