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What are Municipal Bonds
How are They Used to Fund Projects?

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I. TYPES OF BONDS

Types of Bond Financing Options

- General Obligation Bonds
- Annual Appropriation or Lease Debt
  - Certificates of Participation
  - Lease-backed Financing

Considerations of General Obligation Bonds, Lease Debt and Revenue Bonds

General Obligation Bonds	Lease Debt or Revenue Bonds
- Supported by an ad valorem tax on real property within the issuer's limits	- May need voter approval - Only requires simple majority for voter approval of new operating levy (if needed)
- Require voter approval of 4/7 or 2/3 majority, depending on bond election date	- Does not require voter approval if it can be paid from current operating levy or revenues of the proposed project
- Higher credit rating	- Lower credit rating
- Lower interest rates	- Slightly higher interest rates
- Debt limit as a % of assessed valuation (5% for Library Districts)	- No debt limit
- Maximum maturity of 20 years	- Maximum maturity of 30+ years, depending on security

II. BONDING PROCESS

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Key Steps to Issuing Bonds

Step 1: Initial Process

- Identify project scope and repayment source
- Receive voter authorization, if applicable, for new tax or General Obligation Bond authority

Step 2: Engage Participants

- Bond Counsel, Paying Agent, Underwriter, Architects, etc.
- Begin preparation of issue documents, conduct due diligence

Step 3: Structure the Issue

- Maturity structure, call provisions, sizing and bond insurance

Step 4: Market the Issue

- Prepare Official Statement, Receive Bond Rating, Advertising Strategy
- Advertise in local newspapers and post ads on website and social media (sample to the right)

Step 5: Complete and Close the Issue

- Sale Date/Pricing
- Print Official Statement (Offering Statement)
- Close Sale with the Issuer’s receipt of Project Funds

We Anticipate Pricing the Week of August 26, 2019,
the Following ***TAX-EXEMPT*** Certificates:

$20,300,00*	**$26,715,00***
Certificates of Participation Series 2019A	**Refunding Certificates of Participation Series 2019B**

Franklin County, Missouri

- Interest on the certificates will be free from federal and Missouri income taxes.**
- These certificates are rated A+ by S&P.
- This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these securities. Any offer to sell will be made only pursuant to the final official statement.

For a preliminary official statement and more information, please call:

Bob Beckmann
Senior Vice President/Investments, Branch Manager
(636) 530-6606
520 Maryville Centre Drive, Suite 410 | St. Louis, Missouri 63141

or contact your local Stifel financial advisor.

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* Preliminary; subject to change
** For a complete discussion of tax matters, please see the preliminary official statement.
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Step 6: Post closing

- Continuing disclosure
- Arbitrage rebate reporting
- Budget and tax rate setting
- Debt service schedule and annual reports

Structuring Considerations

- Financial condition of the issuer
- Sources of income for repayment of the debt
- Cash flows and reserves
- Current and future borrowing needs
- Issuer’s current bonding and additional legal debt capacity, as applicable
- Desire for local distribution of bonds

Financing Team

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Underwriter

- The firm that actually purchases the bonds from the issuer and distributes them to individual bond holders (the lenders)
- Structures the bonds and provides market expertise to minimize borrowing costs
- Helps to model the long-term financing plan for the issuer in relationship to revenue stream, projected levy growth and future debt requirements
- Provides market feedback regarding current investor expectations and preferences relative to yield

Bond Counsel

- Prepares all the necessary legal documents and opinions required to ensure the issuer adheres to legal parameters
- Writes election ballot language and ensure the issuer adheres to all legal requirements
- Is selected by and works for the issuer

Underwriter's/Disclosure Counsel

- Prepares all the necessary legal documents required for the marketing of the bonds to the public
- Prepares the legal documentation required to finalize the bond sale between the issuer and the Underwriter

Architect

- Needs to be able to incorporate facility requirements, timing and budget constraints
- Handles construction process of design and build

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Credit Rating Scales and Definitions

	S&P	Fitch	Moody's	
	AAA	AAA	Aaa	**Extremely strong capacity to meet financial obligations**
Investment Grade	AA+	AA+	Aa1	
	AA	AA	Aa2	
	AA-	AA-	Aa3	**Very strong capacity to meet obligations**
	A+	A+	A1	
	A	A	A2	**Strong financial capacity but susceptible to adversity**
	A-	A-	A3	
	BBB+	BBB+	Baa1	
	BBB	BBB	Baa2	**Adequate financial capacity but adverse conditions will lead**
	BBB-	BBB-	Baa3	**to weakness**
Non-Investment Grade	BB+	BB+	Ba1	
	BB	BB	Ba2	**Non-Investment Grade speculative**
	BB-	BB-	Ba3	
	B+	B+	B1	
	B	B	B2	**Highly speculative**
	B-	B-	B3	
	CCC+		Caa	
	CCC	CCC	Ca	**Extremely speculative**
	CCC-		C	
		DDD		
	D	DD		**Default**
		D		

Underlying Rating

- Underlying rating is determined by a credit analysis of the issuer from an independent bond rating agency.
- Evaluates financial, economic and overall management of the Issuer
  - Provides investors with “relative” indication of credit quality
  - Issuer’s ability and willingness to repay debt obligation
- Rating Agencies charge a fee that is based on the type of issue, for example whether it is General Obligation or COP/Leasehold Revenue (Annual Appropriation), as well as the par amount of the issue.
- General Obligation bonds and smaller issues typically have the lowest fee.

S&P's Quantitative Scoring

Hypothetical Example of S&P's ICR Scoring

Factor Score Weighted Average

High	Low	Indicative Rating
1.00	1.64	AAA
1.65	1.94	AA+
1.95	2.34	AA
2.35	2.84	AA-
2.85	3.24	A+
3.25	3.64	A
3.65	3.94	A-
3.95	4.24	BBB+
4.25	4.54	BBB
4.55	4.74	BBB-

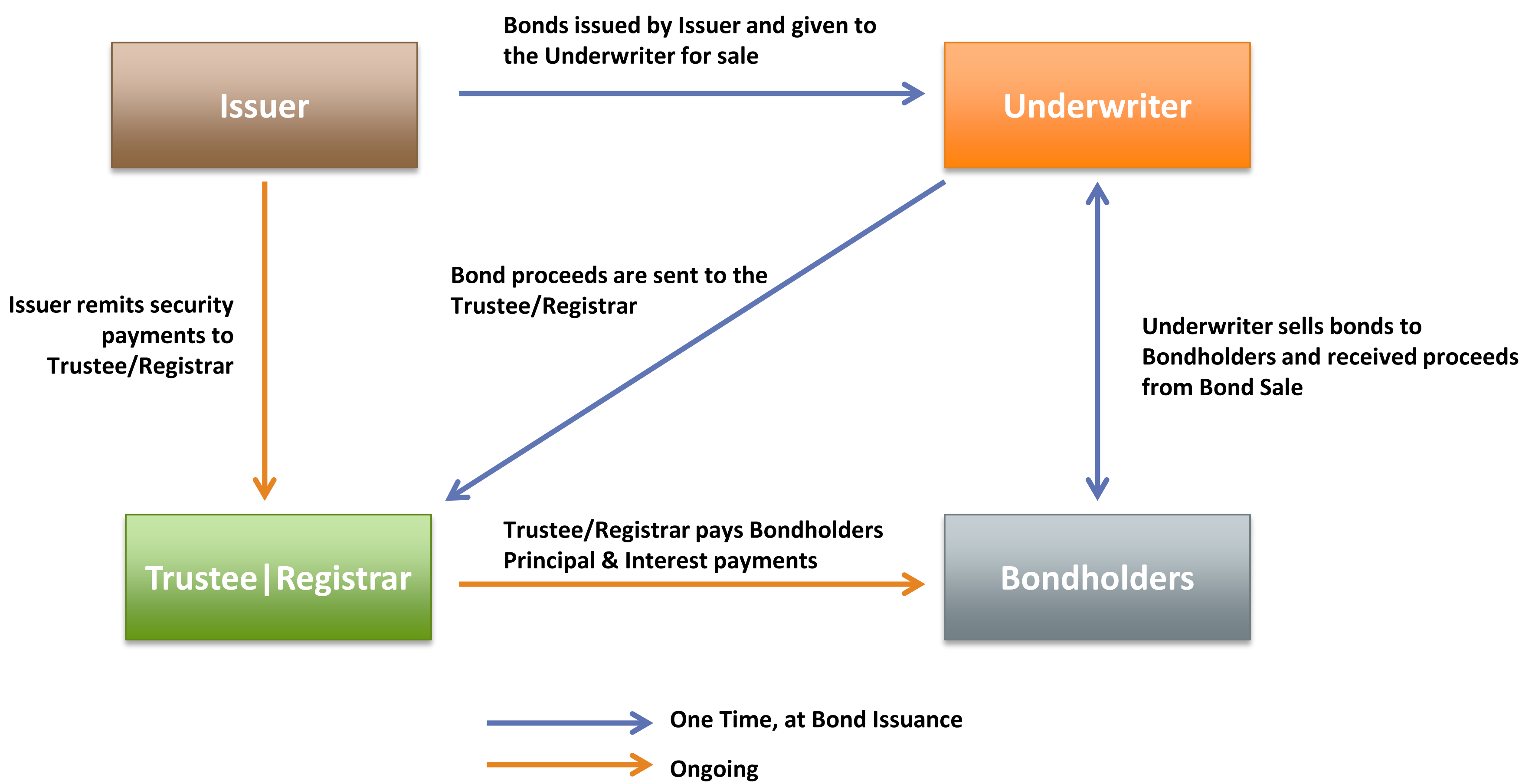
Key Factors and Weights

Factor	Weight	Estimated Score
Institutional Framework	10%	2.00
Economy	30%	4.50
Management	20%	2.00
Liquidity	10%	1.00
Budgetary Flexibility	10%	2.00
Budgetary Performance	10%	1.00
Debt & Contingent Liabilities	10%	1.00
Estimated Score		**2.45**
Estimated (ICR) Rating - GO		**AA-**
Estimated Rating - LR/COPs/Appr.		**A+**

Score Definition

Score	Definition
1	Very strong
2	Strong
3	Adequate
4	Weak
5	Very weak

- "Weighted Average Factor Score" is the issuer's initial ICR before any qualitative adjustments
  - Appropriation debt (general fund lease) is usually one notch lower than ICR
- Each "Key Factor" is assigned a weight and scored
  - "Economy" score is the key factor with the highest weighting at 30%
  - Some factors "Economy" and "Institutional Framework" cannot be controlled by issuer


Issuer
Bonds issued by Issuer and given to the Underwriter for sale
Underwriter
Issuer remits security payments to Trustee/Registrar
Bond proceeds are sent to the Trustee/Registrar
Underwriter sells bonds to Bondholders and received proceeds from Bond Sale
Trustee|Registrar
Trustee/Registrar pays Bondholders Principal & Interest payments
Bondholders
One Time, at Bond Issuance
Ongoing

General Obligation Bonds | Election Calendar and Important Dates

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Election Month	Odd numbered years typically have the following approval requirements:	Even numbered years typically have the following approval requirements:
February	2/3 majority approval	2/3 majority approval
April	4/7 majority approval	4/7 majority approval
August	2/3 majority approval	4/7 majority approval
November	2/3 majority approval	4/7 majority approval

(Election Dates are the first Tuesday after the first Monday in February, April, August and November.)

2020	
Notice to Election Authority (Tuesdays)	**Election Days (Tuesdays)**
November 26 January 28 May 26 August 25	February 4 (1) April 7 (2) August 4 (2) November 3 (2)

(1) Bond elections only; no other issues allowed.

(2) General obligation bond questions submitted on these election days require a four-sevenths majority (instead of the two-thirds majority required for all other election dates).

Example Ballot Language

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Example Lease Financing Ballot Language:

Shall there be a tax increase of $_____ per one hundred dollars of assessed valuation over the present $______ tax per one hundred dollars of assessed valuation for the _____________ Library? If approved, the revenue will be used to acquire, construct, renovate, replace, improve, operate and maintain library facilities?

Based on discussions with Bond Counsel, a General Obligation Bond issue would be governed by Section 182.105 of the Missouri Revised Statutes.

- **No specific language under the Statue**
- **Bond Counsel will draft language according to the Library's proposed projects**

III. BONDING TERMINOLOGY

Bond Terminology

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- BOND TERM: Length of the borrowing term. (10, 15, 20 years).
- PAYMENT FREQUENCY: Number of principal and interest payments made each year. Usually one principal payment and two interest payments are made each year.
- INTEREST RATE: Rates are assigned to each bond as it matures (when payment is due). Bonds mature in various years and rates are different in each year.
- INTEREST RATE MODE: Fixed or variable.
- SECURITY PROVISIONS: Similar to bond insurance, security provisions reduce the risk of nonpayment for the investor. Common security provisions are pledges of revenues and reserve funds, among others.
    - 15c2-12 Continuing Disclosure
- METHOD OF SALE:
    - Private Placement vs. Public Offering
- CREDIT ALTERNATIVES:
    - Letter of Credit
        - Fixed vs. Variable Rate
    - Bond Insurance
    - Rated Transaction
    - Non-Rated Transaction

Bond Terminology

- PAYMENT PROVISIONS: Outline of how and when the issuer will repay the bonds, and circumstances allowing for prepayment, if any.
- CAPITALIZED INTEREST: When expenses such as property tax, construction costs, etc. must be paid before matching revenues are obtained, the underwriter will assist the issuer to set up a capitalized interest fund with bond proceeds (the money loaned by investors). In the capitalized interest fund, bond proceeds earn interest for a fixed time period.
- CALL OPTIONS (Term/Premium): Date specific when the issuer may pre-pay the bonds in part or whole.
- PAR, DISCOUNT, PREMIUM PRICING: Underwriter negotiates with issuer and purchaser. Whether the bonds are priced at par, a discount, or a premium depends on the bond's assigned interest rate (coupon) and what investors are demanding in the market place. The pricing impacts the amount of proceeds delivered to the issuer.
- LEGAL OPINION: Necessary to disclose to purchasers at the time of sale.
- COSTS OF ISSUANCE: These costs include all those associated with the transaction and are paid from bond proceeds or other issuer funds. Must be project related.
- PERMITTED INVESTMENTS/PROJECT EARNINGS

IV. UNIVERSITY CITY PUBLIC LIBRARY'S MUNICIPAL BOND ISSUANCE PROCESS

- Identifying needs
  - Capital Improvement Process
    - Get input from:
      - Patrons
      - Library Board
      - Staff
      - Building professionals
  - How to pay for project
    - Estimation of project cost
    - Funding source
    - Type of debt (GO or COPS)

When you have some funding get help!

- Professional services selection
  - Architect/Engineer
  - Bond Underwriter
  - Bond Attorney
  - Paying Agent
  - Trustee

Reimbursement Resolution

- Allows for reimbursement of project related expenses incurred prior to issuance of Bonds
  - Hard costs: look back 60 days from adoption; look forward 3 years from adoption
  - Soft costs: more lenient with the window of reimbursements

–Calculation of operating needs vs. debt service needs

- Review of current and future operating needs
- Library's Reserve Policy

RESOURCES

- Municipal Securities Rulemaking Board – www.msrb.org
- Electronic Municipal Market Access – EMMA https://emma.msrb.org/
- Learn the terms - Investopedia.com – term of the day / financial dictionary

REMEMBER THIS…

- Many of us will deal with bonds only once or twice in our careers (if at all).
- Educate yourself on the basics.
- Get help from other librarians.
- Hire professionals that provide a comfortable working relationship.

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Questions?

Please get in touch!

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