

Municipal Issuance A Buy-Side Perspective

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Loans subject to credit application and approval.

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Municipal Yield Curves

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	2.19
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, TM3.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
	16	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	37	65
20-Year	20	37	65
	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
	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
	11,796,610	11,998,948	12,193,030	12,545,641

- 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**

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%

Review of Moody's Rating Scorecard for Local Governments

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.*

Review of Moody's Rating Scorecard for Local Governments

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*

Review of Moody's Rating Scorecard for Local Governments

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*

Review of Moody's Rating Scorecard for Local Governments

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*

Review of Moody's Rating Scorecard for Local Governments

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*

Review of Moody's Rating Scorecard for Local Governments

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*

Review of Moody's Rating Scorecard for Local Governments

QUESTIONS?

Purchasing Debt from a Bank's Perspective:

Important Considerations Impacting a Bank's Decision

- 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

Purchasing Debt from a Bank's Perspective:

Deal Discussion

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

Purchasing Debt from a Bank's Perspective:

Deal Discussion

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

Purchasing Debt from a Bank's Perspective:

The Credit Assessment Process

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.

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

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

Purchasing Debt from a Bank's Perspective:

Important Considerations Impacting a Bank's Decision

	Entity 1	Entity 2	Entity 3
Revenue			
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
Total Revenue	40,072	10,493	35,011
Expenditures			
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
Total Expenditures	35,970	12,548	14,406
Excess of Revenues/Expenditures	4,102	(2,055)	20,606
Other Sources (Uses)	(1,278)	1,264	(16,145)
Net Change in Fund Balance	2,824	(791)	4,461
Fund Balance Beginning	9,198	1,094	18,280
Fund Balance Ending	12,022	303	22,741
Fund Balance as % of Expenditures	33.4%	2.4%	157.9%

Purchasing Debt from a Bank's Perspective:

The Credit Assessment Process

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

QUESTIONS?

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Thank you.