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MREA Greater Education Summit

Proactive Strategies for Issuing Bonds and Investing the Proceeds

Michael Hart
Director, Public Finance
PMA Securities, LLC

Steve Pumper
Vice President
PMA Securities, LLC

Ryan Nielsen
Superintendent
Canby ISD 891

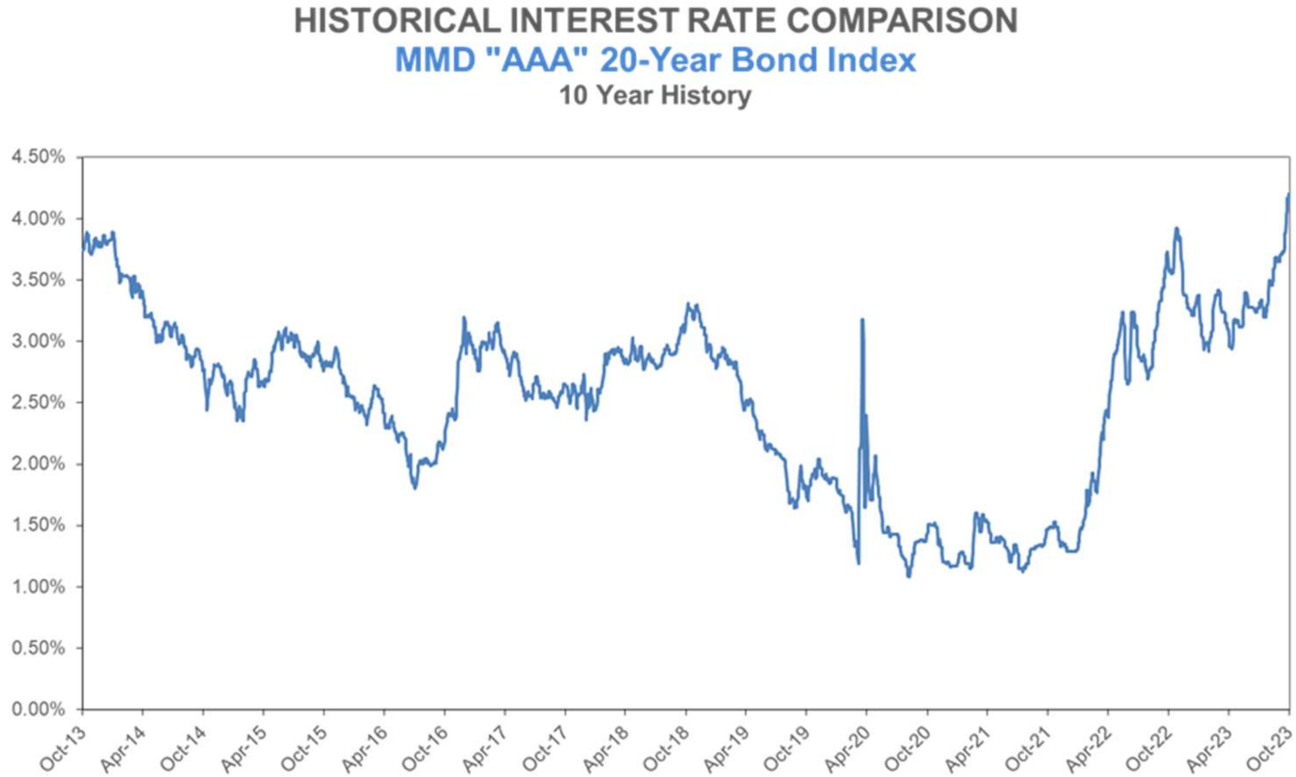
Agenda

- Timing Considerations for Issuing Bonds
- Investment Considerations for Investing Bonds Proceeds
- Case Studies

Timing Considerations for Issuing Bonds

Timing Considerations

Market Conditions



Information shown is the Municipal Market Data index for AAA-rated, 20-year bonds.

Timing Considerations

- Do you have a tax levy in place to make the first interest payment(s)?
  - First interest payment within one year from bond closing
- If not, three options:
  - Make payment out of cash reserves
  - Use Capitalized Interest
  - Wait until levy is in place

Timing Considerations

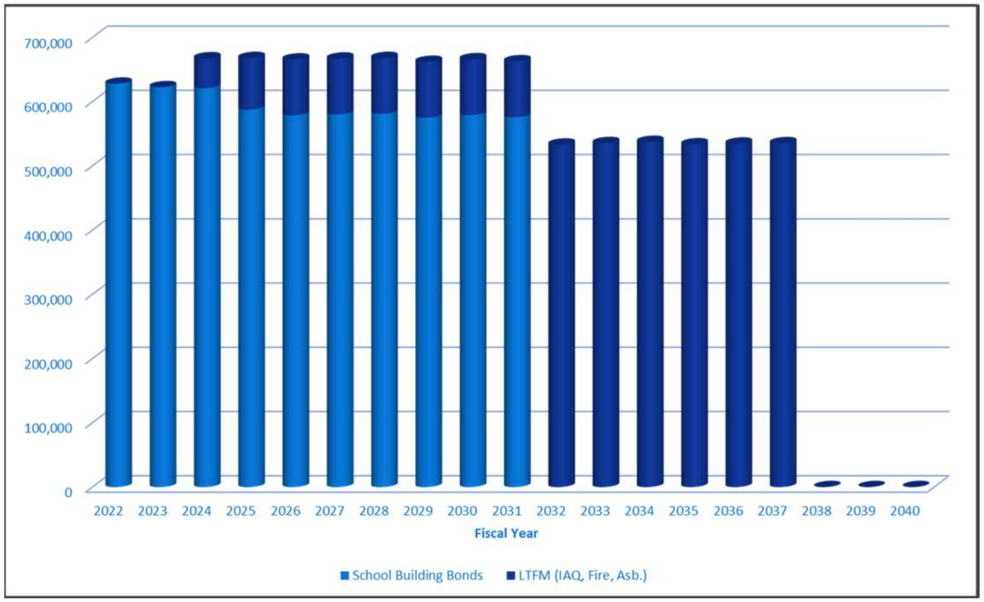
Capitalized Interest

Definition:	• Borrowed funds used to pay interest on new bonds
Uses:	• Provide funds if interest payment(s) are due before levy can be put in place • Level out debt payments in bond structure to meet tax impact goals
Limitations:	• First three years after issuance of bonds

Timing Considerations

Capitalized Interest

Date	Principal	Coupon	Interest	Fiscal Total	Cap. Int.	105% Levy
08/01/22						
02/01/23			55,200.00	55,200.00	55,200	-
08/01/23			41,400.00			
02/01/24			41,400.00	82,800.00	38,502	46,513
08/01/24			41,400.00			
02/01/25			41,400.00	82,800.00	6,334	80,289
08/01/25			41,400.00			
02/01/26			41,400.00	82,800.00	-	86,940
08/01/26			41,400.00			
02/01/27			41,400.00	82,800.00	-	86,940
08/01/27			41,400.00			
02/01/28			41,400.00	82,800.00	-	86,940
08/01/28			41,400.00			
02/01/29			41,400.00	82,800.00	-	86,940
08/01/29			41,400.00			
02/01/30			41,400.00	82,800.00	-	86,940
08/01/30			41,400.00			
02/01/31			41,400.00	82,800.00	-	86,940
08/01/31			41,400.00			
02/01/32	425,000	3.00% *	41,400.00	507,800.00	-	533,190
08/01/32			35,025.00			
02/01/33	440,000	3.00% *	35,025.00	510,050.00	-	535,553
08/01/33			28,425.00			
02/01/34	455,000	3.00% *	28,425.00	511,850.00	-	537,443
08/01/34			21,600.00			
02/01/35	465,000	3.00% *	21,600.00	508,200.00	-	533,610
08/01/35			14,625.00			
02/01/36	480,000	3.00% *	14,625.00	509,250.00	-	534,713
08/01/36			7,425.00			
02/01/37	495,000	3.00% *	7,425.00	509,850.00	-	535,343
Totals	2,760,000		1,014,600	3,774,600	100,036	3,858,292



Timing Considerations

- When will the District know how much funding is needed?
  - Do you base funding on budgetary estimates or after bids have been received?
  - In time of high construction inflation, budgeting construction costs has been very challenging

Timing Considerations

- Important to consider flexibility of funding source:
  - Example of inflexible funding source: Abatement bonds can only be used for parking lot projects
  - School Building Bonds: Usually includes many projects where scope can be modified to meet overall budget

Timing Considerations

- When are funds needed to begin paying for project expenses?
  - Can the District cash flow early project expenses to allow for funding to be completed or project budget to be better known?

Timing Considerations

- Reimbursement Resolution
  - Allows a District to reimburse project expenses by a bond to be issued in the future
  - Resolution must be passed no later than 60 days after expenditure date
  - Preliminary design/architect/engineering feeds to not require a reimbursement resolution to be eligible for reimbursement

Timing Considerations

- Bank Qualification
  - If a District borrows less than $10 million of tax exempt debt in a calendar year it may result in a lower interest rate
  - Due to special provision of IRS regulation to help small issuers
  - One Solution: split an issue over two separate calendar years

Timing Considerations

- Multiple Issues – less time paying interest
  - $30 million issue sold today vs $15 million sold today and $15 million sold 2 years from now - $2,238,000 interest savings assuming same interest rate
- May help manage capitalized interest and debt levy in early years to be in sync with levy cycle or as District pays off other debt

Other Considerations – Bond Premium

Bond Premium can be used to reduce the amount of the bonds, increase project funding or pay for bond expenses

Increase Project Fund

Sources Of Funds	
Par Amount of Bonds	$1,000,000.00
Reoffering Premium	58,242.50
Total Sources	**$1,058,242.50**
Uses Of Funds	
Deposit to Project Construction Fund	1,033,242.50
Costs of Issuance	25,000.00
Total Uses	**$1,058,242.50**

Average Payment = $231,000

Decrease Par Amount

Sources Of Funds	
Par Amount of Bonds	$945,000.00
Reoffering Premium	55,046.95
Total Sources	**$1,000,046.95**
Uses Of Funds	
Deposit to Project Construction Fund	975,000.00
Costs of Issuance	25,000.00
Rounding Amount	46.95
Total Uses	**$1,000,046.95**

Average Payment = $218,300

Investment Considerations for Investing Bond Proceeds

Investment Considerations

Arbitrage

Definition:

Taking advantage of an imbalance, (spread or profit), in two different markets

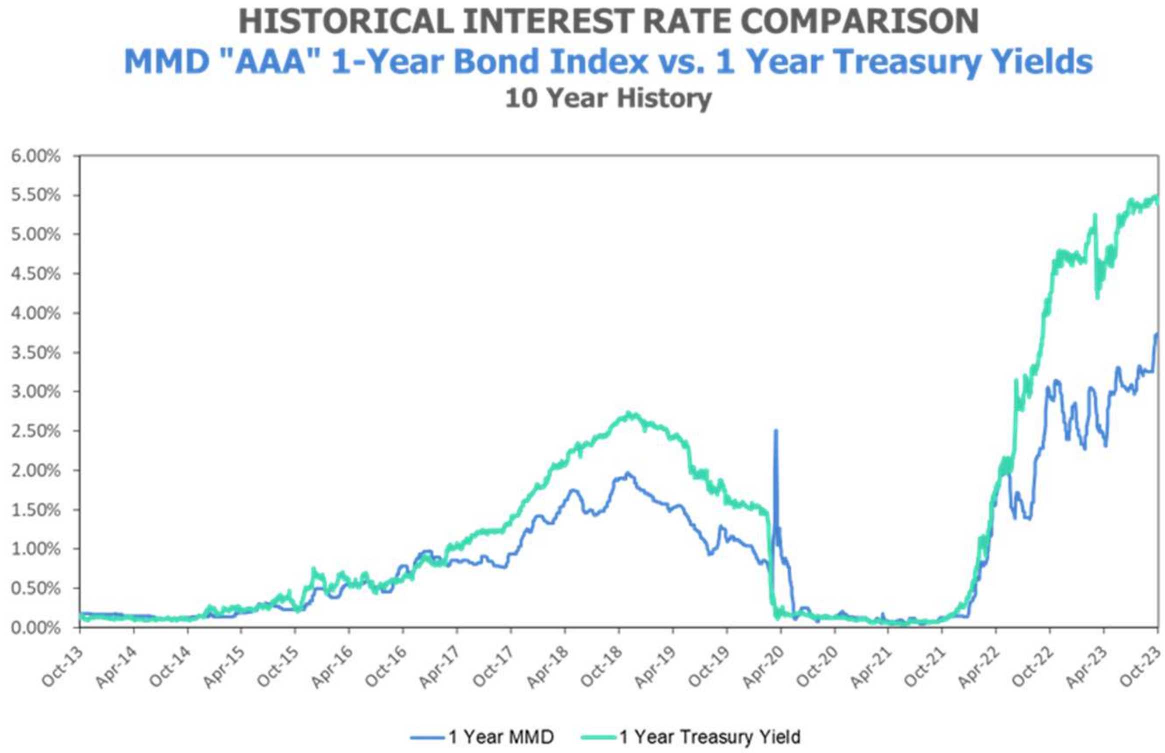
Investment Considerations

How it Applies for MN School Districts

- MN School Districts are allowed to issue Tax Exempt debt
  - Borrowing Money at a Tax Exempt Rate = Lower Interest Rates
- Districts are allowed to invest in the Taxable Market
  - Investing dollars in Taxable Market = Higher Interest Rates
- Difference in two different markets
  - Spread/Profit = Potential Arbitrage Rebate

Investment Considerations

Current Market Illustration



Information shown is the Municipal Market Data index for AAA-rated, 1-year bonds and yields form the U.S. Department of the Treasury.

Investment Considerations

Arb Yield

Calculated the day you sell the Bonds

Yield Statistics

Net Interest Cost (NIC)	3.5195362%
True Interest Cost (TIC)	3.3108604%
Bond Yield for Arbitrage Purposes	3.1699905%
All Inclusive Cost (AIC)	3.6531531%

Investment Considerations

Significance

$6,216,585.18	4.763%	Current Interest Estimate for Arbitrage Purposes
$4,937,728.98	3.823%	Maximum Interest Limited by Arbitrage Yield
$1,278,856.20	0.940%	Potential Arbitrage Rebate Liability

Investment Considerations

Arbitrage Rebate

- *GENERALLY*
  - Districts will need to pay a Rebate to the IRS for interest earnings that exceed the Arb Yield
- *HOWEVER*
  - There are exceptions to this rule
- This is where strategy comes into play

Investment Considerations

Small Issuer Exception

- $15 Million of Tax Exempt Financing per CALENDAR Year
  - Tax Exempt Leases count towards this total
- $5 Million can be used for any purpose
  - Example: Cash Flow Borrowing Issues, Copier Leases
- The amount that exceeds $5 Million must be for school construction

Investment Considerations

Potential Strategy

- Split a Project into multiple issues, one Taxable and one Tax Exempt
- Example:
  - Authority to Issue $17 Million of Bonds
  - Issue $15 Million of Tax Exempt Debt
    - Take Advantage of Small Issuer Exception
  - Issue Remaining $2 Million of Taxable Debt

Investment Considerations

Potential Strategy

- Split a Project that exceeds $15 Million into Multiple Issues
- Example:
  - Authority to Issue $25 Million of Bonds
  - Issue $15 Million in December
  - Issue Remaining $10 Million in January

Investment Considerations

2 Year Spend Down Exception

- Need to meet ALL of the 4 expenditure requirements
  - 10% within 6 months
  - 45% within 12 months
  - 75% within 18 months
  - 100% within 2 years

Investment Considerations

Potential Strategy

- Split a Project into multiple issues so that spending exceptions will likely be met
- Example:
  - Authority to Issue $50 Million of Bonds
  - Issue $15 Million in December
  - Issue Remaining $35 Million in November of following year

Investment Considerations

Potential Strategy

- Be willing to vary Account Payable Dates to hit exception dates
- Hold Special Board Meeting if needed

Investment Considerations

Liquidity

- When you actually NEED the dollars to pay your construction invoices will drive the proposed Exception Strategies
- Good Practice to include Reimbursement Language in your Bond Sale Resolutions
- Once your Bond Proceeds are received, do NOT cash flow your construction expenses with General Fund Dollars

Investment Considerations

Liquidity

- Choice of Investment Vehicles
  - Money Markets
  - Savings Deposit Accounts
  - U.S. Treasuries/Agencies
  - Term Series
  - CDs

Investment Considerations

Yield Restriction

- Applies even to Small Issuers
- Takes effect on 3rd year anniversary of Issue Closing
- Interest restricted to Arb Yield plus 1/8th %
- De minimus amount = 5% of Issue or $100K, whichever is smaller

Case Studies

Case Studies

Canby

- Canby Public Schools passed a referendum in November 2022 for $22 million
- Process for Referendum
- Project Description

Case Studies

Canby

- Canby Public Schools passed a referendum in November 2022 for $22 million
- Finance plan split the borrowing into a $10 million issue in December 2022 and a $12 million issue in early 2023
  - Both issues qualify for the small issuer exemption
  - The first issue was bank qualified (lower borrowing cost)

Case Studies

Canby

- Canby Project Fund current interest earning estimate: $2,240,000
- $725,000 potential arbitrage rebate
  - District will keep these funds because both issues qualify for the small issuer exemption

Case Studies

LQPV

- Lac qui Parle Valley planned for $13 million of indoor air quality projects within LTFM program
- Project approved in Spring 2023
- Bids received in late summer 2023
- Construction to being in 2024

Case Studies

LQPV

- Funds were needed for design in spring/summer 2023
- Final project costs uncertain in volatile construction cost environment
- LTFM Indoor Air Quality bonds cannot be easily transferred to another purpose

Case Studies

LQPV

- District sold $5 million in spring 2023 to fund design and early project expenses
- Remaining approximately $8 million to be sold in early 2024 as funds are needed
  - Will be sized with better project cost information
- Both issues can be sold as bank qualified and under small issuer arbitrage exemption

Summary

- Explore timing strategies to lower borrowing costs
- Build Bond Finance Plan with Investment Strategy in mind
- Each unique project circumstances requires critical thinking

Contact Us

Steve Pumper
Vice President
612-509-2565
spumper@pmanetwork.com

Michael Hart
Director, Public Finance
612-509-2569
mhart@pmanetwork.com

Website:
www.pmanetwork.com

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