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

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

**Step 6: Post closing**
- Continuing disclosure
- Arbitrage rebate reporting
- Budget and tax rate setting
- Debt service schedule and annual reports
• 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
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
# Credit Rating Scales and Definitions

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


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.
### Hypothetical Example of S&P’s ICR Scoring

**Factor Score Weighted Average**

<table>
<thead>
<tr>
<th>High</th>
<th>Low</th>
<th>Indicative Rating</th>
<th>Key Factors and Weights</th>
<th>Score Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>1.64</td>
<td>AAA</td>
<td>Institutional Framework</td>
<td>1</td>
</tr>
<tr>
<td>1.65</td>
<td>1.94</td>
<td>AA+</td>
<td>Economy</td>
<td>2</td>
</tr>
<tr>
<td>1.95</td>
<td>2.34</td>
<td>AA</td>
<td>Management</td>
<td>3</td>
</tr>
<tr>
<td>2.35</td>
<td>2.84</td>
<td>AA-</td>
<td>Liquidity</td>
<td>4</td>
</tr>
<tr>
<td>2.85</td>
<td>3.24</td>
<td>A+</td>
<td>Budgetary Flexibility</td>
<td>5</td>
</tr>
<tr>
<td>3.25</td>
<td>3.64</td>
<td>A</td>
<td>Budgetary Performance</td>
<td></td>
</tr>
<tr>
<td>3.65</td>
<td>3.94</td>
<td>A-</td>
<td>Debt &amp; Contingent Liabilities</td>
<td></td>
</tr>
<tr>
<td>3.95</td>
<td>4.24</td>
<td>BBB+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.25</td>
<td>4.54</td>
<td>BBB</td>
<td>Estimated (ICR) Rating - GO</td>
<td>AA-</td>
</tr>
<tr>
<td>4.55</td>
<td>4.74</td>
<td>BBB-</td>
<td>Estimated Rating - LR/COPs/Appr.</td>
<td>A+</td>
</tr>
</tbody>
</table>

**Score Definition**

<table>
<thead>
<tr>
<th>Score</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Very strong</td>
</tr>
<tr>
<td>2</td>
<td>Strong</td>
</tr>
<tr>
<td>3</td>
<td>Adequate</td>
</tr>
<tr>
<td>4</td>
<td>Weak</td>
</tr>
<tr>
<td>5</td>
<td>Very weak</td>
</tr>
</tbody>
</table>

- “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
Bonds issued by Issuer and given to the Underwriter for sale

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 pays Bondholders Principal & Interest payments

One Time, at Bond Issuance

Ongoing
General Obligation Bonds | Election Calendar and Important Dates

<table>
<thead>
<tr>
<th>Election Month</th>
<th>Odd numbered years typically have the following approval requirements:</th>
<th>Even numbered years typically have the following approval requirements:</th>
</tr>
</thead>
<tbody>
<tr>
<td>February</td>
<td>2/3 majority approval</td>
<td>2/3 majority approval</td>
</tr>
<tr>
<td>April</td>
<td>4/7 majority approval</td>
<td>4/7 majority approval</td>
</tr>
<tr>
<td>August</td>
<td>2/3 majority approval</td>
<td>4/7 majority approval</td>
</tr>
<tr>
<td>November</td>
<td>2/3 majority approval</td>
<td>4/7 majority approval</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Notice to Election Authority (Tuesdays)</strong></td>
</tr>
<tr>
<td>November 26</td>
</tr>
<tr>
<td>January 28</td>
</tr>
<tr>
<td>May 26</td>
</tr>
<tr>
<td>August 25</td>
</tr>
</tbody>
</table>

(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 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 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
• 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
• 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
• 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.
Questions?

Please get in touch!

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