

THE NEW JERSEY STATE LEAGUE OF MUNICIPALITIES



Issuing Municipal Bonds and Notes

November 16, 2016

ROOTED IN TRUST



Discussion Topics

1. How Do I Issue Bonds or Notes for a Capital Project?
2. Things to Think About
3. Preparing for the Bond Sale
4. Competitive vs. Negotiated
5. Other Participants in a Bond Transaction
6. Types of Bonds
7. Types of Notes
8. Refunding Bonds

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How do I Issue Bonds or Notes for a Capital Project?

Assemble the Finance Team and Initial Steps



Assemble the Finance Team

❖ **Bond Counsel** - renders an opinion that the bonds are valid and legally binding obligations of the issuer, and the interest is free of federal and state income tax. An investor requires an unqualified opinion for purchase. Bond counsel generally takes responsibility for drafting documents related to the bonds.

❖ **Financial Advisor** - ensures that the bonds are fairly priced, apprising the issuer of market conditions and developments which can affect the sale of the bonds, provides financial analysis and structuring advice, ensures that the market views the bonds in the best possible credit perspective and review the bonding documents to ensure the issuer maintains maximum financial flexibility.

❖ **Auditor** - provides financial statements and at minimum provides a *Letter of Consent* to include the financial statements in the Official Statement.

Initial Steps

- ❖ Calculate maximum size of possible borrowing amount
- ❖ 5% down payment raised in municipal budget
 - A waiver of down payment requires State Local Finance Board approvals
- ❖ Available Borrowing Capacity N.J.S.A. 40A:2-6
 - Exceeding your borrowing capacity requires State Local Finance Board approvals
 - County 2%; Municipality 3.5% of 3 yr. average valuation
- ❖ Bond Ordinance - 2 readings with publication and public hearing

Things to Think About...

- ✓ When are funds needed?
- ✓ The timing of authorization of bond ordinance and debt issuance as it relates to budget planning
 - *When will the first payment be and how will it affect my budget*
- ✓ Will temporary notes need to be authorized?
- ✓ What does my existing debt look like?
- ✓ When is the best time to make debt service payments from a budgeting perspective?
- ✓ Set closing date of bond/note issue

Notes

- Issued for 1 year or less
- Can be renewed (issued annually on anniversary date) for a period not to exceed 10 years
- After year 3, annual installment toward principal required upon renewal of note
- Why issue notes?
 - Lower interest cost
 - Short maturity schedule (useful life)
 - Accumulate debt obligations for permanent bond issue
 - Construction schedule

Bonds

- Issued over term of useful life of projects
- Fixed rate for term of bonds
- Structure with call feature to allow ability to refund in the future
- Why issue bonds?
 - Rates are low and long term rates are on the rise
 - Existing debt has capacity to absorb debt service payments
 - Short construction period

Preparing for the Bond Sale

Necessary Steps



- ✓ **Decide on a principal repayment structure**
 - What can you afford? What is the tax impact?
 - Does your proposed maturity structure conform to local bond law?
 - A non-conforming maturity schedule requires State Local Finance Board approval
 - Principal must be paid within 1 year from date of issue
 - No annual principal payment shall exceed by more than 100% the amount of the smallest installment
- ✓ **Select payment dates for principal and interest**
 - Bond sale timing and preparation of the budget
- ✓ **Bonds (other than Refunding Bonds) are required to be sold by competitive sale**

Township of XYZ
 General Obligation Bonds, Series 2015 and
 Bond Anticipation Notes, Series 2015
Financing Schedule as of October 19, 2015

Oct-15							Nov-15							Dec-15						
M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S
			1	2	3	4							1		1	2	3	4	5	6
5	6	7	8	9	10	11	2	3	4	5	6	7	8	7	8	9	10	11	12	13
12	13	14	15	16	17	18	9	10	11	12	13	14	15	14	15	16	17	18	19	20
19	20	21	22	23	24	25	16	17	18	19	20	21	22	21	22	23	24	25	26	27
26	27	28	29	30	31		23	24	25	26	27	28	29	28	29	30	31			
							30													

Week Of	Task
October 19 th	- Begin work on Preliminary Official Statement ("POS") and Appendix A
October 26 th	- Distribute 1st draft of POS and Appendix A - Solicit Credit Rating from S&P
November 2 nd	- Distribute 2nd draft of POS and Appendix A
November 9 th	- Township Council Adopts Form and Sale Resolution and Combining Resolution (11/10) - Rating Review Call (TBD) - Final comments due on POS and Appendix A - Publish Notice of Sale ("NOS") in Bond Buyer
November 16 th	- Receive Credit Rating (TBD) - Electronic posting/dissemination of POS/NOS (11/17)
November 23 rd	- Competitive Bond and Note Sale/Award Bonds (11/24) - <i>Thanksgiving (11/26)</i> - Distribute draft of Final Official Statement ("OS")
November 30 th	- Final comments due on OS - Print and Mail Final OS (within 7 days of bond/note sale)
December 7 th	- Pre-Closing (12/10) - Closing (12/11)

Preparing for the Bond Sale

Necessary Steps

✓ Apply for a Bond Rating

- What is the current underlying rating of the local government?
- Does my bond issue allow for any enhanced bond ratings?

Moody's	Standard & Poor's	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

✓ Prepare Official Statement for investors

- Update local demographic information
- Include recent financial statements

✓ Prepare Bid Form & Notice of Sale

- Sets sale date and bid parameters
- Provide for flexible bidding options

✓ Determine whether you are in compliance with Secondary Market Disclosure requirements

- www.emma.msrb.org
- Why is this important?

✓ Select type of electronic bond sale

- Parity – 1 time bid submission
- MuniAuction – Auction style bidding format

✓ Good Faith Deposit

- 2% of par required to be submitted prior to bid (typically by wire transfer to issuer)



Observation MuniAuction®

Auction Date: Thu, May 15, 2014 | Type: AON | Start: 11:00:00 am | End: 11:17:53 am | Last Update: 11:18:41 am EDT | Status: Over

Auction Closed At 11:17:53 am

\$19,379,000

The Board of Education of the Township of Middletown, Monmouth County, New Jersey
School Bonds
Series 2014

Bidder	Firm	NIC	Time	Gross Interest	Discount (Premium)	Total Interest
1st	UBSS-JO	UBS Financial Services	2.623021%	11:15:53 am	\$4,477,405.10 (0.00)	\$4,477,405.10
2nd	ROBE-CG	Robert Baird	2.631405%	11:14:12 am	\$4,491,715.47 (0.00)	\$4,491,715.47
3rd	JANN-MD	Jamney Montgomery Scott	2.674972%	11:11:30 am	\$4,566,083.00 (0.00)	\$4,566,083.00
4th	FTNF-VP	FTN Financial	2.684029%	11:13:20 am	\$4,581,543.22 (0.00)	\$4,581,543.22
5th	HUTC-JV	Hutchinson Shockey Erley	2.744628%	11:13:36 am	\$4,684,983.97 (0.00)	\$4,684,983.97
6th	PNCC-SC	PNC Capital Markets	2.793020%	11:06:46 am	\$4,767,586.61 (0.00)	\$4,767,586.61



Bid Results

Burlington County
\$74,833,748 Bond Anticipation Notes of 2014, Series A:
\$56,140,348 General Improvement, Series A-1
and \$18,693,400 Solid Waste Utility, Series A-II

The following bids were submitted using **PARTY®** and displayed ranked by lowest NIC. Click on the name of each bidder to see the respective bids.

Amount Awarded (M)	Bidder Name	NIC	Bid Amount
74,833.74	Morgan Stanley & Co. LLC	0.131281	74,833,748M
	TD Securities	0.131783	74,833,748M
	J.P. Morgan Securities LLC	0.141309	74,833,748M
	Jefferies LLC	0.148329	74,833,748M
	PNC Capital Markets	0.169387	74,833,748M
	Wells Fargo Bank, National Association	0.198774	74,833,748M

Competitive vs. Negotiated Sale

COMPETITIVE SALE

- Pre-selected sale date
- Underwriters or syndicates of underwriters submit sealed bids to purchase the bonds
- N.J.S.A. 40A:2-27 provides that bonds be sold competitively (other than refunding bonds)
 - If issued through a conduit issuer a negotiated sale may be utilized if such financing is approved by Local Finance Board
- Typically refunding issues do not sell competitively unless it can be combined with another issue to save on costs of issuance

NEGOTIATED SALE

- Underwriter is pre-selected to offer bonds in the market place
- Flexibility in sale date protects from market volatility
- On the pricing day, the financial advisor negotiates with the underwriter for the best rate in the market place for the bonds to provide for the greatest amount of savings
- Pre-marketing of issue to institutional and retail investors
- Refunding Bonds can be sold on a negotiated basis
- Beneficial for difficult credits and or story bonds

Other Participants in a Bond Transaction

- ❖ **Underwriter:** Investment banking firm, securities firm or bank who buys the bond from the Issuer and resells the bond to investors. A group of underwriters may be formed to purchase an Issuer's bonds. The underwriting group may be broken down into three components: the senior or lead manager, co-managers and the selling group or syndicate. The senior underwriter is the most coveted position since it controls the distribution of bonds and establishes the sales rules.
- ❖ **Underwriter's Counsel:** Represents the underwriter and is primarily responsible for ensuring that pertinent information relating to the Issuer and the sale of the bonds has been disclosed and that due diligence has been used in obtaining this information. The Underwriter's obligation to exercise due diligence arises from Securities and Exchange regulation 10(b)5.
- ❖ **Paying Agent:** Bank or financial institution responsible for paying principal and interest on the bonds to the bond holders upon receiving funds from the Issuer. Many General Obligation issuers act as their own Paying Agents.
- ❖ **Credit Rating Agencies:** There are three rating agencies who provide credit ratings on municipal bonds: Moody's Investors Service, Standard & Poor's Corporation and Fitch Investor Service. A rating represents an issuer's ability to repay its debt.
- ❖ **Bond Insurer:** Purpose of bond insurance is to elevate the bonds natural credit rating in order to increase competition for the bonds and lower interest rates. The underwriter or financial advisor must show that the cost of bond insurance is less than the debt service savings resulting from bond insurance. Bond insurance can be obtained for all the bonds or a portion of the bonds. Insurance is in place for the life of the issue.

Types of Bonds

General Obligation Bonds

- Full faith and credit of government
- Pledge of ad valorem taxation

Loan Revenue Bonds

- Security for bonds derived from revenues of the project and/or underlying general obligation
- Typically issued through a conduit issuer

Lease Revenue Bonds

- Project revenue security and/or underlying general obligation
- Typically issued through a conduit issuer
- 5% down payment exemption

Hybrid or special obligation bonds

- Security derived from revenues and/or special tax

Municipal Qualified Bonds

- Full faith and credit of government
- Pledge of ad valorem taxation
- Additionally secured by the Municipal Qualified Bond Act
 - Approved by Local Finance Board
 - Provides that the State shall withhold a portion of State aid payable to the issuer and forward such amount directly to the Paying Agent for payment on the Bonds

Redevelopment Area Bonds

- Secured by the assets and revenues of the project
 - Property
 - PILOT payments

Types of Notes

Bond Anticipation Notes

- Capital purposes
- Full faith and credit of government
- Pledge of ad valorem taxation

Special Emergency Notes

- Special emergency appropriations
- Upon maturity must pay 1/5 of previous year's note par
- Full faith and credit of government
- Pledge of ad valorem taxation

Tax Appeal Refunding Notes

- Funding of outstanding tax appeals
- Upon maturity must pay 1/5 of previous year's note par
- Full faith and credit of government
- Pledge of ad valorem taxation

Tax Anticipation Notes

- Cash-flow purposes
- Must be repaid within 120 days after the succeeding fiscal year
- Full faith and credit of government
- Pledge of ad valorem taxation

Refinancing Existing Debt

Identifying a Refunding

- ✓ Ask a professional to examine the following
 - ✓ Outstanding debt available for refunding
 - ✓ Call provisions
 - ✓ Current market conditions
- ✓ What savings thresholds need to be met
 - ✓ Refunding bonds that do not achieve 3% present value savings are not permitted without approval from the Local Finance Board
 - ✓ Refunding Bonds that exceed 3% present value savings and are structured to have approximately level annual savings
 - ✓ Pursuant to NJAC 5:30-2.5, a refunding that meets this requirement no longer needs LFB approval
 - ✓ A report must be filed with LFB within 10 days of the closing reporting the results of the refunding

What is present value savings?

Present value is a tool for making decisions today and present value savings is calculated by discounting, at an agreed upon interest rate (typically the arbitrage yield), the difference between the prior bond's and the refunding bond's debt service payments

How is 3% present value calculated?

Present value savings expressed as a % is calculated by dividing the present value savings by the amount of bonds to be refunded

Advance vs. Current Refunding



❖ Advance Refunding

- A refunding in which the refunded issue remains outstanding for a period of **more than 90 days** after the issuance of the refunding issue
- Tax Code only allows one tax-exempt advance refunding for each series of bonds
- Long escrow accounts, in a low interest rate environment carry a higher negative arbitrage amount
 - Evaluate whether it is advantageous to wait to do the refunding
 - Break-even analysis- How far do rates need to rise before the refunding no longer produces the same savings in today's market?
 - Maturity by Maturity – Which maturities in the refunding have less escrow efficiency?

❖ Current Refunding

- A refunding in which the refunded issue remains outstanding for a period of less than 90 days after the issuance of the refunding issue

Authorizing a Refunding

Assemble the Refunding Team

- ❖ **Bond Counsel**
- ❖ **Financial Advisor**
- ❖ **Auditor**
- ❖ **Underwriter**
- ❖ **Escrow Agent** –banking institution that holds/invest the funds required to pay off the refunded bonds . The escrow agent releases the notice of redemption and ensures that the payments held in escrow are paid to bondholders.
- ❖ **Verification Agent** – 3rd party that verifies all or some of the following: 1) yield on the bonds, 2) sufficiency and yield of escrow, and 3) transferred proceeds penalty. Bond Counsel will often rely upon the Verification Report when issuing their defeasance opinion.

Action Items

- ❖ Introduction of Refunding Bond Ordinance
 - Why does the not to exceed par amount of the refunding bonds sometimes exceed what is outstanding?
- ❖ Adoption and public hearing of Refunding Bond Ordinance
- ❖ Adoption of sale resolution authorizing the sale of refunding bonds

Refunding Bond Sale

- ✓ **Competitive vs. Negotiated Bond Sale**
 - ✓ **Which is better for a refunding?**

- ✓ **Refunding Escrow Account**
 - ✓ **What is an escrow?**
 - ✓ **How does the escrow work?**
 - ✓ **What are SLGS (State and Local Government Securities)?**
 - ✓ **What happens if SLGS are not available?**
 - ✓ **Bidding of Open Market Securities**
 - ✓ **What is negative arbitrage?**

- ✓ **When is a 3rd party verification agent required?**

- ✓ **Are there any additional sale options for smaller refundings?**

ESCROW REQUIREMENTS

School Refunding Bonds, Series 2013 (Refunded 2002 Series)
Market Conditions as of January 29, 2013
FINAL NUMBERS

Period Ending	Interest	Principal Redeemed	Total
08/01/2013	165,300.00		165,300.00
02/01/2014	165,300.00		165,300.00
08/01/2014	165,300.00		165,300.00
02/01/2015	165,300.00		165,300.00
08/01/2015	165,300.00	7,415,000.00	7,580,300.00
	826,500.00	7,415,000.00	8,241,500.00

ESCROW DESCRIPTIONS

Whiteland Township Board of Education
School Refunding Bonds, Series 2013 (Refunded 2002 Series)
Market Conditions as of January 29, 2013
FINAL NUMBERS

Type of Security	CUSIP or ID	Maturity Date	Par Amount	Rate	Yield	Interest Price Class	Interest Frequency	Interest Day Basis	
Feb 14, 2013:									
TNote	912828JG6	07/31/2013	95,000	3.375%	0.088%	101.515625	Periodic	Semiannual	ACT/ACT
TNote	912828JZ4	01/31/2014	96,000	1.750%	0.171%	101.515625	Periodic	Semiannual	ACT/ACT
TNote	912828LC2	07/31/2014	98,000	2.625%	0.235%	103.484375	Periodic	Semiannual	ACT/ACT
TNote	912828MH0	01/31/2015	98,000	2.250%	0.283%	103.843750	Periodic	Semiannual	ACT/ACT
TNote	912828NP1	07/31/2015	7,514,000	1.750%	0.340%	103.453125	Periodic	Semiannual	ACT/ACT
			7,901,000						