
Bonds 101

City of Manzanita



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What is a Bond?

- **“Bonds” are loans that are broken into pieces and sold to investors.**
- **Municipalities use bonds for major capital projects that cannot be financed on a pay as you go basis.**
- **Interest on municipal bonds is generally exempt from both federal and state income taxes, so rate is lower.**

Why do governments issue Municipal Bonds?

Municipal Bonds are most often issued to finance capital projects.

- Streets, Roads, Bridges
 - Schools, athletic facilities
 - Parks, Libraries, Police and Fire Stations
 - City Halls, County Courthouses
 - Utilities: Water, Wastewater, Electric
 - Airports
 - Mass transit
 - Hospitals, Universities
 - Housing
- Pay for the project over its useful life
 - Taxpayer equity – users of the project pay for it over the time period of use.

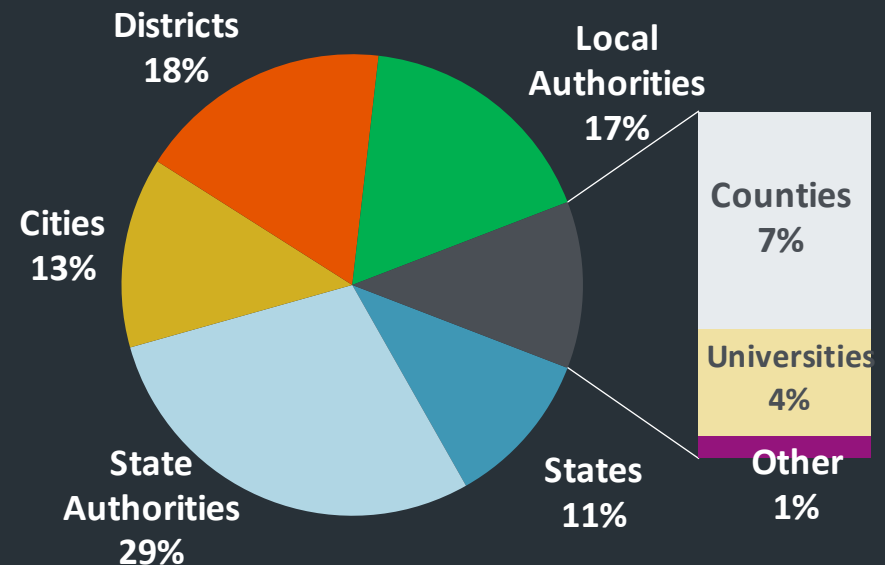


Issuers of Municipal Debt

Approximately 60,000 issuers

- All 50 states (or state authorities)
- 89,476 units of local governments (not all issue debt)
 - 3,031 COUNTIES
 - 19,522 MUNICIPALITIES (CITIES, TOWNS, VILLAGES)
 - 16,364 TOWNSHIPS
 - 37,203 SPECIAL DISTRICTS
 - 12,884 INDEPENDENT SCHOOL DISTRICTS

10 Year Average Share of Issuance Volume



Source: The Bond Buyer, US Census of Governments

Types of Municipal Bonds

- ✓ **General Obligation Bonds**
- ✓ **Full Faith and Credit Obligations**
- ✓ **Revenue Bonds**
- ✓ **Urban Renewal Bonds**
- ✓ **Local Improvement District Financings**
- ✓ **Local Option Capital Levies**

General Obligation Bonds

- Secured by “full faith and credit” of the Issuer
- Repaid from unlimited, additional property tax levy
- Requires Voter Approval
- Considered most secure form of municipal debt
- Typical usage: projects that have no revenue stream: city halls, courthouses, police and fire stations, parks, libraries

General Obligation - Use of Proceeds

- Proceeds may be used for “capital costs” = costs of land and other assets with a useful life of more than 1 year.
- “Weighted average life” of bonds may not exceed “weighted average life” of projects.
- “Routine” maintenance and supplies are not eligible.
- Any interest earnings on proceeds must be used in accordance with ballot title.

Election Schedule

Election Date	County Filing Date (SEL Form 805)⁽¹⁾	County Filing/ Voters' Pamphlet Deadline (SEL Form 803)⁽¹⁾	Ballots Mailed	First FY Taxes Levied
November 2, 2021	August 14	September 2	Oct. 15-19	FY 2022-23
March 8, 2022 ⁽²⁾	December 18	January 6	Feb. 18-22	
May 17, 2022	February 26	March 17	April 29-May 3	
September 20, 2022 ⁽²⁾	July 2	July 21	Sept. 2-6	FY 2023-24
November 8, 2022	August 20	September 8	Oct. 21-25	
March 14, 2023 ⁽²⁾	December 24	January 12	Feb. 24-28	
May 16, 2023	February 25	March 16	April 28-May 2	

Note: Dates associated with future elections are preliminary, subject to change.

- ✓ Check with your County elections office to verify filing deadlines.
- ✓ All elections are by mail.

- 1) SEL Form 805 includes ballot title, and may include explanatory statement. Must be filed 81 days prior to election to allow for challenge process. Final filing is 61 days prior to election (SEL Form 803).
- 2) Subject to double majority provisions.

Full Faith and Credit Obligations

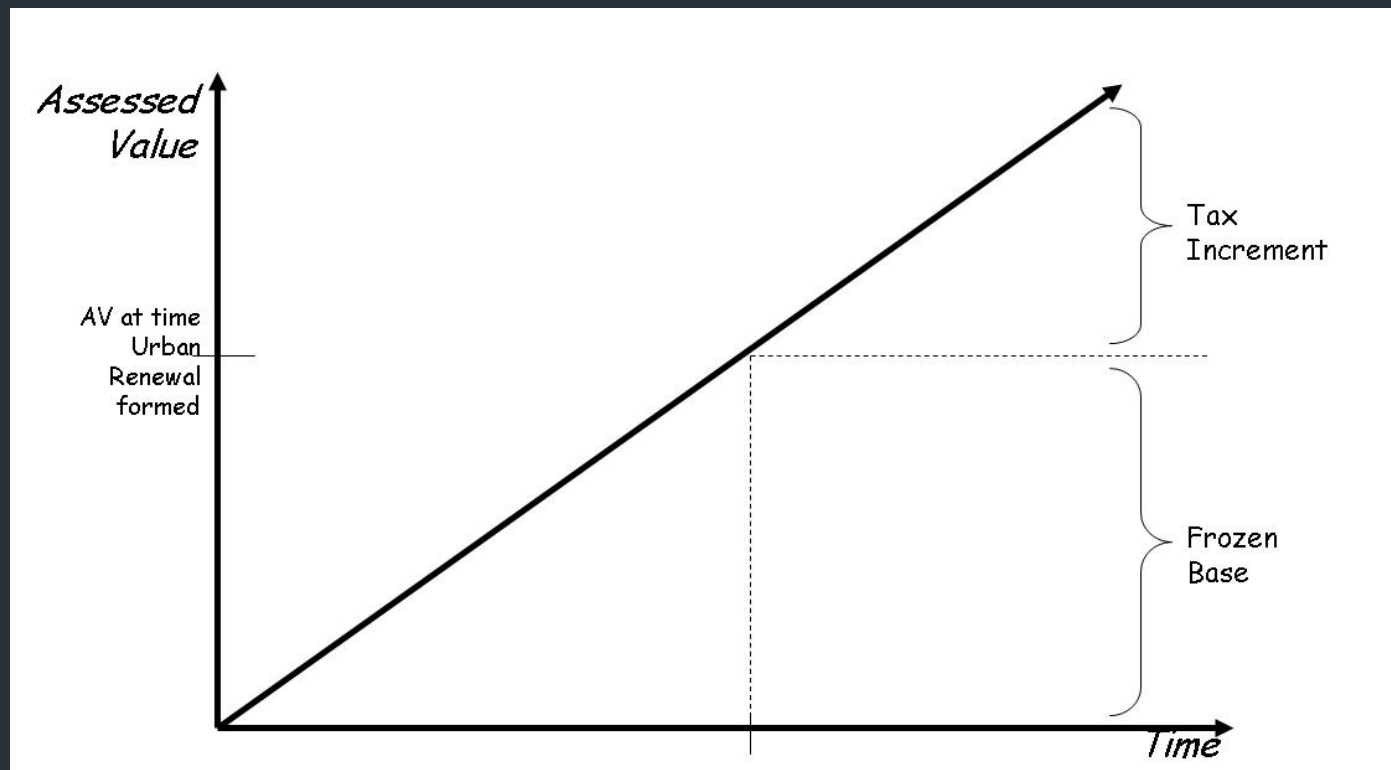
- Secured by Issuers “full faith and credit”
- Unconditional pledge of existing general fund or other monies
- Voter approval not required, but no additional revenues provided.
- Typical usage: smaller projects with no revenue stream.

Revenue Bonds

- Repaid from revenue stream, typically generated by financed project.
- Generally not supported by FFC or taxing power of Issuer. However, hybrid GO/Revenue “double barreled” bonds possible.
- Voter approval generally not required
- Typical usage: utilities (water, wastewater, electric), airports (passenger facility charges; federal subsidies), toll roads, mass transit, housing

Urban Renewal

- Financing tool to improve ‘blighted’ areas that are poorly developed or underdeveloped.
- Area value is ‘frozen’; any property tax revenues generated through growth in value (“Tax Increment Revenues”) goes to urban renewal agency to repay debt.



Local Improvement District (LID) Financings

- Repaid from assessments on benefitted properties within specified geographic area.
- Costs are apportioned according to estimated benefit that will accrue to each property
- In most cases, requires FFC backed financing to access strong interest rates.
- Important for communities to scrutinize types of properties and appetites for risk before pursuing LID.
- Typical usage: street and sidewalk improvements, sewer and stormwater connections



Local Option Capital Levy

- Local option levies can be used to raise additional capital or operating funds from property taxes.
 - Available for capital (10 years or useful life of project, whichever is less). Local option for operations has 5 year limit.
 - Can be levied as fixed dollar amount or rate per thousand.
 - Requires simple majority voter approval at May or November elections or double majority approval at March and September elections.
- Because local option levies are subject to compression, a GO bond levy is a superior source of financing.

How much can you legally borrow?

State law sets debt limits:

City Debt Limits

- Cities may issue General Obligation bonds totaling no more than 3% of Real Market Value (RMV).
- Limit does not apply for general obligation bonds for water supply treatment or distribution; sanitary or storm sewage collection or treatment, hospitals or infirmaries, gas, power or lighting, or off-street motor vehicle parking facilities.
- Limit also does not generally apply to Full Faith and Credit obligations or Revenue Bonds; however some city charters may have a limit on such borrowings.

Federal Tax-Exemption

Interest paid not taxed as income; lower interest charged to governmental issuer

Limitations related to tax-exempt projects and proceeds. Key provisions:

- Use of Proceeds
 - ✓ Public purpose projects are OK (certain private activity allowed)
 - ✓ Capital projects
- Reimbursement of past expenditures during a limited period with approval of a reimbursement resolution
- Timing of Spending Proceeds:
 - ✓ Issuer must have a reasonable expectation it will spend 85% of the proceeds in 3 years
 - ✓ Includes any premium on proceeds

Securities Law Considerations

Primary Disclosure

- Official statement or offering memorandum
- Subject to anti-fraud rules

Continuing Disclosure (15c2-12; EMMA)

- Annual financial filings
- events notices

Who are the Players?

Financial Consultant and Bond Counsel are key team members

Financial Consultant

- Works with Issuer to determine bond size and structure
- Assists Issuer in evaluating costs on citizens
- Provides guidance on timing of sale
- Plans and executes the sale and coordinates closing of the Bonds



The Players (Cont'd)

Bond Counsel

- Provides guidance on eligible projects under Oregon law
- Assists Issuer in preparing ballot title
- Prepares legal documentation authorizing sale of bonds
- Provides guidance on federal tax law and securities laws
- Provides investors with required validity and tax opinions

Bond Sale Options

PUBLIC SALE: sold in securities market to varied group of investors.

- Unlimited amounts, lengthy terms ok.
- Requires disclosure document and typically a bond rating.
- Higher costs, likely lower interest rates, and longer process.
- Bonds can be sold through negotiation or competitive bid

BANK PLACEMENT: entire bond issue sold to a single bank portfolio.

- Typically for smaller issues (< \$5 million) or ones that are more complex.
- Sweet spot of bank demand is 10 year or shorter maturities.
- Faster, less labor intensive.
- Lower costs, potentially higher interest rates.

Who Buys Municipal Bonds?



Municipal Issuer

Underwriter



Retail Investors

- Individuals buying through a broker
- Retail proxy: Middle Market, Mutual Funds

Middle Markets

- Registered Investment Advisors Professional money managers (ex: fee-based advisors)
- Separately Managed Accounts (“Wrap Accounts”)
- Trust Companies/ Bank Trust Departments
- Small Insurance Companies

Institutional Investors

- Mutual Funds (Bond Funds, Money market funds)
- Insurance Companies
- Banks
- Hedge Funds/Arbitrage Accounts
- Pension Funds (taxables)
- Municipalities

“The Street”

- Broker/Dealers buying inventory or to trade for their own account

Bond Rating Categories

	Moody's	S&P	Fitch	
Investment Grade	Aaa	AAA	AAA	Highest Possible Rating
	Aa1	AA+	AA+	
	Aa2	AA	AA	High Grade
	Aa3	AA-	AA-	
	A1	A+	A+	
	A2	A	A	Upper Medium Grade
	A3	A-	A-	
	Baa1	BBB+	BBB+	
	Baa2	BBB	BBB	Lower Rated
	Baa3	BBB-	BBB-	
Speculative	Ba	BB	BB	Non Investment Grade
	B	B	B	Highly Speculative
	Caa	CCC	CCC	Extremely Speculative
	Ca	CC	CC	Default Imminent
	C	C	C	No Longer Paying Interest
		D	DDD	In Default
			DD	
		D		

Questions?



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