

Municipal Debt Issuance

Philip Angelo
Huntington Capital Markets

Anthony Kinsey
Huntington Capital Markets

Jill Murphy
Huntington Public Capital

Heather Miller
Huntington Public Capital



Loans subject to credit application and approval.

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Municipalities are struggling to navigate unprecedented uncertainty due to the pandemic including:

- Shortage of revenue
- Budget and planning approaches
- What financing tools are available for Ohio municipalities?
- Bank approach to lending during the pandemic

The BIG Question: What will the revenue impact be? Does anyone really know?

The revenue is generated from various sources including various sales tax (retail, among others), income and wages, and real estate.

- A municipality that relies on property taxes will not experience an immediate collapse in revenues. Less responsive/elastic in the short term.
- A municipality that relies heavily on sales, income or wage taxes could see a more immediate collapse in revenues.
- Approximately only 1 in 10 rely most on income or wage taxes. Ironically, Brookings lists 5 Ohio Cities in the top 19 in the Country for most immediate impacts to revenues due to their revenue streams.

TABLE 1

Cities with most immediate fiscal impacts from COVID-19

City	State	Share of general fund revenues from elastic sources, 2019	Share of metro employment in high risk industries, 2019
Columbus	OH	75.47%	16.0%
Cincinnati	OH	71.76%	17.1%
Bowling Green	KY	71.18%	16.5%
Toledo	OH	70.72%	16.7%
Cleveland	OH	67.52%	15.1%
Aurora	CO	66.12%	17.1%
Colorado Springs	CO	66.02%	16.5%
Springfield	MO	63.33%	16.7%
Grand Rapids	MI	62.19%	18.3%
Tulsa	OK	61.26%	17.9%
Louisville	KY	59.85%	16.6%
Fayetteville	AR	58.49%	19.1%
Akron	OH	56.87%	15.2%
Lexington	KY	54.79%	16.7%
Oklahoma City	OK	53.76%	20.1%
Denver	CO	52.93%	17.1%
Kansas City	MO	52.25%	15.6%
Birmingham	AL	51.30%	15.6%
Lincoln	NE	51.09%	16.7%

Note: High risk industries include mining (NAICS 21), transportation (NAICS 48), employment services (NAICS 5613), travel arrangements (NAICS 5615), and leisure & hospitality (NAICS 71 & 72)

Source: Authors' calculations of city budget data; Zandi, "Covid-19: A Fiscal Stimulus Plan," Moody's Analytics 2020; Brookings analysis of Emsi data.

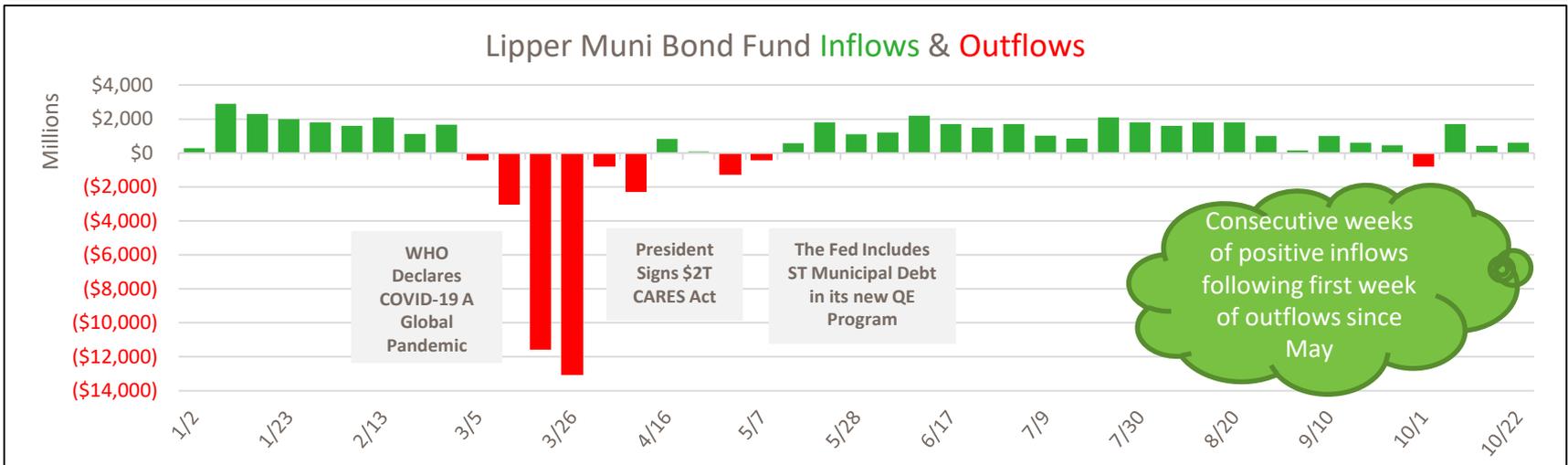
B | Metropolitan Policy Program
at BROOKINGS

Reductions in Expenditures

- Half of Ohio's large and mid-sized cities have furloughed and laid off sizable numbers of employees.
- Municipalities are warning that street paving projects and other capital improvement projects may not move forward.
- There were more items needed, such as PPE, laptops, and Zoom licenses. However, in many cases these items were reimbursed.
- Not as much O/T as expected. In fact, in most cases O/T went down as people were sent home and the number of ambulance calls during the shut-in plummeted as nobody wanted to go to a hospital.
- Most governments drastically reduced purchasing to bare minimums, including deferring capital expenditures and replacements. Many governments had wage freezes, furloughs, hiring freezes, and/or layoffs.
- All of this led to coronavirus not causing as much of an expenditure problem as anticipated. However, on the revenue side...

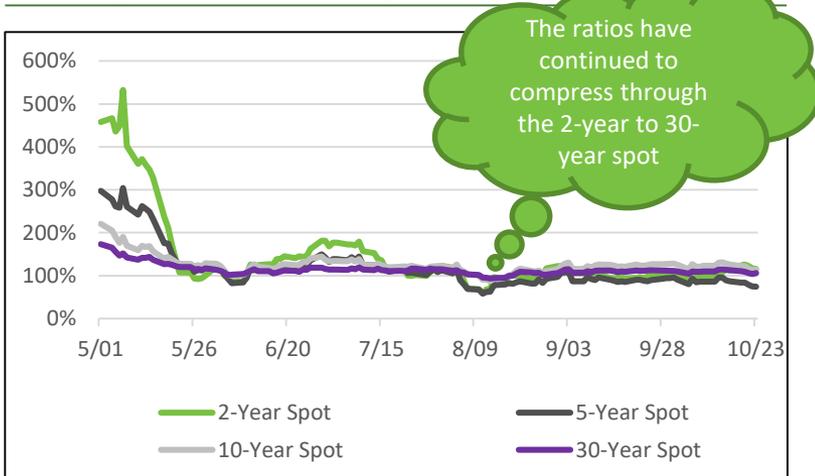
COVID-19 Municipal Market Overview

Municipal Bond Fund Flows



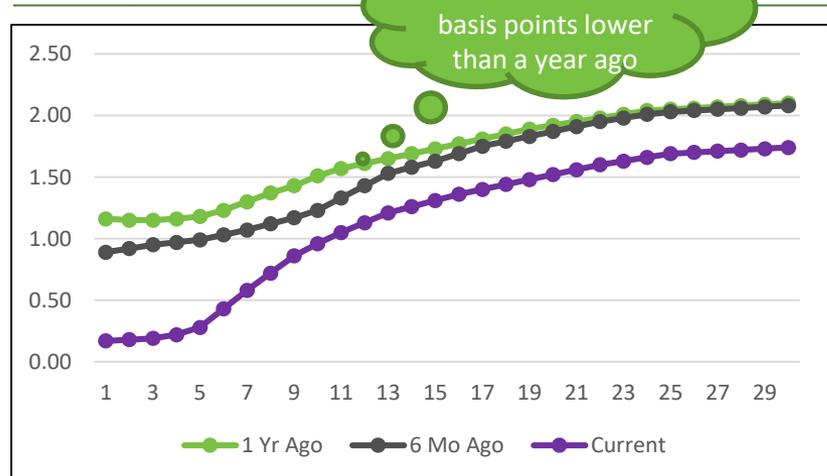
Source: Bloomberg LP; Rates as of 10/23/2020

Municipal to US Treasury Ratio



Source: Bloomberg LP; Rates as of 10/23/2020

Municipal Yield Curve



Source: U.S. Department of the Treasury; Rates as of 10/23/2020

COVID-19 Municipal Market Overview

National Considerations

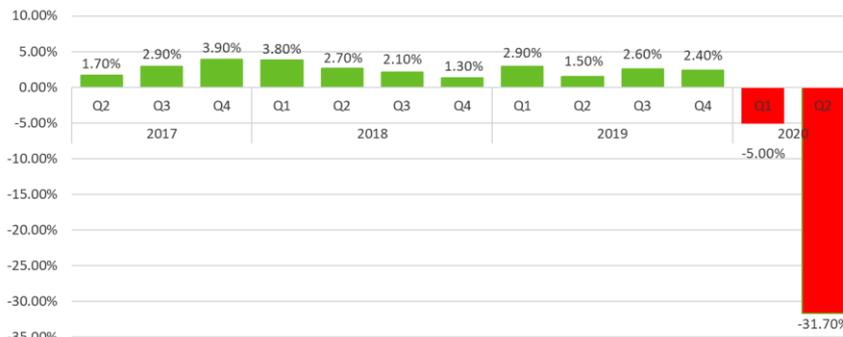
- September 16, 2020, the Federal Reserve voted to maintain the federal funds rate in a target range of 0% to 0.25%.⁽¹⁾
- Federal Reserve will increase holdings of Treasury securities and Agency MBS securities at least at current pace to sustain market functioning and foster accommodative financial conditions, supporting the flow of credit to households and businesses.⁽¹⁾
- 35 of 50 States show above 5% of their population testing positive for COVID-19 – Including Ohio which currently has 5.6%.⁽²⁾
- Real gross domestic product (GDP) decreased at an annual rate of 31.4% in the second quarter of 2020, according to the "third" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP decreased 5.0%.⁽³⁾
- The national unemployment rate declined by 0.50% over the month of September to 7.9%. Ohio's rate was 8.4% and showed a 0.80% MoM change⁽³⁾

Current Market Conditions

- Municipals have weakened recently as issuers rush to market prior to the presidential election.
- Price pressures on municipals have increased as investors have become wary of holding long term paper
- As of October 15, 2020, the S&P Municipal Bond Index lost -0.22% month-to-date, bringing the year-to-date total return to 2.95%.
- Examples of recent reoffering yields*:
 - AAA | \$400MM North Carolina (10/8):** 5YR 0.14%; 10YR 0.28%; 15YR 0.94%; 20YR 1.81%; 25YR 1.99%
 - A | \$389.2 MM Philadelphia (Airport), PA (9/30):** 5YR 0.56% 10YR 1.45%; 15YR 2.24%; 20YR 2.47%; 30YR 3.15%

* Source: The Bond Buyer

**Real Gross Domestic Product (GDP)
Percent Change from Previous Quarter**



Source: US Bureau of Economic Analysis

- Federal Reserve, September 19, 2020
- John Hopkins University – Coronavirus Resource Center, October 23, 2020
- Bureau of Economic Analysis, September 30, 2020
- Bureau of Labor Statistics, October 15, 2020

Current Municipal Market Rates

Short Term Rates (%)	Current	1-Wk Chg	5Yr Avg	5Yr High	5Yr Low
SIFMA Index	0.13	+1 bps	0.93	5.20	0.01
1-Month LIBOR	0.15	+0 bps	1.27	2.52	0.15
SIFMA/LIBOR Ratio	87.9	+6%	74.90	672.8	2.31
Federal Funds Target (Mid)	0.13	+0 bps	1.142	2.375	0.13
Long Term Rates (%)	Current	1-Wk Chg	5Yr Avg	5Yr High	5Yr Low
AAA 2 Year	0.18	+2 bps	1.08	2.52	0.09
AAA 5 Year	0.28	+0 bps	1.34	2.56	0.16
AAA 10 Year	0.96	+2 bps	1.83	2.79	0.58
AAA 30 Year	1.74	+2 bps	2.56	3.46	1.27
Bond Buyer Index 20 GO	2.37	+2 bps	3.38	4.37	2.02
Bond Buyer Revenue Index	2.79	+2 bps	3.76	4.88	2.44
30-Day Visible Supply (\$mm)	20,410	+1,505	11,606	31,003	2,756
Municipal Bond Fund Flow (\$mm)	423	-1,277	418	2,900	-13,071

Source: Bloomberg LP; As of 10/23/2020

Purchasing Debt from a Bank's Perspective: Differences Between Public/Private Placements

Public Bond Offering

- A District Sells its Bonds to an Underwriter who Resells the Bonds to Retail or Institutional Investors on Established Securities Markets.
- Investors will often Base Investment Decisions on the Public Debt Rating, among other credit factors

Direct Purchase/Private Placement

- District Places its Bonds/Notes Directly with a Bank or Other Financial Institution.
- Banks are Required to Complete Their Own Independent Analysis
- Ongoing Credit Surveillance as With any Other Commercial Loan is required

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

A Myriad of Credit Decisions

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

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: 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 in relation to the Desired Profile.

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

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, Fund Balances
- Balance Sheet Trends: Liquidity, Fixed Asset Trends, Leverage: Funded Debt and Other Obligations, Other Reserves, Tax Base

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

	District 1	District 2	District 3
Revenue			
Local Revenues	17,032,310	30,631,296	33,103,323
State Revenues	7,833,548	16,502,870	72,942,614
Other Revenues	10,241,777	12,335,621	28,728,681
Total Revenue	35,107,635	59,469,787	134,774,618
Expenditures			
Instruction	21,424,906	35,548,866	81,291,397
Support Services	11,914,512	35,890,724	53,795,883
Capital Outlay	-	959	2,429,054
Debt Service	12,627	-	-
Other	933,241	441,720	646,737
Total Expenditures	34,285,286	71,882,269	138,163,071
Excess of Revenues/Expenditures	822,349	(12,412,482)	(3,388,453)
Other Sources (Uses)	(400,000)	(1,581,583)	356,932
Net Change in Fund Balance	422,349	(13,994,065)	(3,031,521)
Fund Balance Beginning	8,208,796	(37,683,487)	29,113,425
Fund Balance Ending	8,631,145	(51,677,552)	26,081,904
Fund Balance as % of Expenditures	25.2%	-71.9%	18.9%

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

- Bond anticipation notes
- Tax anticipation notes
- General obligation bonds (notes)
- “Revenue bonds (notes) -- backed by a specific revenue stream only (water, sewer, income tax)

- Leases, lease-purchase
 - ✓ Capital Lease/Finance Lease/\$1 Buyout
- No debt limitations – lease payments are subject to annual appropriation by the municipality
- **Reminder – still need a revenue source to make the payments**

The assets that a municipality may need to finance are varied; examples include:

- Agricultural equipment
- Manufacturing and mining machinery
- Vessels and containers
- Trucks and transportation equipment
- Construction and off-road equipment
- Business, retail and office equipment
- IT equipment and software
- Renewable energy & energy efficiency equipment

Huntington Capital Markets

Philip Angelo

Director, Public Finance
216-515-0395
philip.angelo@huntington.com

Anthony Kinsey

Associate Director, Public Finance
312-493-4992
anthony.kinsey@huntington.com

Huntington Public Capital

Jill Murphy

Senior Vice President, Team Leader
330-841-0179
jill.murphy@huntington.com

Heather Miller

Assistant Vice President, Portfolio Manager
513-639-8333
heather.miller@huntington.com

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