


# Municipal Issuance A Buy-Side Perspective

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## Municipal Yield Curves

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**MMD GO Yield Curve as of November 26, 2019**

|      | "AAA" | "AA" | "A"  | "BAA" |
|------|-------|------|------|-------|
| 2020 | 1.07  | 1.10 | 1.16 | 1.45  |
| 2021 | 1.07  | 1.12 | 1.22 | 1.51  |
| 2022 | 1.08  | 1.14 | 1.27 | 1.57  |
| 2023 | 1.10  | 1.18 | 1.34 | 1.63  |
| 2024 | 1.15  | 1.24 | 1.42 | 1.72  |
| 2025 | 1.20  | 1.31 | 1.48 | 1.80  |
| 2026 | 1.26  | 1.37 | 1.54 | 1.87  |
| 2027 | 1.33  | 1.45 | 1.62 | 1.94  |
| 2028 | 1.40  | 1.53 | 1.70 | 2.02  |
| 2029 | 1.47  | 1.61 | 1.77 | 2.09  |
| 2030 | 1.54  | 1.70 | 1.87 | 2.15  |
| 2031 | 1.58  | 1.76 | 1.92 | 2.23  |
| 2032 | 1.62  | 1.81 | 1.96 | 2.27  |
| 2033 | 1.66  | 1.86 | 2.01 | 2.31  |
| 2034 | 1.70  | 1.90 | 2.07 | 2.35  |
| 2035 | 1.74  | 1.94 | 2.11 | 2.39  |
| 2036 | 1.78  | 1.98 | 2.15 | 2.43  |
| 2037 | 1.82  | 2.02 | 2.19 | 2.47  |
| 2038 | 1.85  | 2.05 | 2.22 | 2.50  |
| 2039 | 1.88  | 2.08 | 2.25 | 2.53  |
| 2040 | 1.91  | 2.11 | 2.28 | 2.56  |
| 2041 | 1.94  | 2.14 | 2.31 | 2.59  |
| 2042 | 1.97  | 2.17 | 2.34 | 2.62  |
| 2043 | 2.00  | 2.20 | 2.37 | 2.65  |
| 2044 | 2.01  | 2.21 | 2.38 | 2.66  |
| 2045 | 2.02  | 2.22 | 2.39 | 2.67  |
| 2046 | 2.03  | 2.23 | 2.40 | 2.68  |
| 2047 | 2.04  | 2.24 | 2.41 | 2.69  |
| 2048 | 2.05  | 2.25 | 2.42 | 2.70  |
| 2049 | 2.06  | 2.26 | 2.43 | 2.71  |

Source: Refinitiv, TMS.com

**Basis Point Spread to "AAA" \***

|         | "AA" | "A" | "BAA" |
|---------|------|-----|-------|
| 1-Year  | 3    | 9   | 38    |
|         | 5    | 15  | 44    |
|         | 6    | 19  | 49    |
|         | 8    | 24  | 53    |
| 5-Year  | 9    | 27  | 57    |
|         | 11   | 28  | 60    |
|         | 11   | 28  | 61    |
|         | 12   | 29  | 61    |
|         | 13   | 30  | 62    |
| 10-Year | 14   | 30  | 62    |
|         | 15   | 33  | 65    |
|         | 18   | 34  | 65    |
|         | 19   | 34  | 65    |
|         | 20   | 35  | 65    |
| 15-Year | 20   | 37  | 65    |
|         | 20   | 37  | 65    |
|         | 20   | 37  | 65    |
|         | 20   | 37  | 65    |
| 20-Year | 20   | 37  | 65    |
|         | 20   | 37  | 65    |
|         | 20   | 37  | 65    |
|         | 20   | 37  | 65    |
| 25-Year | 20   | 37  | 65    |
|         | 20   | 37  | 65    |
|         | 20   | 37  | 65    |
|         | 20   | 37  | 65    |
| 30-Year | 20   | 37  | 65    |

\* 1 bps per \$10,000 = \$1

**Example Annual Debt Service by Rating**

**\$10,000,000**  
Tax-Exempt General Obligation Bonds  
Level Debt Service (fully amortizing principal)

| All-In Cost: Rating: | 1.627% "AAA"      | 1.801% "AA"       | 1.967% "A"        | 2.264% "BAA"      |
|----------------------|-------------------|-------------------|-------------------|-------------------|
| 1                    | 588,851           | 598,809           | 609,828           | 625,312           |
| 2                    | 589,143           | 599,024           | 609,840           | 629,294           |
| 3                    | 589,382           | 599,096           | 609,533           | 627,877           |
| 4                    | 589,522           | 599,023           | 608,945           | 626,126           |
| 5                    | 589,517           | 598,713           | 607,982           | 629,035           |
| 6                    | 589,227           | 598,071           | 611,592           | 626,381           |
| 7                    | 588,647           | 602,045           | 609,784           | 628,281           |
| 8                    | 587,725           | 600,606           | 607,623           | 629,679           |
| 9                    | 591,407           | 598,718           | 610,009           | 625,561           |
| 10                   | 589,617           | 601,374           | 611,849           | 625,966           |
| 11                   | 587,414           | 598,485           | 608,176           | 625,830           |
| 12                   | 589,791           | 600,070           | 608,920           | 624,989           |
| 13                   | 591,812           | 601,182           | 609,224           | 628,728           |
| 14                   | 588,469           | 601,861           | 609,130           | 626,924           |
| 15                   | 589,837           | 602,096           | 608,577           | 629,681           |
| 16                   | 590,827           | 601,931           | 612,503           | 626,873           |
| 17                   | 591,431           | 601,358           | 610,898           | 628,609           |
| 18                   | 591,641           | 600,369           | 608,858           | 629,758           |
| 19                   | 591,449           | 598,956           | 611,375           | 625,308           |
| 20                   | 590,904           | 597,168           | 608,388           | 625,433           |
|                      | <b>11,796,610</b> | <b>11,998,948</b> | <b>12,193,030</b> | <b>12,545,641</b> |

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## Public Bond Offerings

- An Issuer (Municipality) Sells its Bonds to an Underwriter who Resells the Bonds to Retail or Institutional Investors in Established Securities Markets.
- Investors will often Base Investment Decisions on the **Public Debt Rating ....**

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## Review of Moody’s Rating Scorecard for Local Governments

- The scorecard provides general guidance.
- It highlights the quantitative and qualitative risk factors are likely to affect rating outcomes for local governments that issue GO bonds.
- The scorecard is not a calculator.
- It provides a standard platform from which to begin viewing and comparing local government credits.
- It therefore is a starting point.

### Scorecard Factors and Weights

Local Governments

| Broad Scorecard Factors | Factor Weighting | Sub-factors   | Sub-factor Weighting |
|-------------------------|------------------|---|----------------------|
| Economy/Tax Base        | 30%              | Tax Base Size (full value)  | 10%                  |
|                         |                  | Full Value Per Capita   | 10%                  |
|                         |                  | Wealth (median family income)   | 10%                  |
| Finances                | 30%              | Fund Balance (% of revenues)  | 10%                  |
|                         |                  | Fund Balance Trend (5-year change)                                    | 5%                   |
|                         |                  | Cash Balance (% of revenues)  | 10%                  |
|                         |                  | Cash Balance Trend (5-year change)                                    | 5%                   |
| Management              | 20%              | Institutional Framework   | 10%                  |
|                         |                  | Operating History   | 10%                  |
| Debt/Pensions           | 20%              | Debt to Full Value  | 5%                   |
|                         |                  | Debt to Revenue   | 5%                   |
|                         |                  | Moody’s-adjusted Net Pension Liability (3-year average) to Full Value | 5%                   |
|                         |                  | Moody’s-adjusted Net Pension Liability (3-year average) to Revenue    | 5%                   |

Source: Moody’s Investor Service, Rating Methodology, US State and Local Government General Obligation Debt, September 27, 2019

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## Review of Moody's Rating Scorecard for Local Governments

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### ECONOMY/TAX BASE (30%)

#### Tax Base (10%)

- Ad valorem pledge often underpins the GO security, the tax base is in a sense the ultimate repayment source for GO bondholders.
- *Input: Full value, i.e. the market value of taxable property accessible to the municipality.*

#### Full Value Per Capita (10%)

- Full value per capita scales the taxable property available to generate resources to a per resident metric.
- Looking at the magnitude of taxable property in tandem with taxable property per capita gives a clearer picture of tax base strength
- *Input: Full value divided by population.*

#### Wealth (10%) (median family income)

- An important measure of the strength and resilience of a tax base.
- Median family income instead of per capita income because per capita income is skewed by low-income populations (e.g. students, inmates).
- *Input: Median family income as a percentage of the US median.*

Source: Moody's Investor Service, Rating Methodology, US State and Local Government General Obligation Debt, September 27, 2019

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## Review of Moody's Rating Scorecard for Local Governments

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### FINANCES (30%)

#### Fund Balance (10%) (% of revenues)

- Short term net financial resources available.
- *Input: (operating funds assets minus operating funds liabilities, adjusted for other resources or obligations that are available for operating purposes) / operating revenues*

#### Fund Balance Trend (5%) (5-year trend)

- Moody's believes that a five-year window is generally representative of a full economic cycle.
- The focus here is on whether financial reserves are increasing in step with budgetary growth.
- *Input: (available fund balance in the most recent year minus available fund balance five years earlier) / current operating revenues*

Source: Moody's Investor Service, Rating Methodology, US State and Local Government General Obligation Debt, September 27, 2019

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## Review of Moody's Rating Scorecard for Local Governments

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### FINANCES (30%)

#### Cash Balance (10%)

(% of revenues)

- Cash (net of notes payable within one year) represents the paramount liquid resource without regard to accruals.
- Large receivable for delinquent taxes, for instance, can lead to an ostensibly high fund balance position and a weaker cash position.
- *Input: (cash minus cash-flow notes) / operating revenues*

#### Cash Balance Trend (5%)

(5-year trend)

- The trend in the local government's cash balance gives additional information about financial operations that may be veiled by accrual-driven changes in fund balance.
- *Input: (current operating funds net cash in minus operating funds net cash five years earlier) / current operating revenue*

Source: Moody's Investor Service, Rating Methodology, US State and Local Government General Obligation Debt, September 27, 2019

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## Review of Moody's Rating Scorecard for Local Governments

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### MANAGEMENT (20%)

#### Institutional Framework (10%)

- Measures a municipality's legal ability to match revenues with expenditures based on its institutional apparatus.
- Factors that drive the institutional framework score:
  - Tax caps
  - Organized labor
  - Difficulty of increasing revenues (i.e., subject to public approval)
  - Predictability of costs (such as charter school tuition)
  - State-imposed limitations on fund balance or reserves
- *Input: An input of Aaa through B and below determined for each sector/state combination annually*

#### Operating History (10%)

- Shows the local government's demonstrated willingness to utilize the legal ability to match revenues with expenditures.
- ratio of greater than 1.0 indicates a budget surplus on average, a ratio of 1.0 indicates balanced operations, and a ratio of less than 1.0 indicates a sustained deficit
- *Input: The average of operating revenues divided by operating expenditures in each of the past five years*

Source: Moody's Investor Service, Rating Methodology, US State and Local Government General Obligation Debt, September 27, 2019

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## Review of Moody's Rating Scorecard for Local Governments

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### DEBT/PENSIONS (20%)

#### Debt to Full Value (5%)

- A measurement of debt burden.
- Shows how onerous future debt service payments could be to the tax base.
- *Input: gross debt minus self-supporting debt, as a percentage of full value*

#### Debt to Revenue (5%)

- This metric expresses the potential budgetary impact of future debt service.
- *Input: gross debt minus self-supporting debt, as a percentage of operating revenues*

Source: Moody's Investor Service, Rating Methodology, US State and Local Government General Obligation Debt, September 27, 2019

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## Review of Moody's Rating Scorecard for Local Governments

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### DEBT/PENSIONS (20%)

#### 3-year Average of Moody's-Adjusted Net Pension Liability to Full Value (5%)

- Similar to the debt burden evaluation, Moody's uses the tax base as a proxy for future revenue-generating capacity to amortize accrued pension obligations for which trust assets are not currently set aside.
- *Input: The average of Moody's-adjusted Net Pension Liability in each of the past three years, as a percentage of full value*

#### 3-year Average of Moody's-Adjusted Net Pension Liability to Operating Revenues (5%)

- This metric seeks to measure pension obligations relative to the size of the local government's budget.
- *Input: the average of Moody's-adjusted Net Pension Liability in each of the past three years, as a percentage of operating revenues*

Source: Moody's Investor Service, Rating Methodology, US State and Local Government General Obligation Debt, September 27, 2019

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**Review of Moody's Rating Scorecard for Local Governments**

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QUESTIONS?

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**Purchasing Debt from a Bank's Perspective:**  
*Important Considerations Impacting a Bank's Decision*

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- Typically Hold Until Maturity
- Interest Rate Risk
- Term and Repayment Structure
- Customer vs Non-Customer
- Pledge and Source of Repayment: How is it repaid?
- Concentrations in Certain Areas or Sectors
- Reputational Risk

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## Purchasing Debt from a Bank's Perspective: Deal Discussion

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| OPTION A                        | OPTION B                                |
|---------------------------------|---|
| Par Amount: \$2,500,000         | Par Amount: \$2,500,000                 |
| Customer                        | Non-Customer                            |
| Lease/Lease-Back (Ground Lease) | LTGO                                    |
| 15 Years                        | 25 Years                                |
| No credit rating                | AA                                      |
| 9 Year No Call Option           | Callable at Anytime                     |
| New Treasurer                   | Biggest employer just announced closure |

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## Purchasing Debt from a Bank's Perspective: Deal Discussion

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| OPTION A                        | OPTION B                |
|---------------------------------|-------------------------|
| Par Amount: \$2,500,000         | Par Amount: \$5,000,000 |
| Customer                        | Customer                |
| Lease/Lease-Back (Ground Lease) | LTGO                    |
| 15 Years                        | 10 Years                |
| No credit rating                | A-                      |
| Callable after 10 years         | Non-Callable            |
| Established management team     | Growing significantly   |

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**Purchasing Debt from a Bank's Perspective:**  
*The Credit Assessment Process*

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All Commercial Banks Lending Activity is Monitored by Regulators.

- A Bank's Credit Policy Will Define:
  - What Loan Types are Acceptable.
  - What Credit Profiles are Desirable . . . . and Those that are Less So.
- A Bank's Credit Assessment Process Will Evaluate the Loan Request vis-à-vis the Desired Profile.

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**Purchasing Debt from a Bank's Perspective:**  
*The Credit Assessment Process*

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1. The Loan Request

- Pledge, Term, Source of Repayment
- Repayment Analysis – Debt Service Coverage Ratio

2. Underlying Economics of the Issuer's Service Area

- Characteristics and Nature of the Local Economy
- Composition: Urban, Suburban, Agricultural, Rural
- Diverse or Concentrated Economy
- Population Attributes
- Tax Base

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## Purchasing Debt from a Bank's Perspective: The Credit Assessment Process

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### 3. Financial Performance / Financial Statements

- Operating Statement Trends
  - Revenues, Expenses, Fiscal Balance
- Balance Sheet Trends
  - Liquidity
  - Fixed Asset Trends
  - Leverage: Funded Debt and Other Obligations
  - Fund Balances and Other Reserves

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## Purchasing Debt from a Bank's Perspective: Important Considerations Impacting a Bank's Decision

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|  | Entity 1      | Entity 2       | Entity 3      |
|--|---------------|----------------|---------------|
| <b>Revenue</b>                           |               |                |               |
| Taxes                                    | 20,414        | 320            | 18,277        |
| Intergovernmental                        | 13,317        | 612            | 5,374         |
| Services                                 | 4,528         | 9,350          | 2,544         |
| Other Revenues                           | 1,813         | 211            | 8,816         |
| <b>Total Revenue</b>                     | <b>40,072</b> | <b>10,493</b>  | <b>35,011</b> |
| <b>Expenditures</b>                      |               |                |               |
| General Government                       | 30,632        | 750            | 10,650        |
| Public Safety                            | -             | 7,488          | 647           |
| Capital Outlay                           | 1,086         | 505            | 1,323         |
| Debt Service                             | -             | 2,923          | -             |
| Other                                    | 4,251         | 883            | 1,786         |
| <b>Total Expenditures</b>                | <b>35,970</b> | <b>12,548</b>  | <b>14,406</b> |
| <b>Excess of Revenues/Expenditures</b>   | <b>4,102</b>  | <b>(2,055)</b> | <b>20,606</b> |
| Other Sources (Uses)                     | (1,278)       | 1,264          | (16,145)      |
| <b>Net Change in Fund Balance</b>        | <b>2,824</b>  | <b>(791)</b>   | <b>4,461</b>  |
| <b>Fund Balance Beginning</b>            | <b>9,198</b>  | <b>1,094</b>   | <b>18,280</b> |
| <b>Fund Balance Ending</b>               | <b>12,022</b> | <b>303</b>     | <b>22,741</b> |
| <b>Fund Balance as % of Expenditures</b> | <b>33.4%</b>  | <b>2.4%</b>    | <b>157.9%</b> |

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**Purchasing Debt from a Bank's Perspective:**  
*The Credit Assessment Process*

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4. Management Assessment
5. Material Litigation
6. Review of Current Events
7. Credit Decision


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**Purchasing Debt from a Bank's Perspective**

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QUESTIONS?

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**Contacts** 21 | 

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Thank you.

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