Effective Bond Structuring in Today's Market
2021 Update

Sudsina & Associates, LLC
Registered Municipal Advisors

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Monday, June 14, 2021, 10:15 AM – 12:15 PM

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Effective Bond Structuring in Today's Market - 2021 Update

Presentation Objective

Part 1

- ✓ Discussion of municipal bond market rates
- ✓ Bond insurance update
- ✓ Review of recent changes in the market
- ✓ Discussion debt sale methods and recent sale results

Part 2

- ✓ ARPA Discussion
- ✓ ESG and rating considerations
- ✓ Green Bonds
- ✓ Voluntary Disclosure

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Part 1

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Low Interest Rates and Corresponding Yield to Investors

Current Market Conditions are Still Exceptional for Borrowing

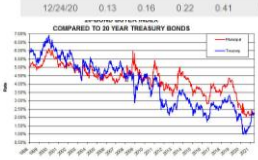
- *Fed Funds Rate was at virtually 0% from December 2008 until December 2015. Then, as the economy picked up steam, the Fed began to raise the rate, and it rose steadily until 2018*
- *At its August 2020 meeting, the FOMC had said it intends to keep the benchmark rate at current rock-bottom levels until inflation is at 2% for the long term*
- *In March 2020, it reacted swiftly to the escalating outbreak of the COVID-19 pandemic.*
- *At its August 2020 meeting, the FOMC had said it intends to keep the benchmark rate at current rock-bottom levels until inflation is at 2% for the long term.*

AAA General Obligation Yields as of 01/01/2021

	1-YR	3-YR	5-YR	7-YR	10-YR
12/31/20	0.13	0.16	0.22	0.40	0.71
12/30/20	0.13	0.16	0.22	0.40	0.71
12/29/20	0.13	0.16	0.22	0.41	0.71
12/28/20	0.13	0.16	0.22	0.41	0.71
12/24/20	0.13	0.16	0.22	0.41	0.71

AAA General Obligation Yields as of 06/04/2021

	1-YR	3-YR	5-YR	7-YR	10-YR
06/04/21	0.07	0.21	0.44	0.69	0.96
06/03/21	0.07	0.21	0.47	0.71	0.98
06/02/21	0.07	0.21	0.48	0.72	0.98
06/01/21	0.07	0.21	0.48	0.73	0.99
05/28/21	0.07	0.21	0.48	0.73	0.99



Yield Curve Analytics

- *The Fed reaffirmed this decision at its January 2021 meeting. The Fed doesn't expect this to happen until 2023, so in other words, expect interest rates to remain low for another three years. With minimum short term rates and recent jumps in long term rates, Municipal and Treasury yield curves have steepened.*

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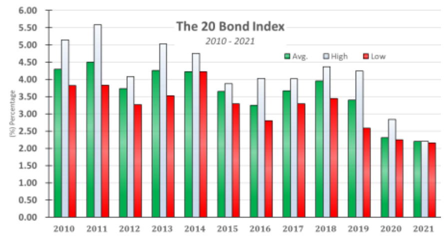
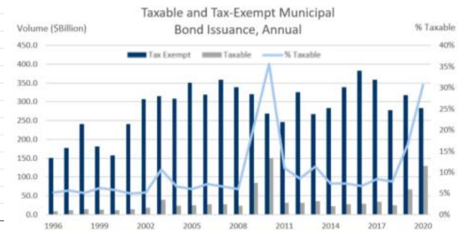
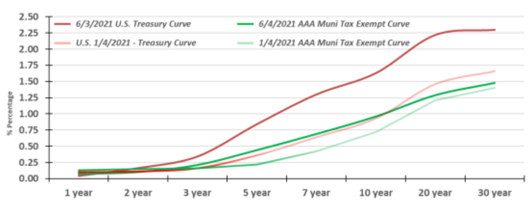
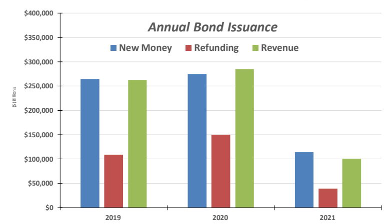
Yield Curve Analytics & Primary Market Data









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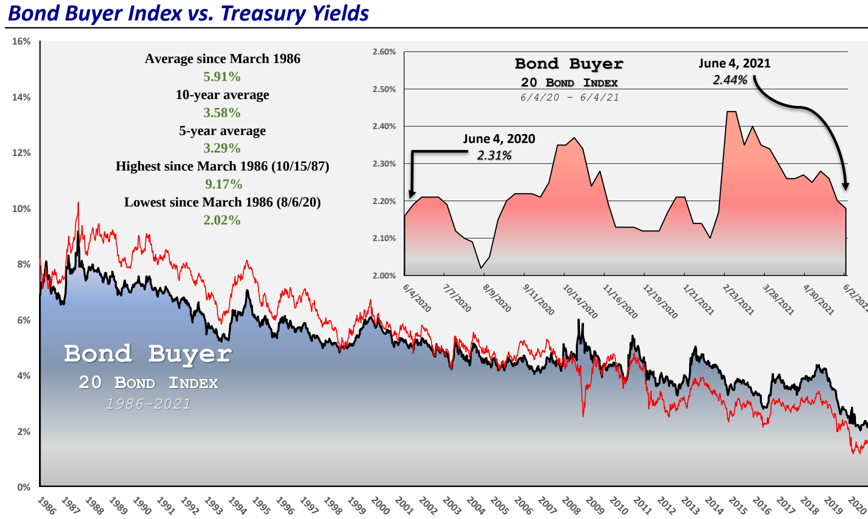
Bond Buyer Index vs. Treasury Yields



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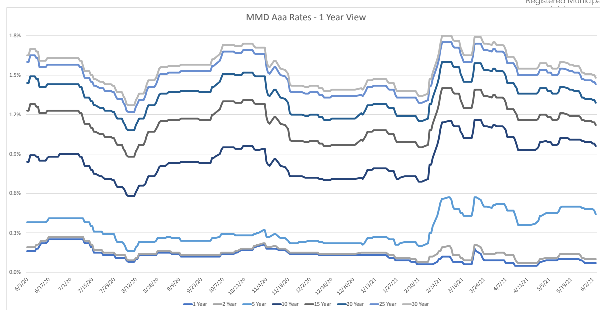
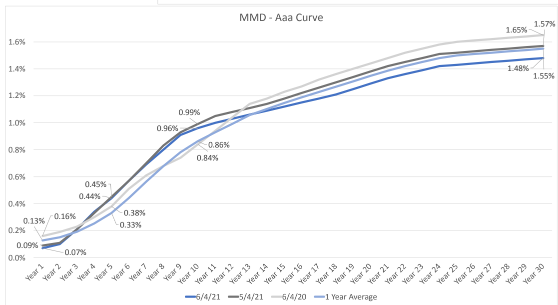
MMD Bond Yields

MMD - Aaa Rates	1 Year	5 Year	10 Year	30 Year
Average Since Nov-2016	0.96%	1.26%	1.73%	2.43%
Highest Since Nov-2016	2.51%	2.56%	2.79%	3.46%
Lowest Since Nov-2016	0.05%	0.16%	0.58%	1.27%
30 Day Average	0.09%	0.46%	0.99%	1.56%
90 Day Average	0.08%	0.43%	0.98%	1.60%
1-Year High	0.25%	0.57%	1.16%	1.80%
1-Year Low	0.05%	0.16%	0.58%	1.27%
Current Rate	0.07%	0.44%	0.96%	1.48%





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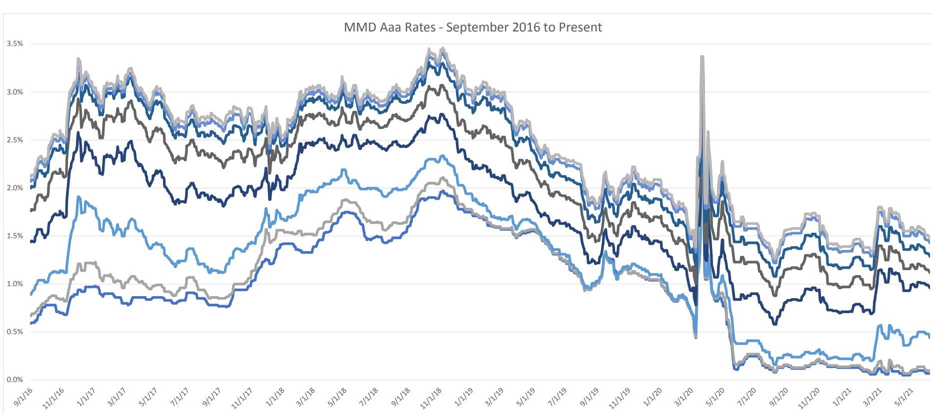
MMD Bond Yields



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Bond Insurance Update – History of Industry

- Prior to 2008 Recession, there were upward to 10 bond insurance companies
- Most had Aaa/AAA ratings from the rating agencies
- Competition was strong among the participants that produced favorable insurance premium rates to the benefit of issuers
- As a result, most municipal bonds carried insurance
- Once recession hit, bond insurance covenants proved troublesome for issuers
- Post-recession only two bond insurers survived and both provide only Aa/AA ratings, so insurance analysis must to be more thorough and thoughtful than in the past

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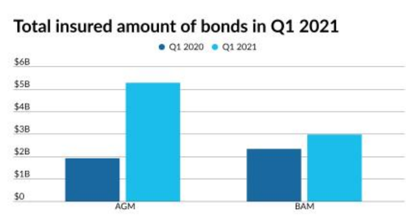
Bond Insurance Update – Current Critical Analysis Issues

- Bond insurance is an unconditional and irrevocable guaranty to pay principal and interest when due
- Adding insurance can lead to a ratings upgrade for new issues and attract additional investors, ultimately reducing borrowing costs
  - Issuers typically compare the present-value debt-service savings from adding insurance to the insurance premium: If the net savings are positive, they add insurance
- There are 2 active municipal bond insurers in the market today, each carrying double-A ratings from S&P
  - ***Build America Mutual***
  - ***Assured Guaranty***

BAM



- Since the Global Financial Crisis, insurers guaranteed about 6% of the annual new-issuance volume (and about 15% of all transactions), but the COVID-19 pandemic shifted the market
  - Penetration climbed to 10% in May 2020, and has remained elevated, above 7% in every month since
  - Institutional Investors are increasingly buying insurance for more than protection against default
    - Stable Ratings -- Enhanced Liquidity -- Value Preservation
  - The increase in sales of taxable munis has also benefitted insurance
    - International buyers with limited internal capacity to do municipal credit analysis favor a third-party guaranty

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Impact on Municipal Bond Market of the 2018 Tax Cuts and Jobs Act

Prohibition of Advance Refundings

- *Previously were able to refund at anytime, but only once, before the call date.*
- *Now cannot refinance tax-exempt bonds with tax-exempt bonds until 90 prior to the optional call date*
- *Most bonds are issued with 8 or 10 year first call dates so anything recently issued won't be able to receive refunding savings for quite some time*
- *Rationale – with advance refundings two sets of tax-exempt bonds would be outstanding for the same project*
- *Federal government says prohibition will save $16.8 billion in taxes over next 10 years.*

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Impact on Municipal Bond Market of the 2018 Tax Cuts and Jobs Act

Likely Return of Advance Refundings

- *House Democrats rolled out $547 billion surface transportation bill during first week of June*
- *Ways and Means Chair Richard Neal, D-Mass., is considered an ally of the municipal finance community and a champion of tax provisions sought by muni advocates. Among those are the return of tax-exempt advance refunding and direct-pay Build America Bonds, and muni advocates are hopeful those goals will be achieved as part of the tax changes made to support Biden's infrastructure plan.*

Method of Sale Update

Negotiated Sale

- Traditional method for Ohio schools to sell bonds primarily due to par limitations of voted issues and long-time absence of municipal advisors.

Competitive Sale

- Becoming more frequent to due current interest rate market and increased number of municipal advisors in Ohio providing assistance to access the competitive market.

Direct Placement

- Significantly more popular in the wake of COVID as a way to conserve resources. Also, banks have come to appreciate the value of municipal bonds.

Competitive Sale

- Excellent sales method for most essential purpose municipal debt (general obligation, lease-purchase, certificates of participation and revenue debt).
- Good for bonds or notes.
- Puts investment banks in competition for the bonds thereby providing the lowest financing cost available in the marketplace, not just a single bank.
- A publicly sold competitive bond is an excellent choice for financings that require repayment schedule longer than 20 years.

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Competitive Sale - Process

1. Agree on project being financed and structuring variables
2. Work with bond counsel and rest of financing team to prepare Preliminary Official Statement (POS)
3. Prepare for and conduct credit rating discussion
4. Publish POS with credit rating
5. Price debt issue about one week after POS published
6. Close within 3-4 months of beginning the process

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Competitive Sale – Recent Results

Geauga County

Final Bid Results
2021 Bonds

Pricing Date:	April 8, 2021
Dated:	April 29, 2021
Call:	December 1, 2025
Final Maturity:	December 1, 2040
Par:	$14,130,000
Bank Qualified:	No
Rating:	Aa1

Bidder	TIC	
UBS Financial Services Inc.	1.787%	Winner
Hilltop Securities	1.794%	
Robert W. Baird & Co., Inc.	1.833%	
Bank of America Merrill Lynch	1.840%	
Citigroup Global Markets Inc.	1.950%	
KeyBanc Capital Markets	1.987%	
Truist Securities, Inc.	2.332%	

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Competitive Sale – Recent Results

City of Willoughby

Final Bid Results
2021 Bonds

Pricing Date:	May 6, 2021
Dated:	May 19, 2021
Call:	December 1, 2026
Final Maturity:	December 1, 2035
Par:	$5,740,000
Bank Qualified:	Yes
Rating:	Aa2

Bidder	TIC	
Robert W. Baird & Co., Inc.	1.377%	Winner
FHN Financial Capital Markets	1.494%	
Fifth Third Securities, Inc.	1.520%	
Piper Sandler & Co	1.530%	
Stifel, Nicolaus & Co., Inc.	1.569%	
KeyBanc Capital Markets	1.612%	
Bernardi Securities, Inc.	1.626%	

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Competitive Sale – Recent Results

City of Bowling Green

Final Bid Results
2021 Bonds

Pricing Date:	May 11, 2021
Dated:	May 26, 2021
Call:	December 1, 2025
Final Maturity:	December 1, 2050
Par:	$9,195,000
Bank Qualified:	Yes
Rating:	Aa2

Bidder	TIC	
FHN Financial Capital Markets	2.019%	Winner
Robert W. Baird & Co., Inc.	2.102%	
Stifel, Nicolaus & Co., Inc.	2.154%	
Huntington Securities, Inc.	2.207%	

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Competitive Sale – Recent Results

City of Highland Heights

Final Bid Results
2021 Bonds

Pricing Date:	May 25, 2021
Dated:	June 8, 2021
Call:	December 1, 2026
Final Maturity:	December 1, 2036
Par:	$8,095,000
Bank Qualified:	Yes
Rating:	Aa2

Bidder	TIC	
Robert W. Baird & Co., Inc.	1.452554%	Winner
Piper Sandler & Co	1.453444%	
Raymond James & Associates, Inc.	1.504455%	
Stifel, Nicolaus & Co., Inc.	1.589549%	
FHN Financial Capital Markets	1.591441%	
KeyBanc Capital Markets	1.621040%	

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Competitive Sale – Recent Results

City of Rossford

Final Bid Results
2021 Bonds

Pricing Date:	June 8, 2021
Dated:	June 17, 2021
Call:	December 1, 2026
Final Maturity:	December 1, 2041
Par:	$4,140,000
Bank Qualified:	Yes
Rating:	AAA

Bidder	TIC	
FHN Financial Capital Markets	1.629%	Winner
Robert W. Baird & Co., Inc.	1.711%	
Raymond James & Associates, Inc.	1.732%	
Stifel, Nicolaus & Co., Inc.	1.757%	
Huntington Securities, Inc.	1.974%	

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Competitive Sale – Recent Results

Wayne County

Final Bid Results - 2021 Notes

Pricing Date:	Tuesday, May 4, 2021
Dated:	Tuesday, May 18, 2021
Due:	Wednesday, May 18, 2022
Settle:	Tuesday, May 18, 2021
Par:	$1,500,000.00
Bank Qualified:	Yes
Rating:	None
Underlying Rating:	AA-

Bidder	Coupon	Premium	NIC	
Fifth Third	0.500%	$1,785.00	0.381%	Winner
KeyBanc Capital Markets	1.000%	$8,850.00	0.410%	
Piper Sandler & Co	1.500%	$16,095.00	0.427%	
Oppenheimer	1.250%	$10,980.00	0.518%	
First National Bank	0.710%	$0.00	0.710%	
U.S. Bank	0.380%	$0.00	0.380%	

**The U.S. Bank Bid has a provision for up to $3,000 in fees which would push the NIC to 0.580%*

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Competitive Sale – Recent Results

City of Olmsted Falls

Final Bid Results - 2021 Notes

Pricing Date:	Wednesday, May 26, 2021
Dated:	Wednesday, June 9, 2021
Due:	Thursday, June 9, 2022
Settle:	Wednesday, June 9, 2021
Par:	$6,900,000.00
Bank Qualified:	Yes
Rating:	None
Underlying Rating:	None

Bidder	Coupon	Premium	NIC	
Oppenheimer	1.250%	$60,012.00	0.3803%	Winner
Piper	2.000%	$108,675.00	0.4250%	
PNC	0.438%	$0.00	0.4380%	

Direct Placements

- Popular for bonds that have short final maturity
  - 15 years or less, but have had some luck up to 20 years)
- Can save on issuance costs
  - No credit rating or Preliminary Official Statement Necessary
- Effective method general obligation and lease-purchase debt
- Tradeoff is potentially higher interest rate due to single investor
- Be careful about interest rate adjustment clauses based on tax rate changes and reporting requirements

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Direct Placement - Process

1. Agree on project being financed and structuring variables
2. Municipal advisor prepares term sheet for banks to respond to with bids
3. Issuer must distribute term sheet to list of banks likely to bid (provided by municipal advisor)
4. Bids are received within 2-3 weeks of term sheet distribution
5. Winner selected
6. Close within 5-6 weeks of term sheet distribution

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Direct Placement – Recent Results

Findlay City Schools

$6,000,000 Permanent Improvement Levy Tax Anticipation Notes, Series 2021

Bid Results

4/13/21

Final Maturity 10 years

Bidder	Callable	Non-callable	Expenses	
Key Government Finance, Inc.	1.448%	N/A	$0	Selected Option
Vectra Bank	1.670%	N/A	$0	
Capital One Public funding	1.740%	1.680%	$0	
Truist Bank	1.890%	N/A	$3,000	
Farmers Bank	2.085%	1.985%	$0	
Huntington Bank	2.150%	2.05%	$3,000	

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Direct Placement – Recent Results

Erie County, Ohio

$1,340,000 Public Infrastructure Improvement General Obligation Refunding Bonds, Series 2021

Bid Results

5/6/21

Final Maturity 15 years

Results Sorted by Average Annual Debt Service					
Bidder	Adjusted TIC	Ave. Annual Debt Service	Term/Call Feature	Total Debt Service	
Key Government Finance, Inc.	2.17%	$104,212	15yr Callable 12/1/26	$1,563,177	Selected Option
Key Government Finance, Inc.	2.14%	$104,085	15yr Non-callable	$1,561,269	
Capital One Public Funding, LLC	2.24%	$104,692	15yr Callable 12/1/26	$1,570,377	
Capital One Public Funding, LLC	2.04%	$103,320	15yr Non-callable	$1,549,807	
Truist (Formerly BB&T)	2.24%	$105,172	BQ 15yr Callable 12/1/28	$1,566,263	
Truist (Formerly BB&T)	2.35%	$104,418	NBQ 15yr Callable 12/1/28	$1,577,576	
Huntington Bank	2.67%	$107,640	15yr Callable 12/1/26	$1,614,601	
Huntington Bank	2.42%	$105,926	15yr Non-callable	$1,588,889	

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Direct Placement – Recent Results

Auburn Township, Ohio

$3,923,000 Refunding Bonds for 2011 USDA Fire Station Loan and 2016 Service Garage Construction Bonds, Series 2021

Bid Results

5/13/21

Final Maturity 20 years

Bidder	Callable	Non-callable	Expenses	
Middlefield Banking Company	1.600%	N/A	$0	Selected Option

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Direct Placement – Recent Results

City of Oberlin, Ohio

$5,385,000

Various Purpose and Refunding General Obligation Bonds, Series 2021

Bid Results

6/2/21

Final Maturity 10 years

Bidder	Adjusted TIC	Term/Call Feature	
Key Government Finance, Inc.	1.251%	Callable 6/1/26	Selected Option
Capital One Public Funding, LLC	1.64%	Non-callable	
Chase Bank	1.69%	Non-callable	
Chase Bank	1.74%	Callable 6/1/26	
Sterling Bank	1.87%	Callable 6/1/26	
First National Bank	1.89%	Callable 6/1/26	

Part 2

American Recovery Plan Act

- The American Rescue Plan Act of 2021 (ARPA) appropriates $19.53 billion to States for distribution to tens of thousands of "non-entitlement units of local government" (NEUs). ARPA directs the Department of the Treasury to make payments to each State for distribution to NEUs within the State. Treasury is providing guidance to assist States with their distribution of these funds to NEUs.
  See https://www.govinfo.gov/content/pkg/FR-2021-05-17/pdf/2021-10283.pdf for the full text of the Interim Final Rule

- The interim final rule from Treasury states that permissible uses of these funds include:

a) To respond to the public health emergency or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
b) To respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers;
c) For the provision of government services to the extent of the reduction in revenue due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year prior to the emergency; and
d) To make necessary investments in water, sewer, or broadband infrastructure.

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American Recovery Plan Act

- In addition, Congress clarified two types of uses which do not fall within these four categories.
  a) depositing funds into any pension fund.
  b) "directly or indirectly offsetting a reduction in the net tax revenue of the governmental unit resulting from a change in law, regulation, or administrative interpretation."
- As prime recipients of a Federal award, NEUs are required to report to Treasury on the use of funds. State governments are to ensure each NEU has the reporting guidance provided by Treasury, which is forthcoming. NEUs' first report is due to Treasury by October 31, 2021.
- Ohio is still trying to determine if more than 1,300 Ohio townships are eligible for ARPA funds
- Not the municipal advisor's role to provide advice on how you can spend ARPA funds, but when it comes to debt related questions regarding water, sewer or broadband projects to be funded with a combination of ARPA funds and debt, advisors are well positioned to assist.

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American Recovery Plan Act

Additional Resources

Overall Information URL

https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-fund/non-entitlement-units

There you will find

KEY LINKS

- Guidance on Distribution of Funds to Non-entitlement Units of Local Government
- List of Local Governments
- Non-entitlement Unit of Local Government Definitional and Data Methodology
- Overview of Guidance (Webinar Deck for State Governments)
- Interim Final Rule
- FAQs
- Non-entitlement Unit of Local Government Checklist for Requesting Initial Payment
- Award Terms and Conditions for Non-entitlement Units of Local Government
- Assurances of Compliance with Title VI of the Civil Rights Act of 1964

Quick access to FAQs

https://home.treasury.gov/system/files/136/SLFRPFAQ.pdf

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ESG – Environmental, Social and Governance Defined

ESG refers to three key factors that affect a government's credit profile, including an exposure to climate risk and other Environmental factors ("E"), long-term Social factors ("S"), and Governance issues ("G").

ESG factors represent areas affecting the long-term sustainability of a community. Both investors and rating analysts have increasingly utilized outside resources to assess ESG risks for municipal issuers.

Governments play an important role in that overall assessment by providing specifics about their ESG challenges and action plans and in doing so, increasing transparency to the entire municipal market. ESG disclosure provides governments the opportunity to tell their story of what they are facing and how they are addressing the issues, a point of view that is valuable to the broader municipal market.

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ESG – Environmental, Social and Governance Impact on Municipal Bonds

Municipal bonds serve as a vehicle for "impact investments" and many investors want more information on the impact their investments can have. Since bond ratings and investor demand have a significant bearing on the pricing of municipal bonds, it is generally in the best interest of a government to provide this disclosure directly to the investment community through primary offering documents.

The increased focus and awareness from investors can also be the catalyst for encouraging more governments to increase on-going efforts to identify and address risks and enhance their readiness and resiliency.

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ESG – Environmental, Social and Governance
Credit Rating Impact

Issuers of governmental securities should be aware that there could be credit rating differentiation depending on their approach to addressing ESG factors. Without clear ESG information—either through a rating agency report or disclosures—potential buyers of municipal bonds are likely to conduct their own ESG analysis, which may not include all relevant information or context that a government can provide especially regarding steps taken to mitigate these risks.

These factors should serve as motivation for governments issuing municipal bonds that are still questioning if ESG should be considered for their disclosure practices, to invest the time to explore the subject, consider its application, and communicate their efforts to address challenges, specifically with regard to climate change and other ESG risks of the ever-changing world. The importance and content of ESG disclosure will vary depending on the geographic location and unique demographics of each government.

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ESG – Environmental, Social and Governance
Standard & Poor's Rating Perspective - Environmental

Climate Risk Evaluated in Credit Ratings

1. Overall focus on management effectiveness and planning
2. Sectors have unique E-risks that apply to their assets or revenue sources that secure debt service obligations
3. Often a qualitative assessment although incorporating data to inform our analysis is on the horizon

Municipal Sector	Sector Specific E-Factors
Water/Sewer Utilities	Drought planning/water quality
Electric Utilities	Carbon fuel concentration and transition risks/supply diversity
State & Local govt Transport/Education Housing/Healthcare	Financial & Capital planning for adaptation & mitigation
All Sectors	Potential impacts to property values

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ESG – Environmental, Social and Governance
Standard & Poor's Rating Perspective - Social

Social Risk Evaluated in Credit Ratings

1. Demographic factors underpin social risk for most sectors in USPF
2. S-risks typically will point to revenue raising flexibility or economic activity (strengths or weaknesses) that support or hinder an issuer's ability to meet operational, infrastructure, and debt service obligations
3. Often a qualitative assessment although certain data helps inform our analysis

Municipal Sector	Sector Specific S-Factors
Water/Sewer Utilities	Affordability of monthly utility bill when compared with county level income data
State & Local Govt	Population trends, dependent population, GDP as % of the U.S.
Education/Higher Ed	Enrollment trends and underlying issues that might be factored into increases or declines (ex. Birthrates, state population trends)
Transportation	Service area economic fundamentals that underpin demand

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ESG – Environmental, Social and Governance
Standard & Poor's Rating Perspective - Governmental

Governance Risk Evaluated in Credit Ratings

1. Overall focus on management effectiveness and planning
2. Good Governance can mitigate our view of other E and S risks
3. Most of our criteria frameworks include a management or management and governance assessment

Municipal Sector	Sector Specific G-Factors
Higher Education	Headline Risk, Board Effectiveness, Accreditation Issues
State Governments	Pension and OPEB plan governance (ex. Conservative vs Aggressive assumptions)
Local Governments	Long term Financial & Capital planning (ex. Capital planning that includes infrastructure projects for mitigation & resiliency
Health Care	Broad Strategy and Execution of Mergers and Acquisitions

Green Bonds

Green bond issuance generated significant attention and has garnered more attention as the market expanded in subsequent years. Although the market appears to be coalescing expectations among potential green bond investors, strong evidence of green bond designation resulting in a direct financial benefit to issuers continues to be difficult to assess.

Although there is not a generally accepted market definition of a green project, many green bond issues have financed projects with characteristics that broadly fall into several categories, including:

Environmental Benefits:
- Clean power
- Clean transportation
- Clean/drinking water

Climate Adaptation, Mitigation or Resilience:
- Renewable Energy
- Energy Efficiency

Sustainability and Conservation:
- Waste Management
- Land Use and Reclamation

Green Bonds

According to a Moody's research report, sustainable bond issuance is expected to hit a record $650 billion in 2021 and could represent 8-10% of the total global bond issuance in 2021.

As this market grows, issuers should expect standards to continue to develop. As with any financing tool, it is important that issuers understand costs, risks and benefits before entering into a transaction. Note that all existing debt management best practices continue to apply to bonds issued for green projects

Voluntary Disclosure

- In addition, to currently required disclosures for publicly sold debt, there is a movement underway for issuers to provide additional disclosures in addition to those required by existing continuing disclosure agreements
- Likely stimulated by the COVID pandemic when the financial impact on municipalities was generally unknown and difficult to determine
- Typical examples of voluntary disclosure include:
  - Budget information once adopted by governing body
  - Periodically produced internal financial reports
- Perceived Benefits
  - Transparency
  - Improved investor relations
  - Not applicable to all
- If requested to provide voluntary disclosures, discuss with bond counsel first

Summary

- *Still in an era of historically low interest rates*
- *Little indication that rates will rise significantly in the near future*
- *Bond insurance is a useful tool under special circumstances*
- *Advance refundings may be returning*
- *Competitive debt sales produce excellent results*
- *Direct placements are a useful tool to raise capital expeditiously and with reduced costs*
- *Be sure to fully understand allowable uses of ARPA funds*
- *Understanding impact of ESG on muni bonds is important*
- *Green bonds are on the rise*
- *Be careful if requested to provide voluntary disclosures*

Thank You

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