

# MUNICIPAL DEBT ESSENTIALS

SEPTEMBER 24-26, 2024 | POMONA, CALIFORNIA

# SESSION ONE

## Bond Concepts

**CRAIG HILL**

*Managing Principal*  
NHA Advisors





# Table of Contents

- Introduction to Bonds
- Process of Issuing Bonds
- Basic Bond Characteristics
- Basic Bond Math
- Fun Stats



# INTRODUCTION TO BONDS





# Purpose of Municipal Bonds

## Infrastructure

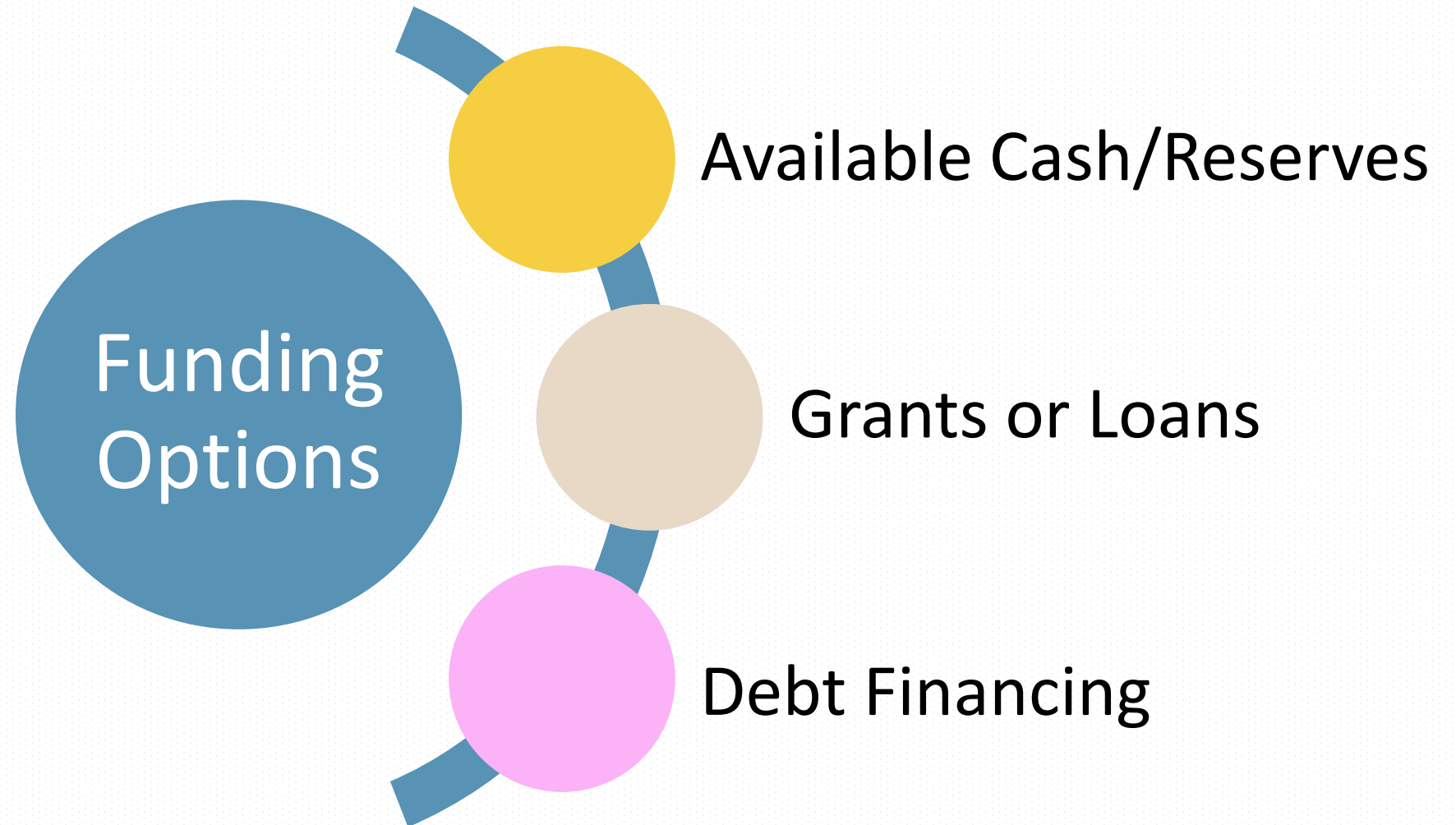


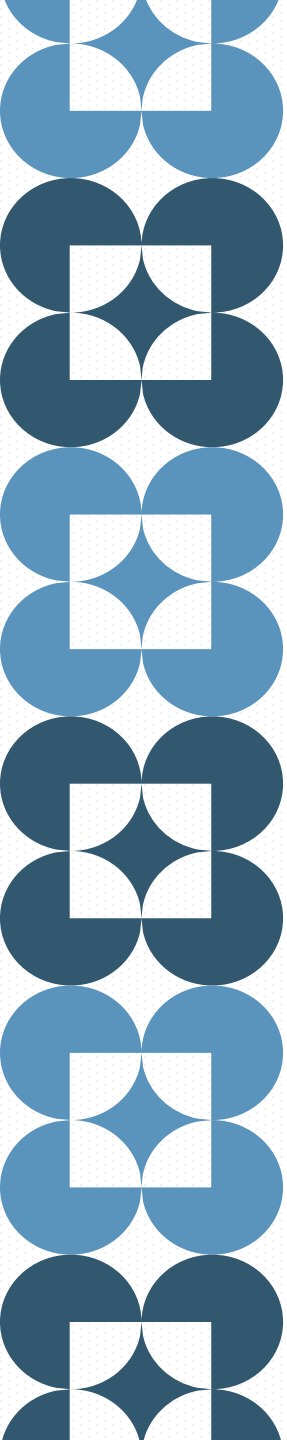
## Capital Improvement Projects



- Spread out the cost of constructing the asset over the life of the asset
- Ensures the benefits are paid for by those who enjoy them

# Ways to Fund Projects





Project Financing

Restructuring or  
Refinancing

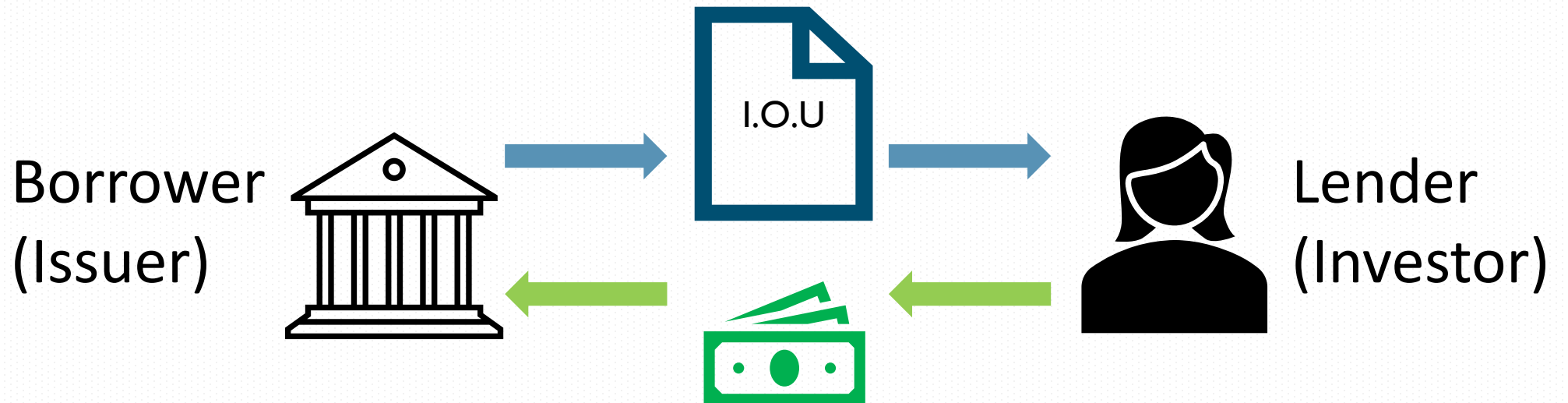
Common  
Objectives

Cash Flow

Regulatory  
Requirements

# What Is A Bond?

- Financing mechanism whereby the borrower (“issuer”) receives upfront funds from a lender (“bondholder”) in exchange for future repayments
- Can be thought of as an IOU between lender and borrower





# Elements Of A Bond

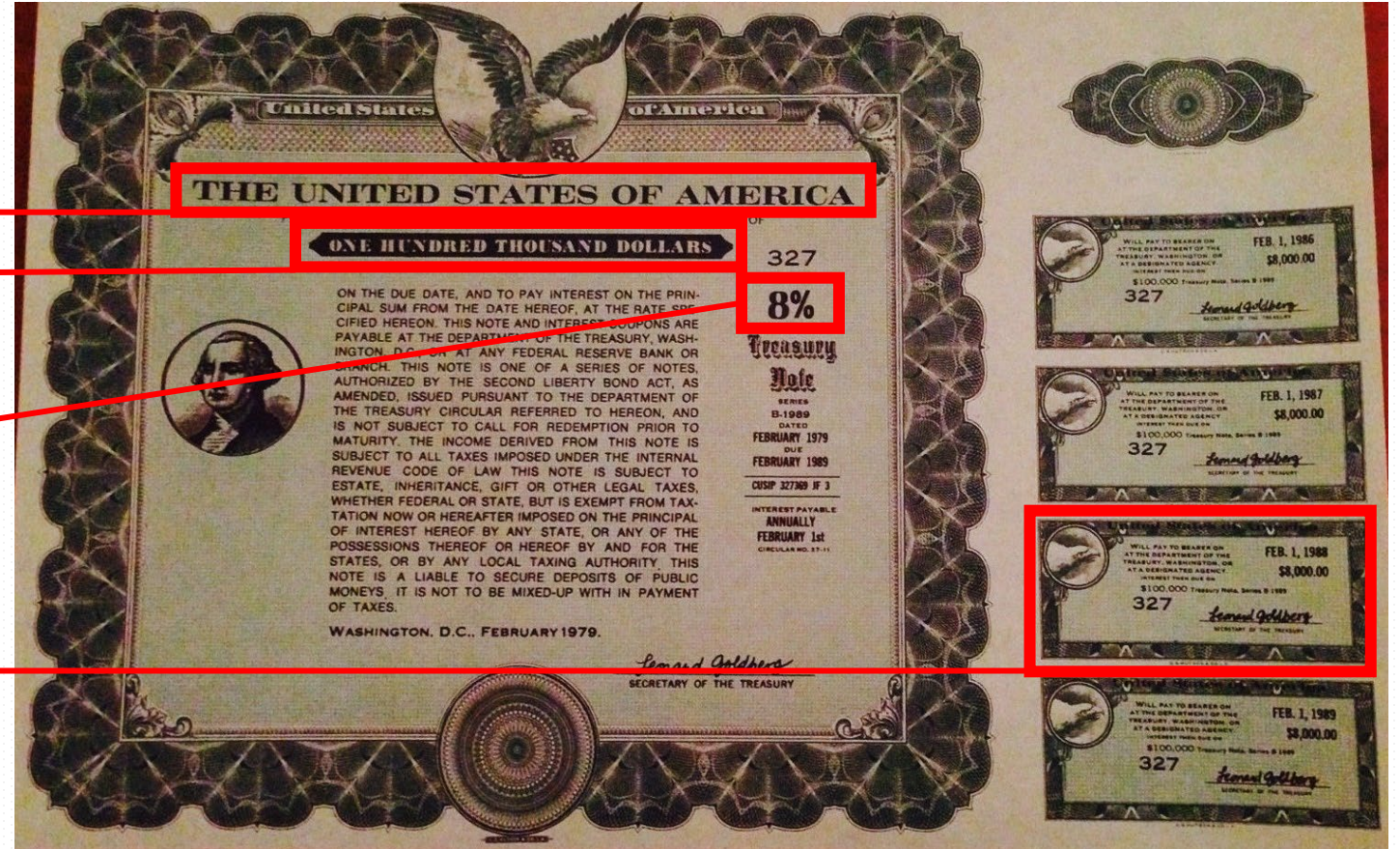
Issuer

Face Value

Interest Rate

Coupon

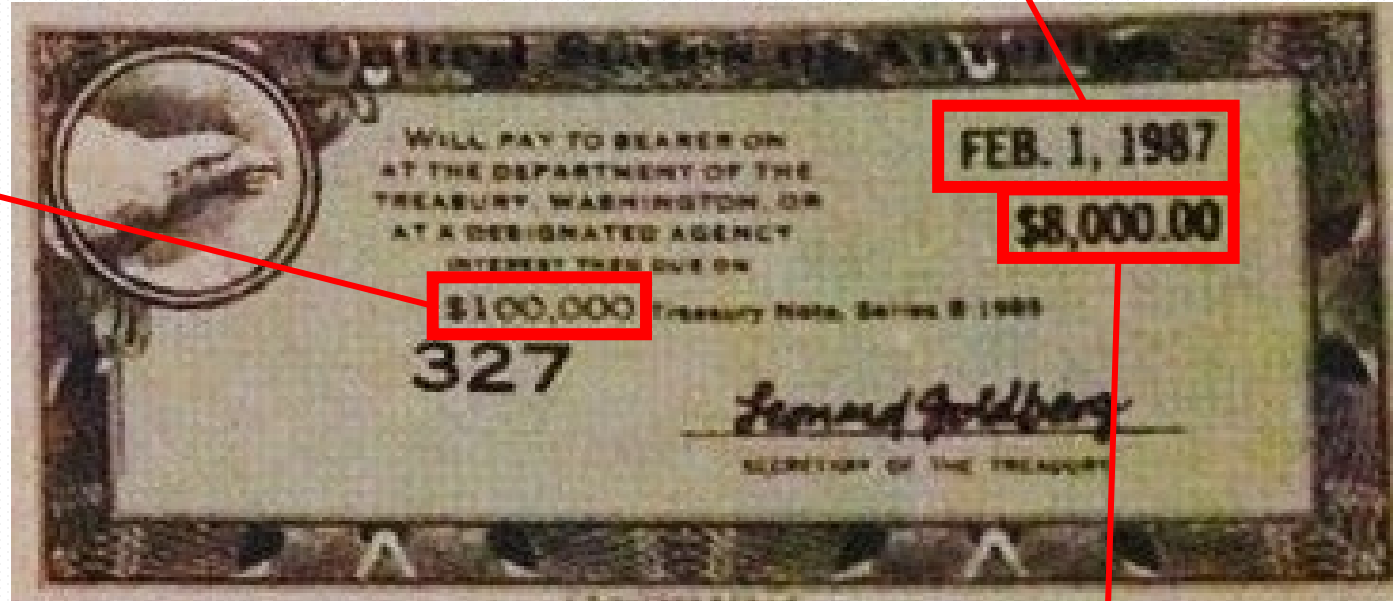
“Clipping the Coupon”





# Elements Of A Bond

Face Value



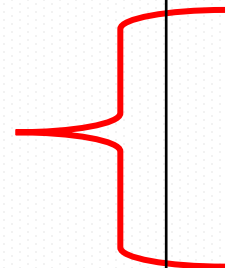
Maturity

Interest  
Paid

# Maturity Schedule

Issuer/Deal Par Tax Status/Rating Par Call Date	Gotham City 2024 Revenue Bonds \$32,750,000  Tax-Exempt, AAA December 1, 2032		
Maturity	PAR AMOUNT	COUPON RATE	YIELD
2023	\$1,750,000	5.00%	2.85%
2024	\$2,000,000	5.00%	2.95%
2025	\$2,500,000	5.00%	3.10%
2026	\$3,000,000	5.00%	3.20%
2027	\$3,500,000	5.00%	3.40%
2028			
2029			
2030			
2031			
2032	\$20,000,000	4.25%	4.50%

Serial  
Bonds



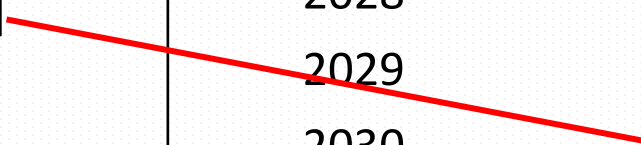
Term  
Bond



# Maturity Schedule

Issuer/Deal	Gotham City 2024 Revenue Bonds		
Par	\$32,750,000		
Tax Status/Rating	Tax-Exempt, AAA		
Par Call Date	December 1, 2032		
Maturity	PAR AMOUNT	COUPON RATE	YIELD
2023	\$1,750,000	5.00%	2.85%
2024	\$2,000,000	5.00%	2.95%
2025	\$2,500,000	5.00%	3.10%
2026	\$3,000,000	5.00%	3.20%
2027	\$3,500,000	5.00%	3.40%
2028	\$3,750,000		
2029	\$4,000,000		
2030	\$5,000,000		
2031	\$5,750,000		
2032	\$6,500,000	4.25%	4.50%

Sinking Fund





# Sources and Uses

## Sources Of Funds

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Par Amount of Bonds	\$5,000,000
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<b>Total Sources</b>	<b>\$5,000,000</b>
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## Uses Of Funds

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Costs of Issuance	\$200,000
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Project Fund	\$4,800,000
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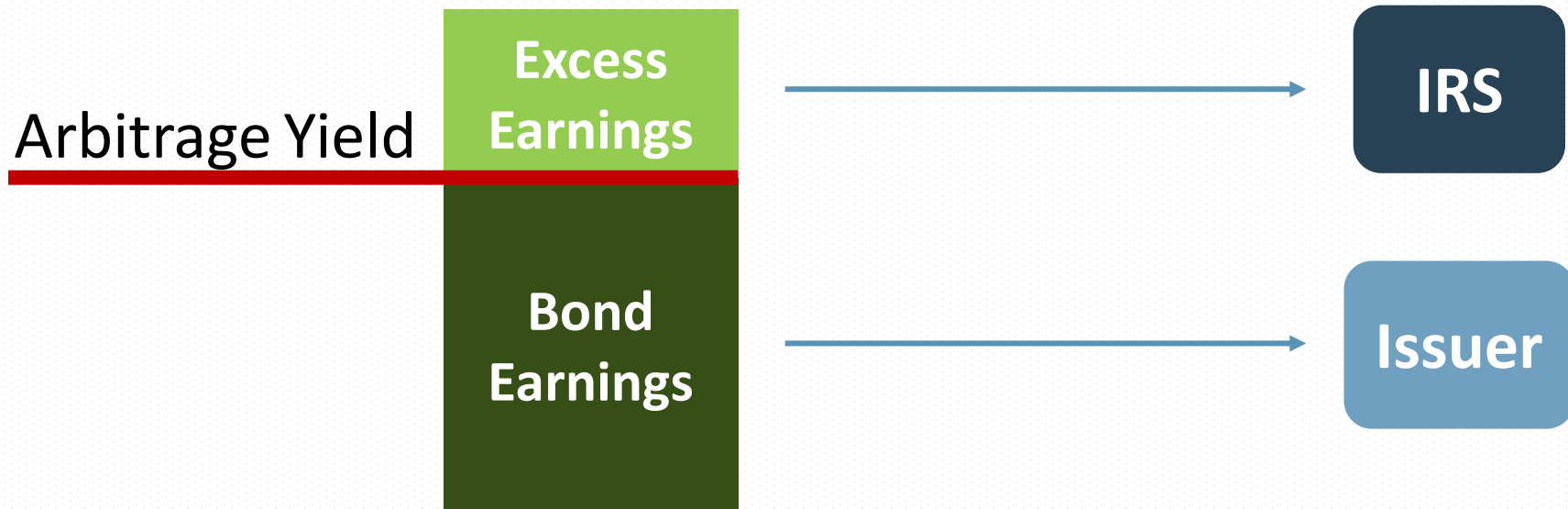
<b>Total Uses</b>	<b>\$5,000,000</b>
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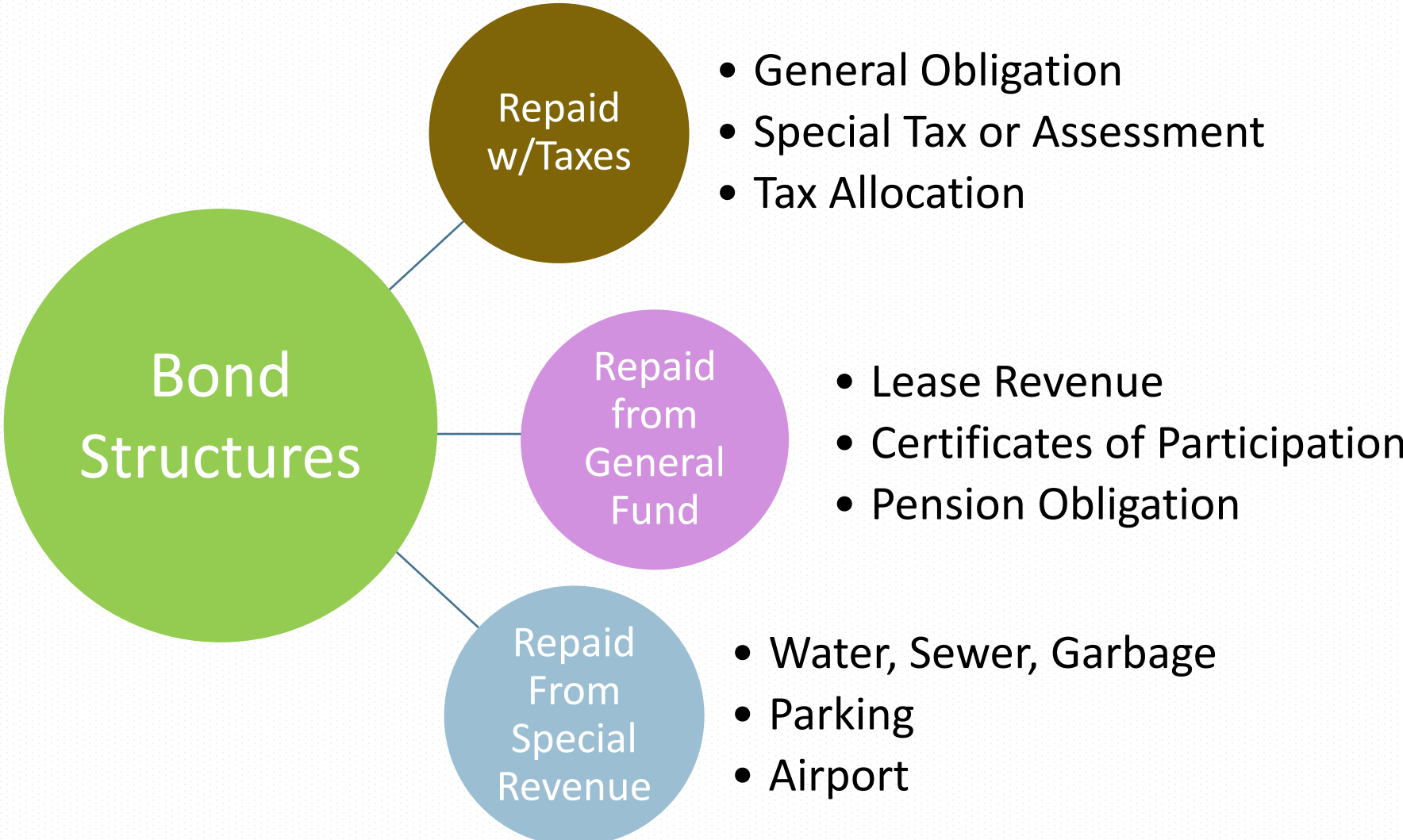
# Tax-Exempt Nature of Municipal Bonds

- Majority of Municipal Bonds are issued for public use projects and so are Tax-Exempt
- Bonds issued for “private purposes” are not tax-exempt
- Issuers are not allowed to earn more on the bond proceeds than the calculated bond yield (“arbitrage yield”)



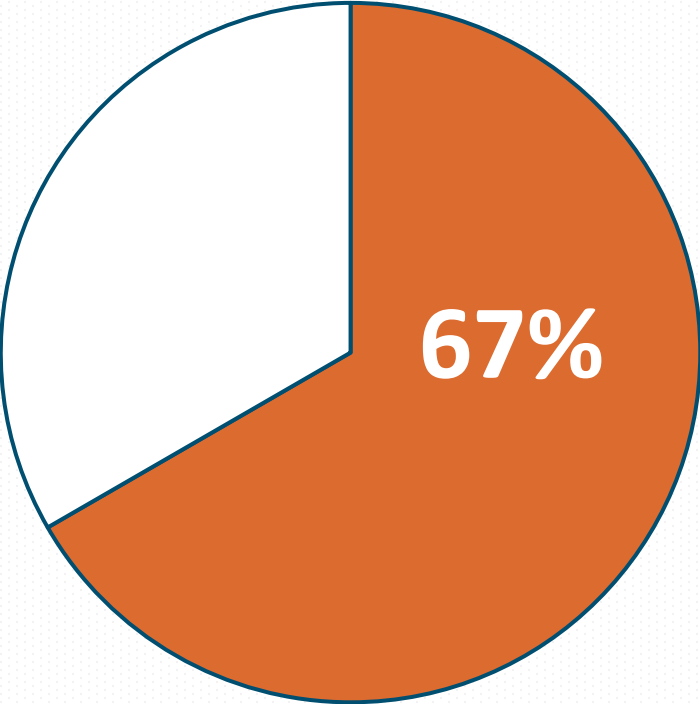


# Bond Structures

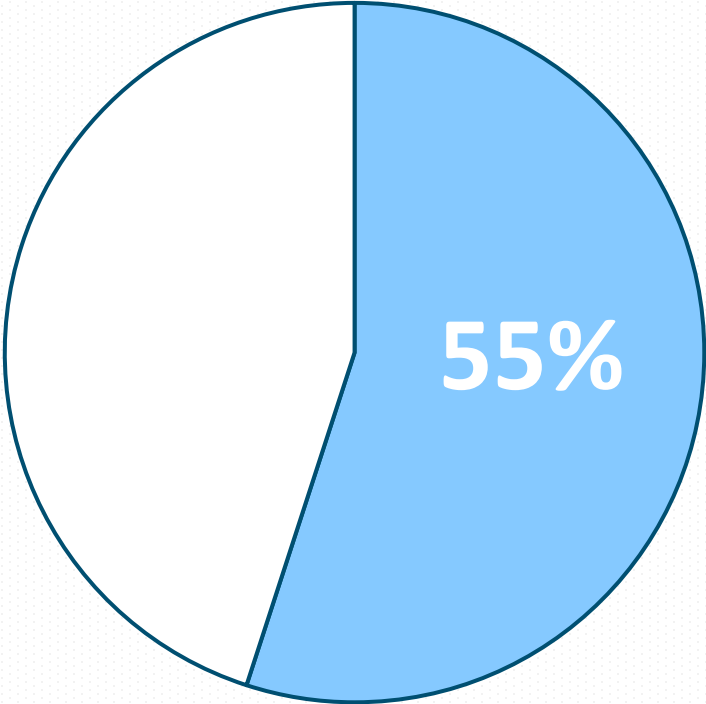


# Voter Approval

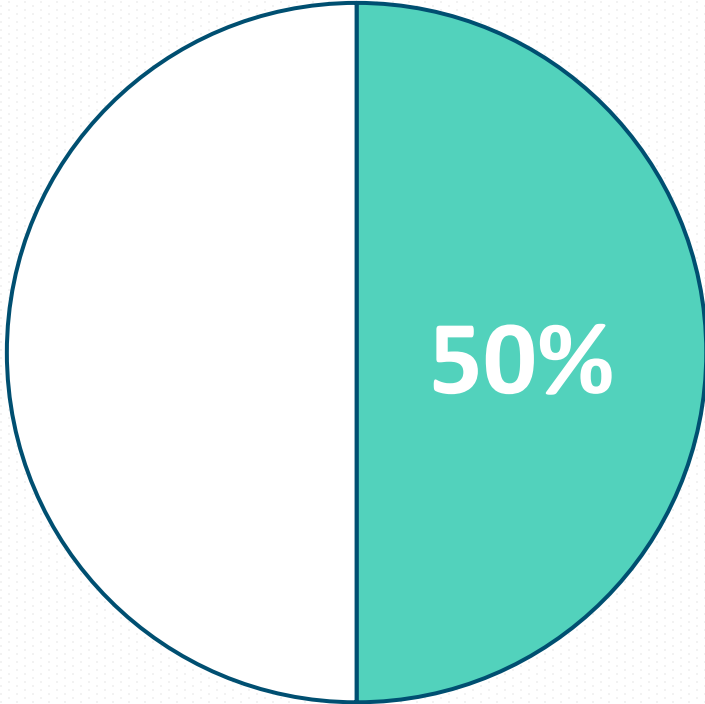
Local Agencies



School District Bonds



State Bonds

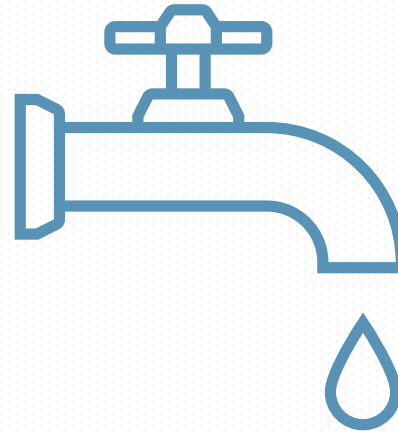


# Voter Approval Exceptions

General Fund  
Lease Obligations



Utility  
Revenue  
Bonds



Obligations  
Imposed by Law





# **PROCESS OF ISSUING BONDS**



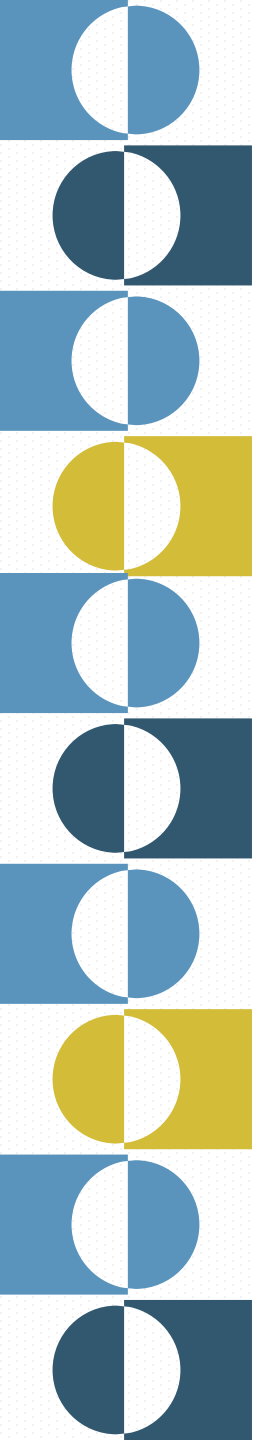
# Developing the Financing Plan

Identify Project Costs

Quantify Available Cash

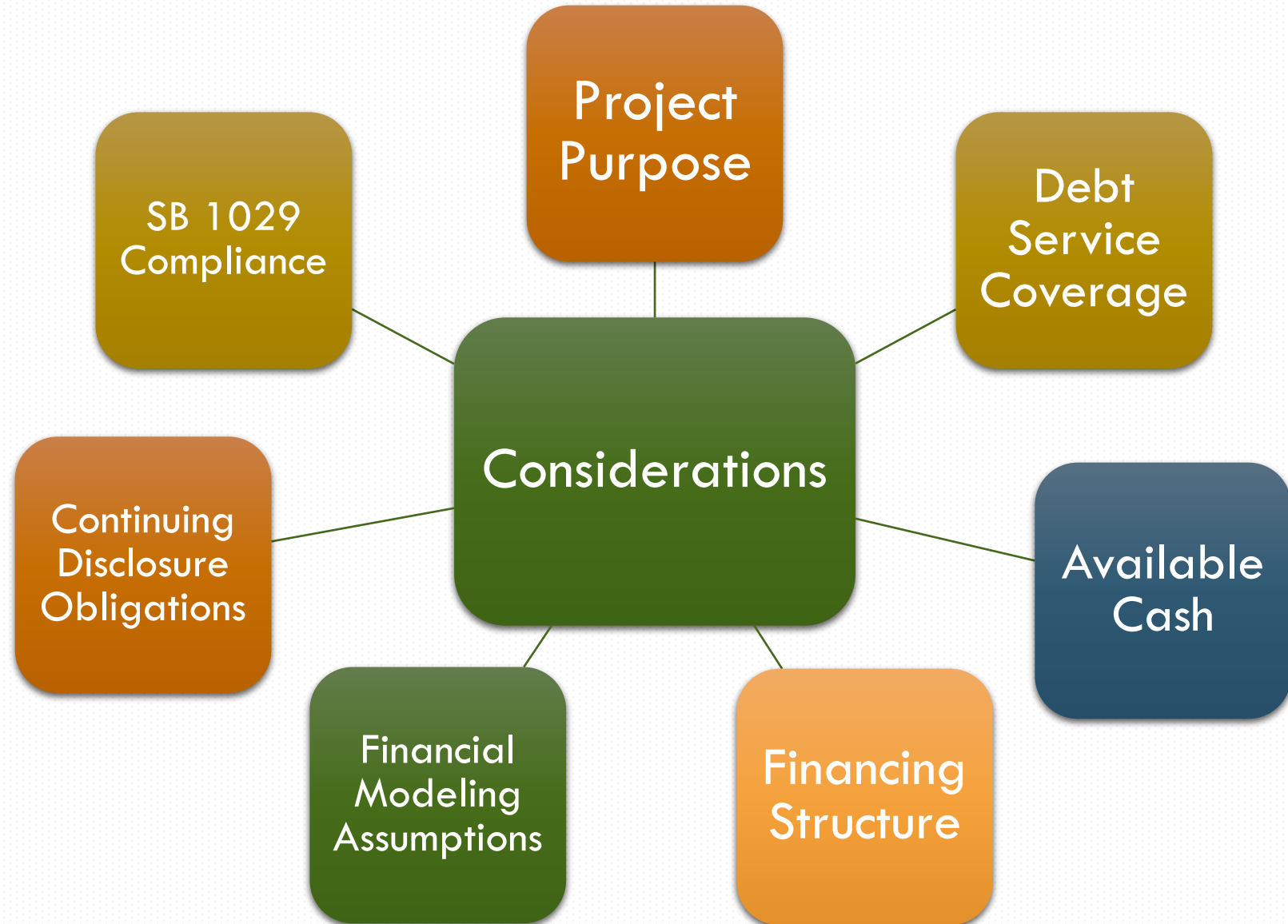
Identify Repayment Sources

Develop Financial Model



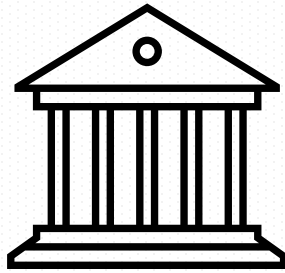


# Debt Policy Considerations



# Assembling the Financing Team (Public Offering)

Issuer/Borrower



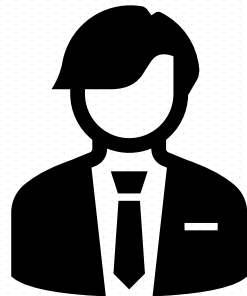
Municipal Advisor



Bond/Disclosure  
Counsel



Underwriter



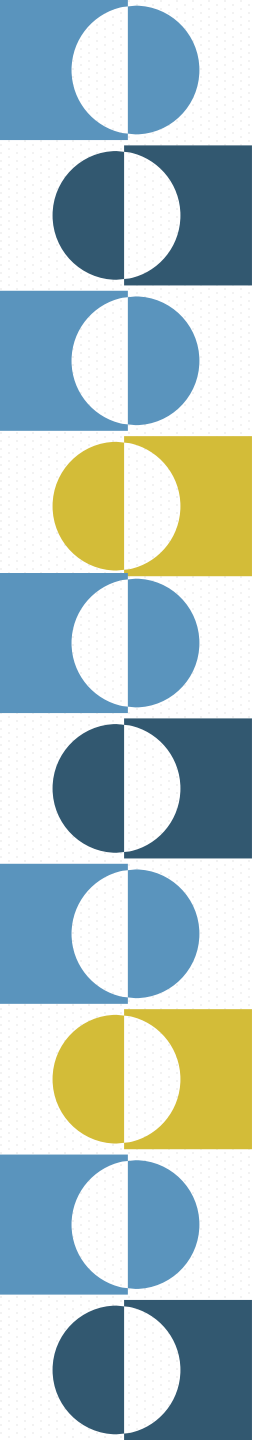
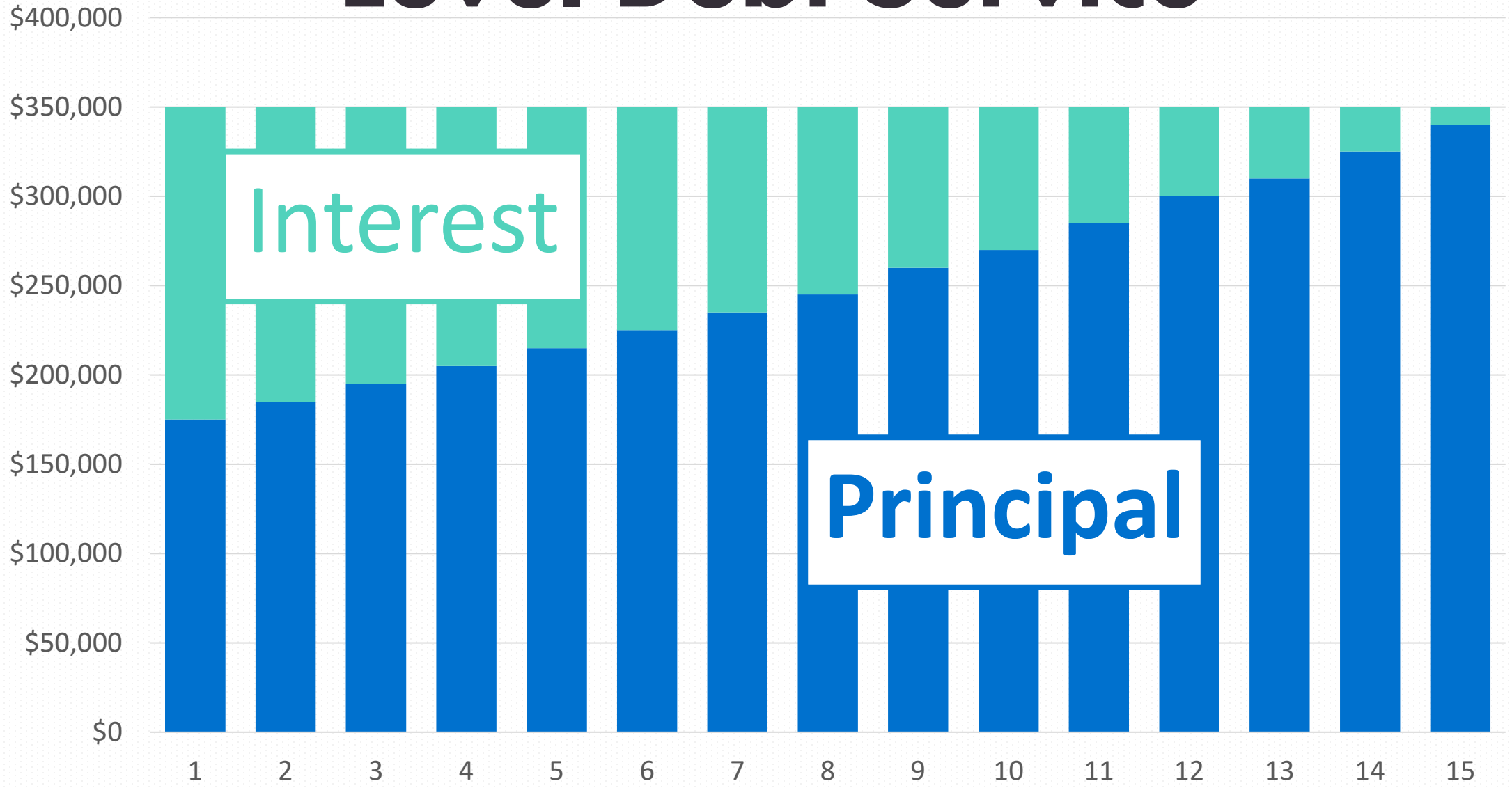
Trustee/Paying Agent



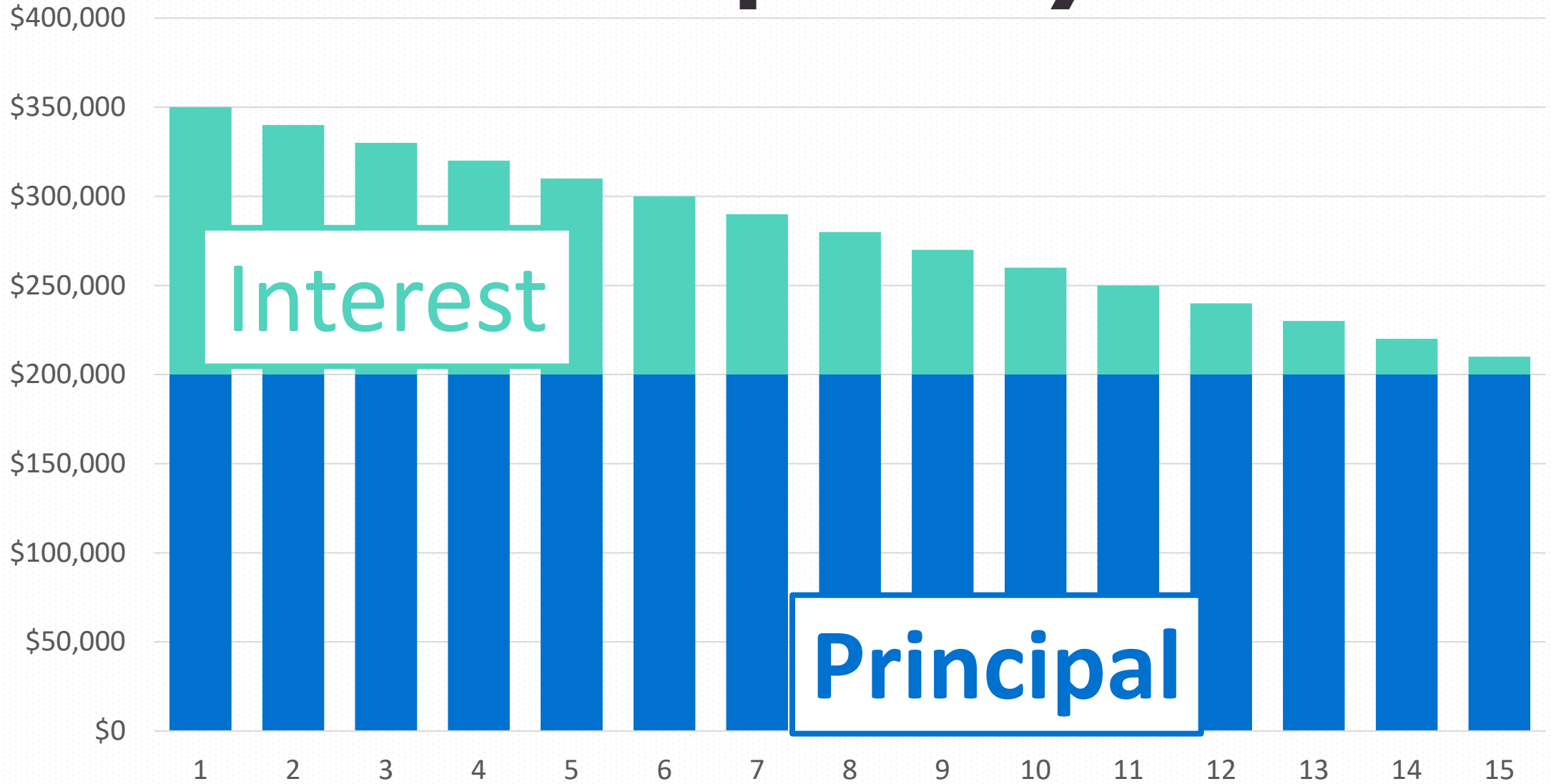
Rating Agency

**A+**

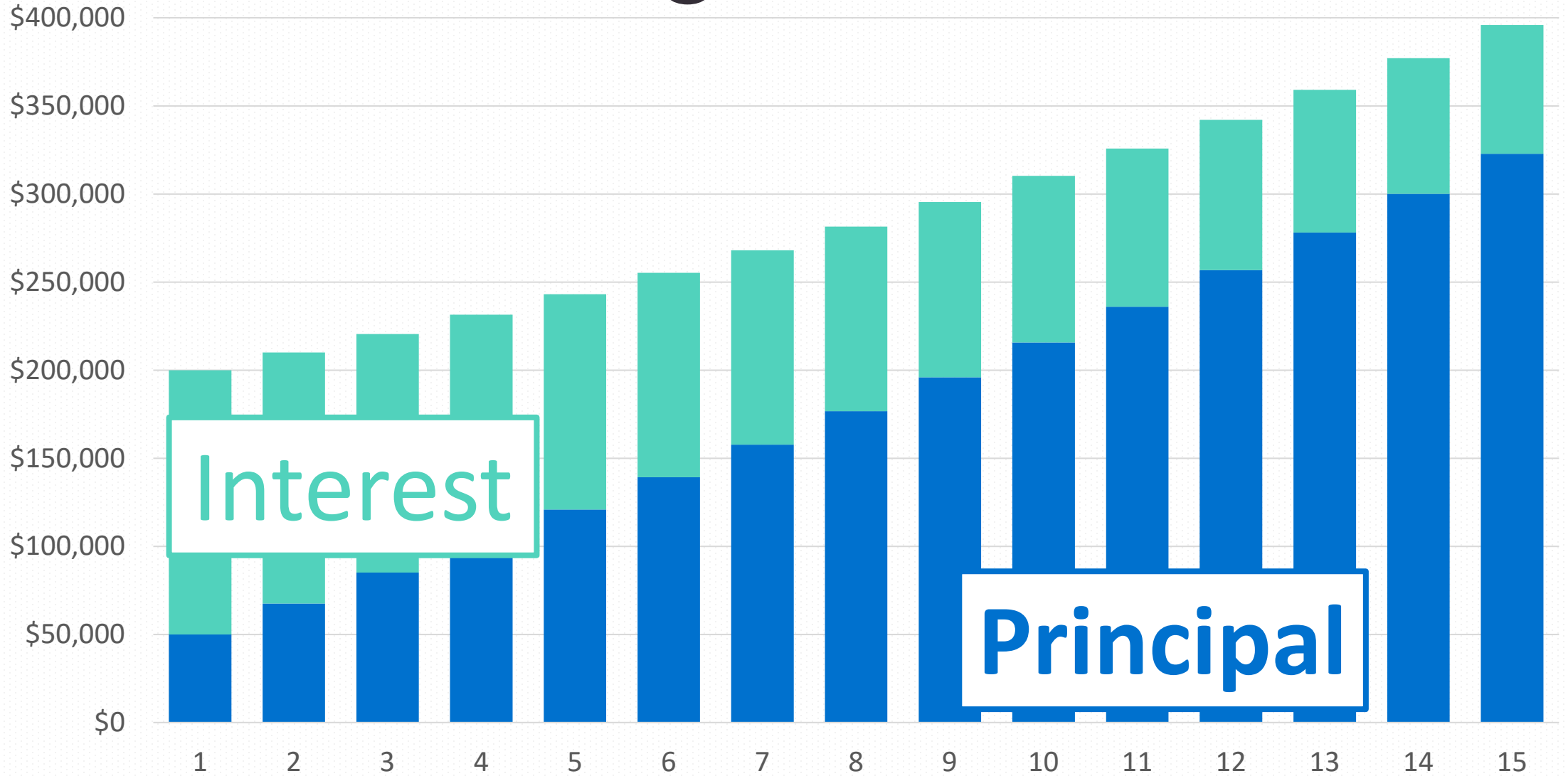
# Level Debt Service



# Level Principal Payments

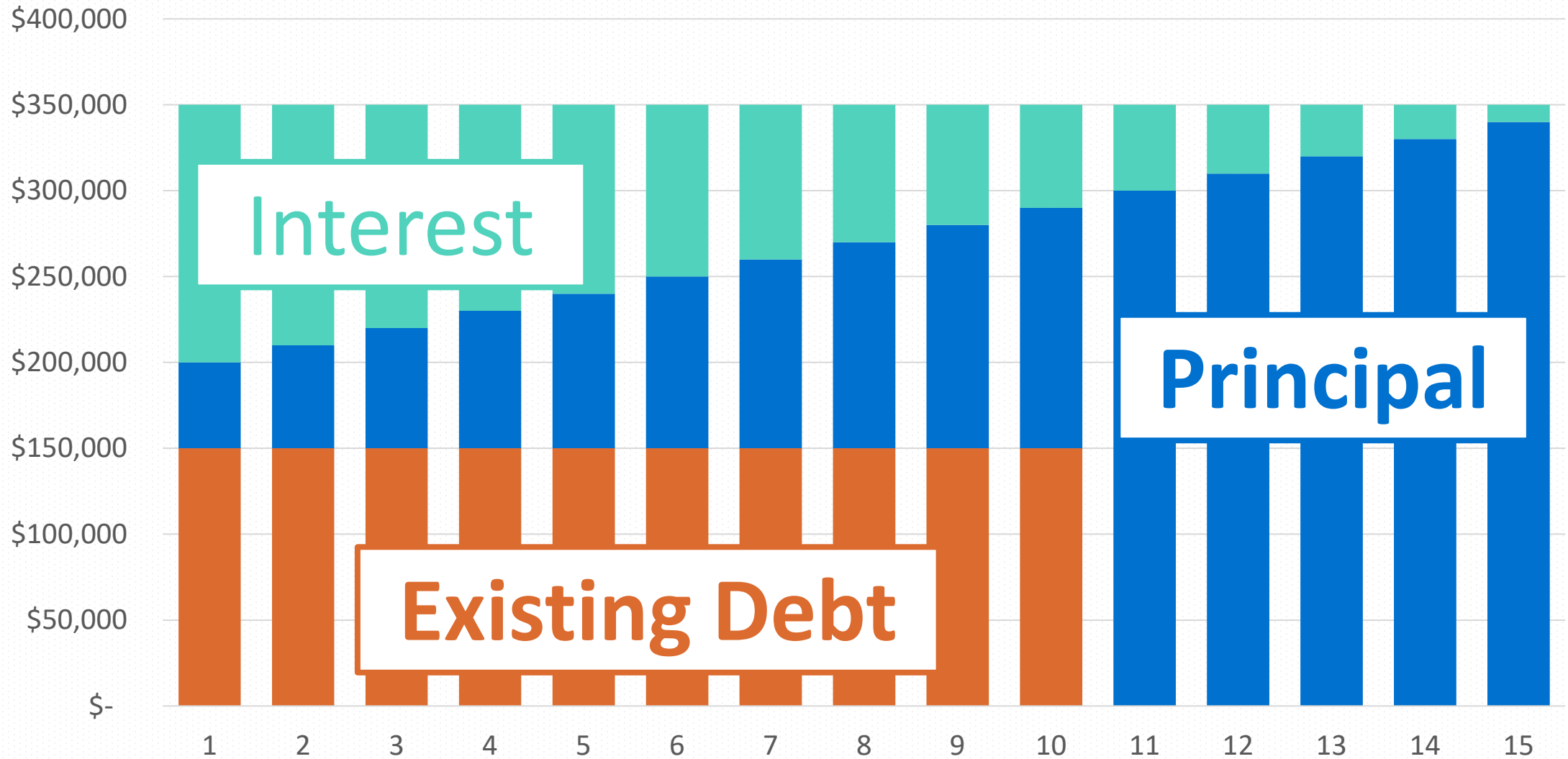


# Ascending Debt Service



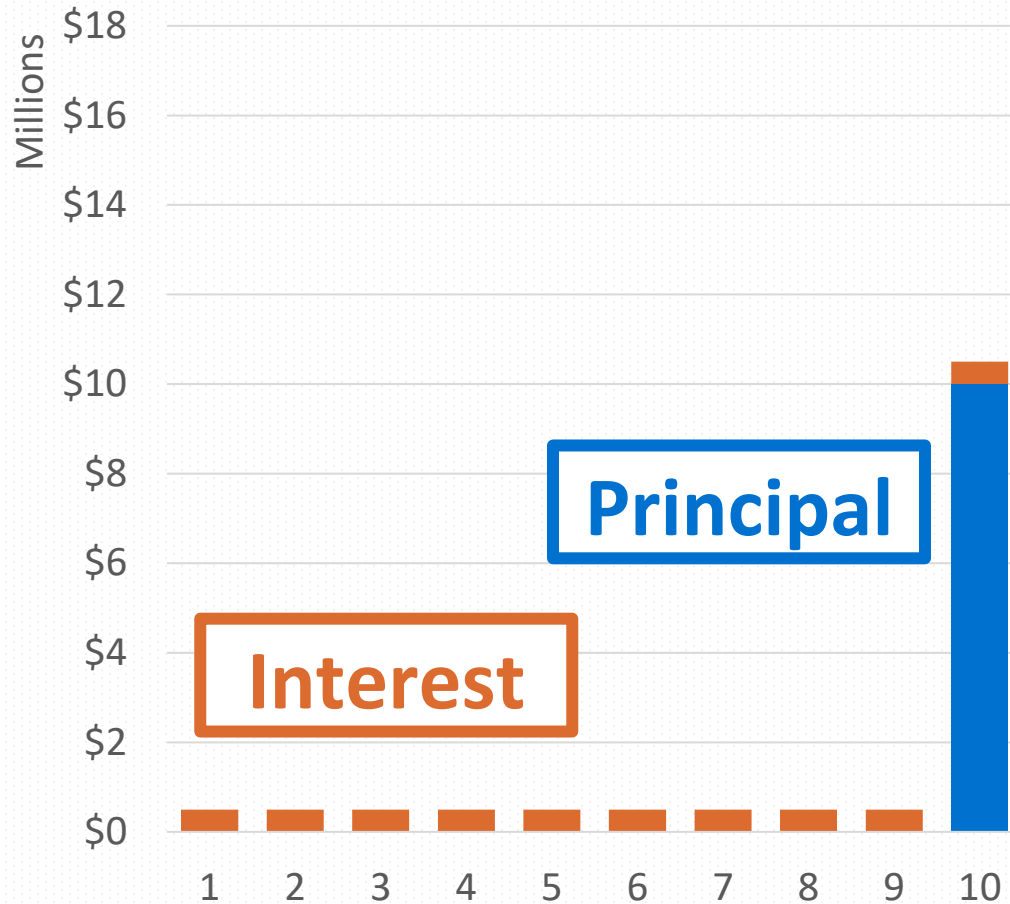


# Wrap Around Debt Service

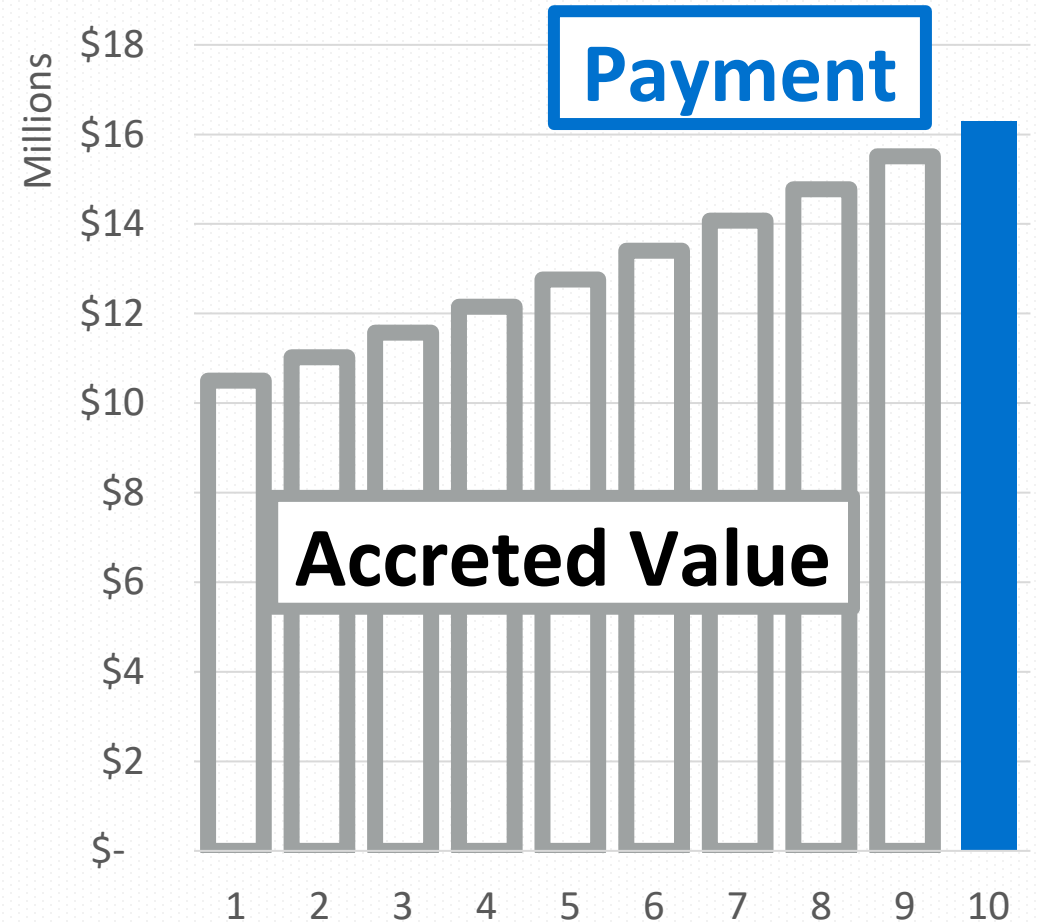


# Bond Types

## Current Interest Bond



## Capital Appreciation Bond





# Bond Sale Strategies

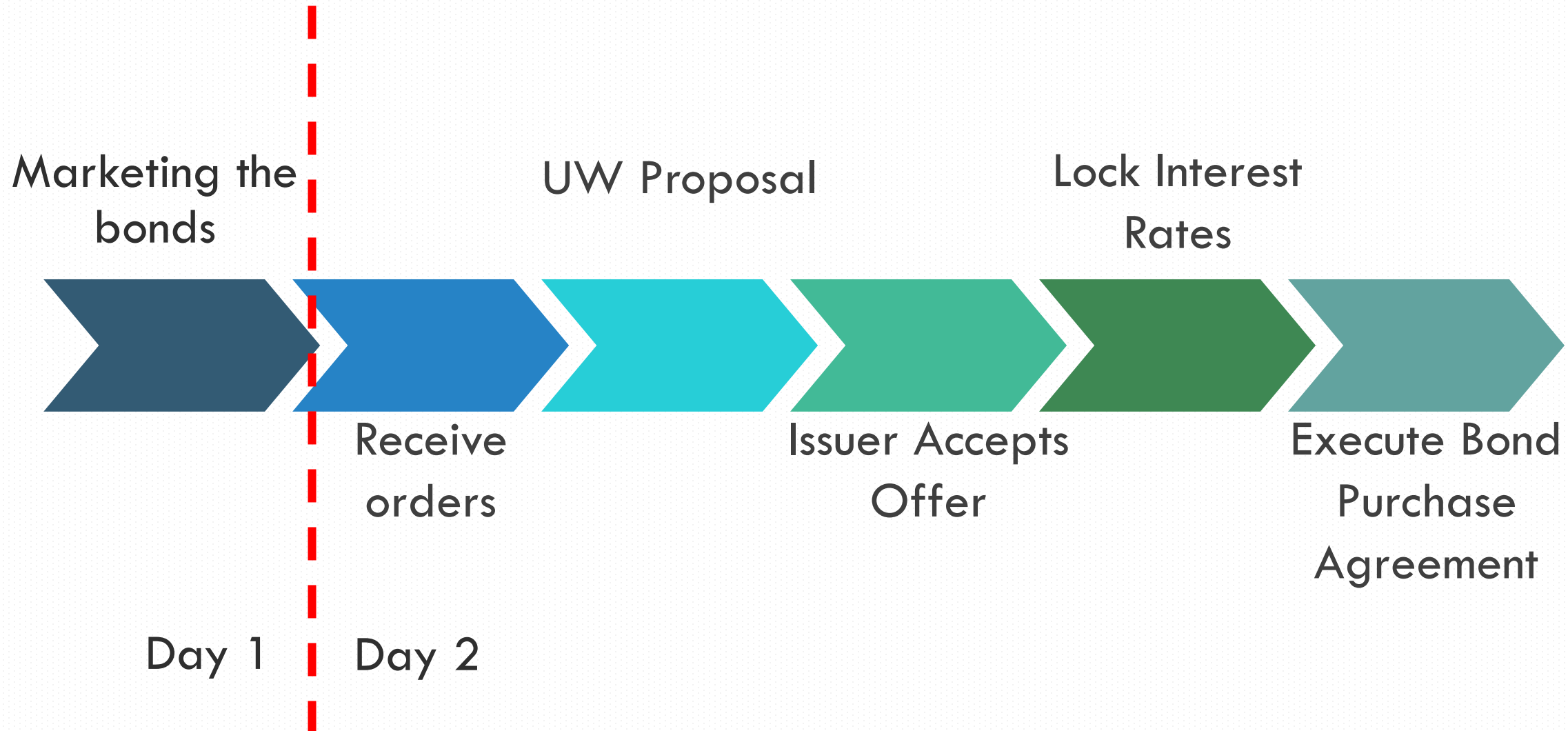
## Competitive Sale

- Structured Prior to Bond Sale
- Underwriter Bids to Purchase All Bonds
- Best Strategy for Highly Rated or Frequent Issuers

## Negotiated Sale

- Underwriter assists in Bond Structure
- Underwriter Pre-Markets Bonds Before Setting Interest Rate

# Negotiated Sale Process



# Preliminary Official Statement

PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2022

## NEW ISSUE - FULL BOOK-ENTRY

RATING: S&P: "\_\_\_"  
See "RATING".

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "LEGAL MATTERS – Tax Exemption."*

\$30,000,000\*

## ELECTION OF 2018 GENERAL OBLIGATION BONDS, SERIES 2022

**Dated: Date of Delivery**

**Due: September 1, as shown on inside cover**

**Cover Page.** This cover page contains information for quick reference only. It is not a summary of all the provisions of the Bonds. Investors must read the entire official statement to obtain information essential to making an informed investment decision.

**Authority and Purpose.** The captioned Election of 2018 General Obligation Bonds, Series 2022 (the "Bonds"), are being issued by the City of Campbell (the "City") pursuant to certain provisions of the California Government Code and resolutions of the City Council of the City adopted on May 17, 2022. The Bonds were authorized at an election of the registered voters of the City held on November 6, 2018, which authorized the issuance of general obligation bonds for the purpose of financing the acquisition and improvement of a police emergency operations center and a public library. The initial series of bonds under the 2018 authorization was issued in 2020. See "THE BONDS – Authority for Issuance" and "THE FINANCING PLAN" herein.

**Security.** The Bonds are general obligations of the City, payable solely from ad valorem property taxes levied by the City and collected by Santa Clara County (the "County"). The City Council is empowered and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the City, without limitation of rate or amount (except certain personal property that is taxable at limited rates). See "SECURITY FOR THE BONDS."

**Payments.** Interest on the Bonds accrues from the date of delivery and is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2022, by check, draft or wire mailed to the person in whose name the Bond is registered. Payments of principal and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as paying agent for the Bonds (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Description of the Bonds."

**Redemption.** The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein. See discussion of redemption under the heading "THE BONDS."

**Book-Entry Only.** The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). Purchasers will not receive physical certificates representing their interests in the Bonds. See APPENDIX E for additional information about the book-entry only system.

The following firm, serving as municipal advisor to the City, has structured this issue.

**NHA | ADVISORS**  
Financial & Policy Strategies.  
Delivered.

**Maturity Schedules**  
(See inside cover)

*The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the City by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel and for the Underwriter by Stradling Yocca Carlson & Rauth, A Professional Corporation, San Francisco, California. It is anticipated that the Bonds in definitive form will be available for delivery to Cede & Co., as nominee of The Depository Trust Company, on or about June 22, 2022.*

**STIFFEL**

The date of this Official Statement is **May \_\_, 2022.**

*This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time this Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.*



# Official Statement

NEW ISSUE - FULL BOOK-ENTRY

RATING: S&P: "AAA"  
See "RATING".

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**\$30,000,000**  
**CITY OF CAMPBELL**  
**ELECTION OF 2018 GENERAL OBLIGATION BONDS,**  
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**NHA | ADVISORS**  
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Delivered.

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**Maturity Schedules**  
(See inside cover)

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**STIFEL**

The date of this Official Statement is May 24, 2022.

## MATURITY SCHEDULE\*

\$30,000,000\*  
CITY OF CAMPBELL  
ELECTION OF 2018 GENERAL OBLIGATION BONDS,  
SERIES 2022  
(Base CUSIP†: 134105)

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† No.
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## MATURITY SCHEDULE

\$30,000,000  
CITY OF CAMPBELL  
ELECTION OF 2018 GENERAL OBLIGATION BONDS,  
SERIES 2022  
(Base CUSIP†: 134105)

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† No.
2022	\$2,000,000	5.000%	1.600%	100.644	JF3
2023	1,710,000	5.000	1.900	103.632	JG1
2024	1,010,000	5.000	2.150	106.066	JH9
2025	495,000	5.000	2.310	108.227	JJ5
2026	520,000	5.000	2.380	110.389	JK2
2027	545,000	5.000	2.470	112.253	JL0
2028	575,000	5.000	2.580	113.762	JM8
2029	605,000	5.000	2.710	114.868	JN6
2030	635,000	5.000	2.780	116.159	JP1
2031	665,000	5.000	2.860	115.525 <sup>C</sup>	JQ9
2032	700,000	5.000	2.910	115.131 <sup>C</sup>	JR7
2033	730,000	5.000	3.020	114.269 <sup>C</sup>	JS5
2034	770,000	5.000	3.090	113.725 <sup>C</sup>	JT3
2035	805,000	5.000	3.180	113.030 <sup>C</sup>	JU0
2036	850,000	5.000	3.250	112.492 <sup>C</sup>	JV8
2037	890,000	5.000	3.300	112.110 <sup>C</sup>	JW6
2038	935,000	5.000	3.350	111.730 <sup>C</sup>	JX4
2039	980,000	5.000	3.400	111.351 <sup>C</sup>	JY2
2040	1,030,000	5.000	3.460	110.898 <sup>C</sup>	JZ9
2041	1,080,000	5.000	3.500	110.597 <sup>C</sup>	KA2
2042	1,135,000	5.000	3.520	110.448 <sup>C</sup>	KB0

**\$6,585,000 – 5.000% Term Bonds maturing September 1, 2047; Yield: 3.550%; Price: 110.223<sup>C</sup>; CUSIP†: KC8**

**\$4,750,000 – 4.000% Term Bonds maturing September 1, 2050; Yield: 4.050%; Price: 99.159; CUSIP†: KD6**

\*Preliminary; subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services ("CGS"), managed on behalf of the American Bankers Association by FactSet Research Systems Inc. © 2022 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience only. Neither of the City nor the Underwriter takes any responsibility for the accuracy of such numbers.

<sup>C</sup> Priced to the first optional redemption date of September 1, 2030.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services ("CGS"), managed on behalf of the American Bankers Association by FactSet Research Systems Inc. © 2022 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience only. Neither of the City nor the Underwriter takes any responsibility for the accuracy of such numbers.



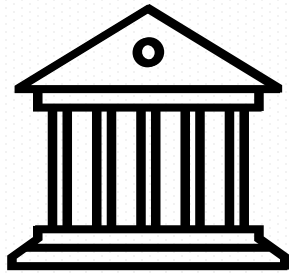


# Continuing Disclosure

- SEC Rule 15c2-12 requires annual reporting of financial information
- Disclosures are submitted through the Electronic Municipal Market Access (EMMA) website
- Continuing disclosure exemptions:
  - Bond issued before July 1995
  - Issues less than \$1 million
  - Short-term debt (18 months or less)
  - Private placements
  - Sold with minimum denominations of \$100,000
  - 35 or fewer sophisticated investors

# Bond Closing Flow of Funds

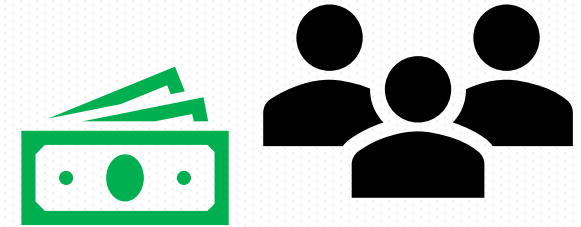
Issuer



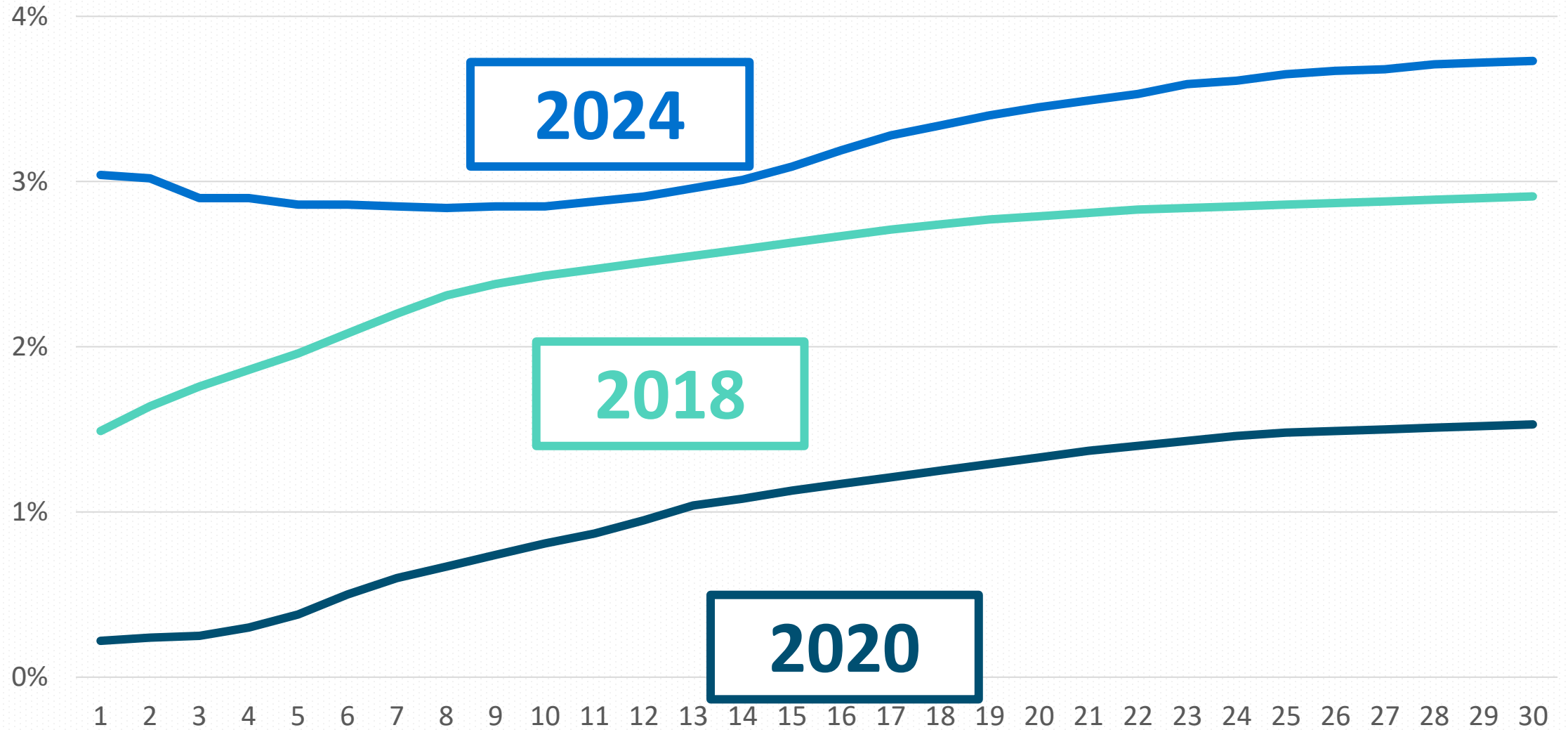
Underwriter



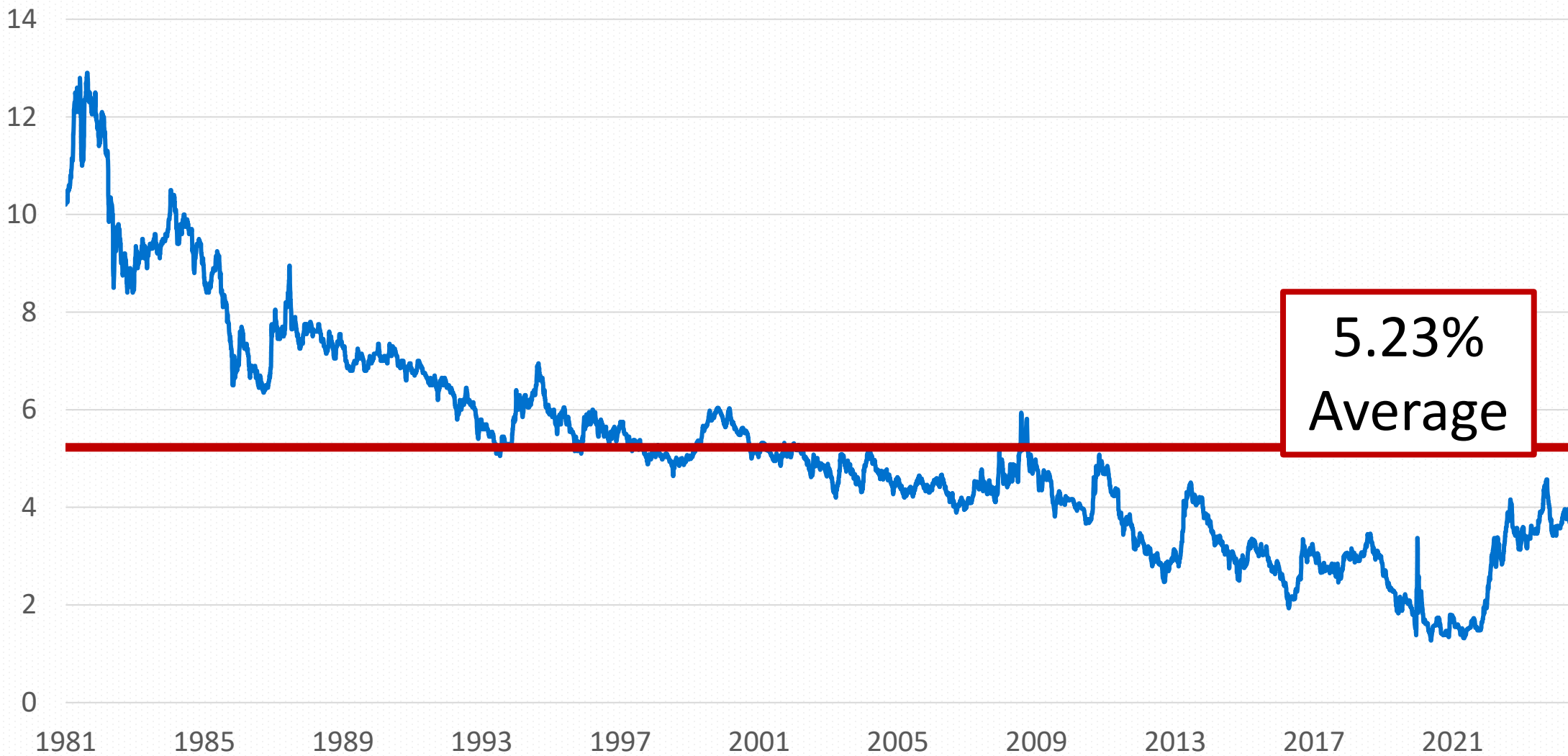
Bondholders



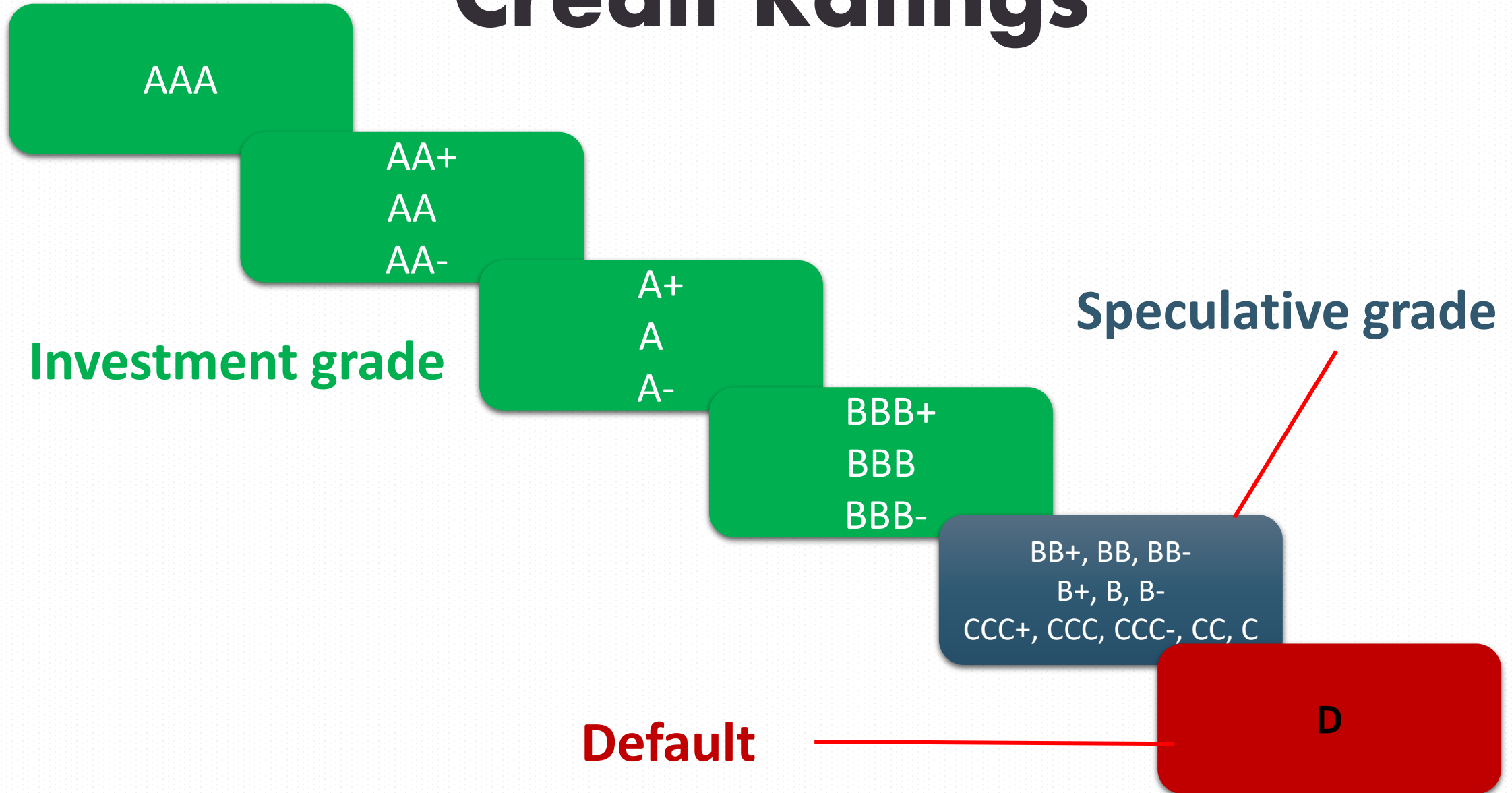
# Municipal Market Data (MMD) Yield Curve



# Historical 30-Year MMD

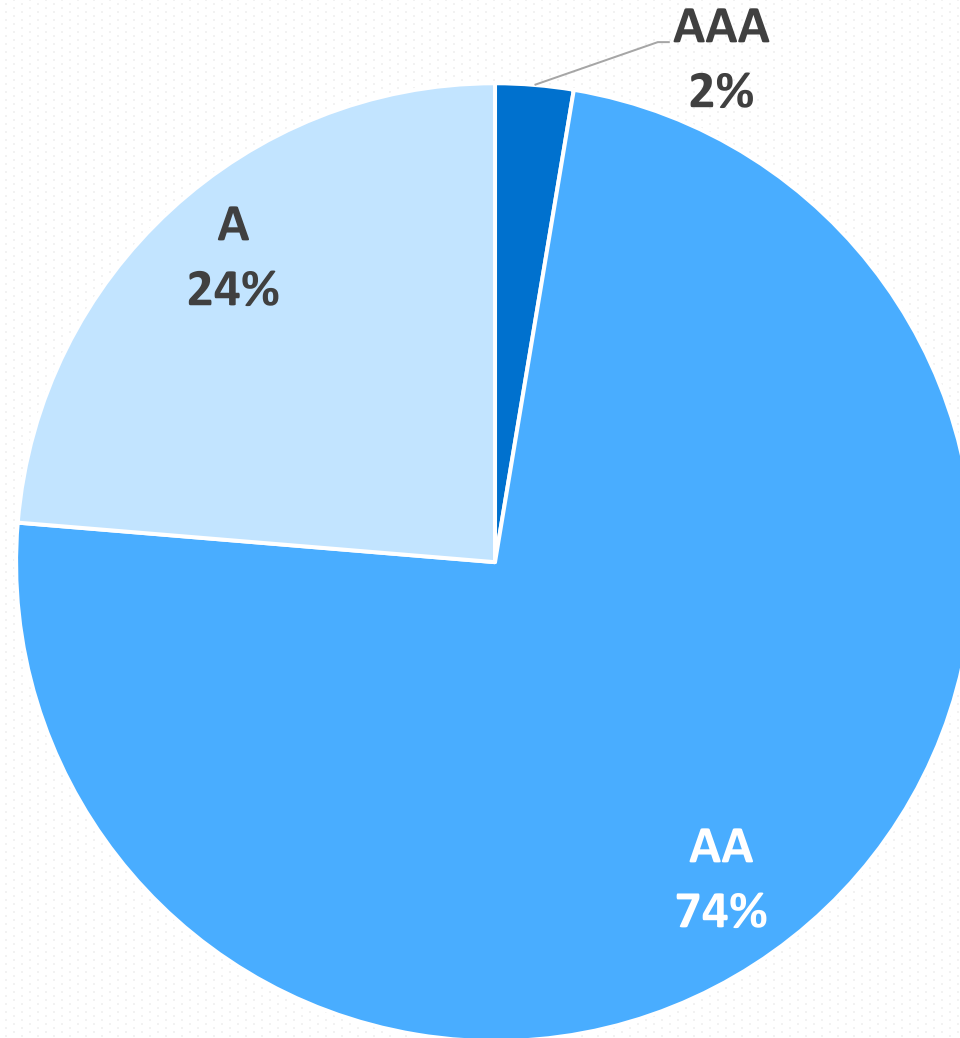


# Credit Ratings



# S&P Ratings: CA Counties

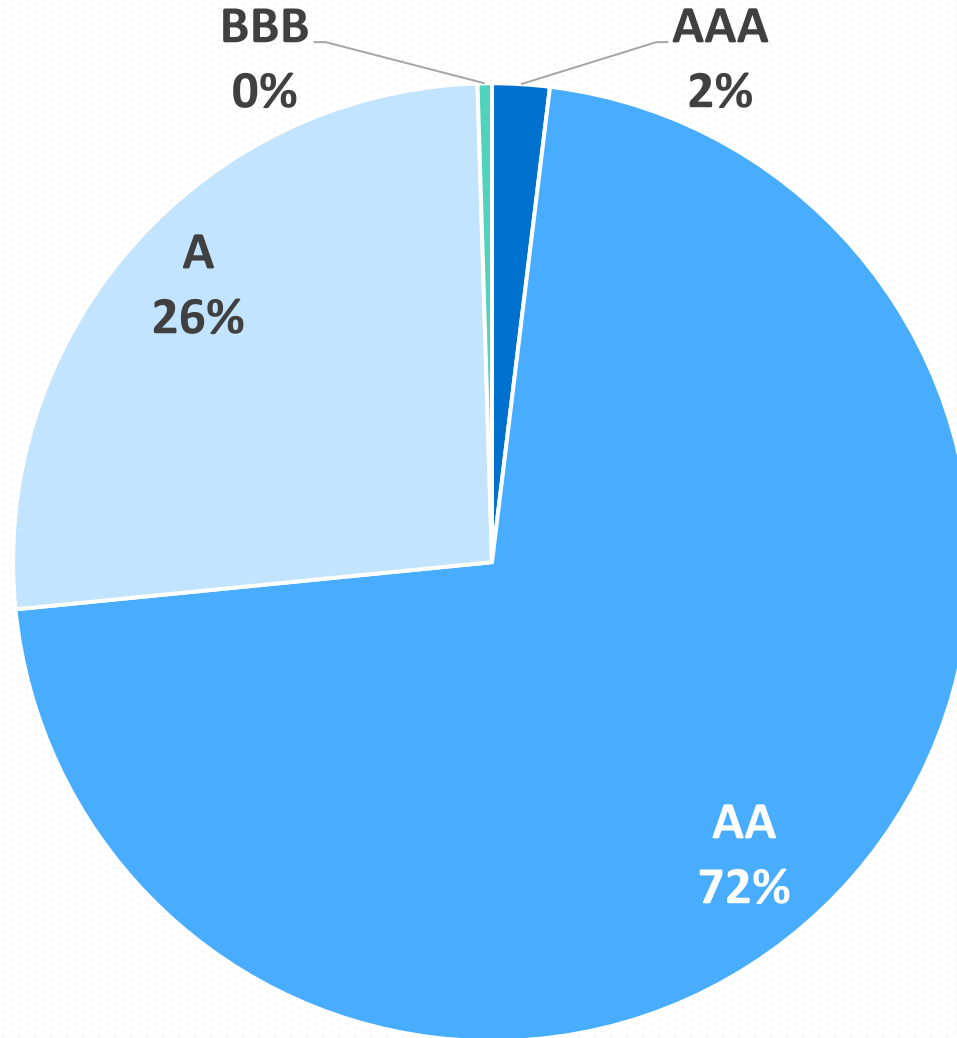
39 Ratings



*As of 10/12/2023*

# S&P Ratings: CA Municipalities

222 Ratings

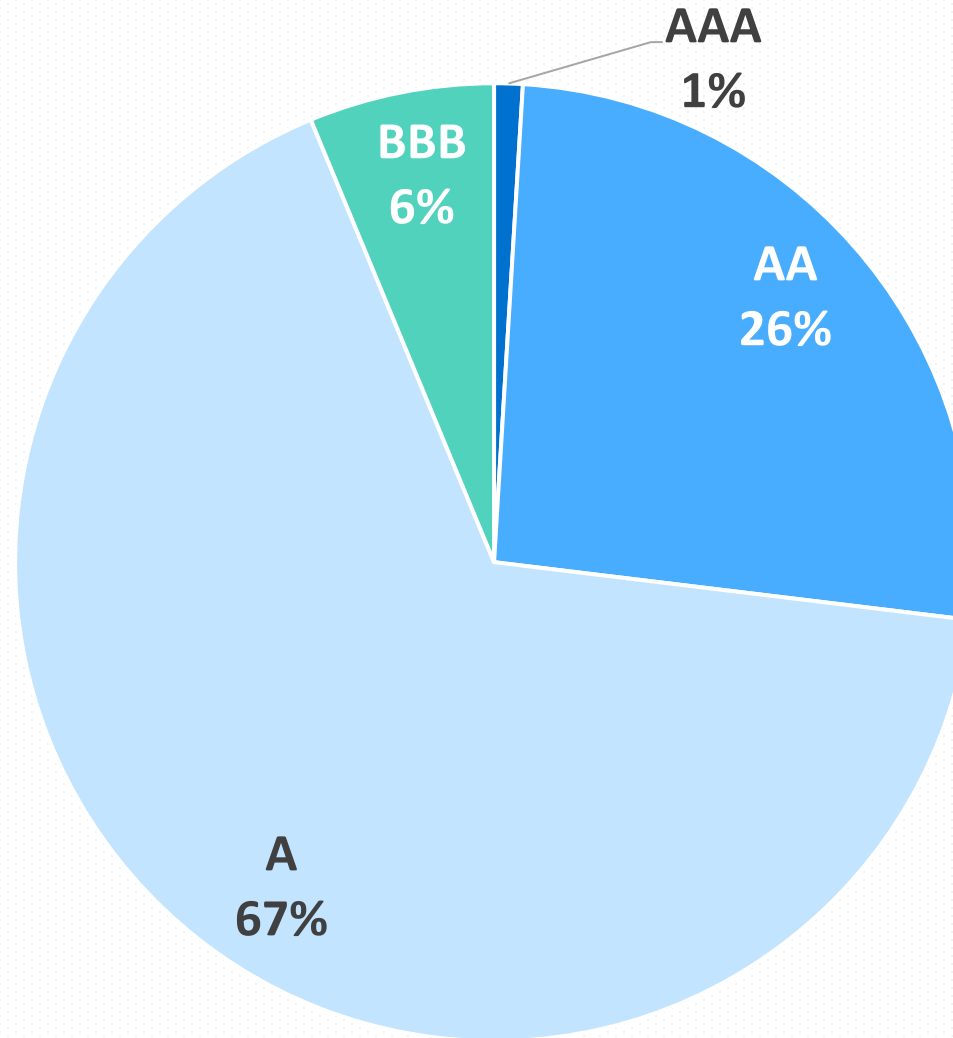


As of 10/12/2023



# S&P Ratings: CA Special Assessment Districts

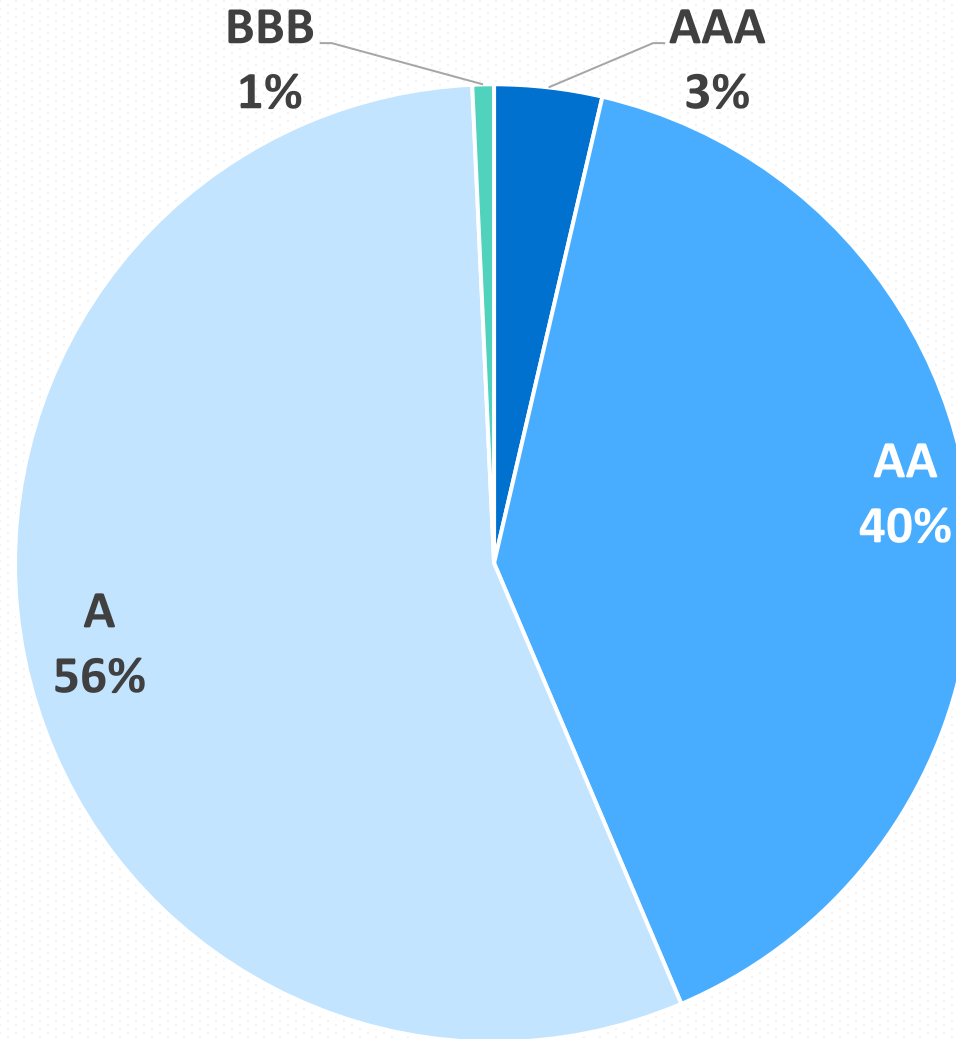
208 Ratings



As of 7/16/2024

# S&P Ratings: CA Schools

688 Ratings



*As of 8/30/2023*

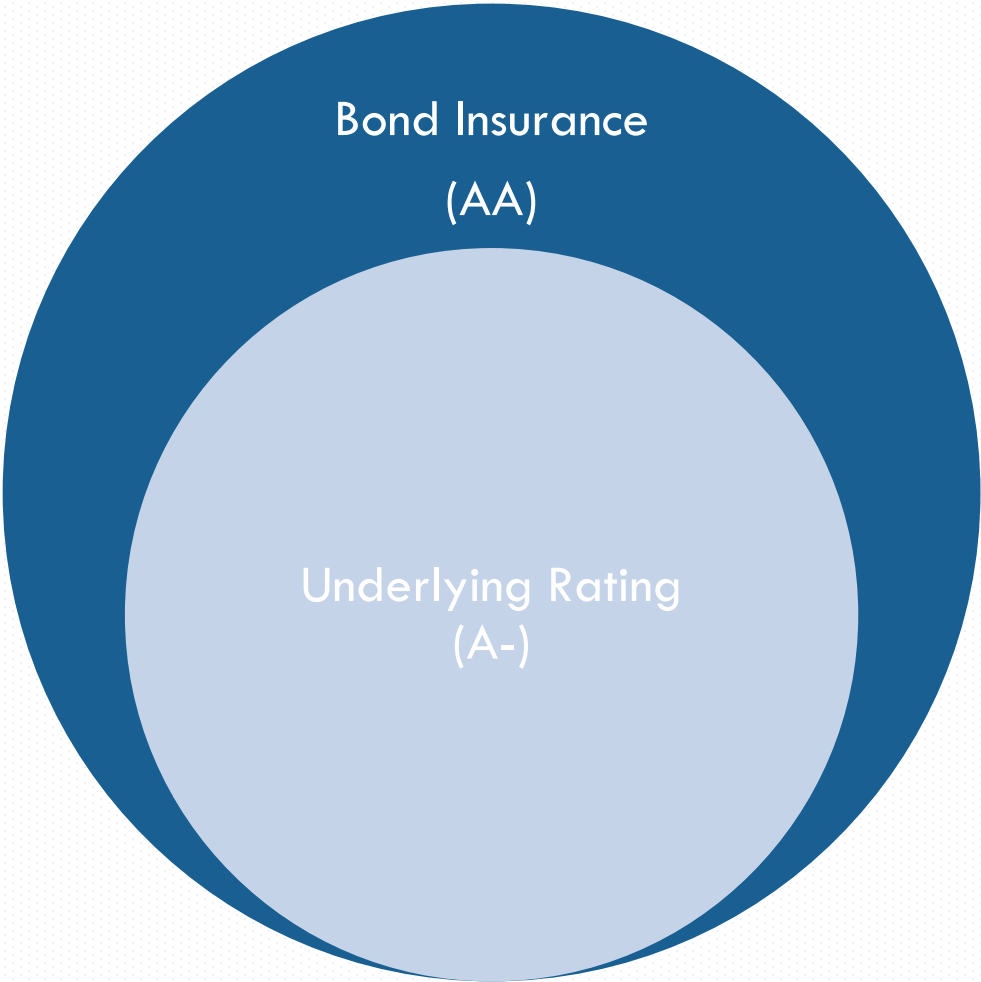
# What's the Credit Rating?

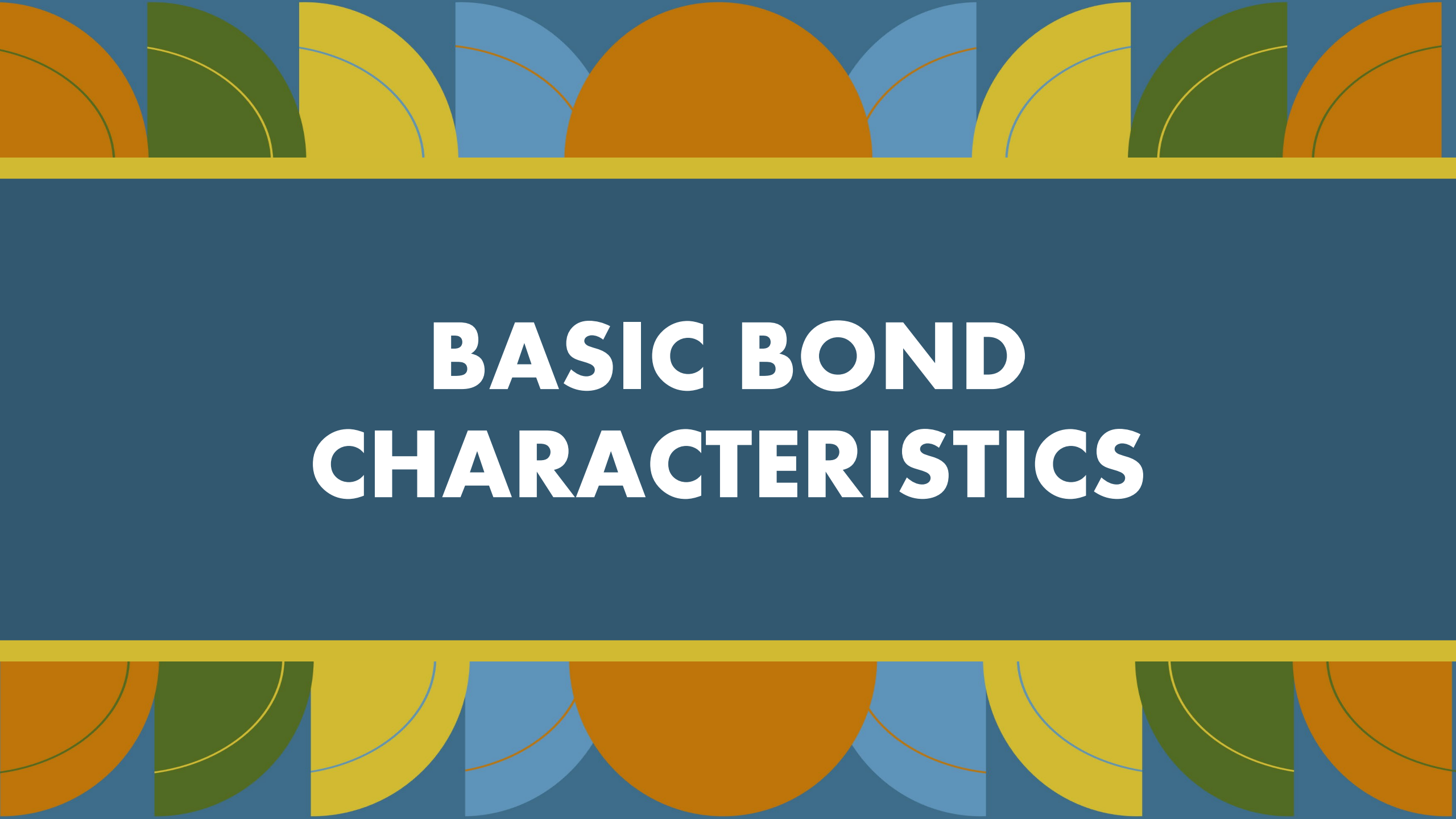


CALIFORNIA REPUBLIC



# Credit Enhancements

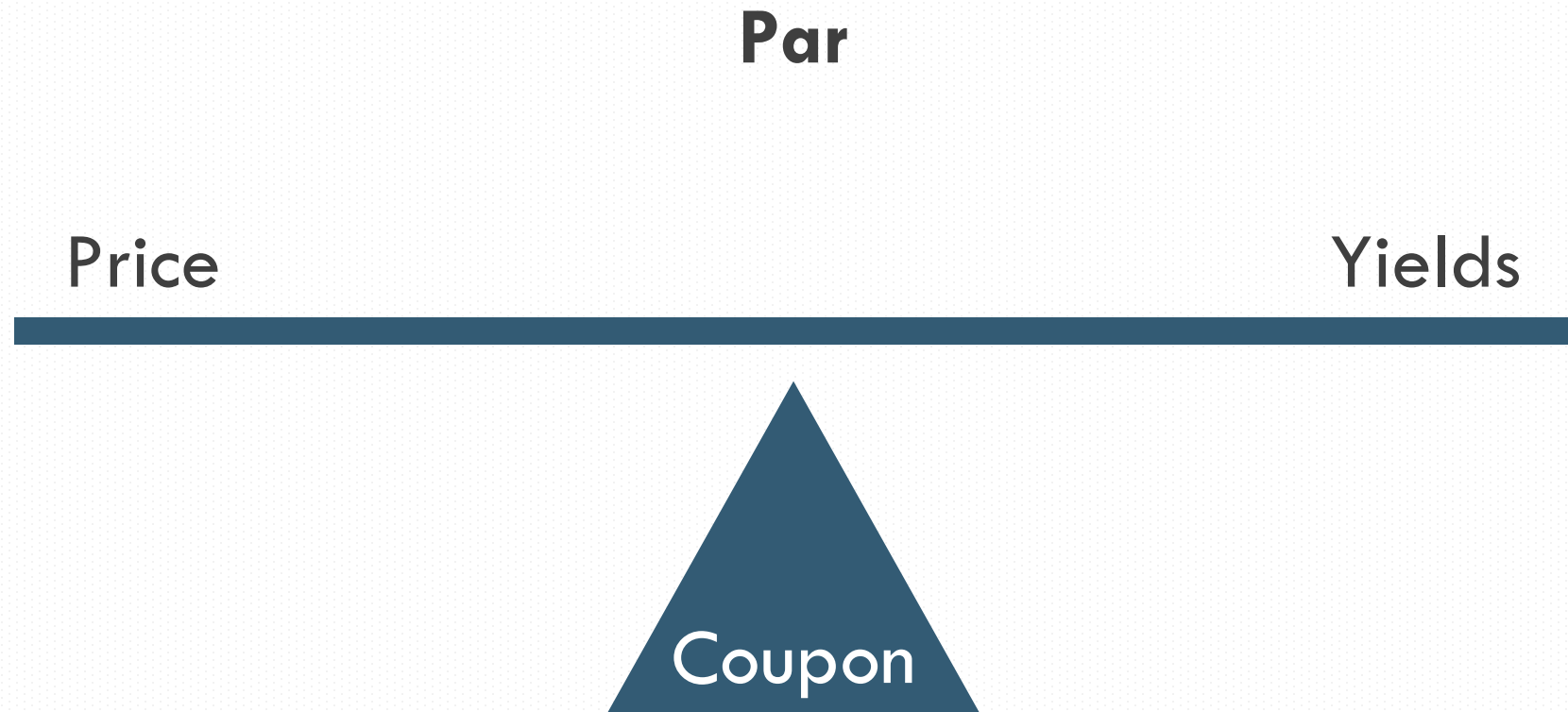




# **BASIC BOND CHARACTERISTICS**

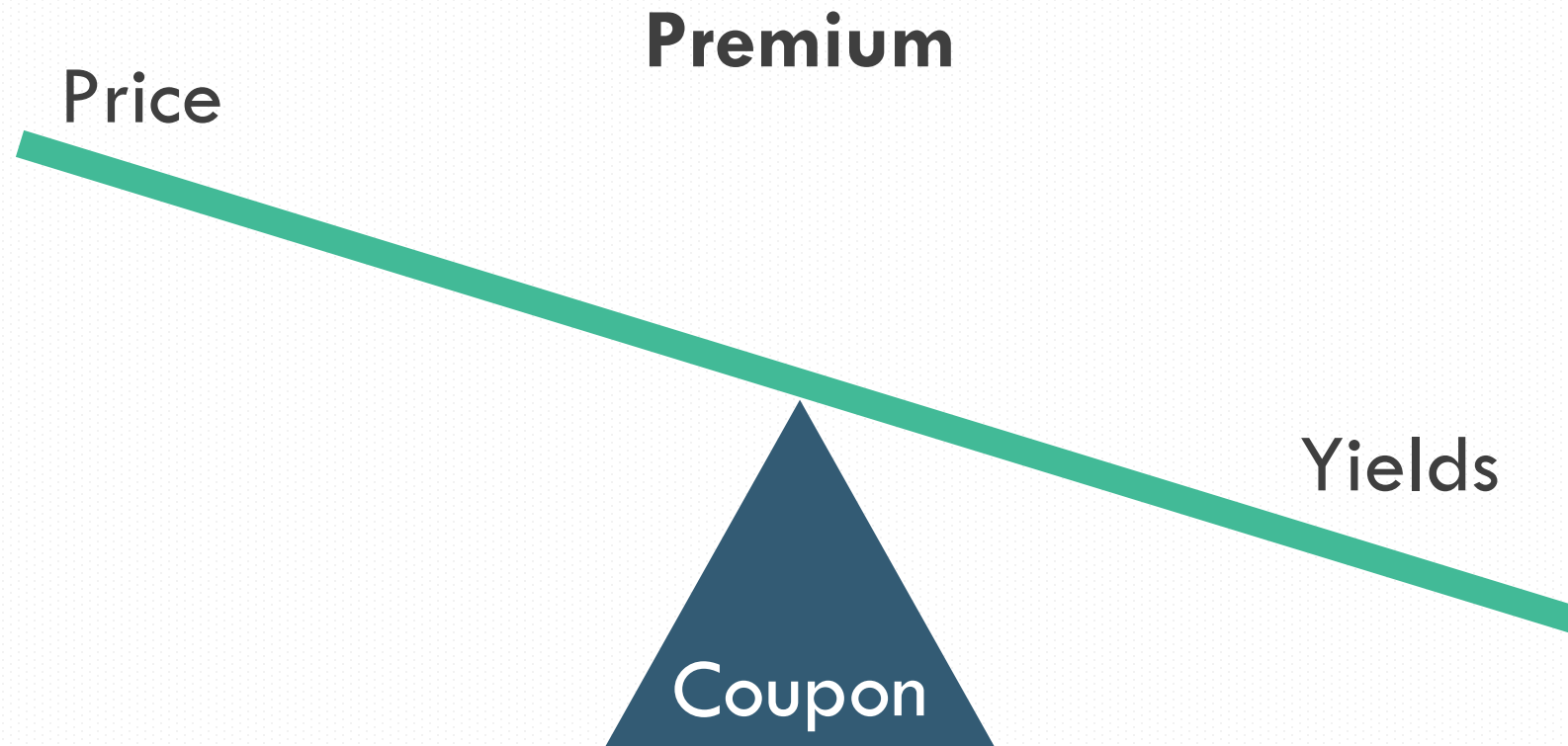
# Bond Pricing and Yield

- Prices and yields are inversely correlated



# Bond Pricing and Yield

- Prices and yields are inversely correlated



# Bond Pricing and Yield

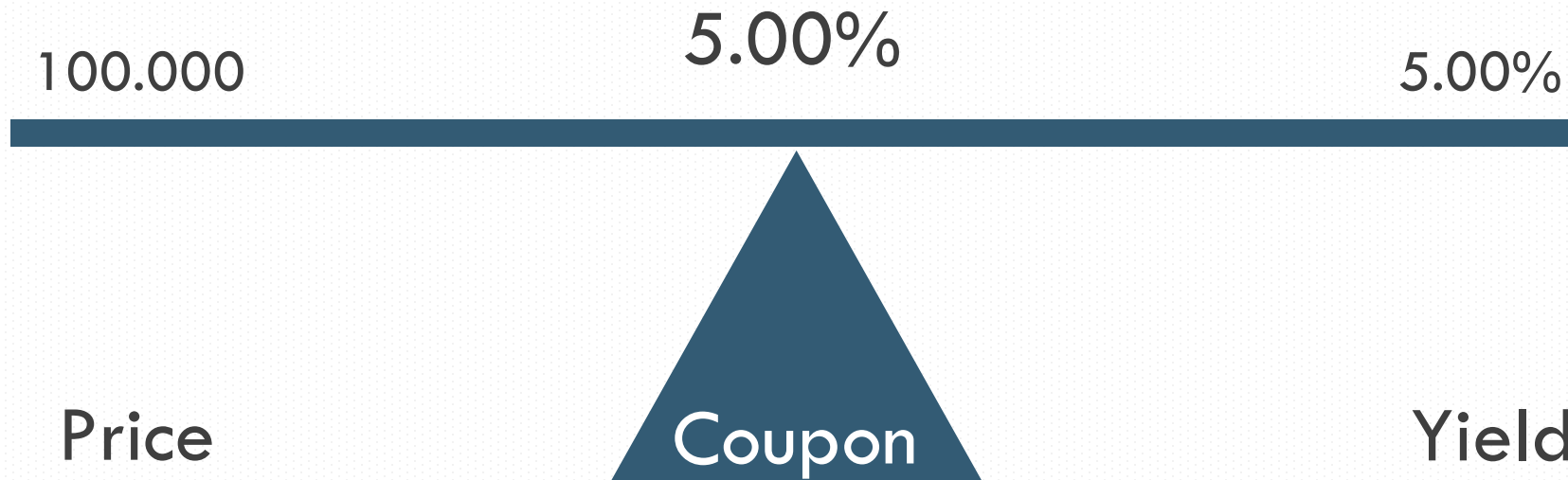
- Prices and yields are inversely correlated





# Pricing the Bonds

	Maturity Date	Coupon	Market Yield	Price
	12/1/2023	5.00%	4.50%	102.195
Par	12/1/2024	5.00%	= 5.00%	100.000
	12/1/2025	5.00%	5.50%	97.865



# Pricing the Bonds

	Maturity Date	Coupon	Market Yield	Price
Premium	12/1/2023	5.00%	4.50%	102.195
	12/1/2024	5.00%	5.00%	100.000
	12/1/2025	5.00%	5.50%	97.865

102.195

5.00%

4.50%

Price

Coupon

Yield

# Pricing the Bonds

Maturity Date	Coupon	Market Yield	Price
12/1/2023	5.00%	4.50%	102.195
12/1/2024	5.00%	5.00%	100.000
12/1/2025	5.00%	5.50%	97.865

Discount



# Investor Preferences

Issuer

Issuer

Gotham City

Type of Bond

Deal

2022 General Obligation Bonds

Size of Bond

Par

\$4.120.000

Credit Rating

Tax Status

Tax-Exempt

Rating

AAA

Par Call Date

12/1/2032

Maturity	PAR AMOUNT	COUPON RATE	YIELD
2023	\$175,000	5.00	2.85
2024	\$185,000	5.00	2.95
2025	\$190,000	5.00	3.10
2026	\$200,000	5.00	3.20
2027	\$205,000	5.00	3.40
2028			
2029			
2030			
2031			
2032	\$2,000,000	4.25	4.50

# Investor Preferences

Issuer	Gotham City		
Deal	2022 General Obligation Bonds		
Par	\$4,120,000		
Tax Status	Tax-Exempt		
Rating	AAA		
Par Call Date	12/1/2032		
Maturity	PAR AMOUNT	COUPON RATE	YIELD
2023	\$175,000	5.00	2.85
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2028			
2029			
2030			
2031			
2032	\$2,000,000	4.25	4.50

Serial vs Term

Premium

vs

Discount

# Investor Preferences

Issuer	Gotham City			
Deal	2022 General Obligation Bonds			
Par	\$4,120,000			
Tax Status	Tax-Exempt			
Rating	AAA			
Par Call Date	12/1/2032			
	<b>Maturity</b>	<b>PAR AMOUNT</b>	<b>COUPON RATE</b>	<b>YIELD</b>
	2023	\$175,000	5.00	2.85
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	2026	\$200,000	5.00	3.20
	2027	\$205,000	5.00	3.40
	2028			
	2029			
	2030			
	2031			
	2032	\$2,000,000	4.25	4.50

Retail

Professional  
Retail/SMA

Institutional



# **BASIC BOND MATH**



# Bond Price

- **Bond Price:** Price at which the bond is sold to investors

- **Equation:**

$$\text{Bond Price} = \frac{C}{(1+i)} + \frac{C}{(1+i)^2} + \dots + \frac{C}{(1+i)^n} + \frac{M}{(1+i)^n}$$

- C = Coupon payment
  - i = Interest rate (required yield)
  - M = Value at maturity
  - n = Number of payments
- **Excel 'PRICE' Function:**
    - =PRICE(delivery date, maturity date, coupon, yield, value at maturity, frequency of coupons, day count basis)

Inputs	Values
Delivery Date (settlement)	9/1/2022
Maturity Date	9/1/2032
Coupon (rate)	5.00%
Yield	4.50%
Maturity Value (redemption)	\$100
Coupon Payments/Year	2
Day Count Basis	0
<b>PRICE function</b>	<b>\$103.99</b>



# Yield to Maturity (YTM)

- Yield to Maturity (YTM): Total return anticipated on a bond if held until maturity

- Equation:

$$\text{Bond Price} = \frac{\text{Cashflow 1}}{(1 + \text{yield})^1} + \frac{\text{Cashflow 2}}{(1 + \text{yield})^2} + \dots + \frac{\text{Last Cashflow}}{(1 + \text{yield})^n}$$

- Back-solves bond price equation to determine yield, given bond price and coupon:

- Excel 'YIELD' Function:

=YIELD(delivery date, maturity date, coupon, price, value at maturity, coupon payments per year, day count basis)

Inputs	Values
Delivery Date (settlement)	9/1/2022
Maturity Date	9/1/2032
Coupon (rate)	5.00%
Purchase Price	\$110
Maturity Value (redemption)	\$100
Coupon Payments/Year	2
Day Count Basis	0
<b>YIELD function</b>	<b>3.79%</b>

# True Interest Cost (TIC)

- **True Interest Cost (TIC):** Rate necessary to discount the amounts payable on the bond to the purchase price received
  - Effective borrowing rate on Bond inclusive of P&I and all costs associated with Bond issuance
  - Proxied by internal rate of return (IRR)
- **Excel 'IRR' function:**  
=IRR(values, guess)
  - Values: Series of payments (first cash inflow must have negative value)
  - Guess: Gives Excel a place to start solving

Principal and Interest Payment Date	Annual Debt Service Amount
Issue Bonds	\$(5,000,000)
12/1/2024	\$1,250,000
12/1/2025	\$1,250,000
12/1/2026	\$1,250,000
12/1/2027	\$1,250,000
12/1/2028	\$1,250,000
<b>IRR Function (TIC)</b>	<b>7.93%</b>

# Debt Service (DS) Payments

- If public agency needs to issue Bonds to pay for a police station, knowing the expected cost of the station, how can you approximate the yearly debt service?

- Excel Function

=PMT(Interest rate, Number of Periods, Present Value, Future Value, Payment Due Period)

Inputs	Values
Coupon (rate)	5.00%
Years to Maturity (nper)	30
Present Value (PV)	\$30,000,000
Face Value (FV)	\$0
Payment Due period	0
<b>PMT Function (Annual DS)</b>	<b>(\$1,951,543)</b>

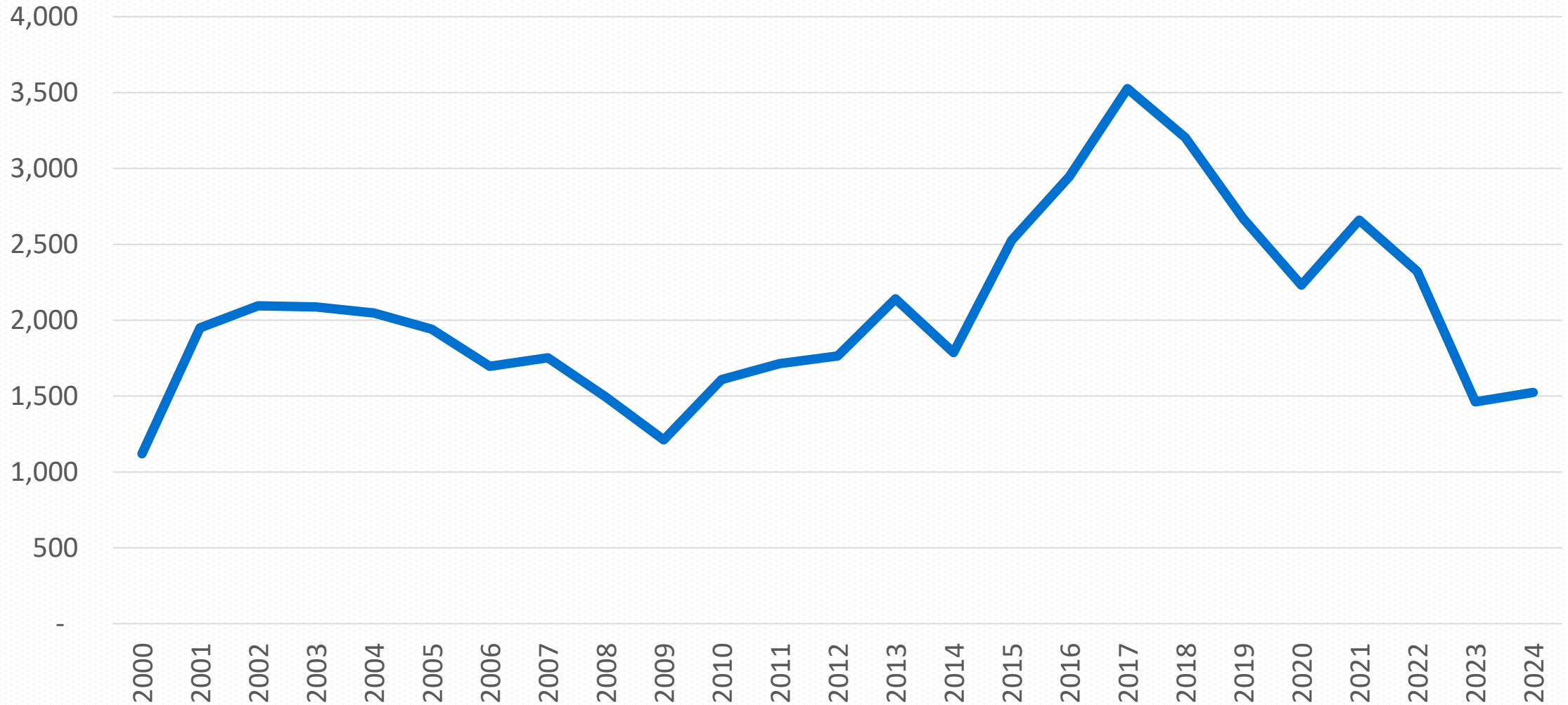
- “PMT” value returned is negative to show cash payments going out
- Includes both principal and interest component



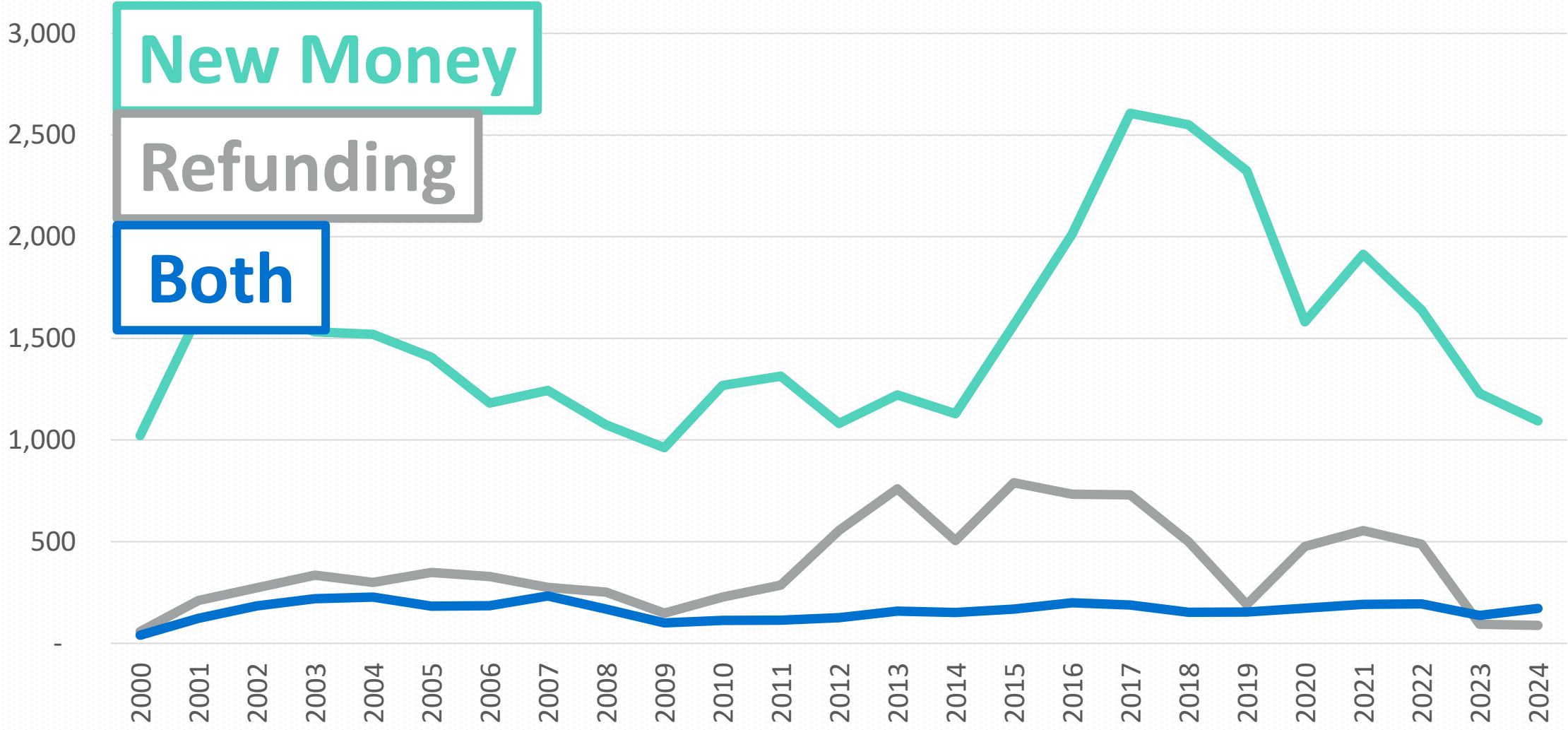
# FUN STATS



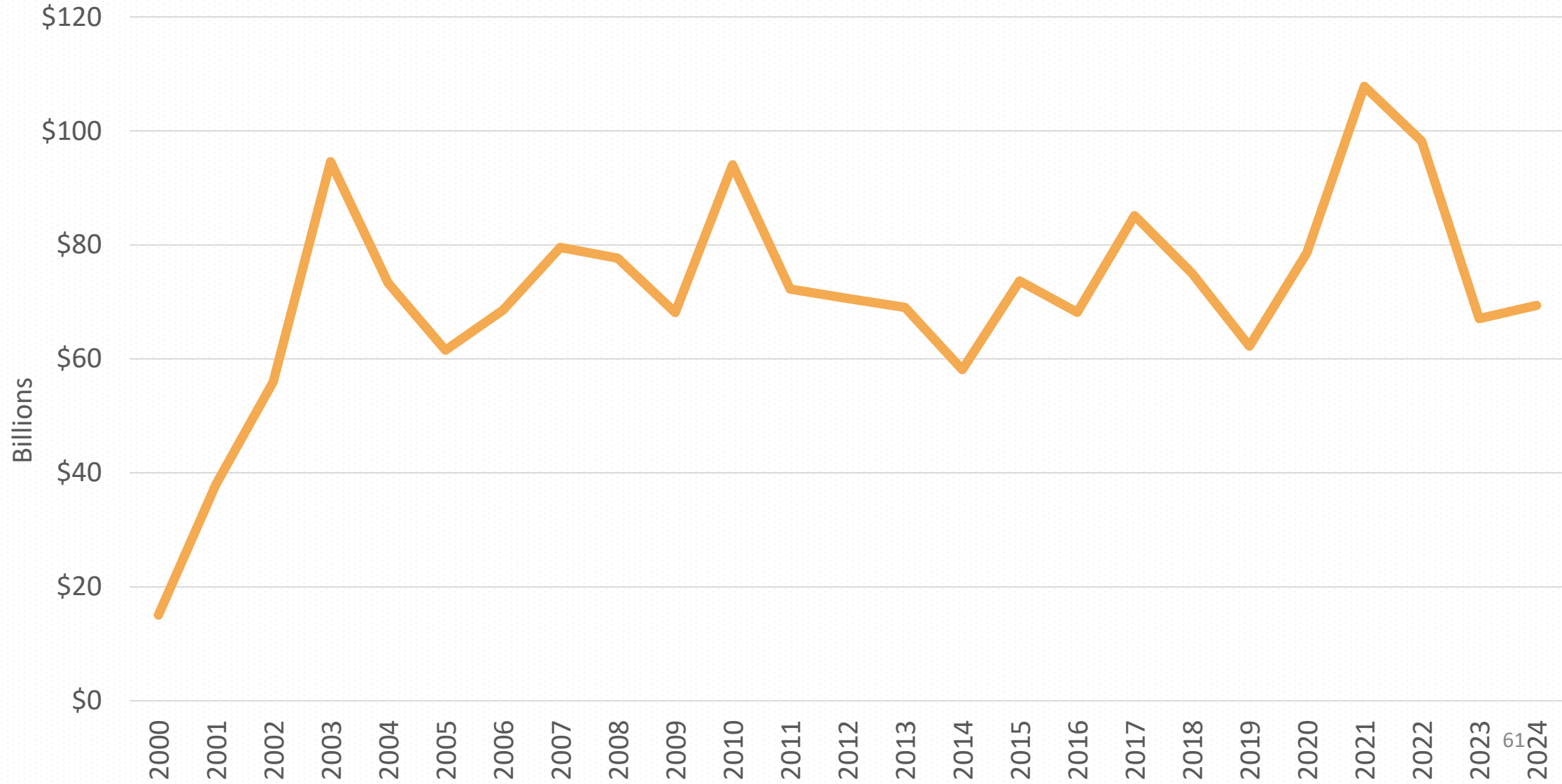
# Historical California Transactions



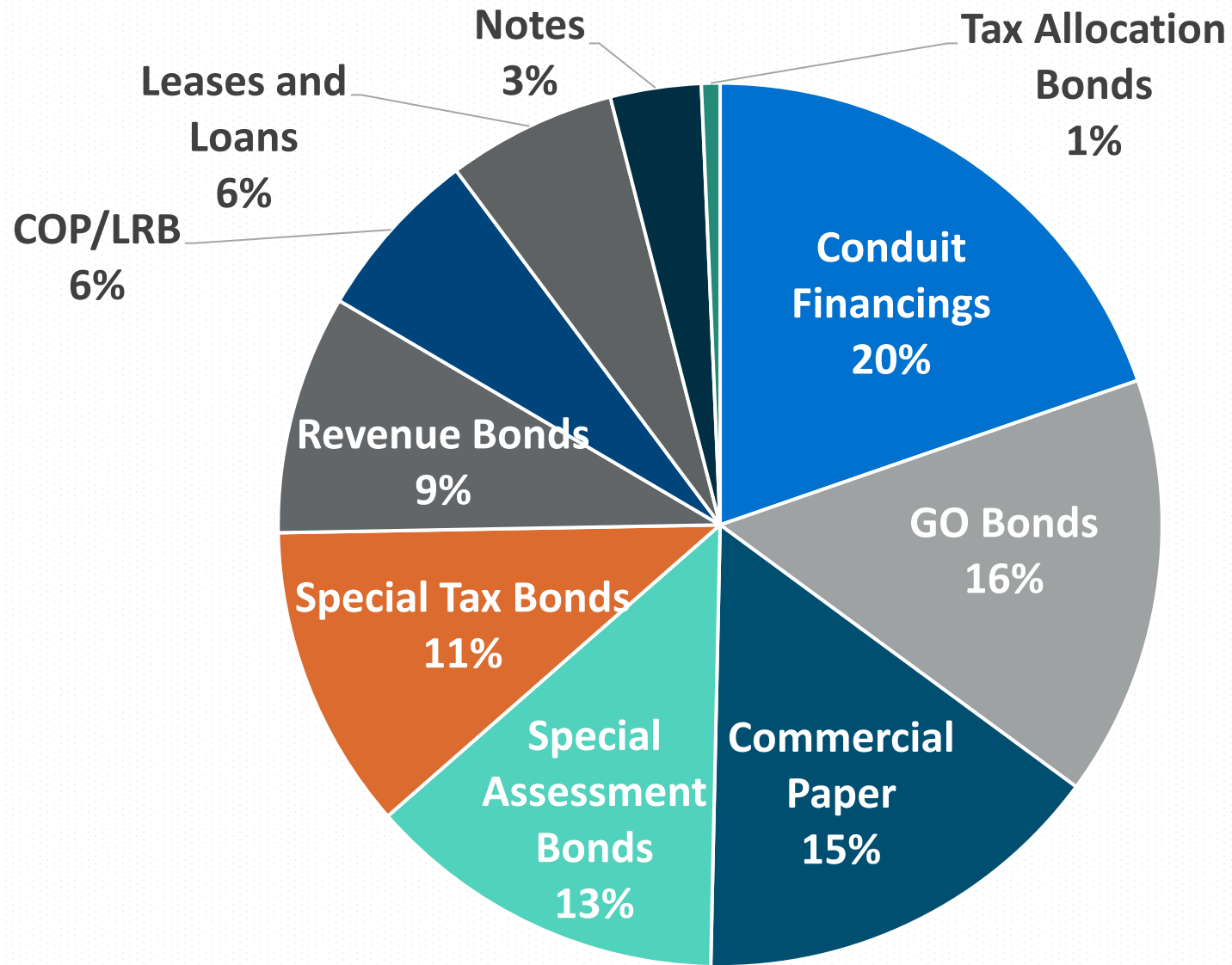
# Transaction Types



# Annual Volume (Principal)

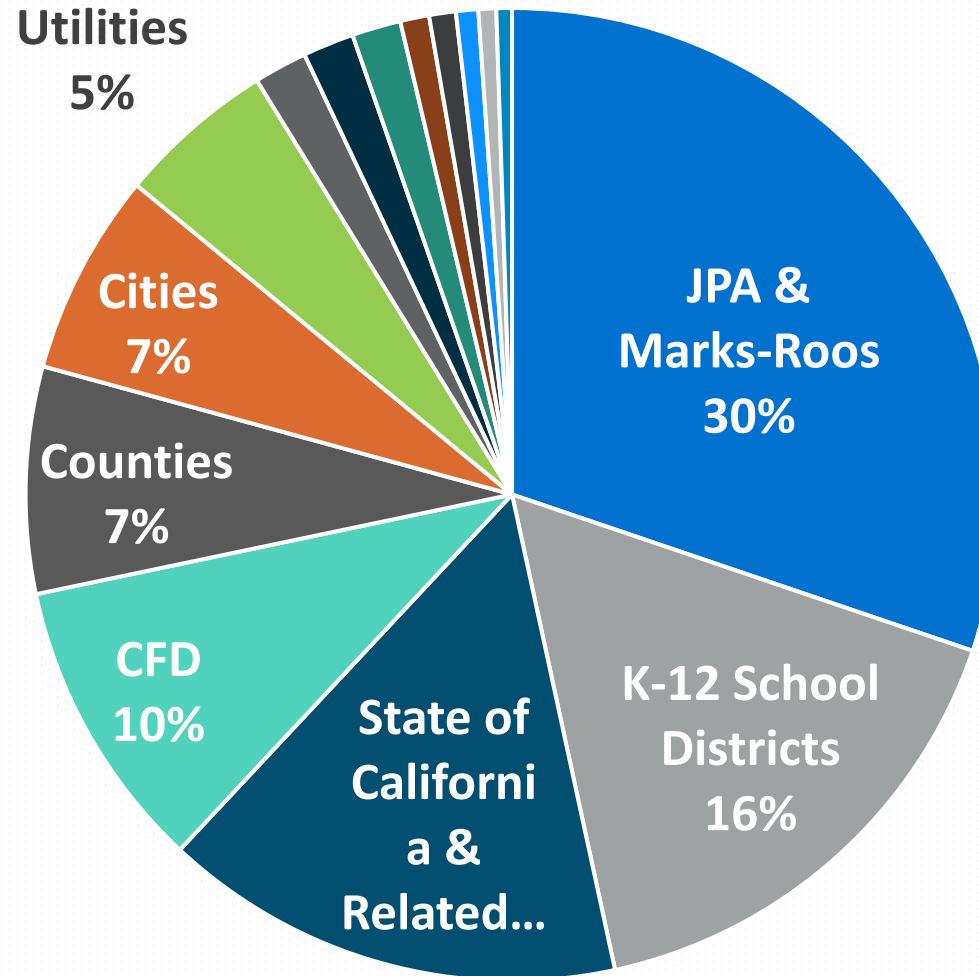


# 2023-2024 Transactions

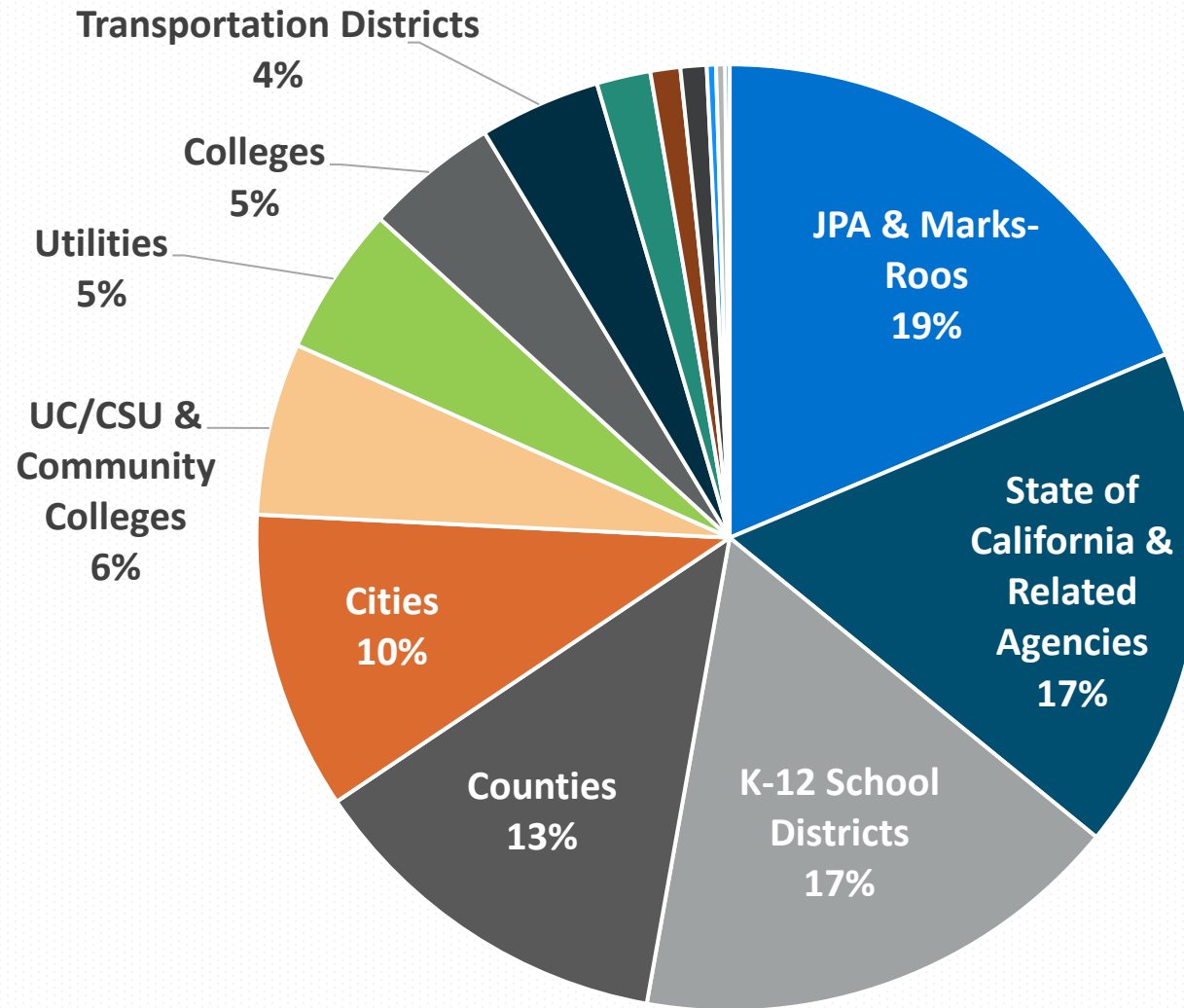




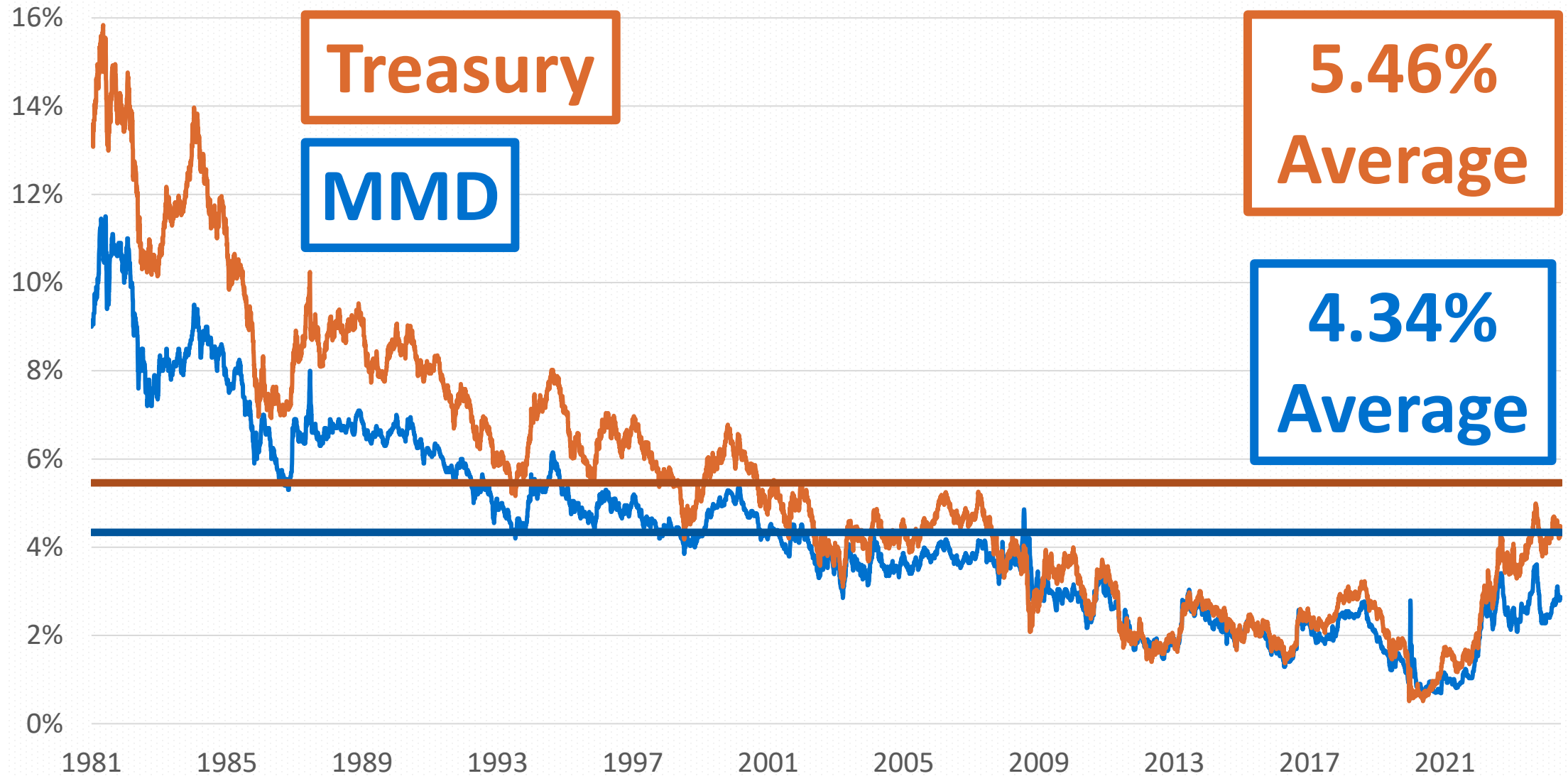
# 2023-2024 Issuer Transactions



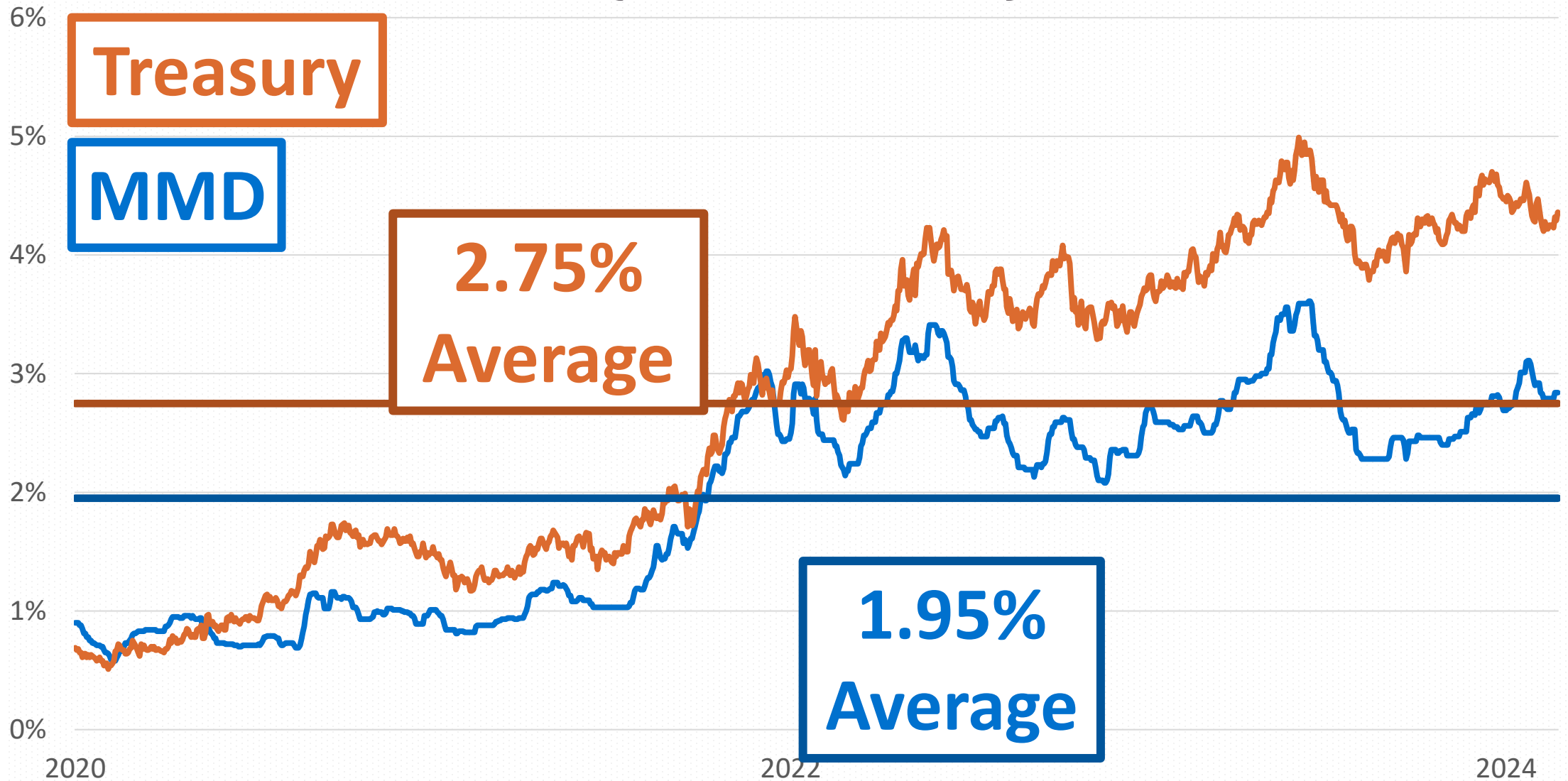
# 2023-2024 Volume (by Par)



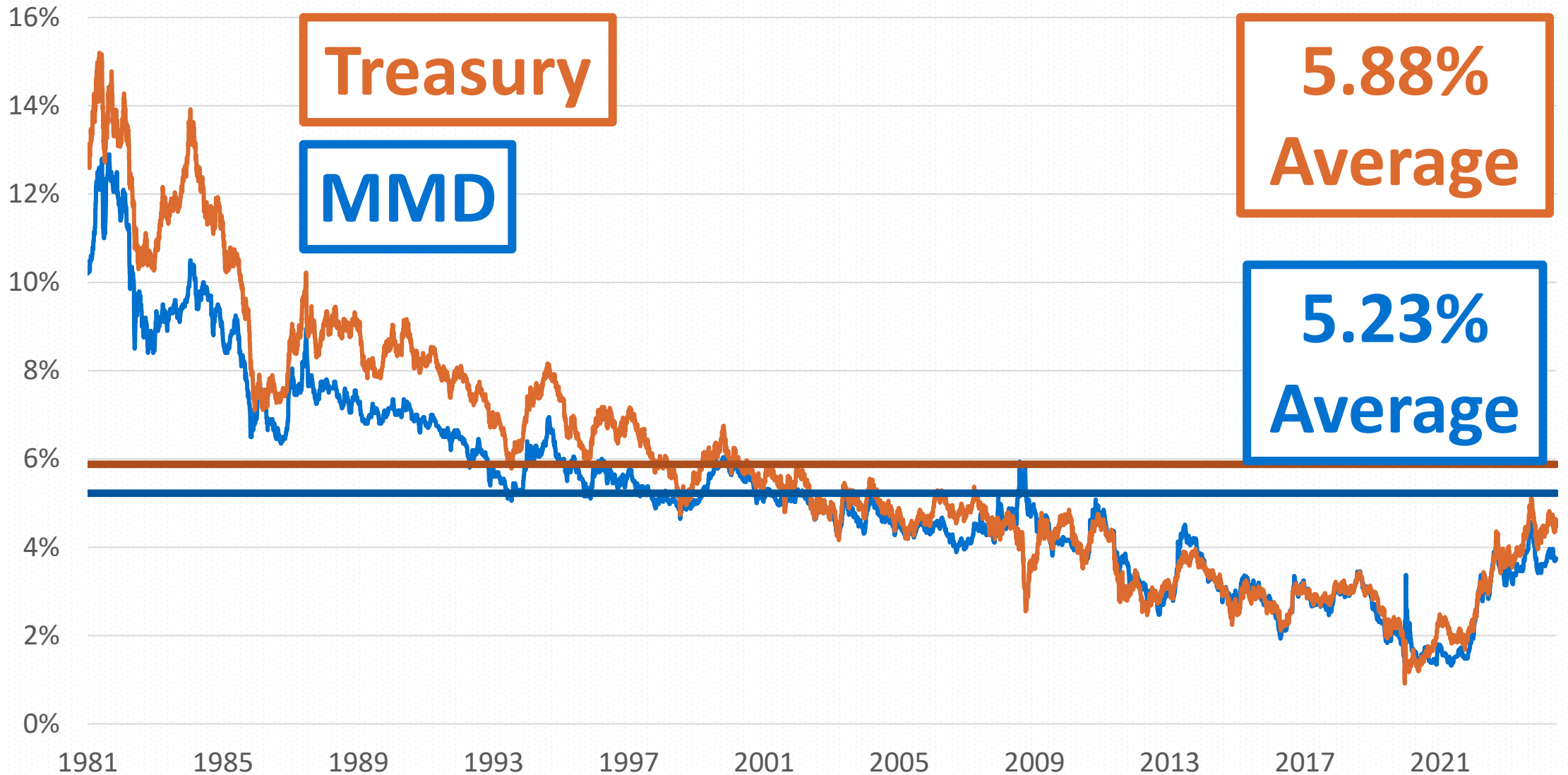
# MMD vs. Treasury (10-year)



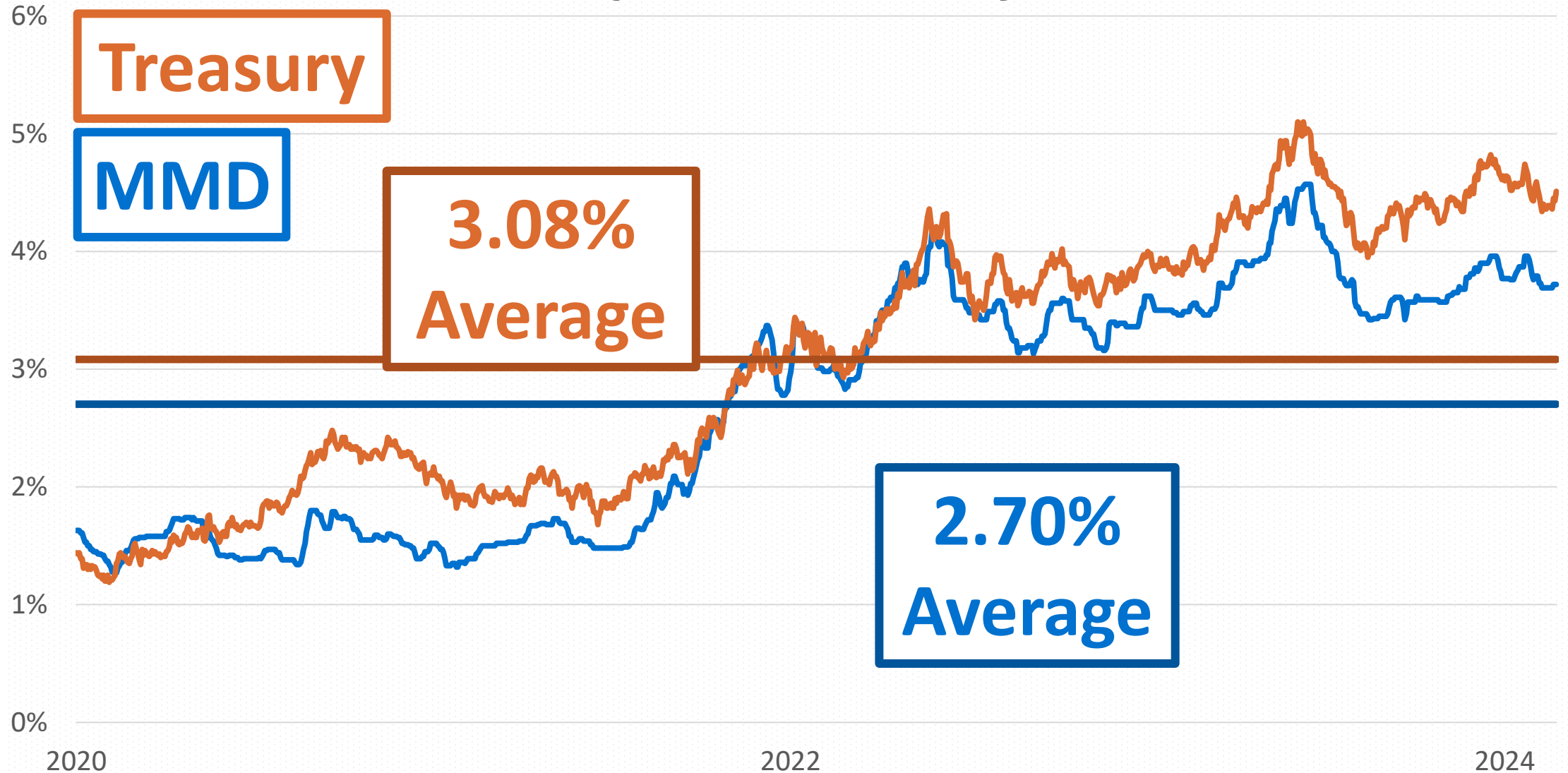
# MMD vs. Treasury (10-year) (2021-2024)



# MMD vs. Treasury (30-year)



# MMD vs. Treasury (30-year) (2021-2024)



# QUESTIONS?

**CRAIG HILL**

*Managing Principal*  
NHA Advisors



# SESSION TWO

## Overview of a Debt Issuance



**CRAIG HILL**  
*Managing Principal*  
NHA Advisors

**SHEILA POISSON**  
*Finance Director*  
City of Torrance



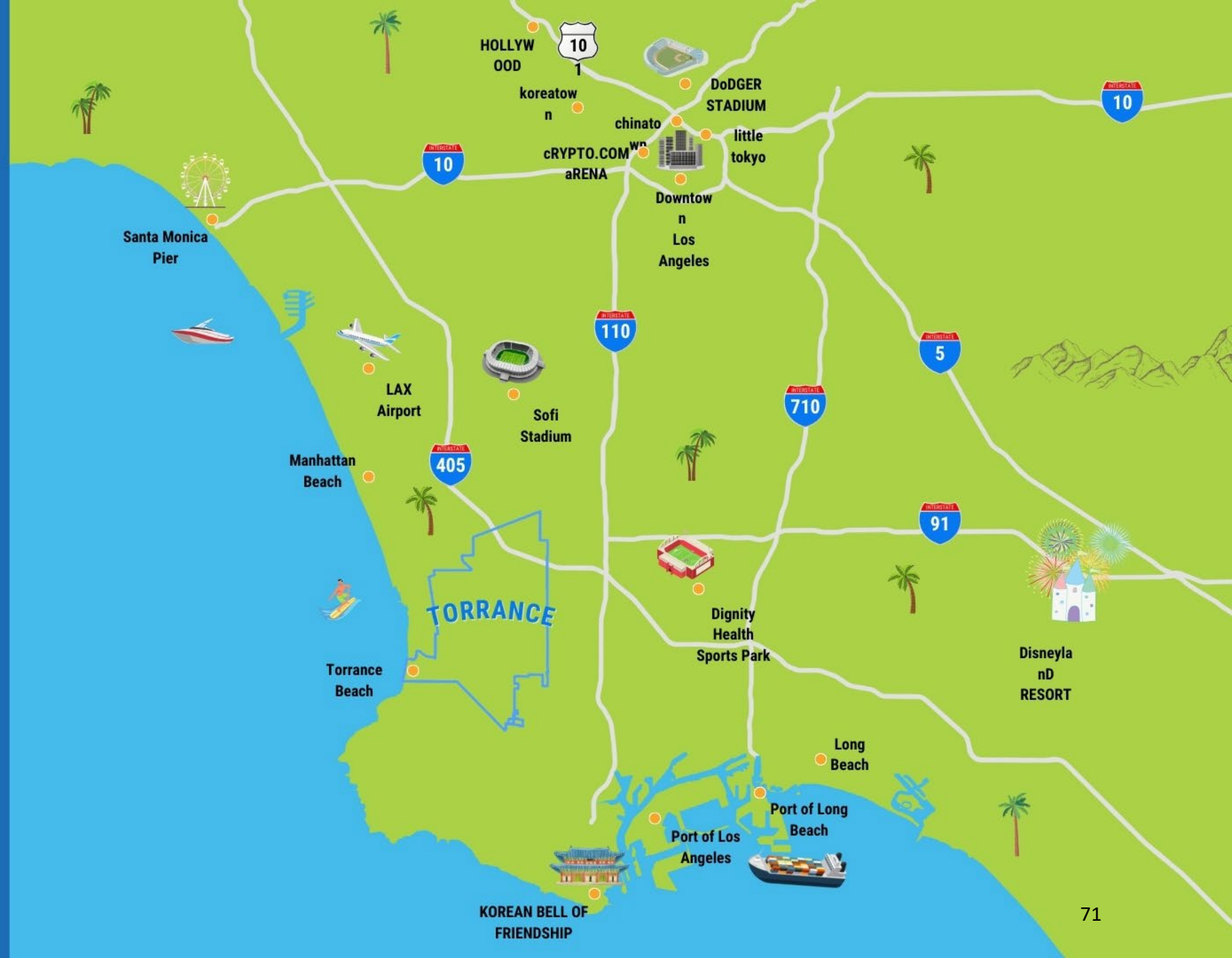


# FACTS ABOUT CITY OF TORRANCE

LOCATED IN THE SOUTHWEST REGION OF LA COUNTY, TORRANCE IS SITUATED TRULY IN THE HEART OF THE SOUTH BAY. BOUND BY 1.5 MILES OF BEAUTIFUL COASTLINE, THE CITY SPANS 21 SQUARE MILES AND HAS A POPULATION OF NEARLY 144,000 IN THE EVENING.

TOP 8 HIGHEST-VALUED CITY IN LA COUNTY. (\$38.2 BILLION ASSESSED VALUATION)

PRODUCING THE 3RD HIGHEST SALES TAX REVENUE IN LA COUNTY.





# Full-Service City



Police and Fire Protection



Water and Sanitation Services



Municipal Airport & Bus Transit Services



Construction and Maintenance of Streets and Infrastructure



Recreational Activities





# Debt History



# Torrance Debt History

## General Fund

- 1998 Refunding COP – Police & Fire Station
- 2004 COP (A/B) – Street, Storm drain, building improvements
- 2009 COP – Land Acquisition
- 2014 COP – Refund 2004 A/B & fund water improvements
- 2016 Refunding COP – Refund 2009 (Land & E.O.C.)
- 2020 LRB – (CalPERS Pension UAL Restructuring)
- 2021 LRB – Refund 2014 COP (water, street, storm drains)

Stable rating of AA since 2014



# Torrance Debt History

## Water Fund



- **2004 Water Refunding Bonds**
- **2017 Installment Sale**



# Torrance Debt History

## Redevelopment Agency



- 1998 Refunding TAB (4 series)
- 2001 Refunding TAB
- 2018 TAB Refunding



# Torrance Debt History

## Tax & Revenue Anticipation Notes

- 2007-08 - \$28M
- 2008-09 - \$25M
- 2009-10 - \$23M
- 2010-11 - \$33M
- 2011-12 - \$38M
- 2012-13 - \$32.5M
- 2013-14 - \$30M
- 2014-15 - \$31M
- 2015-16 - \$37.6M
- 2016-17 - \$42.1M
- 2017-18 - \$40M
- 2018-19 - \$34M
- 2019-20 - \$44.7M

Rating of MIG-1 or SP-1+ for all TRANS

# Debt Profile

- Torrance **not** considered an “active” issuer
- Maintains strong credit
- Budgets capital projects with cash and reserves as much as possible (conservative management style)





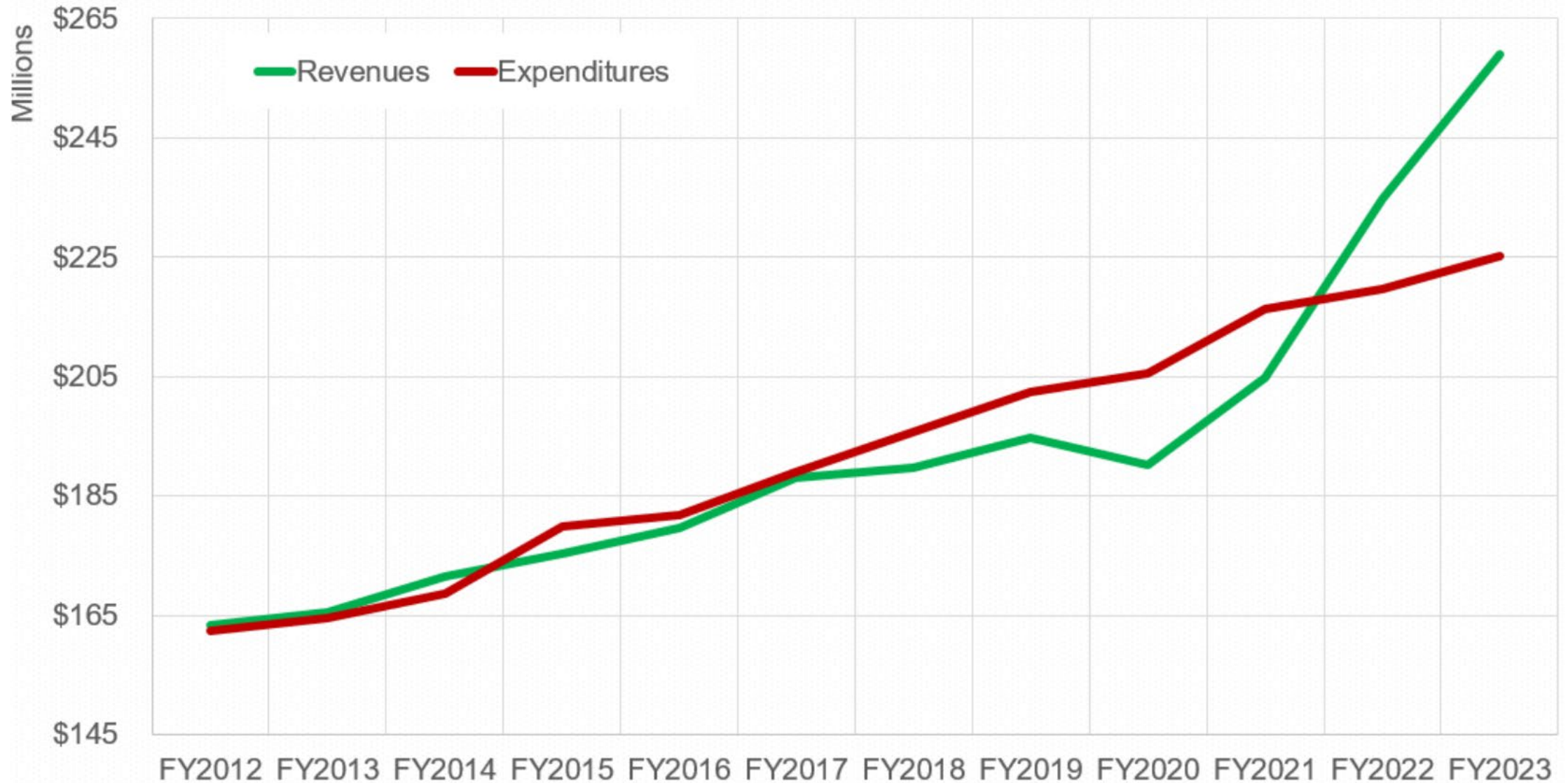


# MONEY MANAGEMENT

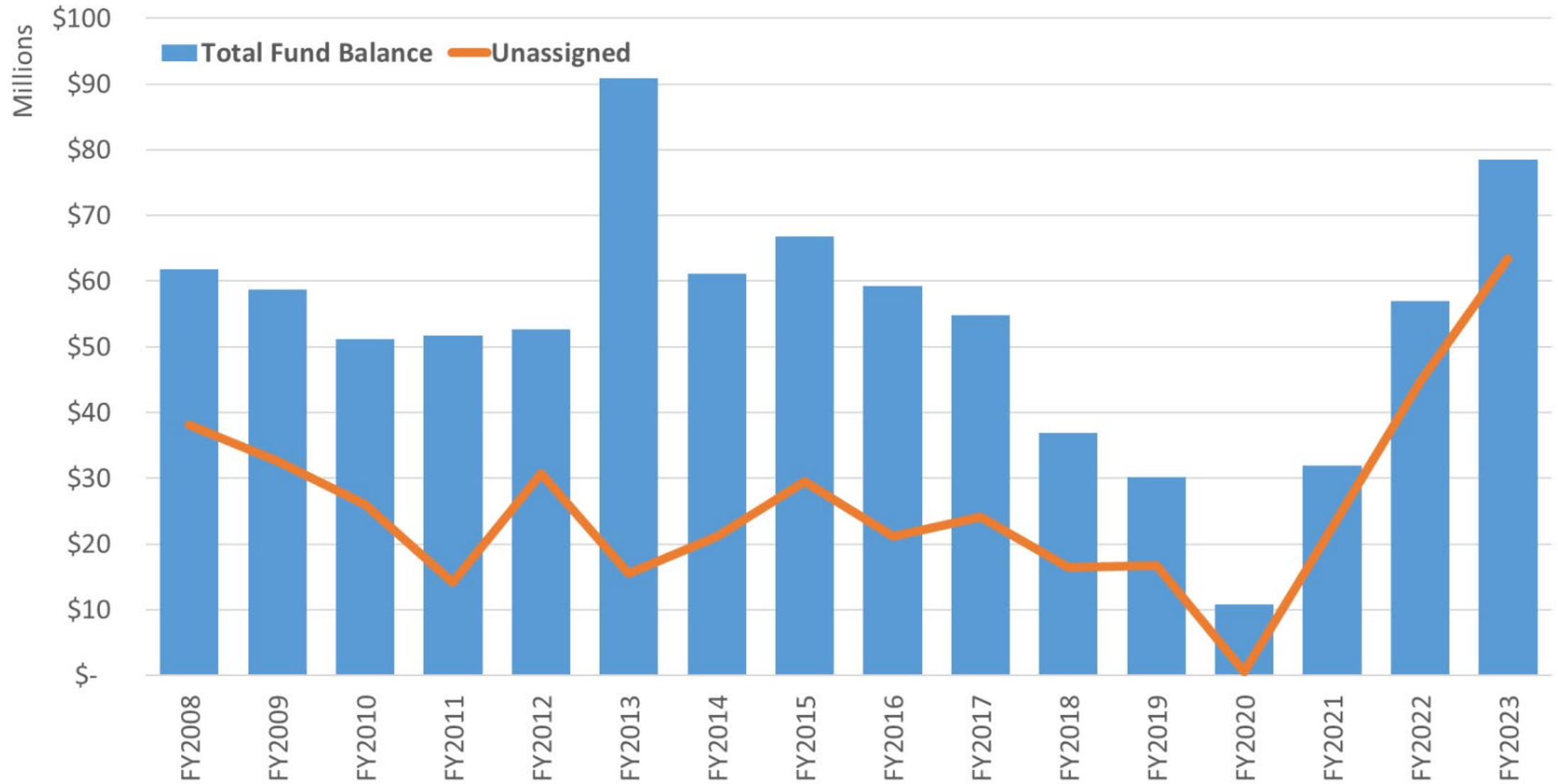
**Historical Financial**



# General Fund Revenues and Expenditures



# Historical Fund Balances General Fund

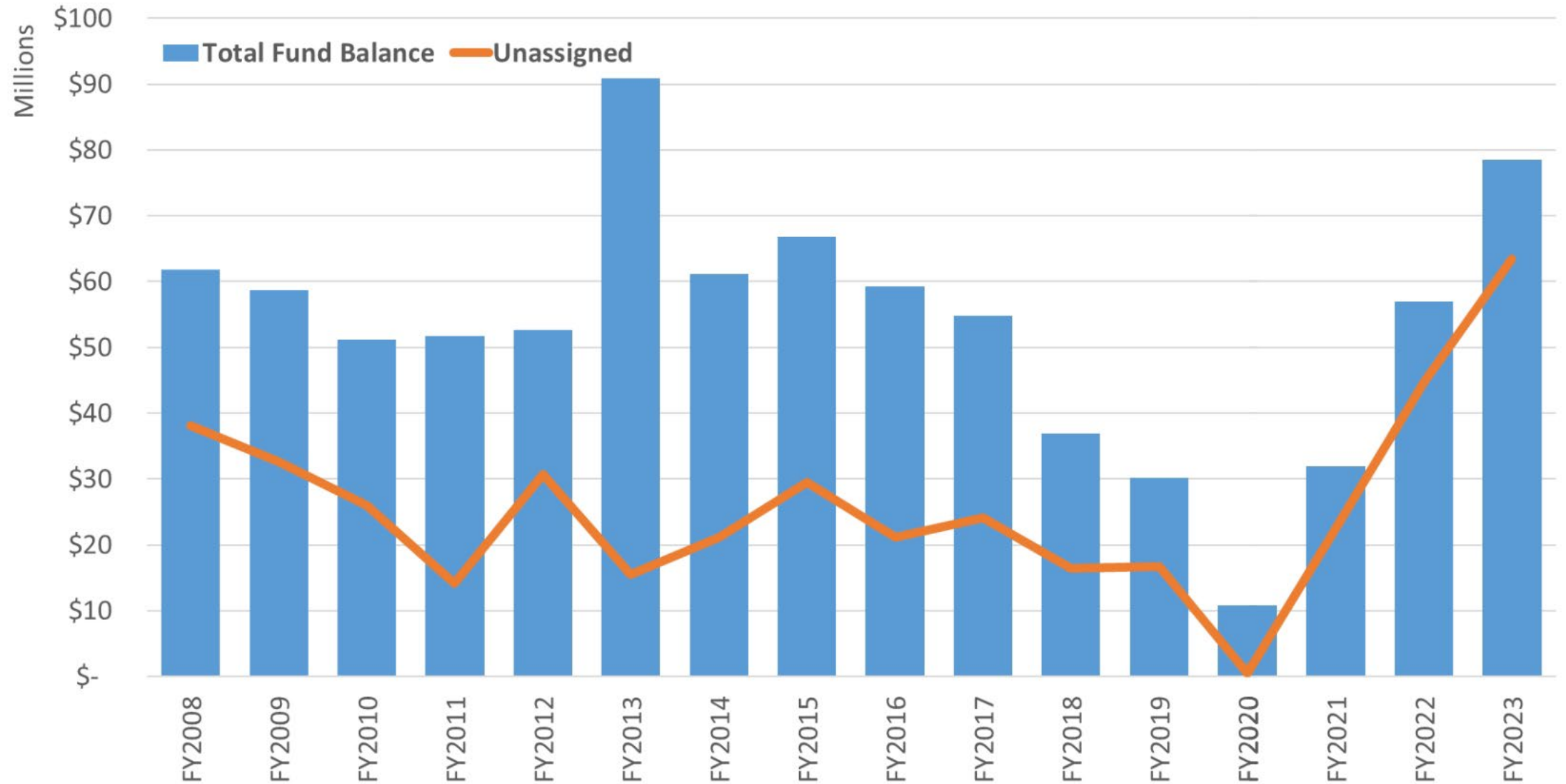




**\$581,449**



# Historical Fund Balances General Fund







# Looking Forward

- **Stabilized Financial Position**
- **Significant Deferred Capital Project List**
- **Develop Financing Plan**
  - **Pay-As-You-Go**
  - **Bond Financing**
  - **Voter-Approved Bond Measures**



**BRIGHT  
FUTURE  
AHEAD**

**Future Capital Needs**



# Priority Capital Projects

- **Torrance Airport**
  - Renovate hangar and site facilities
  - Renovate roadways, taxiway lighting and wiring
  - Estimated cost: **\$30,873,000**
- **Civic Center/Police Station Complex**
  - Renovation of site facilities and public safety dispatch center
  - Estimated cost: **\$17,194,000**
- **City Corporation Yard**
  - Renovate site facilities, roof replacement
  - Replace heavy duty vehicle lifts & fueling infrastructure
  - Estimated cost: **\$17,816,000**



# Recurring Capital Projects

Capital Project Type	FY24-25 Adopted Budget	FY25-26 Projected Budget	FY26-27 Projected Budget	FY27-28 Projected Budget
Parks	12,764,164	5,744,423	3,796,980	1,825,565
Facilities	9,541,060	5,083,308	12,890,316	10,623,093
IT Infrastructure	170,000	-	-	-
Public Right of Way	32,512,454	14,058,833	13,395,833	13,370,833
Sewer/Water Utilities	3,400,000	4,700,000	4,600,000	6,200,000
Storm Drain/Basins	2,250,000	4,250,000	2,250,000	2,250,000
Other	4,859,455	3,492,000	2,737,000	955,000
Contingency	1,298,457	501,933	1,425,308	1,113,345
<b>Total Expenditures</b>	<b>\$ 66,795,590</b>	<b>\$ 37,830,497</b>	<b>\$ 41,095,437</b>	<b>\$36,337,836</b>

# How to Pay for Projects



- **Do we budget and set-aside funds until we have enough?**
- **Do we develop a financing plan and budget for future debt service payments?**



# Funding Plan



General  
Fund

Financing

Hybrid

# Budgeting the Capital Improvement Plan

- **FY 2024-25 Budget process overview:**
  - Conducted Facility Index Study to assess City buildings and park assets
  - Evaluated deficiencies, recommended corrective actions, estimated budgets, and suggested maintenance strategies
  - Consolidated funding into the General Services Department for ongoing maintenance, previously spread across multiple projects



# Project Cost Estimates

- 2023/24 through 2027/28 need is \$62.5M
- FY28-39 \$144M projects need to be identified

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-39	Grand Total
Investment Site	\$6,720,152	\$15,435,072	\$10,827,731	\$16,687,296	\$12,448,658	\$144,052,298	\$206,171,207
Building Construction		\$6,537,000	\$1,000,000	\$6,599,963	\$5,000,000		\$19,136,963
Building Improvement	\$3,628,386	\$6,739,632	\$5,742,571	\$9,007,853	\$7,317,968	\$132,825,328	\$165,261,738
Equipment	\$2,714,076	\$1,490,000	\$174,800	\$450,000		\$3,250,000	\$8,078,876
Land Improvement	\$377,690	\$668,440	\$3,910,360	\$629,480	\$130,690	\$7,976,970	\$13,693,630
<b>Grand Total</b>	<b>\$6,720,152</b>	<b>\$15,435,072</b>	<b>\$10,827,731</b>	<b>\$16,687,296</b>	<b>\$12,448,658</b>	<b>\$144,052,298</b>	<b>\$206,171,207</b>



# The Big Kahuna The Civic Center Project



**Project:** Cultural Arts, Recreation, Swim Center, City Hall, Permit Center, Police Station and Fire Administration



# The Big Kahuna The Civic Center Project

- **Focus:** Maintenance & potential new center development
- **Goal:** Modern space for community activities, enhancing City pride
- **July 2023:** City Council hires Gruen Associates for Master Plan support
- **Current Progress:** Gathering stakeholder feedback





# Funding Options

## The Civic Center Project

- **Initial Project Cost Estimates - \$300M+**
- **Capital Asset Strategy:**
  - Use existing City property, potential sale of excess public property (create cash to fund project)
- **Financing Options:**
  - **General Fund – Develop Budget that will include annual debt service (up to \$20M-\$30M/year)**
  - **Community Supported (GO Bond or Parcel Tax) – property tax will pick up annual debt service (not general fund)**







# Cashflow Fund or Issue Debt?



# \$300 Million Project Assumptions

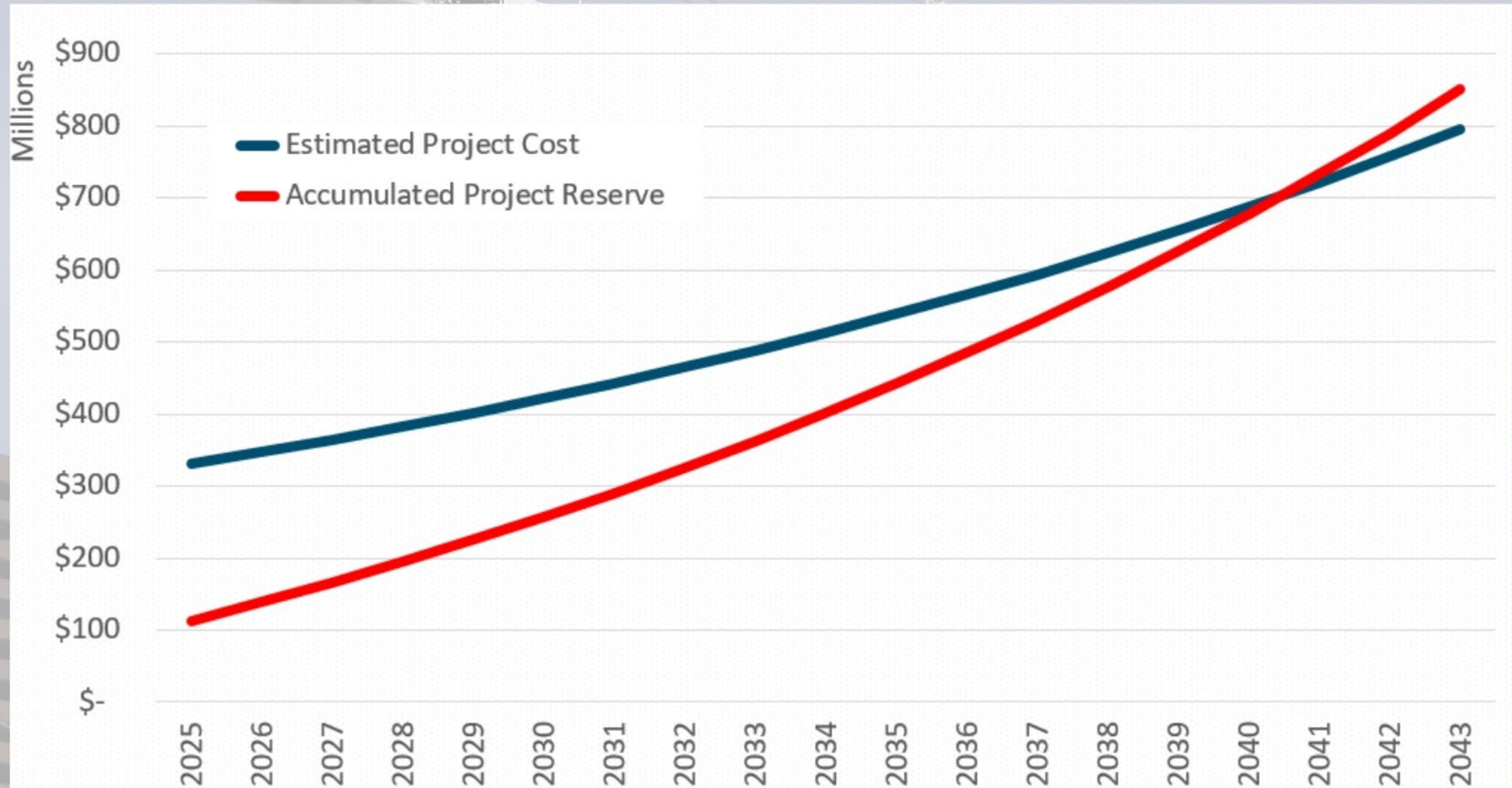
## Pay-Go Assumptions

- ~\$20 million yearly contributions to Project Reserve
- 5% earnings on Project Reserve
- 5% cost inflation
- Project Reserve is not drawn down

## Bond Financing Assumptions

- ~\$20 million debt service payments
- 5% interest rate
- 30-year term

# Saving for a \$300 Million Project





# Saving for a \$300 Million Project

2025-2026

*Design*



2025-2041

*Save*



2041-2044

*Build*



# Financing a \$300 Million Project

2025-2026

*Design*



2026

*Finance*



2026-2029

*Build*

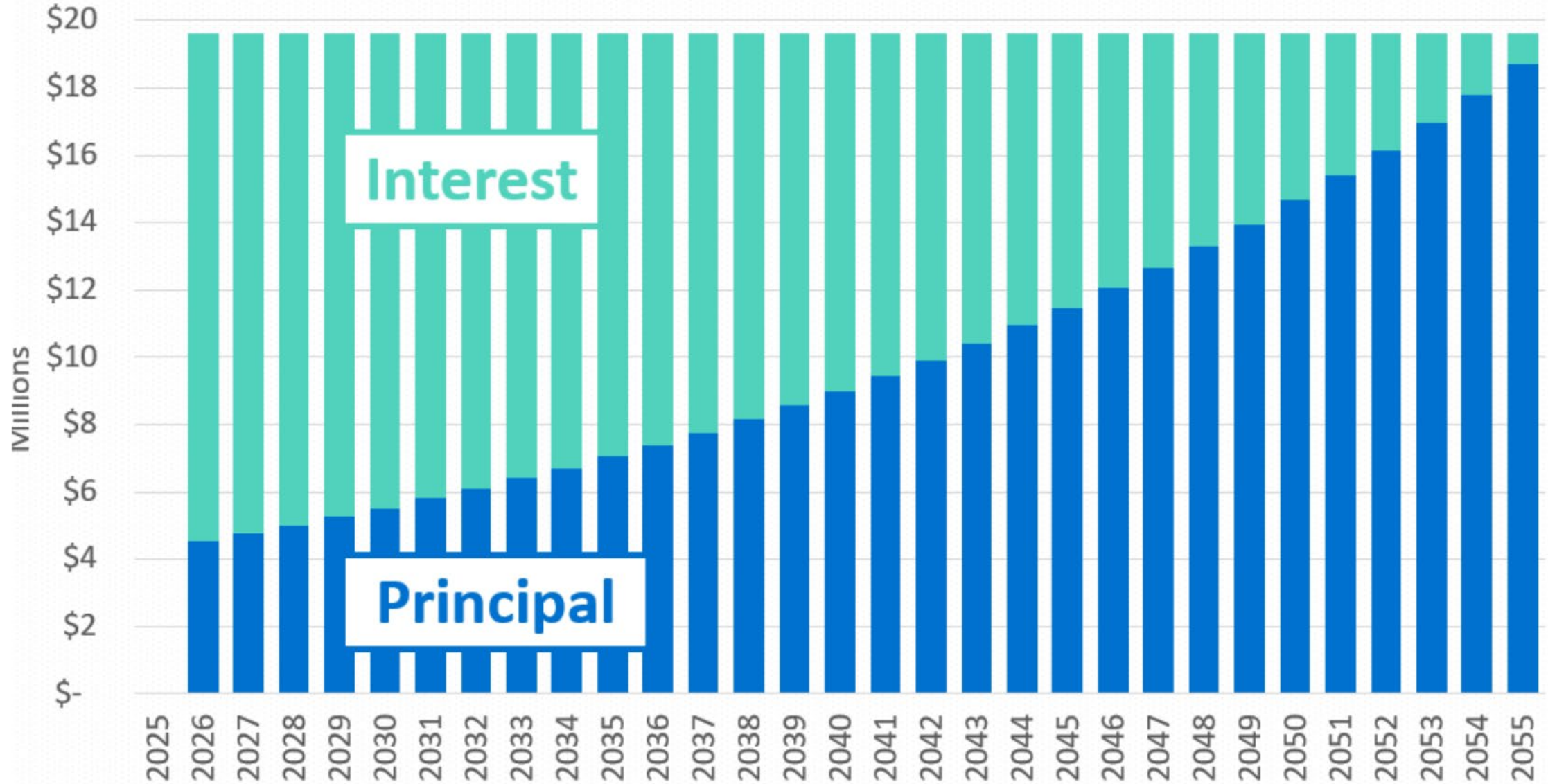


2026-2055

*Payments*



# \$300 Million Project Debt Service





# Key Considerations for Debt Financing

- **Identify Capital Costs, Construction Duration and Timing**
- **Analyze Financial Position (General Fund, Utility Fund)**
- **Calculate Bond Capacity (annual maximum debt service)**
  - **Present Value of Debt Service = Bond Amount Available**
- **Identify Feasible Bond Structures (Internal vs. External)**
  - **Internal – General Fund (COP, Lease Revenue Bonds)**
  - **External – Voter-Supported (GO Bonds, Special Tax Bonds)**

# QUESTIONS?



**CRAIG HILL**  
*Managing Principal*  
NHA Advisors

**SHEILA POISSON**  
*Finance Director*  
City of Torrance







15-MINUTE  

---

**BREAK**



# SESSION THREE

## Bond Math



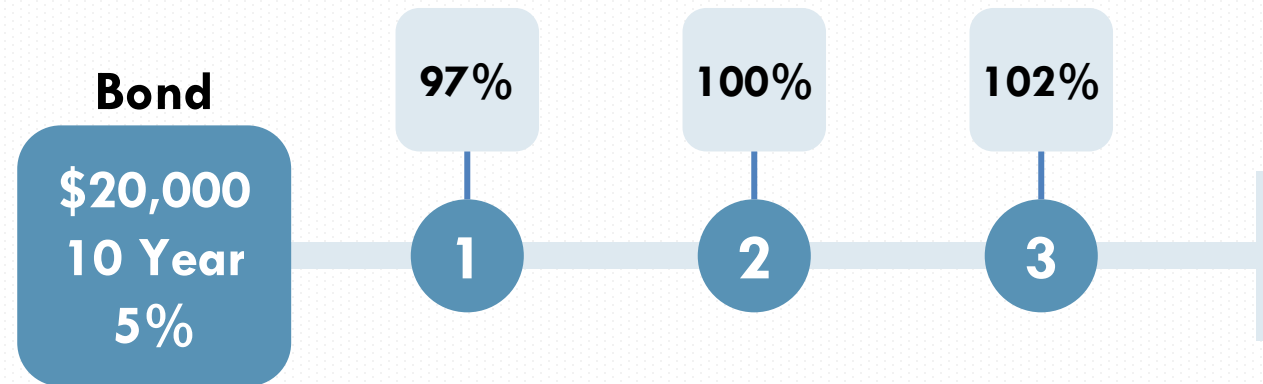
**CHRISTINE CHOI**  
*Managing Director*  
PFM Financial Advisors LLC



**JAIME TREJO**  
*Senior Managing Consultant*  
PFM Financial Advisors LLC

# What is a Bond Price?

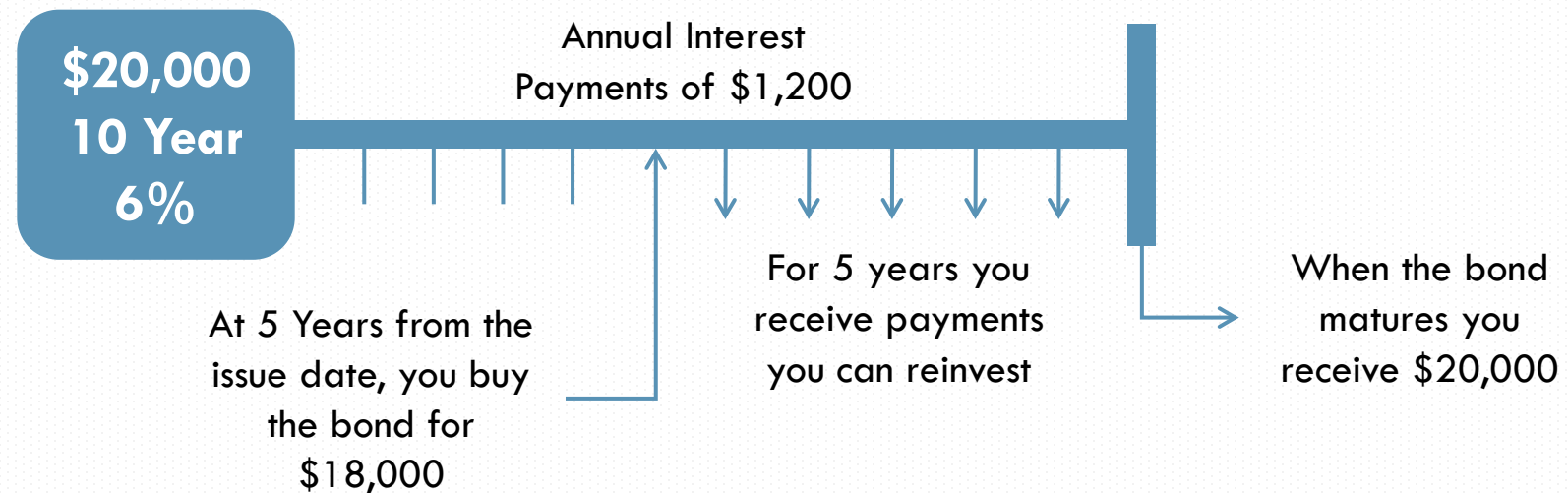
- The price investors are willing to pay to buy a bond which changes with daily market movements
- Price is expressed as a percentage (i.e. 97%, 102%) of the face value (i.e. \$20,000)



- 1) Price =  $0.97 \times \$20,000$  or \$19,400
- 2) Price =  $1.00 \times \$20,000$  or \$20,000
- 3) Price =  $1.02 \times \$20,000$  or \$20,400

# What is a Bond Yield?

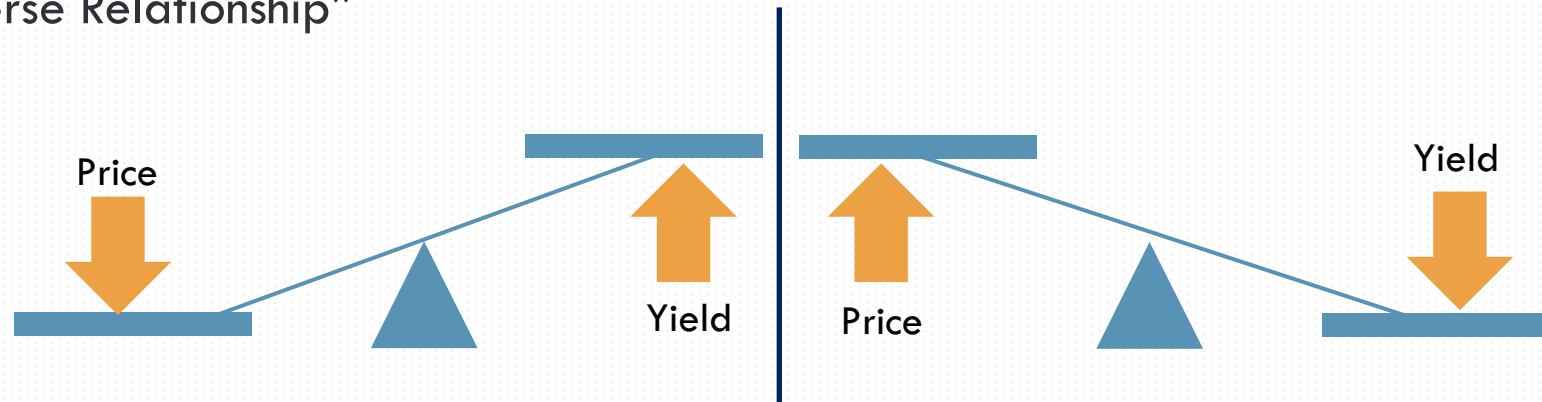
- Yield is the return on a bond/investment, expressed as an annual percentage
- A 6% yield means that the bond/investment averages 6% return each year
- A bond yield is based on coupon payments the investor receives over time and the price paid to buy the bond





# What is the Relationship Between a Bond Price & its Yield?

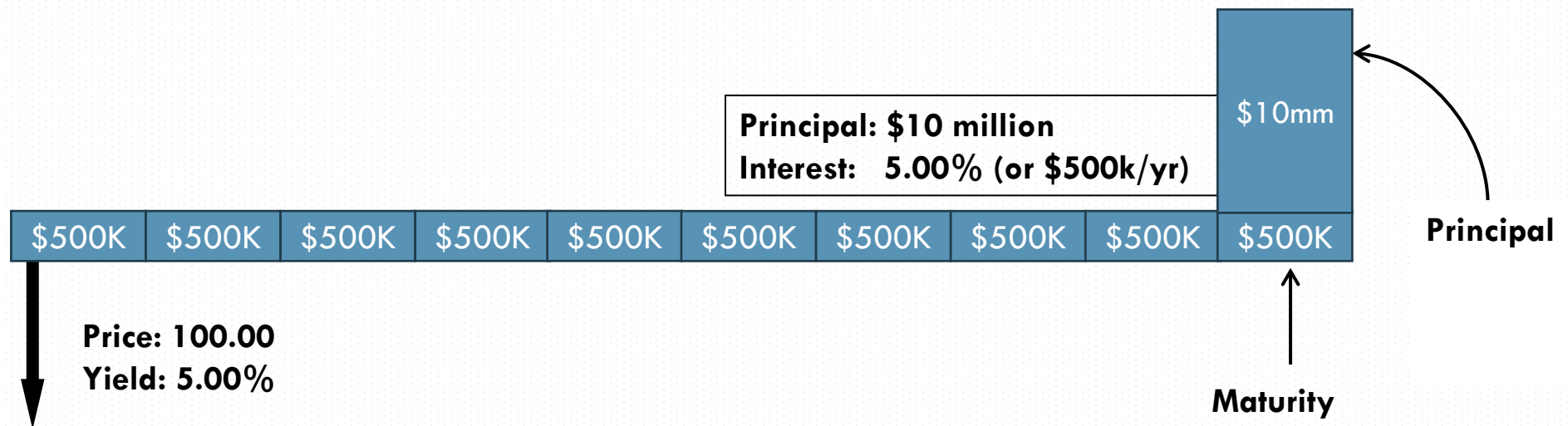
- One goes up & the other goes down
- “Inverse Relationship”



- Factors impacting price & yield
  - Current market & economic conditions
  - Inflation
  - Risk of the bond's repayment, i.e., its credit rating

# Terminology

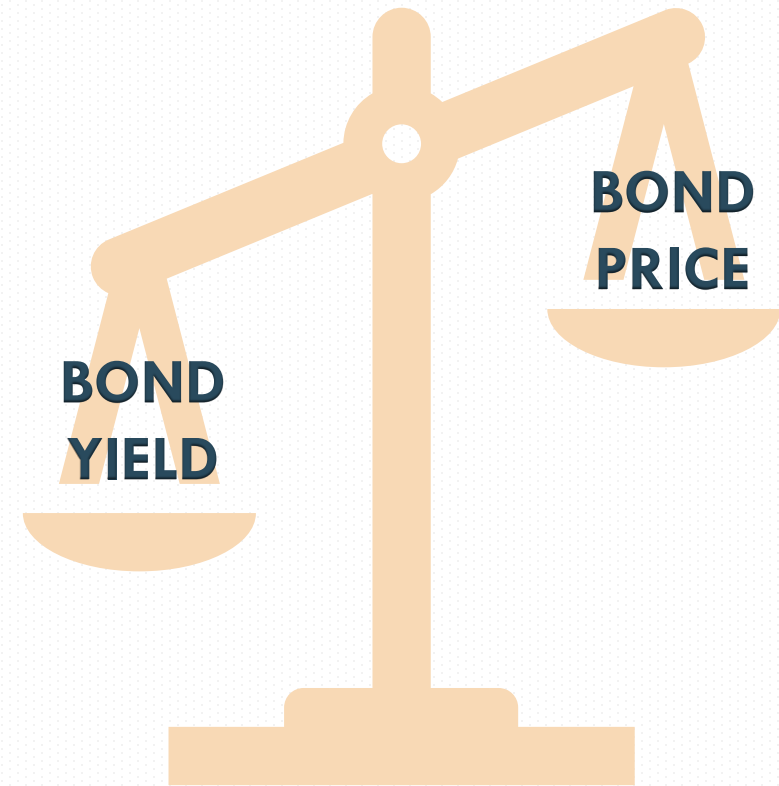
- A Bond is evidence of a loan to the issuer from the purchaser of that bond  
Buyer = “lender” or “investor” or “purchaser”      Seller = “borrower” or “issuer”
- Par Amount = “Principal” or “face amount” of the loan
- Maturity date = Repayment date of loan
- Nominal or Coupon rate = Interest rate paid periodically on the loan
- Price = Amount a lender will lend in consideration of future receipt of principal and interest payments
- Yield = Single rate that sets the present value of the principal and interest payments equal to the price



For illustrative purposes only.

# Coupons, Yields & Price

- Coupon is the interest rate assigned to a bond, typically paid semi-annually
- Yield is the return on the bond, if held to maturity
- Relationships between coupon and yield determines the price on a bond
- If coupon = yield, par bond (price = 100%)
- If coupon > yield, premium bond (price >100%)
- If coupon < yield, discount bond (price <100%)
- Prices & Yields move in opposite directions



# Discount vs. Premium Bonds

- Original Issue Discount Bonds (OIDs)

**Yield = 5%**

**Coupon = 4%**

- Original Issue Premium Bonds (OIPs)

**Coupon = 4%**

**Yield = 3%**

## Discount Bond

Coupon	4%
Price	97.277%
Yield	5%

## Premium Bond

Coupon	4%
Price	102.829%
Yield	3%



## Which of the following is INCORRECT:

A bond where coupon = yield is a par bond.

0%

A bond where coupon > yield is a discount bond.

0%

A bond where coupon > yield is a premium bond.

0%

# Bond Cash Flows

- Bonds have two cash flows
  - Stream of interest (coupon) payments
  - Lump sum face value (principal) payment at maturity
- Knowing a bond's cash flows, you can calculate its price
- Consider a \$1,000 bond paying 4% interest and maturing in 3 years
  - Interest cash flows (coupon payments) of \$40 in years 1 through 3
  - Plus the principal of \$1,000 in year 3
- When an investor buys a bond, he/she is buying its cash flows

Coupon 4%	
Year	Cash Flow
1	40.00
2	40.00
3	1,040.00
Total	1,120.00

# Time Value of Money

- When an investor buys a bond, he/she is buying its cash flows, which occur at different times, so to determine a bond's price need to consider the Time Value of Money
- A dollar received today is worth more than a dollar received in the future
- Likewise, a dollar received in the future is worth less than a dollar received today



# Present Value (PV)

- To measure the time value of money, we can calculate the value today (present value or PV) of a cash flow happening in the future
- PV is opportunity cost of delayed cash flows
- Use of Present Values allows the comparison of cash flows received and/or paid in different periods
- PV is used to
  - Calculate the price of a bond
  - Estimate dollars needed today to fill a project construction fund
  - Estimate amount needed today to set aside in escrow for a Refunding
  - Calculate different types of yields (i.e. arbitrage yield, true interest cost)

Construction Date	Draw Schedule	PV @ 4.0% (to 7/1/2025)
7/1/2026	\$10,000,000	\$9,615,385
7/1/2027	\$20,000,000	\$18,491,124
7/1/2028	\$40,000,000	\$35,559,854
7/1/2029	\$5,000,000	\$4,274,021



# Bond Valuation – Calculating the Price

- The PV of a bond's cash flows is its price
- Consider a bond with a coupon = 4%
  - If the current market yield is 4%, then the value of the bond is \$1,000
  - However, if the current market yield is 3%, then the value of the bond is greater than \$1,000 and the bond will sell at a premium price
  - If the current market yield is 5%, then the value of the bond is less than \$1,000 and the bond will sell as a discounted price

	A	B	C
<b>Coupon</b>	4%	4%	4%
<b>Market Yield</b>	4%	3%	5%
<b>Price</b>	100.000 (par)	102.829 (prem.)	97.277 (disc)

Year	Cash Flow	PV of Cash Flow	PV of Cash Flow	PV of Cash Flow
1	40.00	\$38.46	\$38.83	\$38.10
2	40.00	36.98	37.70	36.28
3	1,040.00	924.56	951.75	898.39
	1,120.00	Price = \$1,000.00	Price = \$1,028.29	Price = \$972.77

# Bond Yields

Date	Debt Service	PV Factor	Present Value to 08/30/2023 @ 3.7816819113%
10/1/2023	226,455.00	0.996779154	225,725.62
4/1/2024	1,314,900.00	0.978281409	1,286,342.22
10/1/2024	2,079,900.00	0.960126935	1,996,968.01
4/1/2025	1,295,775.00	0.942309364	1,221,020.92
10/1/2025	2,100,775.00	0.924822442	1,942,843.87
4/1/2026	1,275,650.00	0.907660035	1,157,856.52
10/1/2026	2,120,650.00	0.890816119	1,889,109.20
4/1/2027	1,254,525.00	0.874284784	1,096,812.12
10/1/2027	2,144,525.00	0.858060230	1,840,131.61
4/1/2028	1,232,275.00	0.842136763	1,037,744.08
10/1/2028	2,167,275.00	0.826508796	1,791,271.85
4/1/2029	1,208,900.00	0.811170846	980,624.44
10/1/2029	2,188,900.00	0.796117529	1,742,621.66
4/1/2030	1,184,400.00	0.781343565	925,423.32
10/1/2030	2,214,400.00	0.766843769	1,698,098.84
4/1/2031	1,158,650.00	0.752613053	872,015.11
10/1/2031	2,238,650.00	0.738646424	1,653,570.82
4/1/2032	1,131,650.00	0.724938981	820,377.20
10/1/2032	2,266,650.00	0.711485914	1,612,689.55
4/1/2033	1,103,275.00	0.698282502	770,397.63
10/1/2033	43,938,275.00	0.685324113	30,111,959.36
	75,846,455.00		56,673,603.95

- Yield is the single **interest rate** that sets the present value of a stream of **cash flows** (debt service payments) equal to the **price** (a target value that may vary)
- PV is also used to calculate certain yields
  - Arbitrage Yield
  - True Interest Cost (TIC)
- TIC calculation is often used to determine winner of a competitive bond sale

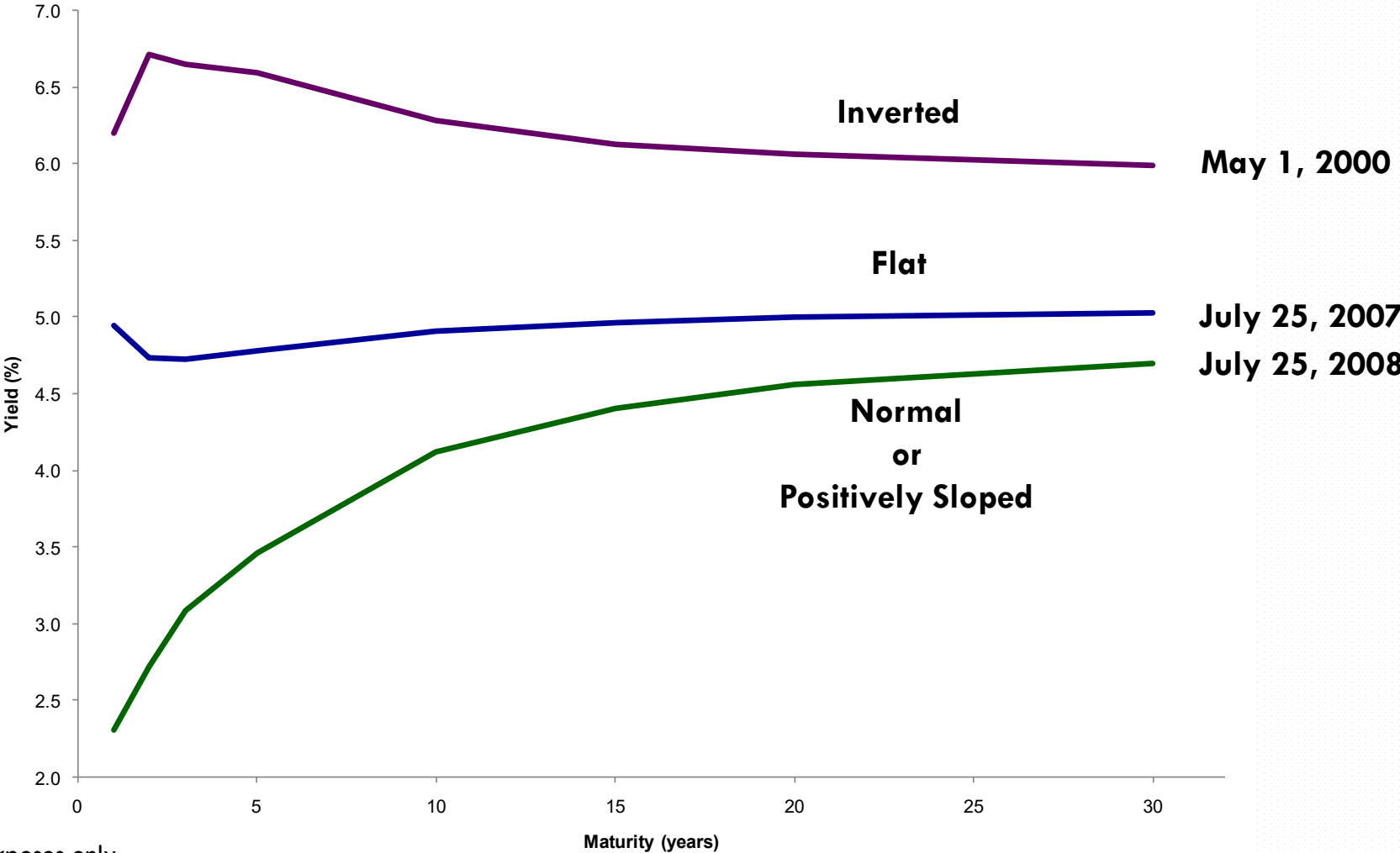
$$\text{Present Value} = \frac{1}{(1 + \text{rate})^{\text{number of periods}}}$$

## Proceeds Summary

Delivery date	8/30/2023
Par Value	51,300,000.00
Premium (Discount)	5,373,603.95
Target for yield calculation	56,673,603.95

Chart provided for illustrative purposes only.

# Types of Yield Curves



For illustrative purposes only.

# Coupon/Yield Relationships

- For a given coupon, the price an investor is willing to pay for a bond is inversely related to the yield

	Original Issue Discount (OID)	Par Bond	Original Issue Premium (OIP)
<b>General Rule</b>	Coupon < Yield ↓ Price < 100	Coupon = Yield ↓ Price = 100	Coupon > Yield ↓ Price > 100
<b>Example (20-year bond)*</b>	Coupon = 4.00% Yield = 5.00% <b>Price = 87.448</b>	Coupon = 5.00% Yield = 5.00% <b>Price = 100.000</b>	Coupon = 6.00% Yield = 5.00% <b>Price = 112.551</b>

\*Assumes settlement date of 1/1/2025 and final maturity of 1/1/2045



# Issuer/Investor Preferences

- Given the same proceeds and present value of debt service, you would think an issuer would be essentially indifferent between issuing OID, Par, or OIP Bonds

	OID	Par	OIP
Par Amount	55,860,000	50,000,000	42,565,000
Coupon	3.000%	3.75%	5.000%
Yield	3.750%	3.75%	3.750%
Price	89.513%	100.000%	117.478%
Proceeds	50,001,962	50,000,000	50,004,511

## Retail investors are typically less sensitive to coupon

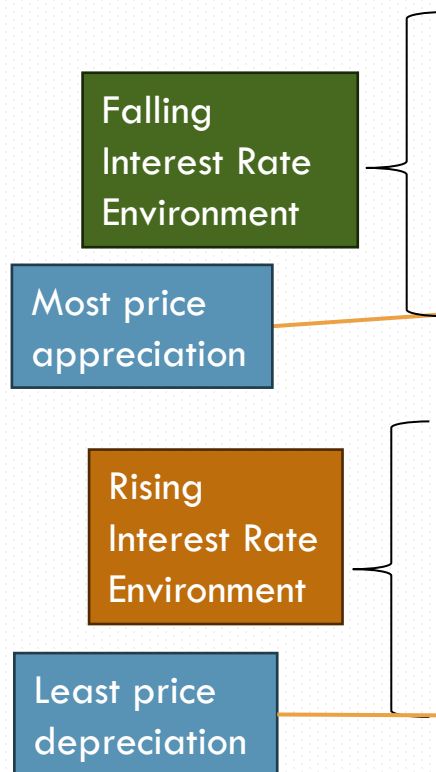
- Typically, “buy and hold”
- Less sensitive to market discount rules
- Retail-only order periods allow par bonds to be pre-sold
- Demand is strongest in years 1 - 10 and 20

## Institutional investors are NOT indifferent to coupon

- Interest rate views (price protection, coupon reinvestment, duration, and convexity management)
- Possible tax implications (market discount rule)
- Cash flow needs (replace refunded higher coupon bonds)

# Price Volatility

- Premium bonds provide price protection against rising interest rates
- Discount bonds provide opportunity for investors to enhance their return in falling rate environment



Price Volatility			
	OID	Par	OIP
Purchase Date	1/1/25	1/1/25	1/1/25
Maturity	1/1/45	1/1/45	1/1/45
Coupon	3.000%	3.750%	5.000%
Yield	3.750%	3.750%	3.750%
Price	89.513%	100.000%	117.478%
Purchase Date	4/1/25	4/1/25	4/1/25
Maturity	1/1/45	1/1/45	1/1/45
Coupon	3.000%	3.750%	5.000%
Yield	3.000%	3.000%	3.000%
Price	100.000%	111.111%	129.636%
% Price Change	11.716%	11.111%	10.349%
Purchase Date	4/1/25	4/1/25	4/1/25
Maturity	1/1/45	1/1/45	1/1/45
Coupon	3.000%	3.750%	5.000%
Yield	4.500%	4.500%	4.500%
Price	80.503%	90.248%	106.490%
% Price Change	(10.066%)	(9.752%)	(9.353%)

# Pricing Callable Bonds

- Depending on the type of bond an investor holds, the call option an issuer holds may affect the yield that the investor expects

	Par	Discount	Premium
Settlement Date	10/1/2025	10/1/2025	10/1/2025
Maturity	10/1/2045	10/1/2045	10/1/2045
Call	10/1/2035	10/1/2035	10/1/2035
Price*	100	87.448	112.551
Coupon	5.000%	4.000%	6.000%
Yield (to Maturity)	5.000%	5.000%	5.000%
<b>Yield (to Call)</b>	5.000%	5.660%	4.432%**

\*to maturity  
 \*\*Yield to worst

- If a callable premium bond is called, the investor receives a lower yield than originally represented (“yield to worst”)

# Pricing of Callable Premium Bonds

- MSRB rules require issuers to sell OIPs at the price and yield that constitutes the worst case for the investor (i.e., lower yield, higher price)
- A higher coupon premium bond has a better chance of being called, but a bigger “kick” to maturity if it is not called

Delivery Date	10/1/25
Maturity Date	10/1/45
Coupon	6.000%
Price to Maturity (PTM)	112.551
YTM	5.000%
Call Date	10/1/35
Call Price	100.000
Yield to Worst (at call date)	4.432%
Price to Call (PTC)	112.556
Yield to Maturity (YTM)	5.000%

( $\Delta = .57\% = \text{“Kick to Maturity”}$ )

Issuer's best case (bonds called) / Investor's worst case

Issuer's worst case (bonds not called) / Investor's best case

# Pricing of Callable Premium Bonds -(cont. 2 of 2)

- Callable premium bonds are usually denoted with an asterisk or footnote when priced to a date other than the final maturity date

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
2024	\$765,000	5.000%	3.120%	101.989
2025	805,000	5.000	3.030	103.950
2026	845,000	5.000	2.920	106.093
2027	890,000	5.000	2.900	108.034
2028	935,000	5.000	2.870	110.010
2029	980,000	5.000	2.860	111.873
2030	1,030,000	5.000	2.850	113.704
2031	1,080,000	5.000	2.900	115.037
2032	1,135,000	5.000	2.930	116.405
2033	1,190,000	5.000	3.010	117.197
2034	1,250,000	5.000	3.070	116.629 <sup>c</sup>
2035	1,315,000	5.000	3.160	115.783 <sup>c</sup>
2036	1,380,000	5.000	3.250	114.944 <sup>c</sup>
2037	1,445,000	5.000	3.350	114.020 <sup>c</sup>
2038	1,520,000	5.000	3.490	112.742 <sup>c</sup>
2039	1,595,000	5.000	3.640	111.392 <sup>c</sup>
2040	1,675,000	5.000	3.730	110.591 <sup>c</sup>
2041	1,760,000	5.000	3.810	109.885 <sup>c</sup>
2042	1,845,000	5.000	3.890	109.184 <sup>c</sup>
2043	1,940,000	5.000	3.930	108.835 <sup>c</sup>

<sup>c</sup> – Priced to the October 1, 2033 par call date.



# Bond Pricing Reports for Callable Premium Bonds

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Yield to Maturity	Call Date	Call Price
Serial Bond:								
	10/1/2024	765,000	5.000%	3.120%	101.989			
	10/1/2025	805,000	5.000%	3.030%	103.950			
	10/1/2026	845,000	5.000%	2.920%	106.093			
	10/1/2027	890,000	5.000%	2.900%	108.034			
	10/1/2028	935,000	5.000%	2.870%	110.010			
	10/1/2029	980,000	5.000%	2.860%	111.873			
	10/1/2030	1,030,000	5.000%	2.850%	113.704			
	10/1/2031	1,080,000	5.000%	2.900%	115.037			
	10/1/2032	1,135,000	5.000%	2.930%	116.405			
	10/1/2033	1,190,000	5.000%	3.010%	117.197			
	10/1/2034	1,250,000	5.000%	3.070%	116.629 C	3.206%	10/1/2033	100.000
	10/1/2035	1,315,000	5.000%	3.160%	115.783 C	3.397%	10/1/2033	100.000
	10/1/2036	1,380,000	5.000%	3.250%	114.944 C	3.561%	10/1/2033	100.000
	10/1/2037	1,445,000	5.000%	3.350%	114.020 C	3.713%	10/1/2033	100.000
	10/1/2038	1,520,000	5.000%	3.490%	112.742 C	3.876%	10/1/2033	100.000
	10/1/2039	1,595,000	5.000%	3.640%	111.392 C	4.030%	10/1/2033	100.000
	10/1/2040	1,675,000	5.000%	3.730%	110.591 C	4.130%	10/1/2033	100.000
	10/1/2041	1,760,000	5.000%	3.810%	109.885 C	4.213%	10/1/2033	100.000
	10/1/2042	1,845,000	5.000%	3.890%	109.184 C	4.290%	10/1/2033	100.000
	10/1/2043	1,940,000	5.000%	3.930%	108.835 C	4.336%	10/1/2033	100.000
		25,380,000						

For illustrative purposes only.

## Callable premium bonds must be represented to investors in the Official Statement using which yield option?

The lowest possible yield achieved between the bond's first optional redemption date and its maturity ...

0%

The highest possible yield achieved between the bond's first optional redemption date and its maturity ...

0%

A 0% yield.

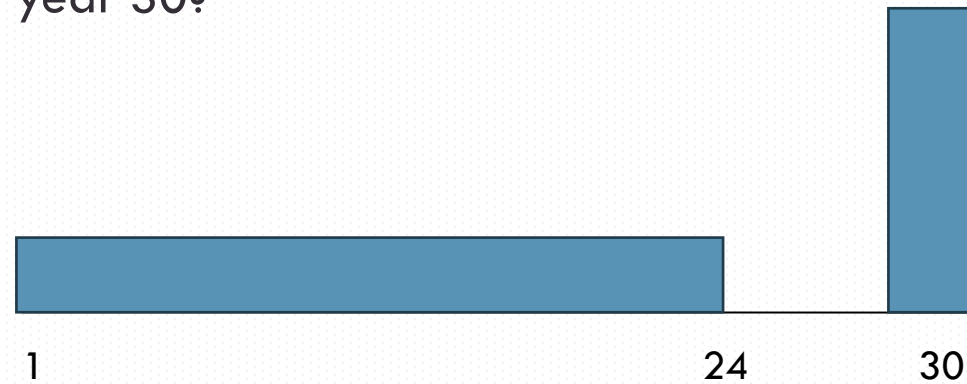
0%

Offering yields are not shown on the Official Statement.

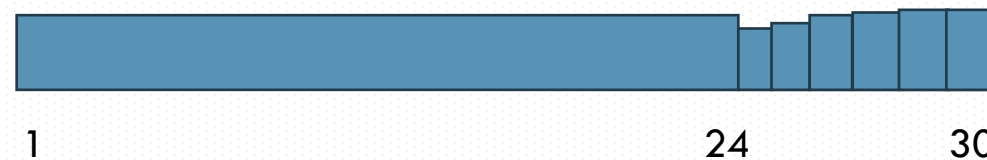
0%

# Mandatory Redemption Provisions

- What are the implications if you are selling 30-year bonds and investors are only interested in years 1 - 24 and year 30?



- Debt service structure will not be level
- Yields may have to increase in order to interest buyers in years 25-29 (increased cost to issuer)
- To mitigate this, underwriters may spread out the 30-year maturity amount amongst the 25 - 30-year maturities as mandatory sinking funds. All maturities will be priced to the 30-year maturity.



# Mandatory Redemption Provisions -(cont. 2 of 2)

\$11,310,000 – 5.250% Term Bonds due October 1, 2048; Yield: 4.070%; Price: 109.678 ¢;  
CUSIP†: 84049M CB2

\$14,610,000 – 5.250% Term Bonds due October 1, 2053; Yield: 4.150%; Price: 108.986 ¢;  
CUSIP†: 84049M CC0

**Mandatory Sinking Fund Redemption.** The Bonds maturing on October 1, 2048 and October 1, 2053 (the "Term Bonds") shall be subject to redemption in part by lot from sinking account payments made by the Authority, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, if some but not all of the Term Bonds of a maturity have been redeemed pursuant to the optional and extraordinary redemption provisions of the Indenture, each future sinking account payment with respect to such Term Bonds will be reduced on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, so that the total amount of sinking account payments with respect to such Term Bonds to be made subsequent to the optional and extraordinary redemption provisions of the Indenture shall be reduced by an amount equal to the principal amount of the Term Bonds so redeemed, all as shall be designated pursuant to written notice filed by the Authority with the Trustee:

**Bonds Maturing on October 1, 2048**

Redemption Date (October 1)	Principal Amount to be Redeemed
2044	\$2,035,000
2045	2,145,000
2046	2,255,000
2047	2,375,000
2048*	2,500,000

\* maturity



# Optional Redemption Provisions

- Call Option: The right, but not the obligation, to buy an asset at a given price
- Municipal bond issuers utilize call options to provide themselves flexibility to repay bonds prior to their stated maturity, i.e., through a refinancing/refunding

***Optional Redemption.*** The Bonds maturing on or after October 1, 2034, shall be subject to redemption prior to their respective maturity dates on any date on or after October 1, 2033, as a whole or in part, from prepayments of Base Rental made at the option of the City under the Sublease on any date with respect to which such prepayment have been made. The Bonds called for optional redemption shall be redeemed at a redemption price equal to 100 percent of the principal amount of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption.



# Bond Statistics - Offsets in Calculations Differ

	TIC	All-In TIC	Arbitrage Yield
Par Value	51,300,000.00	51,300,000.00	51,300,000.00
+ Accrued Interest			
+ Premium (Discount)	5,373,603.95	5,373,603.95	5,373,603.95
- Underwriter's Discount	-258,636.70	-258,636.70	
- Cost of Issuance Expense		-248,000.00	
Target Value	56,414,967.25	56,166,967.25	56,673,603.95
Target Date	8/30/2023	8/30/2023	8/30/2023
Yield	4.344711%	4.381522%	3.781682%

For illustrative purposes only.

# Definitions

- **True Interest Cost (TIC):**  
Rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue securities. TIC computations produce a figure slightly different from the net interest cost ("NIC") method since TIC considers the time value of money while NIC does not.
- **All-In True Interest Cost (AIC):**  
Discount rate, assuming semiannual compounding and a 30/360-day calendar, which is the net present value (NPV) of all payments of principal, interest, and future expenses equal to the par amount of bonds plus accrued interest plus premium less original issue discount less insurance premium less costs of issuance less other up front expenses, as applicable. The cashflows can be discounted to either the delivery date or the dated date.
- **Arbitrage Yield:**  
"Arbitrage" refers to the difference between the interest rate at which bonds are issued, a.k.a. the Arbitrage Yield, and the interest rate at which bond proceeds are invested, a.k.a. the Investment Yield. If the Investment Yield exceeds the Arbitrage Yield, the dollar difference in earnings is "positive arbitrage" and must be rebated to the IRS unless certain exceptions are met. Common exceptions are for "small issuers" and for issuers who meet certain "spend-down" requirements. Conversely, if the Investment Yield is less than the Arbitrage Yield, the dollar difference in earnings is "negative arbitrage" and no rebate is owed.

# Definitions (cont. 2 of 2)

- **Net Interest Cost (NIC):**

A method of computing the interest expense to the issuer of bonds, which may serve as the basis of award in a competitive sale. NIC takes into account any premium or discount applicable to the issue, as well as the dollar amount of coupon interest payable over the life of the issue. NIC does not take into account the time value of money (as would be done in other calculation methods, such as the “true interest cost” (TIC) method). The term “net interest cost” refers to the overall rate of interest to be paid by the issuer over the life of the bonds. (Disadvantage: No consideration for time value of money)

$$\frac{\text{Total coupon interest payments} + \text{premium(discount)}}{\text{Bond Years}}$$

- **Average Coupon:**

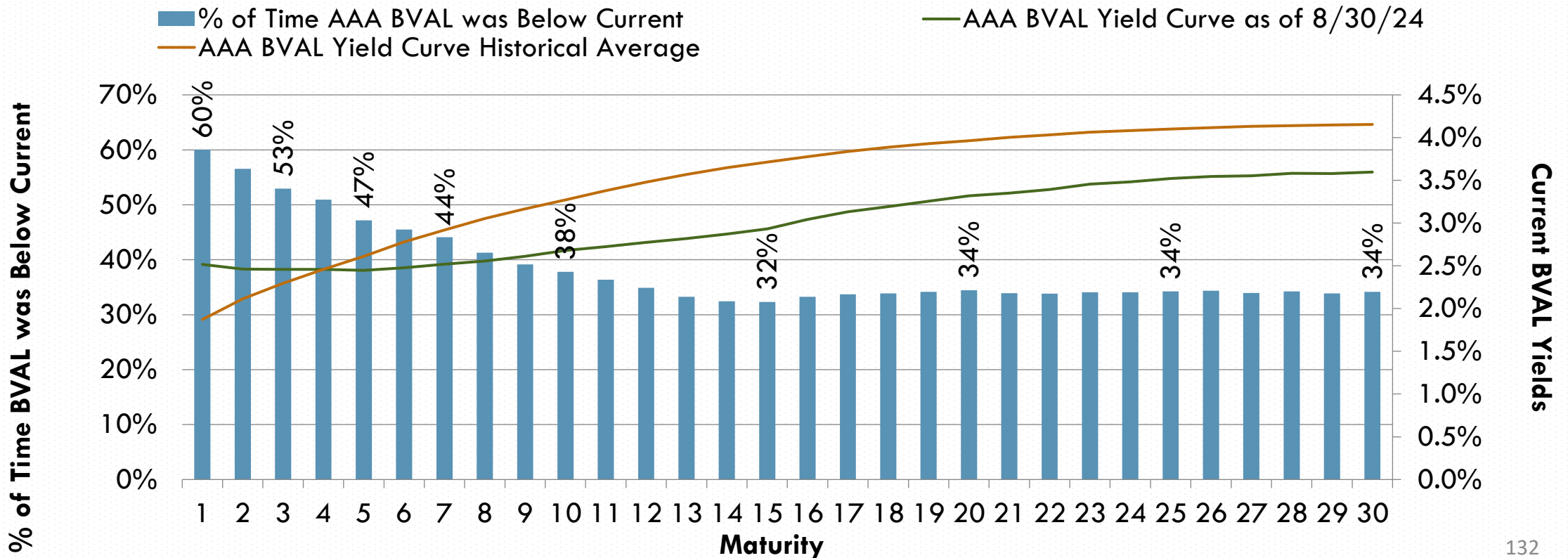
A calculation of the total interest cost for a bond issue expressed as a percentage. The average coupon is equal to the total interest payments of an issue divided by bond year dollars.

$$\frac{\text{Annual Interest}}{\text{Principal Outstanding}}$$

# Tax-Exempt Borrowing Rates – Historical Context

- On the short end of the yield curve, “AAA” rated Bloomberg Valuation Service (“BVAL”) rates have risen significantly above 30-year averages, while the long end is below the historical average

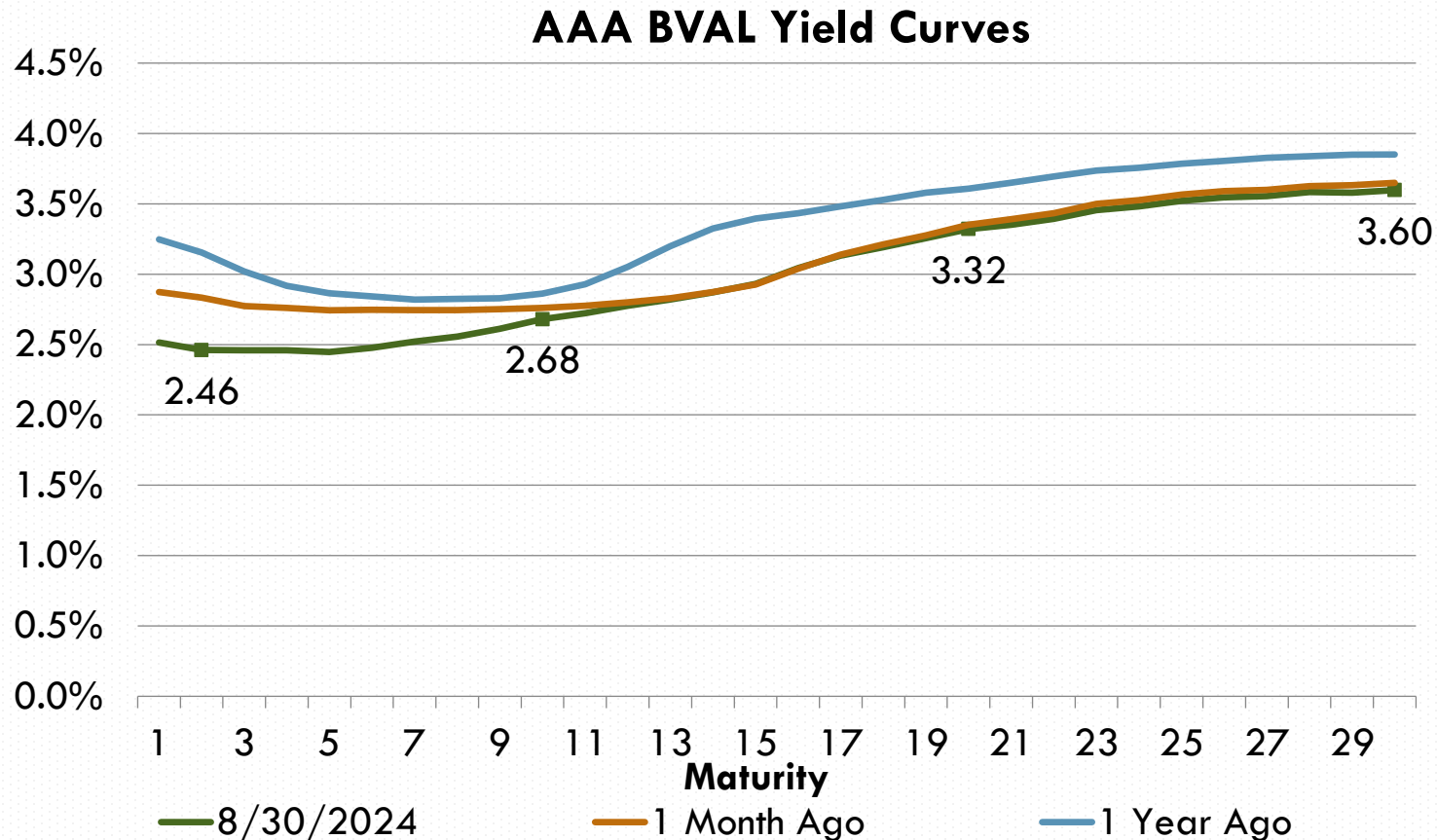
**AAA BVAL Yield Curve**



Source: Bloomberg as of August 30, 2024.

# Tax-Exempt Borrowing Rates

- Expectations of a Federal Reserve rate cut have caused rates to decrease across all maturities over the past year



Term (Years)	BVAL 8/30/2024	Δ From 7/30/2024	Δ From 8/30/2023
1	2.52%	-36 bps	-73 bps
2	2.46%	-37 bps	-69 bps
3	2.46%	-32 bps	-56 bps
4	2.46%	-30 bps	-46 bps
5	2.45%	-30 bps	-42 bps
6	2.48%	-27 bps	-37 bps
7	2.52%	-22 bps	-30 bps
8	2.56%	-19 bps	-27 bps
9	2.61%	-14 bps	-22 bps
10	2.68%	-8 bps	-18 bps
11	2.72%	-5 bps	-21 bps
12	2.77%	-3 bps	-28 bps
13	2.82%	-1 bps	-38 bps
14	2.87%	0 bps	-45 bps
15	2.93%	1 bps	-46 bps
16	3.04%	0 bps	-39 bps
17	3.13%	-1 bps	-35 bps
18	3.19%	-2 bps	-34 bps
19	3.26%	-2 bps	-32 bps
20	3.32%	-3 bps	-29 bps
21	3.35%	-4 bps	-30 bps
22	3.39%	-4 bps	-30 bps
23	3.46%	-4 bps	-28 bps
24	3.48%	-4 bps	-27 bps
25	3.52%	-4 bps	-26 bps
26	3.55%	-4 bps	-26 bps
27	3.55%	-4 bps	-27 bps
28	3.58%	-4 bps	-26 bps
29	3.58%	-5 bps	-27 bps
30	3.60%	-5 bps	-25 bps

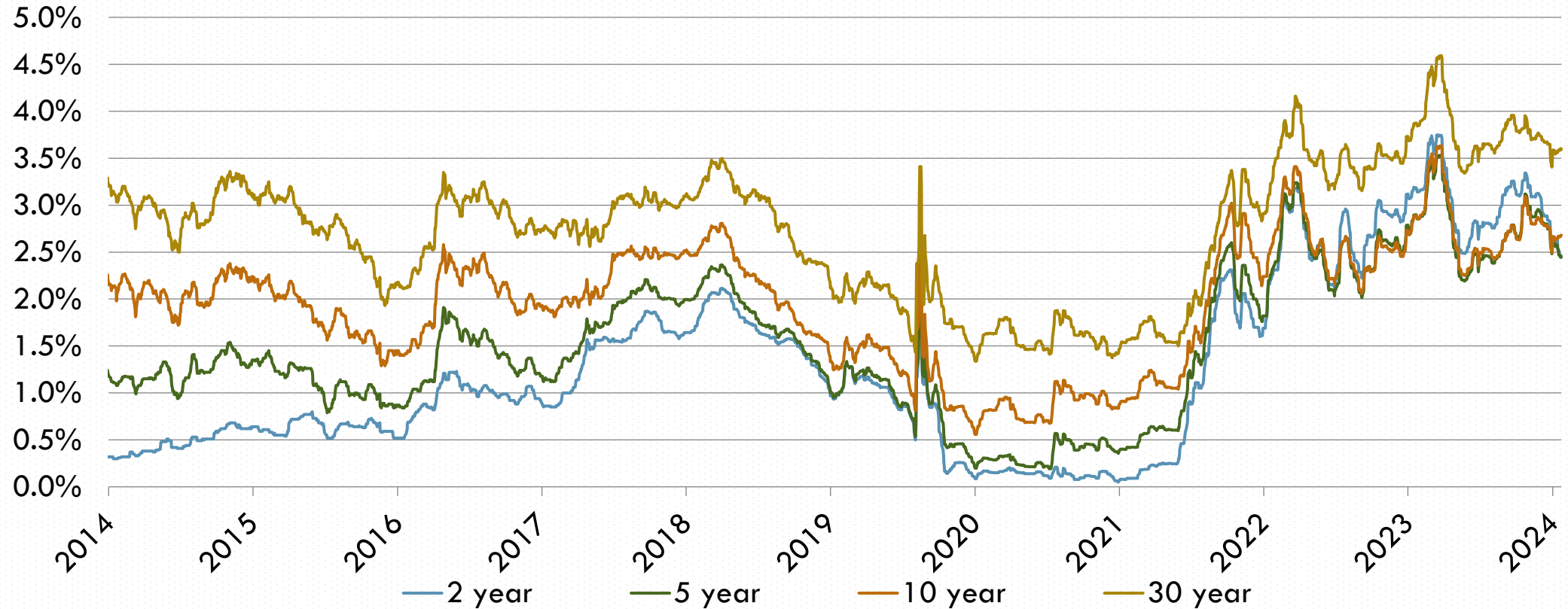
Source: Bloomberg as of August 30, 2024.



# Historical AAA BVAL

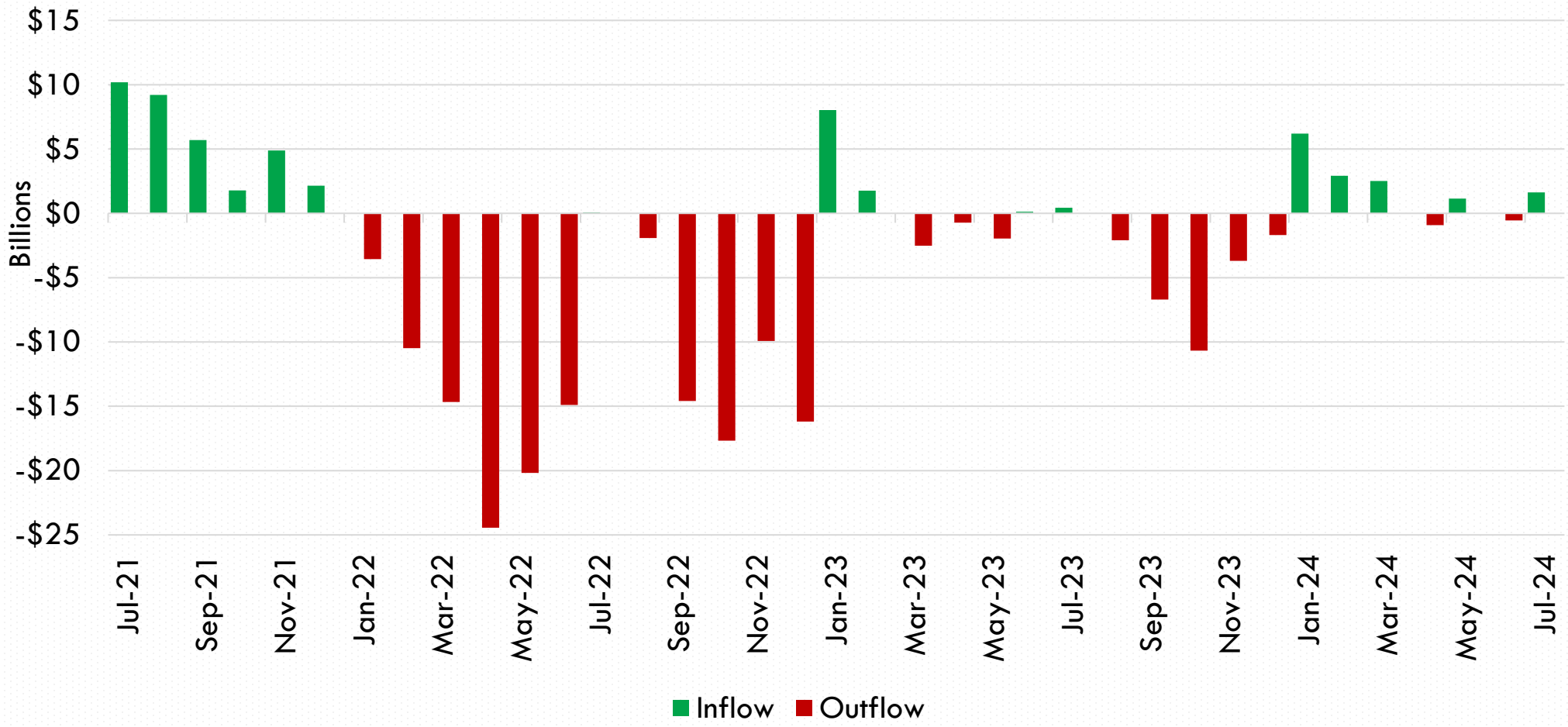
- Rates have experienced volatility over the past YEAR, but are significantly below their peaks in October 2023

Historical BVAL Rates



Source: Bloomberg as of August 30, 2024.

# Total Monthly Fund Flows



Source: Investment Company Institute as of August 28, 2024.

# United States Bond Yield Forecasts

- U.S. Treasury yield curve is still inverted
- The market currently expects decreased interest rates over the next few years

## WORLD BOND YIELD FORECASTS SEPTEMBER 3, 2024

Rate	Yields	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26
<b>United States</b>											
US 30-Year	4.12 %	4.19 %	4.13 %	4.08 %	4.02 %	3.98 %	3.98 %	3.95 %	3.95 %	3.99 %	3.99 %
US 10-Year	3.83 %	3.98 %	3.93 %	3.87 %	3.82 %	3.75 %	3.73 %	3.62 %	3.62 %	3.65 %	3.66 %
US 5-Year	3.64 %	3.86 %	3.78 %	3.69 %	3.61 %	3.51 %	3.47 %	3.36 %	3.38 %	3.43 %	3.41 %
US 2-Year	3.86 %	4.10 %	3.90 %	3.71 %	3.54 %	3.38 %	3.27 %	3.14 %	3.14 %	3.21 %	3.21 %
US 3-Month Term SOFR	5.01 %	5.02 %	4.63 %	4.23 %	3.89 %	3.58 %	3.35 %	3.29 %	3.17 %	3.12 %	3.12 %
Fed Funds Rate - Upper Bound	5.50 %	5.25 %	4.75 %	4.35 %	4.00 %	3.75 %	3.60 %	3.40 %	3.30 %	3.25 %	3.20 %
Fed Funds Rate - Lower Bound	5.25 %	4.98 %	4.52 %	4.11 %	3.76 %	3.51 %	3.37 %	3.16 %	3.05 %	3.00 %	2.97 %
2 Year - 10 Year Spread	-0.03 %	-0.12 %	0.02 %	0.16 %	0.27 %	0.37 %	0.46 %	0.48 %	0.48 %	0.43 %	0.45 %



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# QUESTIONS?



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LUNCH



# SESSION FOUR

## Long-term Financing Options



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# The Right Long-Term Financing Solution Fits the Context

- Debt is not a resource; it is a tool for managing future resources
  - Accelerates delivery of a capital project vs. having to accumulate cash
    - Earlier service delivery
    - Savings when cost of borrowing is lower than construction inflation
  - Spreads cost of capital project over more of useful life of the asset
    - Generational equity
- Any debt issuance should be preceded by a longer-term financial plan that considers:
  - The project
  - Overall capital needs
  - The appropriate revenue sources to fund and/or finance the project
  - The “right” combination of existing resources (i.e., pay-as-you-go) and future resources (debt)
- And after that, you can start talking about the specific tools of finance: bonds, loans, and all that jazz...

# Projects are Often Funded with Multiple Resources

## AVAILABLE REVENUES/ CASH BALANCES

- “Pay-As-You-Go”
- Small and recurring capital projects
- Projects built slowly over time
- Easiest source of money
- Opportunity cost of funds (i.e. interest earnings)

## FEDERAL/STATE GRANTS OR LOANS

- “Free” money with strings attached
- May require oversight or thorough review
- Application process can be drawn-out and competitive
- Timing of funds can be uncertain

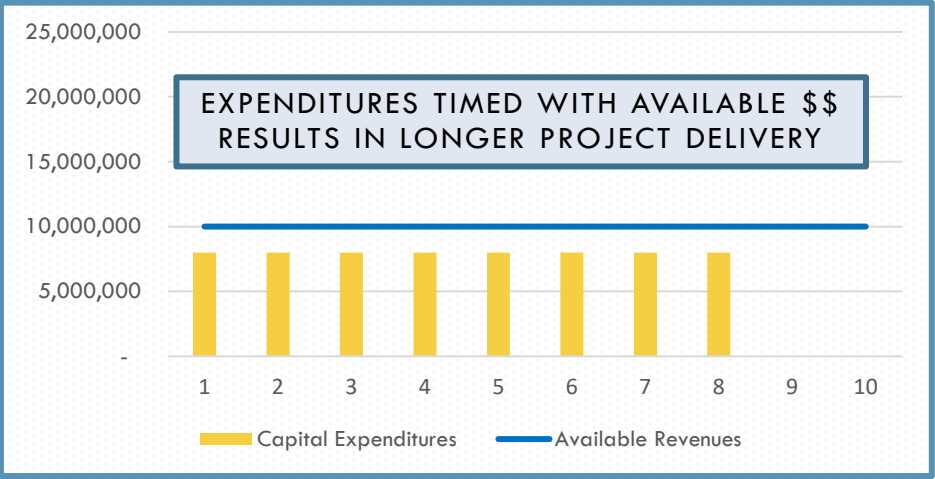
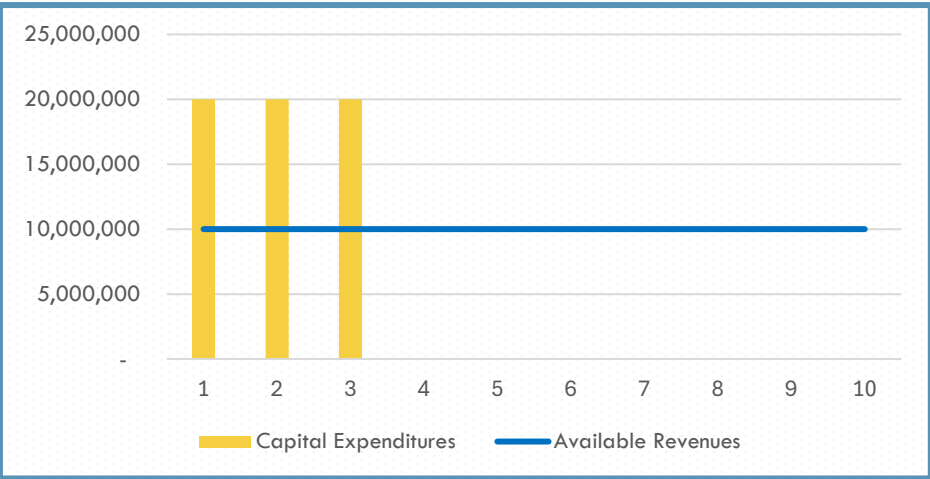
## BORROW BONDS, LOANS, NOTES

- Large capital expenditures
- Acquisition projects
- Future revenues from project available for debt service
- Interest and financing costs
- Staff resources required for financing process

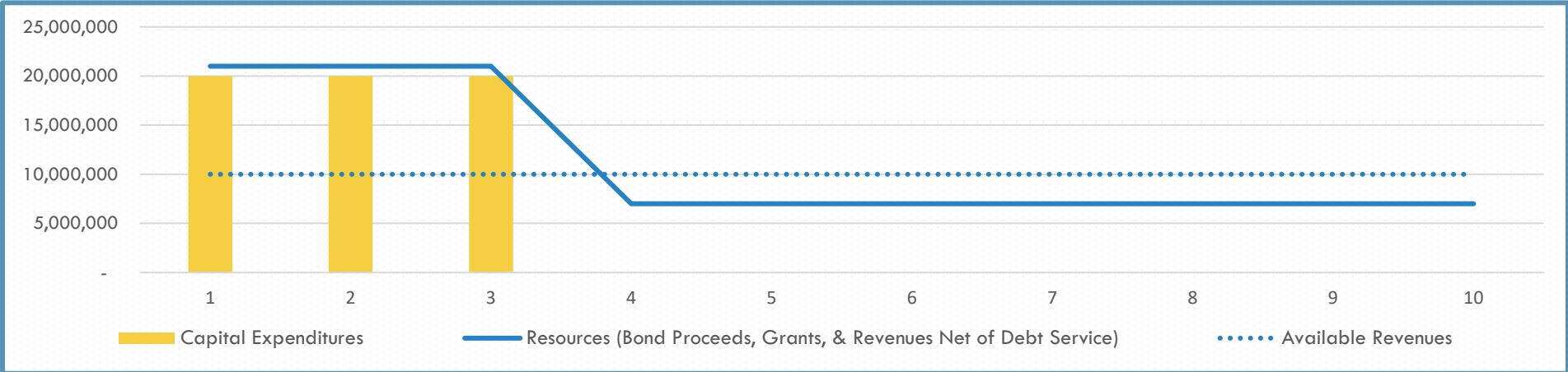
**Optimal financing plans tend to involve a mix of pay-go, grant funding, and financing**

# Why is Debt Utilized to Fund Projects?

## CAPITAL EXPENDITURES ARE GREATER THAN AVAILABLE REVENUES



## BONDING ACCELERATES FUTURE REVENUES TO DELIVER PROJECTS





# A Plan of Finance Determines the Timing & Amount of Debt

## Identify Project Needs and Funding Resources



- Assess project readiness and environmental approvals
- Prioritize project(s) from CIP – i.e., high, medium, and low
- Determine project cost expectations
- Identify available cash, revenues, or outside funding sources

## Develop Financial/Cash Flow Model



- Estimate amount and timing of annual capital expenditures
- Establish PAYGO and cash balance targets
- Identify amount and timing of “unfunded” or bonding need
- Group potential bond financings to satisfy IRS expenditure test requirements to access lower tax-exempt rates

## Project Repayment Sources for Annual Debt Service

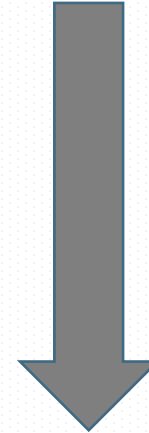
- Prepare pro forma debt service numbers and evaluate debt affordability
- Evaluate legally available and/or pledged revenues for debt repayment
- Coverage requirements

# Available Revenue Sources

## Determine the Type of Debt

### COMMON GOVERNMENTAL REVENUE SOURCES

- General Fund revenues
- Enterprise revenues
- New voter-approved taxes
- User fees and charges
- Other?




### THE SOURCE OF REPAYMENT WILL NARROW THE TYPE OF “DEBT” YOUR AGENCY CAN INCUR

- General Obligation Bonds
- Special Tax Bonds

- Lease Revenue Bonds
- Certificates of Participation
- Revenue Bonds

# Debt Comes in All Shapes and Sizes...

- 
- Tax-Exempt
  - Taxable

- Public Offering
- Private Placement

- State & Federal Loans

- Bonds, Notes, Certificates of Participation

- Fixed Rate
- Variable Rate

# So...What is “Debt?”

- US Constitution delegates municipal affairs to the states
- State law governs a local agency’s ability to raise revenue and commit it to long term obligations
- California Constitutional Debt Limitation restricts true “indebtedness”

**ARTICLE 16 PUBLIC FINANCE SEC. 18. No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year, without the assent of two-thirds of the qualified electors thereof, voting at an election to be held for that purpose...; nor unless before or at the time of incurring such indebtedness provision shall be made for the collection of an annual tax sufficient to pay the interest on such indebtedness as it falls due, and also provision to constitute a sinking fund for the payment of the principal thereof...**

# What is Debt...In California?

- California courts have identified a number of “exceptions” allowing issuance of debt-like securities if they meet the requirements set forth in their judicial opinions

**ALEXIS DE TOCQUEVILLE**

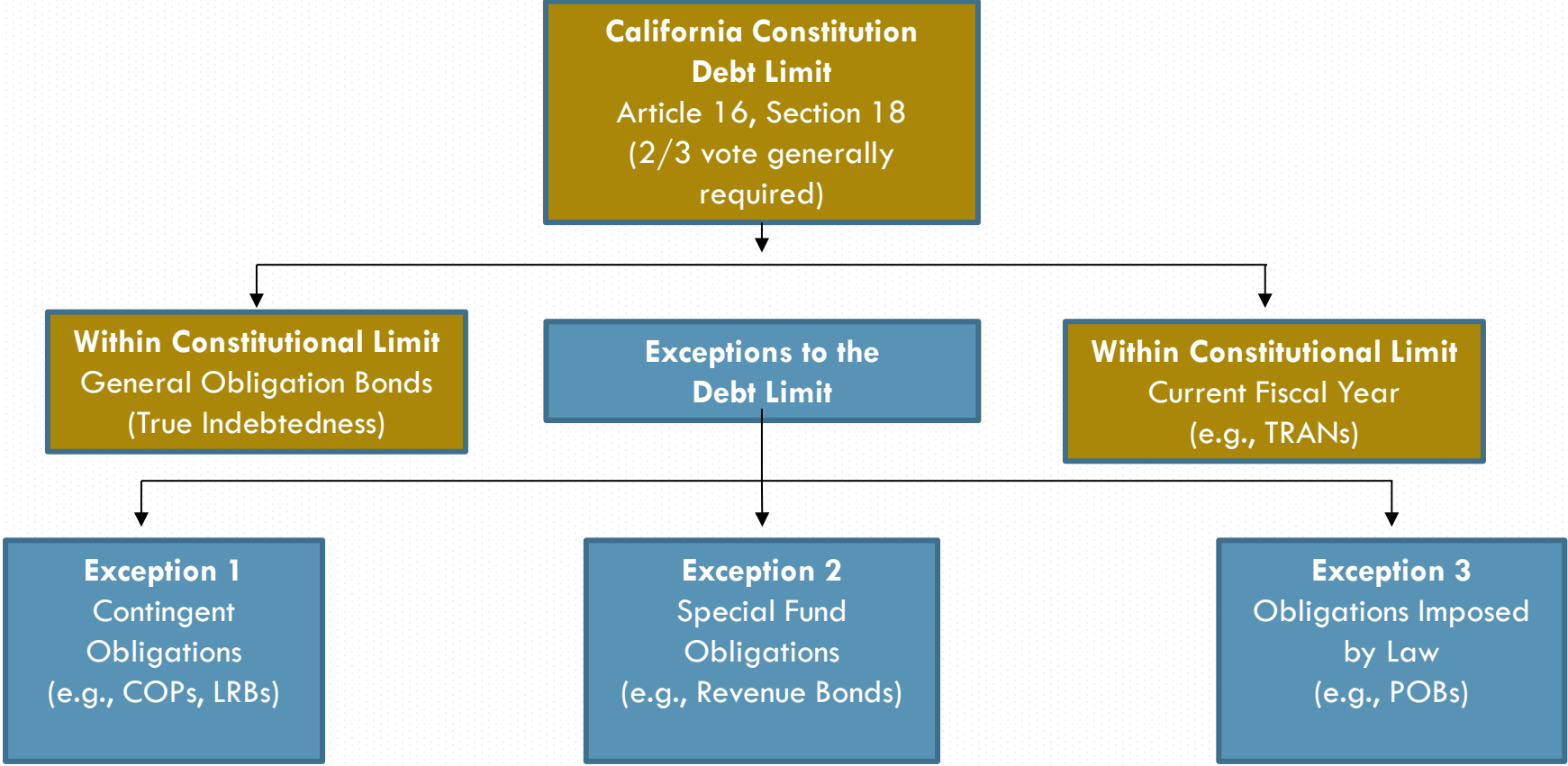
**Democracy in America**

**“I have never been more struck by the good sense and the practical judgment of the Americans than in the manner in which they elude the numberless difficulties resulting from their... Constitution.”**



# What is Debt...In California?

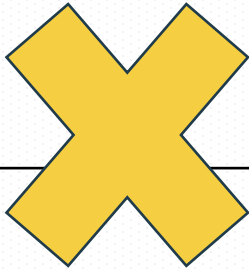



## Exceptions to the Voter-Approval Requirement



# Available Revenue Sources Determine the Type of Debt an Agency Can Issue

TYPES OF BONDS					
	GENERAL OBLIGATION	LEASE REVENUE	ENTERPRISE REVENUE	SPECIAL TAX	SPECIAL ASSESSMENT
REVENUE PLEDGE	“Full faith and credit” of issuer Secured by property taxes	Lease payments for use of government asset; paid from general fund	Net revenue of a specified enterprise, such as water, sewer, solid waste, or parking	Lien on property; bonds paid from tax levied in addition to normal 1% ad valorem tax	Lien on property; bonds paid from annual assessment on property that benefits
VOTE?	2/3rds vote threshold; Schools may be 55%	No public vote required	No public vote required	2/3rds vote of property owners by acreage or by vote of registered voters	50% + 1 vote of assessesees, weighted by amount of assessment

# City of San Diego: Long-Term Borrowing Programs

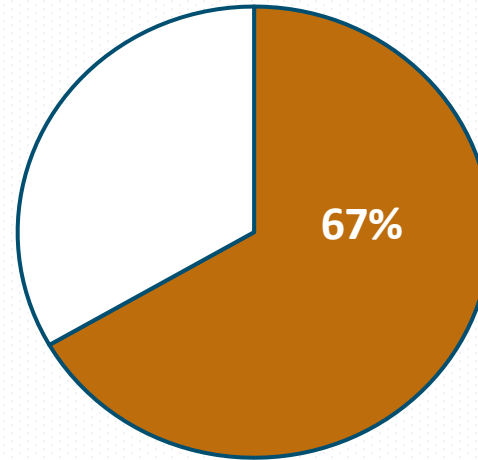
TYPES OF BORROWING PROGRAMS					
	GENERAL OBLIGATION	LEASE REVENUE	ENTERPRISE REVENUE	SPECIAL TAX	OTHER
TYPES		<ul style="list-style-type: none"> <li>• General CIP</li> <li>• Stormwater</li> </ul>	<ul style="list-style-type: none"> <li>• Water System</li> <li>• Sewer System</li> </ul>	<ul style="list-style-type: none"> <li>• Community Facilities Districts (CFD)</li> <li>• Special Assessment Districts (AD)</li> </ul>	<ul style="list-style-type: none"> <li>• Successor Agency Bonds</li> </ul>
LONG-TERM BORROWING VEHICLES		<ul style="list-style-type: none"> <li>• Lease Revenue Bonds</li> <li>• WIFIA Loans</li> <li>• Capital Leases</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue Bonds</li> <li>• SRF Loans</li> <li>• WIFIA Loans</li> </ul>	<ul style="list-style-type: none"> <li>• Special Tax Bonds</li> </ul>	<ul style="list-style-type: none"> <li>• Tax Allocation Bonds</li> </ul>
EXAMPLES					

# Voter Approval Required: General Obligation Bonds

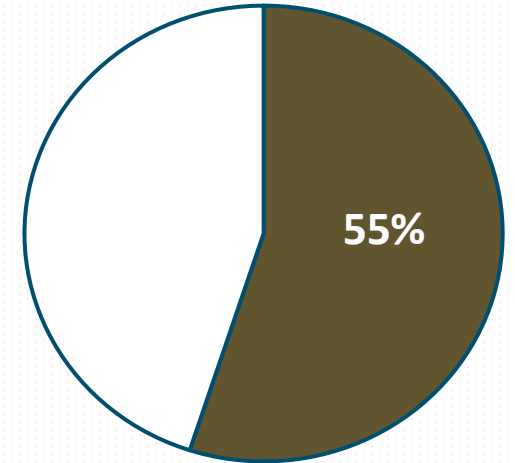
- True “indebtedness” under Constitutional debt limit
- Secured by special levy of ad valorem taxes
  - Generates additional revenue to pay debt service on bonds issued for capital improvements
- Approved by 2/3 majority vote
  - Proposition 39 school bonds approved by 55% majority

## VOTER APPROVAL THRESHOLDS

CITIES AND SPECIAL DISTRICTS



SCHOOL DISTRICTS



**Proposition 5:** Statewide constitutional amendment would make it easier to pass local and regional GO bonds by lowering the voter-approval threshold from two-thirds to 55%

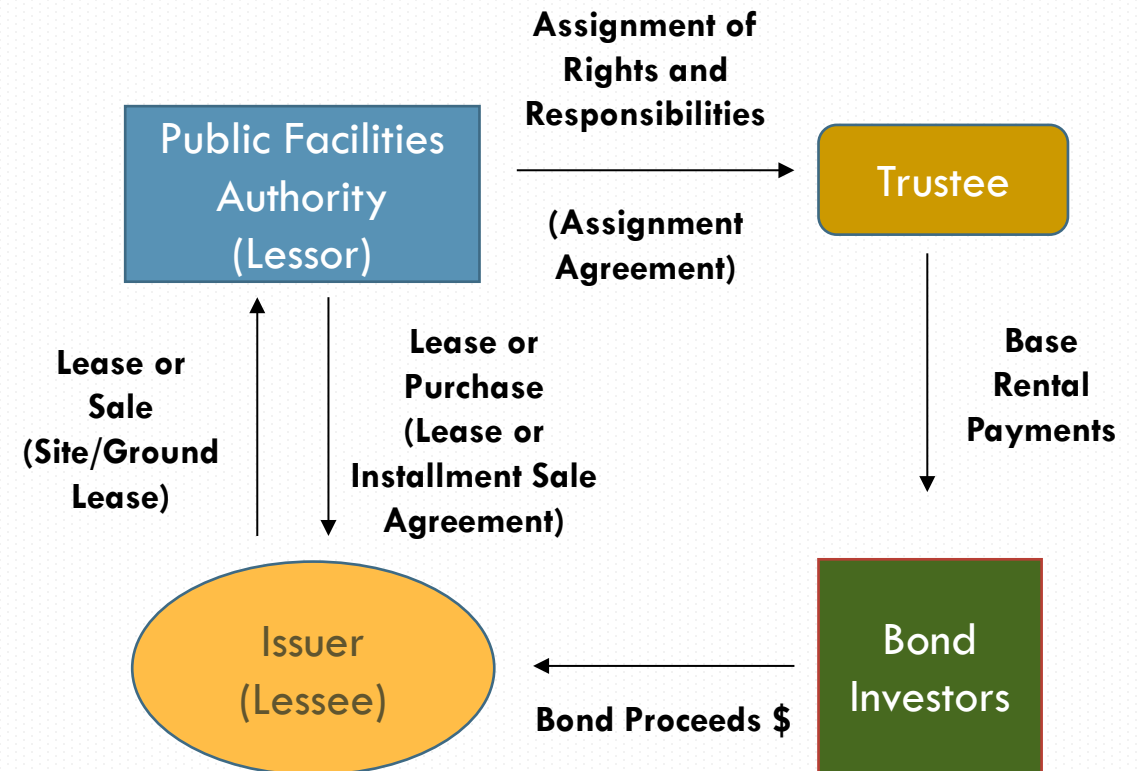
# Exception 1: Lease Obligations

- Lease rules in California commonly referred to as “Offner-Dean,” after the two key California Supreme Court cases
  - Payment for “beneficial use and occupancy” of leased facilities in that year
  - Payment **abated** with loss of use and occupancy
  - No acceleration of future rent in the case of a payment failure
  - Rent cannot exceed “fair rental value” of leased assets
- Payable from “legally available funds”
  - In practice, this means general fund revenues
- Overcoming Abatement Risk
  - Capitalizing interest payments until project is complete
  - Asset transfer—lease leaseback of existing asset
  - Insurance
  - Reserve Fund

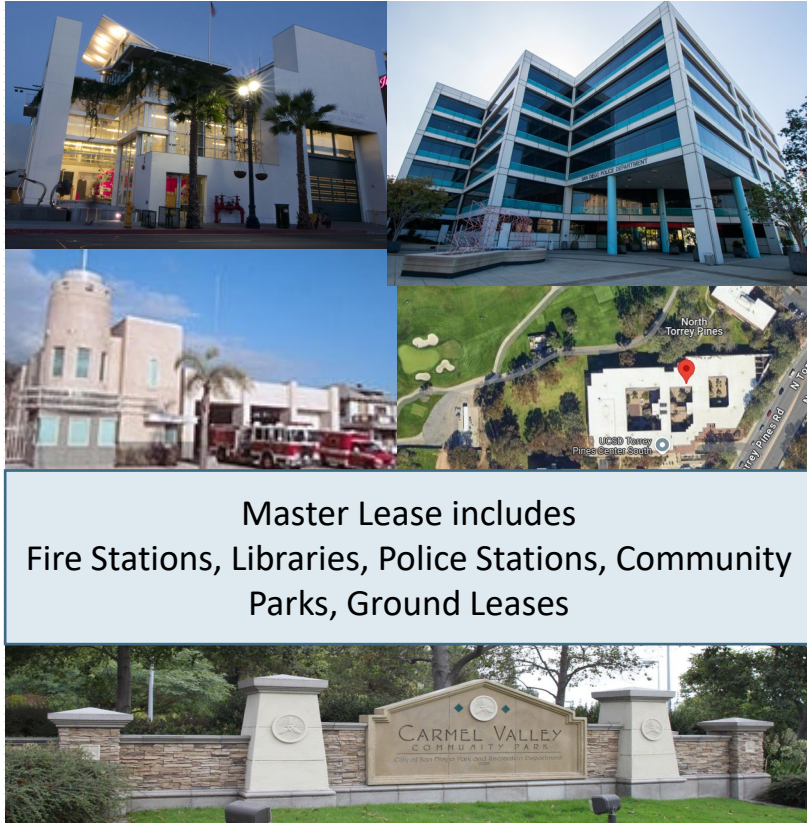


# Exception 1: Lease Obligations

- Issuer leases an essential asset to a nonprofit corporation or JPA as leasing partner
- Issuer then subleases asset back, and agrees to make lease payments for use of property
- Lease payments serve as debt service on Lease Revenue Bonds or COPs
- Trustee can sue for rent if issuer does not make payments when asset available for use



# San Diego Lease Obligations



Master Lease includes  
Fire Stations, Libraries, Police Stations, Community  
Parks, Ground Leases

Public Facilities  
Financing Authority of  
the City of San Diego  
(Lessor)

Rights, Duties and  
Responsibilities,  
Administration of  
Funds  
(Indenture)

Computershare  
(Trustee)

Lease or  
Sale  
(Site/Ground  
Lease)

Lease or  
Purchase  
(Lease or  
Installment Sale  
Agreement)

Base  
Rental  
Payments

City of San  
Diego  
(Lessee)

Bond  
Investors

Bond Proceeds \$

Bond proceeds used for various facility Improvements to  
parks, libraries, fire stations, sidewalk repairs, street  
reconstructions, etc.

EXHIBIT B  
BASE RENTAL PAYMENT SCHEDULE

Payment Date	Amount	Payment Date	Amount
10/10/2023	\$28,101,507.48	10/10/2038	\$29,684,577.60
04/10/2024	12,437,840.61	04/10/2039	4,663,602.65
10/10/2024	28,644,665.61	10/10/2039	23,448,602.65
04/10/2025	11,153,090.13	04/10/2040	4,225,643.95
10/10/2025	29,007,890.11	10/10/2040	23,910,643.95
04/10/2026	10,803,711.11	04/10/2041	3,766,282.05
10/10/2026	29,358,111.11	10/10/2041	24,391,282.05
04/10/2027	10,442,841.56	04/10/2042	3,284,562.50
10/10/2027	25,631,741.56	10/10/2042	20,649,562.50
04/10/2028	10,127,221.66	04/10/2043	2,852,237.50
10/10/2028	25,950,721.66	10/10/2043	18,897,237.50
04/10/2029	9,801,763.16	04/10/2044	2,451,112.50
10/10/2029	26,309,388.16	10/10/2044	19,296,112.50
04/10/2030	9,460,496.93	04/10/2045	2,054,462.50
10/10/2030	26,667,503.18	10/10/2045	12,639,462.50
04/10/2031	9,093,215.13	04/10/2046	1,815,312.50
10/10/2031	27,059,296.38	10/10/2046	12,890,312.50
04/10/2032	8,711,651.23	04/10/2047	1,564,962.50
10/10/2032	26,747,094.98	10/10/2047	14,784,962.50
04/10/2033	7,606,853.48	04/10/2048	1,300,562.50
10/10/2033	27,166,853.48	10/10/2048	15,060,562.50
04/10/2034	7,181,230.65	04/10/2049	1,025,362.50
10/10/2034	27,621,230.65	10/10/2049	15,385,362.50
04/10/2035	6,729,905.05	04/10/2050	700,537.50
10/10/2035	28,094,905.05	10/10/2050	15,725,537.50
04/10/2036	6,256,635.35	04/10/2051	360,412.50
10/10/2036	28,606,635.35	10/10/2051	7,045,412.50
04/10/2037	5,750,088.80	04/10/2052	184,931.25
10/10/2037	29,140,088.80	10/10/2052	7,229,931.25
04/10/2038	5,219,577.60		

Base Rental Payments  
=  
Lease Payments  
=  
Debt Service Payments

# City of San Diego: General Fund Lease Debt

## LEASE BORROWING PROGRAM (AS OF 6/30/24)

### GENERAL FUND LEASE REVENUE BONDS

Master Indenture Lease Revenue Bonds: \$497 million

Other Lease Revenue Bonds: \$107 million

### OTHER LEASE OBLIGATIONS

Equipment & Capital Leases: \$74 million

Other Leases with GF Support: \$15 million

Commercial Paper Notes: \$67 million (\$21.5 million undrawn)

WIFIA Stormwater Loan: -- (\$359 million undrawn)

Source: Fiscal Year 2025 Adopted Budget Debt Obligations.

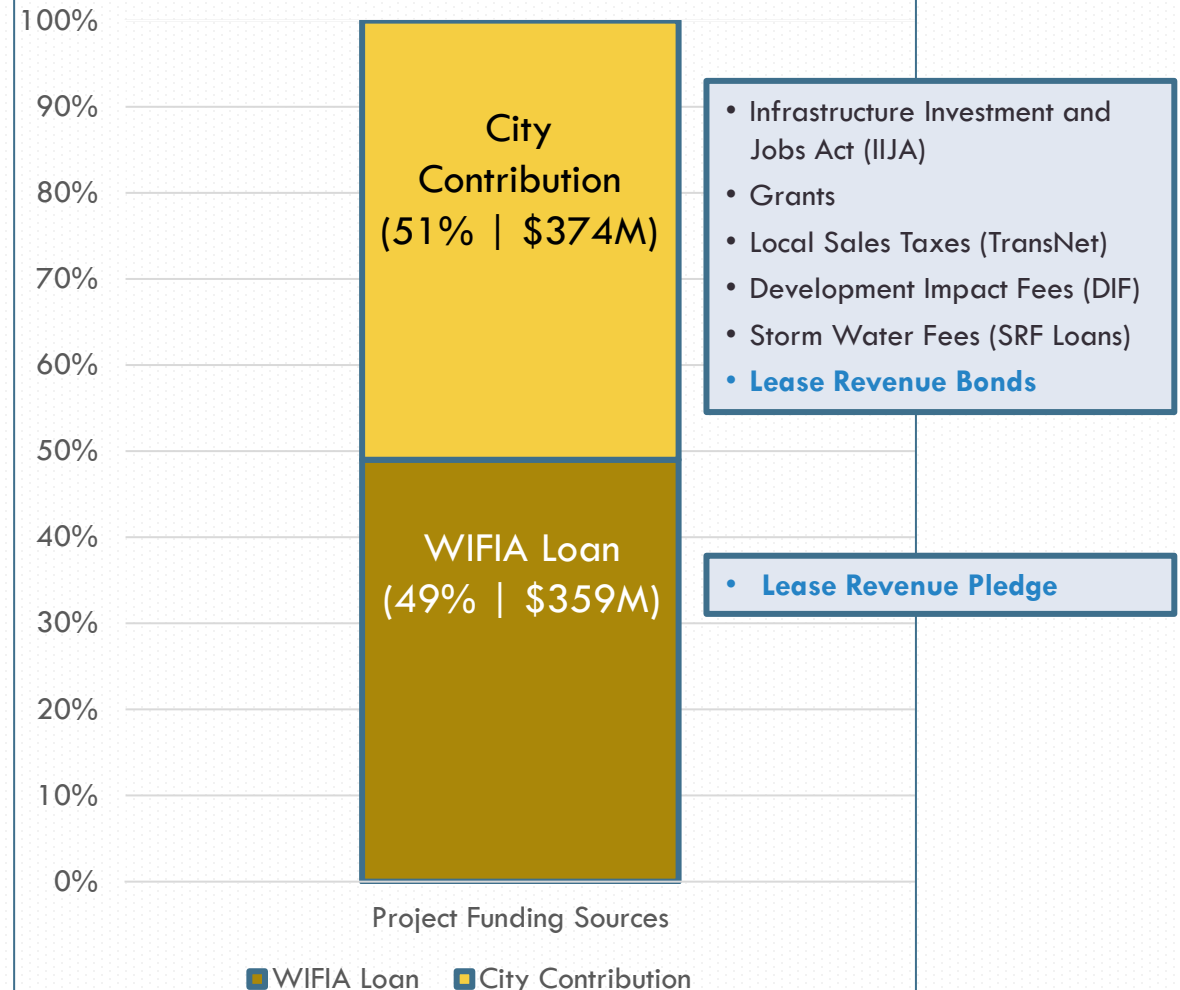
- **FY 2025-2029 Five-Year Capital Infrastructure Planning Outlook<sup>1</sup>**
- Storm Water and transportation (streets, roads, and streetlights) infrastructure are the asset types with largest needs, each comprising \$2.2 billion over the CIP Outlook period
- Anticipated funding/financing includes:
  - \$534 million in projected long-term lease revenue bond issuances
    - Use of Commercial Paper Program as Interim Financing as needed in FYs 2025 through 2029
  - \$733 million of WIFIA Loan and other City-match funds to finance priority Storm Water Program projects
  - ~\$300 million of additional lease borrowing via the Equipment and Vehicle Financing Program

1. Fiscal Year 2025-2029 Five-Year Financial Outlook.

# City of San Diego: Storm Water Capital Program

- The Storm Water Program is funded primarily from the **General Fund** with minimal support from property-related **storm water fees** and revenue from **parking enforcement** related to street sweeping
- GF pressure and competing priorities
- The City began the development of a storm water funding strategy in 2019 to identify a sustainable long-term funding mechanism for the Storm Water Program
  - analyzed grants, loans and fees;
  - identified cost efficiencies; assessed program innovation;
  - evaluated options for a dedicated, long-term funding mechanism (increased fees)
- Developed a 5-year funding strategy for capital costs
  - \$733 million financed through federal Water Infrastructure Finance and Innovation Act (WIFIA) loan and required City-match

## STORM WATER WIFIA LOAN BORROWING



# Exception 2: Special Fund Obligations

- Debt limitation interpreted to define restricted “debt” as being paid out of general taxes
  - Does not apply to debt that is paid for out of special revenues and used to finance an asset which is part of a project or system generating such revenues
  - Enterprise fund revenue debt, paid out of service fees and other user charges
- Concept expanded to all special funds
  - Special taxes, fees, assessments or “conduit” finance with private parties
- If special fund revenues are insufficient, there can be no obligation of local agency to pay debt service
  - Lack of a pledge of taxes a key fact distinguishing special fund obligations under California law
  - General Fund revenues usually cannot be transformed into special funds for purpose of securing debt

## TYPES OF LIMITED OBLIGATION BONDS

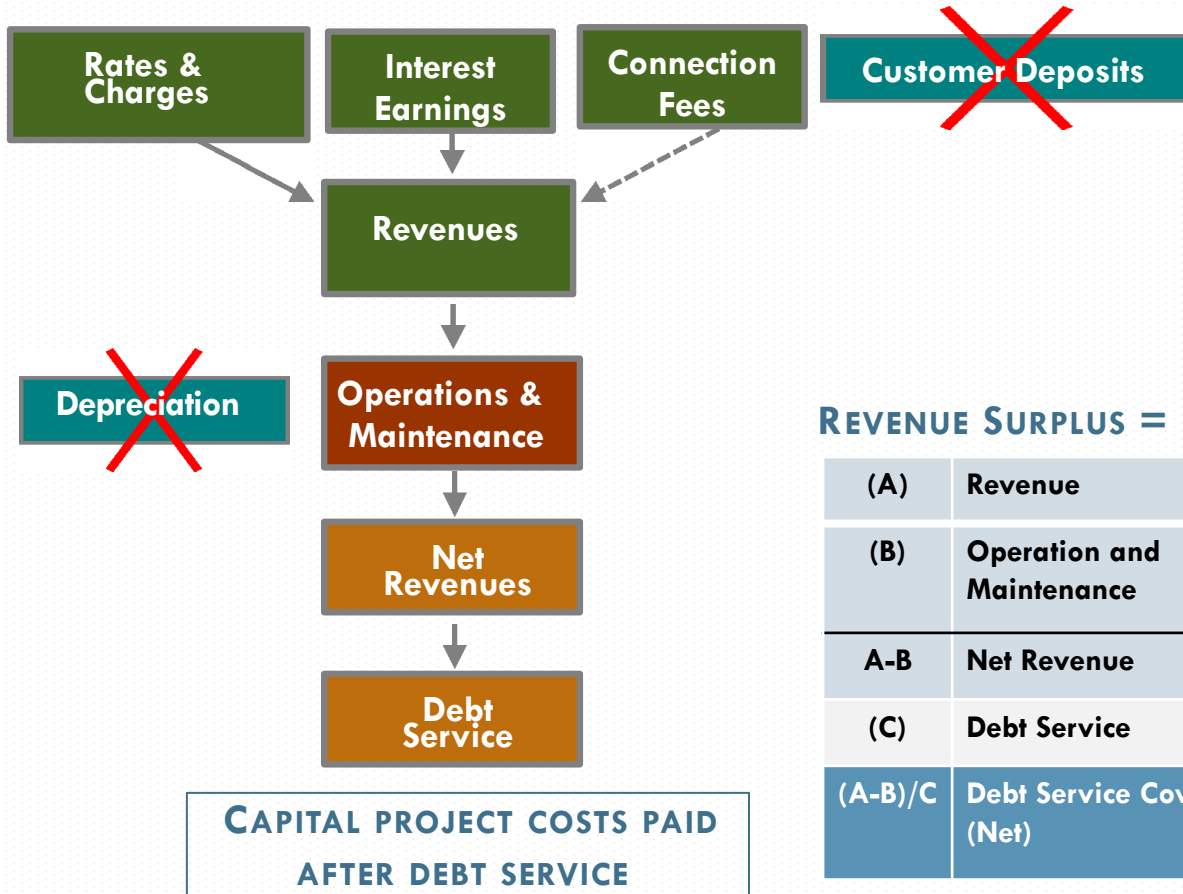
- I. Enterprise Revenue Bonds/COPs
- II. Special Tax Bonds (Mello-Roos)
  - Typically 2/3 voter requirement
- III. Assessment Bonds
  - Paid by properties that receive special benefit
  - Not a tax, 50% vote
- IV. Other
  - Sales Tax Bonds
  - Tax Allocation bonds
  - Conduit Bonds



# I. Enterprise Revenue Bonds

- Public agencies sell bonds secured by the following enterprises:
  - **Utilities:** Water, wastewater, electric, solid waste
  - **Transportation:** Airports, ports, toll roads, bridges
- Specific revenue stream pledged to bonds
  - Usually for a separate enterprise fund or separate agency supported by user fees
  - Enterprise can consist of an entire revenue-generating system or a single revenue-generating facility
- Revenue bond features
  - Rate covenants to maintain minimum coverage requirement
  - Additional bonds test

# I. Enterprise Revenue Bonds



## REVENUE SURPLUS = COVERAGE

(A)	Revenue	\$10,000,000
(B)	Operation and Maintenance	7,000,000
A-B	Net Revenue	\$3,000,000
(C)	Debt Service	1,500,000
(A-B)/C	Debt Service Coverage (Net)	2.0x

## REVENUE BOND SECURITY PLEDGE

- **Net Revenue Pledge:** all fees and charges of enterprise after payment of operations and maintenance (excluding depreciation); no security interest in physical assets of enterprise
- **Rate Covenant:** issuer commits to charge rates sufficient to pay debt service with a coverage cushion; may require rate increases in future with Proposition 218 process
- **Additional Bonds Test:** limits subsequent financings secured by same revenues

# City of San Diego: Water Utility Fund Debt

WATER REVENUE DEBT AS OF 06/30/24

## SENIOR/PARITY OBLIGATIONS

Water Revenue Bonds:	\$509 million
State Revolving Fund (SRF) Loans:	\$65 million (\$56 million undrawn)

## SUBORDINATE OBLIGATIONS

Water Revenue Bonds:	\$585 million
SRF Loans:	--
WIFIA Loans	\$373 million (\$361 million undrawn)
Commercial Paper Program	\$123 million (\$127 million undrawn)
<b>TOTAL</b>	<b>\$1.65 billion outstanding</b>

Source: Fiscal Year 2025 Adopted Budget Debt Obligations.

- **All repayable from Net System Revenues of the Water Utility Fund**
- **Annual Rate Covenants**
  - 1.2x Senior
  - 1.1x Aggregate (Senior + Subordinate)
- **Additional Debt Test for any new loans or bonds**

- Projects include Water Pipelines, Water Transmission Pipelines, Water Storage, Water Treatment Plants, Pump Stations, Pure Water Program Phase 1, and miscellaneous projects
- FY 2025 Annual CIP Budget for Water Fund: \$375 million (or 40% of City's overall CIP)

# City of San Diego: Pure Water Program Phase I



- \$1.6 billion estimated total cost allocated between Water Utility Fund and Sewer Funds
- Water share:
  - 2016 and 2018 Revenue Bonds: \$39 million
  - Grants: \$19 million
  - WIFIA Loans: up to \$733 million (1.29%, 1.82%)
  - State Budget Appropriation: \$25 million
  - Cash/Future Bonds
- Sewer share:
  - Grants: \$13 million
  - SRF Loans: up to \$664 million (0.80%, 1.10%)
  - State Budget Appropriation \$25 million
  - Cash/Future Bonds

# II. & III. Special Tax & Assessment Bonds

- **Basic premise**

- Public agency sponsors creation of special district
  - Property owners agree to put lien on property to fund certain facilities

- **Bond financing**

- Bonds generate up-front funds for capital projects
- Repaid with special taxes or assessments levied annually on property tax bill
- Issuer may foreclose on delinquent parcels
- In the event of a foreclosure, land value serves as ultimate collateral securing repayment

## BENEFITS & CONSIDERATIONS

### Benefits

- New revenue stream created for projects
- No payment obligation for public agency

### Considerations

- Requires formation of district, which takes time, and voter-approval
- Development projects can be risky in early stages
- Assessment spreads vulnerable to legal challenge



# II. & III. Special Tax & Assessment Bonds

COMMUNITY FACILITIES DISTRICT (CFD)		ASSESSMENT DISTRICT (AD)
<b>Statute</b>	Mello-Roos Act of 1982	1915 Act/1913 Act
<b>Security</b>	Annual special tax on property tax roll	Annual assessment levied on property tax roll
<b>Vote</b>	2/3rds vote of undeveloped property owners or registered voters (Election)	Less than 50% majority protest (Protest Hearing)
<b>Scope</b>	Capital projects with "specific capital projects and maintenance benefits" only	Direct and special benefit improvements, no general public benefit
<b>Spread of Lien</b>	"Reasonable" spread of costs in special tax formula  Dynamic payment obligation, can change as development proceeds	Spread must be proportional based on benefit  Fixed payment obligation

# IV. Other Limited Obligation Bonds

- Sales Tax Revenue Bonds
  - Payable from and secured by revenues from the imposition of a sales and use tax on retail transactions within the issuer's boundaries
- Redevelopment Agency Bonds
  - Secured by dedicated share of property tax (tax increment)
- Conduit Agency Bonds
  - To provide tax-exempt financing for certain “exempt” private activities, secured by a loan to entity

# IV. Sales Tax Revenue Bonds

- **Overview**

- Only public agencies with the statutory authority to impose a sales tax may issue sales tax revenue bonds
- Sales tax revenues are collected by the California Department of Tax and Fee Administration (CDTFA) and remitted to a Trustee prior to the public agency if sales tax bonds are outstanding

- **When Used?**

- Although cities and counties may impose sales taxes and issue sales tax revenue bonds, most sales tax revenue bonds are issued by countywide transportation authorities
- **Direct pledge of sales tax revenues** requires 2/3 voter approval
- General sales taxes (majority approval) can be used to pay debt service on **general fund lease debt**

## BENEFITS & CONSIDERATIONS

### Benefits

- Broad-based tax support for public improvements
- Generates new revenue source to repay debt; no support from general fund
- Wide investor acceptance

### Considerations

- Time, expense and uncertain outcome of election
- Voter authorization of sales tax required: general tax (majority voter approval) v. special tax (2/3 voter approval)
- Sales tax increase

# Exception 3: Obligation Imposed by Law

- Limited case law
  - Key case involved a tax refund in 1921
  - Transactions are “validated” in superior court
  - Debt is a non-contingent obligation of General Fund
- Pension Obligation Bonds most common use of this vehicle
  - Taxable bonds used to extinguish all or a portion of an agency’s unfunded pension liability
  - Proceeds are deposited with retirement association, resulting in potential investment gains or losses - Risk arbitrage
- Judgment Obligation Bonds issued occasionally



# Bonds or COPs?

- Bonds are a debt
  - Usually have a statutory basis, such as GO, revenue bonds, assessment bonds
- Certificates of Participation (COPs) represent an interest in a payment stream
  - COPs are extra-statutory, created by Wall Street
  - Originally used to avoid statutory restrictions on lease revenue bonds, such as requirement for competitive sale and maximum interest rates
  - Are based on a contract that is legal under one of the “debt limit exceptions”
- While most common for lease obligations, COPs can also be used for special fund obligations
  - Commonly used by general law cities to avoid 1941 Act voter requirements for enterprise revenue bonds
- **Bottom line:** Not much substantive difference between a “Bond” and a “COP”





# And What About Tax-Exemption?

- Public agencies benefit from Tax-Exemption
  - Most municipal bonds issued for infrastructure or capital improvements qualify to be issued on a tax-exempt basis
- Bondholders do not pay Federal income tax on interest earnings
  - Investors will purchase tax-exempt bonds at lower yields than taxable bonds
  - Allows a municipal issuer to raise capital at comparatively lower interest rates as compared to taxable/corporate bonds
- Issuers must meet IRS requirements to qualify bonds as tax-exempt
  - For governmental purposes – not for private use
  - Reasonable expectation that proceeds will be expended in 3 years from borrowing
  - Certain invested proceeds may not earn arbitrage (earnings rate > borrowing rate)
  - Certification required to be made by issuer at time of issuance – i.e., tax certificate

**However, there are reasons that a public agency may issue taxable debt!**

- **Use of proceeds for non-exempt uses**
- **Financing flexibility**
- **Advance refunding of outstanding obligations**

# QUESTIONS?



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# SESSION FIVE

## Short-term Instruments



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*Managing Director*  
KNN Public Finance



**ALLISON FALKENSTEIN**  
*Financing Coordinator*  
City of San Diego



**MELISSA SHICK**  
*Director*  
KNN Public Finance

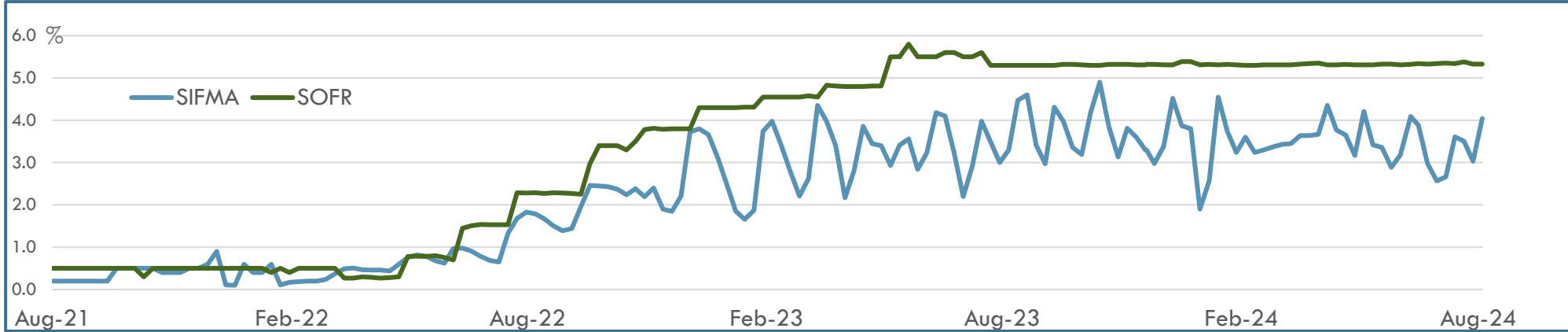


# Short-Term Debt is Loosely Defined

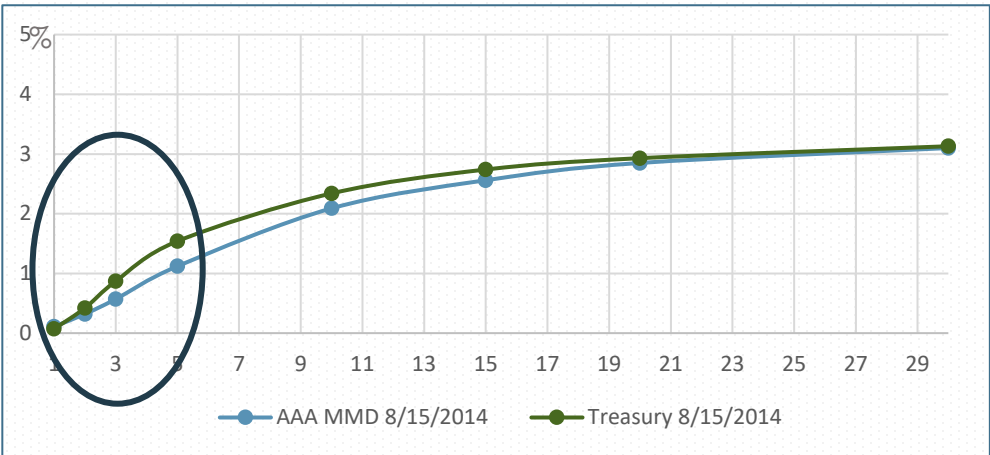
- In general, “**short-term**” is characterized as debt that bears interest based on short-term interest rates
- However...debt term/amortization may vary
  - Short-Term: 1-year to 3-years (generally)
  - Long-Term: Up to 30-years
- And...coupon structures may also vary
  - Fixed rate
  - Variable rate

# Short-Term Interest Rates Can be Variable or Fixed

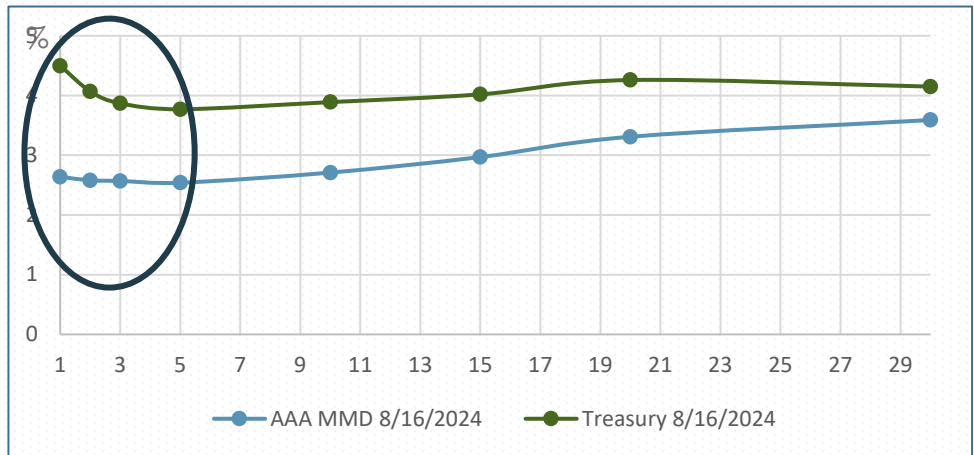
TAX-EXEMPT (SIFMA) & TAXABLE (SOFR) VARIABLE RATES (LAST THREE YEARS)



FIXED RATE YIELD CURVE (AUG 2014)



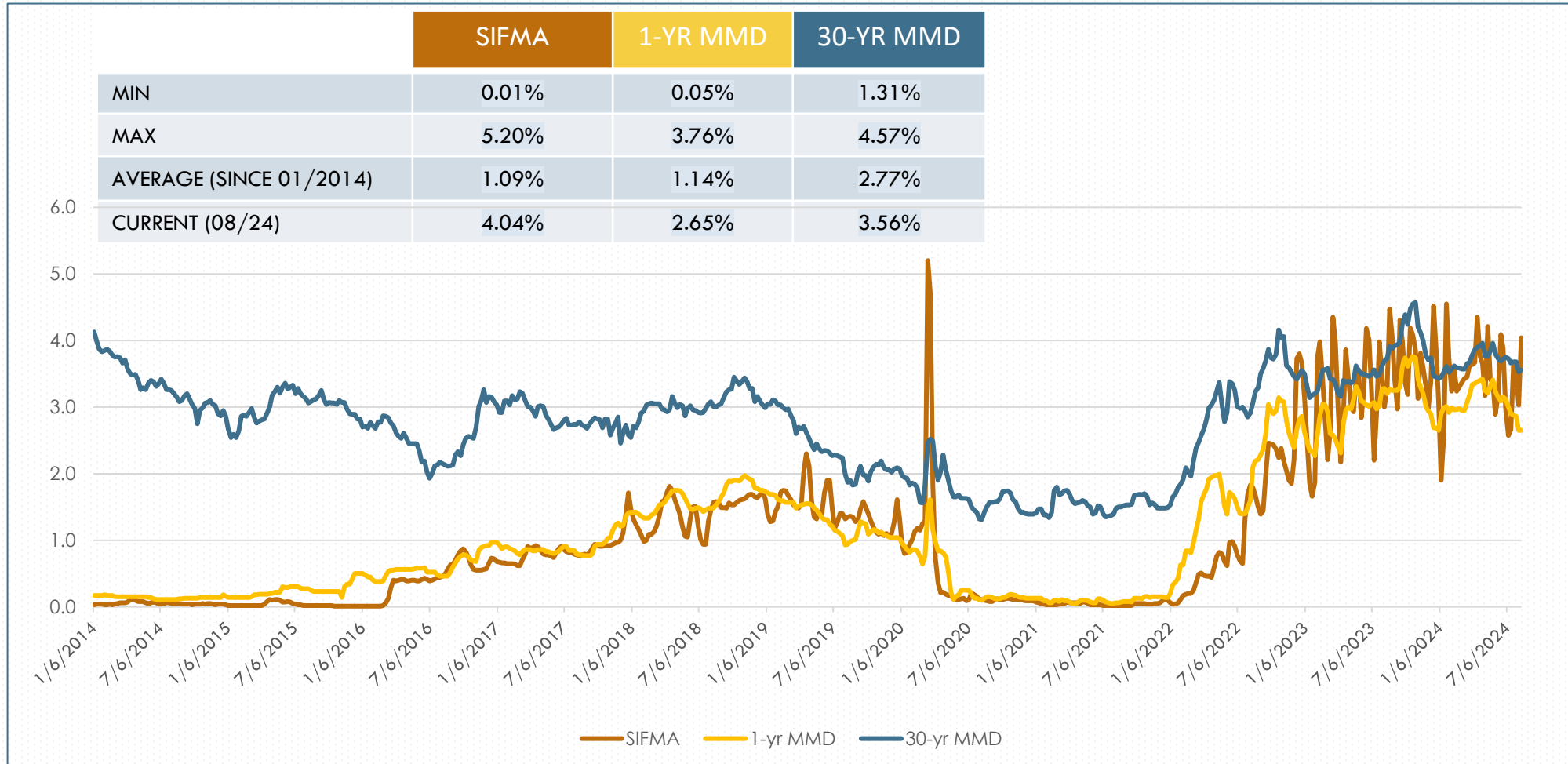
FIXED RATE YIELD CURVE (AUG 2024)





# Short-Term Interest Rates Have Historically Provided a Lower Cost of Borrowing

SHORT-TERM VERSUS LONG-TERM INTEREST RATES (SINCE JANUARY 2014)



# Types of Debt Characterized as “Short-Term”

## I. BRIDGE FINANCINGS

- Provide interim financing for capital projects
- Types of bridge financings:
  - Bond or Grant Anticipation Notes (BANs or GANs)
  - Commercial Paper (CP), Revolving Line of Credit
- **Short-term** maturity at **fixed** or **variable short-term interest rates**

## II. CASHFLOW FINANCINGS

- Provide working capital to pay operating expenses
- Types of cashflow financings:
  - Tax and Revenue Anticipation Notes (TRANs)
  - Revenue Anticipation Notes (RANs)
- **Short term** maturity at **fixed short-term interest rates** (typically)

## III. PERMANENT FINANCINGS

- Provide long-term funding at short-term interest rates by pairing a long, nominal maturity(s) with a variable interest rate
- Types of permanent financings:
  - Variable Rate Demand Obligations/Bonds (VRDOs/VRDBs)
  - Floating Rate Notes (FRNs)
  - Put Bonds
- **Long-term** maturity at **fixed** or **variable short-term interest rates**

# I. Bridge Financings

## Interim Borrowing Needs

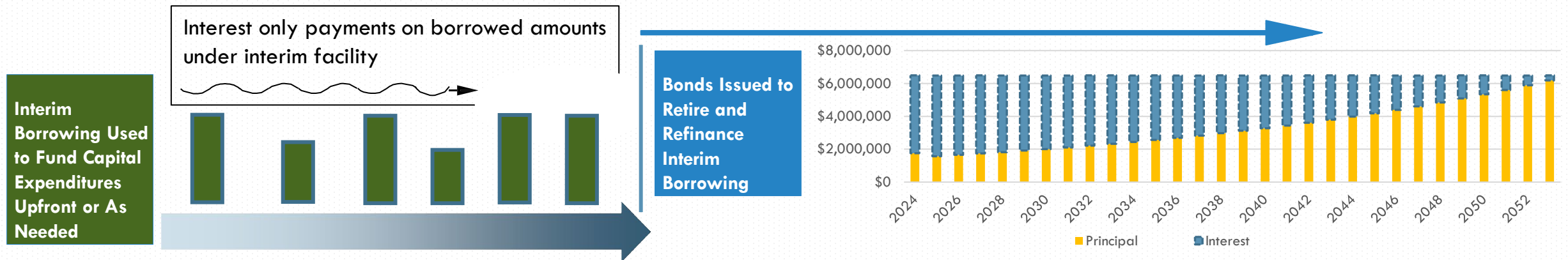
- **WHY** are bridge financings used?
  - Less certain about larger scale borrowing needs, but some initial project investment is needed
  - Desire to fund projects on a “just in time basis” as opposed to “upfront”
- **WHAT** are the primary types of interim financing vehicles?

	SHORT-TERM LOANS (BANs or GANs)	COMMERCIAL PAPER	BANK LINE OF CREDIT
Issuance Type	Public Offering OR Private Placement/Bank	Public Offering	Private Placement/Bank
Funding	Provided Upfront	Draw/Issued As Needed	Draw/Issued As Needed

# I. Bridge Financings

## Interim Borrowing Needs

- **HOW** are bridge financings typically structured?
  - Short-term maturities 0-270 days (commercial paper) or ranging from 1- to 3-years (fixed notes)
  - Interest only with no repayment of principal until “take-out”
- **WHEN** are bridge financings repaid?
  - Typically, with long-term borrowings and sometimes with available revenues/grants



# I. Bridge Financings: BANs or GANs

## BOND ANTICIPATION NOTES & GRANT ANTICIPATION NOTES

<b>Purpose</b>	Capital projects
<b>Benefit(s)</b>	Can provide seed financing in advance of a planned long-term financing
<b>Consideration(s)</b>	Hard maturity requires a high-degree of certainty around take-out mechanism
<b>Interest Rate</b>	<b>Fixed</b> at time of sale
<b>Primary Buyer(s)</b>	The investor base has shifted away from Money Market Funds (“MMF”) towards and short duration bond funds

## ILLUSTRATION

### BANs

- Sales tax authorization approved by voters but revenue collections do not begin for another two years
- Issuer can issue BANs now to tap future debt capacity
- BANs are repaid with long-term financing
- Credit ratings are typically based on expected terms of future take-out and assessment of future market access

### GANs

- State or federal government provides grant commitment but funding does not flow immediately or is provided on an incremental or reimbursement basis (typical of transportation funding arrangements)
- GANs are issued to “accelerate” grant funding
- Credit ratings are typically based on the timing and reliability of expected grant receipts



# I. Bridge Financings: Commercial Paper

## COMMERCIAL PAPER


<b>Purpose</b>	<ul style="list-style-type: none"><li>• <b>Construction:</b> Financing day-to-day costs of a construction project in which the issuer needs cash on hand in order to pay contractors and suppliers</li><li>• <b>Working Capital:</b> Financing short-term obligations involved in daily operations, such as funding accounts payable and inventory needs</li><li>• <b>Interim financing:</b> Providing the issuer with liquidity leading up to a larger and longer term bond issue</li></ul>
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<b>Benefit(s)</b>	Offers flexibility to create template for borrowing program and then draw down project funds as needed
-------------------	--

<b>Considerations(s)</b>	<ul style="list-style-type: none"><li>• <b>Interest rate risk</b> related to rate reset process</li><li>• Requires third-party (bank) liquidity</li></ul>
--------------------------	---

<b>Interest Rate</b>	<b>Liquidity costs + Fixed rate</b> set to a stated maturity date between 1 and 270 days
----------------------	--

<b>Primary Buyer(s)</b>	Money Market Funds
-------------------------	--------------------

- 
- While CP Notes have fixed maturities, CP does not have a fixed long-term amortization schedule like bonds
    - The issuer maintains flexibility with respect to the timing, amounts, and how the CP outstanding principal will be repaid
  - There are several ways in which an issuer can obtain the funds to provide payment to note holders at the CP Note maturity
    1. CP Notes can be **“rolled”** with proceeds of a subsequent CP Note issuance
    2. CP Notes can be **“refunded”** with proceeds of a long-term bond issuance
    3. CP Notes can be **“retired”** with available funds on hand

# I. Bridge Financings: Bank Line of Credit

## BANK LINE OF CREDIT

<b>Purpose</b>	<ul style="list-style-type: none"><li>• <b>Construction:</b> Financing day-to-day costs of a construction project in which the issuer needs cash on hand in order to pay contractors and suppliers</li><li>• <b>Working Capital:</b> Financing short-term obligations involved in daily operations, such as funding accounts payable and inventory needs</li><li>• <b>Interim financing:</b> Providing the issuer with liquidity leading up to a larger and longer term bond issue</li></ul>
<b>Benefit(s)</b>	<ul style="list-style-type: none"><li>• Offers flexible funding “as needed”</li><li>• Can be more streamlined and easier administration as compared to commercial paper</li></ul>
<b>Considerations(s)</b>	<ul style="list-style-type: none"><li>• <b>Interest rate risk</b> related to rate reset process (if floating)</li><li>• Requires bank agreement and bank terms</li></ul>
<b>Interest Rate</b>	<b>Floating rate + fixed credit spread</b> based on SIFMA, SOFR (or % of SOFR) <b>Fixed rate + fixed credit spread</b> set to a stated maturity
<b>Lenders</b>	Direct Purchase Banks

- Mechanically, a bank line of credit provides the funding flexibility consistent with a commercial paper program, but does not require the following:
  - Public disclosure/offering memorandum
  - CP dealer
  - Credit ratings
- Bank credit is extended in form of a “loan” versus “liquidity”

# City of San Diego: Interim Borrowing Programs

## WATER REVENUE PROGRAM

### Commercial Paper

- Program Authorization
  - \$250 Million
- Tax Status
  - Tax-Exempt
- Bank Credit Provider
  - Bank of America
  - LOC expires 01/2025
- CP Dealers
  - BofA Securities, Inc.
  - RBC Capital Markets

## SEWER REVENUE PROGRAM

### Revolving Credit Agreement

- Program Authorization
  - \$150 Million
- Tax Status
  - Tax-Exempt
- Bank Lender
  - Wells Fargo
  - Expires 12/2025
- CP Dealers
  - N/A

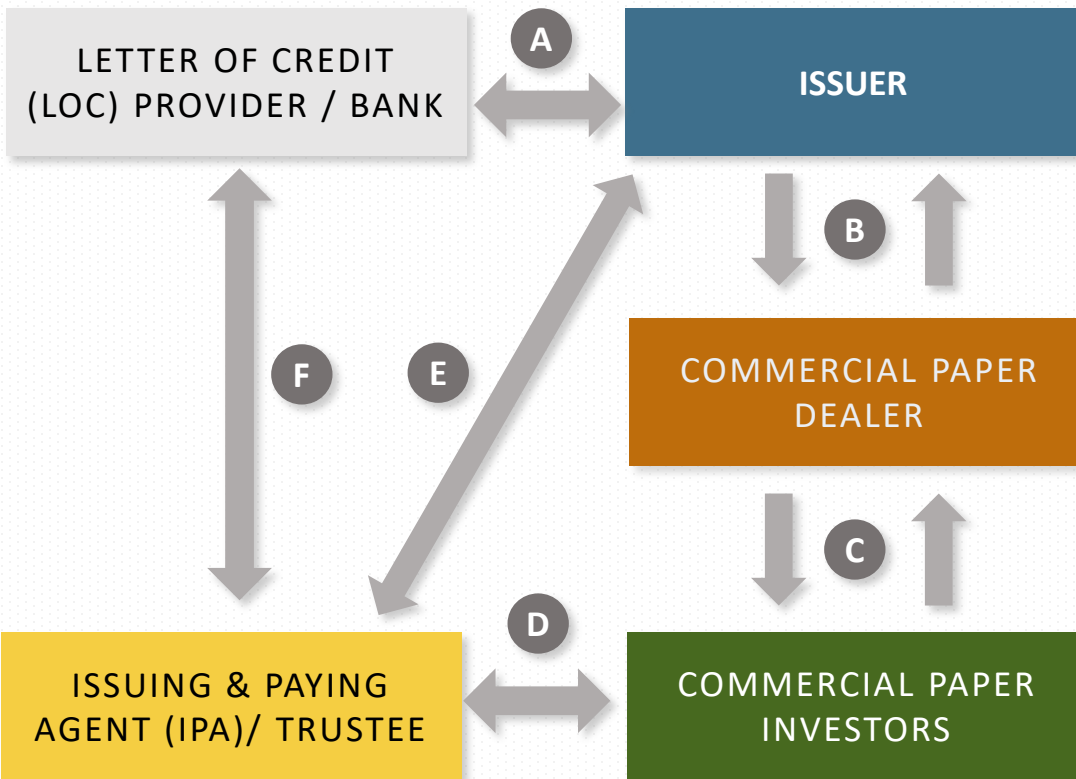
## GENERAL FUND LEASE PROGRAM

### Commercial Paper

- Program Authorization
  - \$88.5 Million
- Tax Status
  - Tax-Exempt
- Bank Credit Provider
  - Wells Fargo
  - LOC expires 11/2024
- CP Dealers
  - JP Morgan Securities LLC
  - Wells Fargo Securities

# City of San Diego: Commercial Paper Program Mechanics

## PARTIES INVOLVED



## KEY ROLES

- A** i) Issuer obtains bank support; ii) Bank provides credit or liquidity in the event CP notes cannot be rolled/placed with investor
- B** i) Issuer requests issuance of "new" CP or "rollover" of CP; ii) Issuer and Dealer determine maturity of CP notes
- C** CP notes sold through the Dealer either to a new investor or to an investor holding a maturing note
- D** i) IPA directs P&I payments to investors when note matures; ii) IPA deposits new money CP note proceeds from investors into project and cost of issuance funds; iii) IPA deposits principal from investors into LOC repayment funds
- E** i) Issuer transfers amount of interest due to IPA; ii) Issuer provides Issuance instructions to IPA; iii) IPA receives proceeds from new money notes for project costs and transfers to Issuer
- F** i) IPA draws on the LOC in the amount of principal and interest due at the CP Note maturity to pay investors; ii) IPA takes interest payment from Issuer and principal from investor to repay LOC draw

# Commercial Paper Mechanics

## NEW MONEY NOTE

ISSUER

CP DEALER

CP INVESTORS

IPA/TRUSTEE

- Issuer needs \$10 million on October 1. Issuer contacts Dealer to plan note sale, discuss maturity options
- On October 1, Dealer markets note and places it with an Investor. Dealer sends sale details to Issuer
  - Issuer emails an Issuance Request Form to IPA by 10:00 AM
  - Investor sends principal to IPA; IPA sends proceeds to Issuer by 1:00 PM

## WHEN THAT NOTE MATURES... A ROLLOVER NOTE

ISSUER

CP DEALER

CP INVESTORS

IPA/TRUSTEE

LOC BANK

- Note matures on December 3
- Issuer sends Interest amount to IPA by December 2; IPA prepares to draw on LOC on December 3
- Issuer contacts Dealer to plan rollover note sale, discuss maturity options
- On December 3, 1) IPA draws on LOC to obtain Principal and Interest to repay CP Investor, 2) Dealer markets rollover note and places with an Investor. 3) Dealer sends sale details to Issuer. 4) Issuer emails Issuance Request form to IPA by 10:00 AM. 5) CP Investor sends principal to IPA. 6) IPA uses principal from Investor and Interest from Issuer to repay the LOC on the same day

## WHEN THE ISSUER IS READY TO RETIRE ALL OUTSTANDING NOTES... A BOND ISSUANCE

ISSUER

IPA/TRUSTEE

LOC BANK

- Issuer decides it's time to pay down notes. All notes are aligned to mature on June 30.
- Issuer executes a bond issuance which closes on June 29 to provide Principal and Interest on all notes. Issuer directs bond proceeds to be deposited with IPA
- On June 30, IPA draws on LOC to obtain Principal and Interest to repay CP investors; 2) IPA uses bond proceeds to repay LOC on the same day<sup>183</sup>

# City of San Diego: Commercial Paper Program Management

- Flexibility to determine timing of issuance needs and the maturity of each issuance, but requires active program management
- Rollover occurs for each portion of the CP program on the relevant maturity date
- Actively work with dealer in selecting the maturity dates of individual CP Notes to minimize interest expense and align notes with program administration needs

**EXAMPLE: \$100 MILLION CP PROGRAM**

	Jul 2023	Oct 2023	Jan 2024	Apr 2024	Jul 2024	Oct 2024	Jan 2025	Apr 2025	Jul 2025
Note A - \$25 mm	New Note	Roll #1	Roll #2	Roll #3	Roll #4	Roll #5		Roll #6	
Note B - \$25 mm		New Note		Roll #1		Roll #2		Roll #3	
Note C - \$25 mm			New Note	Roll #1			Roll #2		
Note D - \$25 mm				New Note		Roll #1			
									\$100 mm Bonds



# II. Cash Flow Financings: TRANS (or RANs)

- California Constitution limits “any indebtedness... exceeding in any year the income and revenue provided for such year”
  - TRANS are indebtedness that is fully repaid out of current year revenues
  - Typically issued early in the fiscal year to fund payroll expenditures prior to receipt of property tax revenues
- TRANS (or RANs) issued for cash flow
  - Property tax and business license taxes are the most cyclical of revenues, received beginning in December
  - Salary expenditures are level all year
  - Some extraordinary expenditures may be front loaded (i.e. prepayments to retirement systems)
- Some factors when considering issuing TRANS
  - Real cashflow needs
  - Reinvestment opportunities (can keep any arbitrage as long as planned deficit occurs)
  - Costs of issuance are current expenses, not amortized over many years

# II. Cash Flow Financings: TRANS (or RANs)

## TAX AND REVENUE ANTICIPATION NOTES

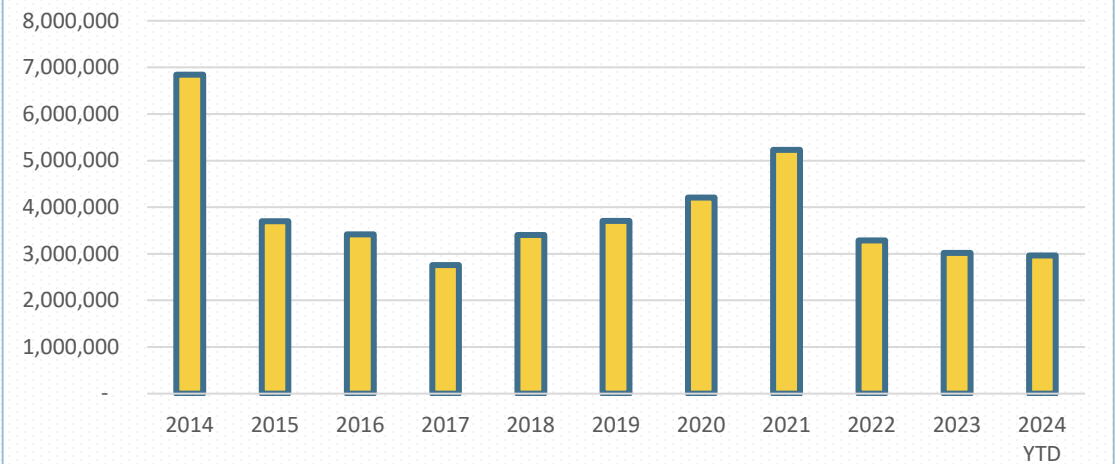
<b>Purpose</b>	Cashflow borrowing or capital projects
<b>Benefit(s)</b>	Smooths-out inconsistent revenue stream, such as property taxes or grants
<b>Consideration(s)</b>	Short tenor and mandatory repayment require careful forecasting of future cashflows to appropriately time payment date(s)
<b>Interest Rate</b>	<b>Fixed</b> at time of sale
<b>Primary Buyer(s)</b>	The investor base has shifted away from Money Market Funds (“MMF”) towards and short duration bond funds
<b>Requirement(s)</b>	Statutory and tax limits



## SELECT CALIFORNIA FY 2024-25 TRAN ISSUANCES

AMOUNT (\$'000'S)	ISSUER	SALE DATE	MATURITY
\$ 1,544,195	City of Los Angeles	6/26/2024	06/26/2025
\$ 700,000	County of Los Angeles	6/11/2024	06/30/2025
\$ 425,000	County of Riverside	6/6/2024	06/30/2025
\$ 200,000	San Diego Unified School District	7/10/2024	06/30/2025

## HISTORICAL CALIFORNIA TRAN ISSUANCE VOLUME



# III. Permanent Financings: Why Use Variable Rate Debt?

- Debt Portfolio Diversification
  - Interest cost, timing, investor base
- Asset / Liability Balance
  - Short-term investments naturally hedge variable rate liabilities
- Prepayment Flexibility
  - Remarketed securities often have flexible redemption terms; can be refinanced on any “put” date (daily, weekly, monthly, yearly)
- Interest Cost Management
  - Historically, has offered the lowest cost of capital
  - Can avoid locking in rates for long tenors in unfavorable markets

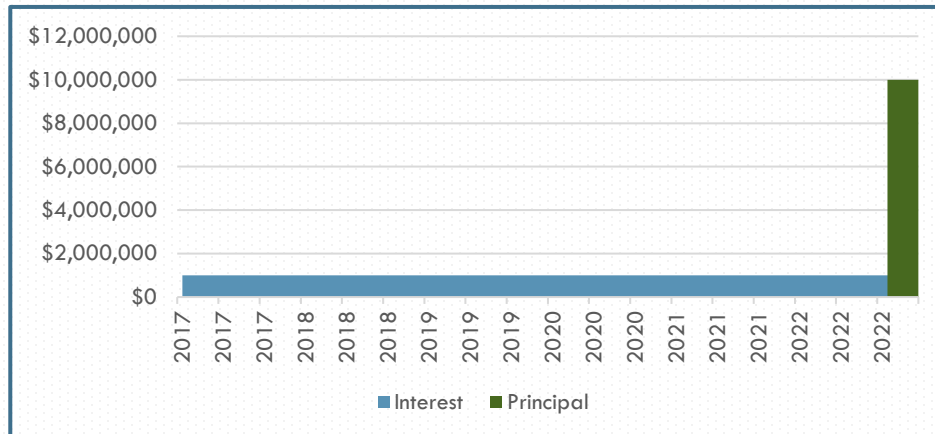
**Thus...variable rate debt tends to be most utilized by issuers with large**

- **Enterprises**
- **Capital programs**
- **Debt programs**

# III. Permanent Financings: Fixed Rate versus Variable Rate Interest

## FIXED RATE DEBT

- Rates (coupons) are set on the day of the pricing and do not change
- Issuer will pay scheduled interest (usually twice a year) for as long as the bonds are outstanding



PRO

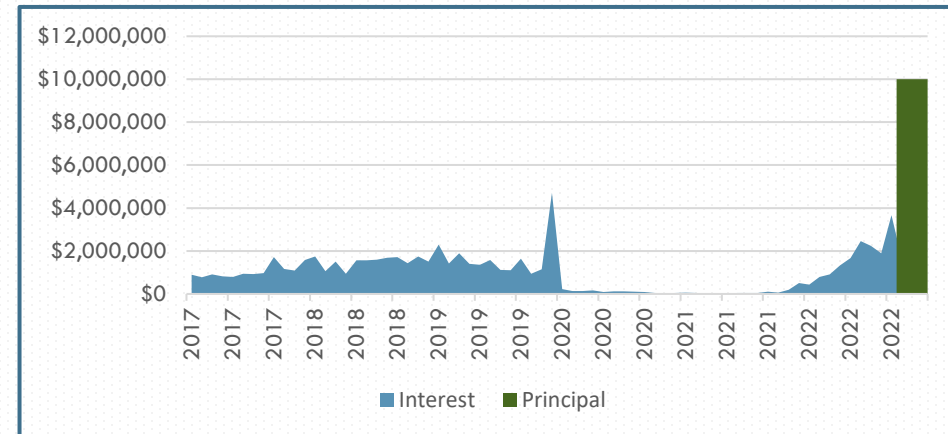
- Budget certainty
- No bank credit support necessary

CON

- Less flexible prepayment feature
- Can be higher cost

## VARIABLE RATE DEBT

- Rates are reset to different coupons at predetermined points throughout the year
- Issuer's interest payments will vary for the life of the bonds based on market conditions or changes in an index



- Asset/liability management
- Portfolio diversification/flexibility

- Interest cost variability
- Requires bank credit support

# III. Permanent Financings: Primary Variable Rate Financing Vehicles

	DAILY VRDBS	WEEKLY VRDBS	FLOATING RATE NOTES	PUT BONDS
<b>Product Overview</b>	<ul style="list-style-type: none"> <li>Bonds with a long-term nominal maturity bearing interest at variable rates adjusted at <b>daily</b> or <b>weekly</b> intervals</li> <li>VRDB holders have the option to tender securities for purchase to the issuer</li> <li>Short-term tender features give VRDBs the liquidity and principal preservation characteristics of money market paper, allowing for pricing at the short end of the yield curve</li> </ul>		<ul style="list-style-type: none"> <li>Alternative to traditional variable rate products (VRDBs) to generate committed floating rate funding</li> <li>Interest is paid monthly at the index plus a spread, which is set at pricing and fixed through maturity or mandatory tender date</li> </ul>	<ul style="list-style-type: none"> <li>Fixed rate bonds that have a long-term nominal maturity with a mandatory investor put prior to maturity</li> <li>Priced to the put date, allowing issuers to lock in rates at the shorter end of the yield curve</li> </ul>
<b>Predominant Buyer</b>	Money Market Fund	Money Market Fund	Short Duration Intermediate	Short Duration Intermediate
<b>Maturity</b>	Long-term (e.g. 30Y)	Long-term (e.g. 30Y)	Long-term (e.g. 30Y)	Long-term (e.g. 30Y)
<b>Tender / Put Tenor</b>	Daily	Weekly	1-10 Years	1-10 Years
<b>Rate Reset Period</b>	Daily	Weekly	On Mandatory Tender Date	On Put Date
<b>Bank Liquidity Required?</b>	Yes	Yes	No	No
<b>Pricing</b>	~SIFMA	~SIFMA	SIFMA + Spread % SOFR + Spread	MMD + Spread (+ Put Premium)

# III. Permanent Financings: Variable Rate Demand Bonds (VRDBs)

## VARIABLE RATE DEMAND BONDS

<b>Purpose</b>	Capital Projects
<b>Benefit(s)</b>	Access rates on the short end of the yield curve Retain flexibility to pay off or restructure debt at any time
<b>Considerations(s)</b>	<ul style="list-style-type: none"><li>• <b>Interest rate risk</b> related to rate reset process</li><li>• Requires third-party (bank) liquidity</li><li>• Investor “put” feature</li><li>• If VRDBs cannot be remarketed, bonds are held by liquidity bank at higher interest rates</li></ul>
<b>Interest Rate</b>	<b>Bank facility costs + Variable rate</b> remarketed on a daily or weekly basis
<b>Primary Buyer(s)</b>	Money Market Funds


- Long nominal maturity/amortization; often 30-year term
- Remarketing agents reset VRDB interest rates based on market conditions on each rate reset date
  - **Daily:** Remarketing agent typically sets a rate by 10 a.m. each business day
  - **Weekly:** Remarketing agent sets a rate (typically Tuesday evening) that is effective for seven calendar days
  - Other periodic options may be possible
- Issuers must have third party (bank) liquidity or self liquidity if highly-rated (not typical)



# III. Permanent Financings: Floating Rate Notes & Put Bonds

## FLOATING RATE NOTES & FIXED RATE PUT BONDS

<b>Purpose</b>	Used to generate long-term, committed funding at short-term floating or short-term fixed rate interest rates
<b>Benefit(s)</b>	<ul style="list-style-type: none"><li>• No liquidity is needed because there is no remarketing over the life of the bonds</li><li>• May be sold with optional par call feature ranging from 6-12 months based on put date</li></ul>
<b>Considerations(s)</b>	<ul style="list-style-type: none"><li>• <b>Interest rate risk</b> related to underlying floating rate benchmark (if variable)</li><li>• Remarketing/market access risk at “mandatory tender date”</li></ul>
<b>Interest Rate</b>	<ul style="list-style-type: none"><li>• <b>Floating: SIFMA or SOFR (or % thereof) plus a credit spread</b></li><li>• <b>Fixed: MMD or UST plus a fixed credit spread</b></li><li>• May be based on a par or premium coupon structure</li><li>• May assume either a soft or hard put “penalty”</li></ul>

- 
- Long nominal maturity/amortization; often 30-year term
  - Base interest rate based on note/bond rate mode and term
    - **Floating Rate:** SIFMA or SOFR serves as base rate; reset weekly
    - **Fixed Rate:** MMD or UST serves as base rate corresponding to term of “tender” (i.e. 3-year put priced based on 3-year MMD)

# Bank Liquidity Concepts: CP and VRDBs

## BANK LIQUIDITY FACILITIES

- Standby Bond Purchase Agreements (SBPA) or Revolving Credit Agreements
- Banks fund the purchase price of a failed remarketing
- Does not guarantee the payment of principal & interest
- The bank has the option to terminate or suspend payments immediately in case of:
  - Voluntary issuer bankruptcy
  - Issuer fails to pay principal or interest
  - Issuer defaults on parity debt
  - Involuntary bankruptcy
  - Issuer falls below investment grade
- VRDBs/CP carry bank's short-term ratings
- VRDBs carry issuer's long-term ratings

## BANK DIRECT PAY LETTER OF CREDIT

- Reimbursement Agreement or Letter of Credit (LOC)
- Supports payment of principal and interest when due
- Banks must pay noteholders – guaranteed payment of principal and interest
- Issuer generally pays a larger premium to the bank for the guarantee
- The bank does not have the option to terminate or suspend payments despite:
  - Bankruptcy of the issuer
  - Downgrade in ratings
  - Default of the issuer on outstanding VRDBs or parity debt
- VRDBs/CP carry the bank's short-term ratings
- VRDBs carry bank's long-term ratings

# Put Features: VRDBs, FRNs, and Put Bonds

## VRDB PUT FEATURES – AT REMARKETING

- Investors can “put” VRDOs back to the remarketing agent at each rate reset date
  - If an investors “puts” the VRDO back, the remarketing agent will attempt to remarket the securities to a new investor
  - If a remarketing is unsuccessful, and the remarketing agent is unable to find new investors to purchase the VRDOs, the remarketing agent may, **but is not obligated to**, purchase the securities
  - If a remarketing is unsuccessful and the remarketing agent elects **not** to purchase the securities, the liquidity provider must purchase the securities

## NOTE/BOND PUT FEATURES – AT TENDER DATE

### Soft Put

- If notes/bonds are not refinanced at the mandatory tender date, the issuer pays a punitive stepped-up interest rate on the bonds/notes, but no event of default occurs
- The interest rate may “step-up” over a few periods if the bonds continue to remain outstanding, or it may automatically step up to a maximum rate
- May be structured similar to the “term-out” feature of a bank liquidity facility whereby principal is paid over a defined period

### Hard Put

- If notes/bonds are not refinanced at the mandatory tender date, the issuer is considered to be in default

# QUESTIONS?



**DAVID BRODSKY**  
*Managing Director*  
KNN Public Finance



**ALLISON FALKENSTEIN**  
*Financing Coordinator*  
City of San Diego



**MELISSA SHICK**  
*Director*  
KNN Public Finance



15-MINUTE  

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**BREAK**



# SESSION SIX

## Initial Disclosure and Legal Documents



**JACQUELYNNE JENNINGS**

*Partner*

ArentFox Schiff LLP

**SAMUEL SMALLS**

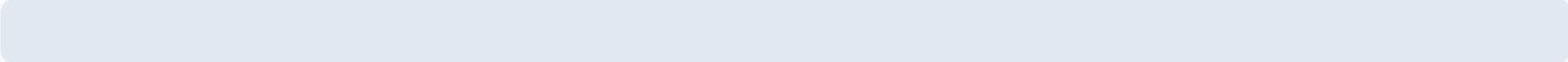
*Treasury and Debt Manager*  
Metropolitan Water District  
of Southern California





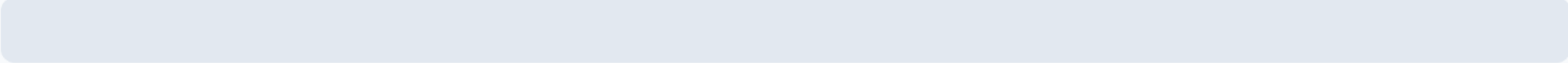
# How often does your agency issue debt?

Annually



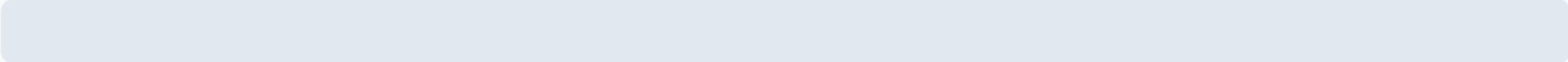
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Every other year



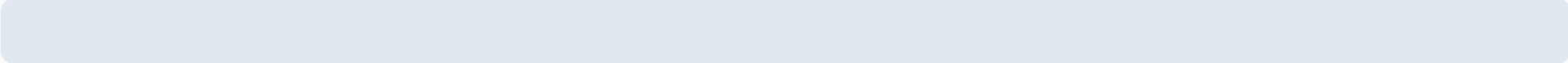
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Less than once every five years



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Other



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# Overview of ArentFox Schiff

- ArentFox Schiff LLP is internationally recognized in core industries where business and the law intersect.
- With offices in Boston, Chicago, Los Angeles, New York, San Francisco, and Washington, DC, and more than 650 lawyers and policy professionals, ArentFox Schiff provides strategic legal counsel to clients that range from Fortune 500 corporations and start-ups, to state, local, and foreign governments, trade associations, and private individuals.
- Our attorneys know that being Smart in Your World isn't just about having great legal skills. It means knowing your business, your industry, and your goals — and using that insight to solve challenges creatively and efficiently. Through decades of service, our attorneys have understood that hard work and talent are just a starting point for being considered a premier law firm, a distinction that ArentFox Schiff has earned from The American Lawyer, Chambers USA, and Legal 500.
- As one of the most diverse general practice law firms in the country, ArentFox Schiff has roots in government service, a focus on legal excellence, and a commitment to the administration of justice. Our lawyers have consistently distinguished themselves as leaders in pro bono representation, while many continue to play prominent roles in public service.
- ArentFox Schiff is proud of its reputation for understanding our clients' business, their industry, and their world.

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Your World<sup>®</sup>**

# Overview of Metropolitan Water District of Southern California



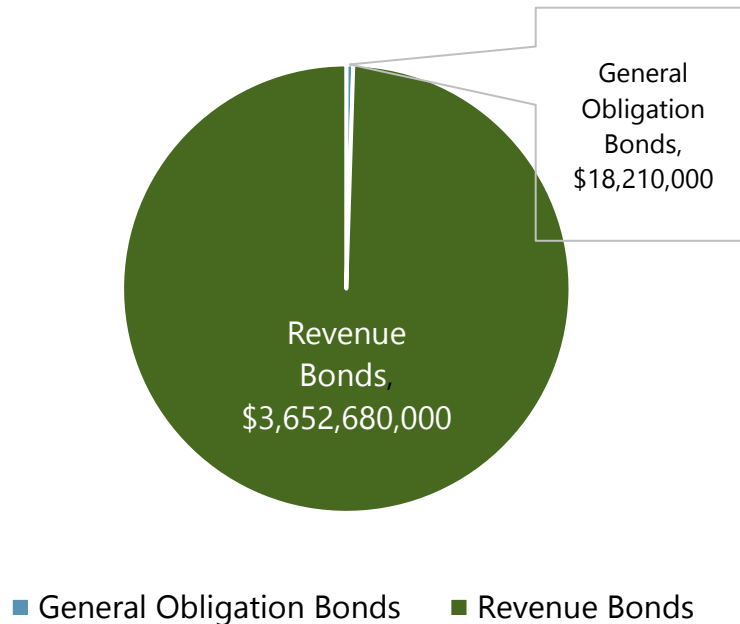
- Metropolitan (or MWD) was formed in 1928 pursuant to a state act to provide regional water supply to Southern California
- MWD is a California regional planner, owner, operator and wholesale distributor of water
- Serves 19 million people across six Southern California counties
- We are a voluntary cooperative of 26 member agencies
- We are governed by a 38-member board of directors, comprised of representatives of our Member Agencies
- MWD is the largest distributor of treated drinking water in the U.S.

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# Overview of Metropolitan's Debt Program



MWD Debt by Type (as of July 1, 2024)



- As of July 1, 2024, Metropolitan had a total of \$3.7 billion of total debt outstanding.
- Metropolitan issues debt to fund a portion of its capital infrastructure investments.
- Metropolitan manages the amount of debt leveraged on its balance sheet through PAYGO targets at roughly 45% of total CIP expenditures.
- Of the revenue bond debt outstanding, approximately 75% is on the senior lien, 25% on the subordinate lien.
- While almost 80% of our debt is traditional fixed-rate, the remaining portion is comprised of variable-rate, synthetically-fixed debt (hedged by our swap portfolio), and put bonds (3yr to 7yr terms)

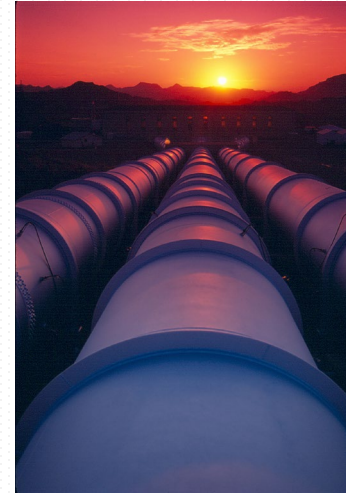
Smart In  
Your World<sup>®</sup>

# Preliminary Considerations

- **What** is being financed?
- **What** law authorizes the financing?
- **How** will the financing be structured?
- **What** is the source of funds to repay the borrowing?
- **Who** is the issuer's representative that will be responsible for ongoing compliance?

# The Project

- Summary Description of the Project
  - ❖ Size, Location, Costs
  - ❖ Sources of Funding for the Project
  - ❖ Contractor and type of Contract
- Required Approvals and Status thereof
- Expected Construction Commencement and Completion Dates







# Getting Started

## WHO?

Issuer's Financing Team

## WHAT?

Official Statements / Offering Memoranda

## WHY?

Investors in municipal securities have rights under federal securities law



# Assemble the Financing Team

**Issuer Team + Other Professionals = Issuer's Financing Team**

## **Issuer Team**

- Issuer
- Department Representatives
- Issuer's Counsel
- Bond Counsel
- Disclosure Counsel
- Municipal Advisor
- Feasibility Consultant
- Dissemination Agent
- Appraiser

## **Other Professionals**

- Trustee / Paying Agent / Fiscal Agent
- Trustee's Counsel
- Underwriter
- Underwriter's Counsel
- Securities Repository (DTC)
- Credit Enhancer
- Rebate Consultant
- Borrower and Borrower's Counsel (Conduit Transaction)
- Verification Agent (Refundings)
- Remarketing Agent (Variable Rate Transaction)
- Letter of Credit Bank (Variable Rate Transaction)

# Why Provide Disclosure?

- **Securities Act of 1933 - "Truth in Securities Law"**
  - ❖ Investors must be provided with financial and other significant information for securities prior to sale
  - ❖ Section 17(a) – **Antifraud Rule** – Prohibits deceit, misrepresentations, and fraud in sale of securities
- **Exchange Act of 1934**
  - ❖ Created the SEC and conferred broad authority to the SEC to register, regulate, and oversee securities transactions and participants; also requires periodic filings of relevant data
- **Section 10(b)**
  - ❖ Prohibits use of manipulative or deceptive acts in connection with purchase or sale of securities
- **Rule 10b-5**
  - ❖ Prohibits making untrue statements of material facts or omitting to state material facts that are necessary to make the statements in the offering document not misleading



# Application of Disclosure Laws

Whenever the issuer “speaks to the market”

Examples:

- Primary disclosure in Official Statements and Offering Memoranda
- Annual Reports
- Event Notices and Voluntary filings pursuant to Rule 15c2-12
- Investor Communications
- Other public statements made by the Issuer and its officials, including press releases, public statements, interviews, website, social media, and speeches
- Reports delivered to governmental agencies
- Issuer statements made that are reasonably expected to reach investors are also subject to antifraud provisions

# What is an Official Statement?

- ❖ A document prepared by or on behalf of a state or local government in connection with the issuance of municipal securities
- ❖ An official statement is similar to a prospectus that is used in corporate securities offerings
- ❖ Provides material information to investors about the transaction

# Anatomy of the Official Statement

*Material information needed by investors to make a decision to purchase the securities, including:*

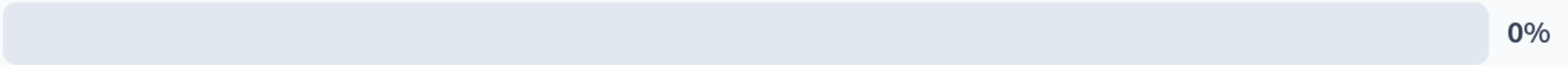
- Introduction
- Plan of Finance
- Sources and Uses of Funds
- Project Description
- Security for the Bonds and Sources of Payment
- Capital Improvement Plan
- Issuer Financial and Relevant Operating Information
- Risk Factors
- Absence of Material Litigation
- Continuing Disclosure Compliance
- Appendices
  - ❖ Audited Financial Statements
  - ❖ Economic, Demographic, and Statistical Data
  - ❖ Form of Bond Opinion
  - ❖ Form of Continuing Disclosure Undertaking
  - ❖ DTC Disclosure
  - ❖ Third Party Documents and Certifications





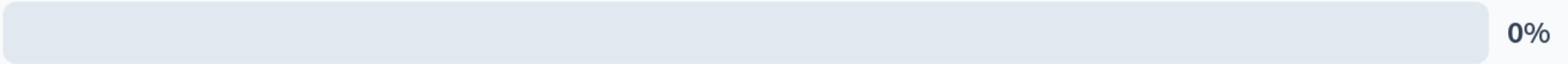
## Has your agency adopted written disclosure policies and procedures?

Yes



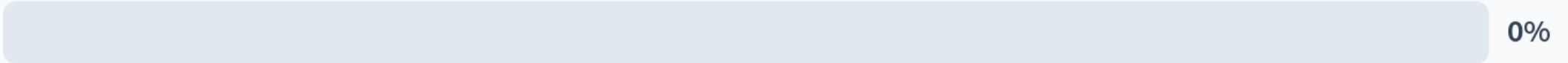
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No



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Still a work in progress, but soon



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# Disclosure Policies and Procedures

- Provides general guidelines for the preparation of initial and continuing disclosure, including:
  - ❖ Identifying members of the Disclosure Working Group
  - ❖ Roles and responsibilities of Disclosure Working Group members for preparing disclosure
  - ❖ Defining a process for drafting, reviewing, and finalizing all disclosure documents
  - ❖ Identifying person(s) responsible for providing final sign-off for prepared disclosure
  - ❖ Empowering staff at all levels to provide input
  - ❖ Providing legislative body sufficient time for review and comment
  - ❖ Providing for periodic review and update of disclosure policies and procedures

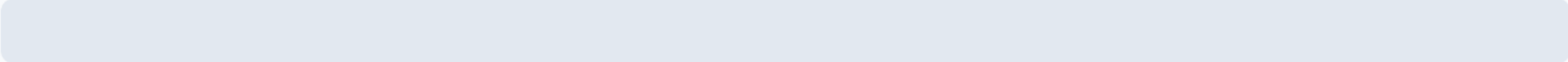


# Disclosure Policies and Procedures – (cont. 2 of 2)

- Incorporates best practices
- Focuses on the “big picture”
- Encourages disclosure of the good **and** the bad
- Retains knowledgeable counsel and professionals
- Provides appropriate and regular training to officials and staff
- Is reviewed and revised periodically by the disclosure working group

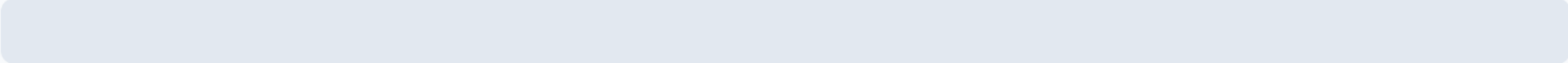
# Has your agency established a disclosure working group?

Yes



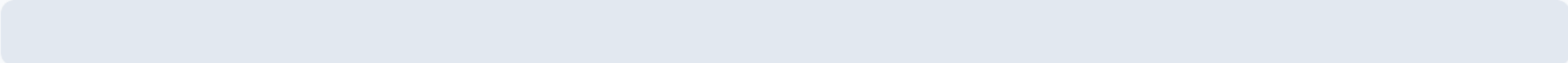
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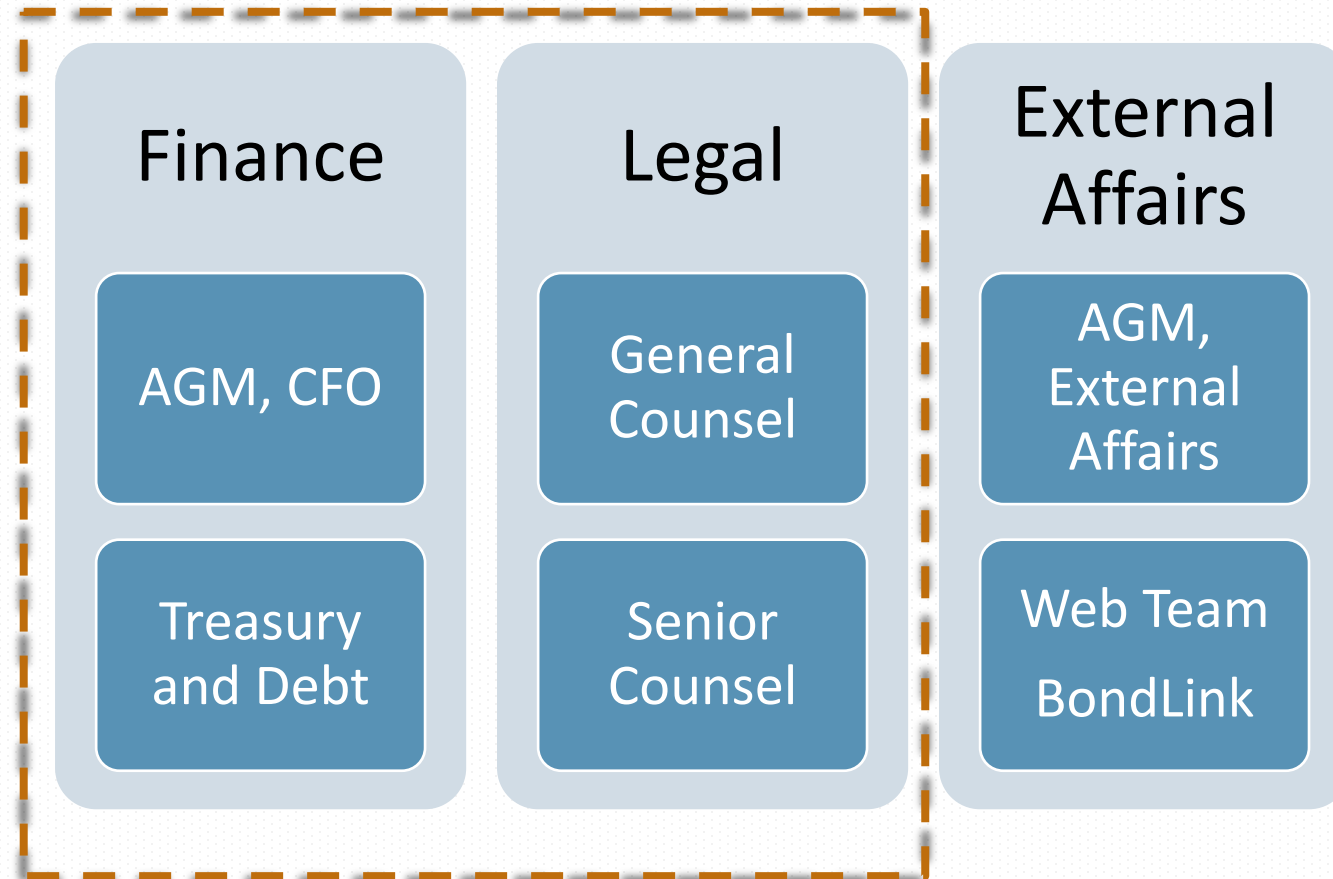
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# Metropolitan's Disclosure Working Group

- Metropolitan's Finance team partners with its Legal team (internal and external) through an official Disclosure Working Group to ensure we provide accurate and timely responses related to our public disclosure requirements.



*In addition, Finance and Legal coordinate with our External Affairs team to make relevant information available on our website as well as our customized Investor Relations portal.*



# Issuer Considerations

- Disclosures in the OS are important to protect the issuer
  - ❖ Include material risks that may arise related to the revenues, project, industry, demographics, etc.
- Development of OS
  - ❖ Work with the Issuer's Counsel to prepare document
  - ❖ Review all sections prepared by Disclosure Counsel from publicly available documents closely (read everything to ensure authenticity and accuracy)
  - ❖ Discuss industry-specific risks and what should be included in OS
  - ❖ Slow down a transaction when necessary or let Disclosure Counsel know if information is not yet available and when it is expected to be available (e.g. audited financial statements, pledged revenues, etc.)





# Issuer Considerations – (cont. 2 of 3)

## ➤ Possible Consequences of Inadequate Disclosure

- ❖ SEC Investigations; Enforcement actions
- ❖ Adverse publicity
- ❖ Personal liability and fines
- ❖ Lifetime bars from involvement in future municipal finance transactions; criminal charges against issuer officials
- ❖ Injunctions; Requirement to retain professionals
- ❖ Reduced Market access
- ❖ Imposition of new procedures and outside oversight to settle SEC actions
- ❖ Ratings downgrades, can trigger increased credit/liquidity provider fees



# Issuer Considerations – (cont. 3 of 3)

➤ Guidance from SEC Investigations:

- ❖ Orange County, CA (1996) – Failure of Board to review official statement
- ❖ County of Nevada, CA (1998) and Town of Ramapo, NY (2016) – Misleading financial information
- ❖ Massachusetts Turnpike Authority, MA (2002) - Failure to disclose construction risks
- ❖ State of New Jersey (2010) – Failure to disclose underfunding of state’s two largest pension plans in 79 offerings from August 2001 through April 2007
- ❖ City of Harrisburg, PA (2013) – Fraudulent public statements
- ❖ Beaumont Financing Authority, CA (2017) – False Statements in official statements
- ❖ Town of Sterlington, LA (2022) – Securities Fraud
- ❖ Rochester, NY (2022) – Use of outdated financial statements in official statement and failure to disclose the current financial status of issuer

# Conclusion

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- Disclosure evolves to reflect current circumstances and concerns
- Approach each financing with “fresh eyes”
- Frequent issuers should review Official Statement for “disclosure bloat”
- Raise concerning issues with your Issuer Team
- Make sure that all the right people are in the room
- Don’t ignore obligations under securities laws
- Tell the full story

# Additional Resources

- California Debt and Investment Advisory Commission [www.treasurer.ca.gov/cdiac](http://www.treasurer.ca.gov/cdiac)
- Government Finance Officers Association [www.gfoa.org](http://www.gfoa.org)
- Municipal Securities Rulemaking Board [www.msrb.org](http://www.msrb.org)
- National Association of State Auditors, Comptrollers and Treasurers [www.nasact.org](http://www.nasact.org)
- National Federation of Municipal Analysts [www.nfma.org](http://www.nfma.org)
- Securities Industry and Financial Markets Association [www.sifma.org](http://www.sifma.org)

# QUESTIONS?



**JACQUELYNNE JENNINGS**

*Partner*

ArentFox Schiff LLP

**SAMUEL SMALLS**

*Treasury and Debt Manager*  
Metropolitan Water District  
of Southern California





# THANK YOU

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Please complete the seminar evaluation and leave it on your table.

## UPCOMING EVENTS

### **Annual Municipal Disclosure Training**

October 15, 2024 | Webinar

### **23<sup>rd</sup> Annual CDIAC Pre-conference to *The Bond Buyer's* California Public Finance Conference**

October 23, 2024 | San Francisco, CA

### **Practical Adaptations to the Evolution of Credit Ratings**

November 19, 2024 | Webinar

For more information, visit:  
[treasurer.ca.gov/CDIAC/seminars](https://treasurer.ca.gov/CDIAC/seminars)