Wisconsin Counties Association ROADHOUSE WCA ANNUAL CONFERENCE 2023

Wisconsin Counties Association ANNUAL CONFERENCE & Exhibit Hall 2023

8:00 – 9:00 AM

Debt Issuance Considerations and Strategies
Speaker: Brian Della, Public Finance Director, PMA Securities, LLC
Moderator: Dave Frohling, County Board Chair, Dodge County

Wisconsin Counties Association

Debt Issuance Considerations and Strategies

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September 19, 2023

PMA Services Overview

PMA COMPANIES

MUNICIPAL ADVISORY SERVICES	INVESTMENT PRODUCTS & SERVICES
Long-Term Financial Planning	Pooled Investment Solutions (WISC)
Debt Transaction Management	Competitively Bid CDs / Securities
Continuing Disclosure Services	Bond Proceeds Management (BPM)
Economic Development (TID)	Arbitrage Rebate
Enterprise Cash Flow Modeling	Cash Flow Management
Referendum Assistance	Separately Managed Accounts
Policy Development	OPEB Investment Management

Today's Presentation

Presenter

- Brian Della joined PMA in 2018
- Over 18 years of municipal advisory experience to Wisconsin local governments
- Has advised on 159 Wisconsin county debt issues totaling over $2.7 billion
- Bachelor & Master degrees in Civil Engineering from UW-Madison (PE license)
- MBA from Indiana University (Chartered Financial Analyst "CFA" designation)

Outline

I. Financial Planning Examples
II. Best Practices for Selling Bonds
III. Who Do You Want to Receive the 0.20%?
IV. What are Anticipation Notes
V. Summary

I. Financial Planning Examples

County Property Tax Levy / Levy Limits

A county's property tax levy can be thought of as Operating Levy and Debt Service Levy.

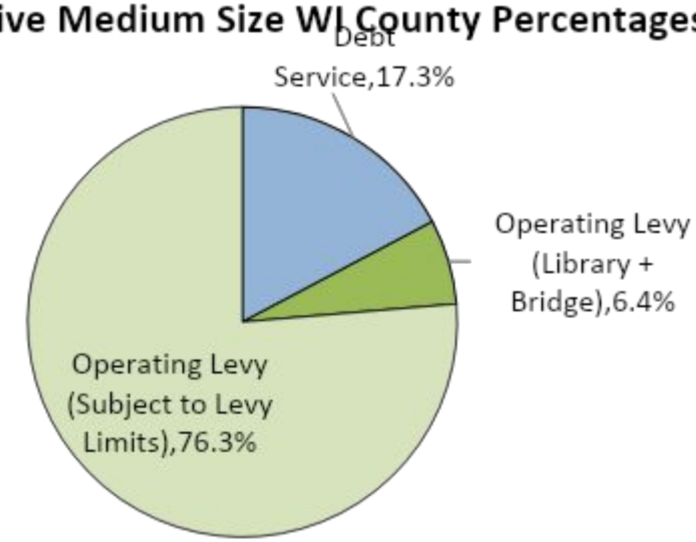
Operating Levy		+	Debt Service Levy			=	Total Levy	
Subject to Levy Limits	Not Subject to Levy Limits		Existing Debt Service	Plus: Future Debt Service	Less: Offsetting Revenues		Levy ($)	Levy Rate ($ per $1,000)
- General Fund - Human Services - Highway - Special Rev. - Other	- Library - Bridge Aid							

State statutes (Levy Limits) <u>generally</u> limit the percent growth of the Operating Levy to the percentage of Net New Construction.

No limits exist for general <u>obligation debt service</u> and <u>certain</u> Operating levies (e.g., Library).

These Levy Limits have forced counties to finance an ever-increasing share of there capital with general obligation debt.

Representative Medium Size WI County Percentages



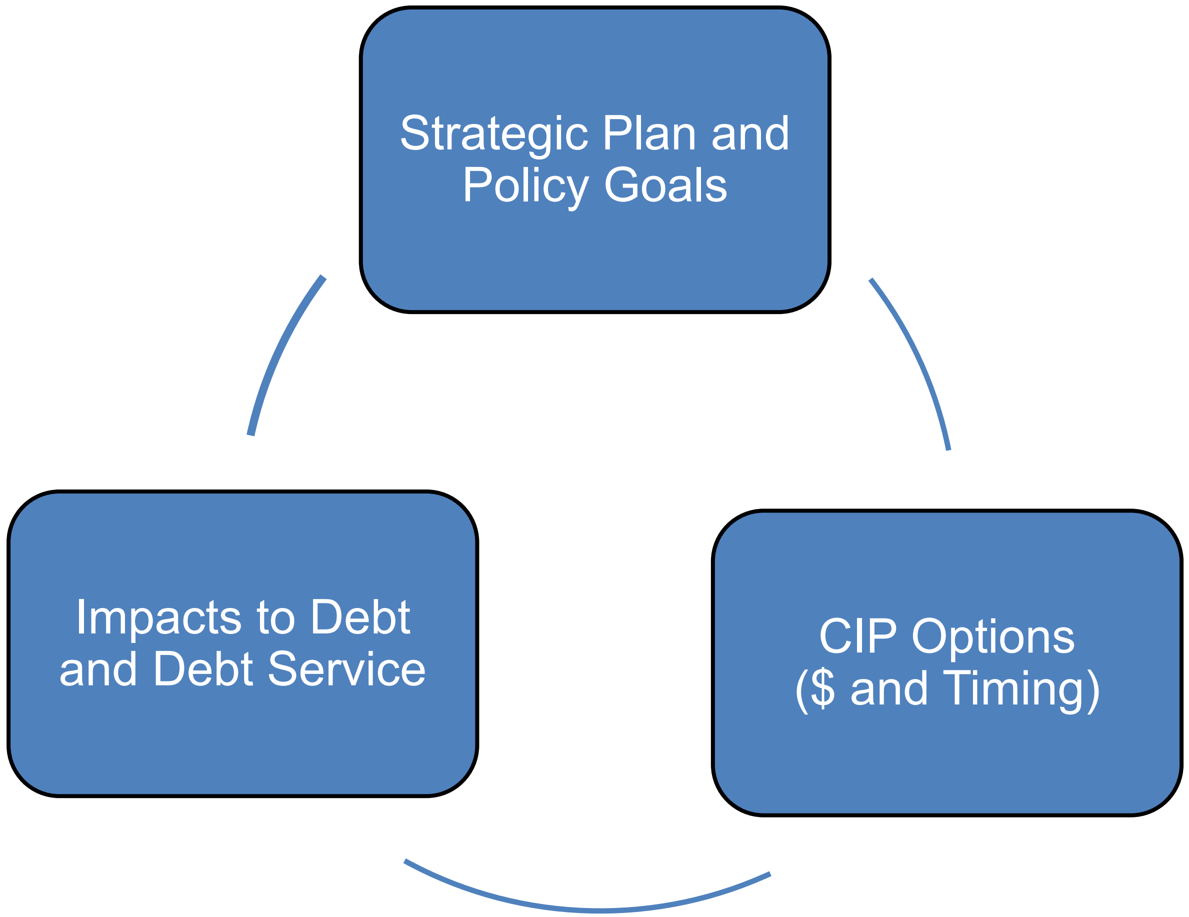
Annual Long-Term Capital Planning Process

The capital planning process should be <u>iterative</u>.

- Prioritize projects
- Create a desired schedule (5-yr typical)
- Estimate funding sources (how much debt?)
- Work with your Municipal Advisor on customized debt service structuring options

Are the projected impacts acceptable?

- Debt Service Property Tax Levy
- Enterprise Fund Cash Flows (airport, landfill)
- Credit Rating Considerations
- Other Considerations?



Three Common County Debt Issuance Scenarios

<u>10-year Annual Borrowings</u>

- Existing levy supported general obligation debt service is <u>gently downwards sloping</u>
- Desire to keep aggregate levy supported debt service near current levels
- Plan calls for borrowing 10-year notes on an annual basis for projects

<u>1-year Annual Borrowings</u>

- Existing levy supported general obligation debt service has a <u>sharp drop</u>
- Desires to keep aggregate levy supported debt service near current levels
- Plan calls for borrowing 1-year notes on an annual basis for general projects

<u>Multiple 20-year Borrowings</u>

- Little existing debt
- Very large building project
- Phased borrowing approach will allow:
  - Gradual increases to debt service levy
  - Increases likelihood of being able to retain positive spread on investments

10-year Annual Borrowings (chart - existing)

- Existing levy supported general obligation debt service is <u>gently downwards sloping</u>

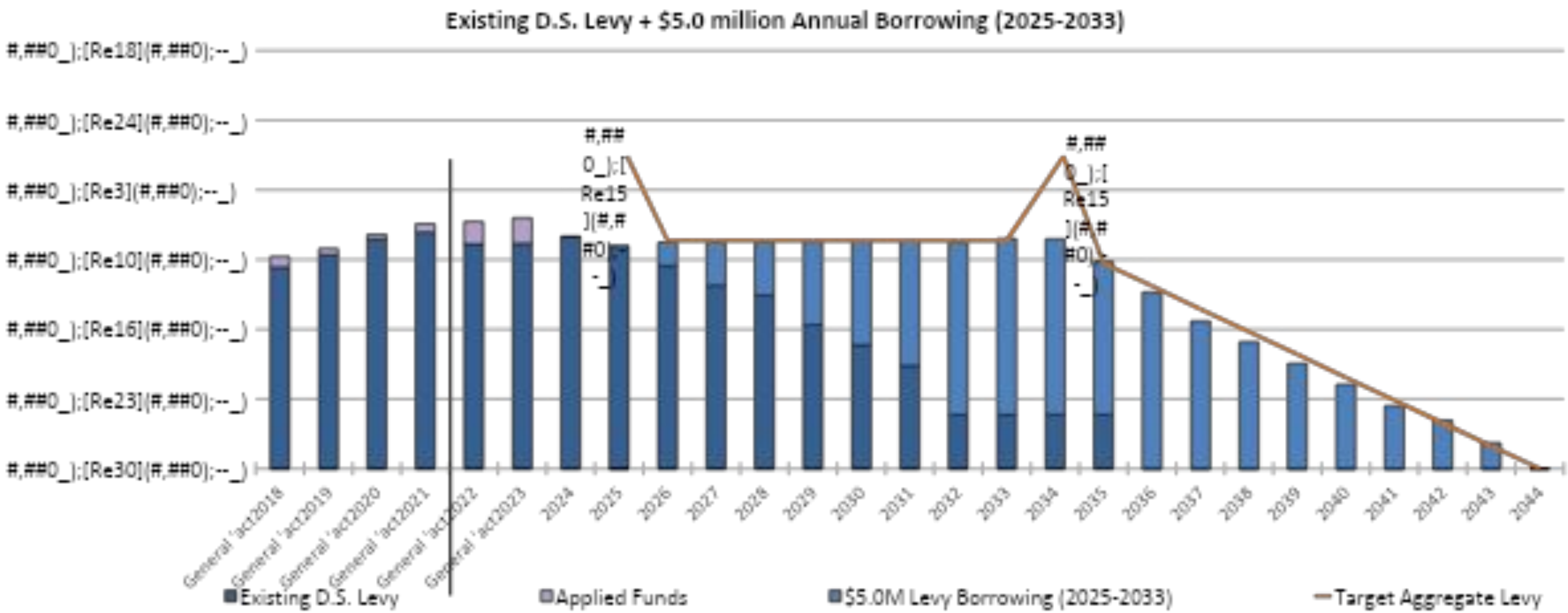
10-year Annual Borrowings (table - projection)

- Annual capital needs going forward are estimated to average approximately $5,000,000

Budget / Calendar Year	Debt Service Levy																					
	Existing Levy Supported Debt Service		2025 Notes 5,000,000 09/01/24 3.50%	Par Dated Rate	2026 Notes 5,000,000 09/01/24 3.50%	Par Dated Rate	2027 Notes 5,000,000 09/01/24 3.50%	Par Dated Rate	2028 Notes 5,000,000 09/01/24 3.50%	Par Dated Rate	2029 Notes 5,000,000 09/01/24 3.50%	Par Dated Rate	2030 Notes 5,000,000 09/01/24 3.50%	Par Dated Rate	2031 Notes 5,000,000 09/01/24 3.50%	Par Dated Rate	2032 Notes 5,000,000 09/01/24 3.50%	Par Dated Rate	2033 Notes 5,000,000 09/01/24 3.50%	Par Dated Rate	Plus: Fiscal Charges	Gross Debt Service & Fiscal
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
2018	4,475,000	1,604,019																			7,850	6,086,869
2019	4,770,000	1,542,603																			6,771	6,319,374
2020	5,140,000	1,573,714																			7,749	6,721,463
2021	5,575,000	1,443,905																			8,552	7,027,457
2022	5,840,000	1,240,396																			10,500	7,090,896
2023	6,090,000	1,099,118	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	10,251	7,199,369
2024	5,705,000	940,845	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	7,606	6,653,451
2025	5,595,000	802,985	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	7,706	6,405,691
2026	5,150,000	667,995	495,000	175,000	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	7,806	6,495,801
2027	4,685,000	564,693	480,000	157,675	425,000	175,000	--	--	--	--	--	--	--	--	--	--	--	--	--	--	7,906	6,495,274
2028	4,500,000	467,466	320,000	140,875	300,000	160,125	425,000	175,000	--	--	--	--	--	--	--	--	--	--	--	--	8,006	6,496,472
2029	3,760,000	358,656	470,000	129,675	450,000	149,625	440,000	160,125	425,000	175,000	--	--	--	--	--	--	--	--	--	--	8,106	6,526,187
2030	3,265,000	277,731	490,000	113,225	465,000	133,875	455,000	144,725	440,000	160,125	425,000	175,000	--	--	--	--	--	--	--	--	8,206	6,552,887
2031	2,740,000	209,431	505,000	96,075	485,000	117,600	470,000	128,800	455,000	144,725	440,000	160,125	425,000	175,000	--	--	--	--	--	--	8,306	6,560,062
2032	1,380,000	158,319	670,000	78,400	600,000	100,625	590,000	112,350	570,000	128,800	555,000	144,725	540,000	160,125	525,000	175,000	--	--	--	--	8,406	6,496,750
2033	1,420,000	121,644	545,000	54,950	520,000	79,625	550,000	91,700	530,000	108,850	515,000	125,300	500,000	141,225	485,000	156,625	480,000	175,000	--	--	8,506	6,608,425
2034	1,465,000	82,444	565,000	35,875	540,000	61,425	530,000	72,450	510,000	90,300	495,000	107,275	475,000	123,725	460,000	139,650	500,000	158,200	--	175,000	8,606	6,594,950
2035	1,500,000	41,100	460,000	16,100	560,000	42,525	545,000	53,900	530,000	72,450	510,000	89,950	495,000	107,100	480,000	123,550	--	140,700	--	175,000	8,706	5,951,081
2036	--	--	--	--	655,000	22,925	565,000	34,825	545,000	53,900	530,000	72,100	510,000	89,775	495,000	106,750	515,000	140,700	550,000	175,000	8,806	5,069,781
2037	--	--	--	--	--	--	430,000	15,050	565,000	34,825	550,000	53,550	530,000	71,925	510,000	89,425	535,000	122,675	570,000	155,750	8,906	4,242,106
2038	--	--	--	--	--	--	--	--	430,000	15,050	565,000	34,300	550,000	53,375	530,000	71,575	555,000	103,950	590,000	135,800	9,006	3,643,056
2039	--	--	--	--	--	--	--	--	--	--	415,000	14,525	565,000	34,125	550,000	53,025	575,000	84,525	610,000	115,150	9,106	3,025,456
2040	--	--	--	--	--	--	--	--	--	--	--	--	410,000	14,350	565,000	33,775	595,000	64,400	635,000	93,800	9,206	2,420,531
2041	--	--	--	--	--	--	--	--	--	--	--	--	--	--	400,000	14,000	615,000	43,575	655,000	71,575	9,306	1,808,456
2042	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	630,000	22,050	680,000	48,650	9,406	1,390,106
2043	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	710,000	24,850	9,506	744,356
2044	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

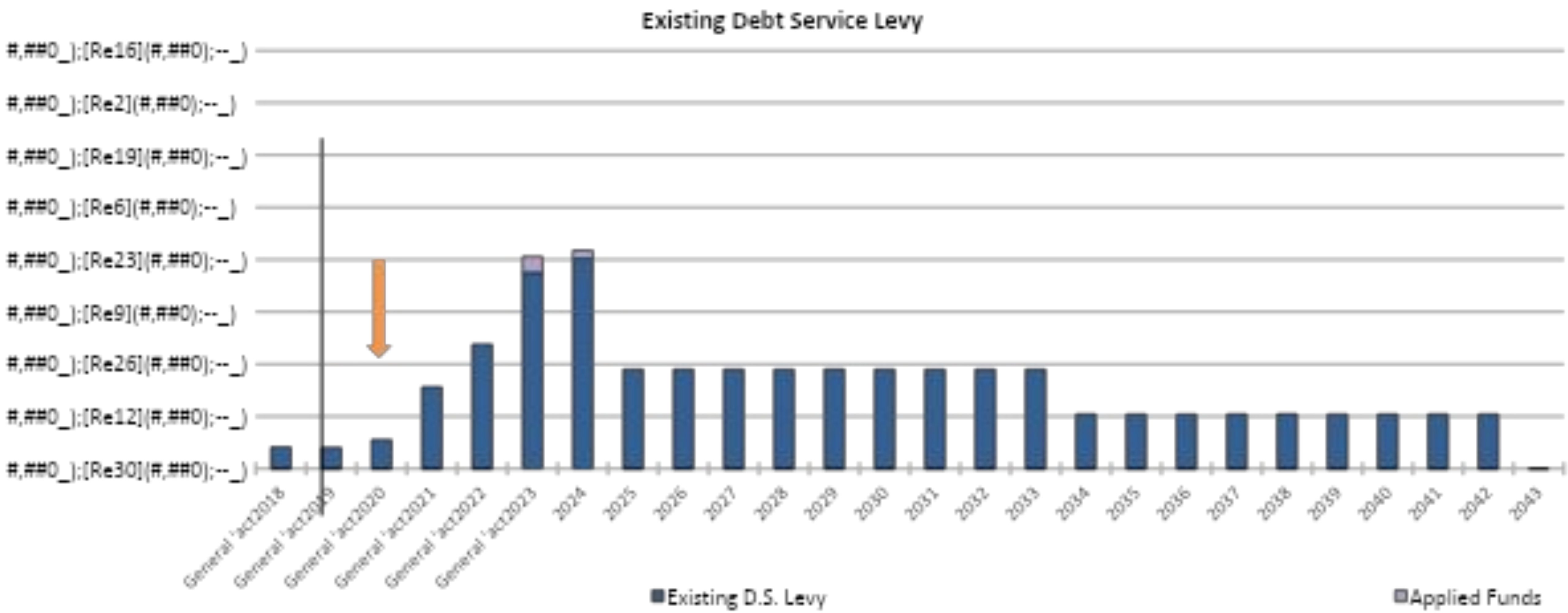
10-year Annual Borrowings (chart - projection)

- Borrowing $5.0 million annually allows aggregate annual debt service to stay at $6.55 million



1-year Annual Borrowings (chart - existing)

- Sharp drop in existing debt service exists between years 2024 – 2025



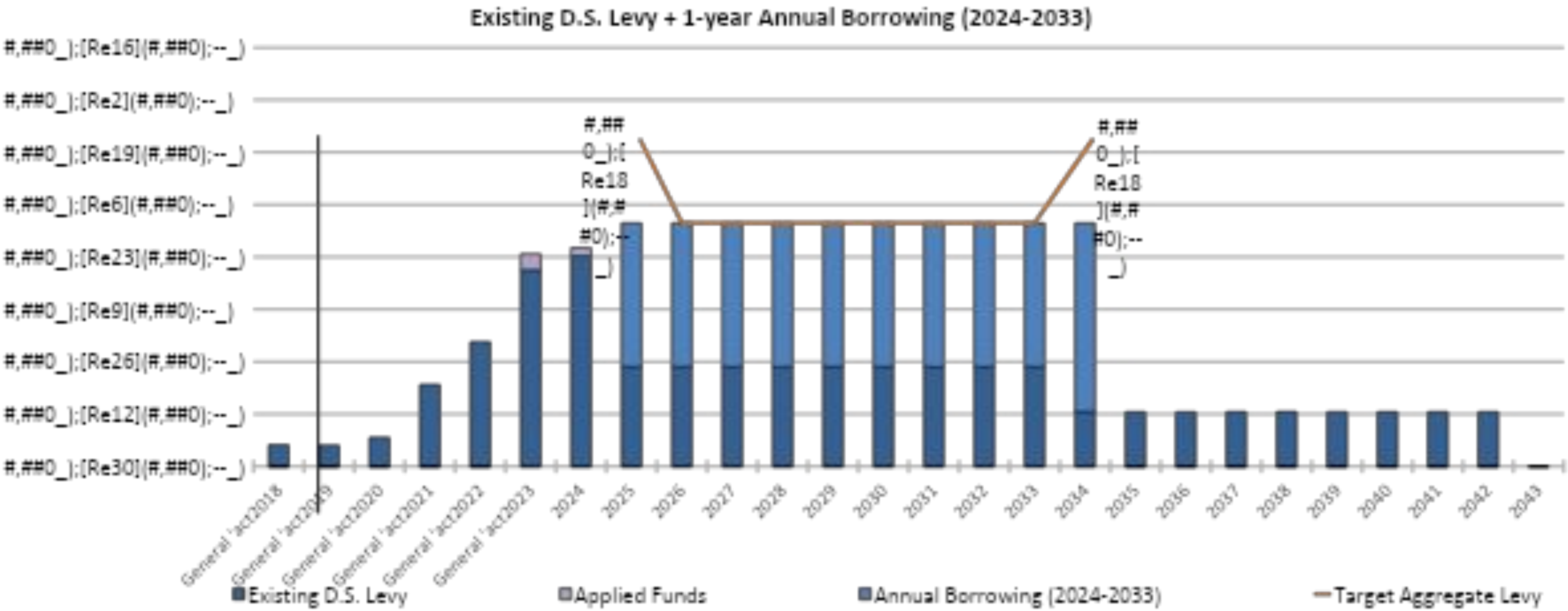
1-year Annual Borrowings (table)

- Annual capital needs going forward are estimated to average approximately $1,325,000

Budget / Calendar Year	Debt Service Levy: Existing Levy Supported Debt Service		2024 Notes 1,326,758 3.50%	Par Rate	2025 Notes 1,326,565 3.50%	Par Rate	2026 Notes 1,327,048 3.50%	Par Rate	2027 Notes 1,328,208 3.50%	Par Rate	2028 Notes 1,325,309 3.50%	Par Rate	2029 Notes 1,327,295 3.50%	Par Rate	2030 Notes 1,327,874 3.50%	Par Rate	2031 Notes 1,327,379 3.50%	Par Rate	2032 Notes 1,326,715 3.50%	Par Rate	2033 Notes 1,740,725 3.50%	Par Rate	Gross Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2018																							205,690
2019																							202,090
2020																							277,440
2021																							782,445
2022																							1,190,400
2023	1,503,478	373,563	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1,877,041
2024	1,625,331	384,360	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	2,009,691
2025	627,244	324,561	1,326,758	46,437	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	2,325,000
2026	649,217	302,788	--	--	1,326,565	46,430	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	2,325,000
2027	671,253	280,252	--	--	--	--	1,327,048	46,447	--	--	--	--	--	--	--	--	--	--	--	--	--	--	2,325,000
2028	693,353	256,952	--	--	--	--	--	--	1,328,208	46,487	--	--	--	--	--	--	--	--	--	--	--	--	2,325,000
2029	720,520	232,785	--	--	--	--	--	--	--	--	1,325,309	46,386	--	--	--	--	--	--	--	--	--	--	2,325,000
2030	745,000	206,250	--	--	--	--	--	--	--	--	--	--	1,327,295	46,455	--	--	--	--	--	--	--	--	2,325,000
2031	770,000	180,650	--	--	--	--	--	--	--	--	--	--	--	--	1,327,874	46,476	--	--	--	--	--	--	2,325,000
2032	795,000	156,163	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1,327,379	46,458	--	--	--	--	2,325,000
2033	820,000	131,850	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1,326,715	46,435	--	--	2,325,000
2034	410,000	113,350	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1,740,725	60,925	2,325,000
2035	420,000	101,740	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	521,740

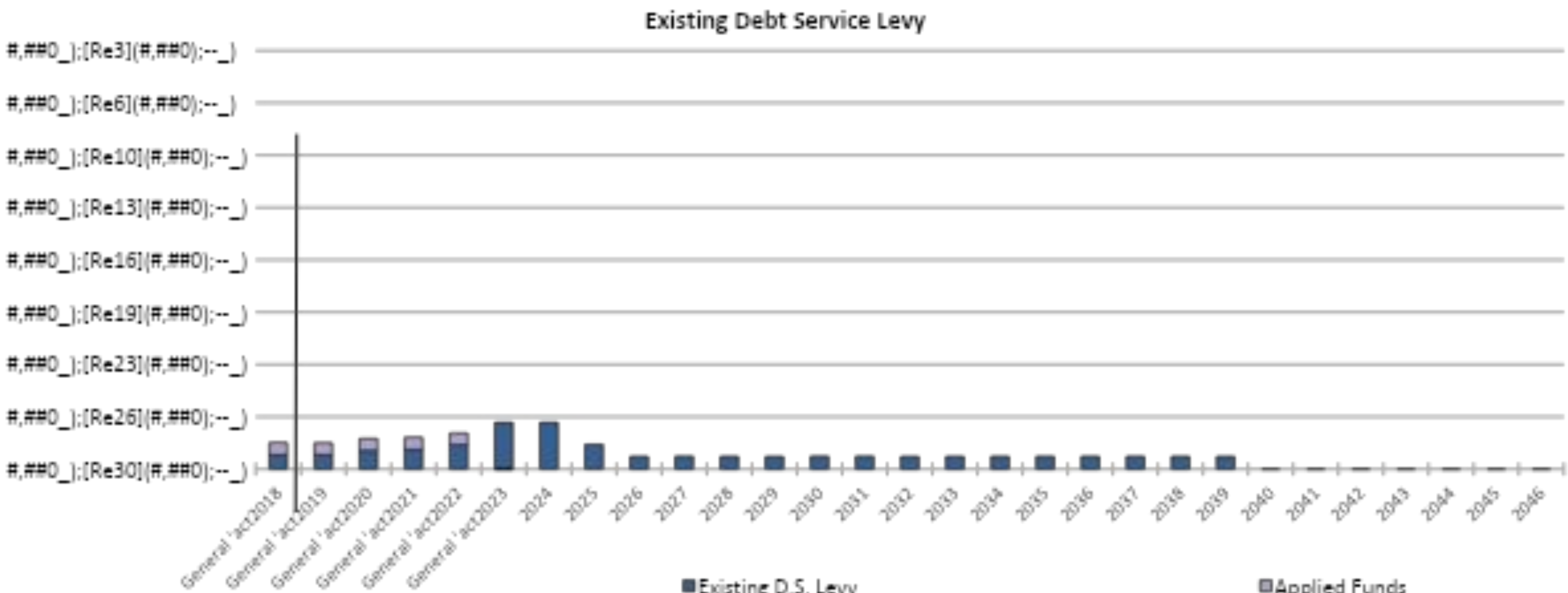
1-year Annual Borrowings (chart - projected)

- Borrowing $1.325 million annually allows aggregate debt service to stay at $2.325 million



Multiple 20-year Borrowings (chart - existing)

- County has little existing debt but has a very large upcoming building project



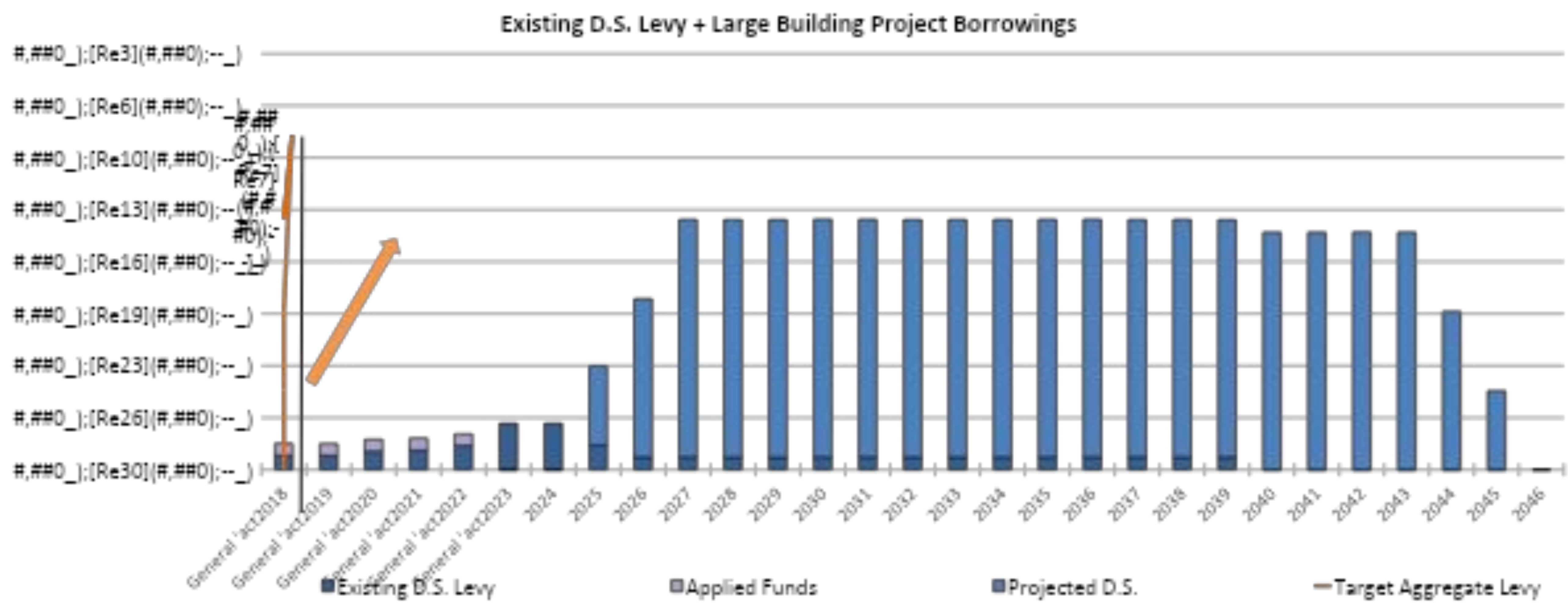
Multiple 20-year Borrowings (table)

- A $60,000,00 building project has a projected <u>three</u> $20,000,000 borrowings

Budget / Calendar Year	Debt Service Levy: Existing Levy Supported Debt Service Principal	Existing Levy Supported Debt Service Interest	2024 Bonds 20,000,000Par 4.00%Rate Principal	2024 Bonds Interest	2025 Bonds 20,000,000Par 4.00%Rate Principal	2025 Bonds Interest	2026 Bonds 20,000,000Par 4.00%Rate Principal	2026 Bonds Interest	Gross Debt Service	Less: Debt Service Transfer In	Debt Service Levy
2018									506,020	(231,700)	274,320
2019									502,170	(227,700)	274,470
2020									583,869	(228,650)	355,219
2021									606,419	(229,500)	376,919
2022									687,971	(224,145)	463,826
2023	790,352	103,859							894,210	--	894,210
2024	792,000	102,828							894,828	--	894,828
2025	390,000	80,988	725,000	800,000					1,995,988	--	1,995,988
2026	170,000	72,863	750,000	771,000	725,000	800,000			3,288,863	--	3,288,863
2027	180,000	65,863	780,000	741,000	750,000	771,000	725,000	800,000	4,812,863	--	4,812,863
2028	185,000	58,563	815,000	709,800	780,000	741,000	750,000	771,000	4,810,363	--	4,810,363
2029	190,000	52,013	845,000	677,200	815,000	709,800	780,000	741,000	4,810,013	--	4,810,013
2030	200,000	46,163	880,000	643,400	845,000	677,200	815,000	709,800	4,816,563	--	4,816,563
2031	205,000	41,113	915,000	608,200	880,000	643,400	845,000	677,200	4,814,913	--	4,814,913
2032	205,000	37,013	950,000	571,600	915,000	608,200	880,000	643,400	4,810,213	--	4,810,213
2033	210,000	32,863	990,000	533,600	950,000	571,600	915,000	608,200	4,811,263	--	4,811,263
2034	215,000	28,478	1,030,000	494,000	990,000	533,600	950,000	571,600	4,812,678	--	4,812,678
2035	220,000	23,856	1,070,000	452,800	1,030,000	494,000	990,000	533,600	4,814,256	--	4,814,256
2036	225,000	18,988	1,115,000	410,000	1,070,000	452,800	1,030,000	494,000	4,815,788	--	4,815,788
2037	230,000	13,869	1,155,000	365,400	1,115,000	410,000	1,070,000	452,800	4,812,069	--	4,812,069
2038	235,000	8,491	1,205,000	319,200	1,155,000	365,400	1,115,000	410,000	4,813,091	--	4,813,091
2039	240,000	2,850	1,250,000	271,000	1,205,000	319,200	1,155,000	365,400	4,808,450	--	4,808,450
2040	--	--	1,300,000	221,000	1,250,000	271,000	1,205,000	319,200	4,566,200	--	4,566,200
2041	--	--	1,355,000	169,000	1,300,000	221,000	1,250,000	271,000	4,566,000	--	4,566,000
2042	--	--	1,410,000	114,800	1,355,000	169,000	1,300,000	221,000	4,569,800	--	4,569,800
2043	--	--	1,460,000	58,400	1,410,000	114,800	1,355,000	169,000	4,567,200	--	4,567,200
2044	--	--	--	--	1,460,000	58,400	1,410,000	114,800	3,043,200	--	3,043,200
2045	--	--	--	--	--	--	1,460,000	58,400	1,518,400	--	1,518,400
2046	--	--	--	--	--	--	--	--	--	--	--

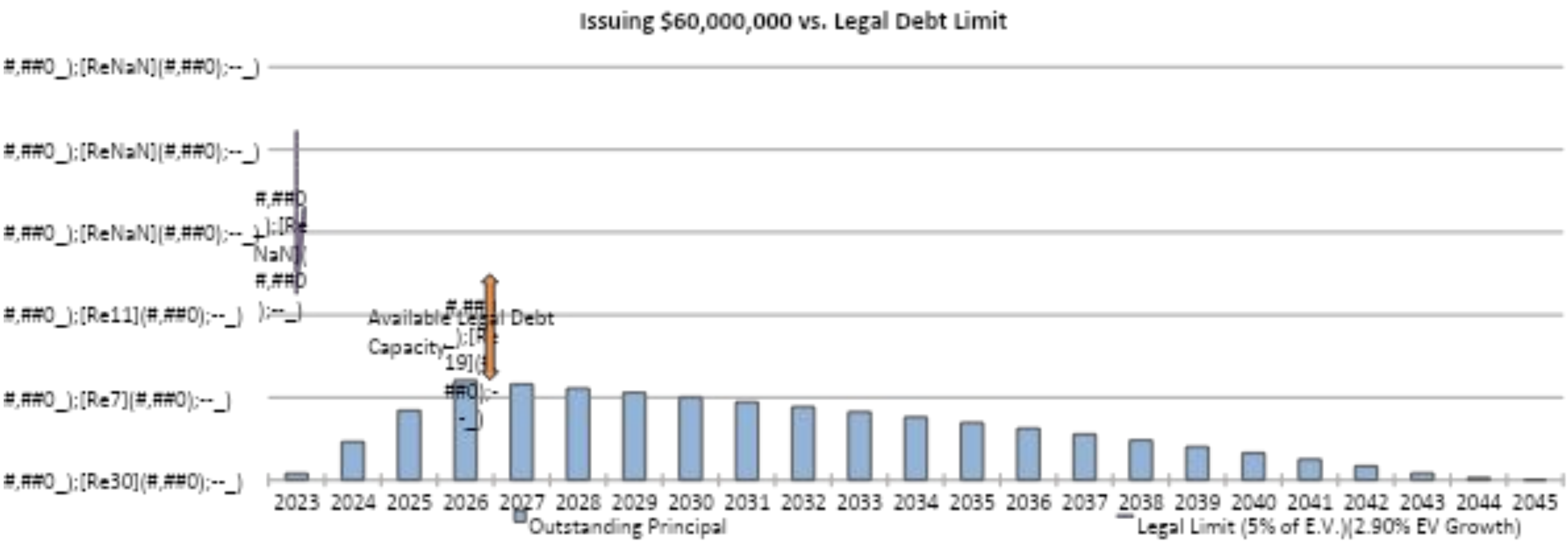
Multiple 20-year Borrowings (chart)

- Phased borrowing approach will allow for a 3-year step-up in debt service levy and then level



Multiple 20-year Borrowings (Legal Debt Limit)

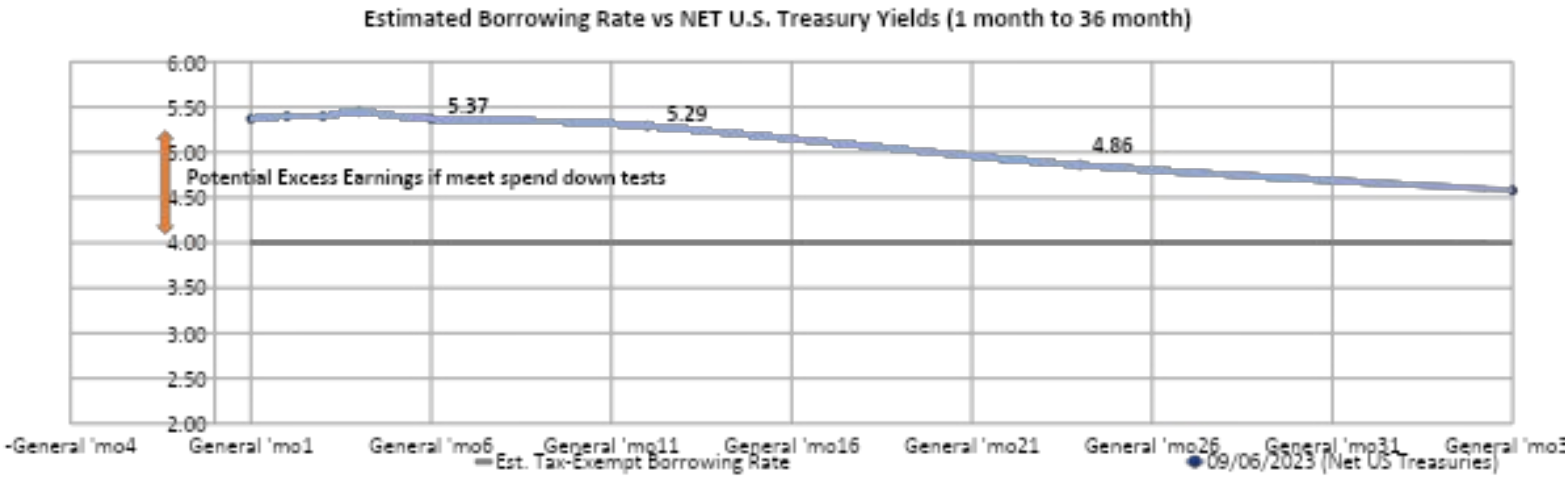
- Wisconsin State Statute limits a County's G.O. debt to 5.0% of equalized value
- Issuing $60,000,000 will still allow this County be at approximately half of its legal debt capacity



Debt Limit projection based on Equalized Value increasing 2.90% annually.

Investing Bonds Proceeds (Invest % > Borrow %)

- A reasonable estimate for a County's 20-year tax-exempt borrowing rate is 4.00%
- Current short-term investment rates are <u>substantially higher than 4.00%</u>
- If the County meets certain IRS spend down tests, it can keep any "excess" earnings



Sources: PMA for Borrowing Rate and and U.S. Department of the Treasury (less 15 bps)

Financing Considerations for Capital Projects

From "Financing Considerations for Capital Projects" Wisconsin Counties Magazine

Benefits of debt financing

Wisconsin counties have a variety of capital needs and financial resources, so it should come as no surprise that use of debt can vary greatly. Some counties issue tens of millions of dollars of debt annually as a matter of course while others only issue debt when there is a major building project to finance. If used prudently, debt is an invaluable tool for maintaining a county's wide range of physical assets. Benefits of utilizing debt include:

Wisconsin's levy limits – A county can increase its levy by the increase in its general obligation debt service requirement.

Construction cost inflation – The long-term, tax-exempt borrowing rate has traditionally been, and continues to be, lower than the rate of construction cost inflation.

Generational equity – Many capital assets have useful lives measured in decades. Levying for debt service creates a closer alignment between those who benefit from the asset and those who are paying for the asset.

Optimal life-cycle decisions – Debt financing can be used to better maintain assets, which provides for overall lower life-cycle costs.

Managing the levy – A comprehensive capital and financial plan will smooth out impacts to the overall levy associated with financing capital projects.

II. Best Practices for Selling Bonds

GFOA Best Practices – Five Part Series on Bonds

The **Government Finance Officers Association** (GFOA), has over 20,000 members and its mission is to advance excellence in public finance.

Sale of Bonds – Best Practices

There are five BPs related to the sale of bonds and they should be read and considered in conjunction with each other because of the interaction of the processes to which they apply.

1. Selecting and Managing the Method of Sale of Municipal Bonds
2. Selecting and Managing Municipal Advisors
3. Selecting Bond Counsel
4. Selecting Underwriters for Negotiated Bond Sales
5. Pricing Bonds in a Negotiated Sale

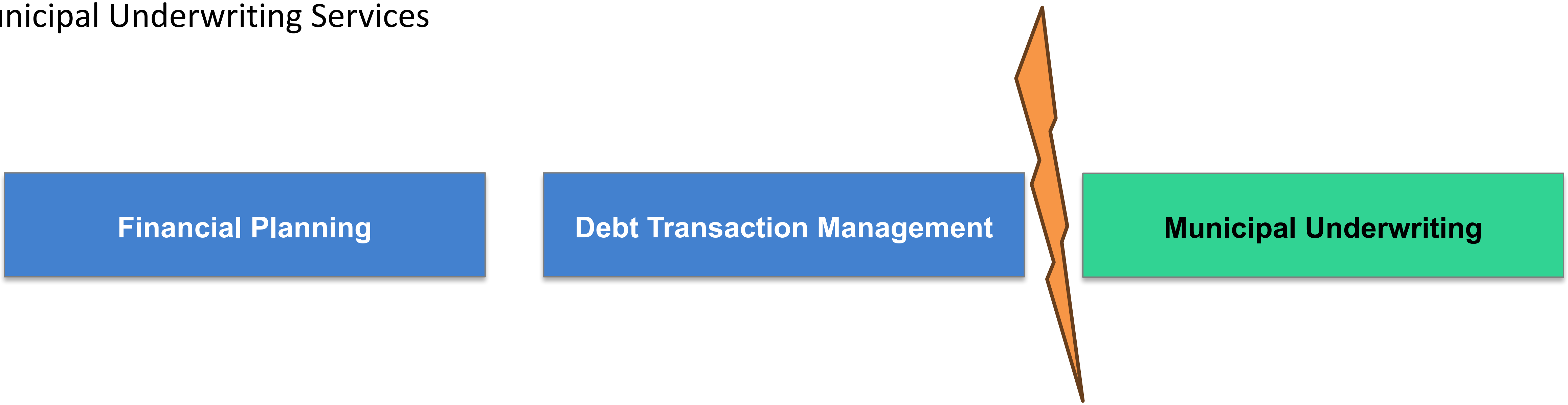
State and local governments engage municipal advisors to assist in the structuring and issuance of bonds whether through a competitive or a negotiated sale process.

GFOA recommends that issuers hire a municipal advisor prior to the undertaking of a debt financing unless the issuer has sufficient in-house expertise and access to current bond market information.

Financial Planning & Underwriting Services

When a governmental entity accesses the capital markets for a debt issuance there will be:

- Financial Planning and Debt Transaction Management Services
- Municipal Underwriting Services



Some issuers will use a Municipal Broker-Dealer to provide the above services.

GFOA Best Practices state that these services should be performed by separate companies.

- Municipal Advisor
- Municipal Underwriter

Financial Planning / Debt Transaction Management

Duties and responsibilities associated with Financial Planning and Debt Transaction Management.

Financial Planning

Understand Existing Position
- Review Financial and Debt Management policies
- Historical credit analysis utilizing rating agency models
- Model existing debt service by expected source of repayment

Identify Capital Needs
- Current year capital needs
- Projections of future capital needs

Evaluate Financing Mechanisms
- Sources of funding (Capital Markets, PP, State Loans)
- Credit pledges (G.O., Revenue, CDA Lease Revenue)

Model Financing Alternatives
- Model different debt structures
- Model different future years borrowing amounts
- Project debt service by expected source of repayment
- Project impact to required revenues (Levy, Enterprise Funds)
- Project impact to fund and cash balances

Presentation to Policymakers
- Present existing position, alternatives considered, recommended plan, impact of current borrowing, and projected impact of future borrowings
- A comprehensive, long-term financial plan that is regularly updated

Debt Transaction Management

Determine how the Underwriter will be selected
- Pre-select the Underwriter, vs.
- Determine Underwriter on the day of sale

Manage the Process from Start to Finish
- Create a calendar of events
- Coordinate with other financing team members
- Attend Board meetings
- Develop a rating agency strategy
- Draft the POS for financing team review
- Determine structure, call provision, etc.
- Determine allow able coupon ranges
- Monitor market conditions and other sales
- Marketing of the debt
- Advocate for Issuer's interest with Underwriter
- Sign off on final pricing
- Draft the Final OS for financing team review
- Coordinate settlement
- Prepare post-sale analysis

Municipal Underwriting

MSRB
Municipal Securities Rulemaking Board

Duties and responsibilities associated with Municipal Underwriting.

Municipal Underwriting

- An Underwriter's primary role is to purchase securities from the Issuer and resell the securities to investors.
- An Underwriter has a duty to purchase securities from the Issuer at a fair and reasonable price but must balance that duty with its duty to sell municipal securities to investors at prices that are fair and reasonable.

Issuer

Wants Lower Rates

Sells Bonds Once a Year

Investor

Wants Higher Rates

Buys Bonds Weekly

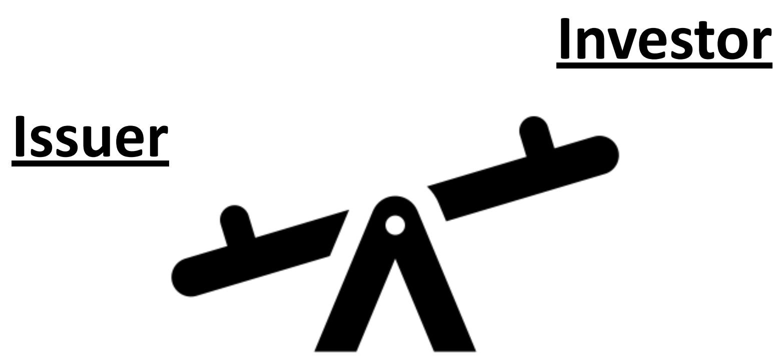
- Without representation, the Issuer is a disadvantage in these negotiations.

Municipal Advisor Tips Scale to County's Advantage

The County can tip the scales in its favor by hiring a qualified, independent Municipal Advisor to perform Financial Planning and Debt Transaction Management services. This separates advice from underwriting services.

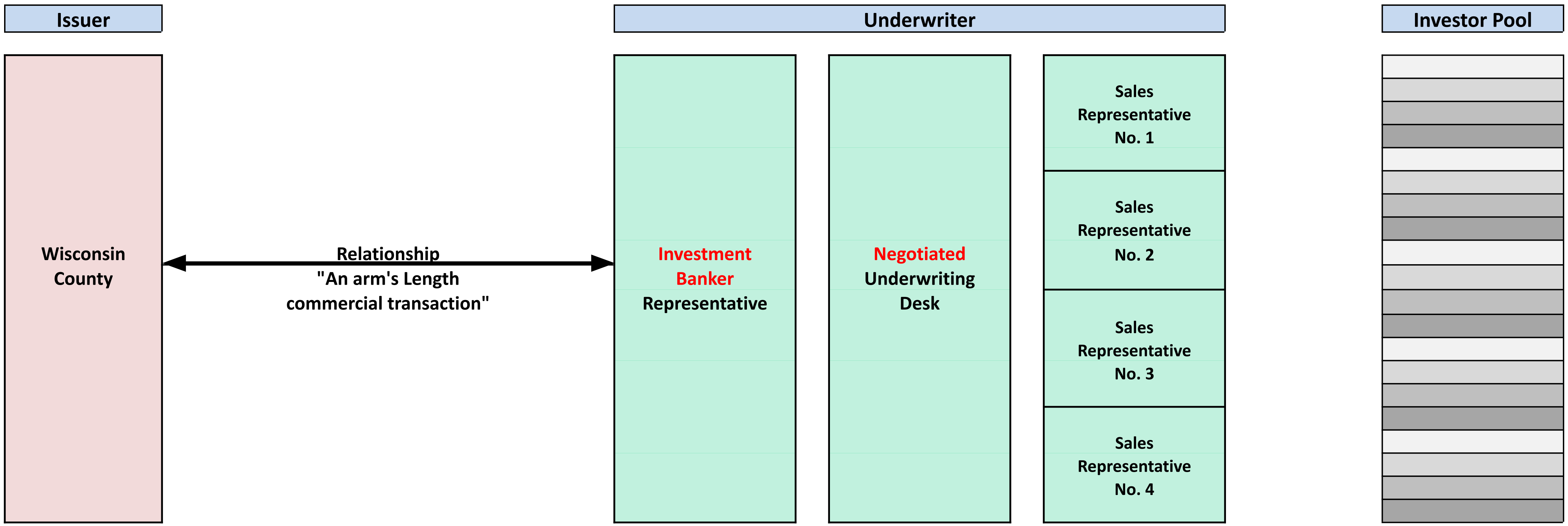
Municipal Advisor

- A Municipal Advisor is an advocate for its County clients' interests.
- A Municipal Advisor owes its clients a fiduciary duty when performing municipal advisory activities. (duty of loyalty and a duty of care)
- Municipal Advisor can insert competition and transparency into the Underwriter selection process, which drives down the interest rate that investors receive (Competitive Sale).



Issuing Bonds Ex. No. 1: Without Municipal Advisor

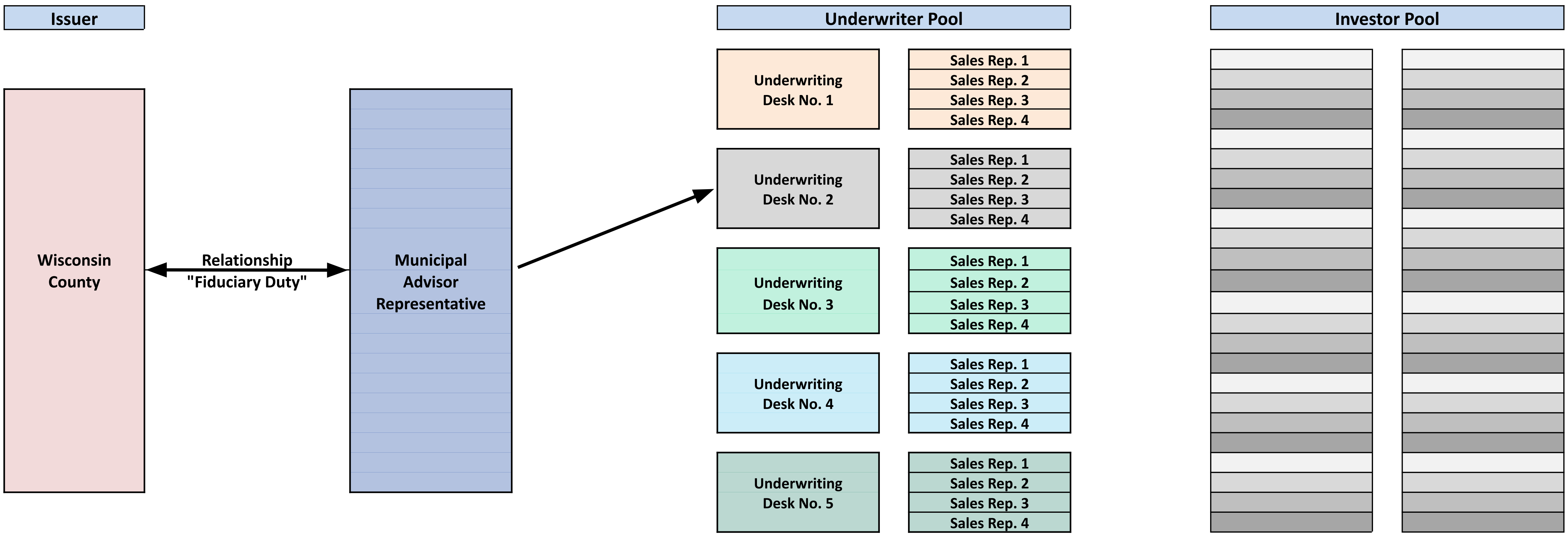
Below exhibit represents a Negotiated Sale.
Underwriter is Pre-Selected by County.
No competition between Underwriters. No transparency on rates.



(1) County sells its Bonds to the Underwriter, and the Underwriter resells the Bonds to the Investors.
(2) The County signs one contract with the Underwriter for both (i) Investment Banking, and (ii) Underwriting services.
(3) The Investment Banker provides financial planning and debt management services to the County.
(4) The Investment Banker directs the sale of the County's Bonds to its own Underwriting Desk.

Issuing Bonds Ex. No. 2: With Municipal Advisor

Below exhibit represents a Competitive Public Sale.
Underwriter determined by Competitive Bidding Process. Creates a larger investor pool.
WI Statutes Require this method of sale for General Obligation Bonds (see slide 39)

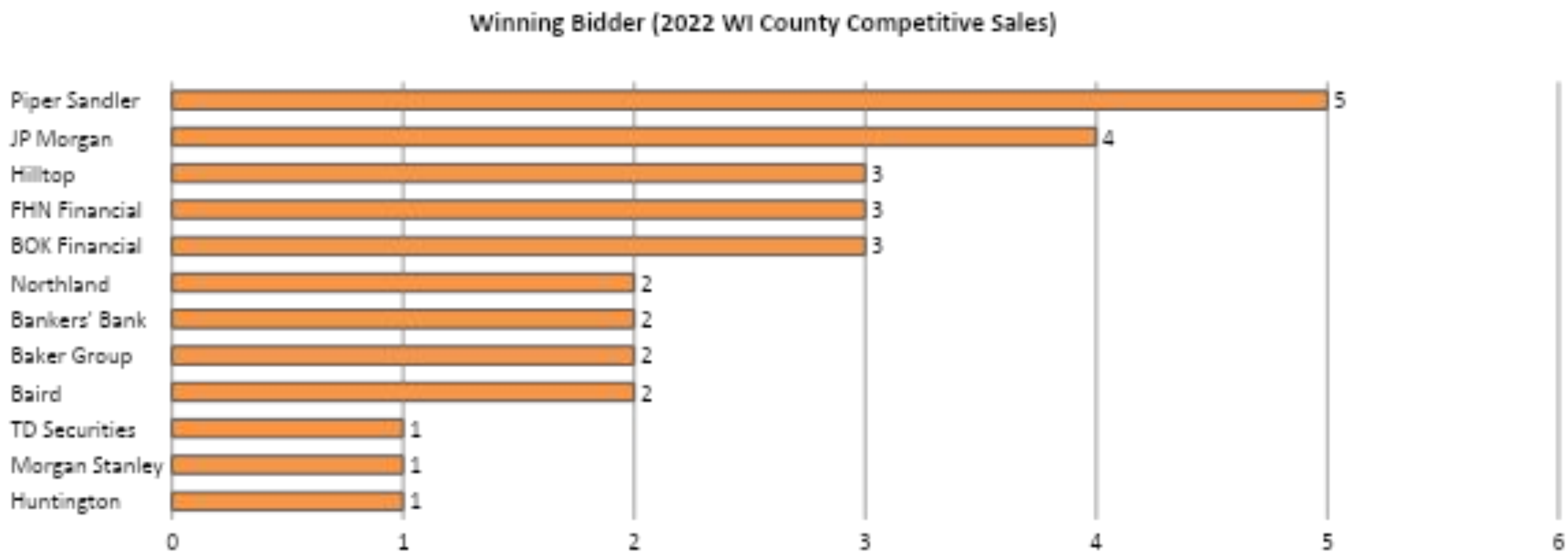


(1) County sells its Bonds to the Underwriter, and the Underwriter resells the Bonds to the Investors.
(2) The County signs two contracts, one with the Municipal Advisor and one with the winning Underwriter.
(3) The Municipal Advisor provides financial planning and debt management services to the County.
(4) The Municipal Advisor conducts a Competitive Sale on the County's behalf to find the Underwriting Desk that offers the lowest rate.

Can't Predict What Underwriter Will Make Best Bid

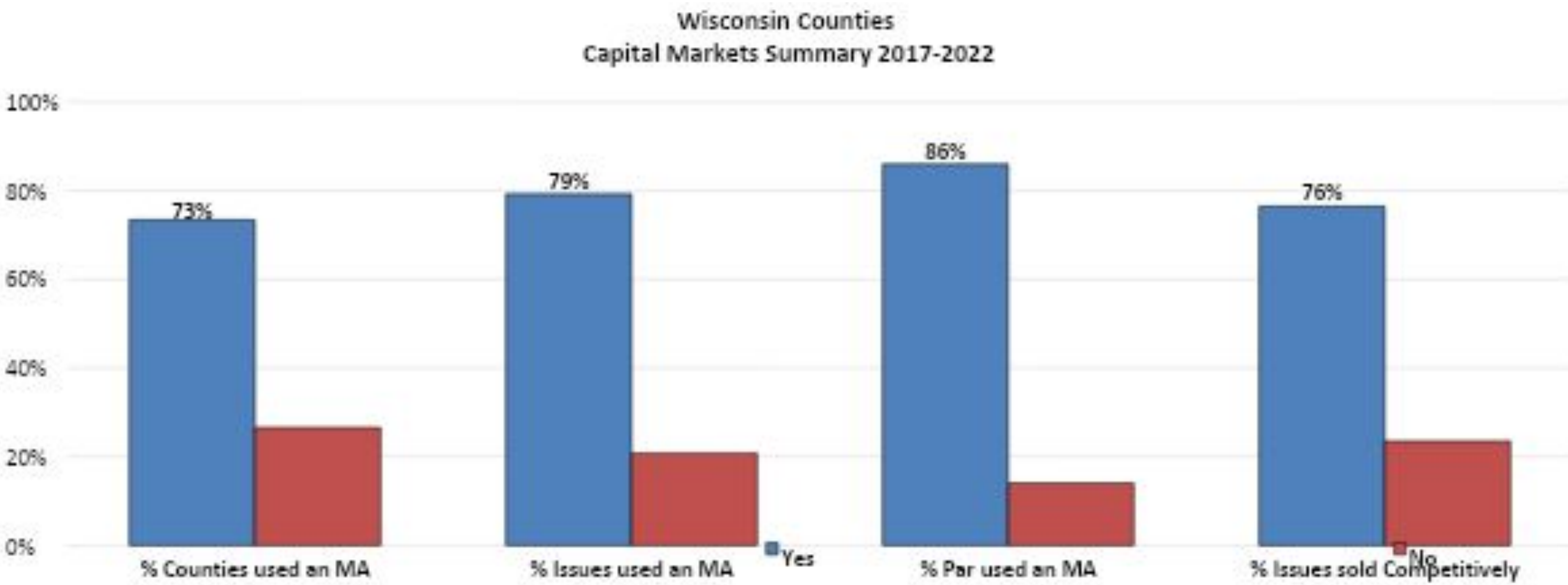
During 2022, Wisconsin counties contracted with Municipal Advisors to conduct a <u>competitive public bidding</u> of their debt issues 29 times.

There were <u>12 different winning Municipal Underwriters</u>, located throughout the country.



WI County Capital Market Summary (2017-2022)

Since 2017, 73% of Wisconsin counties used a Municipal Advisor on their debt issues.



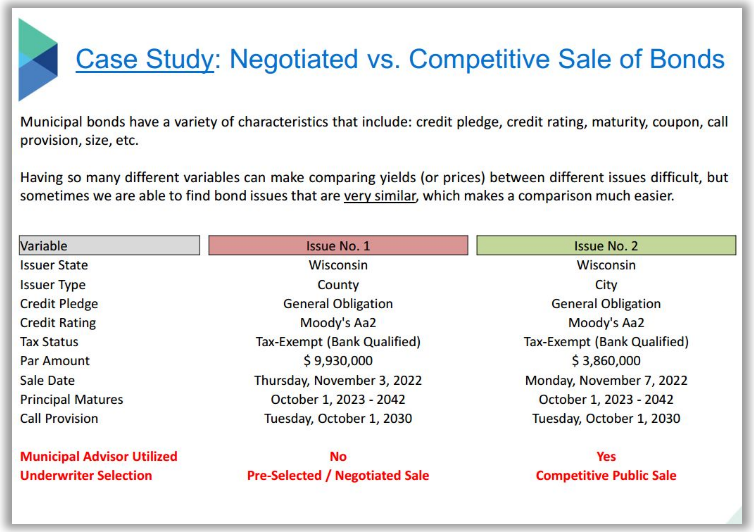
255 Wisconsin county debt issues (2017-2022)

III. Who Do You Want to Receive the 0.20%?

PMA's WI Counties Annual Capital Markets Review

On an annual basis, PMA creates a Wisconsin Counties Capital Market Debt Year in Review, which is emailed to at least one county staff member at all 72 counties.

The presentation includes a detailed review of all the county capital market debt issues for the year and summarizes several years of data for perspective.



Case Study: Negotiated vs. Competitive Sale of Bonds

Municipal bonds have a variety of characteristics that include: credit pledge, credit rating, maturity, coupon, call provision, size, etc.

Having so many different variables can make comparing yields (or prices) between different issues difficult, but sometimes we are able to find bond issues that are very similar, which makes a comparison much easier.

Variable	Issue No. 1	Issue No. 2
Issuer State	Wisconsin	Wisconsin
Issuer Type	County	City
Credit Pledge	General Obligation	General Obligation
Credit Rating	Moody's Aa2	Moody's Aa2
Tax Status	Tax-Exempt (Bank Qualified)	Tax-Exempt (Bank Qualified)
Par Amount	$ 9,930,000	$ 3,860,000
Sale Date	Thursday, November 3, 2022	Monday, November 7, 2022
Principal Matures	October 1, 2023 - 2042	October 1, 2023 - 2042
Call Provision	Tuesday, October 1, 2030	Tuesday, October 1, 2030
Municipal Advisor Utilized	No	Yes
Underwriter Selection	Pre-Selected / Negotiated Sale	Competitive Public Sale

The 2022 Year in Review included a detailed apples-to-apples case study comparing one issuer that followed GFOA Best Practices (hired Municipal Advisor and held Competitive Sale), vs a County that didn't (No Municipal Advisor, Direct Sale, No Underwriter Competition).

The results of the analysis indicate that investors in the County's debt received 0.20% higher yields than that of the Wisconsin issuer that followed GFOA best practices.

* A PDF copy or a link to a video presentation of the 2022 year in review presentation are available by emailing bdella@pmanetwork.com

How much is 0.20% Worth on a Bond Sale?

When a County issues 20-year general obligation bonds, it is very reasonable to assume that there is 0.20% (20 basis points) of rate that is "in play".

For example:

- 3.80% (well executed bond sale)
- 4.00% (poorly executed bond sale)

This 0.20% can be quantified into dollars and these dollars will be allocated!

Because of the unique nature of municipal bond pricing, there are two ways these dollars are calculated.

County elected officials and staff, must decide if it wants its taxpayers to retain the 0.20%, or would the County rather give this money to investors.

Ex No. 1: County Pays Higher Interest Expense

Below shows difference in interest expense for bond issues that generate the same amount of proceeds on the day of sale, but have interest calculated at 3.80% and 4.00%.

Hypothetical Well Executed Bonds Sale (3.80%)

Borrow	Coupon		Rate	Future Interest
$ 10,000,000	3.80%	=	3.80%	$ 4,453,220
20,000,000	3.80%	=	3.80%	8,906,440
30,000,000	3.80%	=	3.80%	13,359,660
40,000,000	3.80%	=	3.80%	17,812,880
50,000,000	3.80%	=	3.80%	22,266,100

Hypothetical Poorly Executed Bonds Sale (4.00%)

Borrow	Coupon		Rate	Future Interest	Increase in Future Interest	Present Value Interest @ 3.80%
$ 10,000,000	4.00%	=	4.00%	$ 4,713,600	$ 260,380	$ 180,635
20,000,000	4.00%	=	4.00%	9,427,200	520,760	361,270
30,000,000	4.00%	=	4.00%	14,140,800	781,140	541,905
40,000,000	4.00%	=	4.00%	18,854,400	1,041,520	722,540
50,000,000	4.00%	=	4.00%	23,568,000	1,301,900	903,175

(1) Level annual payments over 20 years with a 10-year prepayment provision.

Ex No. 2: County Gets Less Proceeds at Issuance

Below shows difference in gross proceeds on the day of sale for bond issues that pay the same amount of interest over the life of the bond issue.

Hypothetical Well Executed Bonds Sale (3.80%)

Borrow	Coupon		Rate	Gross Proceeds
$ 10,000,000	4.00%	>	3.80%	$ 10,139,233
20,000,000	4.00%	>	3.80%	20,278,465
30,000,000	4.00%	>	3.80%	30,417,698
40,000,000	4.00%	>	3.80%	40,556,930
50,000,000	4.00%	>	3.80%	50,696,163

Hypothetical Poorly Executed Bonds Sale (4.00%)

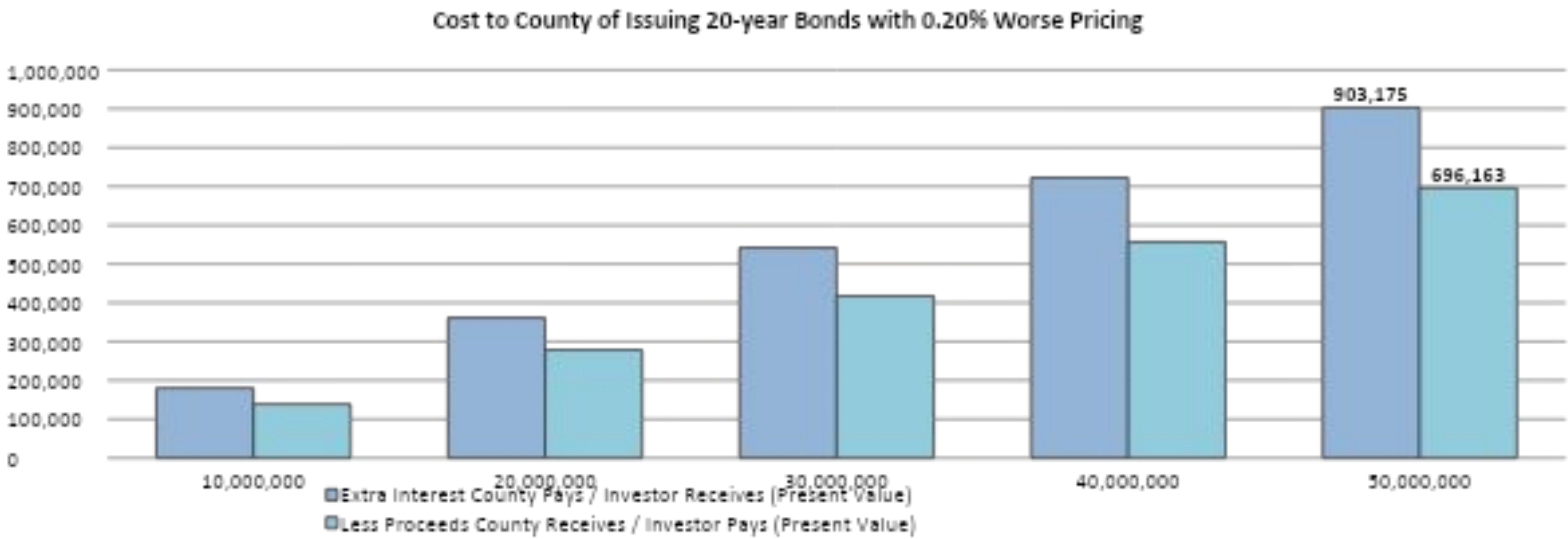
Borrow	Coupon		Rate	Gross Proceeds	Reduction in Gross Proceeds
$ 10,000,000	4.00%	=	4.00%	$ 10,000,000	$ 139,233
20,000,000	4.00%	=	4.00%	20,000,000	278,465
30,000,000	4.00%	=	4.00%	30,000,000	417,698
40,000,000	4.00%	=	4.00%	40,000,000	556,930
50,000,000	4.00%	=	4.00%	50,000,000	696,163

(1) Level annual payments over 20 years with a 10-year prepayment provision.

(2) A reduction in gross proceeds is already in present value terms.

Comparison of 0.20% in Interest vs. Proceeds

Below are the present value dollars "in play" from the previous two slides based on the size of the debt issue and assuming a 0.20% rate difference between well executed and poorly executed.



*The reason 0.20% has less impact on price/proceeds is that there are callable premium bonds after year 10, and issuer does not receive full benefit in the purchase price.

County Official Deciding Where to Allocate the 0.20%

IV. What are Anticipation Notes?

General Obligation Notes and Bonds

The majority of Wisconsin counties finance their projects directly with either:

- General Obligation Notes
- General Obligation Bonds

General Obligation Notes

- Must mature within 10 years
- State of Wisconsin does not prescribe the method of sale (either competitive or negotiated OK)

General Obligation Bonds

- Final maturity limited to 20 years (although there are exceptions)
- A permissive referendum is possible, but only for certain projects (highways, bridges, railroad, memorials)
- **State of Wisconsin prescribes the method of sale (competitive sale is required per Chapter 67.08(2))**

In other words, State Statutes prohibit Issuers of General Obligation Bonds from preselecting the municipal underwriter.

Interim Financing with Anticipation Notes

Some Wisconsin counties will finance a large building project with Anticipation Notes.

- Note Anticipation Notes (NANs)
- Bond Anticipation Notes (BANs)

Which are often refinanced within a few months with long-term (20-year) G.O. Refunding Bonds.

Common Question:

- Why issue debt twice within the span of a few months when you could have just issued once?

Common Answers:

- In the absence of a Municipal Advisor, the County has been advised to use Anticipation Notes.
- There are no statutory requirements on the method of sale for G.O. refunding bonds.
- This allows the County to preselect its Municipal Underwriting firm on long-term G.O. debt.

State statute was designed to limit this behavior, and GFOA Best Practices related to the sale of bonds advises against it, yet it does still occur.

2022 Capital Markets Review / Case Study: NAN-Flip

The case study included in the 2022 Wisconsin Counties Capital Market Debt Year in Review showed how a poorly executed debt issue could enrich investors (i.e., cost taxpayers) 0.20%.

In addition to the County not hiring a Municipal Advisor nor conducting a competitive sale, the County issued Anticipation Notes for 62 days before refinancing with 20-year G.O. refunding bonds.

Case Study: Negotiated vs. Competitive Sale of Bonds

Wisconsin Statues requires "general obligation bonds" to be sold via a competitive public sale.

One way for a Wisconsin county to both (i) lock in 20-year general obligation financing and (ii) sell with a preselected municipal underwriter (e.g., a negotiated sale) is the two-step "NAN-Flip" as illustrated below.

Issuer	Wisconsin County	Wisconsin County
Amount	$ 10,000,000	$ 9,930,000
Issue	Note Anticipation Note	General Obligation Refunding Bonds
Sale Date		Thursday, November 3, 2022
Dated	Monday, October 17, 2022	Thursday, December 15, 2022
Redemption	Monday, December 19, 2022	TBD
Life	62 Days - Actual	19.8 Years - Scheduled

There are no statutory requirements on the method of sale for general obligation refunding bonds.

V. Summary

Summary

- Each county's capital and debt structure are unique, thus requiring <u>customized solutions</u>
- <u>Bond Proceeds Management</u> is very important in the current interest rate environment
- <u>GFOA Best Practices</u> indicate Wisconsin counties should hire a <u>Municipal Advisor</u> (73% do)
- <u>GFOA Best Practices</u> encourage <u>Competitive Sales</u> for Wisconsin county general obligation debt
- <u>Wisconsin Statute's</u> require general obligation Bonds to be sold via a <u>Competitive Sale</u> process
- <u>Anticipation Notes</u> have been used to <u>avoid the Statutory Competitive Sale requirement</u>
- PMA has demonstrated that there is a <u>range of 0.20% on 20-year bond issues</u>
- County officials and staff will determine who gets the 0.20%
  - Buyers of the Bonds?
  - County Taxpayers?

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