Florida Government Finance Officers Association – Webinar Series

Bond Issuance and Lease Management

May 26, 2022

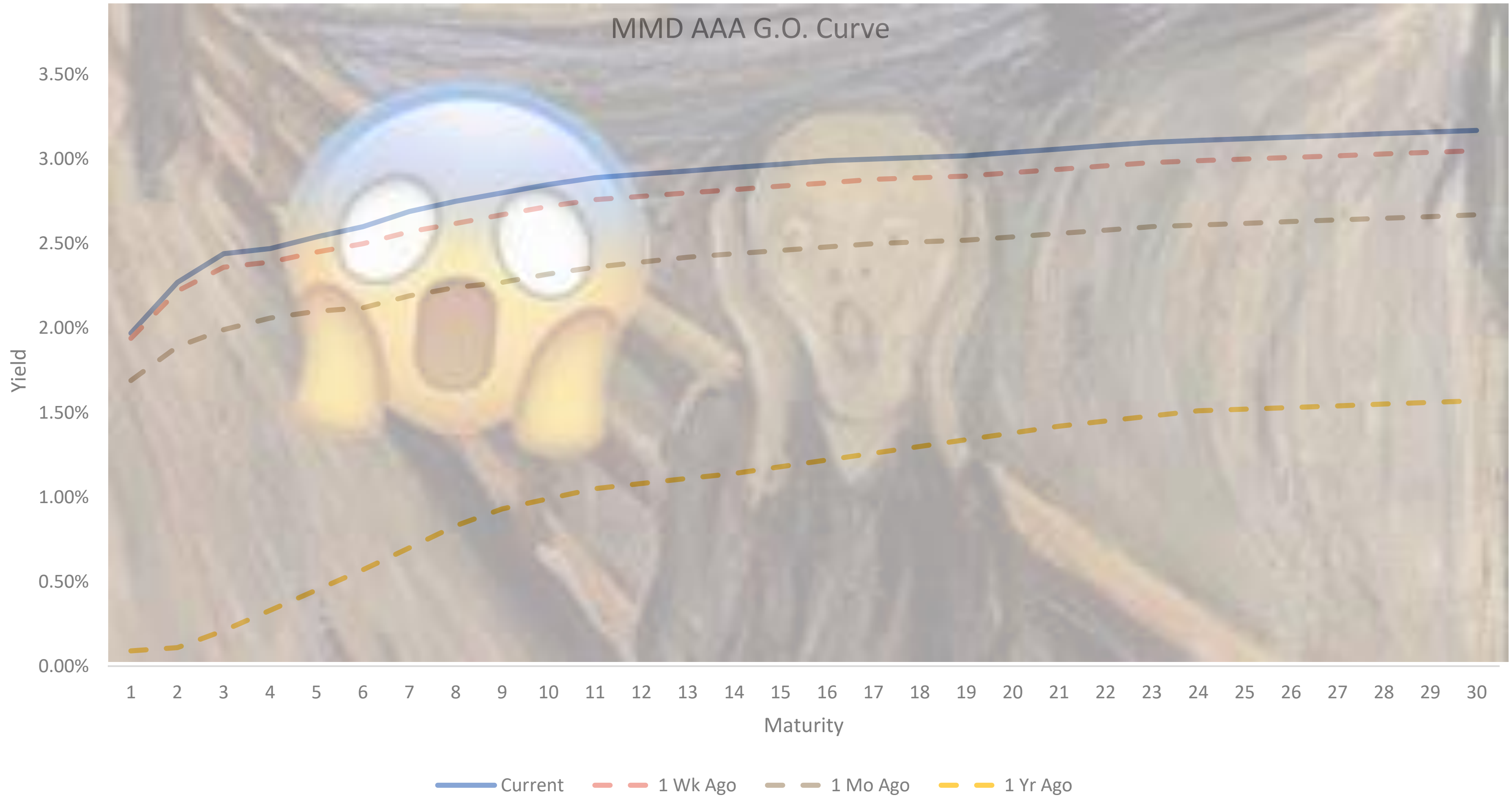
PFM Financial Advisors LLC

200 S. Orange Ave
Suite 760
Orlando, FL 32801

407.406.5760
pfm.com

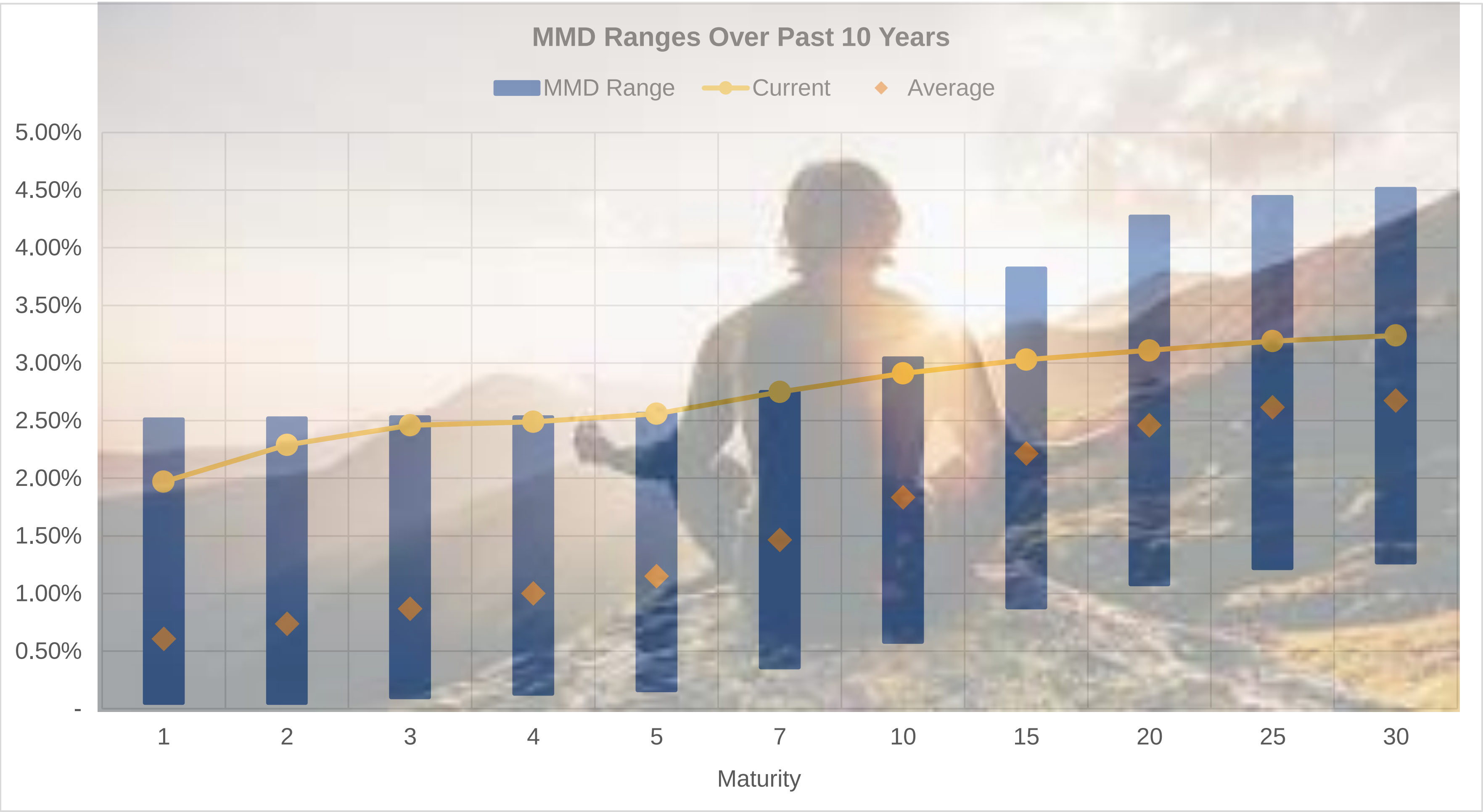
Market Update

Municipal Market Rate Movement



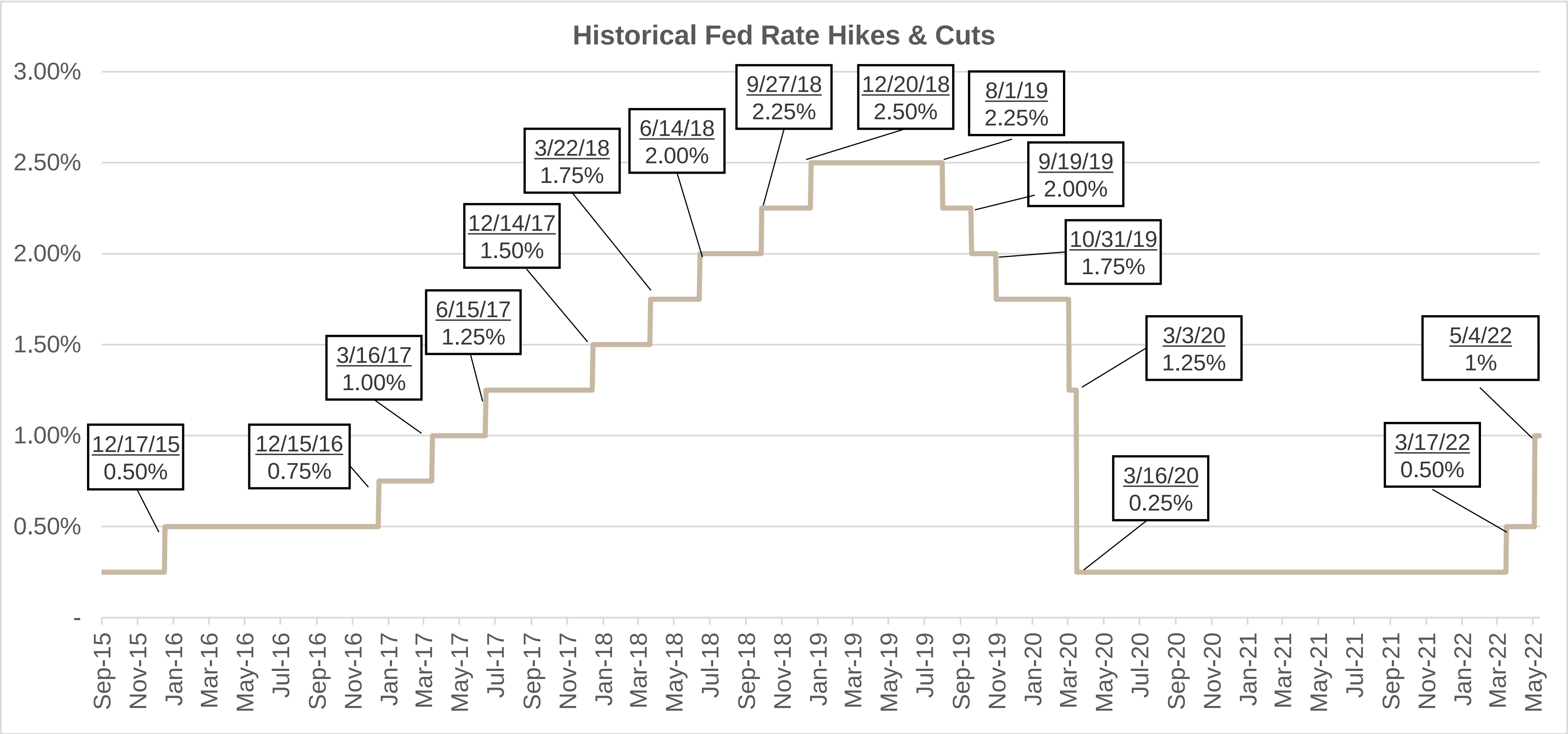
Source: Bloomberg, Refinitiv

Municipal Market Rate Movement



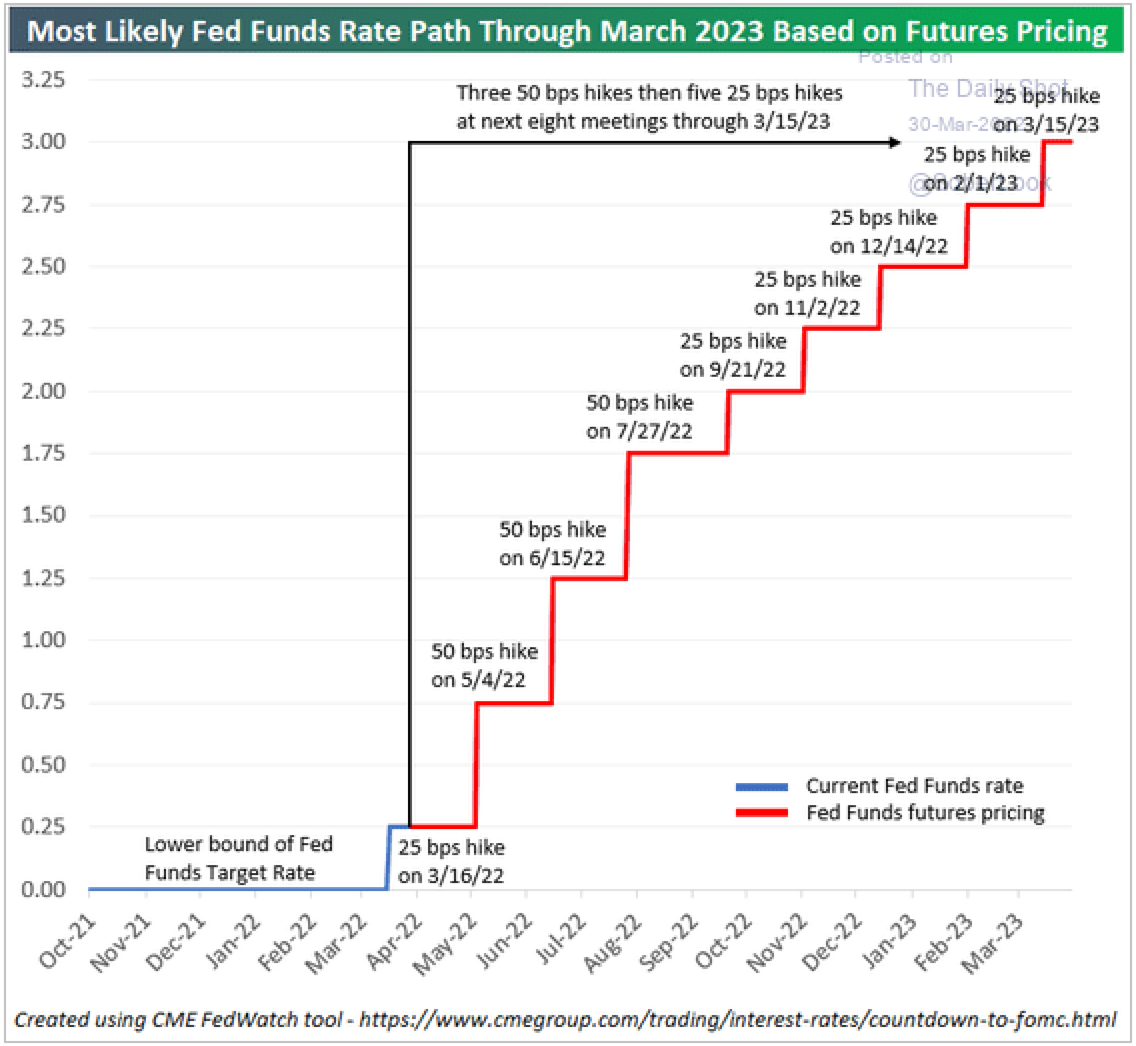
Source: Bloomberg, Refinitiv

Federal Funds Target Rate



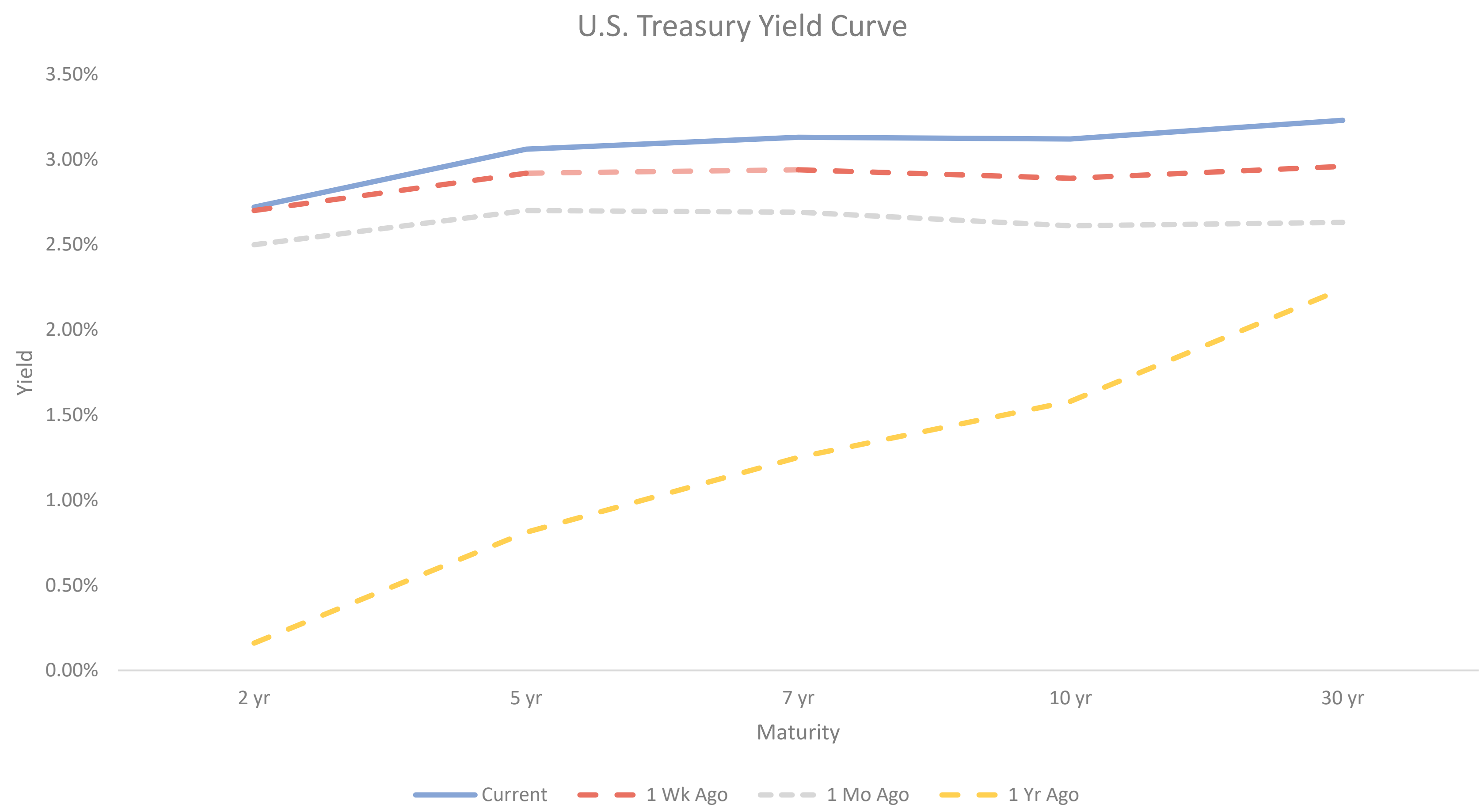
Source: Federal Reserve

Anticipate continued increase to the Fed Funds rate



Source: @bespokeinvest

Treasury Interest Rate Movements



Source: treasury.gov
PFM Pricing Group

Polling Question #1

pfm

Bonds 101

Pay-As-You-Go vs. Debt Financing

Pay-As-You-Go	Debt Financing
• Construction or acquisition as revenues become available • Current users bear cost • Construction/acquisition capacity limited to available revenues • Lower total cost (potentially) • Political and economic climate considerations	• Construction or acquisition as needed • Reduced current payments • Current and future users bear cost – know as generational equity • Enhanced construction/acquisition capacity • Useful life of assets financed

What Types Of Bonds Are There?

- **Municipal Bonds**, also called “munis,” are debt securities issued by states, cities, counties and other government entities
  - **General Obligation Bonds** are bonds backed by the full faith and credit of the issuer, which has the power to tax residents to pay bondholders (require voter referendum in Florida)
  - **Revenue Bonds** are bonds that are backed by revenues from a specific project or source, such as sales tax, gas tax, utility revenues, tolls, etc.
  - **Certificates of Participation** are secured by annual lease payments (subject to annual appropriation) derived from a specific revenue source, basket of revenues, or any other available revenues
  - **Conduit Bonds** are issued by governments on behalf of private entities such as non-profit colleges or hospitals -- these “conduit” borrowers agree to repay the issuer who in turn pays the interest and principal on the bonds – if the conduit borrower fails to make a payment, typically the issuer is not required to pay the bondholders
  - While not considered a bond, local governments also utilize **Leases** to fund heavy equipment, technology, vehicles. Lease are generally short-term financings and repayment is subject to annual appropriation.

Repayment of Debt

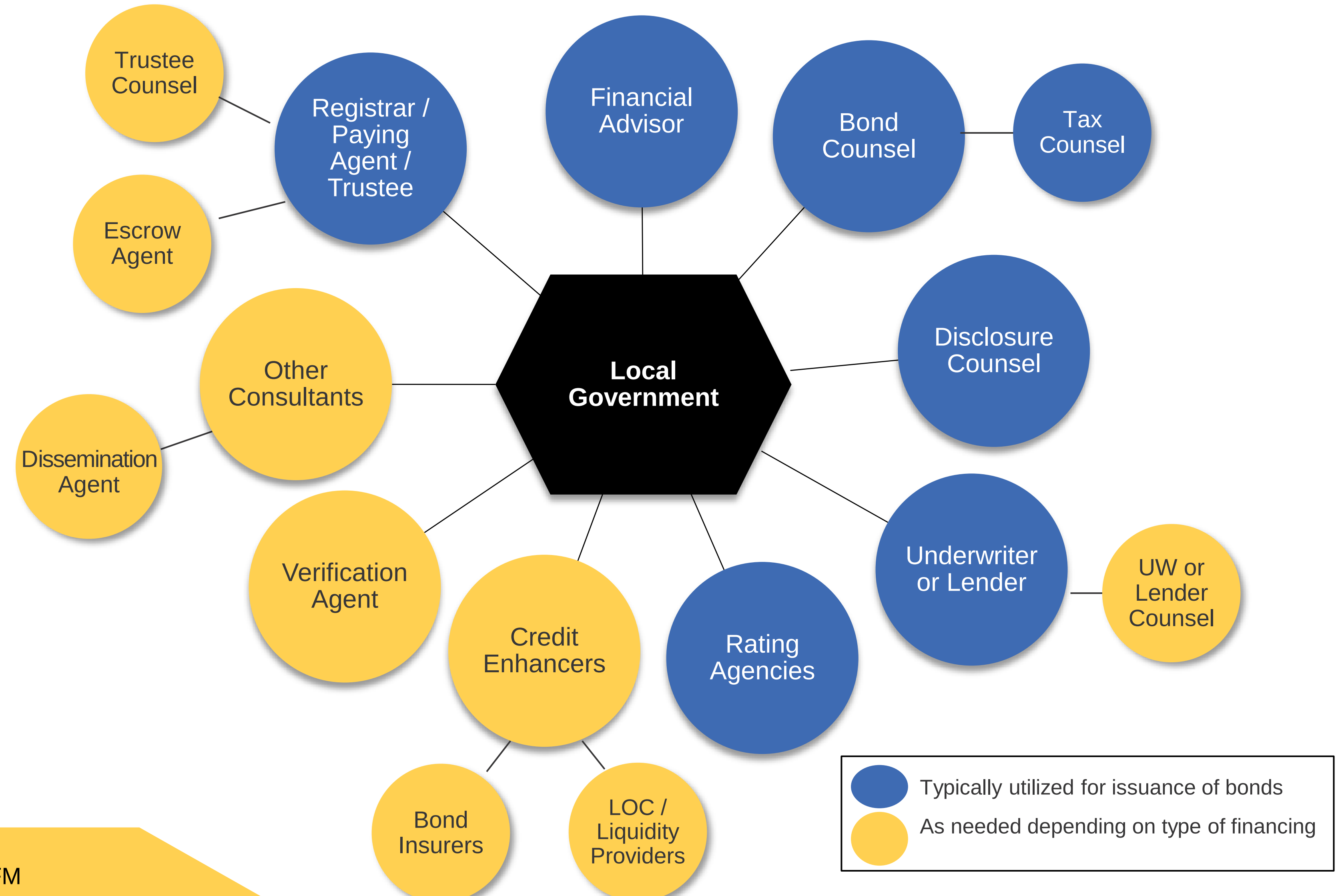
- What is the best/appropriate repayment source?
  - Legally available for capital purpose
  - Dedicated to repayment
  - Reliably generated
  - Robust
- Repayment of debt will normally take a priority position on use of revenues
- Planning should include integration of adequate revenues to cover operating and maintenance of capital project
- Sources of security utilized by the local governments:
  - Ad Valorem Tax (approved via voter referendum)
  - Half Cent Sales Tax Revenues
  - State Revenue Sharing
  - Covenant to budget and appropriate legally available non ad valorem revenues (CBA)
  - Gas Taxes (Constitutional and Local Option)
  - Tourist Development Tax Revenues
  - Water and Sewer Revenues
  - Solid Waste Revenues

The Internal Team

- The core members or point persons of the internal bond financing team vary from issuer to issuer but typically representatives for a transaction include:
  - Administration – City/County Manager, Finance Director, Budget Director or other designee
  - Legal – City/County Attorney or Assistant
  - Clerk -- Clerk or Deputy (Counties)

- Transaction Dependent Team Members
  - Utilities/Solid Waste -- Director, Assistant, Engineering or Finance
  - TDT -- Director or Assistant
  - CRA -- Director, Assistant or Finance
  - Transportation, Recreation or Environmental Lands -- Director, Department Head or Communications Director

Participants in the Transaction Team



Overview of Sale Methods

- Generally speaking, issuers generally utilize one of three sale approaches to access funds from the primary market:

COMPETITIVE
(Public Bond Offering)

- Issuer and FA procure bids at a specific date and time from a variety of underwriters
- Bonds awarded to the lowest conforming bid

NEGOTIATED
(Public Bond Offering)

- Issuer and FA work with a pre-selected underwriter or a group of underwriting firms
- Bonds are priced through negotiations with the underwriter(s) and investors

BANK LOAN
(Direct Placement)

- Bonds are sold directly to a bank or private investors with a lender typically selected following an RFP process
- Lease Financings are generally also done via a direct placement with lease provider

Bank Loan vs. Bond Issuance

	Bank Loan	Bond Issuance
Pros	• No ratings required • No offering documents & minimal disclosure requirements • Minimal issuance costs • Usually, shorter timeframe to close financing	• Financings up to 30 years are typical and easy to finance • Future tax law change risk is with holders of bonds • 10-Year Call Provision is the industry standard
Cons	• Limited banks willing to finance greater than 15 years • Some banks require interest rate gross-up language if tax laws change • Call provisions are sometimes not available or costly, can vary greatly between banks	• Ratings would be required • Issuance documentation considerations and ongoing administration • Issuance costs greater than Bank Loan • Additional time to complete financing due to additional documents and ratings process

Issuance Timing

- From start to finish, the process of issuing bonds is expected to take approximately 3-4 months.
- Provided below is an outline of the sequence of events for issuing bonds:

Months 1-2

- Select the Team
- Distribute Timetable & Distribution List
- Tax Analysis & Review of Project List
- Draft Financing Documents
  - Bond Ordinance/Resolution
  - Preliminary Official Statement (POS)
- Determine Structure & Sale Parameters
  - Notice of Sale (NOS)
- Submit Documents by Agenda Deadline

Months 2-3

- Commission/Council Meeting for Approval
- Obtain Credit Ratings
- Post POS & NOS
- Price & Sell Bonds
- Finalize Numbers

Months 3-4

- Distribute Closing Documents
- Print/Post Final OS
- Prepare Closing Memorandum
- Pre-Closing
  - Signing of Documents
- Closing
  - Transfer of Funds

Credit Ratings

WHAT IS A BOND RATING?

- Measure of risk to bondholders
- Reflects issuer's ability & willingness to repay debt on time and in full
- Factors in expected loss and recovery
- Denotes credit quality by rating level
- Independent opinion (subjective process)
- Forward looking projection

BOND RATING IS NOT

- Audit
- Recommendation to buy, sell or hold a security
- Static or permanent
- Opinion of community's quality of life
- Performance evaluation of current political leadership
- Judgement of quality of service delivery

Bond Ratings

- A key factor in determining the interest rate is the bond rating
- Generally speaking, the higher the rating, the lower the interest rate

Highest Rating

Below Investment Grade

S&P	Fitch	Moody's
AAA	AAA	Aaa
AA+	AA+	Aa1
AA	AA	Aa2
AA-	AA-	Aa3
A+	A+	A1
A	A	A2
A-	A-	A3
BBB+	BBB+	Baa1
BBB	BBB	Baa2
BBB-	BBB-	Baa3
BB	*BB*	*Ba*
B	*B*	*B*
C	*C*	*C*

Credit Strategy

- Managing credit ratings takes preparation, long-term planning and an in-depth understanding of credit agency criteria
- One role of the MA is to provide that credit expertise
- This means providing credit advice during the decision-making process to understand how policies, practices and financial decisions impact credit BEFORE implementing policies or making those decisions
- MAs are in regular communication with rating agencies and should be able to update you on changing rating agency methodologies and how they impact you as you plan for new debt issuance

Rating Considerations

- Credit considerations include, but are not limited to:
  - Management, governance and business strategy
  - Economy
    - Stability of current tax base
    - Large diverse taxpayers
    - Stable home values
  - Financial position
    - General Fund revenues keeping pace with expenses
    - Operating surpluses or deficits
  - Debt and Pensions
  - Legal framework
    - Debt service coverage ratios
    - Debt service reserve fund

Other Rating Considerations

Excerpts from Standard & Poor’s Rating Commentary:

“The Top 10 Management Characteristics of Highly Rated U.S. Public Finance Issuers”

1. Focus on structural balance
2. Strong liquidity management
3. Regular economic and revenue updates to identify shortfalls early
4. An established rainy day/budget stabilization reserve
5. Prioritized spending plans and established contingency plans for operating budgets
6. Strong long-term and contingent liability management
7. A multiyear financial plan in place that considers the affordability of actions or plans before they are part of the annual budget
8. A formal debt management policy in place to evaluate future debt profile
9. A pay-as-you-go financing strategy as part of the operating and capital budget
10. A well-defined and coordinated economic development strategy

Based on the Rating Commentary in various publications.

Post-Issuance Compliance Requirements

Continuing Disclosure

- Issuers covenant to provide ongoing disclosure of both routine financial information on an annual basis and periodic notification upon certain events (e.g., defeasance of bonds)

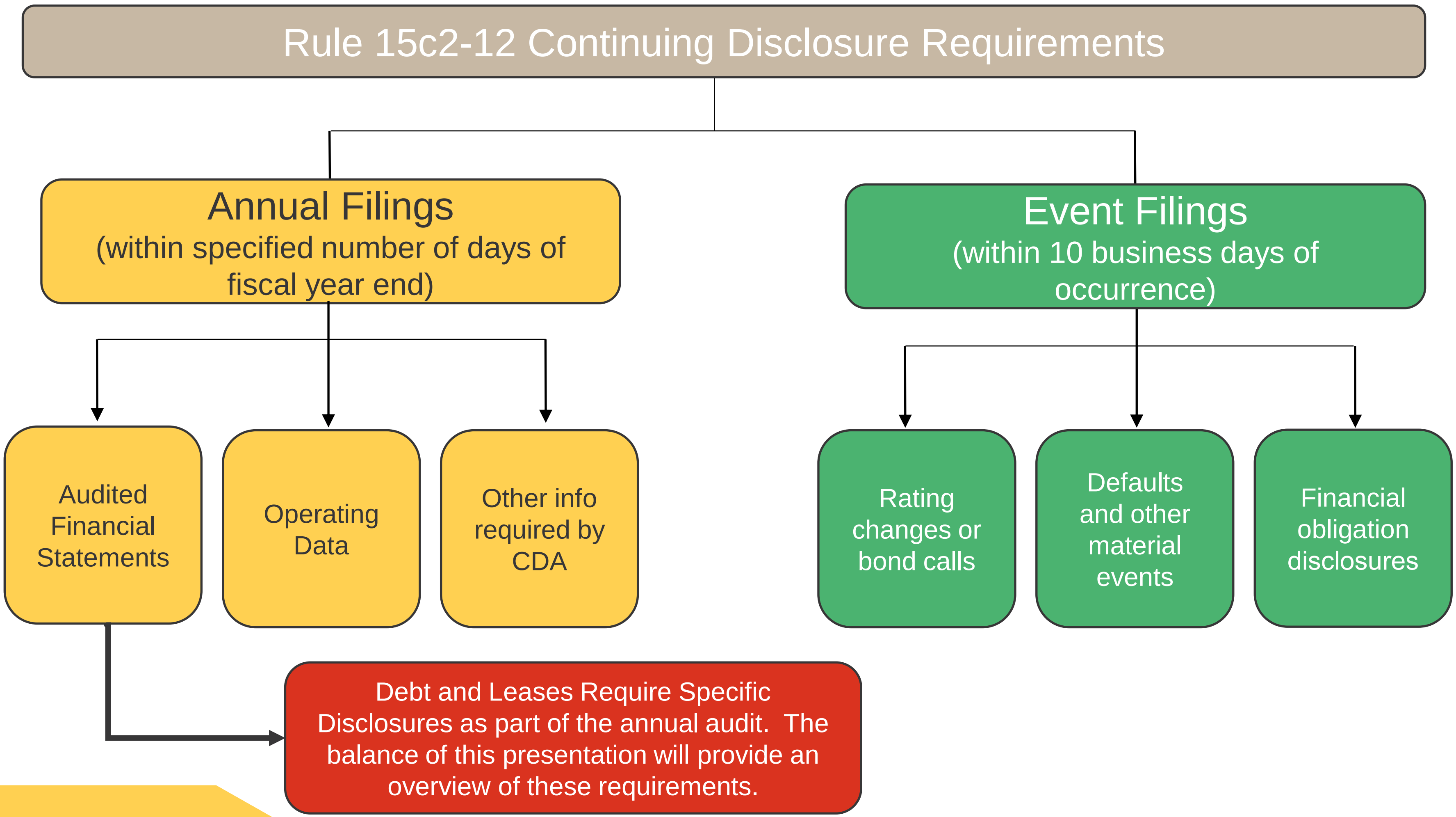
Arbitrage Rebate

- Issuers may be required to rebate investment earnings in excess of the bond yield to the federal government every five years

Rating Maintenance

- Issuers are usually required to provide ongoing updates to the rating agencies

Continuing Disclosure Illustrated



Polling Question #2

pfm

Thank You

Jay Glover

Managing Director

PFM Financial Advisors LLC

407-406-5760

gloverj@pfm.com

Sergio Masvidal

Managing Director

PFM Financial Advisors LLC

305-448-6992

masvidals@pfm.com

pfm

Disclosures

SPECIAL DISCLAIMER REGARDING THE RESEARCH AND FORECASTS INCLUDED IN THIS PRODUCT

This research and any forecasts are based on current public information as of 05/13/2022 that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification.

ABOUT PFM

PFM is the marketing name for a group of affiliated companies providing a range of services. All services are provided through separate agreements with each company. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation.

Financial advisory services are provided by PFM Financial Advisors LLC a registered municipal advisor with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) under the Dodd-Frank Act of 2010. Additional applicable regulatory information is available upon request.

Consulting services are provided through PFM Group Consulting LLC. Institutional purchasing card services are provided through PFM Financial Services LLC. PFM's financial modelling platform for strategic forecasting is provided through PFM Solutions LLC. A web-based platform for municipal bond information is provided through Munite LLC.

For more information regarding PFM's services or entities, please visit www.pfm.com.