


Municipal Bonds Overview
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Joseph Robertson
Managing Director, Public Finance
Northland Securities, Inc.
614.309.9190
jrobertson@northlandsecurities.com




www.northlandsecurities.com
Member FINRA and SIPC / Registered with SEC and MSRB

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I. Municipal Bonds Overview




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Types of Municipal Financing


- **Types of Financings**
 - Short Term Bond Anticipation Notes
 - Typically one-year maturity
 - Long-Term Bonds / Obligations
 - Typically 10-year to 40-year final maturity
- **Types of Pledged Revenues for BANs and Bonds**
 - **Taxes**
 - General Obligation (Ad Valorem)
 - Unlimited Tax
 - Limited Tax
 - Income tax and sales tax bonds
 - **Project Revenues**
 - Water Revenue
 - Sewer Revenue
 - Economic Development Revenue

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General Municipal Bond Financing Process


- Finance Plan is created
- Governmental entity reviews and passes approving legislation
- Initial draft of the Preliminary Official Statement (POS) is prepared by bond counsel with input from issuer and underwriter/municipal advisor
- Financial information and draft POS is sent to selected rating agency
- Rating call occurs where rating analyst and issuer discuss pertinent questions, with assistance from underwriter/municipal advisor
- Rating is provided by rating agency
- Preliminary Official Statement is finalized and sent to potential investors
- Pricing occurs where underwriter markets and sells bonds to investors
- The Final Official Statement is prepared and sent to buyers of the Bonds
- All legal documentation is finalized and executed
- Underwriter/municipal advisor prepares a closing memorandum to assist Paying Agent/Trustee in transferring bond proceeds to the appropriate recipient
- Closing/Funding occurs and all parties acknowledge receipt of funds
- Construction of project commences

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Short-Term versus Long-Term Debt


- **Bond Anticipation Notes (BANs) - Advantages**
 - Short-term interest rate, which is typically lower than long term bond interest rates.
 - 10-year tax-exempt rate (MMD) is currently lower than 1-year MMD (as of September 7th)
 - However, 13-Year+ MMD is higher than 1-year MMD
 - Taxable long-term rates are currently lower than short-term
 - Offers greater flexibility as the issuer determines amount of principal to pay annually
 - Generally lower financing costs
 - Generally less time to fund project (30 - 45 days)
- **Disadvantages:**
 - Greater burden on issuer over time as approval, marketing and sale occurs annually until rolled over into long-term bonds
 - Financing costs are paid with each annual issuance of BANs
 - Subjects issuer to interest rate risk as new rate is set annually

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Short-Term versus Long-Term Debt

- **Bonds - Advantages**
 - Generally have a final maturity of between 10 and 30 years
 - Fixed interest rates - cost certainty
 - Typically include an optional call feature allowing for refunding for interest savings in 5 - 10 years after issuance
 - Financing is one-time versus annual with BANs
- **Disadvantages:**
 - Principal payments (amortization) is set at issuance and is unable to be adjusted until an optional call is available in 5 - 10 years
 - Interest rates are **generally** higher than BANs
 - Currently, all-in rates for Bonds and BANs are similar (as of September 7th)
 - Greater burden on issuer upfront as an official statement must be prepared with majority of information coming from the issuer
 - Issuer must also apply for a bond rating, with assistance from Underwriter/municipal advisor




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Municipal Bonds Overview - Participants

- **Participants**
 - **Issuer** - Governmental Entity with authority to issue bonds
 - State, County, City, Township, Village, Port Authority, New Community Authority
 - **Bond Counsel** - Legal opinion that ensures:
 - Bonds are legal, binding and valid obligations
 - Confirms that interest is exempt from Federal, State and/or local taxes, if issuing tax-exempt bonds
 - **Underwriter** - Broker-Dealer who assists issuers in structuring and offering bonds to the public market
 - Assist in finance plan development
 - Provides pricing guidance and markets the bonds to potential investors
 - At pricing, buys the bonds and resells to bond investors
 - Performs verification of Issuer continuing disclosure performance




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Municipal Bonds Overview - Participants

- **Participants (Cont)**
 - **Municipal Advisor** - Assists issuers throughout the bond issuance process
 - Assists in finance plan development
 - Provides pricing guidance
 - Assists during the document review and rating process
 - **Paying Agent/Trustee** - Trust division of a Bank or financial institution that enforces the terms of the bond indenture
 - Responsible for confirming bond principal and interest payments are made on time
 - Protects bondholder interests during a default event
 - **Rating Agency** - Rate bond issuers to provide market with a single metric to help gauge overall credit strength of each issuer
 - Broaden investor base
 - Bond investors are heavily reliant on an issuer's rating
 - **Other Possible Participants**
 - Credit Enhancement - Increases the issuer's bond rating for a fee
 - Escrow Agent - Holds securities to pay debt service on the bonds
 - Verification Agent - Confirms cash flow sufficiency in a refunding




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Municipal Bonds Overview – Private Placements


- **Private Placement**
 - A direct bank loan acquired with the assistance of a placement agent
 - Placement agent assists issuer with structuring and securing the direct loan
 - Typically involves the creation and distribution of a term sheet by the placement agent, which describes the financing and solicits bids from potential lenders
 - Placement agent assists in reviewing all responses, finalizing the terms and closing the financing.
- **Advantages:**
 - Funding timeline significantly reduced as no offering document, rating or presentations are required
 - Exempt from 15(c)2-12 continuing disclosure requirements
 - Interest rates are often comparable to a publicly sold bond issuance
- **Disadvantages:**
 - Generally 15-year term or less is most common
 - 20-year term is a possibility, but potential lender pool is much smaller
 - Loan size of \$10,000,000 or less is typical as larger loans will shrink the lender pool



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II. Bond Rating Process




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Bond Rating Process

- **How Does the Bond Rating Process Work?**
 - Rating agency will request certain information from the Issuer:
 - Previous three years of audited financial statements
 - Current year budget or other unaudited year-to-date financial statements
 - Substantially complete version of the offering document (typically a Preliminary Official Statement)
 - Any other information rating agency deems pertinent
 - A rating call will be scheduled
 - Rating agency will send a list of questions based on the information sent, to be discussed on the rating call
 - Prepare for rating call
 - Rating Call will typically last for about one hour
 - Rating will be provided, generally, in approximately 2 weeks



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Bond Rating Process

- Rating Factors**
 - The bond rating agencies use both qualitative and quantitative factors to determine a governmental entity's rating.
 - Two-pronged rating methodology:
 - A scorecard which is composed of various factors and sub-factors taken from audited financial statements and other sources.
 - Additional considerations which are outside of the scorecard parameters.
 - The discussed methodology includes the following debt instruments for Counties, Cities, Townships and Villages:
 - Unlimited Tax Obligation
 - Limited Tax Obligation
 - Lease Obligations

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Bond Rating Process

| | Moores's Investment Grades | Fitch Ratings | ISIP Global Ratings | Rating Grade Description |
|-------------------|-------------------------------|---------------|------------------------|--|
| Investment Grade | Aaa | AAA | AAA | Strong credit quality, lowest level of credit risk |
| | Aa1 | AA+ | AA+ | Very high credit quality with very low credit risk |
| | Aa2 | AA | AA | |
| | Aa3 | AA- | AA- | |
| | A1 | A+ | A | High credit quality with low credit risk |
| | A2 | A | A- | |
| | A3 | A- | A- | |
| | Baa1 | BBB+ | BBB+ | Good credit quality with moderate credit risk |
| | Baa2 | BBB | BBB | |
| | Baa3 | BBB- | BBB- | |
| Speculative Grade | Ba1 | BB+ | BB+ | Speculative with substantial credit risk |
| | Ba2 | BB | BB | |
| | Ba3 | BB- | BB- | |
| | B1 | B+ | B+ | Highly speculative with high credit risk |
| | B2 | B | B | |
| | B3 | B- | B- | |
| | Caa1 | CCC+ | CCC+ | Substantial credit risk with default as a real possibility |
| | Caa2 | CCC | CCC | |
| | Caa3 | CCC- | CCC- | |
| | Distressed Grade | C | C | C |
| CC | | CC | CC | |
| CCC | | CCC | CCC | |
| CCC- | | CCC- | CCC- | |
| Default | NC | NC | NC | Default or default in process has begun |
| | D | D | D | |

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Bond Rating Process

- How Does a Rating Scorecard Work?**
 - Composed of multiple factors and sub-factors.
 - Economy** 30%
 - Resident Income 11%
 - Full Value Per Capita 10%
 - Economic Growth 10%
 - Financial Performance** 30%
 - Available Fund Balance Ratio⁽¹⁾ 20%
 - Liquidity Ratio⁽²⁾ 10%
 - Institutional Framework** 10%
 - Leverage** 30%
 - Long-Term Liabilities Ratio 20%
 - Fixed-Costs Ratio⁽³⁾ 10%

(1) Available Fund Balance = Net Current Assets / Revenue
 (2) Unrestricted Cash / Revenue
 (3) Adjusted Fixed Costs / Revenue


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Bond Rating Process


- **How Does a Rating Scorecard Work?**
 - A scorecard gives a general idea of the strength of a governmental entity
 - There are several secondary factors included in the scorecard which may influence the final rating decision
 - Additional strength in local resources (*Benefit*)
 - Limited scale of operations (*Weakness*)
 - Financial Disclosures (*Weakness*)
 - Potential Cost Shift to or from State (*Benefit or Weakness*)
 - Potential for significant change in leverage (*Benefit or Weakness*)

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Bond Rating Process


- **Other Factors Beyond Scorecard**
 - Considered outside of a scorecard as each factor's importance to a governmental entity's credit varies widely. Below are examples of such factors:
 - **Environmental, Social and Governance**
 - Potential exposure to extreme weather events
 - Positive / adverse trends in statistical characteristics of population
 - Labor market conditions
 - Risk of labor strikes
 - Housing affordability
 - Poverty rate
 - **Event Risk**
 - Natural disasters
 - Sudden changes in State law or regulation
 - Material litigation
 - Cybercrime
 - Pandemics

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Bond Rating Process

- **Other Factors Beyond Scorecard (Cont)**
 - Considered outside of a scorecard as each factor's importance to a governmental entity's credit varies widely. Below are examples of such factors:
 - **Economic Concentration**
 - How dependent governmental entity is on a single taxpayer or industry
 - Presence of certain types of industries can stabilize and strengthen economic base (State government, higher education or military)
 - **Strength of Revenue Sources**
 - Unpredictable revenue sources can result in budget imbalances and reduce financial stability
 - **Fund-specific Financial Considerations**
 - Scorecard metrics based on all governmental and business-type activities may obscure strengths or weaknesses of overall credit profile
 - Considers restrictions on ability to move money across activities funds

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Bond Rating Process

- **Other Factors Beyond Scorecard (Cont.)**
 - Considered outside of a scorecard as each factor's importance to a governmental entity's credit varies widely. Below are examples of such factors:
 - **Financial Controls**
 - Rating agency depends on accuracy of financial statements to assign and monitor ratings.
 - Centralized oversight of operations
 - Consistency in accounting policies and procedures
 - **Benefit / Risk of Long-Term Liabilities**
 - Rapidly paying off debt with recurring revenue (*Benefit*)
 - High current debt service costs (*Risk*)
 - Variable rate debt and swaps may put downward pressure on credit quality due to remarketing risk (*Risk*)

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III. Economic Development Overview

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Economic Development

- **What is economic development?**
 - All activities or programs which cause job creation, further investment and enhances communities.
- **Ohio Constitution Definition (Article VIII, Section 13)**
 - Create or preserve jobs and employment opportunities;
 - Improve the economic welfare of the people of the state;
 - Control air, water and thermal pollution, and
 - Dispose of solid waste.


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Economic Development


- For local municipalities, economic development consists of utilizing various tools which advances these goals.
- There are three different types of such tools:
 1. Redirect existing taxes
 2. Add additional taxes
 3. Abate existing taxes
- Economic development can include partnering with, or creating, special entities designed to assist with a municipality's economic development goals:
 - Port Authorities
 - New Community Authorities
 - Special Improvement Districts
 - Community Improvement Corporations

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What is TIF and How does it Work?


- **TIF?**
TIF stands for Tax Increment Financing.
- **How does a TIF Work?**
 - Redirect a portion of the increased property taxes (or "tax increment") from the construction of a new Project
 - Use increment to pay for qualified costs
- **Who can create a TIF?**
County, City, Township or Village

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What is TIF and How does it Work?

- **TIF Basics**
 - Period: Up to 30 Years
 - Percentage: Up to 100%
 - No impact on existing taxes
 - Approvals: TIF that exceeds 75% or 10 years requires School District approval


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Typical Example of TIF

75% TIF (10 Years)


- Project generates \$10,000 in existing real property taxes.
- New project will generate an **additional** \$100,000.
 - The existing \$10,000 remains with taxing jurisdictions.
 - \$25,000 (25% of increase) will be paid to the taxing jurisdictions.
 - \$75,000 (75% of increase) will be used to pay debt service on Bonds or project costs over time.

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What Costs can be Paid with TIF?


- Roads and Bridges
- Site Acquisition and Demolition Costs
- Curbs, Gutters, Sidewalks
- Storm and Sanitary Sewers
- Utilities
- Traffic Signals and Signage
- Lighting, Fencing and Landscaping
- Public Parking
- TIF Financing Costs
- Private Improvements (if project qualifies)

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Major Types of TIFs


- **Commercial / Parcel TIF**
 - Generally, captures commercial and industrial improvements rather than residential
 - Funds public infrastructure improvements
- **Special Municipal TIF (SMTIF)**
 - For urban redevelopment purposes
 - Can fund any urban redevelopment cost
 - Can also fund public infrastructure improvements
- **Incentive District (RIDZ)**
 - Generally, used to TIF residential projects
 - Funds public infrastructure improvements
 - Certain levies are excluded from the TIF
- **Downtown Redevelopment Districts**
 - Captures less increment than other TIFs (generally 70% maximum exception and excludes certain levies similar to RIDZ)
 - Funds public infrastructure improvements
 - Can also fund loans or grants for historic building renovation, loans for non-historic building renovations, contributions to SIDs and CIDs, and loans or grants for technology businesses
 - Cannot fund redevelopment of residential areas

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What is NCA and How does it Work?

- **NCA?**
 - NCA stands for New Community Authority.
 - Separate governmental entity created to assist in the development of a new community.
- **How does an NCA Work?**
 - Petition filed by the person/entity who owns or controls the land
 - The Petition must be approved by the Board of County Commissioners in which the NCA is located
 - Allows for the levying of a community development charge to pay for eligible public improvements related to the development
 - Such assessment runs with land




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What is NCA and How does it Work?

- **NCA Basics**
 - Period: Continual, until all eligible costs are paid
 - Charge: Can be determined on the basis of real property assessed valuation, the income of residents of the NCA, the profits of businesses within the NCA, a uniform fee per parcel or any combination of the foregoing.
 - Ability to issue tax-exempt or taxable bonds based on revenues
 - Size Limitation: No minimum acreage required regardless of location for new NCA.



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What Costs can be Paid with Community Development Charge?

- Roads and Bridges
- Site Acquisition and Demolition Costs
- Curbs, Gutters, Sidewalks
- Storm and Sanitary Sewers
- Utilities
- Traffic Signals and Signage
- Lighting, Fencing and Landscaping
- Public Parking
- NCA Financing Costs




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What is JEDD and How does it Work?

- **JEDD?**
JEDD stands for Joint Economic Development District.
- **How does a JEDD Work?**
 - Enables villages, townships and cities to cooperatively address concerns associated with economic development and annexation pressures.
 - Allows for a levy of income taxes within the District
 - Such income taxes is shared by the parties to the JEDD to provide additional services, new facilities or enhanced infrastructure
 - Avoids the need for a City to annex land to spur economic development




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What is PACE and How does it Work?

- **PACE?**
PACE stands for Property Assessed Clean Energy Bonds
- **How does PACE Work?**
 - Owner requests municipality to levy a voluntary special assessment to repay the PACE Bonds used to make energy improvements
 - Municipality creates an energy special improvement district (ESID)
 - Amount of annual special assessments is equal to the annual principal and interest on such bonds.
 - County collects special assessments with real estate taxes and sends to the municipality, which remits it to the bond trustee.




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What is PACE and How does it Work?

- **Benefits of PACE**
 - Reduced operating costs for the Owner of project
 - Up to 30-year financing
 - Strong revenue stream for bondholders:
 - Special Assessments are a tax lien similar to real property taxes.




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What Costs can be Financed with PACE?

- Any improvement that reduces energy costs:
 - Certain upgrades to equipment
 - Lighting
 - Heating, Ventilation and Air Conditioning
 - Insulation, Windows, Doors and Roofs
 - Electrical and mechanical upgrades
 - Solar and Geo-Thermal
 - Many other energy improvement costs
 - PACE Financing Costs




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What is CRA and How does it Work?

- CRA?**
CRA stands for Community Reinvestment Area.
- How does a CRA Work?**
 - Once designated, the CRA allows the granting of real property tax exemptions of up to 100% on residential, commercial, or industrial projects
 - Applicable to new construction or renovation of existing structures
 - Exemptions can extend up to 15 years (or 30 years for qualifying "Mega Project")




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What is CRA and How does it Work?

- CRA Basics**
 - Period: Typically, up to 15 years
 - Percentage: Up to 100%
 - Approvals: As of April 2, 2023, CRA that exceeds 75% requires School District approval




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Port Authorities

- **Port Authority Powers**
 - Established by one or more political subdivision(s)
 - County, Municipality or Township
 - Chapter 4582 provides port authorities with broad powers to promote economic development by:
 - Issuing tax-exempt bonds (for qualified projects)
 - Financing projects that create jobs;
 - Financing public infrastructure projects;
 - Directly undertaking permissible redevelopment projects; and
 - Administering loan, grant and abatement programs




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Port Authorities

- **Port Authority Powers (cont.)**
 - Ability to convey or lease real or personal property for any authorized purpose (*Capital / Sales Tax Lease Financings*)
 - Typically exempt from:
 - Competitive bidding requirements
 - Prevailing wage requirements
 - "Port authority facilities" are generally exempt from sales and use tax
 - Area of jurisdiction is confined to the territory of the creating political subdivision.




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Port Authorities

- **Port Authority Powers (cont.)**
 - Financings through port authorities usually includes various types of economic development tools, such as:
 - TIF Financing
 - Special Assessment Financing
 - Capital Lease Financing
 - PACE Financing
 - CRA abatements
 - New Community Authority
 - Joint Economic Development District (JEDD)




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What is CIC and How does it Work?

- **CIC?**
CIC stands for Community Improvement Corporation.
- **How does a CIC Work?**
 - Creating political subdivision files articles of incorporation with Secretary of the State of Ohio
 - At least 40% of board members must be appointed or elected officials of the creating political subdivision for the CIC to be designated as the agency for such subdivision's commercial, industrial, research or distribution development.




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What is CIC and How does it Work?

- **CIC Basics**
 - Ability to acquire, sell or lease property
 - If acquiring from a political subdivision, no public sale requirements
 - Ability to sell or lease property owned by a political subdivision as agent with no public sale requirements
 - May issue revenue bonds secured by lease/mortgage and revenues of the CIC
 - Cannot levy taxes or issue tax-exempt bonds
 - No competitive bidding / prevailing wage



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Northland Public Finance

Northland Public Finance
The Public Finance group of
Northland Securities, Inc.
Member of FINRA and SIPC | Registered with SEC and MSRB

Ohio Office:
9757 Fairway Drive
Powell, OH 43065
Phone: 614-309-9190

Corporate Office:
150 South Fifth Street, Suite 3300
Minneapolis, Minnesota 55402
Phone: 800-851-2920

www.northlandsecurities.com/public_finance



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