

OMFOA – Spring 2011 Conference

Bonds as a Financing Resource



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Presenters

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KeyBanc Capital Markets, Inc.

Bruce Griswold
Chief Financial Officer
Clean Water Services



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Financial Management Practices

- Statutory requirements
- Rating considerations
- Board policy

Statutory Provisions

- ❑ **Investments** must be managed in accordance with the “prudent person rule” prescribed under ORS 293.726.
- ❑ Revenues and expenditures are **recorded** on either the cash basis of accounting or the accrual basis of accounting pursuant to ORS 294.445.
- ❑ ORS Sections 297.405 through 297.555 require an **audit** of annual financial statements of municipal corporations. If audits are not performed, the State has the authority to conduct the audit.
- ❑ **Debt limitations** (varies depending upon type of local government).
- ❑ ORS Sections 294.305 to 294.565 establishes standard **budgeting** procedures and controls for municipal corporations, including the requirement of adopting a balanced budget by June 30th of each year.

Budget and Credit Considerations

- Practices vs. Policies
- Budget History
- Fund Balances
- Change in Accounting Practices
- Reserve Funds
- Rates and Charges Policies

Capital Improvements

Reason:

- Demographics driven
- Revenue source
- Regulated

Funding Sources:

- Pay-as-you-go
- Donations
- Commercial bank loan
- Municipal bonds

Bond Characteristics

□ General Features

- Fixed maturity date(s)
- Interest bearing (fixed or floating)

□ Issue-Specific Features

- Security provisions
- Default and remedies
- Tax status
- Prepayment provisions
- Specific structure

Types of Securities

- Tax-supported:
 - General Obligation Bonds
 - Full Faith and Credit Obligations

- Revenue Bonds

- Assessment-backed: Local Improvement Districts

- Tax Increments: Urban Renewal Bonds

- Short-term Notes

Tax-Supported Debt

Sources of Repayment

Taxes:

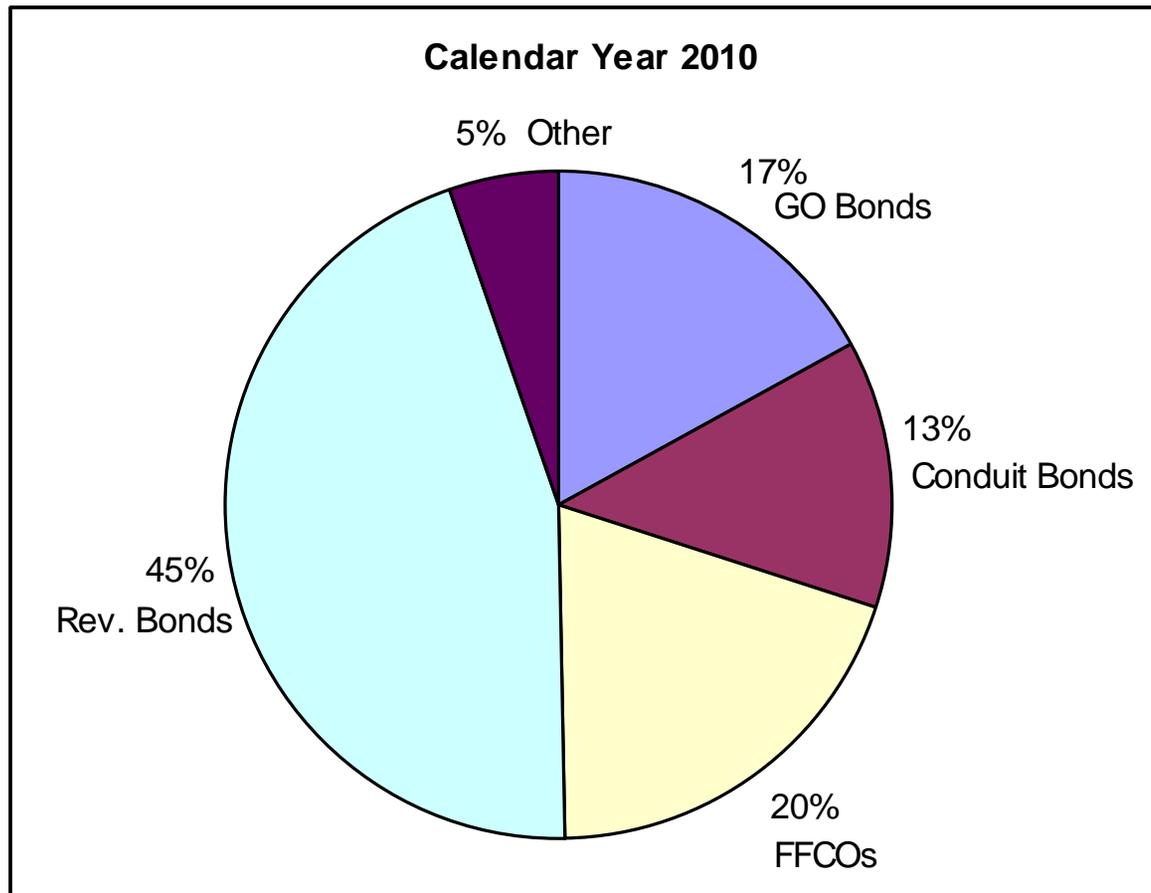
GO Bonds – outside the limits of Measures 5/50;

FFCOs – within the limits of Measures 5/50; and

TIF – above the “frozen value” of an urban renewal plan.

Other available resources.

Oregon Transactions



Debt Management Division, February 14, 2011

Governing Laws/Regulations

Federal Law

- Federal government regulates market.
- Generally must be used for public purposes.
- Arbitrage laws guide both (i) investment of proceeds and (ii) timing of spending the proceeds
- Disclosure.

Oregon Constitution: Limits use of GO bond proceeds.

Statutes and Charters: Check for limitations.

Tax-Backed Securities

- Full Faith and Credit Pledge (pledge of lawfully available money)
- Certificate of Participation
 - Appropriation
 - Collateralization
- GO Bonds:
 - Additional levy pledge (outside the permanent levy rate limits)
 - Require voter approval
- Urban Renewal Bonds

Certificate of Participations (Lease-Purchase Agreements; Financing Agreements)

Advantages of COPs

- ❑ No voter approval is required and no referendum period
- ❑ General fund revenues that are not otherwise obligated can be used to pay debt service if needed, especially if the projections of special taxes or revenues are overly optimistic
- ❑ Does not count toward debt limit unless in county, some special districts or some city charters
- ❑ Can use funds for any real or personal property as long as weighted average life of financing does not exceed estimated dollar weighted average life of the real or personal property

Disadvantages of COPs

- ❑ In the case of cities, a non-appropriation clause may be required for the general fund support, which carries an interest rate penalty
- ❑ The overall costs to issue are more than general obligation bonds
- ❑ The interest cost is more than general obligation bonds

General Obligation Bonds

General Obligation Bonds

- May be used for capital projects and capital improvements
- Requires voter approval
- Constitution requires the ballot title to have
“...a reasonably detailed, simple and understandable description as to the use of the proceeds”

Urban Renewal Bonds

Urban Renewal Bonds

- Frozen tax base
- Tax increment revenue
- Review by overlapping taxing jurisdictions
- Attend OMFOA session on urban renewal:
Tuesday at 3:30

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Bonds as a Financing Resource



Geoff Urbina
Managing Director
KeyBanc Capital Markets, Inc.

KeyBanc Capital Markets is a trade name under which corporate and investment banking products and services of KeyCorp and its subsidiaries, KeyBanc Capital Markets Inc., Member NYSE/FINRA/SIPC, and KeyBank National Association ("KeyBank N.A."), are marketed. Securities products and services are offered by KeyBanc Capital Markets Inc. and its licensed securities representatives, who may also be employees of KeyBank N.A.. Banking products and services are offered by KeyBank N.A..

Overview of Other Financing Pledges

General Overview of Bond Pledges /Security

- General Obligation Bonds (voter approval)
- Full Faith & Credit Obligations
- Revenue Bonds (Right of Referendum)
 - Utility Revenue Bonds
 - Special Revenue Bonds
 - Special Assessment Bonds

Bond Structure Options

- Fixed Rate Bonds
- Variable Rate Notes
- Lines or Letters of Credit



General Obligation

- Voter Approval
- Legally Backed by FF&C
- Paid By Tax



Full Faith & Credit

- No Voter Approval
- Generally Secured by General Fund



Revenue Bonds

- No Voter Approval
- Secured by Specific Revenue Stream

Revenue Bond Pledge

Revenue Bonds - Advantages

- Voter Approval is Not Required Unless Referendum Right Exercised
- Enterprise / Use of the Project Pay Through Formal Rate Covenant Structure
- Can Mortgage or Provide Security Interest in Facility and Revenues
- Statutory Protection of Rate Covenants
- Use for Public Purpose, Pension, Litigation Expense

Revenue Bonds - Disadvantages

- Higher Interest Rates & Issuance Costs
- Greater Risk of Default
- Additional Bond Covenants
- Issue Size Depends on Revenues Generated
- Some City Charters Limit Rate Covenants
- Raising Rates can be Politically Sensitive

Bond Structure Options

- Water/Wastewater Revenue
- Solid Waste Revenue
- System Utility Revenue
- Payroll Tax Revenue
- Special Assessment
- Lease Revenue

Types of Revenue Pledges

Special Assessment Bonds - Advantages

Municipal Entities Have the Right to Pledge:

- Only the Assessments
- If Voter Approved - Governmental Unit May also Pledge General Obligation Tax Levy Not Subject to Tax Limitations for Shortfalls in Assessments
- If Not Voter Approved - Governmental Unit May Pledge to Pay Shortfalls in Assessments with General Fund Subject to Tax Limitations

Special Assessment Bonds - Disadvantages

- Higher Interest Rates & Issuance Costs than General Obligation Bonds
- Number & Size of Properties Will Be the Basis for Assessments
- The Financial Strength of the Property Owners May Impact the Credit

Private Activity Bonds

Private Activity Bonds - Characteristics

- Private Business Use Limitations
- Private Business Use (e.g. used by federal agency) AND Private Payment or Security Test (e.g. payments from federal agency secure or used to pay bonds) (5% if not related and disproportionate or otherwise 10%)
- Private Loan Financing Test (greater of 5% of proceeds or \$5,000,000 used to finance loans to private persons)
- Management Contracts (favor periodic fixed fee which can last 15 years)

Private Activity Bonds - Disadvantages

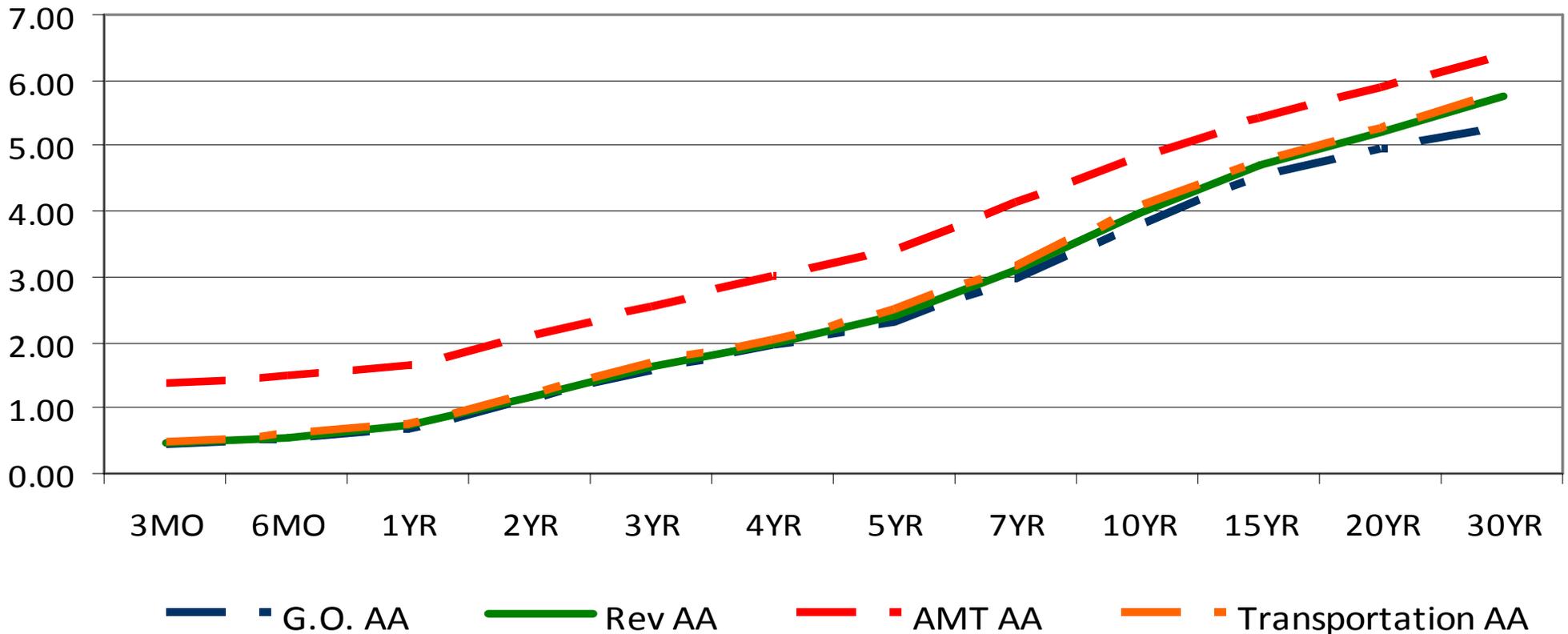
- Project Finance
- Corporate Obligor May Require More Due Diligence
- Alternative Minimum Tax – Higher Cost
- Subject to State Volume Cap

State Volume Cap

- Hazardous Waste Facilities
- Heating & Cooling Districts
- Mass Transportation Facilities
- Special Assessment
- Investor Owned Utilities

Interest Rate Impact of Pledge

Comparable Spreads – AA Rated Credit

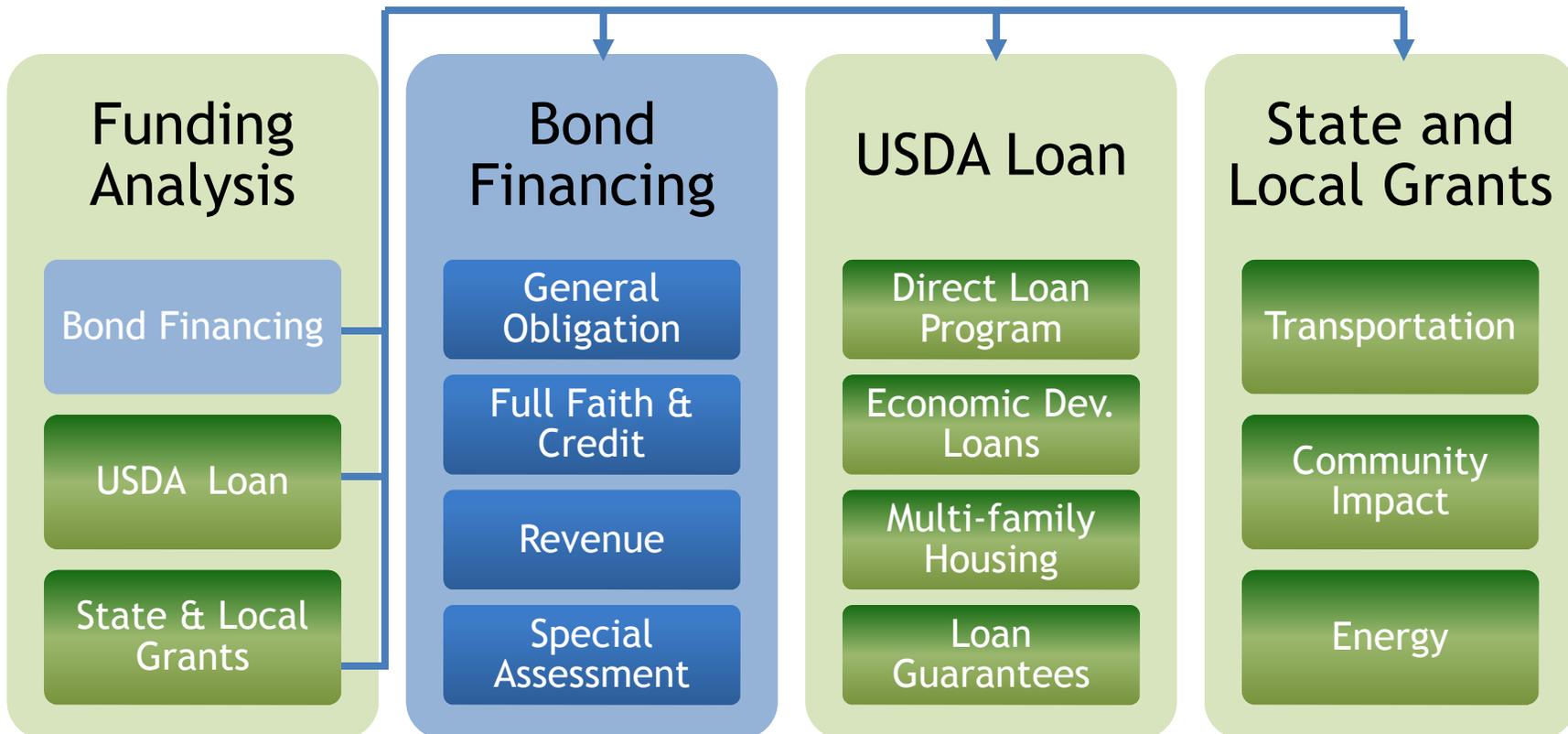


AA Yield Curve Comparison												
	3MO	6MO	1YR	2YR	3YR	4YR	5YR	7YR	10YR	15YR	20YR	30YR
GO AA	0.42%	0.50%	0.68%	1.13%	1.54%	1.93%	2.30%	2.97%	3.79%	4.52%	4.92%	5.28%
REV AA	0.46%	0.56%	0.73%	1.18%	1.63%	2.00%	2.43%	3.11%	3.98%	4.72%	5.20%	5.74%
AMT AA	1.38%	1.46%	1.65%	2.08%	2.53%	2.98%	3.40%	4.11%	4.80%	5.41%	5.89%	6.32%
Transportation AA	0.48%	0.50%	0.75%	1.22%	1.67%	2.04%	2.48%	3.15%	4.04%	4.76%	5.24%	5.79%

Potential Decision Making Metrics

Funding Framework – Potential Decision Making Metrics

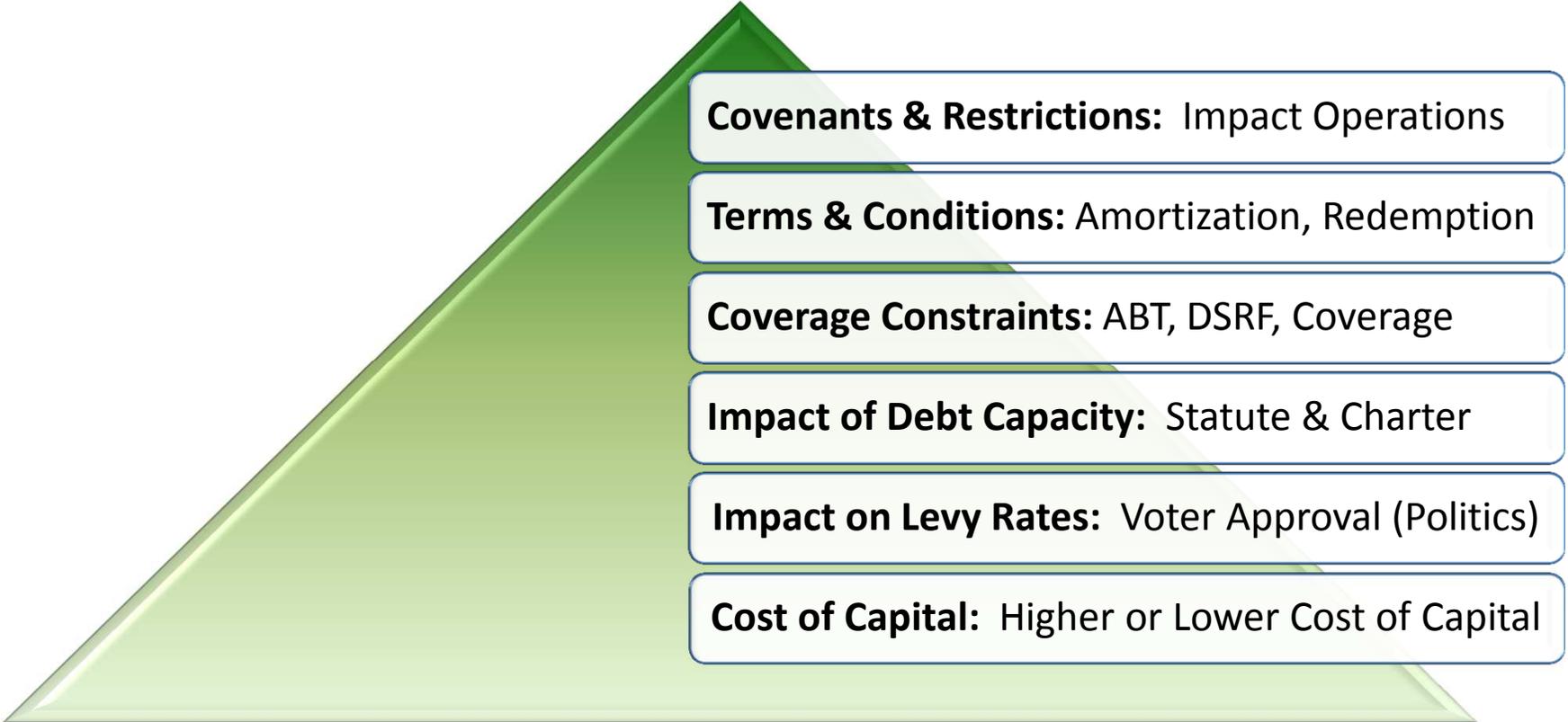
- ❑ Evaluate the Use of Bond Financing with respect to the Overall Framework
- ❑ Potential Use of Resources for Gap Financing
- ❑ Organize the Available Options for the Project



Potential Decision Matrix

Funding Framework – Potential Decision Making Metrics

- ❑ Evaluate the Financing Options Based on Important Metrics
- ❑ Prioritize the Metrics & Defined an Internal Rating System
- ❑ Analyze the Options and Define the Most Relevant Solutions



Covenants & Restrictions: Impact Operations

Terms & Conditions: Amortization, Redemption

Coverage Constraints: ABT, DSRF, Coverage

Impact of Debt Capacity: Statute & Charter

Impact on Levy Rates: Voter Approval (Politics)

Cost of Capital: Higher or Lower Cost of Capital

Potential Decision Matrix

SENSITIVITY ANALYSIS - HYPOTHETICAL ILLUSTRATION

(IN MILLIONS)

		20 Year Amortization			25 Year Amortization		
		Special Assessment	Revenue	General Obligation	Special Assessment	Revenue	General Obligation
Bond Debt Service Amortization	BULLET	AIC: N/A MIN Cov: N/A	N/A	3.80% 6.46x	N/A	N/A	4.03% 6.45x
	Wrap Ard.	4.73% 9.27x	3.70% 9.32x	3.65% 9.33x	4.75% 9.27x	3.88% 9.30x	3.85% 9.31x
	Deferred	4.52% 8.87x	3.67% 8.90x	3.62% 8.91x	4.54% 8.87x	3.83% 8.90x	3.80% 8.92x
	SF	4.50% 8.83x	3.67% 8.88x	3.62% 8.90x	4.52% 8.93x	3.81% 8.95	3.77% 8.97
	Level	4.45% 8.94x	3.62% 8.98x	3.58% 8.99x	4.47% 8.93x	3.77% 8.95x	3.74% 8.97x

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Bonds as a Financing Resource



Toby LaFrance
Finance and I.S. Director
City of Tigard, OR

Bonding Newbie

- ❑ Started in Nov 2008 with no direct bond issuance experience.
- ❑ Last debt issued by the City of Tigard in 2002 & 2003.
- ❑ City of Tigard developed plans for expansion of Water, Road & Parks.
- ❑ Needed to start meeting appropriate professionals to assist in the issuance of bonds.

Debt Summary

- ❑ June 2009 - Opened \$6.0MM line of credit for Water project.
- ❑ June 2010 - Privately Placed \$7.25MM of bonds for Roads.
- ❑ Jan 2011 - Sold \$17.0MM in GO bonds for Parks & \$9.0MM in Library refunding bonds.
- ❑ Fall 2011 - Plan to sell \$44.0MM in Revenue bonds for Water project.
- ❑ Near future - Plan to sell and additional \$81MM in revenue bonds for Water project.

Fiscal Year	Outstanding Debt
2008	\$13.5 mil
2009	\$18.2 mil
2010	\$24.4 mil
2011	\$39.0 mil
2012	\$80.6 mil
2016	\$142.0 mil

Professional Resources

- ❑ Colleagues - Other members of OMFOA who have gone through the bond issuance process.
- ❑ Underwriter - Assist with the structuring, marketing and sale of bonds.
- ❑ Financial Advisor - Assist with the debt issuance process.
- ❑ Bond Counsel - Represent the legal interest of issuers and define the legal framework for debt issuance.
- ❑ GFOA – Useful information on Best Practices website (<http://www.gfoa.org/>)

Water Line of Credit

Fiscal Situation

- June 2009 – City of Tigard in early stages of a joint project with Lake Oswego to expand their water treatment plant to facilitate water resource development for the City of Tigard
- City of Tigard reserves used to cover initial revenue requirements
- Reserves served as bridge financing for future revenue bond sale (FY2012)

Debt Solution - \$6.0MM Line of Credit

- Line of Credit structured to require interest only payments.
- Payment on principal to be made when revenue bonds are issued.
- Worked with Financial Advisor to solicit bids.
- Worked with Bond Counsel to define the legal structure of the transaction.

Transportation Bonds

Fiscal Situation

- ❑ In June 2010, Tigard prepared for two major transportation projects.
- ❑ Projects funded primarily from State and City Gas Tax.
- ❑ Project timing & insufficient reserves required additional resources.
- ❑ City of Tigard's last bond rating from 1993.

Debt Solution – Private Placement of \$7.25MM in Build America Bonds (BABs)

- ❑ Private placement with full faith & credit pledge in lieu of a bond issue based on the costs of issuance (bond rating, etc...)
- ❑ Worked with Financial Advisor to solicit bids structured with tax-exempt vs. taxable BABs to mature over 10 years vs. 10 year w/ 7 year pre-payment option.
- ❑ BABs were less expensive and Tigard was willing to pay higher interest for pre-payment option.

Parks Bonds & Library Bond Refunding

Fiscal Situation

- ❑ In the November 2010 election, voters approve the issuance of \$17MM in bond for parks.
- ❑ Tigard's only other GO debt was issued in 2002 to build the Tigard Library.
- ❑ Library bond issued by OECDD.

Debt Solution – Competitive Sale of \$17 MM GO Parks & \$9 mil Library Refunding

- ❑ Working with Financial Advisor, the City decided to go with a competitive sale.
- ❑ City sought and received an improved bond rating.
- ❑ Chose January sale date based on expected large supply of Build America Bond sales in December.
- ❑ Financial Advisor and Bond Counsel help city through necessary steps and documentation.
- ❑ Parks GO bond sale results in \$1.4MM savings over ballot cost information.
- ❑ Library Bond refunding results in over 7% net present value savings (\$860,000).

Water Revenue Bonds

Fiscal Situation

- Tigard's contract to buy water from Portland expires in 2017.
- Lake Oswego water treatment plant expansion will be completed by 2017.
- Tigard's share of the plant expansion and other water capital costs will be over \$150 mil in the next 10 years.

Anticipated Debt Solution – Negotiated Sale of \$125 mil Revenue Bonds

- Complexity of project “story” adds risk to competitive sale.
- City Council adopts water financing plan and water rate structure and increase.
- Sale anticipated for Fall of 2011.

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Bonds as a Financing Resource



Bruce Griswold
Chief Financial Officer
Clean Water Services

Moving to Financial Resiliency

- ❑ Affects every aspect of organizations finances
- ❑ As it relates to debt:
 - Analyze impact of current debt obligation
 - Examine capacity for future
 - Determine ability to pay

Clean Water Services Financial Resiliency Strategies – 5 Year Look

- Keep rate increases reasonable and predictable
- Maintain adequate capacity to issue debt
- Establish and maintain appropriate financial reserves
- Adopt sound financial policies

Determining Resources Available

Forecast, forecast, forecast!

Tailoring Financing Resources to Strategies & Needs

- Bonds – One of many financing sources/vehicles
- Flexibility to meet changing needs is key
- Consider financing opportunities (Ex. – BABS)
- Utility revenues drive financing decisions

CWS Sewer Service Rate Increases

Historical

- 2002-03 - 2007-08 3.5% Annual Increase
- 2008-09 4.5% Annual Increase
- 2009-10 – 2010-11 5.5% Annual Increase

Future?

- 2011-12 4.5% Potential Increase

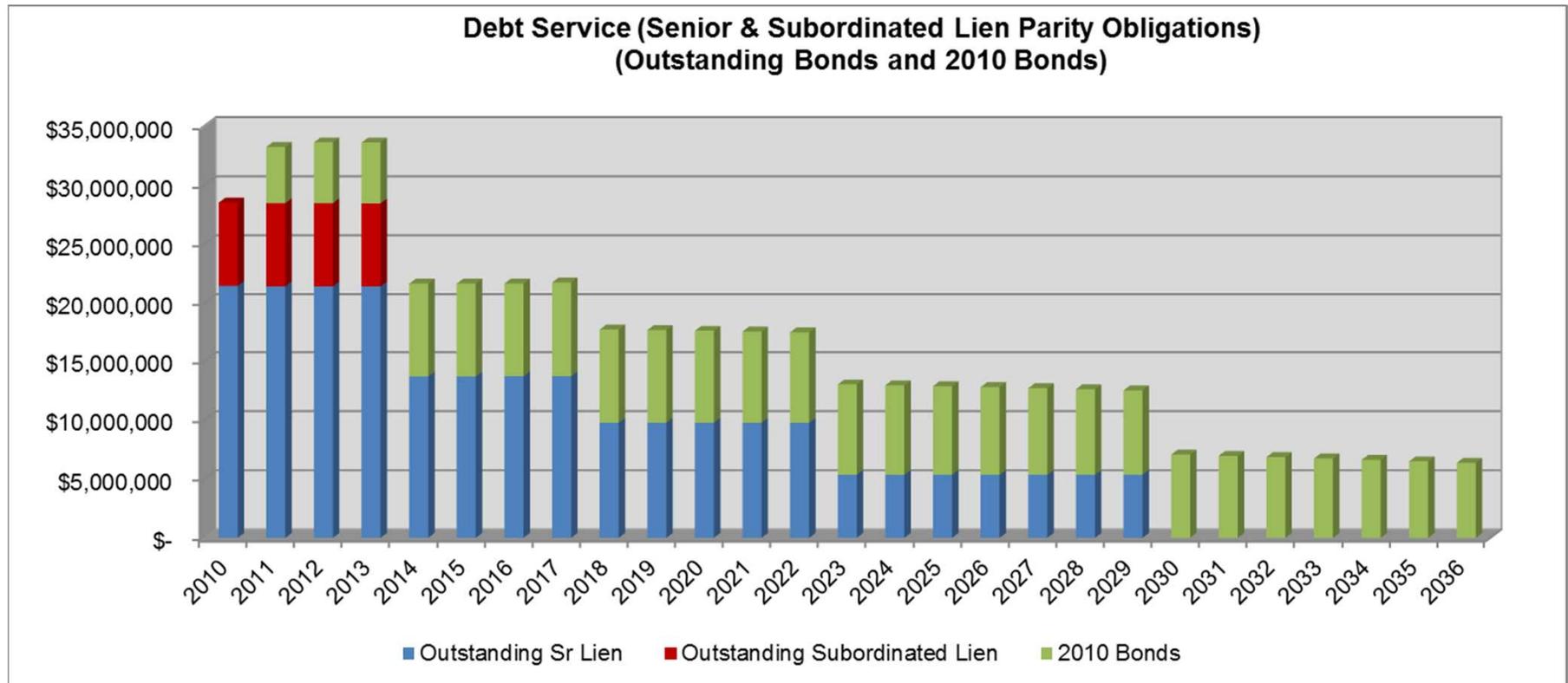
CWS Debt Outstanding / CIP Spending

- ❑ @ 6/30/08 \$164 Million
- ❑ @ 6/30/10 \$284 Million

- ❑ CIP Spending - At least \$50 Million annually for future

CWS Debt Service

- \$100 million Senior Lien Sewer Revenue Bonds Latest Issue in 2010
- Fixed rate, 25 year bonds, combination of BABs & Tax-Exempt



CWS Financing Problem Faced – 2009 Bond Issue

- ❑ Subsequent to financial meltdown in fall of 2008
- ❑ \$60 million bond sale delayed 5 months from original target date
- ❑ Capital financing out of reserves & pay-as-you-go (2002-2008)
- ❑ Negotiated sale because of complexities associated with curing problems related to the financial failure of CWS revenue bond insurers
- ❑ Reserve requirements met out of bond proceeds – previously had used bond insurance

Debt Financing - Bonds

Jurisdiction	Time Frame	Sale Type	Examples
City of Lake Oswego	80's & 90's	Competitive & Negotiated	G.O. bonds, urban renewal
Beaverton School District	90's & 00's	Competitive	G.O. bonds, new schools & school renovation
Clean Water Services	00's	Negotiated	Revenue bonds, utilities capital, BABs

CWS Debt Management Policy

- ❑ Issue long-term debt in accordance with all applicable federal, state and local laws and regulations & District requirements
- ❑ Adhere to full disclosure of financial and pertinent credit information as it relates to the District's outstanding securities and comply with applicable continuing disclosure requirements
- ❑ Strive to maintain credit ratings of A or higher to ensure that borrowing costs are minimized and the District's access to credit is assured

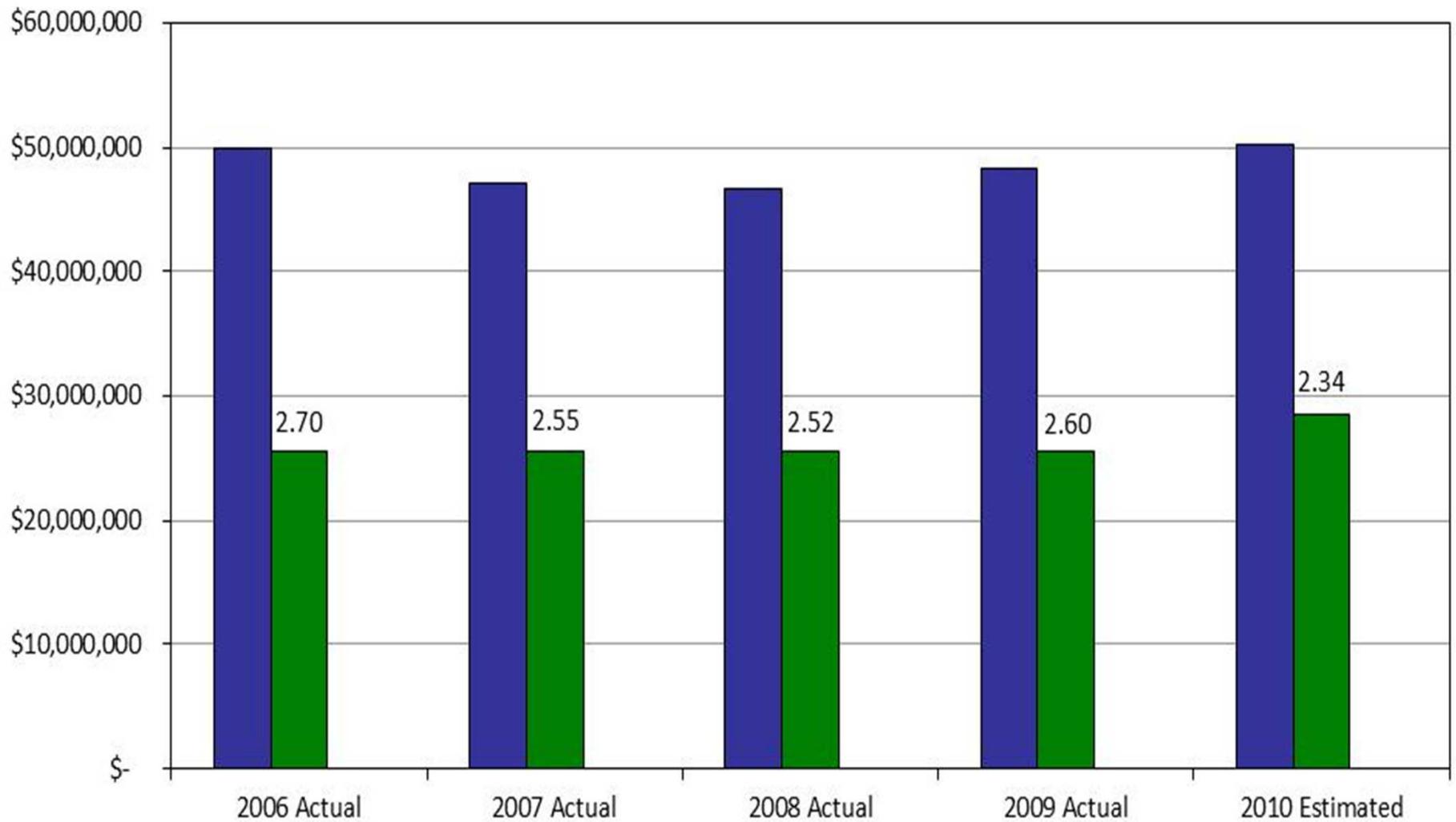
CWS Debt Management Policy

- ❑ Comply with all requirements associated with revenue bonds, including, but not limited to, debt service reserve requirements and debt service coverage ratios
- ❑ Use a competitive bidding process in the sale of bonds unless the Board authorizes a negotiated sale process that is expected to produce more favorable results for the District

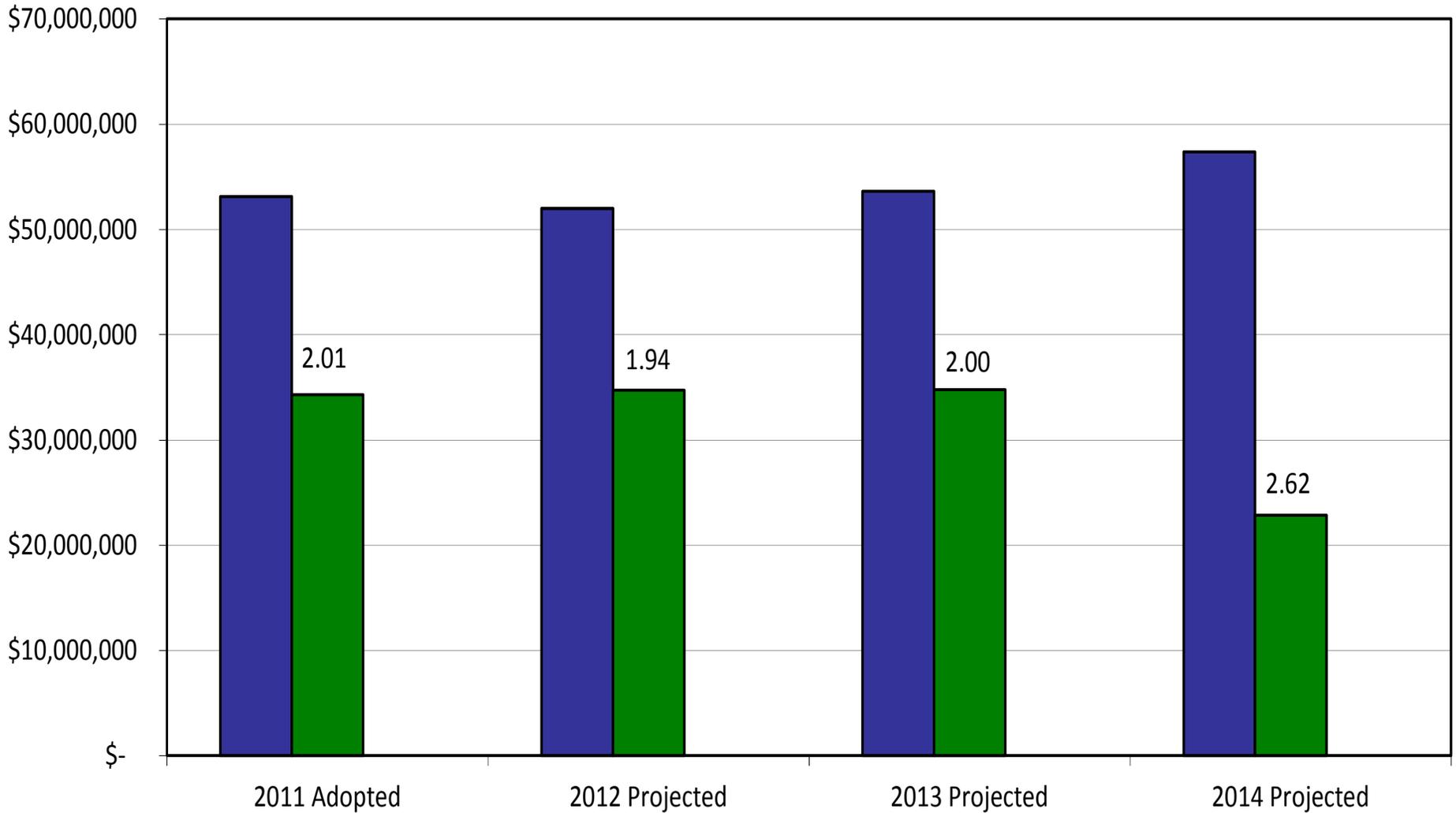
CWS Financial Forecast Assumptions Major Components

- Rate Revenues
- Capital Investments SDC Revenues
- Operating Expenses Service Usage

CWS Historical Debt Service Coverage 2006-2010



Anticipated CWS Debt Service Coverage 2011-2014



Questions or Comments

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R/G/B Values:

1. 74 / 169 / 66
2. 0 / 61 / 125
3. 80 / 102 / 110
4. 215 / 84 / 85
5. 254 / 241 / 174
6. 159 / 174 / 141