# MUNICIPAL DEBT ESSENTIALS

SEPTEMBER 15-17, 2026 | SAN JOSE, CALIFORNIA

# SESSION ONE
# Bond Concepts

**CRAIG HILL**
*Managing Principal*
NHA Advisors



CDIAC

# INTRODUCTION TO BONDS

# TABLE OF CONTENTS


- Introduction to Bonds
- Process of Issuing Bonds
- Basic Bond Characteristics
- Basic Bond Math
- Fun Stats

# PURPOSE OF MUNICIPAL BONDS

Infrastructure

Capital Improvement Projects

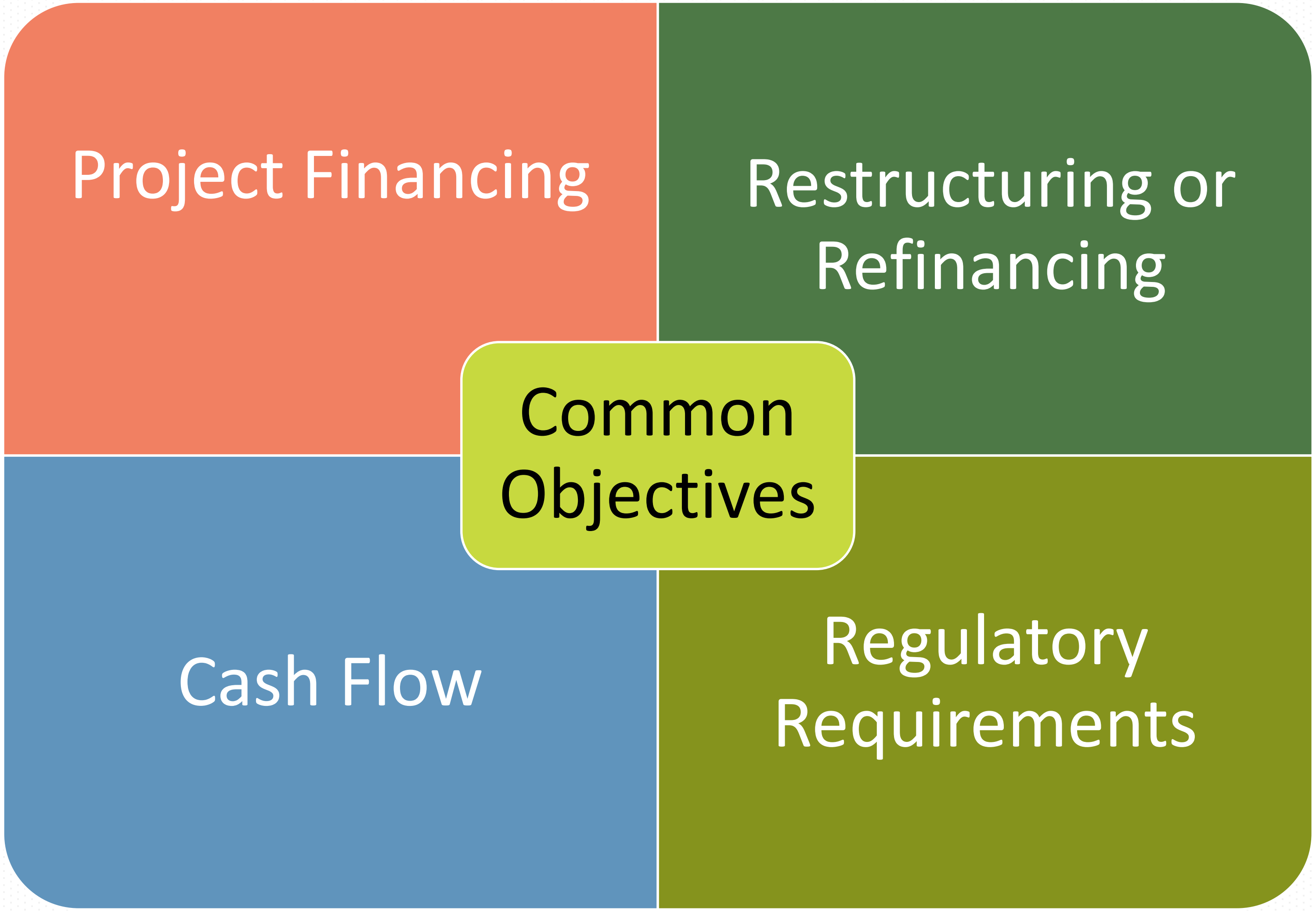
- Spread out the cost of constructing the asset over the life of the asset
- Ensures the benefits are paid for by those who enjoy them

# WAYS TO FUND PROJECTS

Funding Options

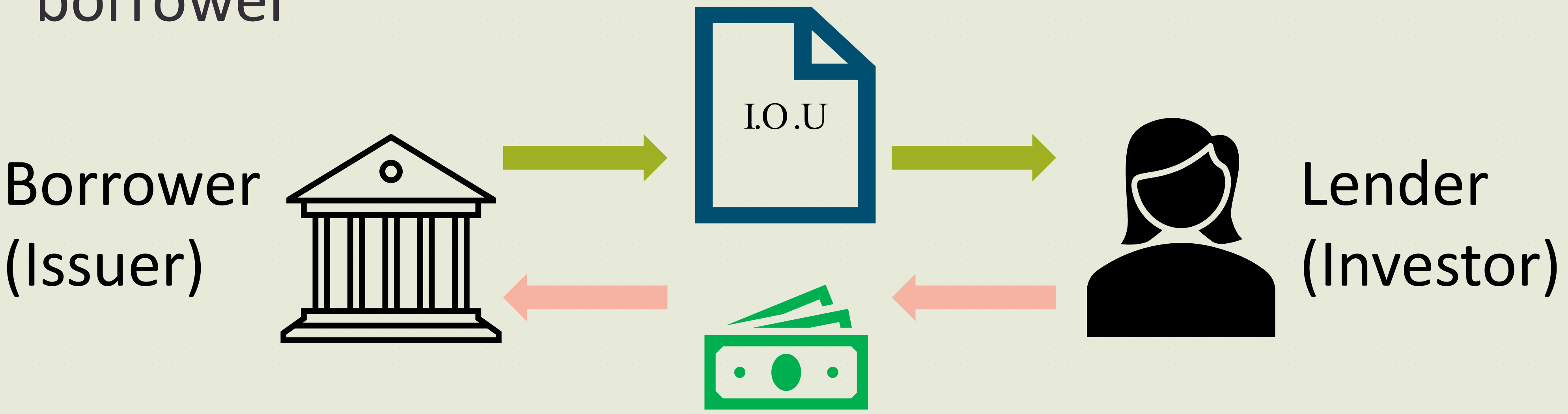
- Available Cash/Reserves
- Grants or Loans
- Debt Financing

# WAYS TO FUND PROJECTS (CONTINUED)



# WHAT IS A BOND?

- Financing mechanism whereby the borrower ("issuer") receives upfront funds from a lender ("bondholder") in exchange for future repayments
- Can be thought of as an **IOU** between lender and borrower



# ELEMENTS OF A BOND

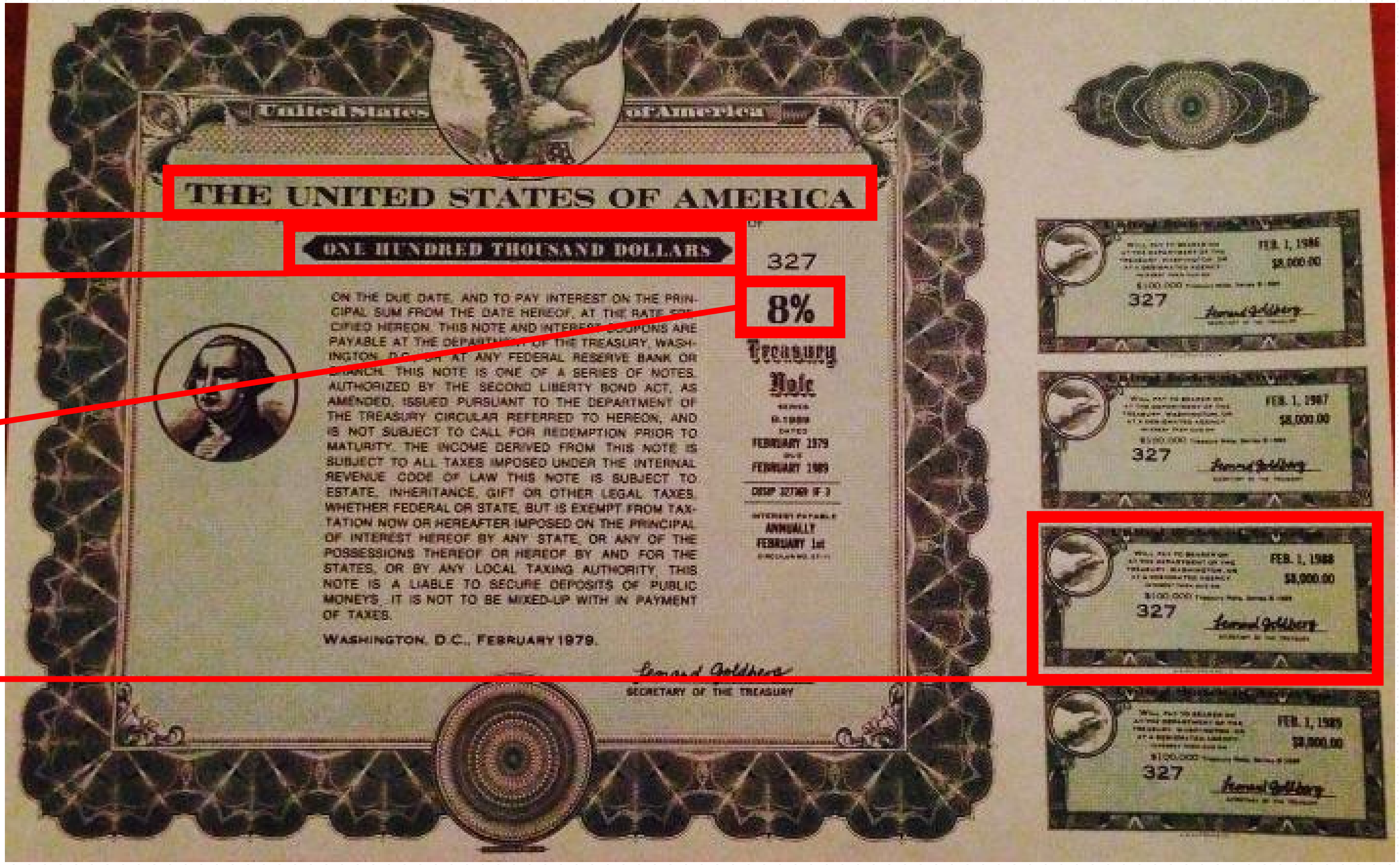
Issuer

Face Value

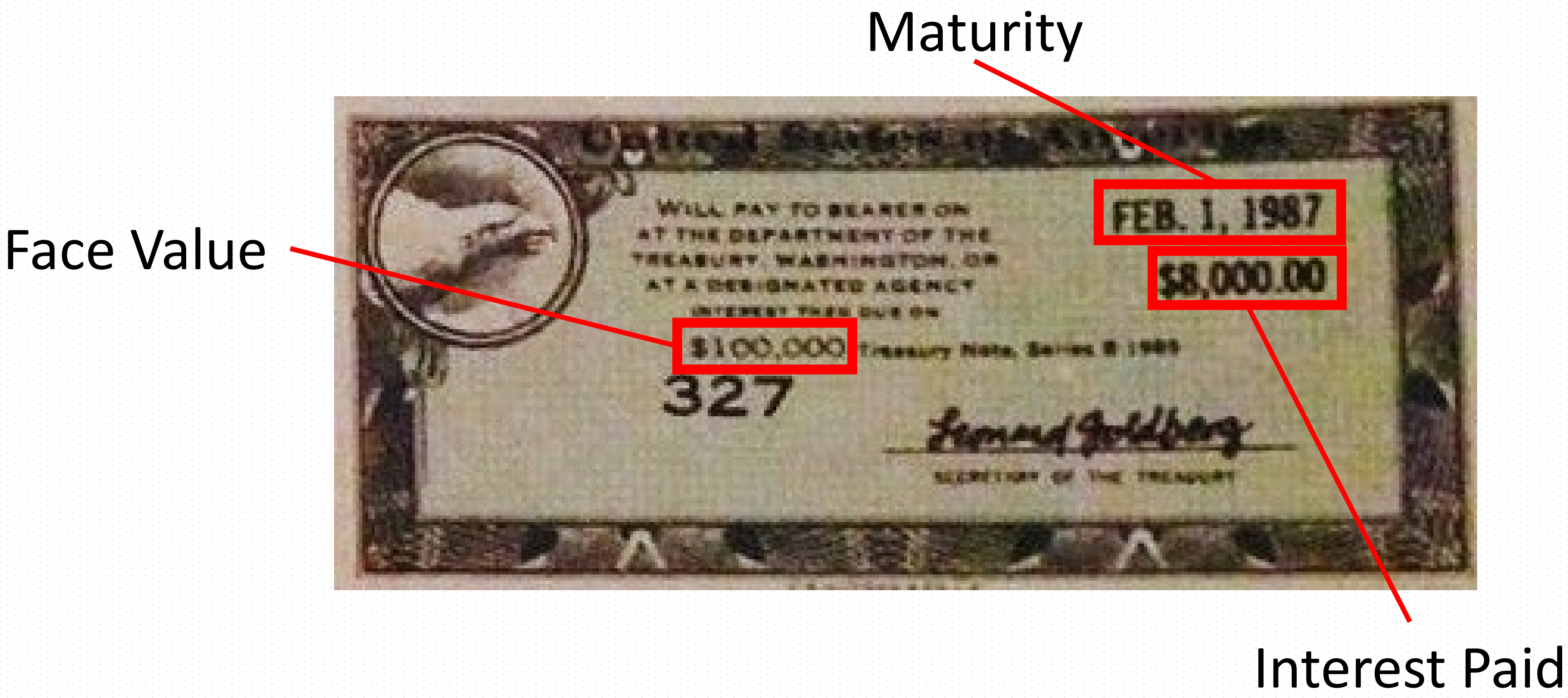
Interest Rate

Coupon

"Clipping the Coupon"



# ELEMENTS OF A BOND (CONTINUED)



# MATURITY SCHEDULE

Issuer

Type of Bond

Size of Bond

Credit Rating

| | |
|---|---|
| Issuer | Gotham City |
| Deal | 2026 Revenue Bonds |
| Par | $32,500,000 |
| Tax Status | Tax-Exempt |
| Rating | AAA |
| Par Call Date | December 1, 2036 |

| Maturity | PAR AMOUNT | COUPON RATE | YIELD |
|---|---|---|---|
| 2027 | $1,750,000 | 5.00% | 2.85% |
| 2028 | $2,000,000 | 5.00% | 2.95% |
| 2029 | $2,250,000 | 5.00% | 3.10% |
| 2030 | $2,500,000 | 5.00% | 3.20% |
| 2031 | $3,000,000 | 5.00% | 3.40% |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| 2036 | $21,000,000 | 4.25% | 4.50% |

# MATURITY SCHEDULE (CONTINUED 2/3)

| | | | |
|---|---|---|---|
| Issuer | Gotham City | | |
| Deal | 2026 Revenue Bonds | | |
| Par | $32,500,000 | | |
| Tax Status | Tax-Exempt | | |
| Rating | AAA | | |
| Par Call Date | December 1, 2036 | | |
| **Maturity** | **PAR AMOUNT** | **COUPON RATE** | **YIELD** |
| 2027 | $1,750,000 | 5.00% | 2.85% |
| 2028 | $2,000,000 | 5.00% | 2.95% |
| 2029 | $2,250,000 | 5.00% | 3.10% |
| 2030 | $2,500,000 | 5.00% | 3.20% |
| 2031 | $3,000,000 | 5.00% | 3.40% |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| 2036 | $21,000,000 | 4.25% | 4.50% |

Serial Bonds

Term Bond

# MATURITY SCHEDULE (CONTINUED 3/3)

| | | | |
|---|---|---|---|
| **Issuer** | **Gotham City** | | |
| **Deal** | **2026 Revenue Bonds** | | |
| **Par** | **$32,500,000** | | |
| **Tax Status** | **Tax-Exempt** | | |
| **Rating** | **AAA** | | |
| **Par Call Date** | **December 1, 2036** | | |
| **Maturity** | **PAR AMOUNT** | **COUPON RATE** | **YIELD** |
| 2027 | $1,750,000 | 5.00% | 2.85% |
| 2028 | $2,000,000 | 5.00% | 2.95% |
| 2029 | $2,250,000 | 5.00% | 3.10% |
| 2030 | $2,500,000 | 5.00% | 3.20% |
| 2031 | $3,000,000 | 5.00% | 3.40% |
| 2032 | $3,250,000 | 4.25% | 4.50% |
| 2033 | $3,750,000 | 4.25% | 4.50% |
| 2034 | $4,250,000 | 4.25% | 4.50% |
| 2035 | $4,750,000 | 4.25% | 4.50% |
| 2036 | $5,000,000 | 4.25% | 4.50% |

Sinking Fund

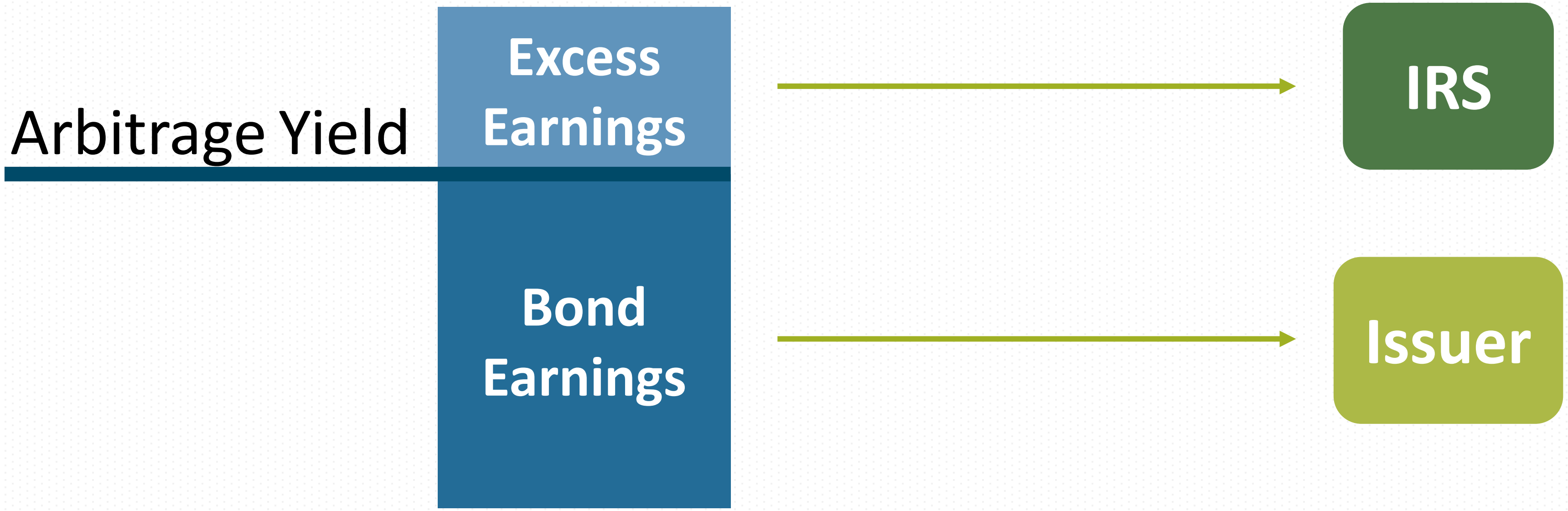
# SOURCES AND USES

| Sources Of Funds | |
|---|---|
| Bond Principal | $32,500,000 |
| Reoffering Premium | $325,000 |
| **Total Sources** | **$32,825,000** |

| Uses Of Funds | |
|---|---|
| Project Fund | $32,625,000 |
| Financing Costs | $200,000 |
| **Total Uses** | **$32,825,000** |

# TAX-EXEMPT NATURE OF MUNICIPAL BONDS

- Majority of Municipal Bonds are issued for public improvement projects and are issued Tax-Exempt
- Bonds issued for “private purposes” are not tax-exempt
- Issuers are not allowed to earn more on the bond proceeds than the calculated bond yield (“arbitrage yield”)



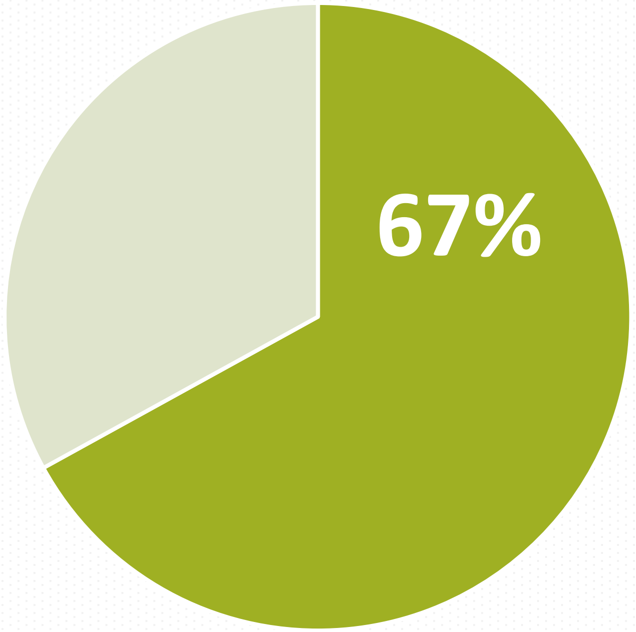
# BOND STRUCTURES

**Bond Structures**

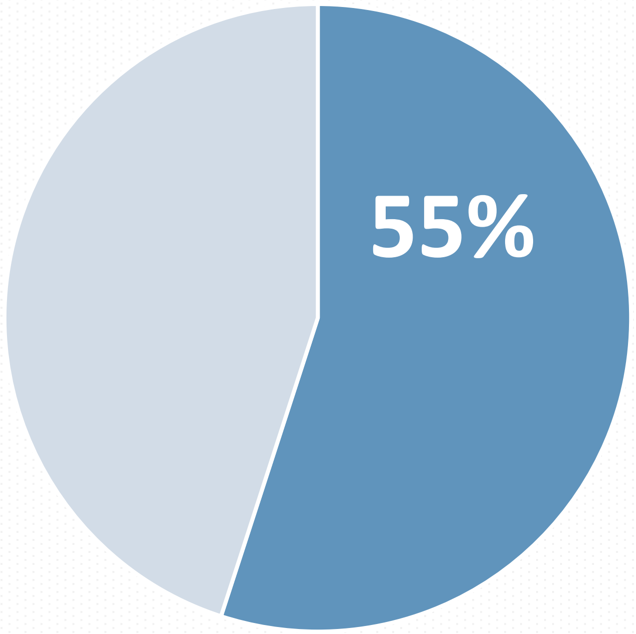
- Repaid w/Taxes
  - General Obligation
  - Special Tax or Assessment
  - Tax Allocation
- Repaid from General Fund
  - Lease Revenue
  - Certificates of Participation
  - Pension Obligation
- Repaid From Special Revenue
  - Water, Sewer, Garbage
  - Parking
  - Airport, Golf Course

# VOTER APPROVAL REQUIREMENTS

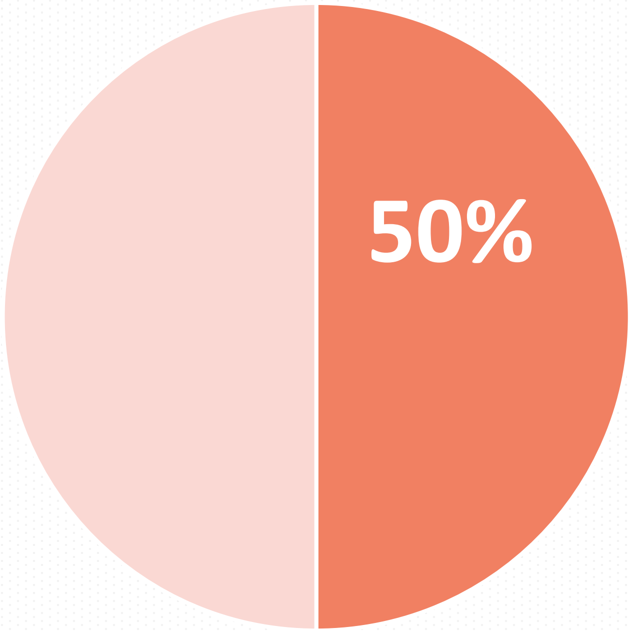
Local Agencies




School District Bonds




State Bonds



# VOTER APPROVAL EXCEPTIONS

General Fund Lease Obligations

Utility Revenue Bonds

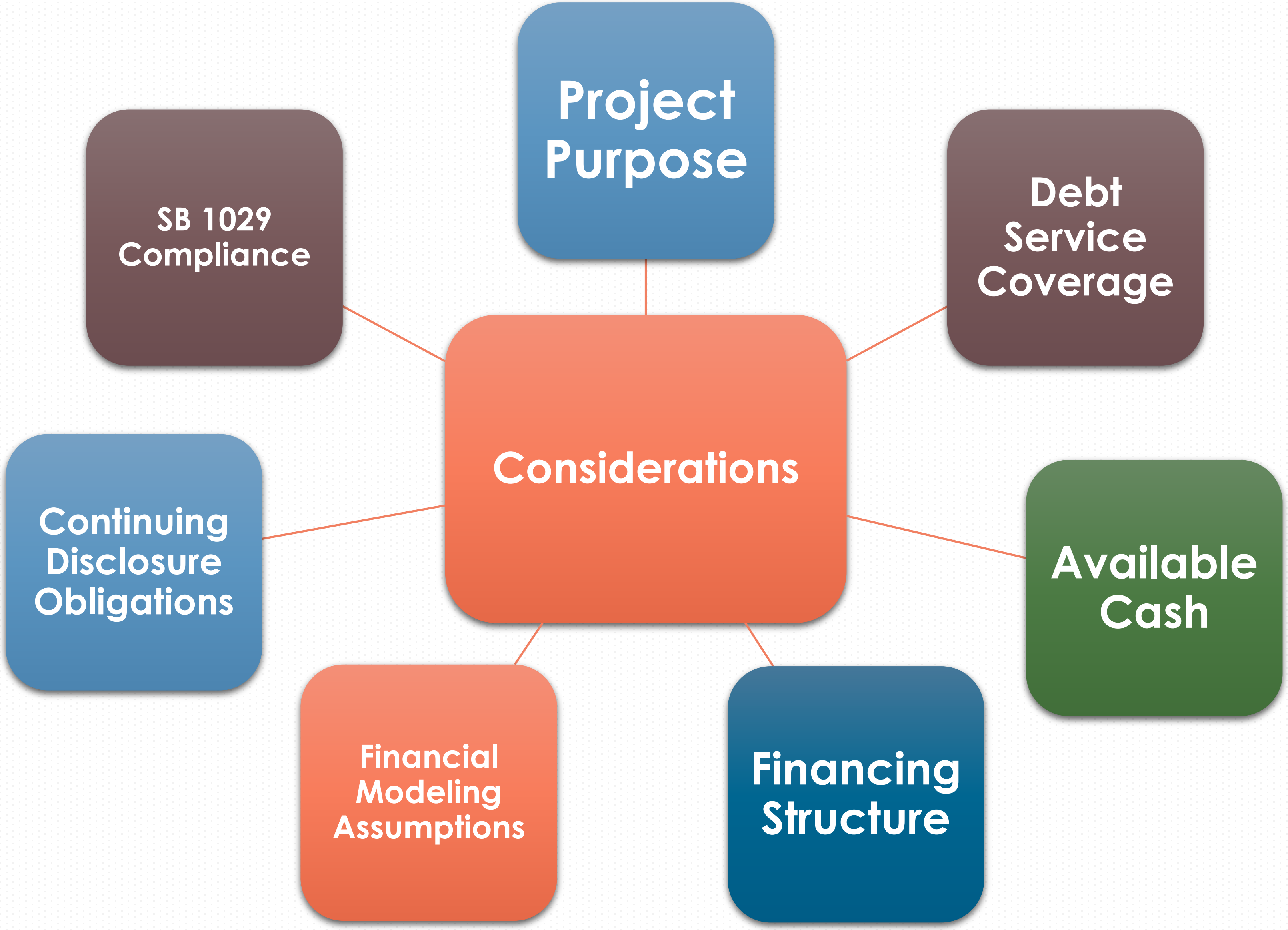
Obligations Imposed by Law

# PROCESS OF ISSUING BONDS

# DEVELOPING THE FINANCING PLAN

1. Identify Project Costs
2. Quantify Available Cash
3. Identify Repayment Sources
4. Develop Financial Model

# DEBT POLICY CONSIDERATIONS



# ASSEMBLING THE FINANCING TEAM (PUBLIC OFFERING)

Issuer/Borrower

Municipal Advisor

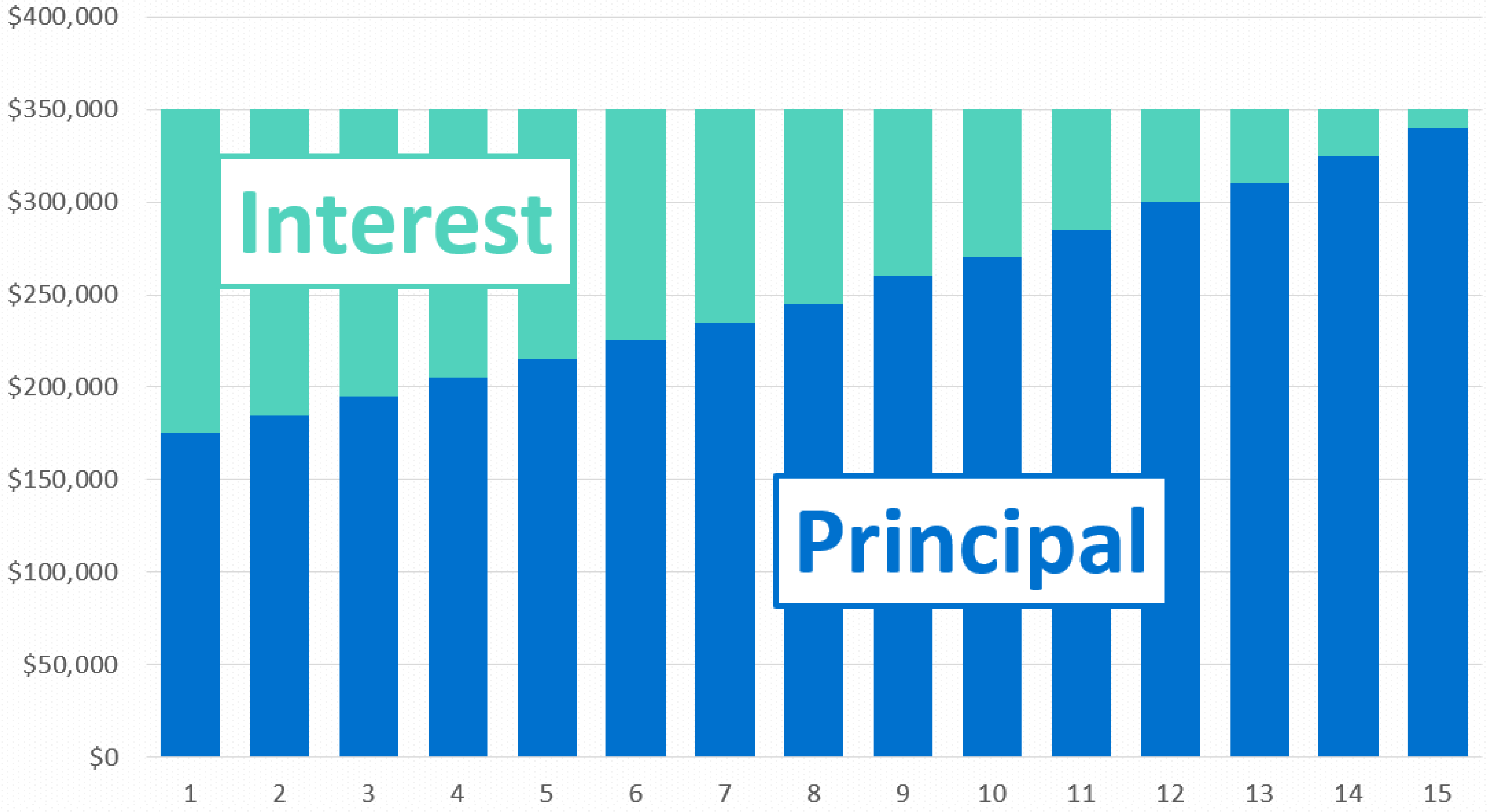
Bond/Disclosure Counsel

Underwriter

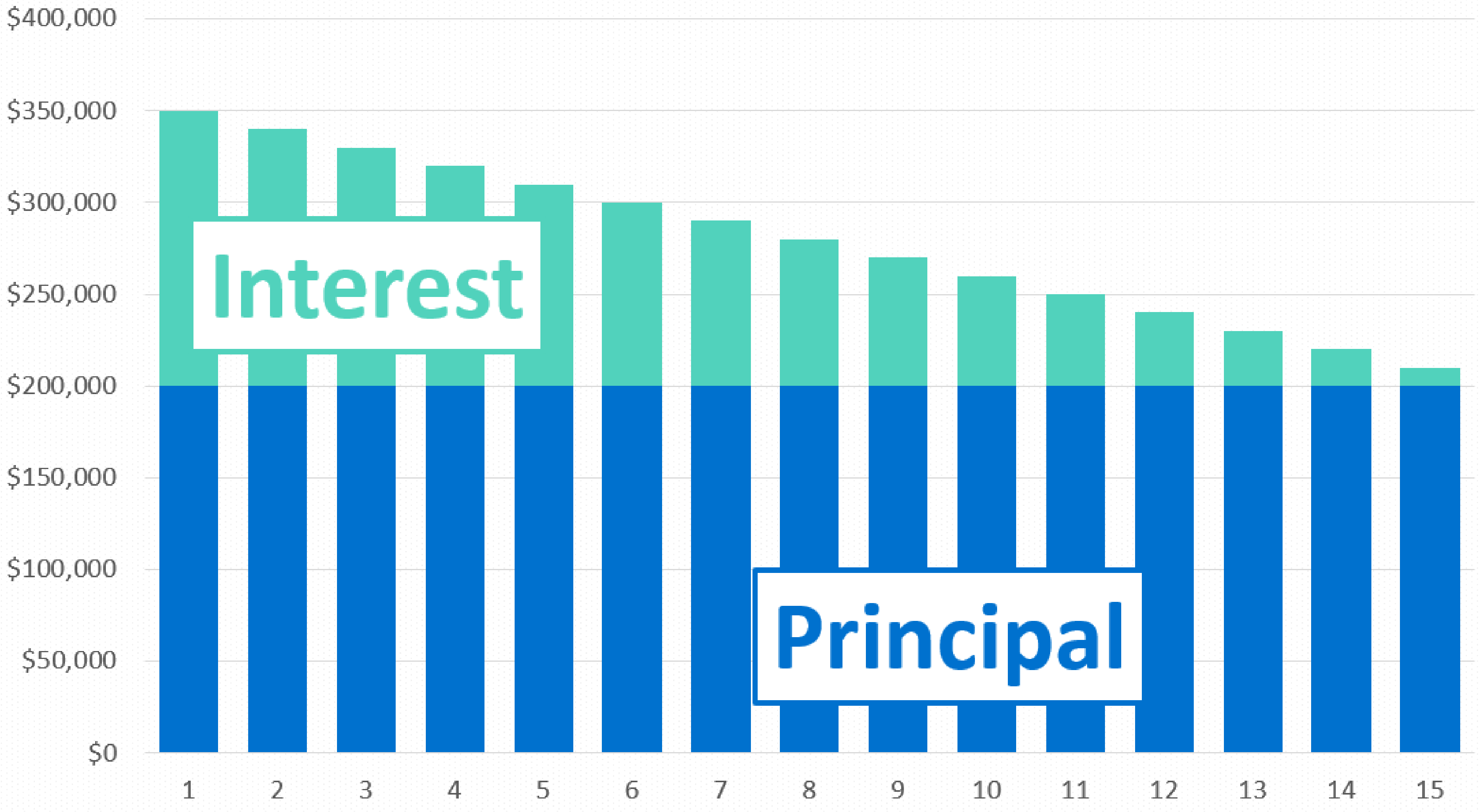
Trustee/Paying Agent

Rating Agency

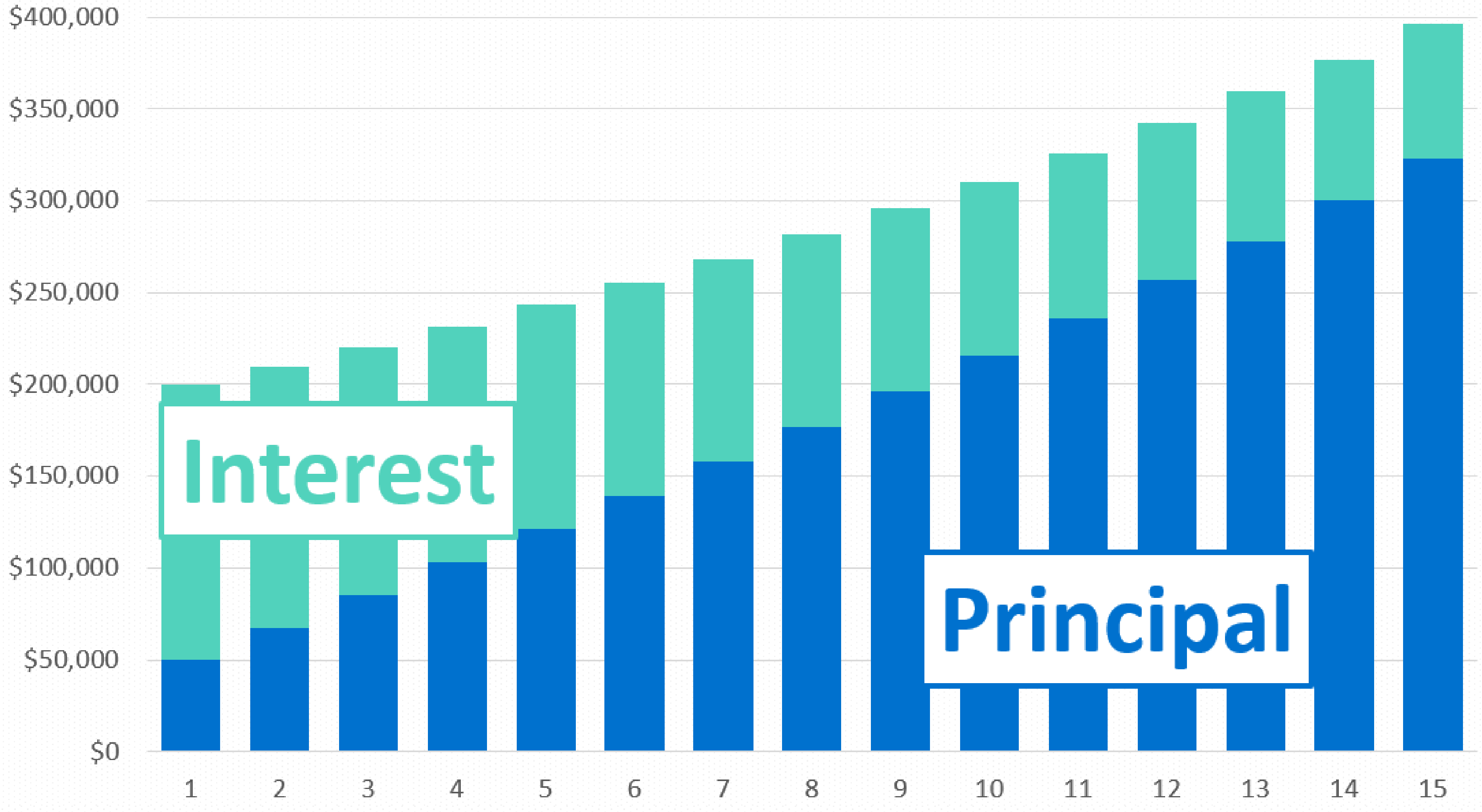
# DEBT AMORTIZATION — LEVEL PAYMENTS



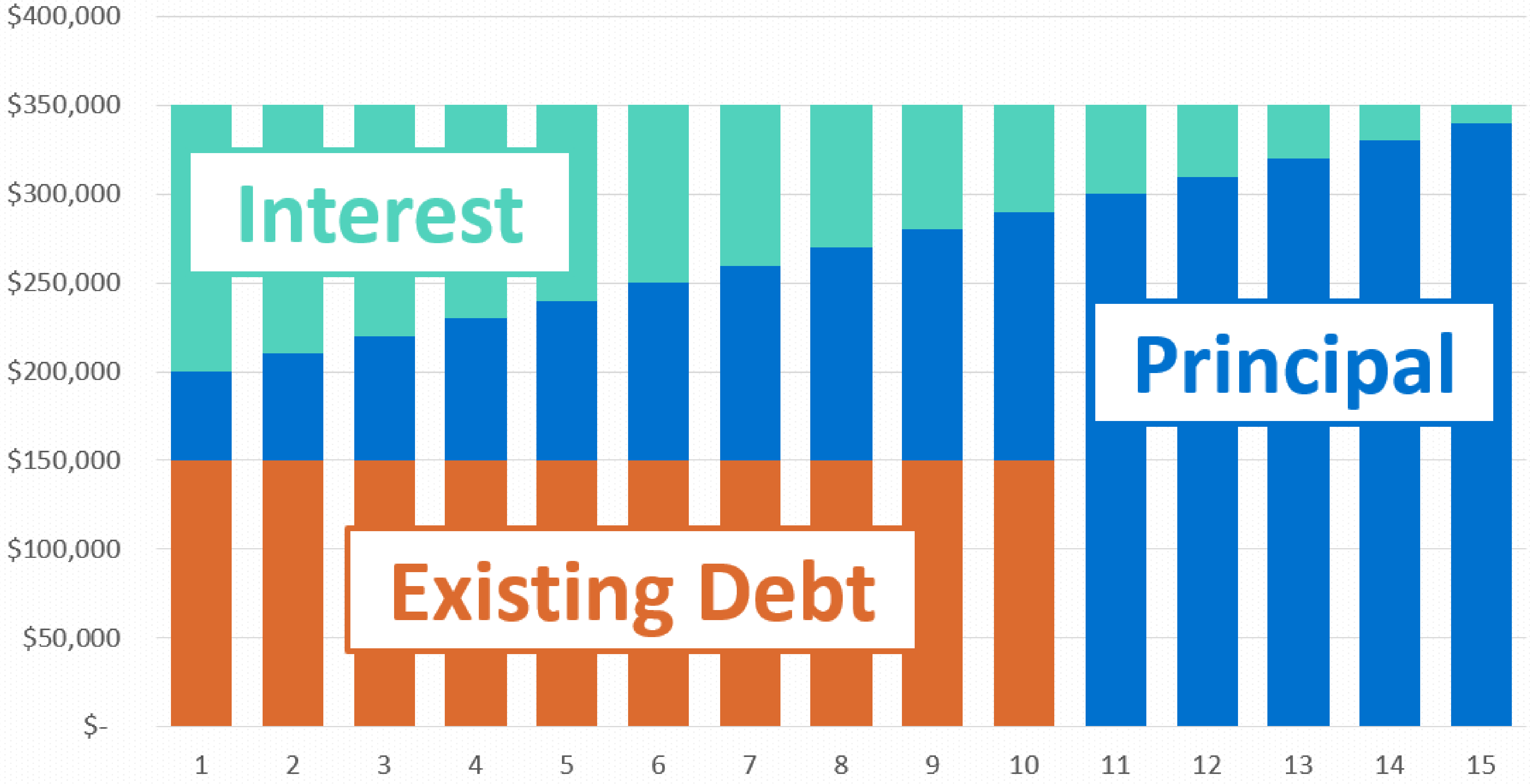
# DEBT AMORTIZATION — EQUAL PRINCIPAL PAYMENTS



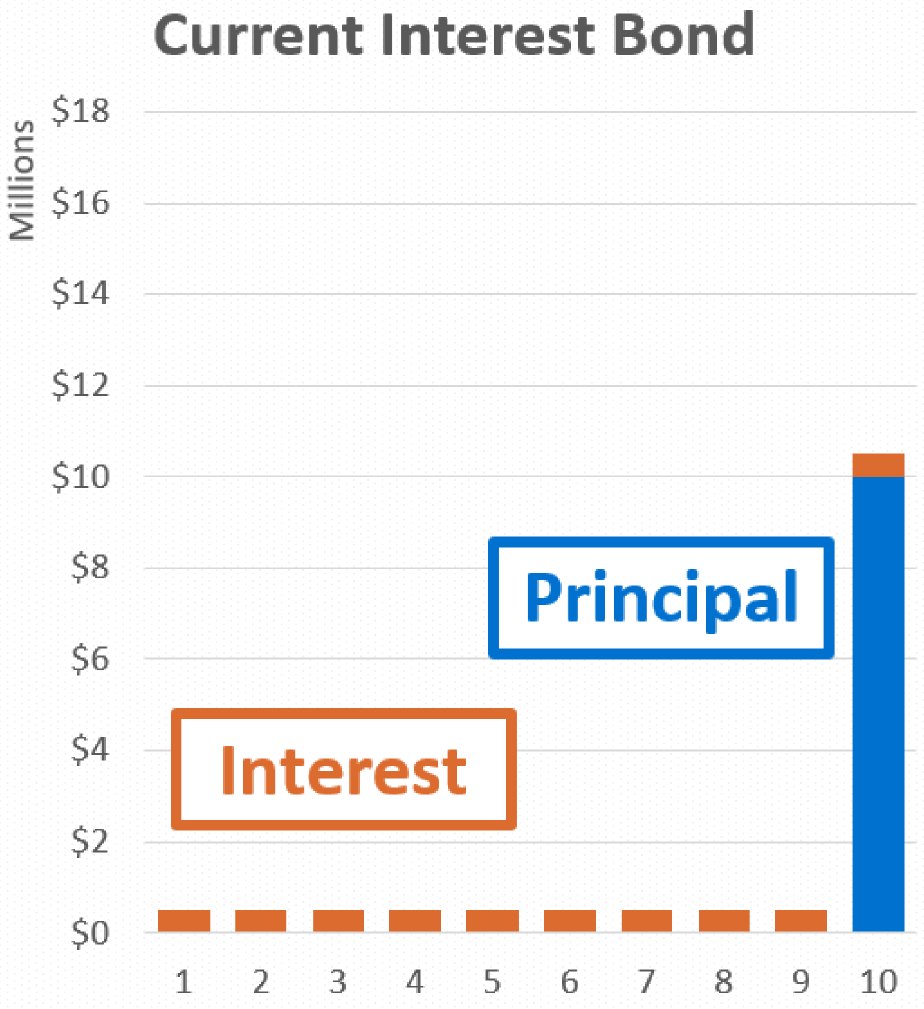
# DEBT AMORTIZATION — ASCENDING PAYMENTS

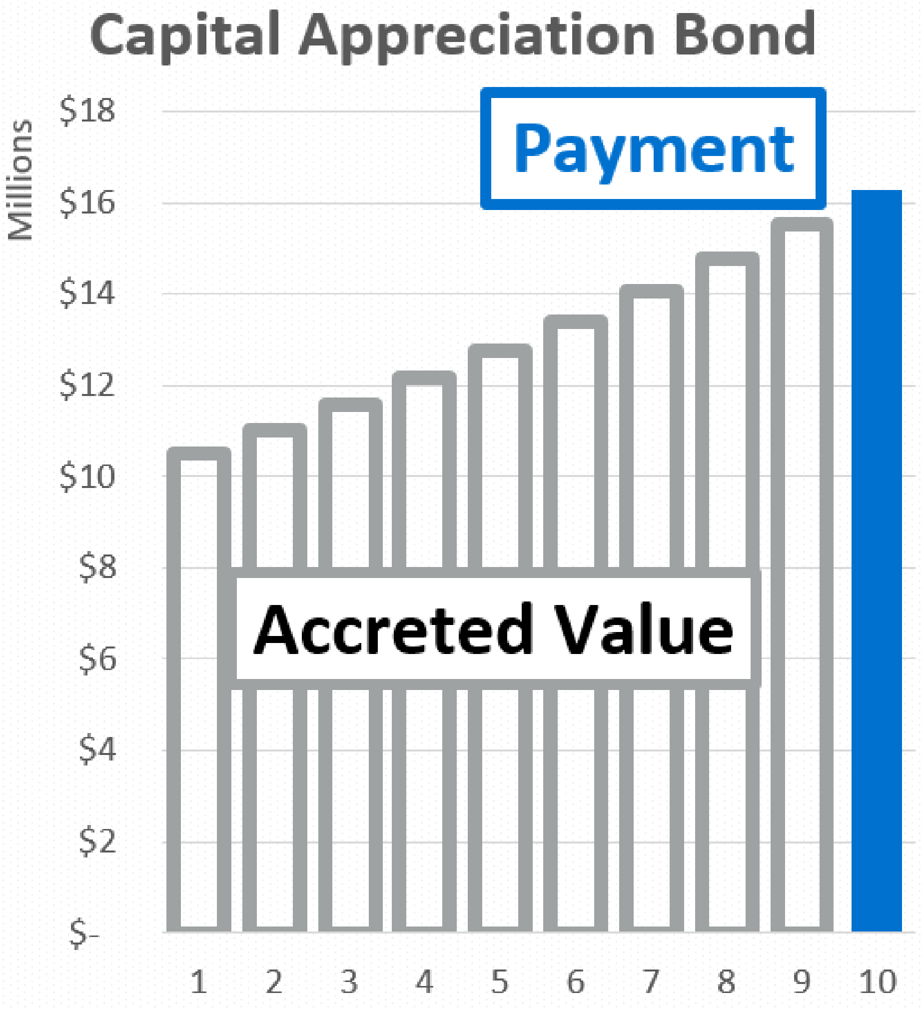


# DEBT AMORTIZATION — WRAP SOLUTION PAYMENT STRUCTURE



# BOND TYPES


Current Interest Bond
Millions
$18
$16
$14
$12
$10
$8
$6
$4
$2
$0
Principal
Interest
1
2
3
4
5
6
7
8
9
10


Capital Appreciation Bond
Millions
$18
$16
$14
$12
$10
$8
$6
$4
$2
$-
Payment
Accreted Value
1
2
3
4
5
6
7
8
9
10

# BOND ISSUANCE STRATEGIES

## Competitive Bond Sale

- Structured Prior to Bond Sale
- Underwriter Bids to Purchase All Bonds
- Best Strategy for Highly Rated or Frequent Issuers

## Negotiated Bond Sale

- Underwriter assists in Bond Structure
- Underwriter Pre-Markets Bonds Before Setting Interest Rate
- Best Strategy for Complex Structures or Infrequent Issuers

# BOND SALE PROCESS

1. Financial Planning & Team Formation
2. Structuring the Bonds
3. Document Preparation
4. Credit Rating & Legal Authorization
5. Lock Interest Rates
6. Execute Closing Documents

# PRELIMINARY OFFICIAL STATEMENT

**PRELIMINARY OFFICIAL STATEMENT DATED __________, 2022**

**NEW ISSUE - FULL BOOK-ENTRY**

**RATING: S&P: "___"**
**See "RATING".**

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "LEGAL MATTERS – Tax Exemption."*

**$30,000,000***
**ELECTION OF 2018 GENERAL OBLIGATION BONDS,**
**SERIES 2022**

**Dated: Date of Delivery** **Due: September 1, as shown on inside cover**

***Cover Page.*** This cover page contains information for quick reference only. It is not a summary of all the provisions of the Bonds. Investors must read the entire official statement to obtain information essential to making an informed investment decision.

***Authority and Purpose.*** The captioned Election of 2018 General Obligation Bonds, Series 2022 (the "Bonds"), are being issued by the City of Campbell (the "City") pursuant to certain provisions of the California Government Code and resolutions of the City Council of the City adopted on May 17, 2022. The Bonds were authorized at an election of the registered voters of the City held on November 6, 2018, which authorized the issuance of general obligation bonds for the purpose of financing the acquisition and improvement of a police emergency operations center and a public library. The initial series of bonds under the 2018 authorization was issued in 2020. See "THE BONDS – Authority for Issuance" and "THE FINANCING PLAN" herein.

***Security.*** The Bonds are general obligations of the City, payable solely from ad valorem property taxes levied by the City and collected by Santa Clara County (the "County"). The City Council is empowered and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the City, without limitation of rate or amount (except certain personal property that is taxable at limited rates). See "SECURITY FOR THE BONDS."

***Payments.*** Interest on the Bonds accrues from the date of delivery and is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2022, by check, draft or wire mailed to the person in whose name the Bond is registered. Payments of principal and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as paying agent for the Bonds (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Description of the Bonds."

***Redemption.*** The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein. See discussion of redemption under the heading "THE BONDS."

***Book-Entry Only.*** The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). Purchasers will not receive physical certificates representing their interests in the Bonds. See APPENDIX E for additional information about the book-entry only system.

The following firm, serving as municipal advisor to the City, has structured this issue.

NHA | ADVISORS
Financial & Policy Strategies. Delivered.

**Maturity Schedules**
**(See inside cover)**

*The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the City by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel and for the Underwriter by Stradling Yocca Carlson & Rauth, A Professional Corporation, San Francisco, California. It is anticipated that the Bonds in definitive form will be available for delivery to Cede & Co., as nominee of The Depository Trust Company, on or about June 22, 2022.*

STIFEL

The date of this Official Statement: May __, 2022.

is Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time e Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

# OFFICIAL STATEMENT

**NEW ISSUE - FULL BOOK-ENTRY**

**RATING: S&P: "AAA"**
**See "RATING".**

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**$30,000,000**
**CITY OF CAMPBELL**
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**SERIES 2022**

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***Payments.*** Interest on the Bonds accrues from the date of delivery and is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2022, by check, draft or wire mailed to the person in whose name the Bond is registered. Payments of principal and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as paying agent for the Bonds (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Description of the Bonds."

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**(See inside cover)**

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STIFEL

The date of this Official Statement is May 24, 2022.

# OFFICIAL STATEMENT (CONTINUED)

## MATURITY SCHEDULE*

**$30,000,000***
**CITY OF CAMPBELL**
**ELECTION OF 2018 GENERAL OBLIGATION BONDS,**
**SERIES 2022**
**(Base CUSIP†: 134105)**

| Maturity Date (September 1) | Principal Amount | Interest Rate | Yield | Price | CUSIP† No. |
|---|---|---|---|---|---|

**PRELIMINARY OFFICIAL STATEMENT**

*Preliminary; subject to change.

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## MATURITY SCHEDULE

**$30,000,000**
**CITY OF CAMPBELL**
**ELECTION OF 2018 GENERAL OBLIGATION BONDS,**
**SERIES 2022**
**(Base CUSIP†: 134105)**

| Maturity Date (September 1) | Principal Amount | Interest Rate | Yield | Price | CUSIP† No. |
|---|---|---|---|---|---|
| 2022 | $2,000,000 | 5.000% | 1.600% | 100.644 | JF3 |
| 2023 | 1,710,000 | 5.000 | 1.900 | 103.632 | JG1 |
| 2024 | 1,010,000 | 5.000 | 2.150 | 106.066 | JH9 |
| 2025 | 495,000 | 5.000 | 2.310 | 108.227 | JJ5 |
| 2026 | 520,000 | 5.000 | 2.380 | 110.389 | JK2 |
| 2027 | 545,000 | 5.000 | 2.470 | 112.253 | JL0 |
| 2028 | 575,000 | 5.000 | 2.580 | 113.762 | JM8 |
| 2029 | 605,000 | 5.000 | 2.710 | 114.868 | JN6 |
| 2030 | 635,000 | 5.000 | 2.780 | 116.159 | JP1 |
| 2031 | 665,000 | 5.000 | 2.860 | 115.525 C | JQ9 |
| 2032 | 700,000 | 5.000 | 2.910 | 115.131 C | JR7 |
| 2033 | 730,000 | 5.000 | 3.020 | 114.269 C | JS5 |
| 2034 | 770,000 | 5.000 | 3.090 | 113.725 C | JT3 |
| 2035 | 805,000 | 5.000 | 3.180 | 113.030 C | JU0 |
| 2036 | 850,000 | 5.000 | 3.250 | 112.492 C | JV8 |
| 2037 | 890,000 | 5.000 | 3.300 | 112.110 C | JW6 |
| 2038 | 935,000 | 5.000 | 3.350 | 111.730 C | JX4 |
| 2039 | 980,000 | 5.000 | 3.400 | 111.351 C | JY2 |
| 2040 | 1,030,000 | 5.000 | 3.460 | 110.898 C | JZ9 |
| 2041 | 1,080,000 | 5.000 | 3.500 | 110.597 C | KA2 |
| 2042 | 1,135,000 | 5.000 | 3.520 | 110.448 C | KB0 |

**$6,585,000 – 5.000% Term Bonds maturing September 1, 2047; Yield: 3.550%; Price: 110.223C; CUSIP†: KC8**

**$4,750,000 – 4.000% Term Bonds maturing September 1, 2050; Yield: 4.050%; Price: 99.159; CUSIP†: KD6**

**FINAL OFFICIAL STATEMENT**

C Priced to the first optional redemption date of September 1, 2030.

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# CONTINUING DISCLOSURE

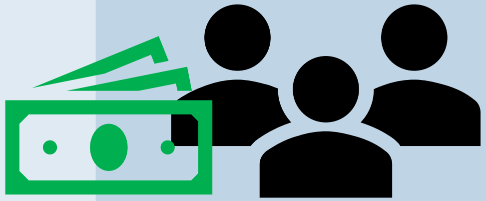
- SEC Rule 15c2-12 requires annual reporting of financial information
- Disclosures are submitted through the Electronic Municipal Market Access (EMMA) website
- Continuing disclosure exemptions:
  - Bond issued before July 1995
  - Issues less than $1 million
  - Short-term debt (18 months or less)
  - Private placements
  - Sold with minimum denominations of $100,000
  - 35 or fewer sophisticated investors

# BOND CLOSING FLOW OF FUNDS

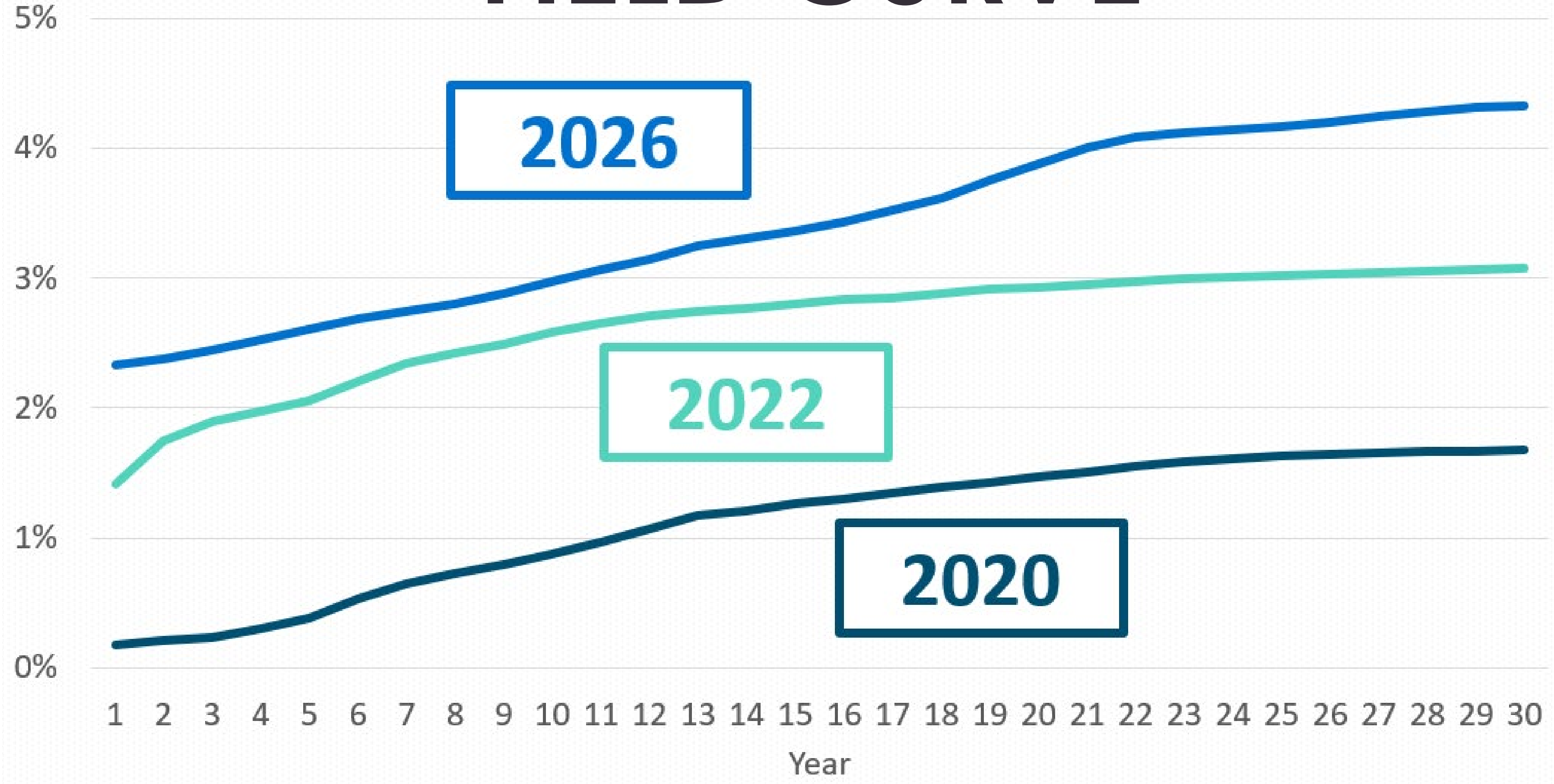
Issuer

Underwriter

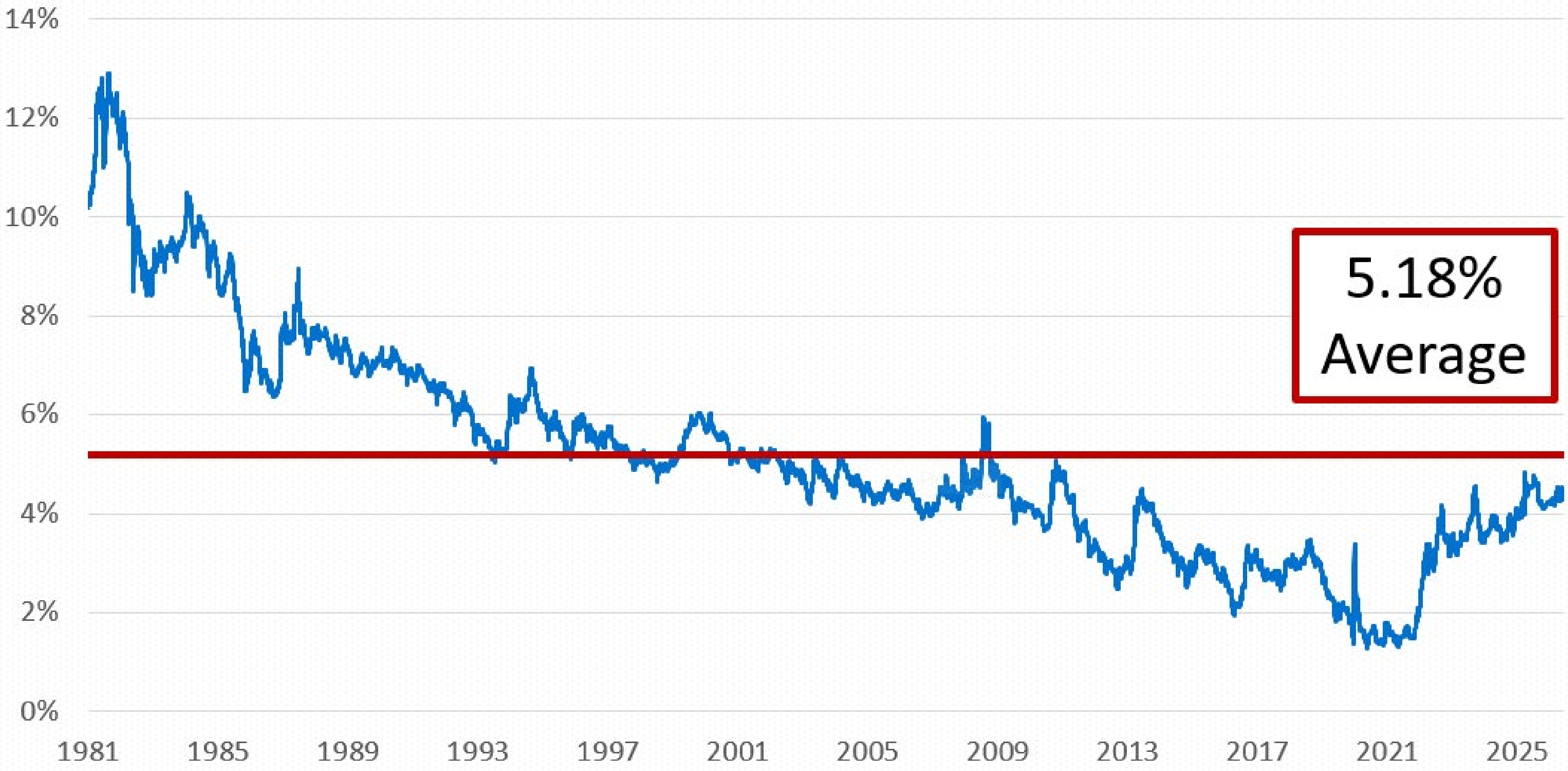
Bondholders



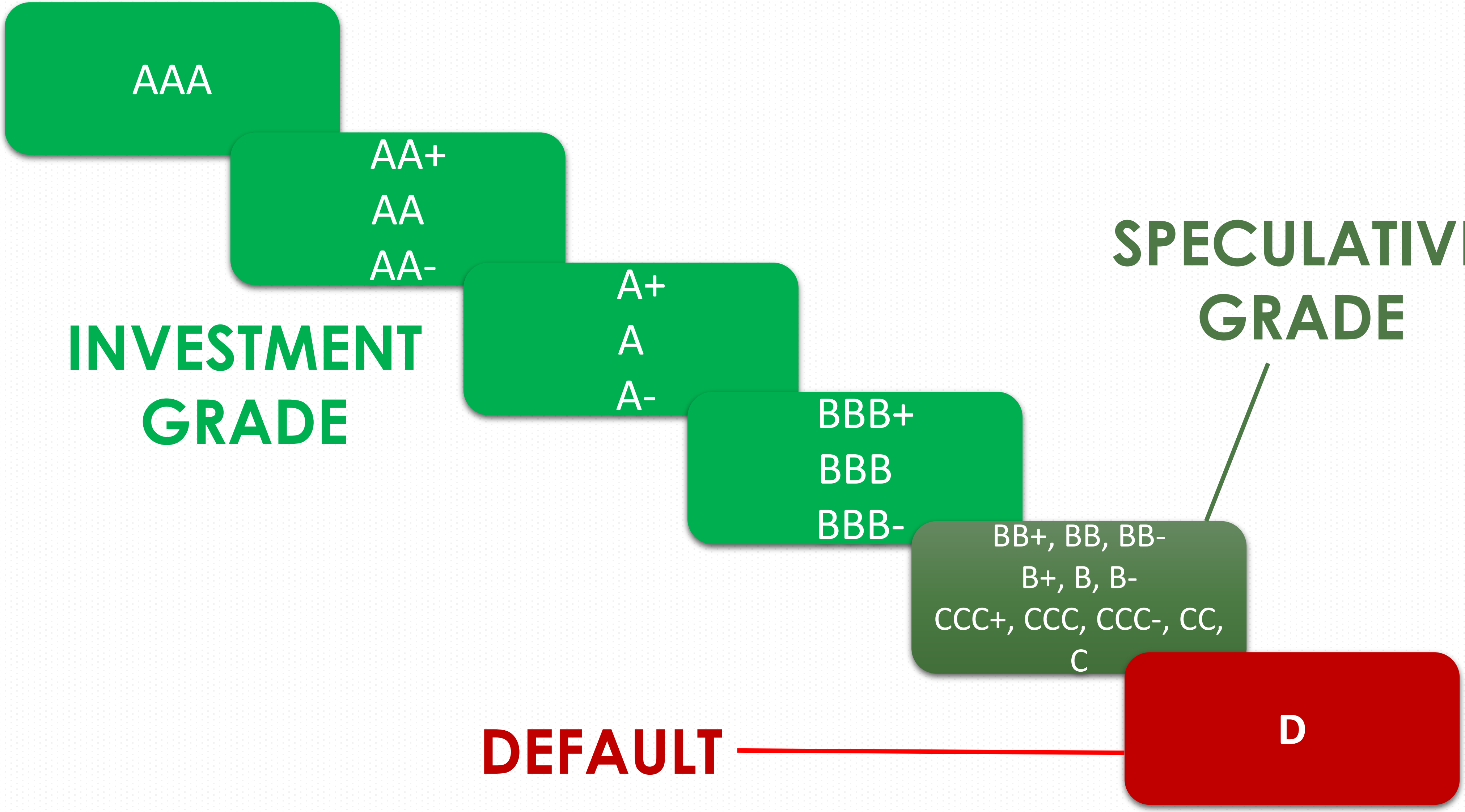
# MUNICIPAL MARKET DATA (MMD) YIELD CURVE



# HISTORICAL 30-YEAR MMD

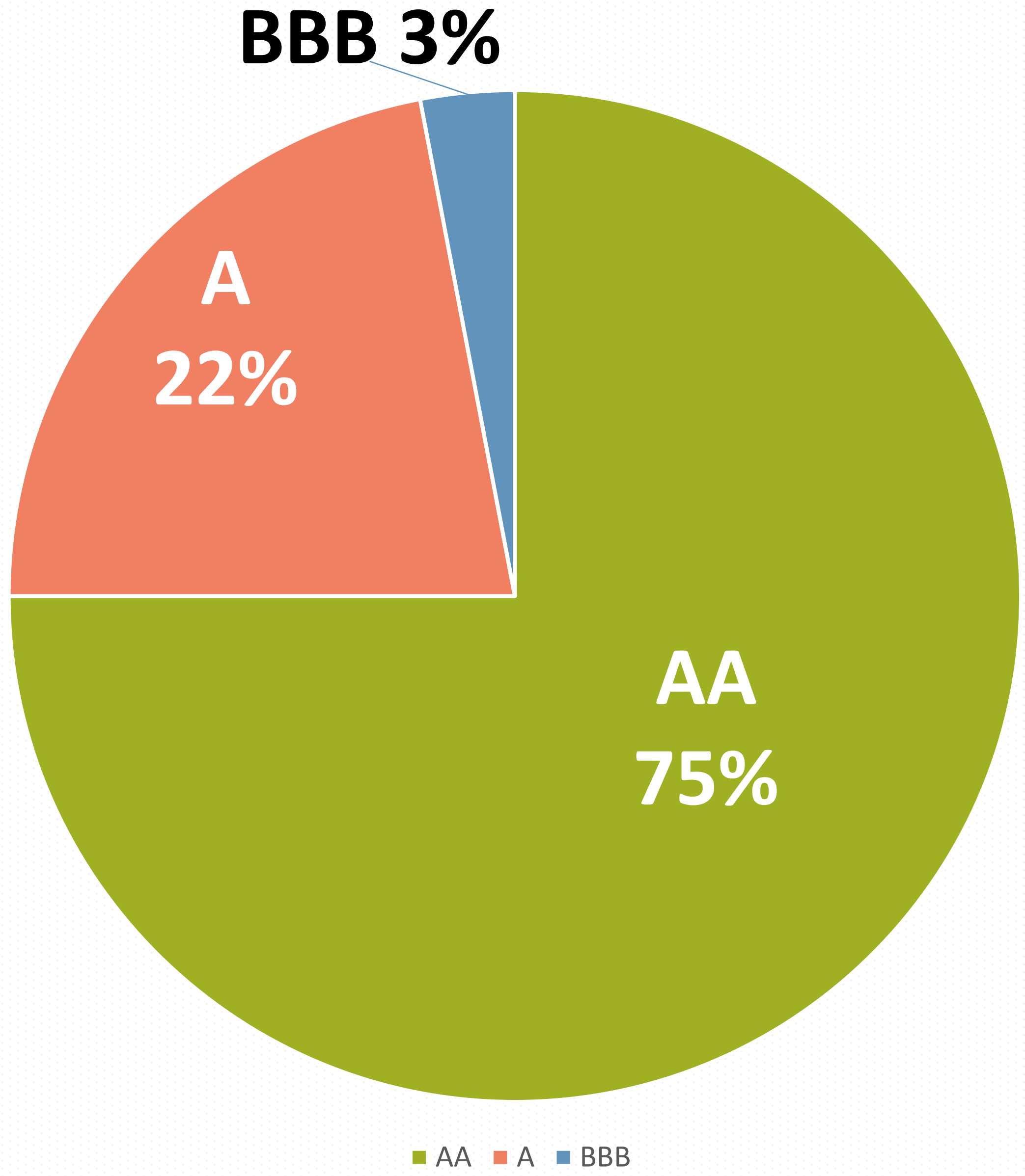


# CREDIT RATINGS



# S&P RATINGS: CA COUNTIES

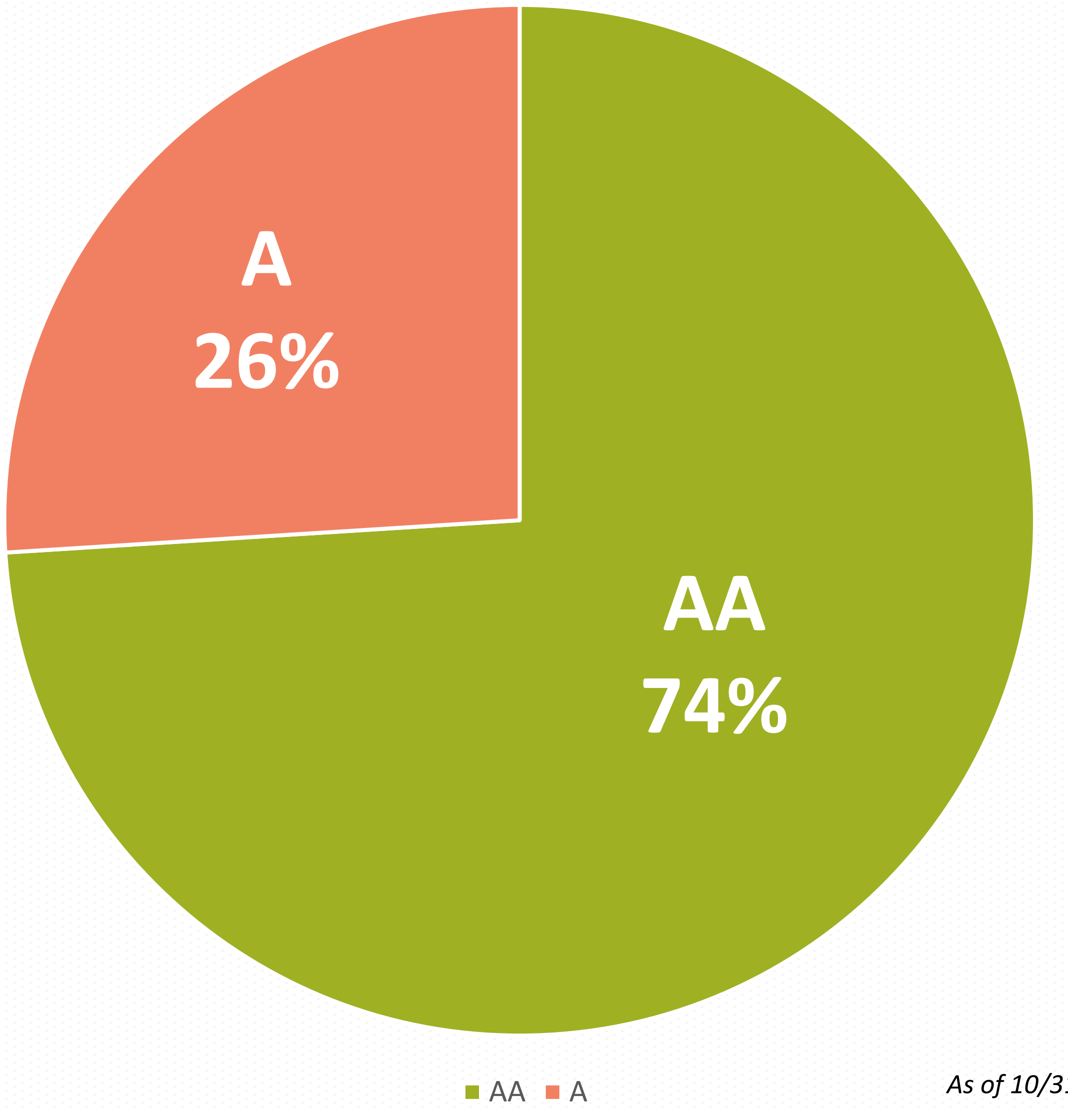
# 36 RATINGS




*As of 10/31/2025*

# S&P RATINGS: CA MUNICIPALITIES

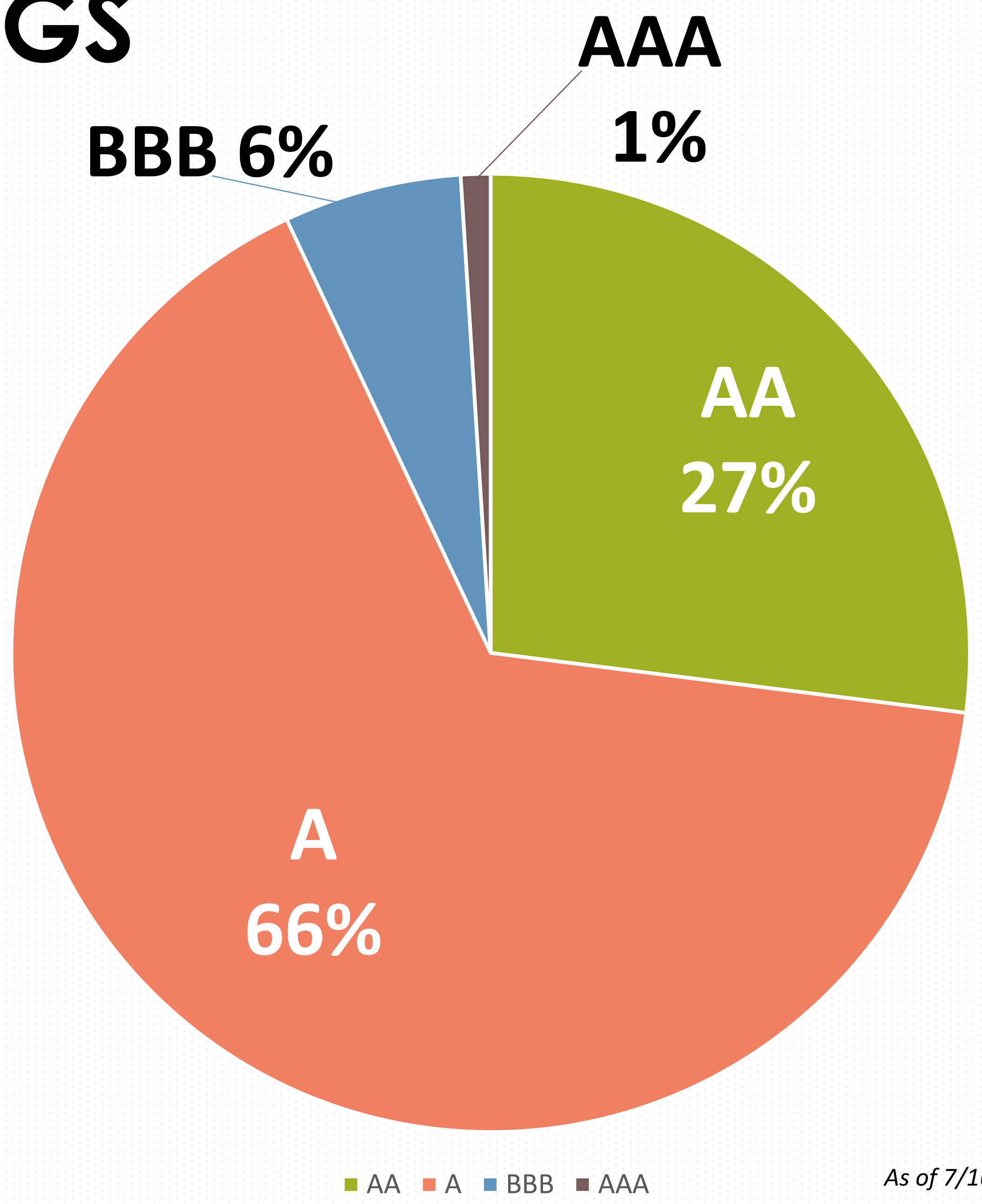
## 186 RATINGS




As of 10/31/2025

# S&P RATINGS: CA SPECIAL DISTRICTS

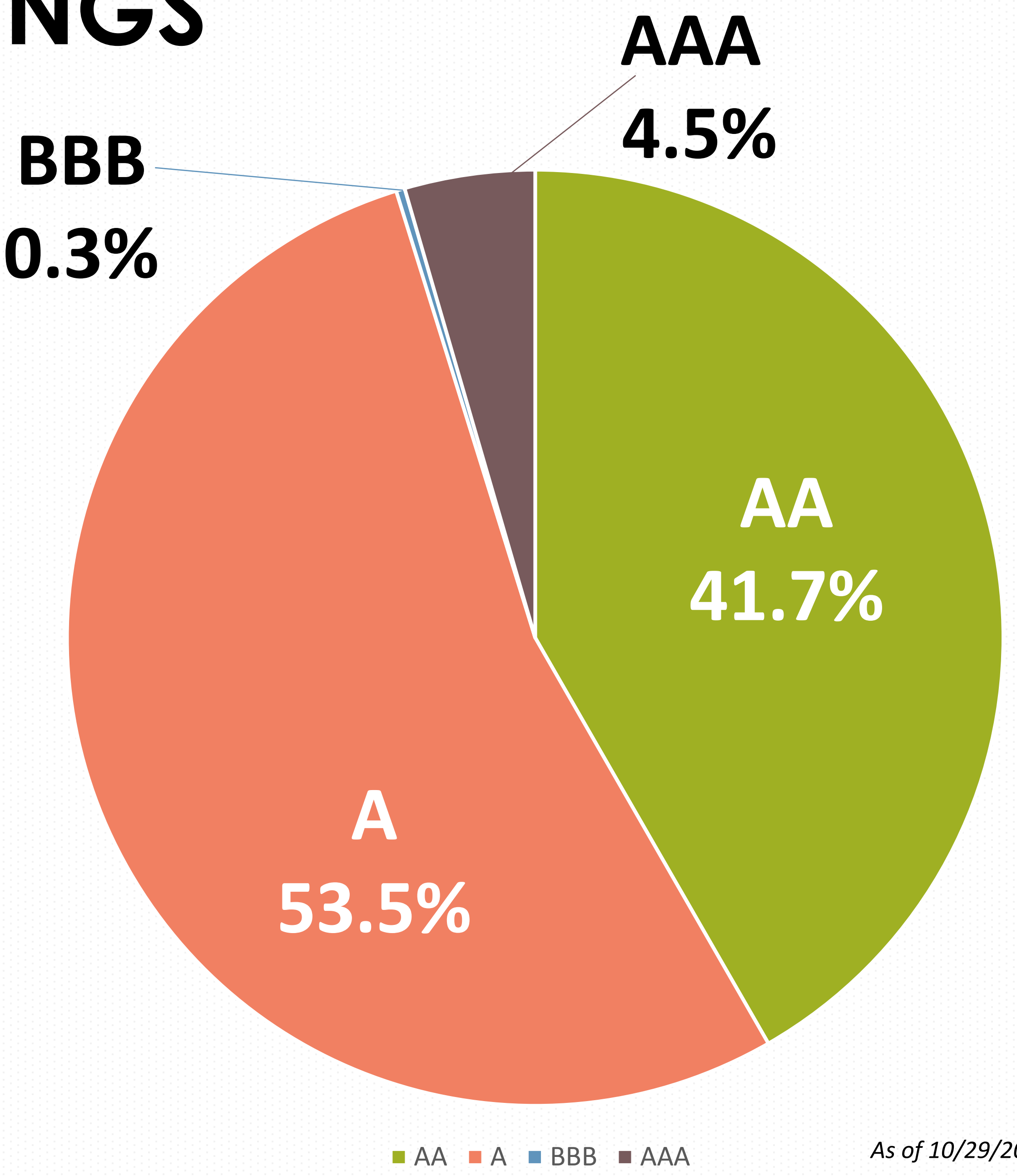
## 217 RATINGS




*As of 7/16/2024*

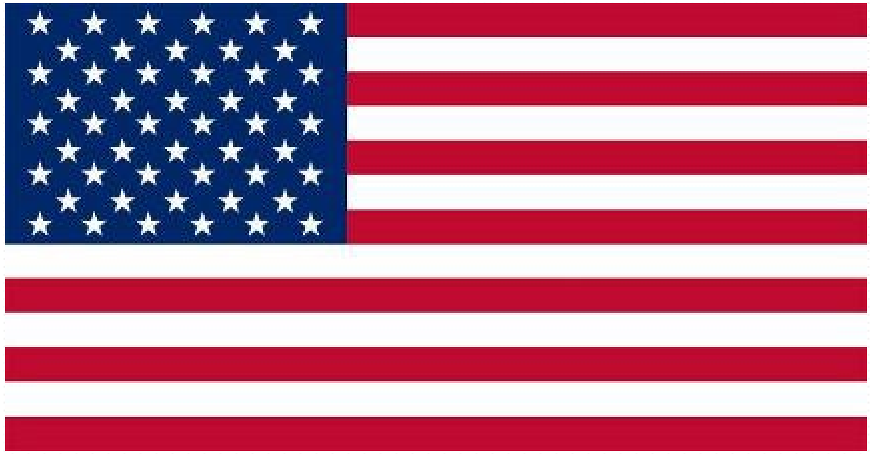
# S&P RATINGS: CA SCHOOLS

## 643 RATINGS

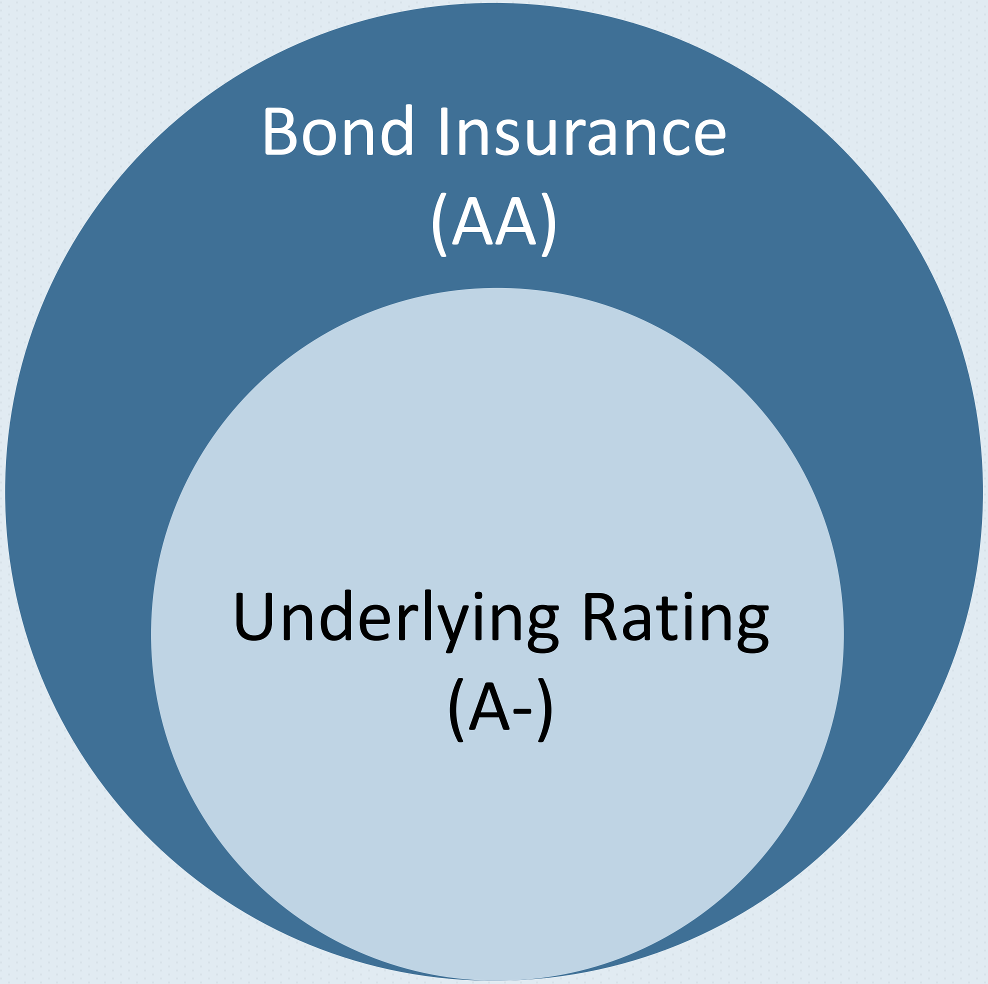



*As of 10/29/2025*

# CAN YOU IDENTIFY THE "AAA" CREDIT RATING?



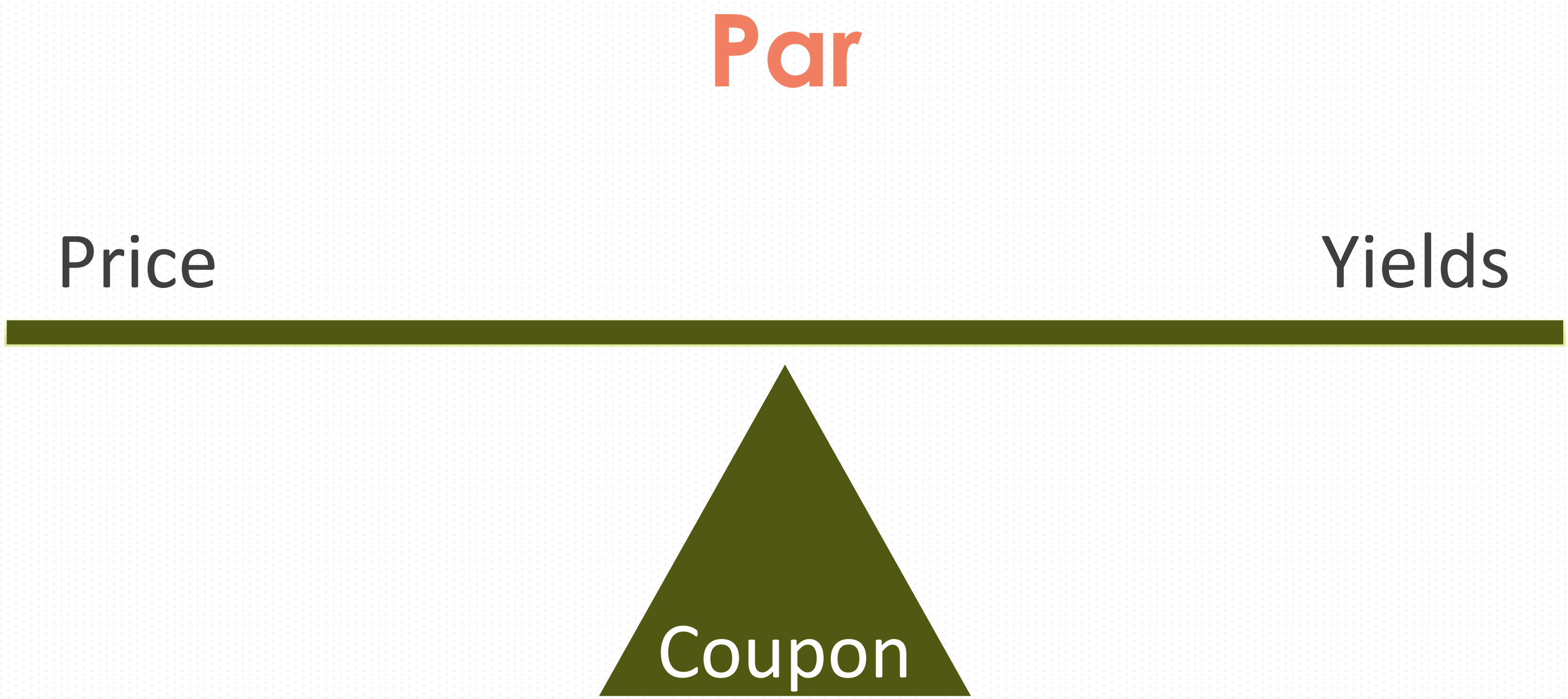
# CREDIT ENHANCEMENTS



# BASIC BOND CHARACTERISTICS

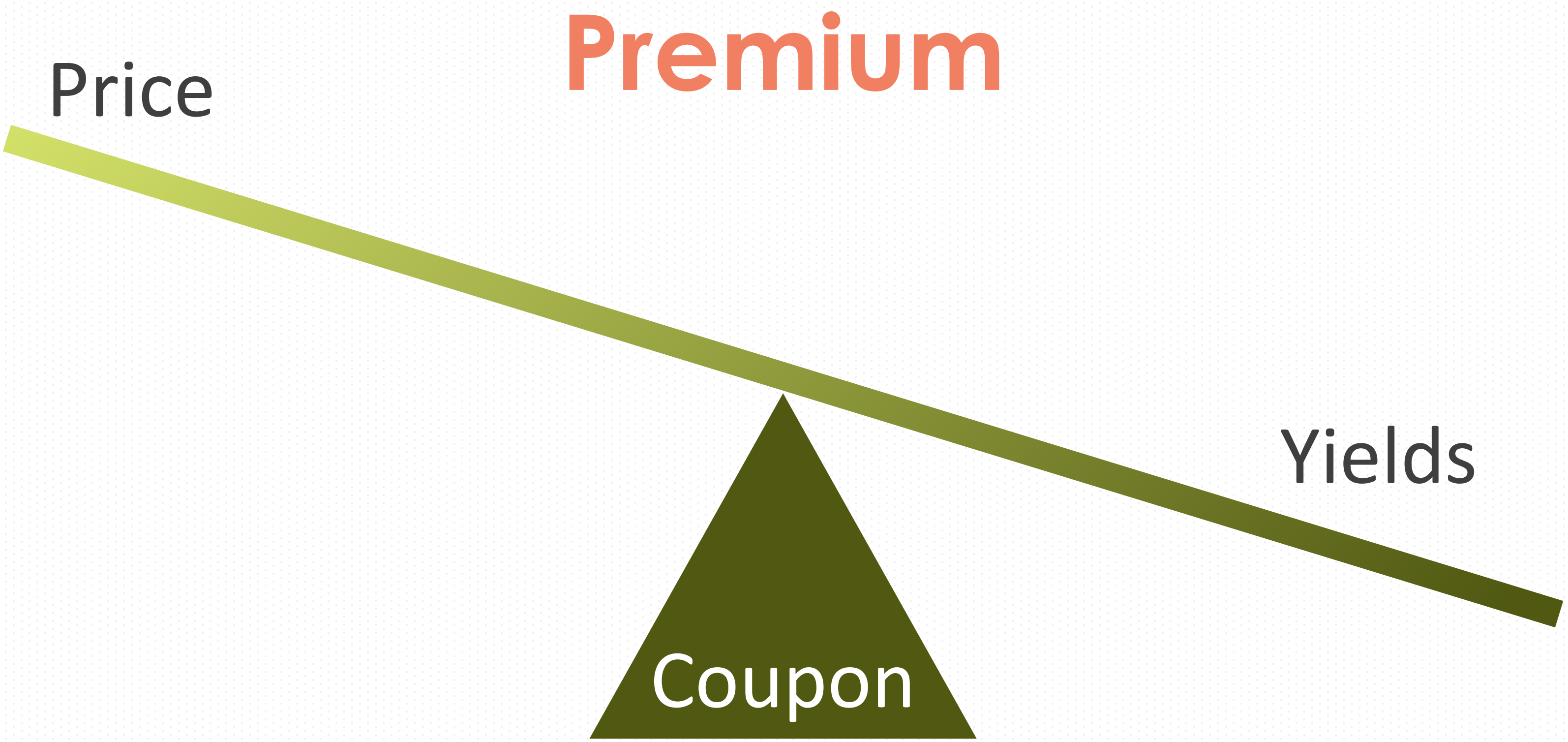
# PRICE AND YIELD RELATIONSHIP

- Prices and yields are inversely correlated



# PRICE AND YIELD RELATIONSHIP
## (CONTINUED 2/3)

- Prices and yields are inversely correlated



# PRICE AND YIELD RELATIONSHIP
## (CONTINUED 3/3)

- Prices and yields are inversely correlated

# PRICING THE BONDS

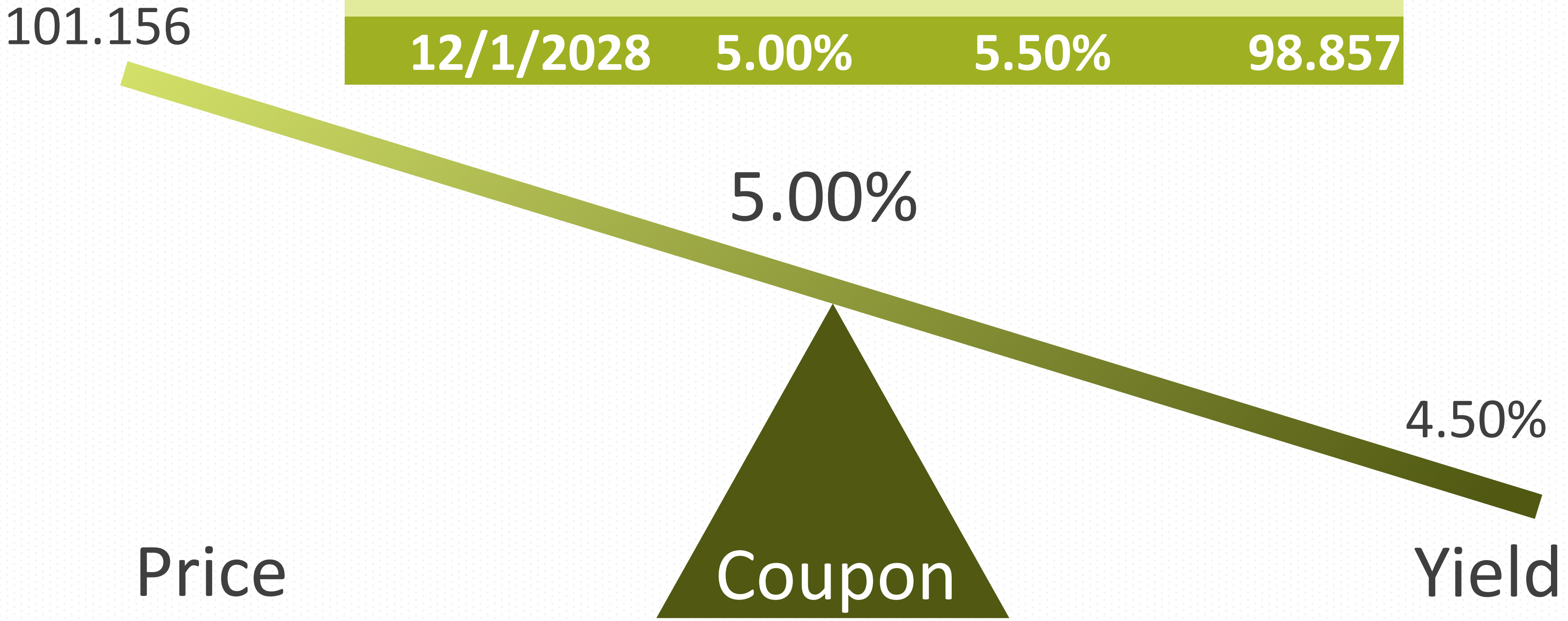
| Maturity Date | Coupon | Market Yield | Price |
|---|---|---|---|
| 12/1/2028 | 5.00% | 4.50% | 101.156 |
| | | | |
| 12/1/2028 | 5.00% | = 5.00% | 100.000 |
| | | | |
| 12/1/2028 | 5.00% | 5.50% | 98.857 |

Par

# PRICING THE BONDS (CONTINUED 2/3)

Premium

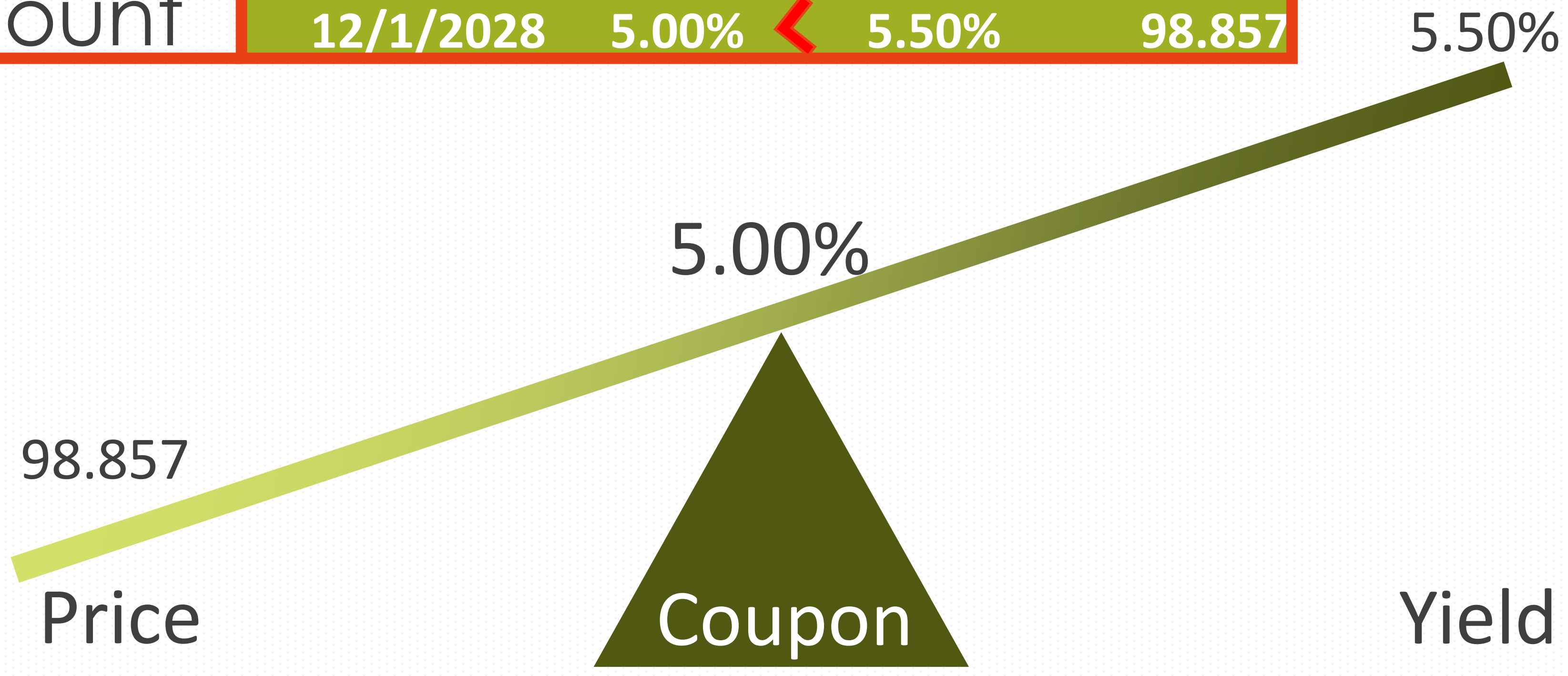
| Maturity Date | Coupon | Market Yield | Price |
|---|---|---|---|
| 12/1/2028 | 5.00% | 4.50% | 101.156 |
| | | | |
| 12/1/2028 | 5.00% | 5.00% | 100.000 |
| | | | |
| 12/1/2028 | 5.00% | 5.50% | 98.857 |



# PRICING THE BONDS (CONTINUED 3/3)

| Maturity Date | Coupon | Market Yield | Price |
|---|---|---|---|
| 12/1/2028 | 5.00% | 4.50% | 101.156 |
| | | | |
| 12/1/2028 | 5.00% | 5.00% | 100.000 |
| | | | |
| 12/1/2028 | 5.00% | 5.50% | 98.857 |

Discount



# INVESTOR PREFERENCES

Serial vs Term

Premium vs Discount

| | | | |
|---|---|---|---|
| Issuer | Gotham City | | |
| Deal | 2026 General Obligation Bonds | | |
| Par | $2,960,000 | | |
| Tax Status | Tax-Exempt | | |
| Rating | AAA | | |
| Par Call Date | 12/1/2036 | | |
| **MATURITY** | **PAR AMOUNT** | **COUPON RATE** | **YIELD** |
| 2027 | $175,000 | 5.00 | 2.85 |
| 2028 | $185,000 | 5.00 | 2.95 |
| 2029 | $190,000 | 5.00 | 3.10 |
| 2030 | $200,000 | 5.00 | 3.20 |
| 2031 | $210,000 | 5.00 | 3.40 |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| 2036 | $2,000,000 | 4.25 | 4.50 |

# INVESTOR PREFERENCES (CONTINUED)

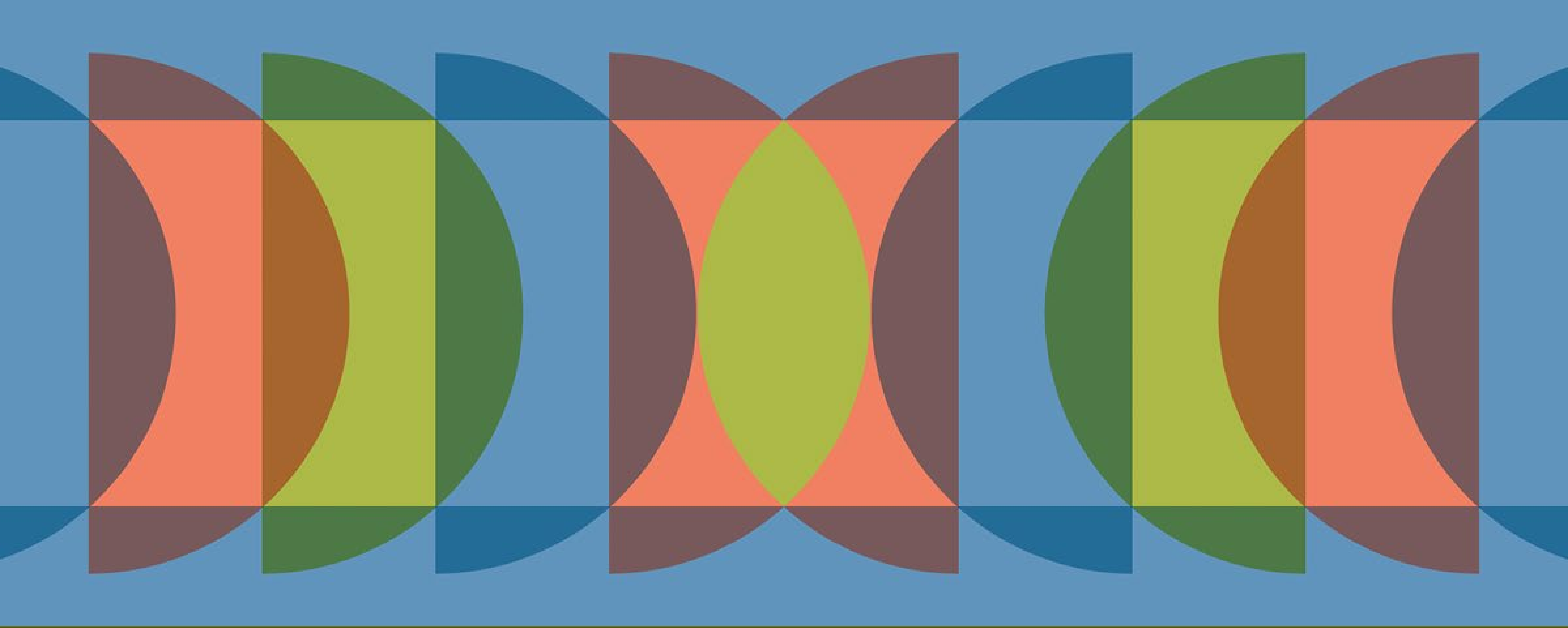
| | |
|---|---|
| Issuer | Gotham City |
| Deal | 2026 General Obligation Bonds |
| Par | $2,960,000 |
| Tax Status | Tax-Exempt |
| Rating | AAA |
| Par Call Date | 12/1/2036 |

| MATURITY | PAR AMOUNT | COUPON RATE | YIELD |
|---|---|---|---|
| 2027 | $175,000 | 5.00 | 2.85 |
| 2028 | $185,000 | 5.00 | 2.95 |
| 2029 | $190,000 | 5.00 | 3.10 |
| 2030 | $200,000 | 5.00 | 3.20 |
| 2031 | $210,000 | 5.00 | 3.40 |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| 2036 | $2,000,000 | 4.25 | 4.50 |

Retail

Professional Retail/SMA

Institutional



# BASIC BOND MATH

# BOND PRICE

- **Bond Price**: Price at which the bond is sold to investors
- **Equation**:

$$\text{Bond Price} = \frac{C}{(1+i)} + \frac{C}{(1+i)^2} + \ldots + \frac{C}{(1+i)^n} + \frac{M}{(1+i)^n}$$

  - **C** = Coupon payment
  - **i** = Interest rate (required yield)
  - **M** = Value at maturity
  - **n** = Number of payments

- **Excel 'PRICE' Function**:

  =PRICE(delivery date, maturity date, coupon, yield, value at maturity, frequency of coupons, day count basis)

| Inputs | Values |
|---|---|
| Delivery Date (settlement) | 9/1/2026 |
| Maturity Date | 9/1/2036 |
| Coupon (rate) | 5.00% |
| Yield | 4.50% |
| Maturity Value (redemption) | $100 |
| Coupon Payments/Year | 2 |
| Day Count Basis | 0 |
| **PRICE function** | **$103.99** |

# YIELD TO MATURITY (YTM)

- **Yield to Maturity (YTM)**: Total return anticipated on a bond if held until maturity
- **Equation**:

$$\text{Bond Price} = \frac{\text{Cashflow 1}}{(1+\text{yield})^1} + \frac{\text{Cashflow 2}}{(1+\text{yield})^2} + \ldots + \frac{\text{Last Cashflow}}{(1+\text{yield})^n}$$

  - Back-solves bond price equation to determine yield, given bond price and coupon:

- **Excel 'YIELD' Function**:

  =YIELD(delivery date, maturity date, coupon, price, value at maturity, coupon payments per year, day count basis)

| Inputs | Values |
|---|---|
| Delivery Date (settlement) | 9/1/2026 |
| Maturity Date | 9/1/2036 |
| Coupon (rate) | 5.00% |
| Purchase Price | $110 |
| Maturity Value (redemption) | $100 |
| Coupon Payments/Year | 2 |
| Day Count Basis | 0 |
| **YIELD function** | **3.79%** |

# TRUE INTEREST COST (TIC)

- **True Interest Cost (TIC)**: Rate necessary to discount the amounts payable on the bond to the purchase price received
  - Effective borrowing rate on Bond inclusive of P&I and all costs associated with Bond issuance
  - Proxied by internal rate of return (IRR)

- **Excel 'IRR' function**:

  =IRR(values, guess)

  - Values: Series of payments (first cash inflow must have negative value)
  - Guess: Gives Excel a place to start solving

| Principal and Interest Payment Date | Annual Debt Service Amount |
|---|---|
| **Issue Bonds** | **$(5,000,000)** |
| 12/1/2027 | $1,250,000 |
| 12/1/2028 | $1,250,000 |
| 12/1/2029 | $1,250,000 |
| 12/1/2030 | $1,250,000 |
| 12/1/2031 | $1,250,000 |
| **IRR Function (TIC)** | **7.93%** |

# DEBT SERVICE PAYMENTS

If public agency needs to issue Bonds to pay for a police station, knowing the expected cost of the station, how can you approximate the yearly debt service?

- **Excel Function:**

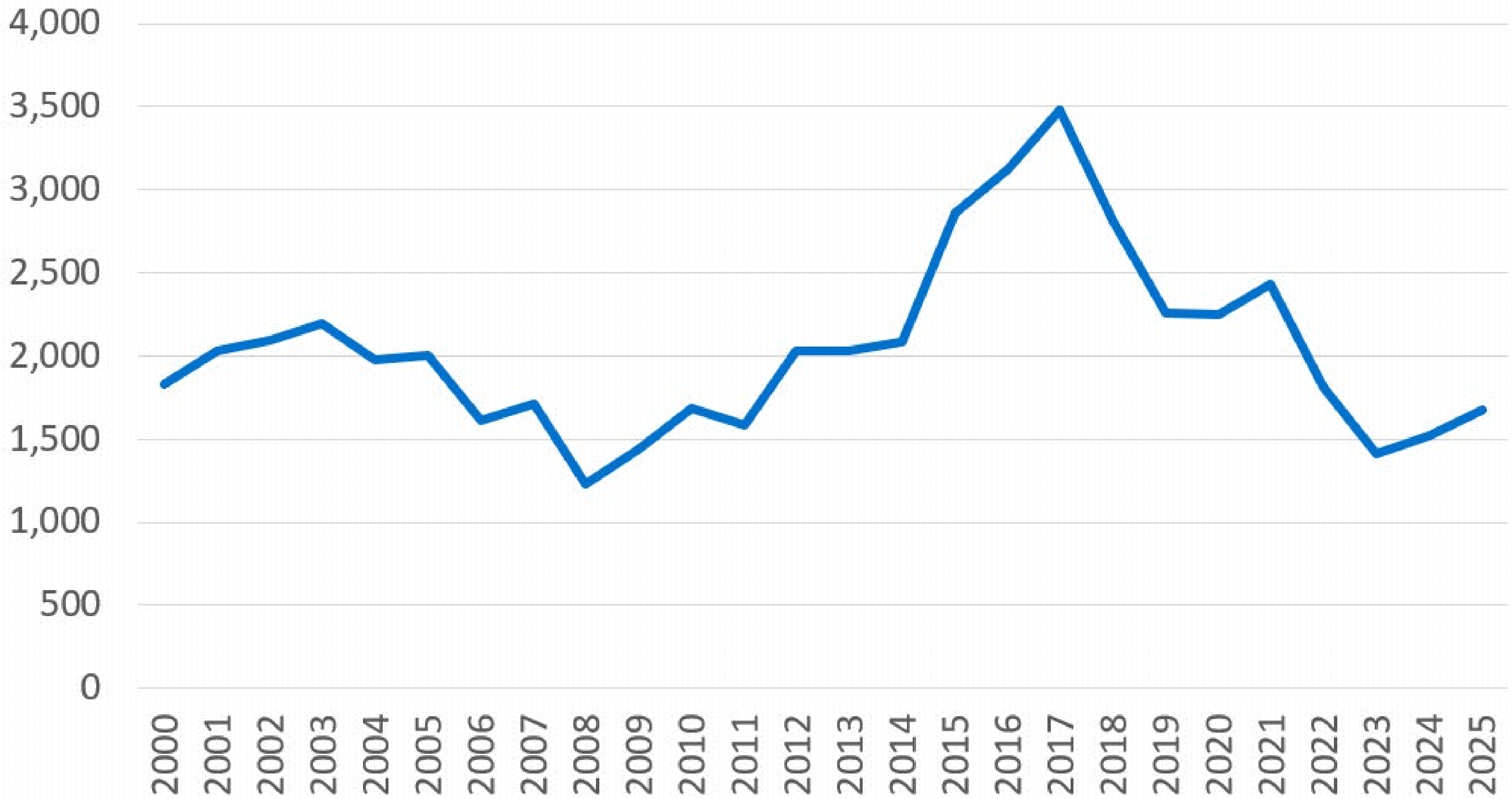
  =PMT(Interest rate, Number of Periods, Present Value, Future Value, Payment Due Period)

- "PMT" value returned is negative to show cash payments going out
- Includes both principal and interest component

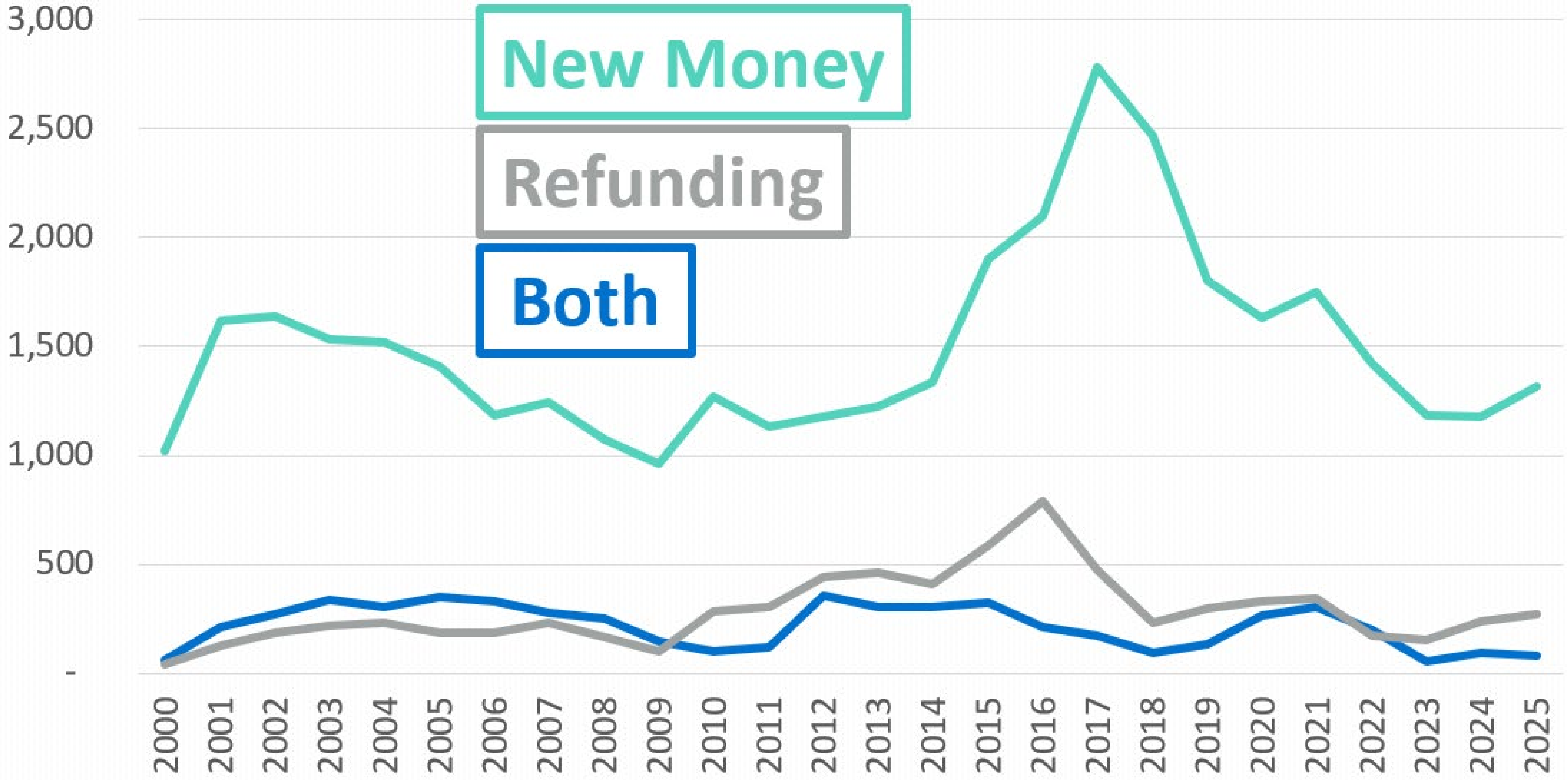
| Inputs | Values |
|---|---|
| Coupon (rate) | 5.00% |
| Years to Maturity (nper) | 30 |
| Present Value (PV) | $30,000,000 |
| Face Value (FV) | $0 |
| Payment Due period | 0 |
| **PMT Function (Annual DS)** | **($1,951,543)** |

# FUN STATS

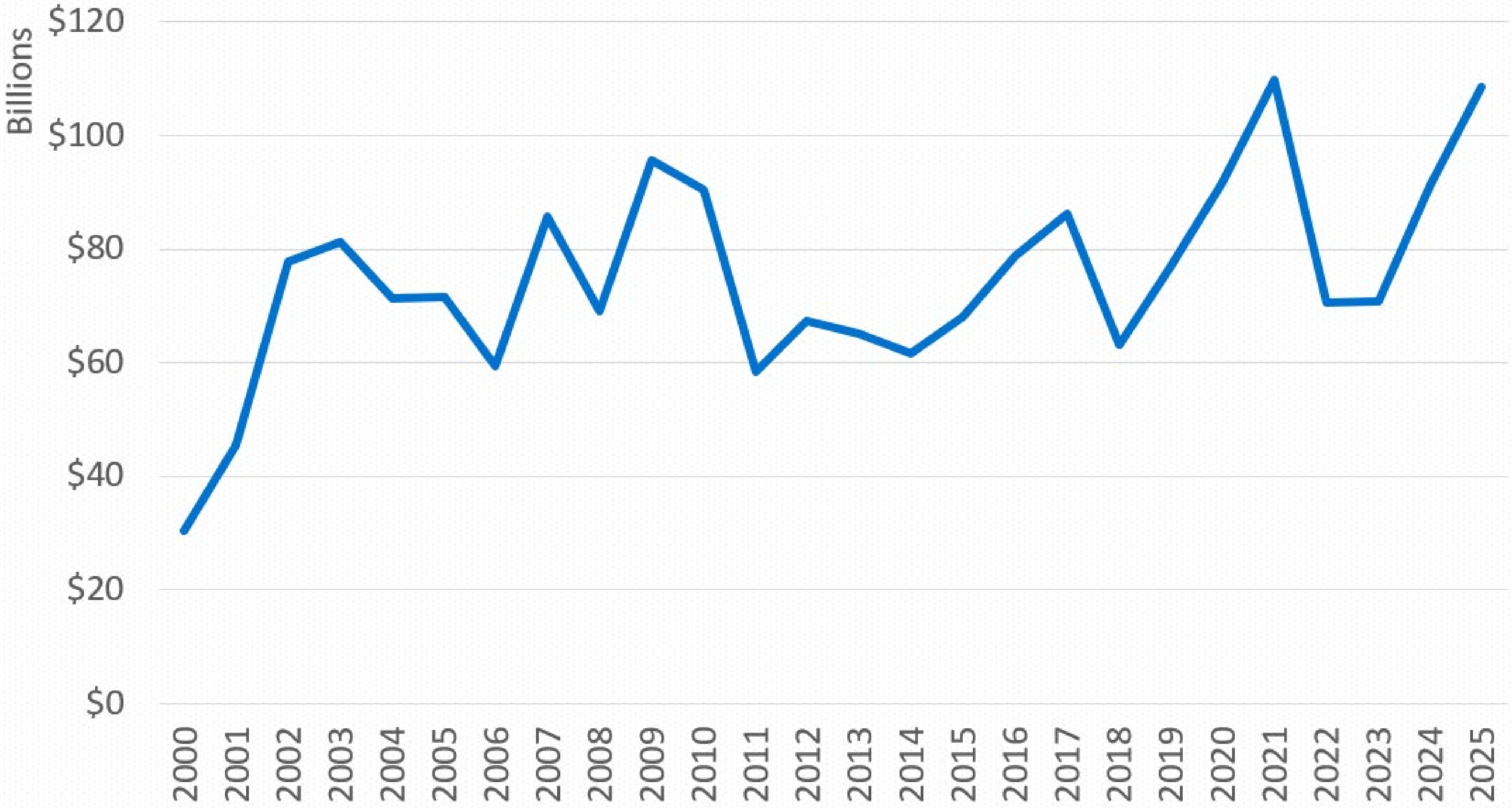
# HISTORICAL CALIFORNIA TRANSACTIONS



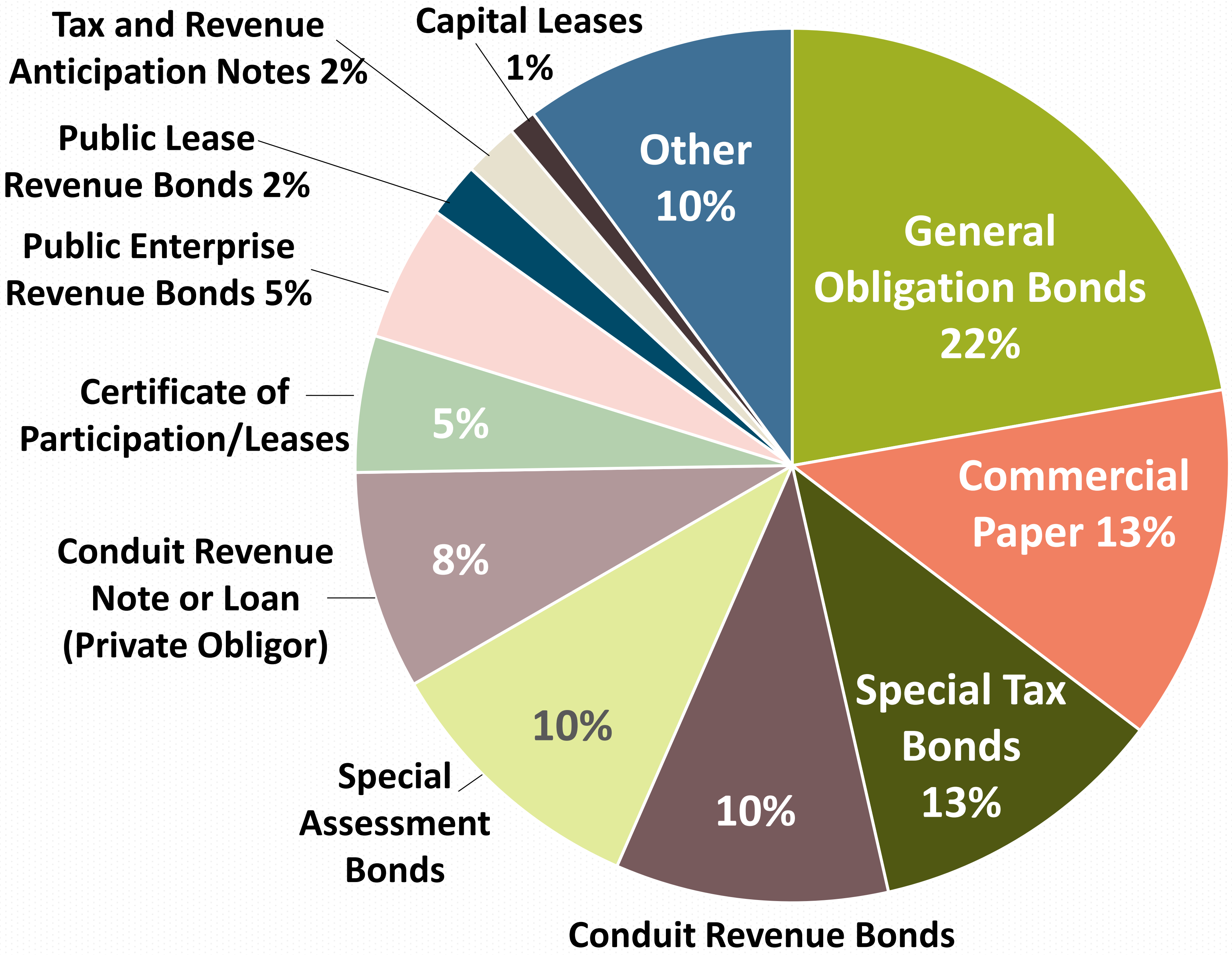
# TRANSACTION TYPES



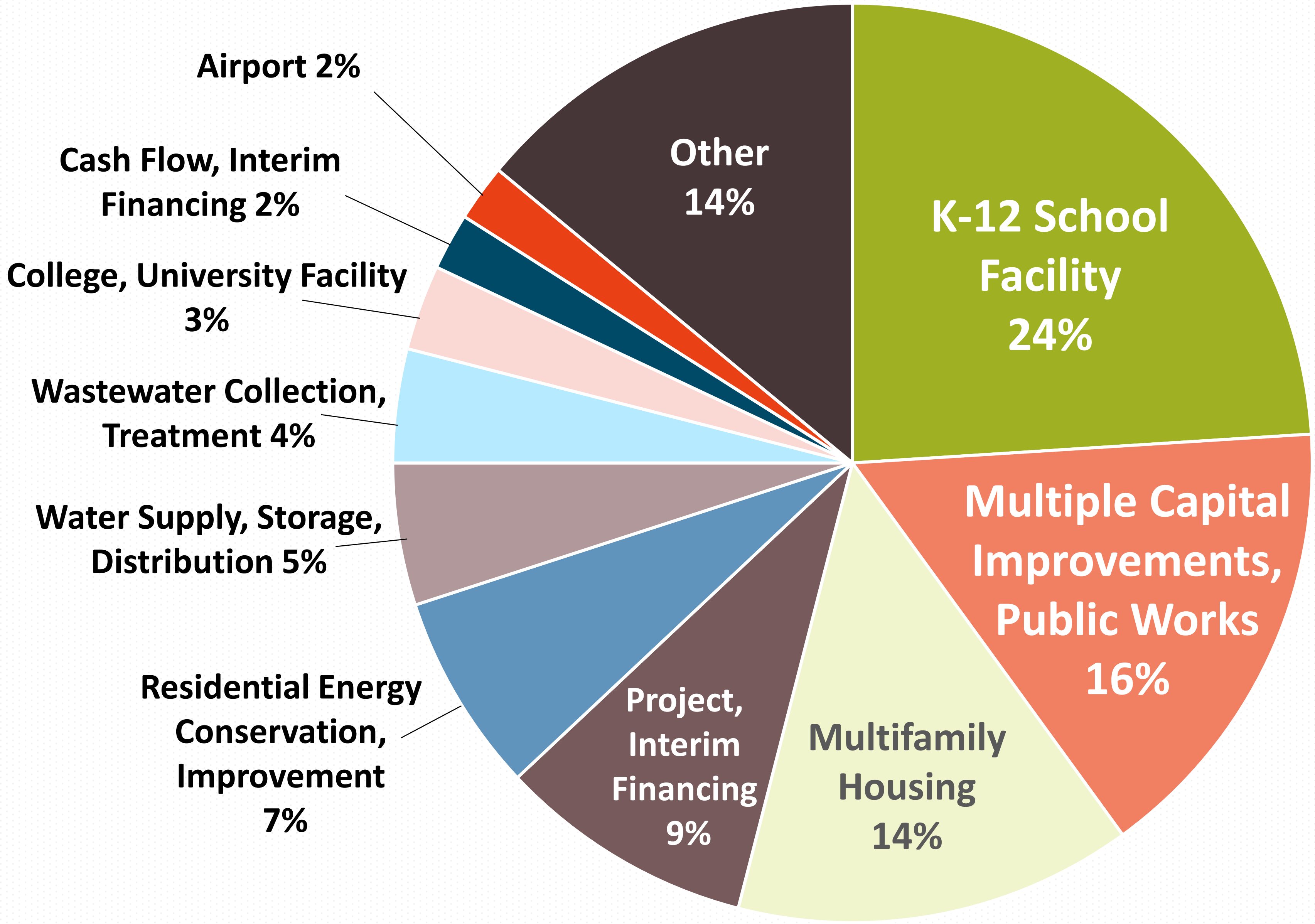
# ANNUAL VOLUME (PRINCIPAL)



# 2025 TRANSACTIONS

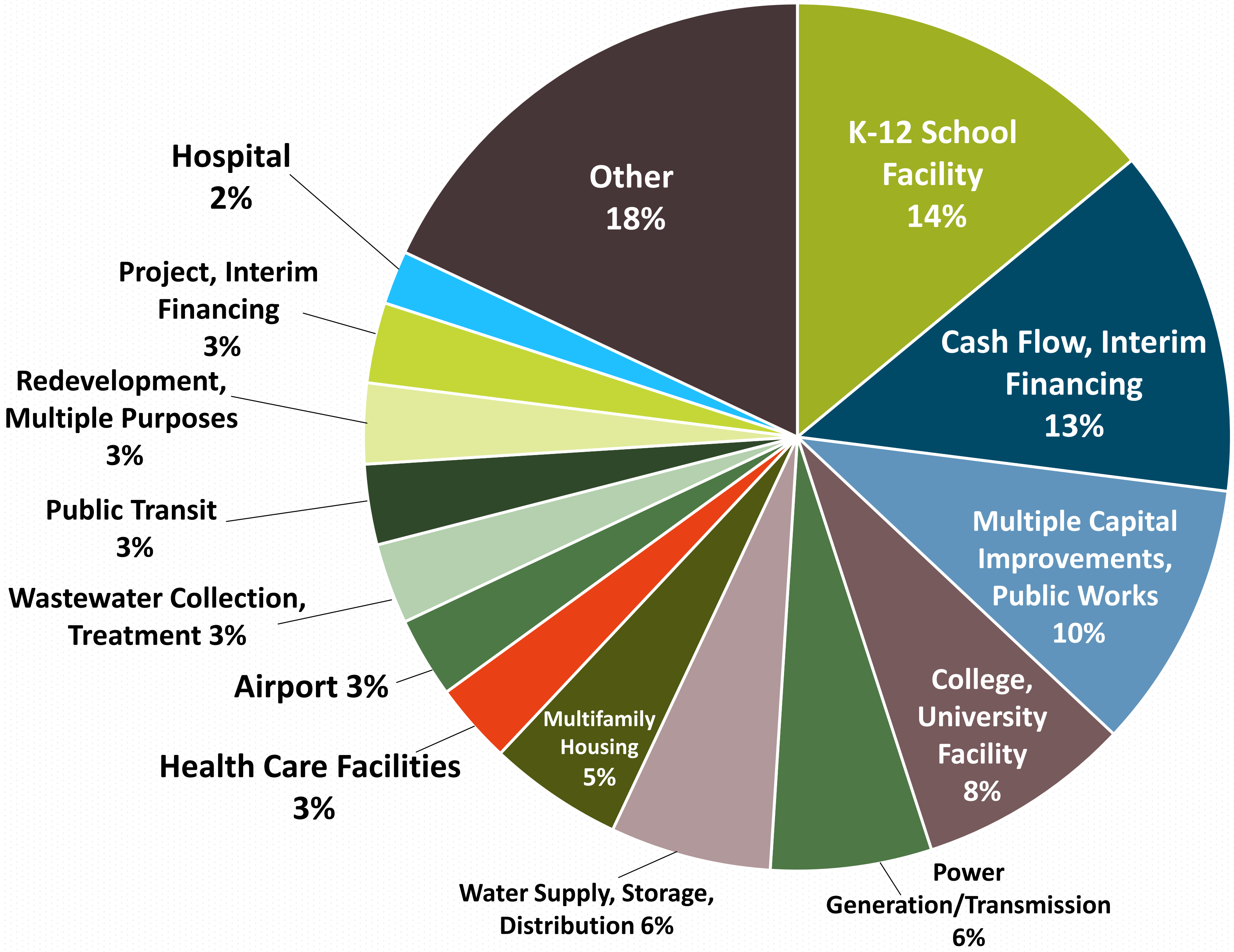


# 2025
## ISSUER TRANSACTIONS



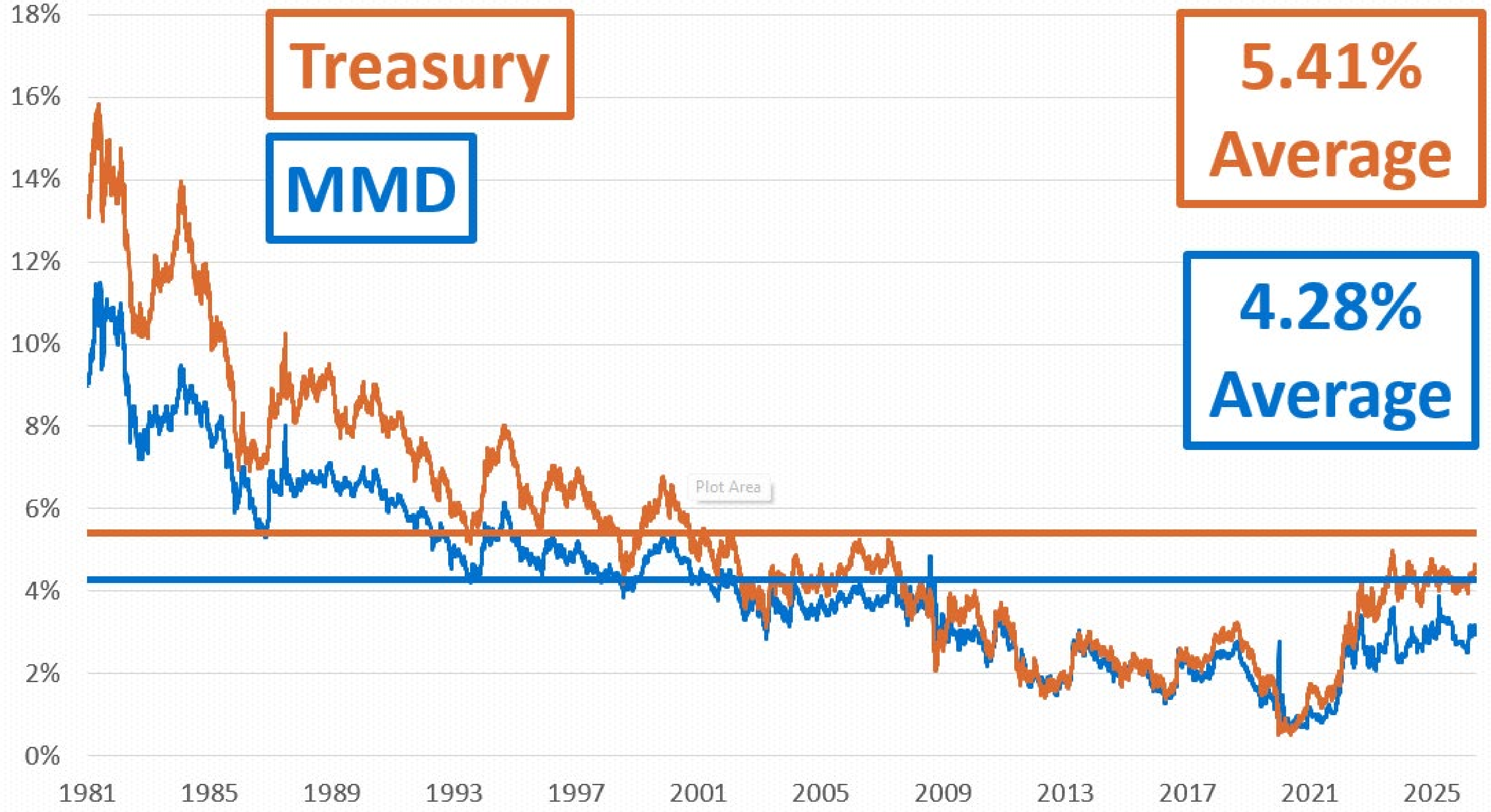
# 2025

## VOLUME (BY PAR)



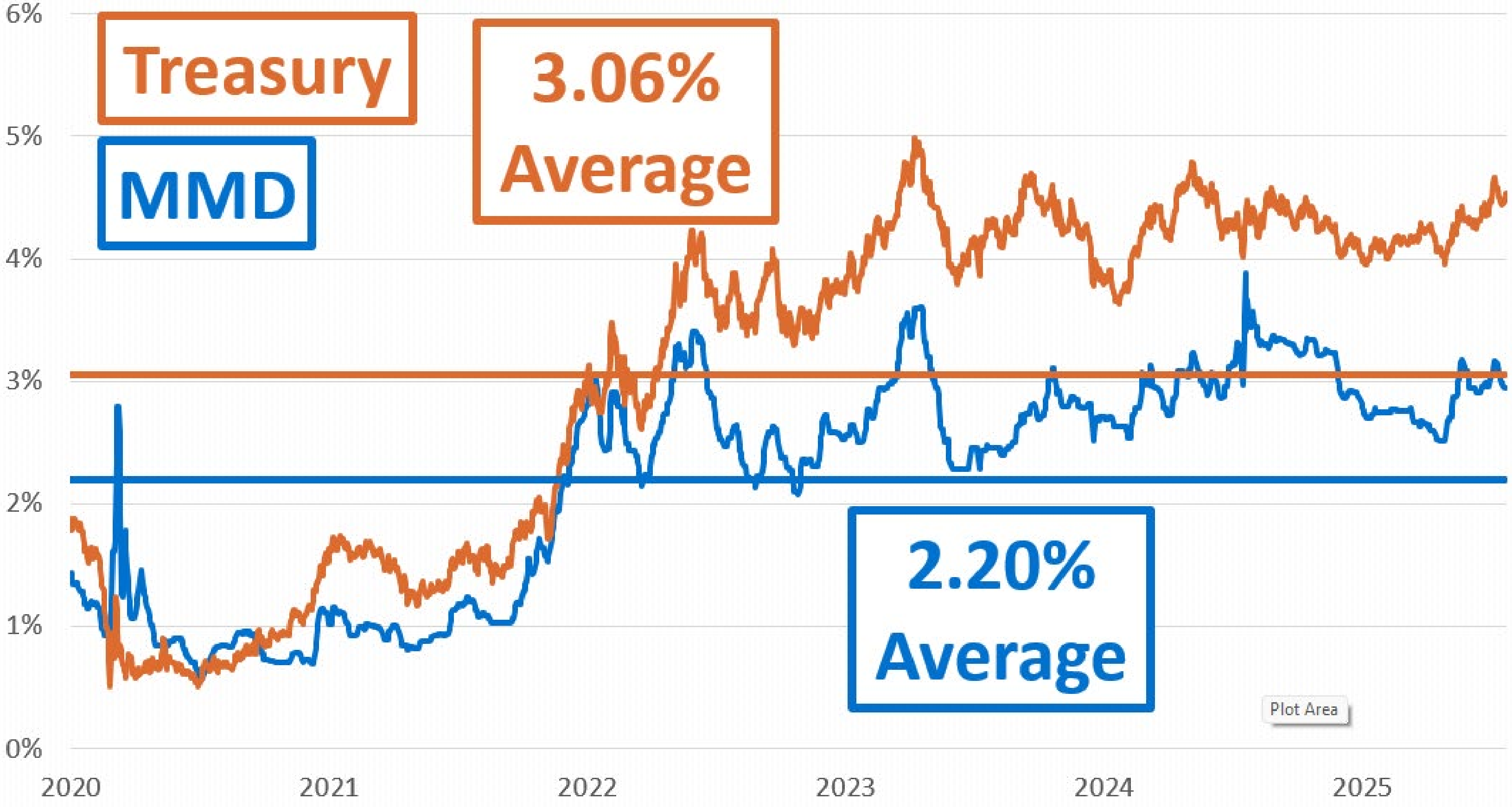
# MMD VS. TREASURY

## (10-YEAR)



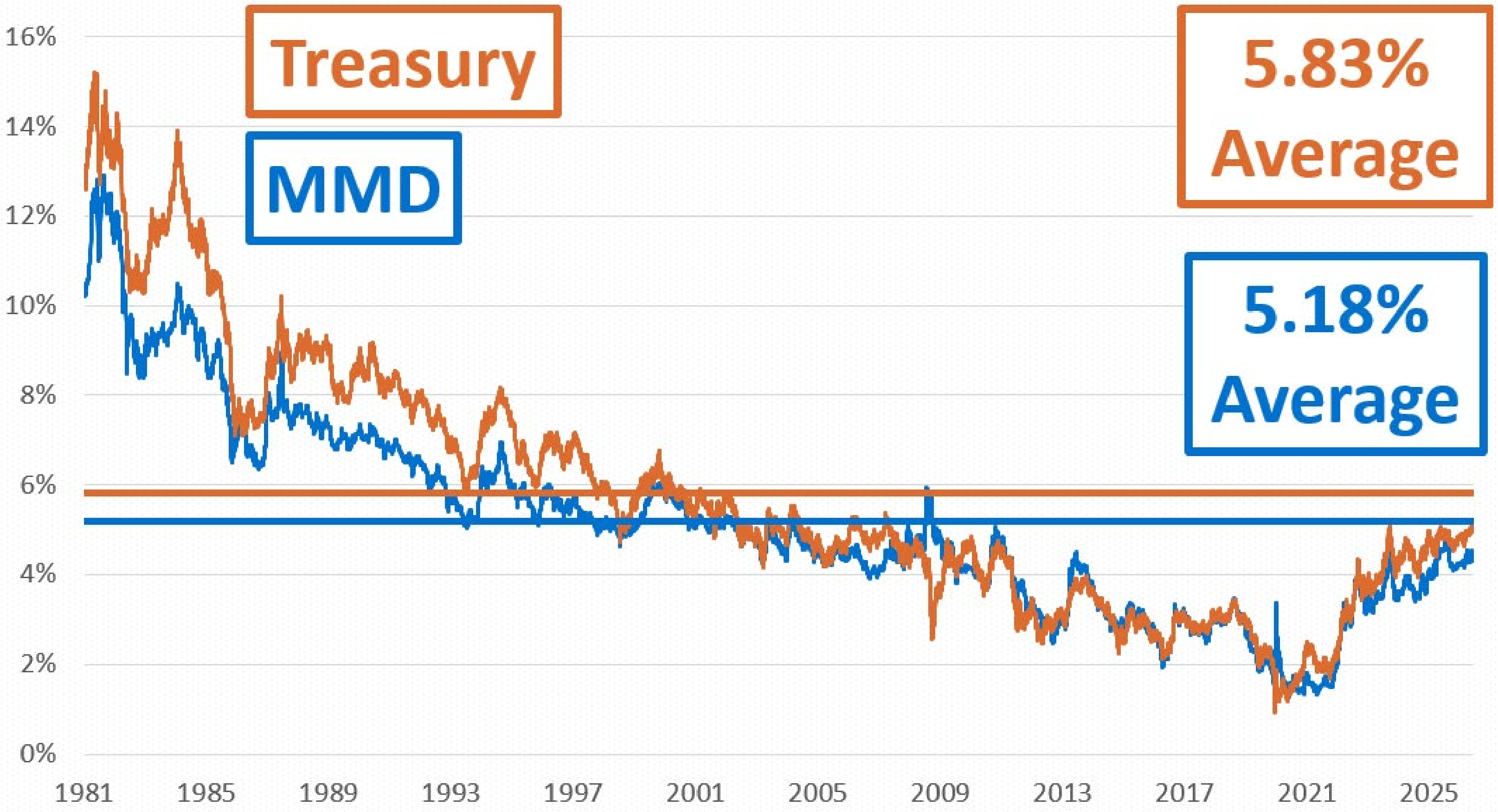
# MMD VS. TREASURY (CONTINUED 2/4)

## (10-YEAR) (2020-PRESENT)



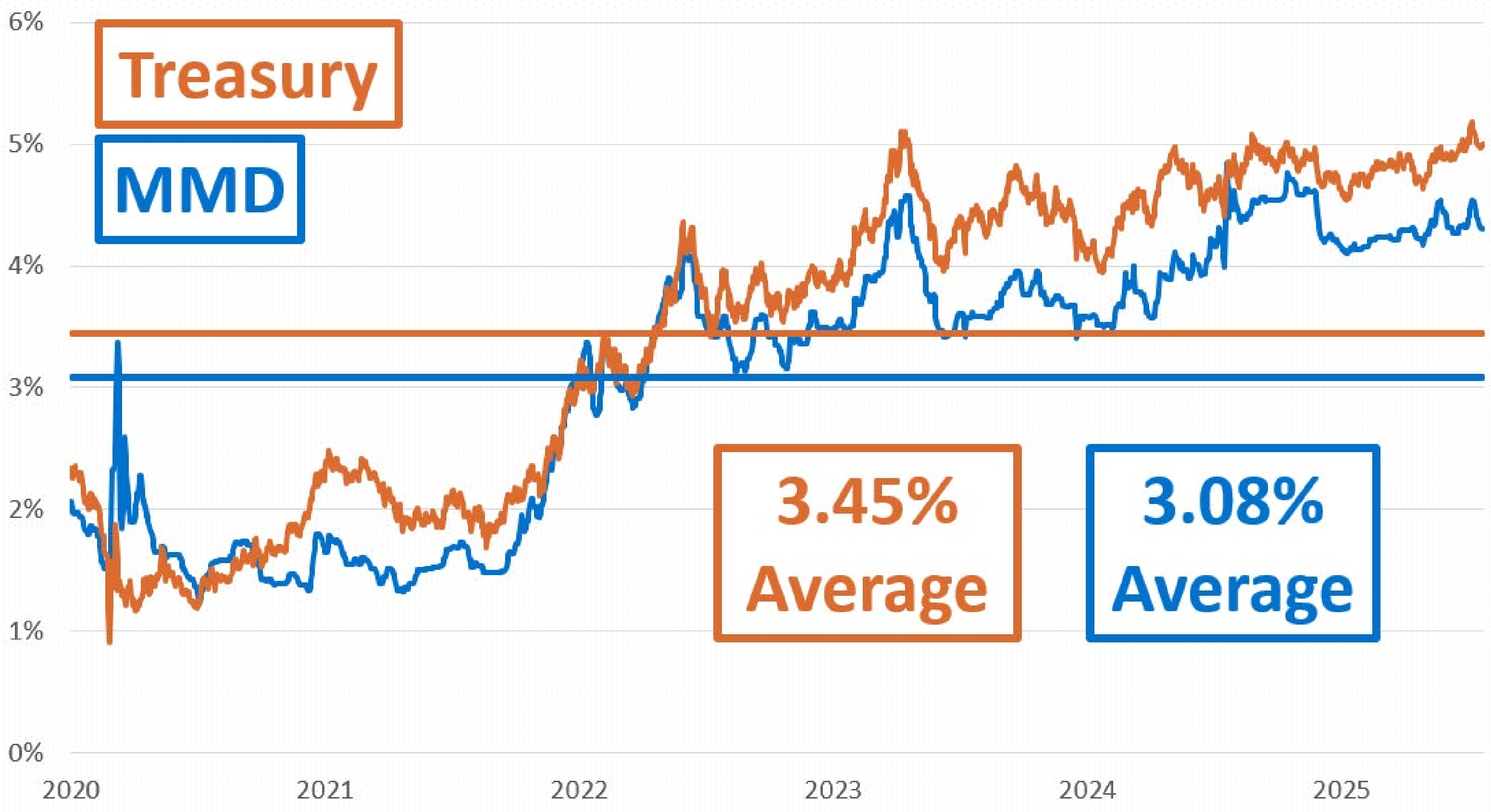
# MMD VS. TREASURY (CONTINUED 3/4)

## (30-YEAR)



# MMD VS. TREASURY (CONTINUED 4/4)

## (30-YEAR) (2020-PRESENT)



# QUESTIONS?

**CRAIG HILL**
*Managing Principal*
NHA Advisors

# SESSION TWO
## Overview of a Debt Issuance

**CRAIG HILL**
*Managing Principal*
NHA Advisors

**HARJOT SANGHA**
*Assistant City Administrator*
City of Gilroy

# Meet Gilroy

The "Garlic Capital of the World"

**Santa Clara County**

Southern Silicon Valley, California

**~60,000 residents**

A growing community

**Mostly residential**

tax base, with commercial growth

# A History of Building for the Community

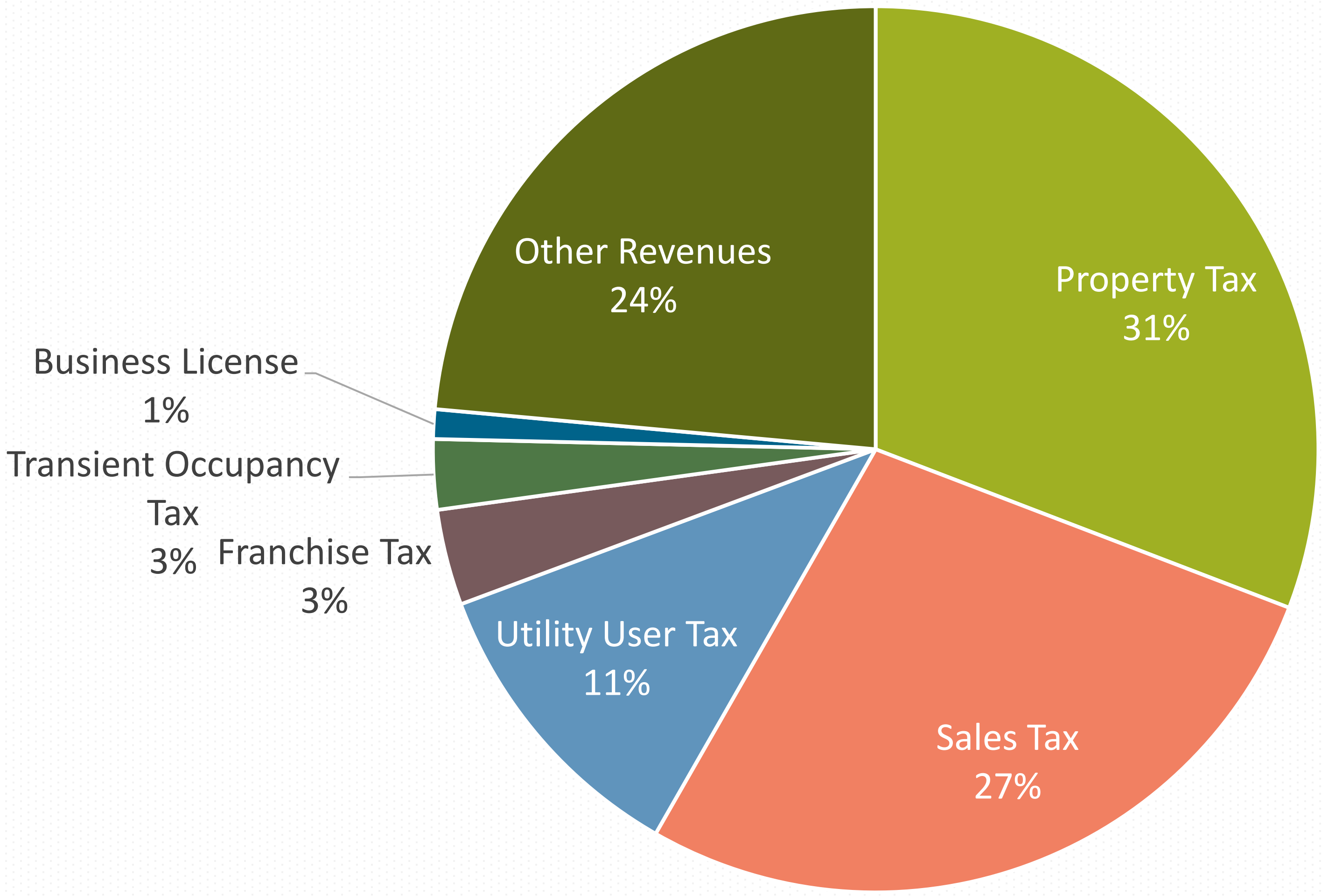
CIVIC FACILITIES

INFRASTRUCTURE

PARKS & RECREATION

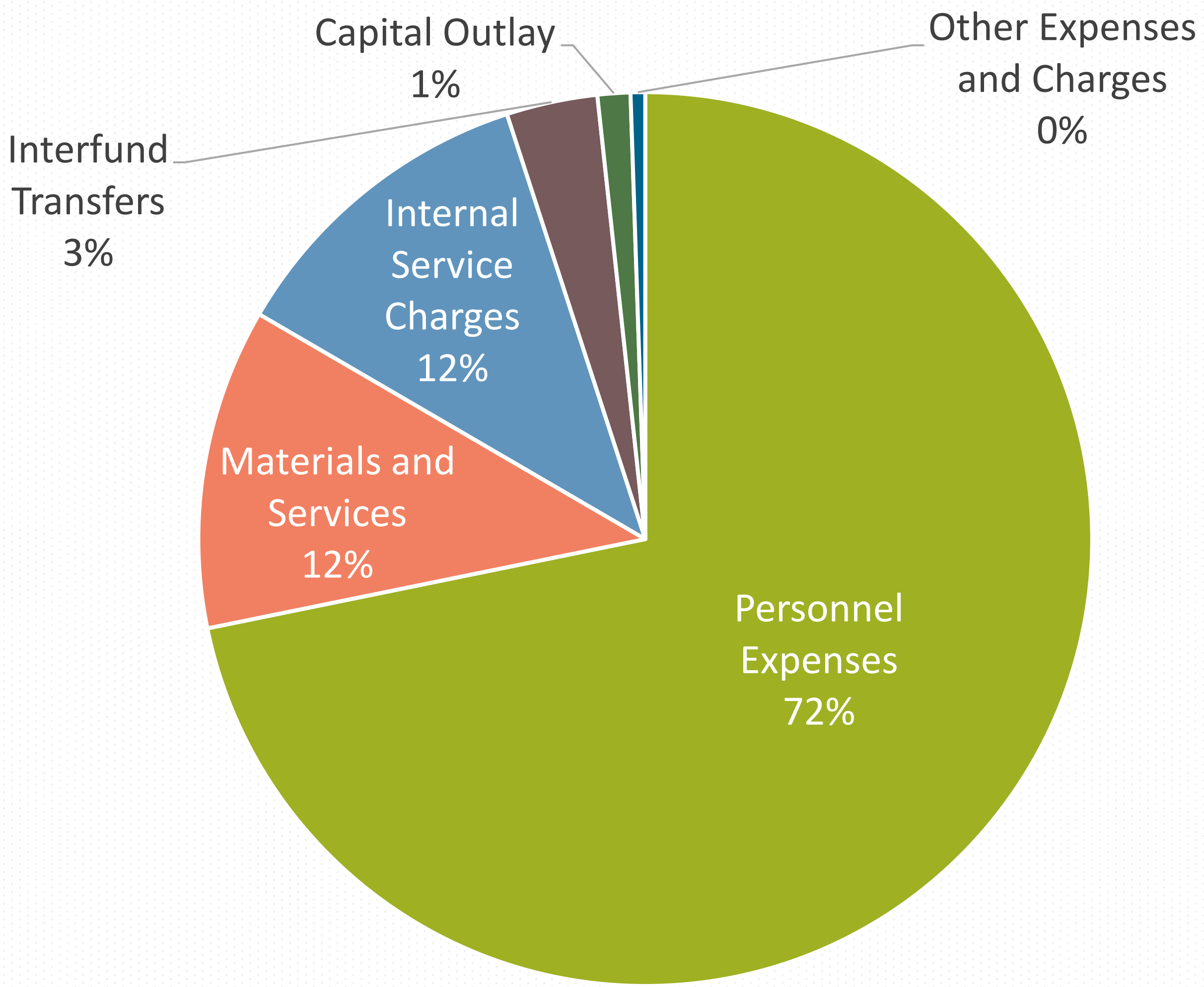
THE LIBRARY

# General Fund Sources - $74M




Key: Over 75% consists of Tax Revenues

# General Fund Uses - $76M




Key: Primarily allocated for service delivery – Public Safety (Police and Fire), very little for Capital Outlay -1%

# Generational Equity

*Useful Life of Asset Being Financed*

## Pay-Go / Cash Funded Scenario

| Year | 0 | 10 | 20 | 30 | 40 | 50 |
|---|---|---|---|---|---|---|
| Ratepayers Paying for Project | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Ratepayers Enjoying Benefit | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

## 10-Yr Financing Scenario

| Year | 0 | 10 | 20 | 30 | 40 | 50 |
|---|---|---|---|---|---|---|
| Ratepayers Paying for Project | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ |
| Ratepayers Enjoying Benefit | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

## 30-Yr Financing Scenario

| Year | 0 | 10 | 20 | 30 | 40 | 50 |
|---|---|---|---|---|---|---|
| Ratepayers Paying for Project | ✓ | ✓ | ✓ | ✓ | ✗ | ✗ |
| Ratepayers Enjoying Benefit | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

**Capital Improvement Program Summary**
**Budget by Project Category**
**FY24 - FY28**

| By Project Category | Proposed FY24 | Proposed FY25 | Forecast FY26 | Forecast FY27 | Forecast FY28 | 5-Year Total | Percent |
|---|---|---|---|---|---|---|---|
| Streets | $ 8,211,209 | $ 14,928,516 | $ 35,836,262 | $ 4,532,150 | $ 4,606,649 | $ 68,114,786 | 32% |
| Utilities | 27,870,195 | 23,174,640 | 13,966,858 | 8,775,431 | 13,584,914 | 87,372,038 | 42% |
| Public Facilities | 6,062,498 | 3,017,900 | 211,900 | 71,100 | - | 9,363,398 | 4% |
| Engineering | 18,126,539 | 17,144,011 | 750,706 | 3,193,777 | 119,354 | 39,334,387 | 19% |
| Parks and Trails | 1,201,379 | 4,340,971 | 350,000 | 350,000 | 350,000 | 6,592,350 | 3% |
| | | | | | | | |
| Utilities>Water | 7,156,527 | 17,092,802 | 7,683,280 | 4,677,221 | 6,277,467 | 42,887,297 | 49% |
| Utilities>Wastewater | 20,687,069 | 6,081,838 | 5,996,878 | 4,098,210 | 6,925,611 | 43,789,606 | 50% |
| Utilities>Storm Drain | 26,599 | - | 286,700 | - | 381,836 | 695,135 | 1% |
| | | | | | | | |
| **Total All Projects** | **$ 61,471,820** | **$ 62,606,038** | **$ 51,115,726** | **$ 16,922,458** | **$ 18,660,917** | **$ 210,776,959** | **100%** |

## Capital Improvement Program Summary
## Budget by Funding Source
## FY24 - FY28

| By Funding Source | Proposed FY24 | Proposed FY25 | Forecast FY26 | Forecast FY27 | Forecast FY28 | 5-Year Total | Percent |
|---|---|---|---|---|---|---|---|
| 100 - General Fund | $ 2,047,800 | $ 1,950,000 | $ 350,000 | $ 350,000 | $ 350,000 | $ 5,047,800 | 2% |
| 200 - Sidewalk Repair Reserve | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 2,500,000 | 1% |
| 205 - Gas Taxes | 1,034,120 | 1,191,573 | 903,493 | 872,200 | 890,810 | 4,892,196 | 2% |
| 210 - Road Funds | 1,482,596 | 1,527,074 | 1,565,251 | 1,604,382 | 1,644,492 | 7,823,795 | 4% |
| 212 - Measure B | 900,000 | 4,500,000 | 4,950,000 | 900,000 | 900,000 | 12,150,000 | 6% |
| 215 - Transportation/ Mobility Grai | 402,600 | 1,399,153 | - | - | - | 1,801,753 | 1% |
| 220 - Vehicle Registration Fee | 230,000 | 240,500 | 491,525 | 555,568 | 571,347 | 2,088,940 | 1% |
| 245 - CDBG | 261,950 | 99,500 | 311,900 | 100,000 | 100,000 | 873,350 | 0.4% |
| 400 - Capital Projects | 1,284,805 | 2,673,571 | - | - | - | 3,958,376 | 1.9% |
| 410 - Storm Drain Development In | 231,827 | 230,811 | 631,506 | 605,477 | 501,190 | 2,200,811 | 1% |
| 415 - Utility Undergrounding | - | - | 405,900 | 2,588,300 | - | 2,994,200 | 1% |
| 425 - Traffic Impact | 2,913,050 | 8,660,209 | 27,325,993 | - | - | 38,899,252 | 18% |
| 430 - Sewer Development Impact | 1,100,226 | 1,411,972 | 1,341,170 | 1,941,401 | 4,086,062 | 9,880,831 | 5% |
| 435 - Water Development Impact | 3,550,800 | - | - | 2,885,454 | 3,029,726 | 9,465,980 | 4% |
| 440 - Public Facilities Impact | 13,888,793 | 13,441,107 | - | - | - | 27,329,900 | 13% |
| 487 - Downtown Beautification | 3,582,765 | - | - | - | - | 3,582,765 | 2% |
| 615 - Facilities | 682,200 | 517,900 | - | 71,100 | - | 1,271,200 | 0.60% |
| 625 - Equipment Outlay | 4,185,718 | 2,500,000 | - | - | - | 6,685,718 | 3% |
| 700 - Sewer | 19,586,843 | 4,669,866 | 4,655,708 | 2,156,809 | 2,839,549 | 33,908,775 | 16% |
| 705 - Water | 3,605,727 | 17,092,802 | 7,683,280 | 1,791,767 | 3,247,741 | 33,421,317 | 16% |
| **Total All Projects** | **$ 61,471,820** | **$ 62,606,038** | **$ 51,115,726** | **$ 16,922,458** | **$ 18,660,917** | **$ 210,776,959** | **100%** |

# CASE STUDY: MAIN LIBRARY

# Why the Old Gilroy Library Had to Go

*An engineering study found the building impractical to fix.*
*Renovation would have cost more than building new*

### Severe Overcrowding

**4×**

Population quadrupled while the Library's collection increased beyond capacity

### Structural & Seismic Risk

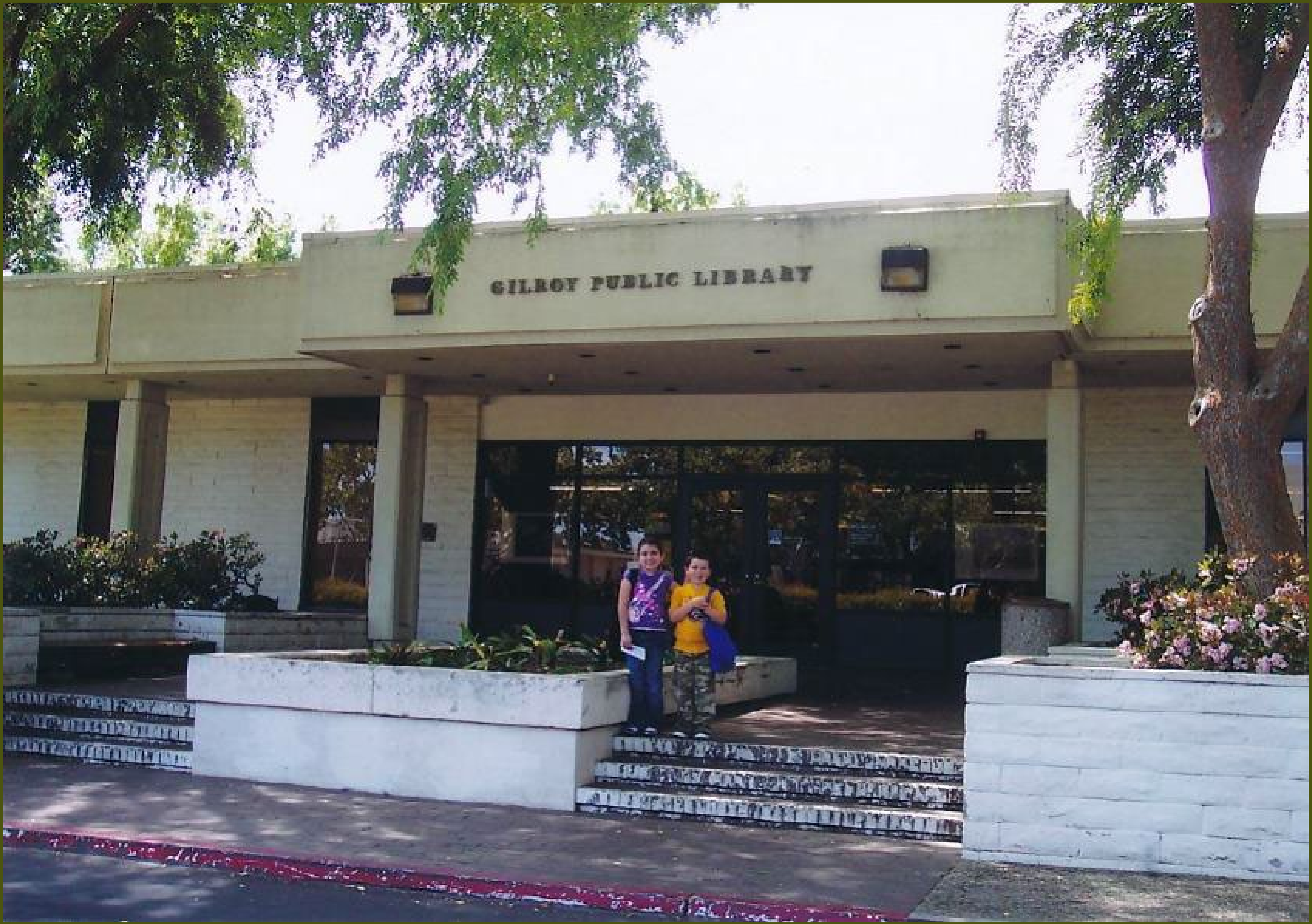
**1975**

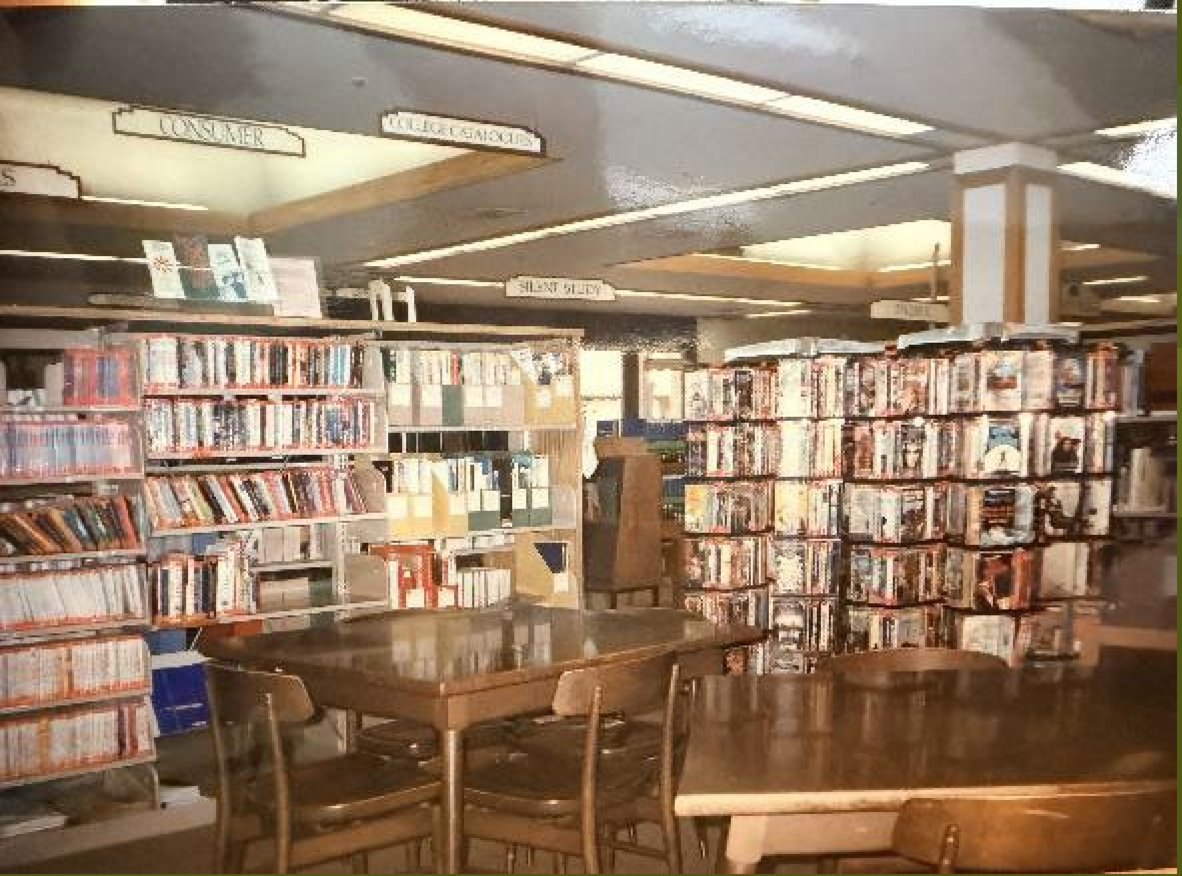
Mid-1970s concrete failed modern California seismic codes and retrofit was cost-prohibitive

### Outdated Infrastructure

**Pre-Digital**

Antiquated electrical, technology, and plumbing systems did not support modern library services or flexible community spaces


GILROY PUBLIC LIBRARY


CONSUMER
SILENT STUDY


SILENT STUDY

# HOW DO WE PAY FOR IT?

# The Options

Pay-Go

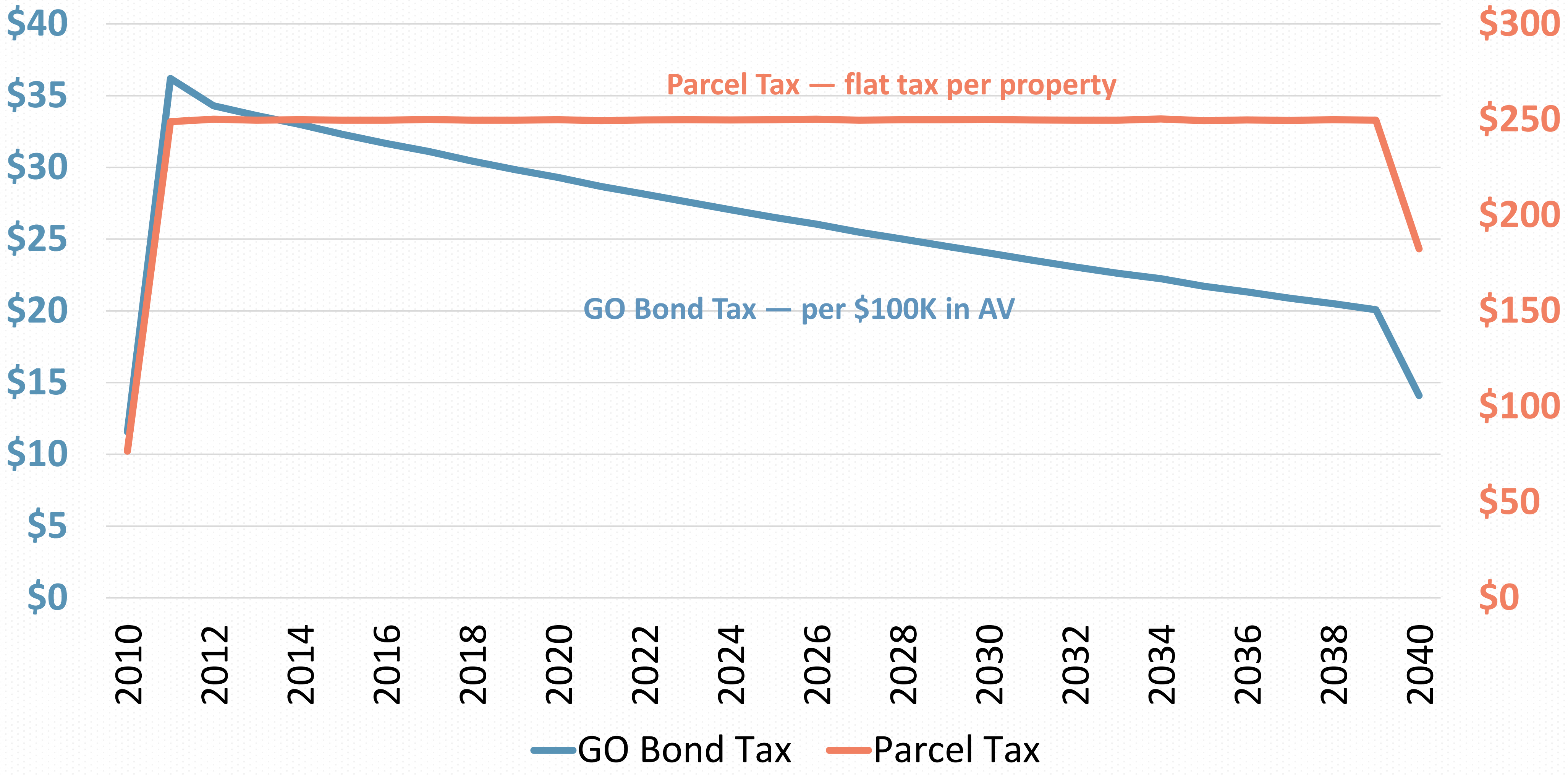
Lease Revenue Bond

Parcel Tax

GO Bond

State Grants

# Parcel Tax vs. GO Bond Tax Rate Projections



# Gilroy Voted Yes

# 69%

approved the library bond

*Clearing the two-thirds threshold required to pass.*

# Project Timeline

- **2001** — Project Concept Initiated
- **2008** — GO Bonds Election
- **2009** — Project Design
- **2009** — First Series of GO Bonds
- **2010** — Second Series of GO Bonds/Start of Construction
- **2012** — Library Complete

# Years of planning finally pay off

## After state funds fall through, community bands together to fund the $37 million facility

BY CARLY GELSINGER
*Staff Writer*

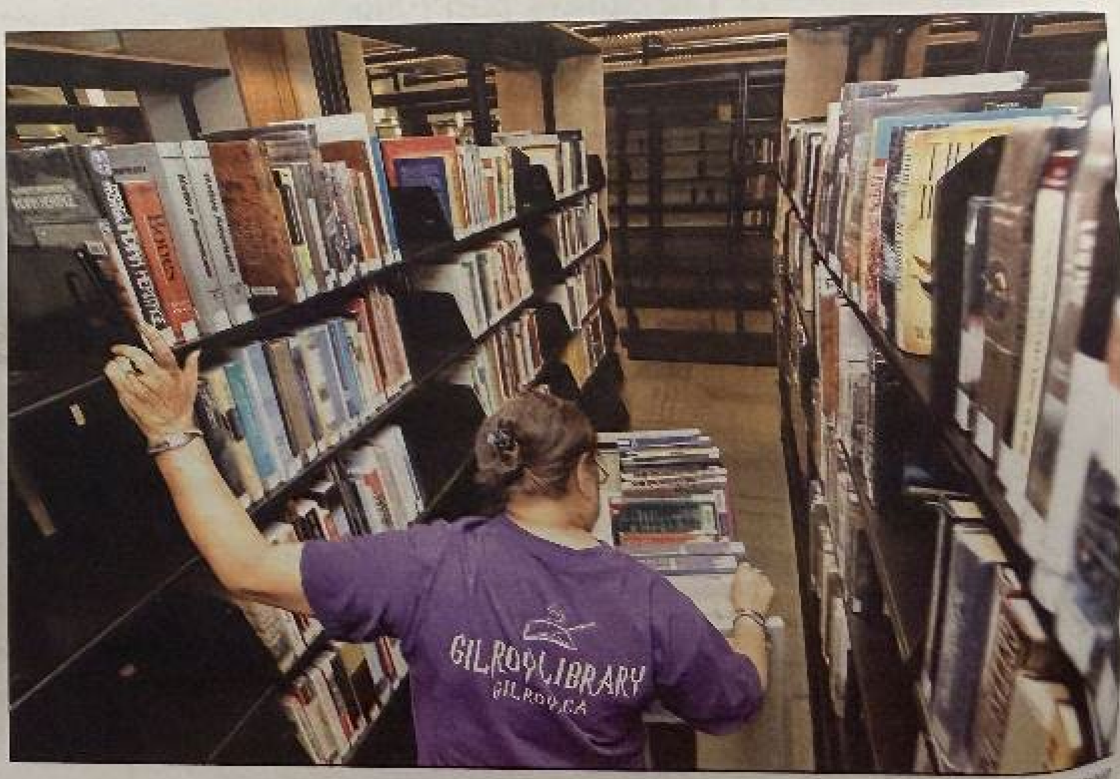
After more than 15 years of planning, the day that seemed as if it never would arrive is finally here: Gilroy's state-of-the-art new library will open its doors to the public on Saturday.

"The day we've worked for all these years is finally here," said Head Librarian Lani Yoshimura.

Excitement continues to mount in the new building. An elevator got last-minute checkups by a maintenance crew, while a computer technician fussed with the wires behind a copy machine. Library staff bantered with each other as they frantically shelved huge boxes of books. Yoshimura has been working 14-hour days to make sure everything comes together perfectly in time for the grand opening.

What is now a two-story, $37 million, 53,000-square-foot public library that Yoshimura said could draw upward of 2,000 patrons per day, began in 1997 as a grassroots movement from community members who were committed to building a new library.

Built in 1975, the former 12,500-square-




LORA SCHRAFT - STAFF PHOTOGRAPHER

*Senior Library Clerk Socorro Alfaro, who has been working at the library for 35 years, stocks shelves in the adult non-fiction section on the second floor in preparation for the opening.*

### Grand opening schedule

10 a.m.

# ISSUING THE BONDS

# Overview of Bond Sale Process

**Plan & Authorize**

Financing Plan,
Confirm Authority

**Assemble Team**

Advisor, Legal Counsel,
(*Underwriter*)

**Structure Bonds**

Set Bond Terms

**Documentation & Credit Rating**

Disclosure & Credit Rating

**Sell & Close**

Sell Bonds,
Deposit Proceeds

# The Financing Team

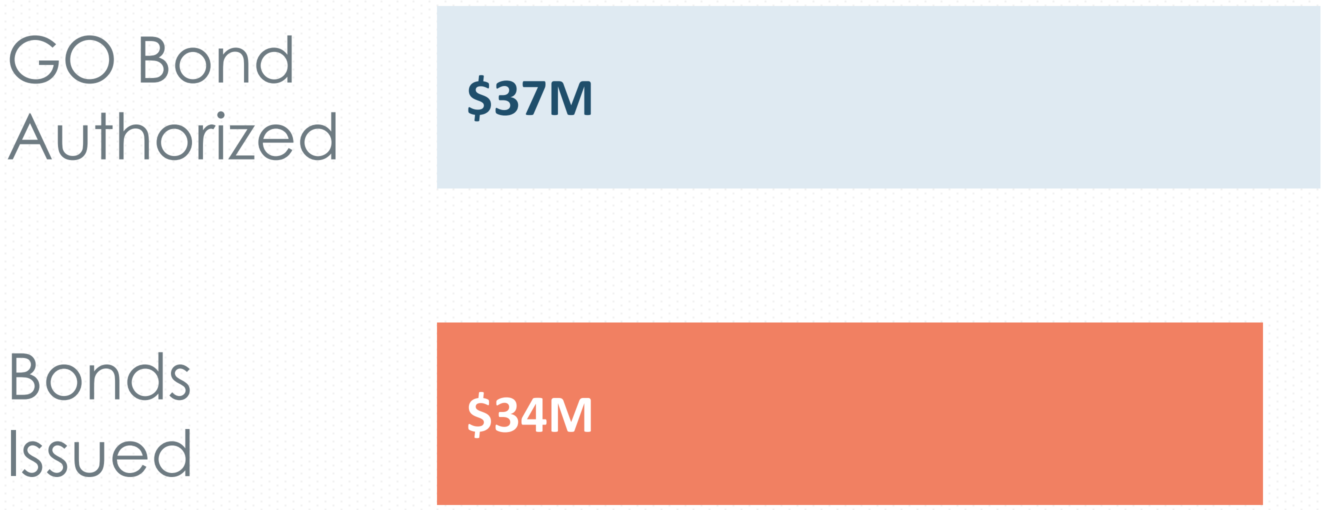
**Issuer**

City of Gilroy

**Municipal Advisor**

**Bond & Disclosure Counsel**

# We Borrowed Only What Was Needed




*The City has remaining GO Bond authorization*

# Measure F GO Bond Program Budget

| | 2009 Bonds | 2010 Bonds | Total |
|---|---|---|---|
| **Bond Amount** | **$ 10,500,000** | **$ 23,500,000** | **$ 34,000,000** |
| **Project Fund** | $ 10,500,000 | $ 23,500,000 | $ 34,000,000 |
| **Financing Costs** | $ 220,000 | $ 460,000 | $ 680,000 |

# Strategy Behind Multiple Series

Upsides

- "Dollar cost averaging the TIC"
- Ease in property tax increases as construction happens
- Federal tax law considerations

- Higher cost of issuance
- Greater interest rate risk

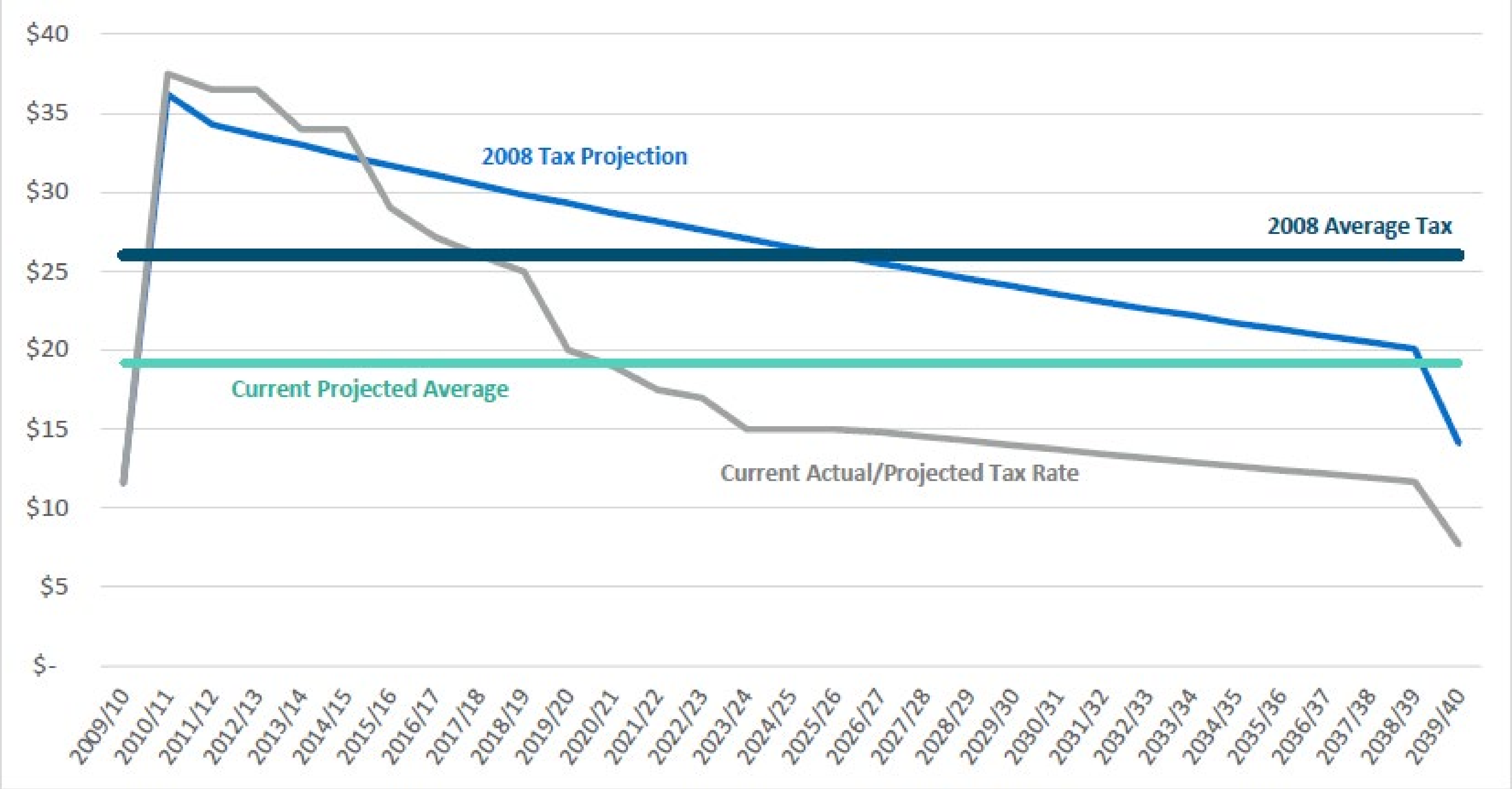
Downsides


GILROY
LIBRARY
A Santa Clara County Library
350
West 6th Street

# Ongoing City Responsibilities (Post Bond Closing)

- Expenditure of Bond Proceeds
- Annual Tax Rate Approval
  - Ad Valorem Property Tax used *only* for Bond Debt Service
- Annual Continuing Disclosure Filing
- 2019 Refinancing of Both Series

# Original to Current Projected Tax Rate (PER $100,000 A.V.)



# CASE STUDY: SEWER TREATMENT PLANT EXPANSION

# Sewer Treatment Plant Expansion

- $82M Project to increase treatment capacity from 8.5 mgd to 11.0 mgd
- City of Gilroy's share: 58% = $48M

# Project Funding Strategy

- Pledge of net Sewer Rate Revenue
- Sewer Revenue Bonds
  - Sources - $52.8M Bond Proceeds
  - Uses - $50.0M Project Fund, $2.4M Bond Payment, $0.4K Issuance Cost
- Why Bond Financing:
  - Intergenerational Equity
  - Affordability and Gradual Rate Increases
  - Cash Preservation
- Takeaway: Financing Provided Lease Impact on City & Ratepayers

# LESSONS LEARNED

# Lessons Learned

Never too early to start planning!

Evaluate All Funding Options

Manage City Council & Community Expectations – Dreams vs. Reality

Establish Policies Early

Maintain Alignment Between Financial Feasibility & Project Design/Cost

# QUESTIONS?

**CRAIG HILL**
*Managing Principal*
NHA Advisors

**HARJOT SANGHA**
*Assistant City Administrator*
City of Gilroy

# SESSION THREE
## Bond Math

**LORA NICHOLS**
*Vice President*
Fieldman, Rolapp & Associates, Inc.

# Why are We Here

A bond is just a promise to pay—with enough math around it to keep things interesting.

Today, we're going to make that math a little less mysterious.

This presentation makes no recommendations and should not be construed to contain a recommendation to pursue any course of action.

# What are Bonds?


- Municipal bonds are a type of security sold through the municipal capital markets to various investors (not just one financial institution i.e. commercial bank)
  - ✓ Issue is divided into different maturities and interest rates (i.e. 1-30 year maturities) to appeal to various investor types
- Municipal governments that issue bonds receive a cash payment at the time of issuance in exchange for a promise to repay investors principal plus interest over time

# What is a Bond Price?

- Bond price is the price investors are willing to pay (changes based on daily market dynamics)
- Expressed as a percentage (%) of the face value of the bond

**$10,000**
**10 Year**
**Bond**
**5%**

97%
100%
102%

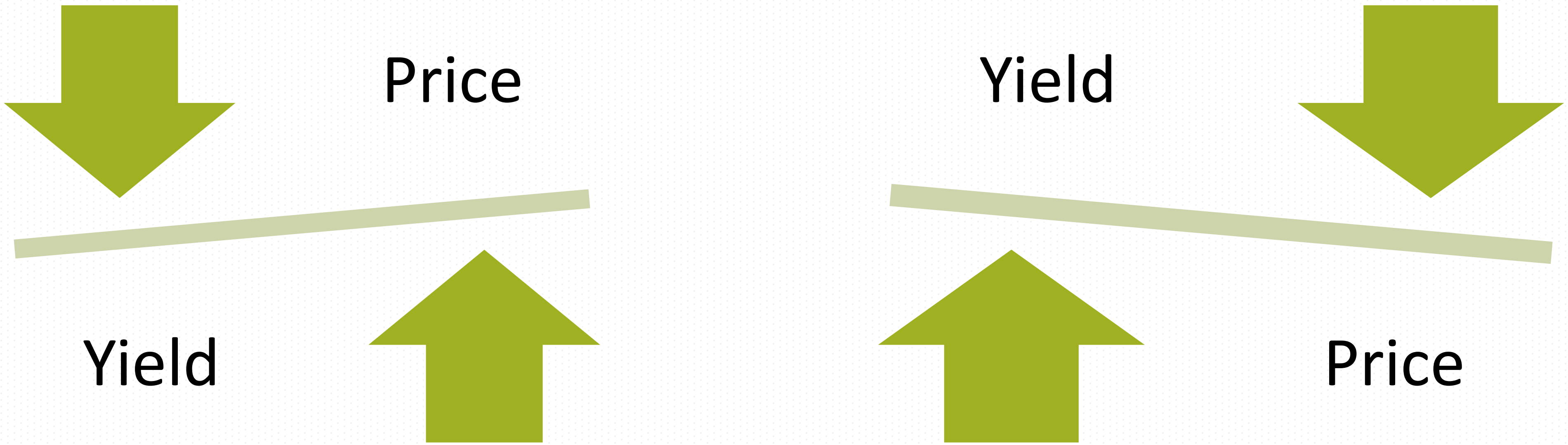
Price = $9,700
Price = $10,000
Price = $10,200

# What is a Bond Yield?

- Yield corresponds to the annual return of the bond/investment, reflected as an annual percentage
- Bond yield is based on coupon payments the investor receives over time and the price paid to buy the bond
- Example: 4% yield is the bond is expected to return an average of 4% each year

# Relationship Between Bond Price and Yield

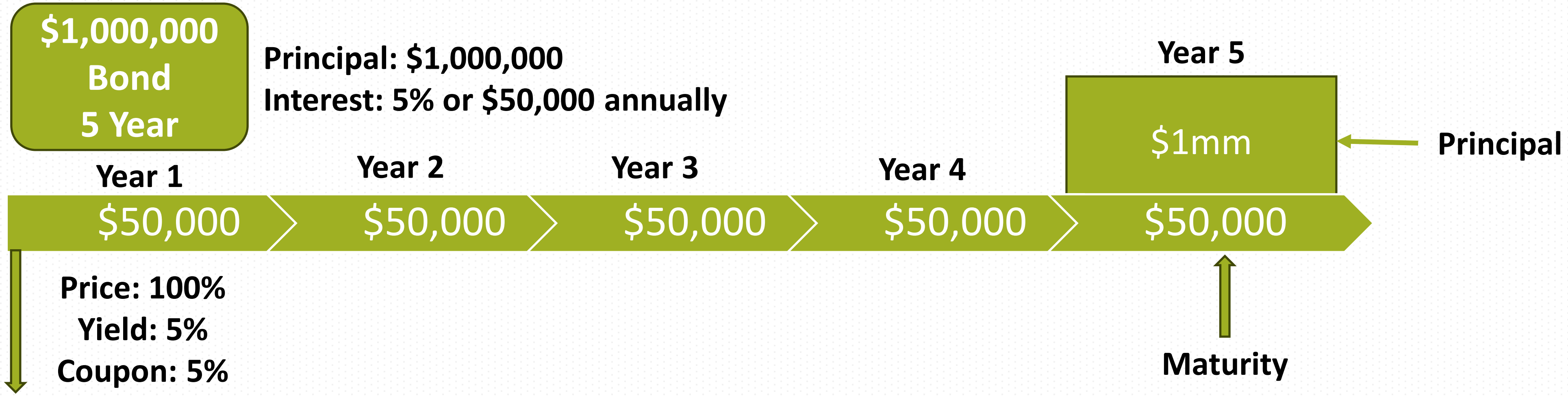
- Inverse Relationship
  - When one goes up, the other goes down




- Changes to Bond Prices and Yields can occur due to:
  - Micro and Macro economic factors
  - Current market and inflation changes
  - Credit Rating of Issuers (ability to repay the bonds)

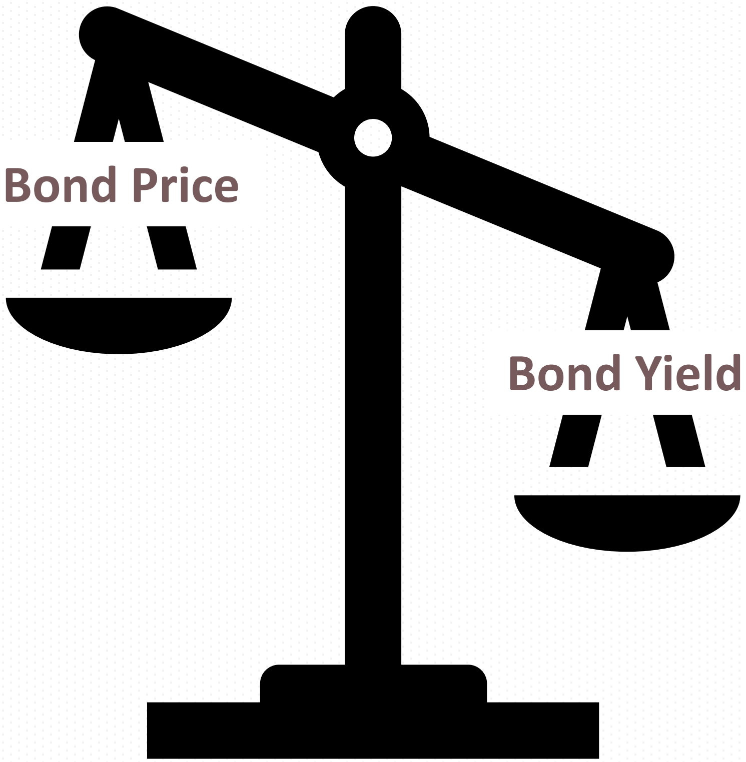
# Key Terminology

- **Bond** = Security offered to the market with a promise to repay
- **Buyer** = "*Investor*" or "*Lender*" or "*Purchaser*"
- **Seller** = "*Issuer*" or "*Borrower*"
- **Term** = Total length of the loan (investors can buy individual maturities of the loan)
- **Maturity** = the date the Issuer pays back the full loan value (Final Maturity Date is the date the loan is fully paid off)
- **Principal** = or "*Par Amount*" or "*Face Value*" represents the value of the bond you will receive at maturity
- **Coupon** = the interest rate paid to the investor periodically
- **Price** = Amount lender is willing to lend for a return of future principal and interest payments
- **Yield** = Single rate that sets the present value of the principal and interest payments equal to the price



# Coupons, Yields & Price

- **Coupon** is the interest rate assigned to the bond, typically paid semi-annually
- **Yield** is the return on the bond, if held to final maturity
- Relationship between the coupon and yield determines the price on the bond
- **Coupon** > **Yield** = Premium Bond (Price >100%)
- **Coupon** < **Yield** = Discount Bond (Price < 100%)
- **Coupon** = **Yield** = Par Bond (Price = 100%)
- Prices & Yields move in opposite directions



# Premium vs. Discount Bonds

- Premium Bonds (Original Issue Premium "OIP")

**$10,000 5YR Bond**

| Premium | |
| --- | --- |
| Coupon | 5% |
| Yield | 4% |
| Price | 108.176% |

Δ $1,689

- **Price of 108.176% = $10,811**
- **Receive annual interest = $500 ($2,500 5YR)**
- **Total Payment over 5YR = $12,500**

- Discount Bonds (Original Issue Discount "OID")

**$10,000 5YR Bond**

| Discount | |
| --- | --- |
| Coupon | 5.0% |
| Yield | 5.5% |
| Price | 96.193% |

Δ $2,881

- **Price of 96.193% = $9,619**
- **Receive annual interest = $500 ($2,500 5YR)**
- **Total Payment over 5YR = $12,500**

# Bond Cash Flows

- Example: Purchase $10,000 at 4% that matures in 5 years

- When the investor buys a bond, they are buying the cash flow
  - Receive interest (coupon payments) semi-annually over years 1 - 5
  - Receive the face value of the loan at maturity

| Year | Face Value | Interest | Cash Flow |
|---|---|---|---|
| Year 1 | $0 | $400 | $400 |
| Year 2 | $0 | $400 | $400 |
| Year 3 | $0 | $400 | $400 |
| Year 4 | $0 | $400 | $400 |
| Year 5 | $10,000 | $400 | $10,400 |
| Total | $10,000 | $2,000 | $12,000 |

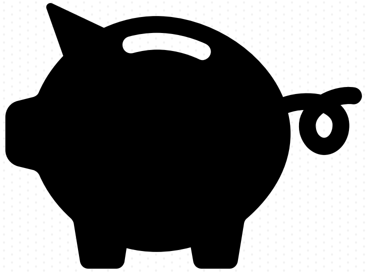


Chart is for illustrative purposes only

# Time Value of Money

- Something received today is worth more than something received in two years
  - Spending 100 hours learning a skill today versus waiting 15 years to learn the same skill
  - Working out 5 hours a week as a young adult versus waiting 10 years to work out 5 hours a week

- Important to consider the value of time in dollars
- An Investor is buying a bond today with understanding the return will be over different times in the future
  - Price of bond purchased today takes into account this time value of money



# What is Present Value (PV)?

- Measurement of the time value of money by calculating the value today of a future cash flow
- PV can compare cash flows received and/or paid over different periods
- PV is used to:
    - Estimate cost of future capital needs (how much is needed today)
    - Calculate the price of bond
    - Calculating the cost of an escrow for a refunding
    - Calculate different bond statistics (arbitrage yield, true interest cost)

| Period | Value | PV at 4% |
|---|---:|---:|
| Year 1 | $2,000,000 | $1,923,077 |
| Year 2 | $5,000,000 | $4,622,781 |
| Year 3 | $3,000,000 | $2,666,989 |
| **TOTAL** | **$10,000,000** | **$9,212,847** |

Chart is for illustrative purposes only

# How to Calculate Bond Price

- Bond Price represents the PV of the cash flow
- Example: Investor wants to buy a $10,000 Bond with 4% Coupon
  - If current market yield is 4%, the value of the bond is $10,000
  - If current market yield is 5%, the value of the bond is lower than market, and bonds would sell at a discount, less than $10,000
  - If current market yield is 3%, the value of the bond is greater than market, and bonds would sell at a premium, greater than $10,000

| | Option 1 (OID) | Option 2 (Par) | Option 2 (OIP) |
|---|---|---|---|
| Coupon | 4.0% | 4.0% | 4.0% |
| Yield | 5.0% | 4.0% | 3.0% |
| Price | 97.246% | 100.000% | 102.849% |
| Price ($) | $9,724 | $10,000 | $10,282 |

| | Bond Cash Flow | PV of Option 1 (OID) | PV of Option 2 (Par) | PV of Option 3 (OIP) |
|---|---|---|---|---|
| Year 1 | $400 | $380 | $385 | $388 |
| Year 2 | $400 | $362 | $370 | $377 |
| Year 3 | $10,400 | $8,982 | $9,245 | $9,516 |
| Total | $11,200 | $9,724 | $10,000 | $10,282 |



Chart is for illustrative purposes only

# Bond Yields

- Yield is the **interest rate** that reflects the present value of future debt service payments (**cash flow**) equal to **price**
- PV is used to calculate certain yields
  - Arbitrage Yield
  - True Interest Cost (TIC)
- Present Value (PV) = $\dfrac{1}{(1+\text{rate})^{\text{number of periods}}}$
- TIC is used to determine the winner of a competitive bond sale

| Date | Debt Service | Present Value to 09/09/2026 @ 3.5916771637% |
|---|---|---|
| 02/01/2027 | 705,168.06 | 695,335.66 |
| 08/01/2027 | 1,958,875.00 | 1,897,485.95 |
| 02/01/2028 | 867,250.00 | 825,251.13 |
| 08/01/2028 | 1,987,250.00 | 1,857,651.75 |
| 02/01/2029 | 839,250.00 | 770,678.28 |
| 08/01/2029 | 2,019,250.00 | 1,821,553.11 |
| 02/01/2030 | 809,750.00 | 717,583.89 |
| 08/01/2030 | 2,049,750.00 | 1,784,401.56 |
| 02/01/2031 | 778,750.00 | 665,977.77 |
| 08/01/2031 | 2,078,750.00 | 1,746,360.55 |
| 02/01/2032 | 746,250.00 | 615,865.63 |
| 08/01/2032 | 2,121,250.00 | 1,719,742.63 |
| 02/01/2033 | 711,875.00 | 566,950.73 |
| 08/01/2033 | 2,151,875.00 | 1,683,559.98 |
| 02/01/2034 | 675,875.00 | 519,454.98 |
| 08/01/2034 | 2,190,875.00 | 1,654,127.96 |
| 02/01/2035 | 638,000.00 | 473,197.19 |
| 08/01/2035 | 2,228,000.00 | 1,623,329.35 |
| 02/01/2036 | 598,250.00 | 428,197.51 |
| 08/01/2036 | 24,528,250.00 | 17,246,380.77 |
| | 50,684,543.06 | 39,313,086.40 |

**Proceeds Summary**

| | |
|---|---|
| Delivery date | 09/09/2026 |
| Par Value | 35,755,000.00 |
| Premium (Discount) | 3,558,086.40 |
| Target for yield calculation | 39,313,086.40 |

Chart is for illustrative purposes only

# Coupon / Yield Relationship

- For a given coupon, the price an investor is willing to pay for a bond is inversely related to the yield

| | Option 1 (OID)<br>Discount | Option 2 (Par)<br>Par | Option 2 (OIP)<br>Premium |
|---|---|---|---|
| General Rule | Coupon < Yield<br><br>Price < 100 | Coupon = Yield<br><br>Price = 100 | Coupon > Yield<br><br>Price > 100 |
| Coupon | 4.0% | 4.0% | 4.0% |
| Yield | 5.0% | 4.0% | 3.0% |
| Price | 97.246% | 100.000% | 102.849% |

# Types of Yield Curves

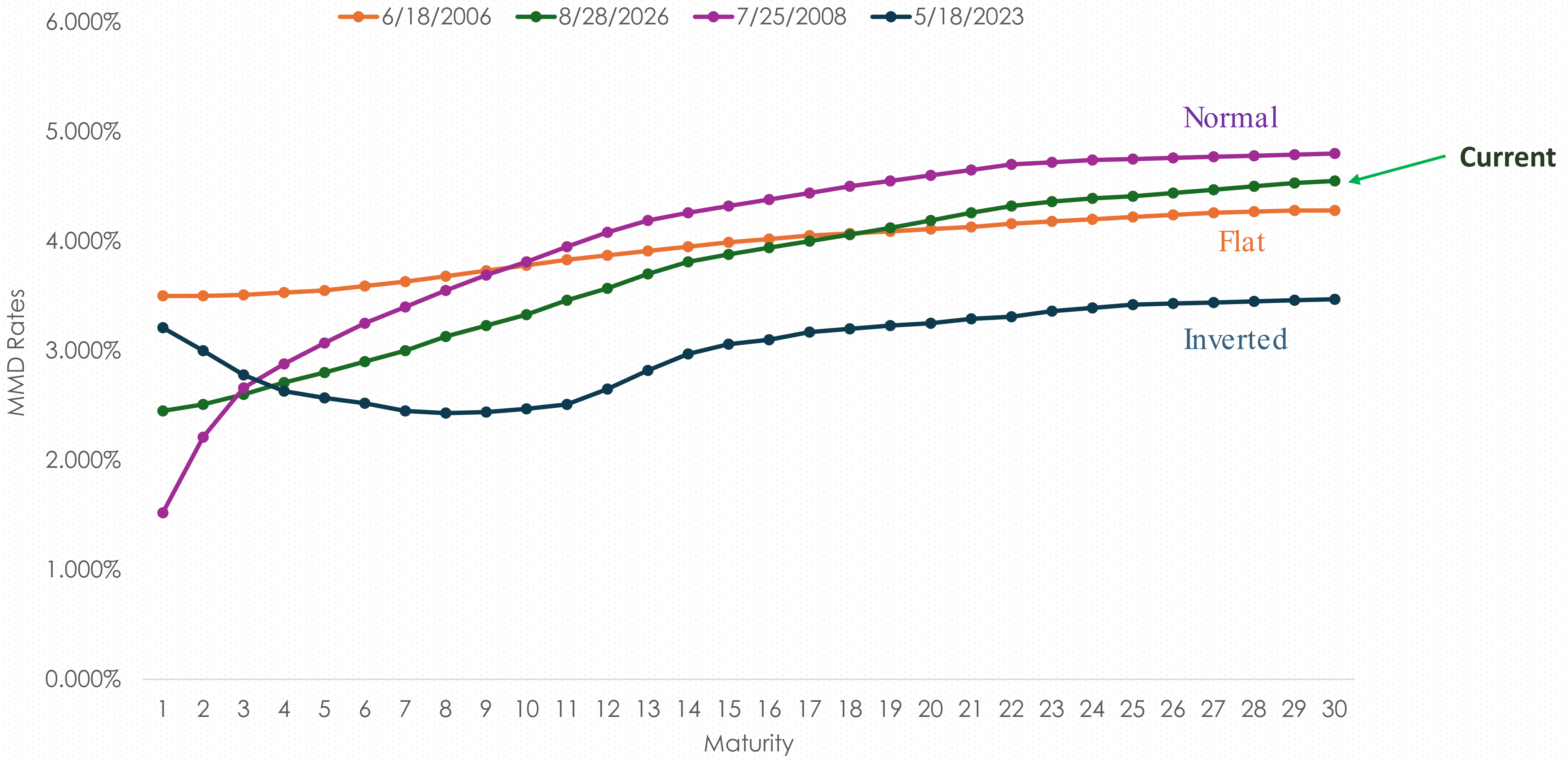



Chart is for illustrative purposes only

# Issuer vs Investor Preferences

- All bonds issued require the same amount of proceeds, given the same present value of cash flow (debt service), how does an investor decide between OID, Par, or OIP Bonds
  - Is the Issuer indifferent?

| | Discount Bond | Par Bond | Premium Bond |
|---|---|---|---|
| Par Amount | $31,025,000 | $30,345,000 | $28,840,000 |
| Coupon | 4.00% | 4.25% | 5.00% |
| Yield | 4.25% | 4.25% | 4.25% |
| Issuer Borrowing Cost (%) | 4.28% | 4.28% | 4.45% |
| Price | 97.805% | 100.000% | 105.191% |
| Proceeds | $30,344,010 | $30,345,000 | $30,337,123 |

- Retail investors are less sensitivity to coupons
  - Typically "buy and hold"
  - Less sensitive to tax implications
  - Retail-only periods allow par bonds to be pre-sold
  - Demand is strongest in years 1 – 10

- Institutional investors are NOT indifferent to coupons
  - Interest rate views (price protection, coupon reinvestment, duration, and convexity management)
  - Possible tax implications (Market discount rule)
  - Cash flow needs (replace refunded higher coupon bonds)



Chart is for illustrative purposes only

# Price Volatility

- Premium bonds provide protection against rising interest rates
- Discount bonds provide opportunity for investors to enhance their return in falling rate environment

Falling Interest Rate Environment

Most Price Appreciation

Rising Interest Rate Environment

Least Price Depreciation

| | Discount | Par | Premium |
|---|---|---|---|
| Purchase Date | 10/1/2026 | 10/1/2026 | 10/1/2026 |
| Maturity | 10/1/2046 | 10/1/2046 | 10/1/2046 |
| Coupon | 4.00% | 4.25% | 5.00% |
| Yield | 4.25% | 4.25% | 4.25% |
| Price | 96.654% | 100.00% | 110.037% |
| Purchase Date | **4/1/2027** | **4/1/2027** | **4/1/2027** |
| Maturity | 10/1/2046 | 10/1/2046 | 10/1/2046 |
| Coupon | 4.00% | 4.25% | 5.00% |
| Yield | **3.25%** | **3.25%** | **3.25%** |
| Price | 112.259% | 116.345% | 128.604% |
| **% Price Change** | **14.604%** | **14.360%** | **13.716%** |
| Purchase Date | **4/1/2027** | **4/1/2027** | **4/1/2027** |
| Maturity | 10/1/2046 | 10/1/2046 | 10/1/2046 |
| Coupon | 4.00% | 4.25% | 5.00% |
| Yield | **5.25%** | **5.25%** | **5.25%** |
| Price | 83.235% | 86.588% | 96.647% |
| **% Price Change** | **(12.205%)** | **(12.114%)** | **(11.874%)** |



Chart is for illustrative purposes only

# Pricing Callable Bonds

- Depending on the type of bond an investor holds, the call option an issuer holds may affect the yield that an investor expects

| | Discount Bond | Par Bond | Premium Bond |
|---|---|---|---|
| Settlement Date | 10/1/2026 | 10/1/2026 | 10/1/2026 |
| Maturity | 10/1/2046 | 10/1/2046 | 10/1/2046 |
| Call | 10/1/2036 | 10/1/2036 | 10/1/2036 |
| Price to Maturity | 87.449% | 100.000% | 114.958% |
| Coupon | 4.00% | 4.00% | 4.00% |
| Yield to Maturity | 5.00% | 4.00% | 3.00% |
| Yield to Call (Worst) | 5.29% | 4.00% | 2.83% |

- If a callable bond is called, the investor receives a lower yield than originally represented ("yield to worst")



Chart is for illustrative purposes only

# Callable Bonds Mechanics

- Callable bonds are identified with an asterisk or footnote when it is priced to a date other than the maturity date

| Maturity Date (August 1) | Principal Amount | Interest Rate | Yield | Price |
|---|---|---|---|---|
| 2027 | $1,065,000 | 5.000% | 2.310% | 102.365 |
| 2028 | 1,120,000 | 5.000 | 2.390 | 104.803 |
| 2029 | 1,180,000 | 5.000 | 2.470 | 107.022 |
| 2030 | 1,240,000 | 5.000 | 2.560 | 108.986 |
| 2031 | 1,300,000 | 5.000 | 2.620 | 110.863 |
| 2032 | 1,375,000 | 5.000 | 2.730 | 112.279 |
| 2033 | 1,440,000 | 5.000 | 2.830 | 113.502 |
| 2034 | 1,515,000 | 5.000 | 2.980 | 114.113 |
| 2035 | 1,590,000 | 5.000 | 3.090 | 114.751 |
| 2036 | 1,675,000 | 5.000 | 3.210 | 115.068 |
| 2037 | 1,760,000 | 5.000 | 3.360 | 113.704 [C] |
| 2038 | 1,850,000 | 5.000 | 3.480 | 112.628 [C] |
| 2039 | 1,945,000 | 5.000 | 3.620 | 111.387 [C] |
| 2040 | 2,040,000 | 5.000 | 3.740 | 110.336 [C] |
| 2041 | 2,145,000 | 5.000 | 3.820 | 109.643 [C] |
| 2042 | 2,260,000 | 5.000 | 3.890 | 109.040 [C] |
| 2043 | 2,375,000 | 5.000 | 3.950 | 108.526 [C] |
| 2044 | 2,495,000 | 5.000 | 4.030 | 107.846 [C] |
| 2045 | 2,625,000 | 5.000 | 4.110 | 107.171 [C] |
| 2046 | 2,760,000 | 5.000 | 4.210 | 106.334 [C] |

[C] Yield to optional redemption date of August 1, 2036 at par.



Chart is for illustrative purposes only

# Pricing Callable Premium Bonds

- MSRB rules require Issuers to sell OIPs at the price and yield that reflects the worst case for the investor (i.e. lower yield, higher price, or price to call)
- A higher coupon premium bond has a better chance of being called in the future, but has a bigger "kick" to maturity if it is not called

| Bond Component | Maturity Date | Amount | Rate | Yield | Price | Yield to Maturity | Call Date | Call Price | Premium (-Discount) |
|---|---|---|---|---|---|---|---|---|---|
| Bond Component: | | | | | | | | | |
| | 08/01/2027 | 1,065,000 | 5.000% | 2.390% | 102.293 | | | | 24,420.45 |
| | 08/01/2028 | 1,120,000 | 5.000% | 2.480% | 104.633 | | | | 51,889.60 |
| | 08/01/2029 | 1,180,000 | 5.000% | 2.560% | 106.762 | | | | 79,791.60 |
| | 08/01/2030 | 1,240,000 | 5.000% | 2.640% | 108.677 | | | | 107,594.80 |
| | 08/01/2031 | 1,300,000 | 5.000% | 2.710% | 110.428 | | | | 135,564.00 |
| | 08/01/2032 | 1,375,000 | 5.000% | 2.800% | 111.874 | | | | 163,267.50 |
| | 08/01/2033 | 1,440,000 | 5.000% | 2.890% | 113.101 | | | | 188,654.40 |
| | 08/01/2034 | 1,515,000 | 5.000% | 3.020% | 113.812 | | | | 209,251.80 |
| | 08/01/2035 | 1,590,000 | 5.000% | 3.130% | 114.417 | | | | 229,230.30 |
| | 08/01/2036 | 1,675,000 | 5.000% | 3.240% | 114.793 | | | | 247,782.75 |
| | 08/01/2037 | 1,755,000 | 5.000% | 3.360% | 113.704 C | 3.478% | 08/01/2036 | 100.000 | 240,505.20 |
| | 08/01/2038 | 1,850,000 | 5.000% | 3.480% | 112.628 C | 3.679% | 08/01/2036 | 100.000 | 233,618.00 |
| | 08/01/2039 | 1,945,000 | 5.000% | 3.610% | 111.475 C | 3.861% | 08/01/2036 | 100.000 | 223,188.75 |
| | 08/01/2040 | 2,040,000 | 5.000% | 3.710% | 110.598 C | 3.998% | 08/01/2036 | 100.000 | 216,199.20 |
| | 08/01/2041 | 2,145,000 | 5.000% | 3.790% | 109.902 C | 4.104% | 08/01/2036 | 100.000 | 212,397.90 |
| | 08/01/2042 | 2,260,000 | 5.000% | 3.850% | 109.384 C | 4.185% | 08/01/2036 | 100.000 | 212,078.40 |
| | 08/01/2043 | 2,375,000 | 5.000% | 3.910% | 108.868 C | 4.258% | 08/01/2036 | 100.000 | 210,615.00 |
| | 08/01/2044 | 2,495,000 | 5.000% | 3.990% | 108.186 C | 4.337% | 08/01/2036 | 100.000 | 204,240.70 |
| | 08/01/2045 | 2,620,000 | 5.000% | 4.070% | 107.508 C | 4.410% | 08/01/2036 | 100.000 | 196,709.60 |
| | 08/01/2046 | 2,760,000 | 5.000% | 4.170% | 106.668 C | 4.489% | 08/01/2036 | 100.000 | 184,036.80 |
| | | 35,745,000 | | | | | | | 3,571,036.75 |

Investor's worse case (bonds called) / Issuer best case

= 0.12% = "Kick to Maturity"

Investor's best case (bonds not called) / Issuer worst case

= 0.32% = "Kick to Maturity"

Chart is for illustrative purposes only

# Definitions

- **Arbitrage Yield** - The yield on an issue of bonds is used to apply investment yield restrictions. Yield is expressed as an annual percentage rate that is calculated to at least four decimal places. “Arbitrage” refers to the difference between the interest rate at which the bonds are issued, and the interest rate the bonds are invested (Investment Yield). Per IRS rules, if the Investment Yield exceeds the Arbitrage Yield, the dollar difference in earnings is “positive arbitrage” and must be rebated to the IRS. Conversely, if the Investment Yield is less than the Arbitrage Yield, the dollar difference in earnings is “negative arbitrage” and no rebate is owed.
- **True Interest Cost (TIC)** - The TIC is a method of calculating an issuer's borrowing interest cost, which considers the present value of the debt service payments. The rate necessary to discount the debt service payments, compounding semi-annually, to the purchase price received by the issuer at the time of bond closing. Similar to arbitrage yield in calculation method, except the target amount is reduced by the underwriters' discount also.
- **Net Interest Cost** - A method for computing the interest expense to the issuer of bonds for a particular issue. NIC accounts for any premium or discount and represents the dollar amount of interest payable over the life of an issue, without taking into account the time value of money (as is done in the TIC calculation method). The NIC rate is equal to:

  **(Total Interest + Underwriter Fee + OID - Premium) / Total Bond Years)**, usually calculated from the dated date.
- **All-in True Interest Cost** - the discount rate, assuming semiannual compounding and a 30/360-day calendar, which is the net present value (NPV) of all payments of principal, interest, and future expenses equal to the par amount of bonds plus accrued interest plus premium less original issue discount less insurance premium less costs of issuance less other up front expenses, as applicable. The cash flows can be discounted to either the delivery date or the dated date.
- **Average Coupon** - The weighted average coupon of a bond issue, computed as the gross amount of bond interest divided by the number of bond years measured from the dated date (represents a 30/360-day calendar), or the average life of the bond.

# Bond Statistics Calculations

- Calculates the yield that would be necessary to discount future principal and interest payments (cash flow) to equal the target value

| | TIC | All-In TIC | Arbitrage Yield |
|---|---|---|---|
| Par Value | 35,755,000.00 | 35,755,000.00 | 35,755,000.00 |
| + Accrued Interest | | | |
| + Premium (Discount) | 3,558,086.40 | 3,558,086.40 | 3,558,086.40 |
| - Underwriter's Discount | -96,146.25 | -96,146.25 | |
| - Cost of Issuance Expense | | -223,750.00 | |
| - Other Amounts | | | |
| Target Value | 39,216,940.15 | 38,993,190.15 | 39,313,086.40 |
| Target Date | 09/09/2026 | 09/09/2026 | 09/09/2026 |
| Yield | 3.938070% | 4.002545% | 3.591677% |

Chart is for illustrative purposes only

# Redemption Provisions

- Redemption is the ability for Issuer to refinance outstanding maturities on a certain date
- Redemption can be optional or mandatory

| Optional Redemption | Mandatory Redemption |
|---|---|
| Flexibility to repay bond prior to maturity at a price (i.e. 100% - 105%) | Mandatory payment of principal on certain maturity dates |
| Issuer can call back stated maturities of the bond on an agreed upon date | Payment amounts are finalized the day of pricing |
| Issuers typically call a Bond for cash flow savings (similar to refinancing a mortgage) | |

# Optional Redemption

- Provides the Issuer with the option, not obligation, to call the bonds at a given price
  - Allows Issuer to have flexibility to repay bonds prior to stated maturity through a refinancing/refunding
- **<u>Example</u>**: Bond issued today can be sold with a call (optional redemption date) of August 1, 2036
  - Issuer can choose to call bonds any time on or after August 1, 2036

***Optional Redemption***. The 2026 Bonds maturing on or before August 1, 2036, are not subject to optional redemption prior to maturity. The 2026 Bonds maturing on August 1, 2037, and thereafter are subject to redemption prior to their stated maturity at the option of the Department, as a whole or in part on any date, by such maturities as are selected by the Department from any available source of funds on or after August 1, 2036, at a redemption price equal to the principal amount of the 2026 Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption.

| Maturity Date (August 1) | Principal Amount | Interest Rate | Yield | Price |
|---|---|---|---|---|
| 2027 | $1,065,000 | 5.000% | 2.310% | 102.365 |
| 2028 | 1,120,000 | 5.000 | 2.390 | 104.803 |
| 2029 | 1,180,000 | 5.000 | 2.470 | 107.022 |
| 2030 | 1,240,000 | 5.000 | 2.560 | 108.986 |
| 2031 | 1,300,000 | 5.000 | 2.620 | 110.863 |
| 2032 | 1,375,000 | 5.000 | 2.730 | 112.279 |
| 2033 | 1,440,000 | 5.000 | 2.830 | 113.502 |
| 2034 | 1,515,000 | 5.000 | 2.980 | 114.113 |
| 2035 | 1,590,000 | 5.000 | 3.090 | 114.751 |
| 2036 | 1,675,000 | 5.000 | 3.210 | 115.068 |
| 2037 | 1,760,000 | 5.000 | 3.360 | 113.704 C |
| 2038 | 1,850,000 | 5.000 | 3.480 | 112.628 C |
| 2039 | 1,945,000 | 5.000 | 3.620 | 111.387 C |
| 2040 | 2,040,000 | 5.000 | 3.740 | 110.336 C |
| 2041 | 2,145,000 | 5.000 | 3.820 | 109.643 C |
| 2042 | 2,260,000 | 5.000 | 3.890 | 109.040 C |
| 2043 | 2,375,000 | 5.000 | 3.950 | 108.526 C |
| 2044 | 2,495,000 | 5.000 | 4.030 | 107.846 C |
| 2045 | 2,625,000 | 5.000 | 4.110 | 107.171 C |
| 2046 | 2,760,000 | 5.000 | 4.210 | 106.334 C |

Chart is for illustrative purposes only

# Mandatory Redemption

- Investor preferences may dictate the type of bond sold in the market
- Not all investors want a bond that matures longer than 20 years
  - Those that do may only be interested in a 25-year or 30-year bond
- Bond structure may include mandatory sinking funds between 20 – 30 year maturities (term bonds)
  - All bonds in these tranches are priced at the final maturity of the term bond

| *Bond Component* | *Maturity Date* | *Amount* | *Rate* | *Yield* | *Price* | | *Yield to Maturity* | *Call Date* | *Call Price* |
|---|---|---|---|---|---|---|---|---|---|
| Serial Bond: | | | | | | | | | |
| | 08/01/2032 | 3,040,000 | 5.000% | 2.610% | 113.210 | | | | |
| | 08/01/2033 | 2,855,000 | 5.000% | 2.680% | 114.733 | | | | |
| | 08/01/2034 | 6,380,000 | 5.000% | 2.780% | 115.840 | | | | |
| | 08/01/2035 | 625,000 | 5.000% | 2.860% | 116.888 | | | | |
| | 08/01/2036 | 685,000 | 5.000% | 2.930% | 117.843 | | | | |
| | 08/01/2037 | 735,000 | 5.000% | 3.020% | 116.992 | C | 3.160% | 08/01/2036 | 100.000 |
| | 08/01/2038 | 780,000 | 5.000% | 3.130% | 115.961 | C | 3.373% | 08/01/2036 | 100.000 |
| | 08/01/2039 | 845,000 | 5.000% | 3.230% | 115.033 | C | 3.547% | 08/01/2036 | 100.000 |
| | 08/01/2040 | 915,000 | 5.000% | 3.300% | 114.389 | C | 3.676% | 08/01/2036 | 100.000 |
| | 08/01/2041 | 390,000 | 5.000% | 3.390% | 113.567 | C | 3.805% | 08/01/2036 | 100.000 |
| | 08/01/2042 | 415,000 | 5.000% | 3.440% | 113.114 | C | 3.892% | 08/01/2036 | 100.000 |
| | 08/01/2043 | 435,000 | 5.000% | 3.510% | 112.483 | C | 3.983% | 08/01/2036 | 100.000 |
| | 08/01/2044 | 455,000 | 5.000% | 3.640% | 111.322 | C | 4.104% | 08/01/2036 | 100.000 |
| | 08/01/2045 | 485,000 | 5.000% | 3.720% | 110.614 | C | 4.185% | 08/01/2036 | 100.000 |
| | 08/01/2046 | 510,000 | 5.000% | 3.850% | 109.476 | C | 4.290% | 08/01/2036 | 100.000 |
| | | 19,550,000 | | | | | | | |
| Term Bond 2051: | | | | | | | | | |
| | 08/01/2051 | 13,265,000 | 4.000% | 4.230% | 96.471 | | | | |

***Mandatory Redemption***. The Bonds maturing on August 1, 2051 (the "2051 Term Bonds") shall be subject to mandatory redemption on August 1 in the following respective years and in the following respective principal amounts by the application of Mandatory Sinking Fund Installments at a Redemption Price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium:

| *Year (August 1)* | *Principal Amount* |
|---|---|
| 2047 | $2,445,000 |
| 2048 | 2,545,000 |
| 2049 | 2,650,000 |
| 2050 | 2,755,000 |
| 2051* | 2.870,000 |

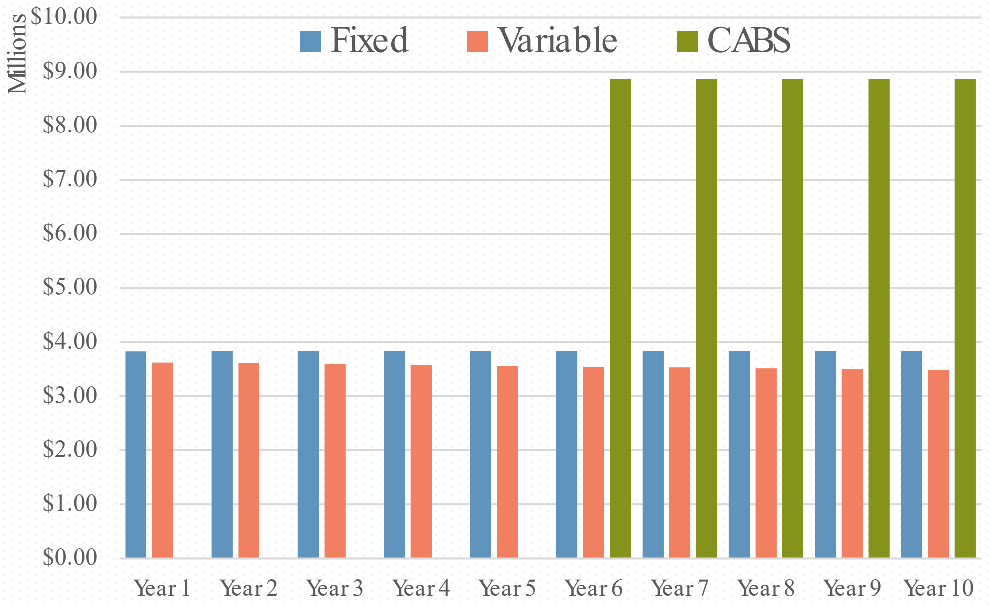
* Final Maturity

Chart is for illustrative purposes only

# Fixed vs. Variable Bonds

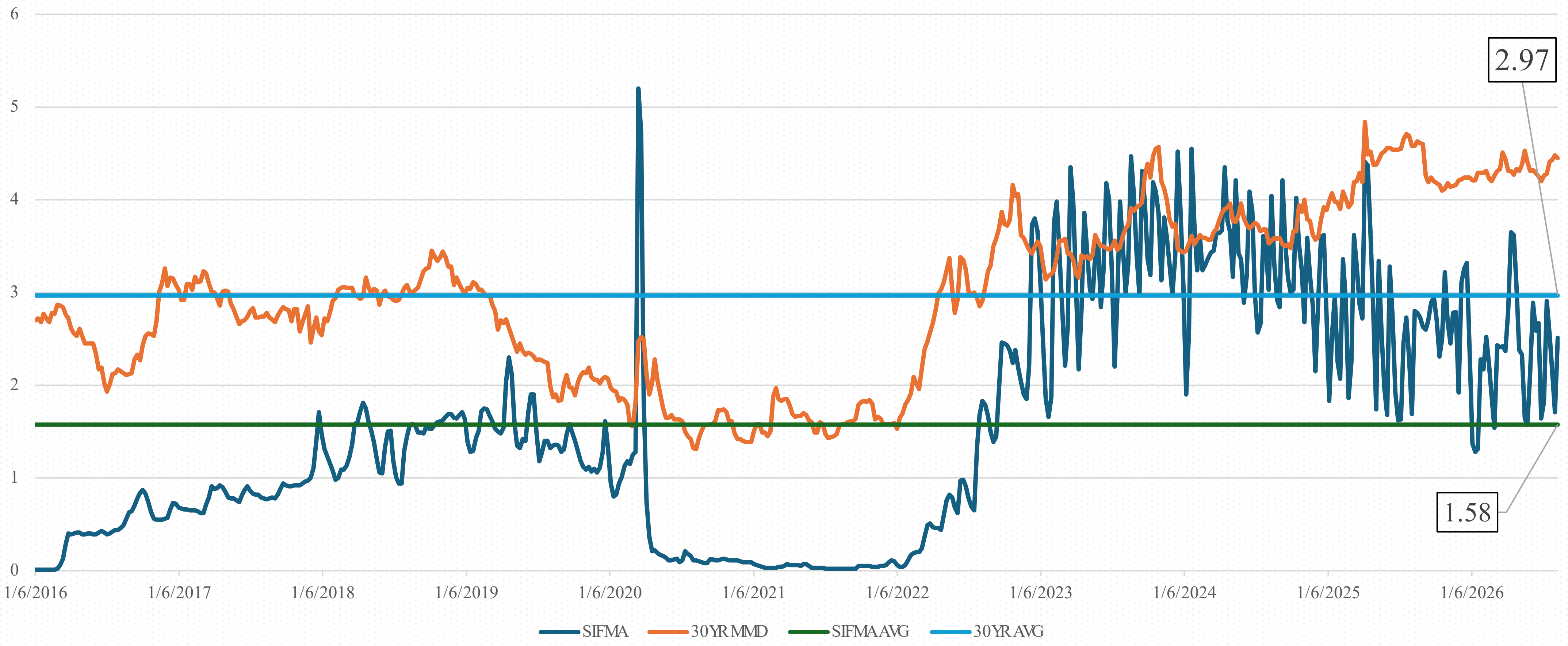
- While fixed rate bonds have set interest rates and yields known at pricing, variable bonds reset weekly (typically) and are subject to market movement
- Capital appreciate bonds (CAB) do not pay any interest until maturity dates (interest accretes)

| | Fixed Rate Bonds | Variable Rate Bonds | Capital Appreciation Bonds (CAB) |
|---|---|---|---|
| Interest Rate | Fixed at Time of Pricing<br>Medium Interest Rates | Variable (Reset Generally Weekly)<br>Lowest Interest Rates | Fixed at Time of Pricing<br>Higher Interest Rates |
| Debt Service Payments | Semi-Annual | Typically, Monthly Interest Payments | Compounds Semi-Annually; Paid at maturity Dates |
| Prepayment | Usually, 10 Years after Closing | Anytime | Non-callable or 10 Years after closing |
| Repayment | Typically, 30 Years | 30 – 40 Years | Typically, 30 Years |
| Ongoing Fees | Low | High | Medium |



# Short-Term Yields Vs. Long-term Fixed Rate

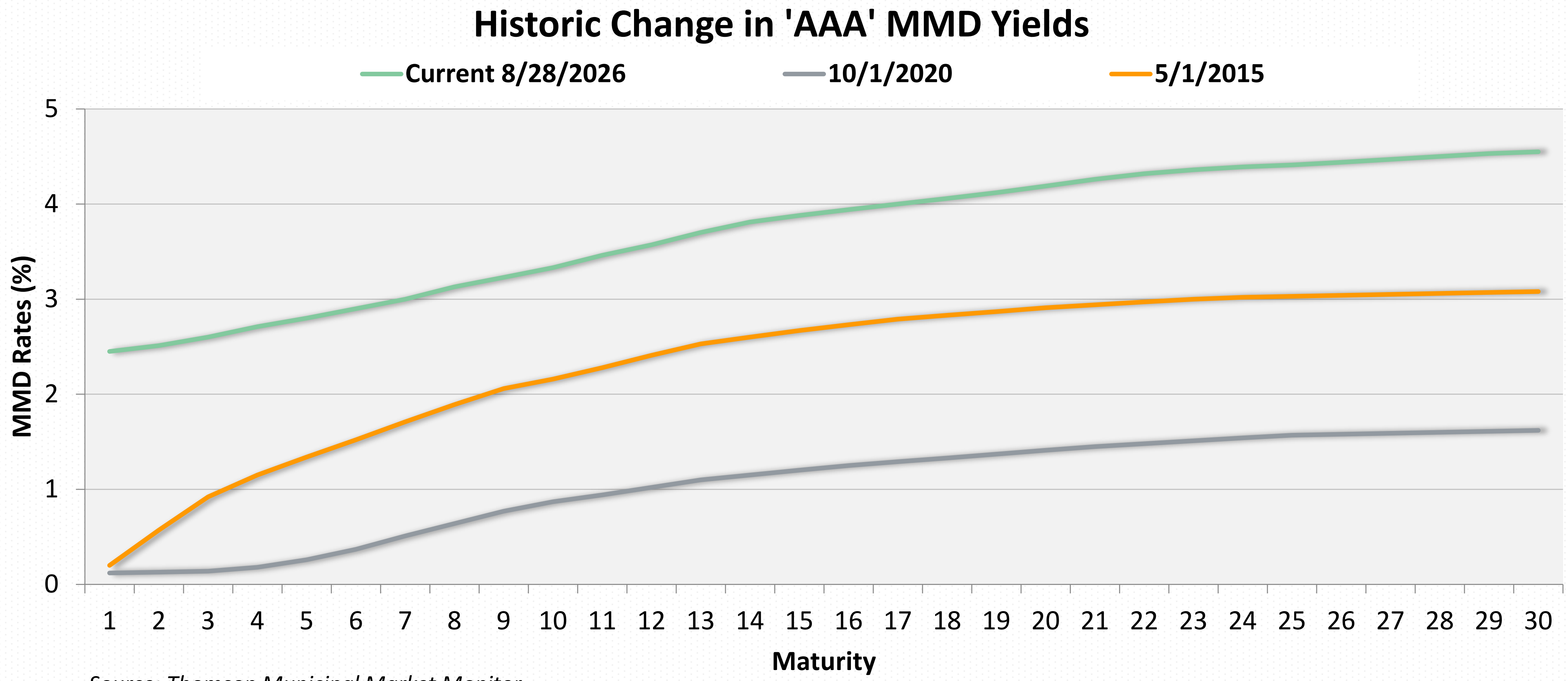
- Variable rates are based on short-term weekly indices that are typically lower than long-term yields




*Source: SIFMA; Thomson Municipal Market Monitor*

# Tax-Exempt Market

- The current yield curve has risen across all maturities since 2015

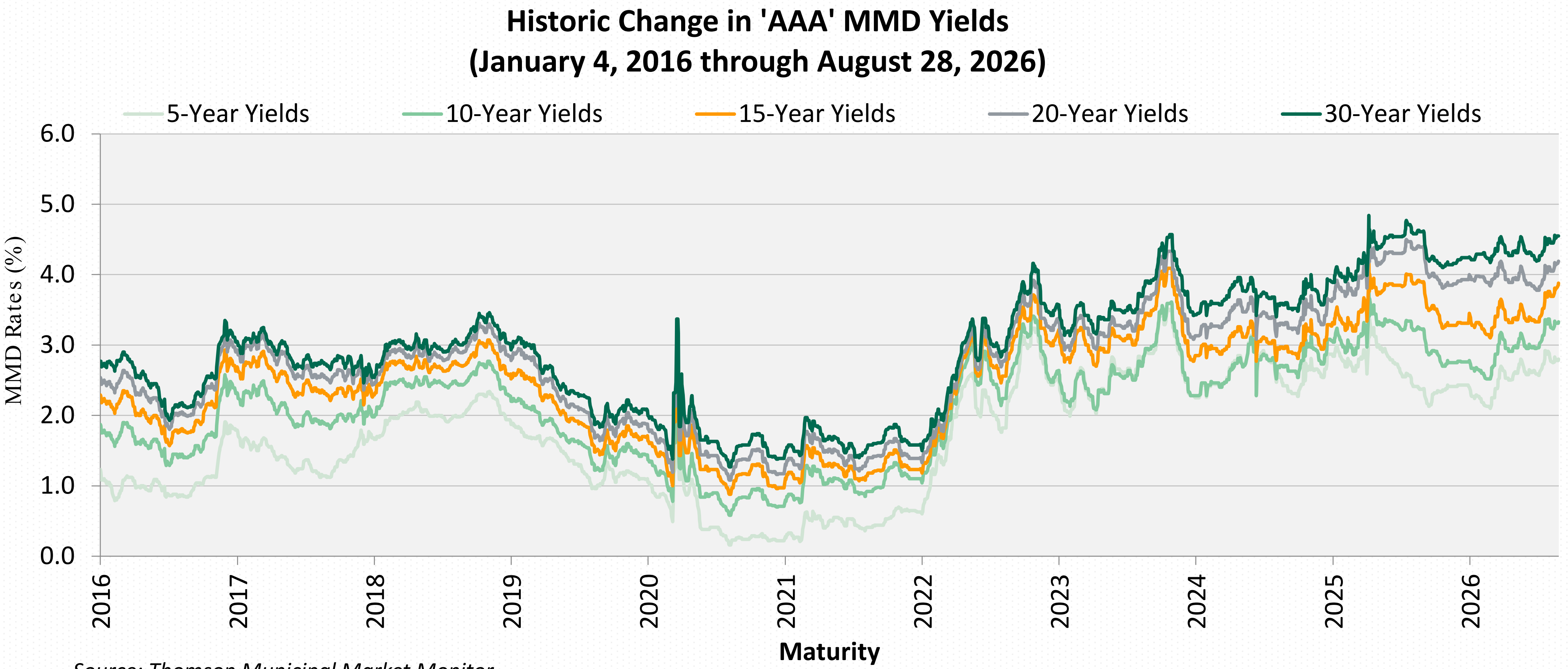



*Source: Thomson Municipal Market Monitor*

Note: “MMD” is the Municipal Market Date benchmark curve used to price tax-exempt municipal bonds

# 10YR Historic Change for MMD

- The tax-exempt yield curve continues to show longer maturities with higher yields
- Current 2026 year has seen significant volatility

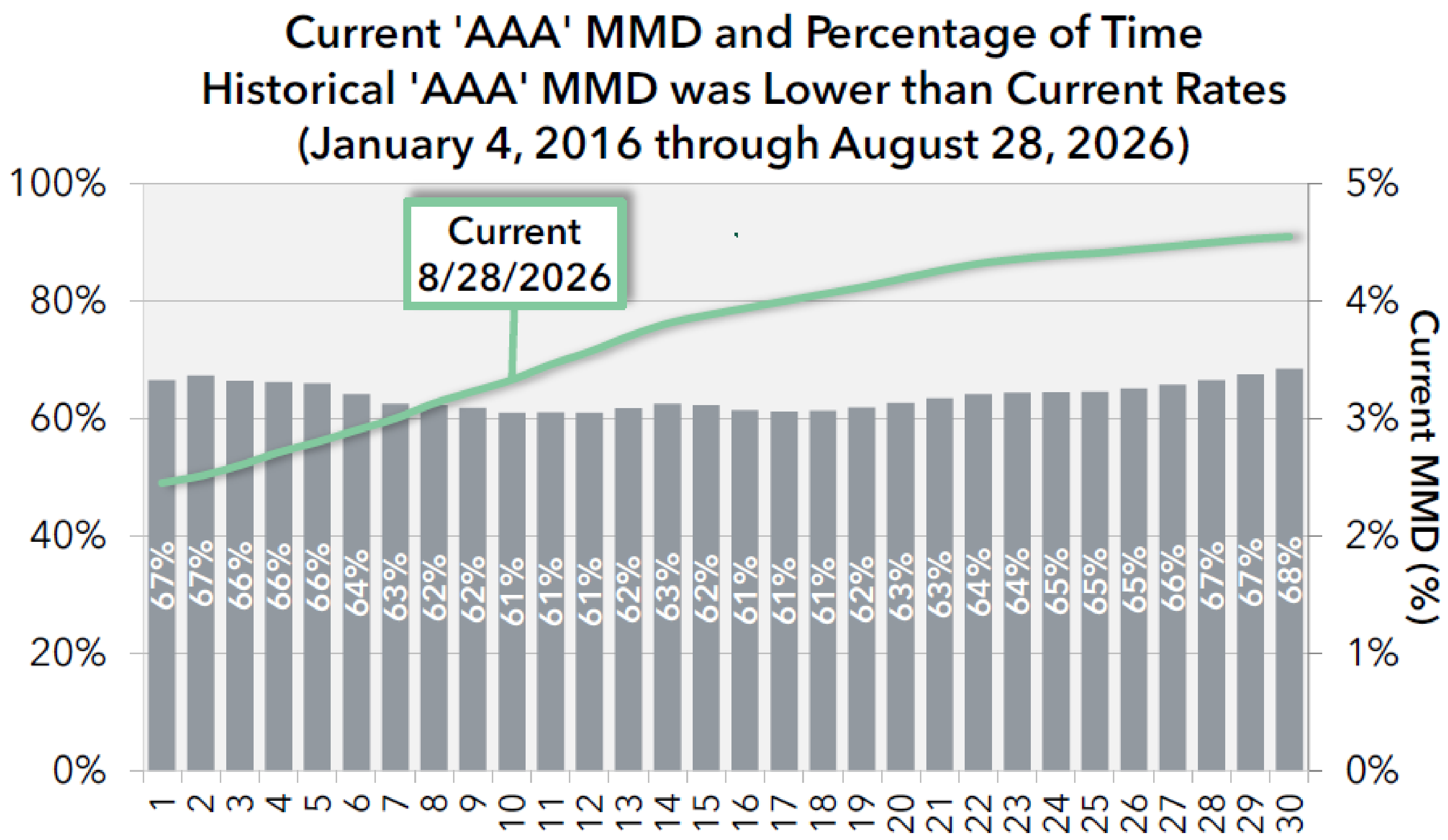



*Source: Thomson Municipal Market Monitor*

Note: “MMD” is the Municipal Market Date benchmark curve used to price tax-exempt municipal bonds

# Tax-Exempt Market History

- The current tax-exempt market has been lower 60% - 70% of the time over the past ten years




*Source: Thomson Municipal Market Monitor*

Note: “MMD” is the Municipal Market Date benchmark curve used to price tax-exempt municipal bonds

# Market Forecast

- Expectation for Fed Funds rate to hold steady through Q1 2027
- Market currently expects consistent rates through Q1 2027

Wall Street Median Forecast as of August 28, 2026

| Metric | 2026Q2 | 2026Q3 | 2026Q4 | 2027Q1 |
|---|---|---|---|---|
| Fed Funds | 3.75% | 3.77% | 3.78% | 3.74% |
| 3M SOFR | 3.73% | 3.71% | 3.68% | 3.64% |
| 2Y Treas. | 4.18% | 4.12% | 4.03% | 3.94% |
| 10Y Treas. | 4.47% | 4.57% | 4.50% | 4.45% |
| CPI YoY | 3.90% | 3.30% | 3.30% | 3.30% |
| Unemployment | 4.30% | 4.20% | 4.30% | 4.30% |

*Source: Bloomberg*

# QUESTIONS?

**LORA NICHOLS**
*Vice President*
Fieldman, Rolapp & Associates, Inc.

# SESSION FOUR
## Long-term Financing Options

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KNN Public Finance

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*Debt Capital Markets Specialist*
City and County of San Francisco

**MELISSA SHICK**
*Managing Director*
KNN Public Finance

# The Right Long-Term Financing Solution Fits the Context

- Debt is not a resource; it is a tool for managing future resources
  - Accelerates delivery of a capital project vs. having to accumulate cash
    - Earlier service delivery
    - Savings when cost of borrowing is lower than construction inflation
  - Spreads cost of capital project over  more of useful life of the asset
    - Generational equity
- Any debt issuance should be <u>preceded by</u> a longer-term financial plan that considers:
  - The project
  - Overall capital needs
  - The appropriate revenue sources to finance the project
  - The “right” combination of existing  resources (i.e., pay-as-you-go) and future resources (debt)
- And after that, you can start talking about the specific tools of finance: bonds, loans, and all that jazz…

# Projects are Often Funded with Multiple Resources

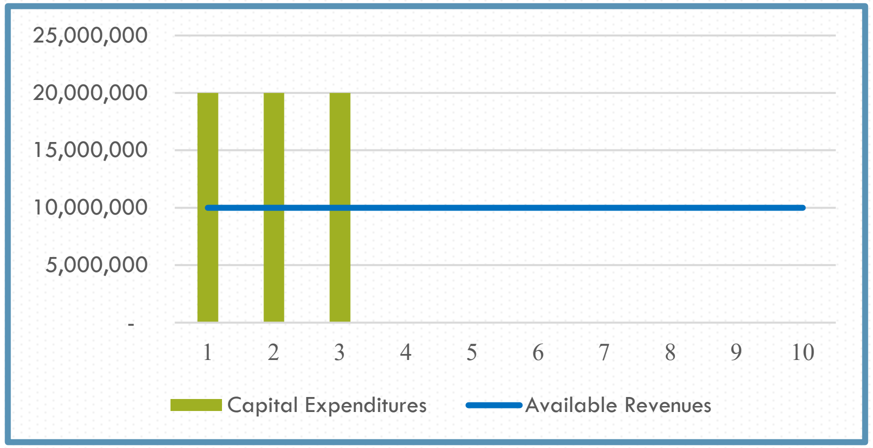
## PROJECT FUNDING SOURCES

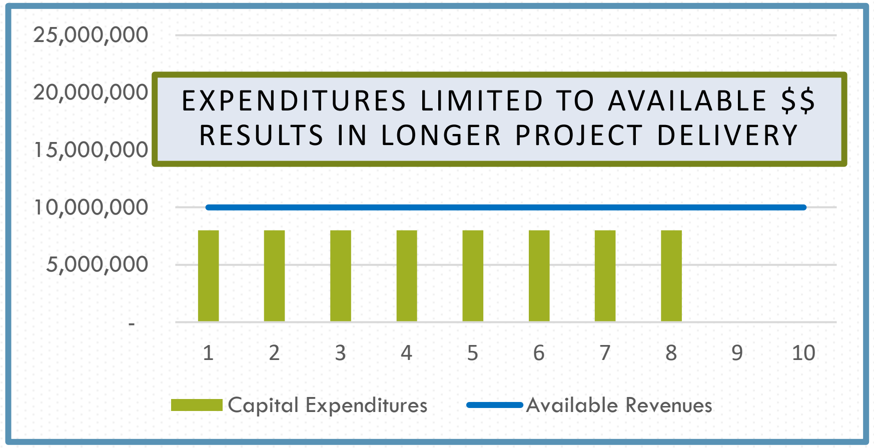
| | AVAILABLE REVENUES/ CASH BALANCES | FEDERAL/STATE GRANTS OR LOANS | BORROW: BONDS, LOANS, NOTES |
|---|---|---|---|
| **CHARACTERISTICS** | • Available source of money or “Pay-As-You-Go” funds<br>• Used for small and recurring capital projects | • “Free” money (with strings attached)<br>• Used to offset funding gap of any capital project | • Future revenues leveraged to provide upfront project funding<br>• Used for large capital projects |
| **CONSIDERATIONS** | • Projects built slowly over time<br>• Opportunity cost of funds (i.e. lost interest earnings) | • Application process can be drawn-out and competitive<br>• Timing of funds can be uncertain<br>• May require oversight or thorough review | • Interest and financing costs<br>• Staff resources required for financing process |

**Financing plans often involve a mix of pay-go, grant funding, and financing**

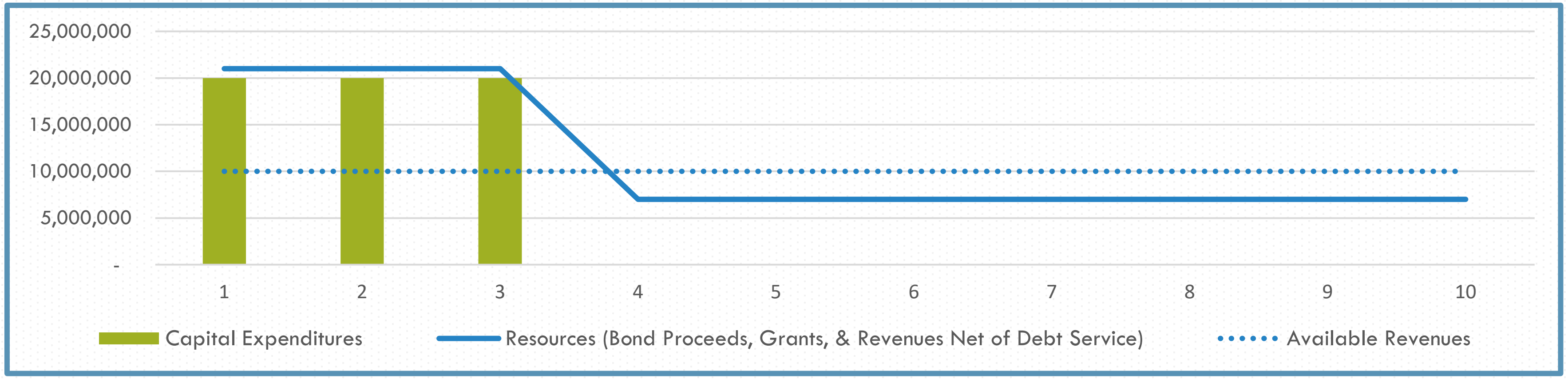
# Why is Debt Utilized to Fund Projects?

## CAPITAL EXPENDITURES ARE GREATER THAN AVAILABLE REVENUES




## <u>BONDING</u> ACCELERATES FUTURE REVENUES TO DELIVER PROJECTS



# Public Agency Debt is Typically Tax-Exempt

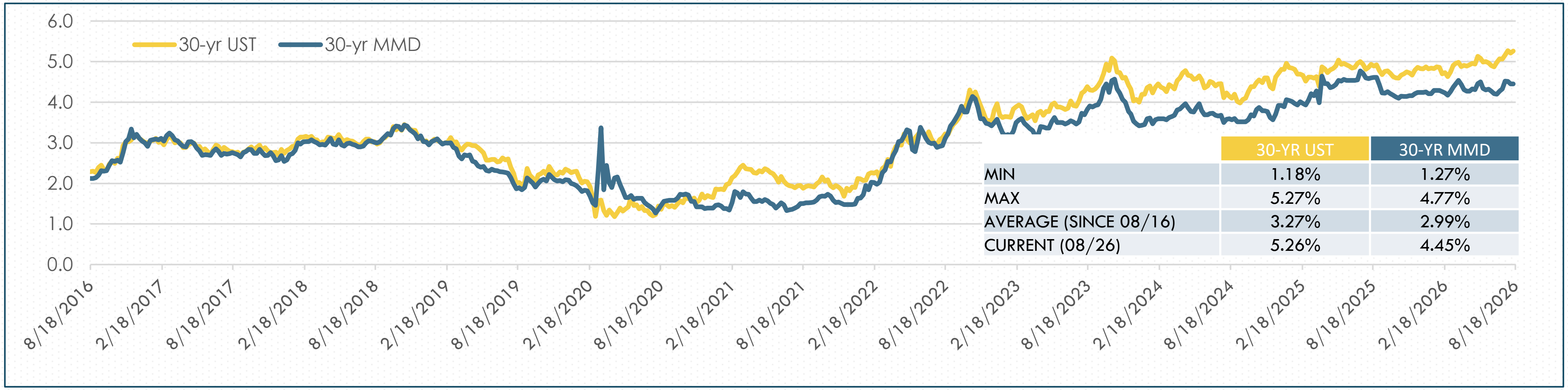
- Public agencies benefit from tax-exemption
  - Most municipal bonds issued for infrastructure or capital improvements qualify to be issued on a tax-exempt basis

- Bondholders do not pay Federal income tax on interest earnings
  - Investors will purchase tax-exempt bonds at lower yields than taxable bonds
  - Allows a municipal issuer to raise capital at comparatively lower interest rates as compared to taxable (such as corporate) bonds

**There are reasons that a public agency may issue taxable debt!**

- **Use of proceeds for non-exempt uses**
- **Financing flexibility**
- **Advance refunding of outstanding obligations**

TAX-EXEMPT (MMD) VERSUS TAXABLE (UST) INTEREST RATES: TEN-YEAR HISTORY




| | 30-YR UST | 30-YR MMD |
|---|---|---|
| MIN | 1.18% | 1.27% |
| MAX | 5.27% | 4.77% |
| AVERAGE (SINCE 08/16) | 3.27% | 2.99% |
| CURRENT (08/26) | 5.26% | 4.45% |

# Tax-Exempt Bond Proceeds & IRS Requirements

- **Purpose**
  - For governmental purposes – not for private use
- **Spending &  Reasonable Expectation Test**
  - Expectation at issuance that bond proceeds will be expended over a specified period:
    - At least 5% of the bond proceeds spent within 6 months of issuance
    - And 85% of the bond proceeds spent within three years
- **Earnings**
  - Certain invested proceeds may not earn arbitrage (earnings rate > borrowing rate)
- **Certifications & Responsibilities**
  - Certification of compliance required to be made by issuer at time of issuance – i.e., tax certificate
  - Record keeping of the expenditure of bond proceeds in case there is an audit by the IRS

# A Plan of Finance Determines the Timing & Amount of Debt

## Identify Project Needs and Funding Resources

- Assess project readiness and environmental approvals
- Prioritize project(s) from CIP – i.e., high, medium, and low
- Determine project cost expectations
- Identify available cash, revenues, or outside funding sources

## Develop Financial/Cash Flow Model

- Estimate amount and timing of annual capital expenditures
- Establish PAYGO and cash balance targets
- Identify amount and timing of “unfunded” or bonding need
- Group potential bond financings to satisfy IRS expenditure test requirements to access lower tax-exempt rates

## Project Repayment Sources for Annual Debt Service

- Prepare pro forma debt service numbers and evaluate debt affordability
- Evaluate legally available and/or pledged revenues for debt repayment
- Coverage requirements

# Available Revenue Sources Determine the Type of Debt

**COMMON GOVERNMENTAL REVENUE SOURCES**

- General Fund revenues
- Enterprise revenues
- New voter-approved taxes
- User fees and charges
- Other?

**THE SOURCE OF REPAYMENT WILL NARROW THE TYPE OF "DEBT" YOUR AGENCY CAN INCUR**

- General Obligation Bonds
- Special Tax Bonds

- Lease Revenue Bonds
- Certificates of Participation
- Revenue Bonds

# Debt Comes in All Shapes and Sizes…

- Public Offering
- Private Placement

- Tax-Exempt
- Taxable

- State & Federal Loans

- Bonds, Notes, Certificates of Participation

- Fixed Rate
- Variable Rate

# So…What is "Debt?"

- US Constitution delegates municipal affairs to the states
- State law governs a local agency's ability to raise revenue and commit it to long term obligations
- California Constitutional Debt Limitation restricts true "indebtedness"

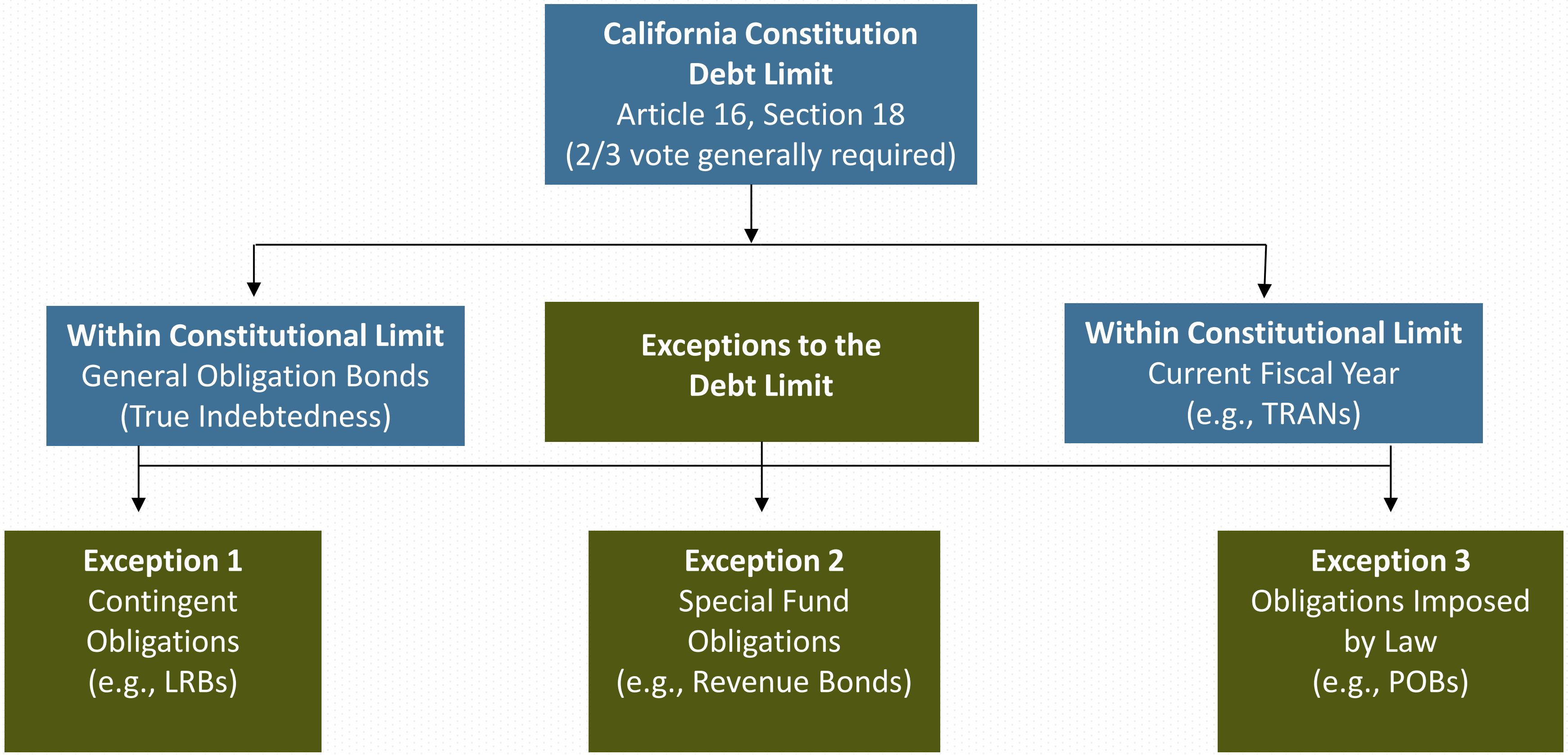
**ARTICLE 16 PUBLIC FINANCE SEC. 18. No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year, without the assent of two-thirds of the qualified electors thereof, voting at an election to be held for that purpose…; nor unless before or at the time of incurring such indebtedness provision shall be made for the collection of an annual tax sufficient to pay the interest on such indebtedness as it falls due, and also provision to constitute a sinking fund for the payment of the principal thereof…**

# What is Debt…in California?

- California courts have identified a number of “exceptions” allowing issuance of debt-like securities if they meet the requirements set forth in their judicial opinions

**“I have never been more struck by the good sense and the practical judgment of the Americans than in the manner in which they elude the numberless difficulties resulting from their… Constitution.” Alexis de Tocqueville, 1835**

# What is Debt…In California? Exceptions to the Voter-Approval Requirement



# The Type of Debt an Agency Issues is Driven by the Project Type and Revenue Pledge

**TYPES OF BONDS**

| | GENERAL OBLIGATION | LEASE OBLIGATION | ENTERPRISE REVENUE | SPECIAL TAX REVENUE | SPECIAL TAX ON PROPERTY | SPECIAL ASSESSMENT |
|---|---|---|---|---|---|---|
| **REVENUE PLEDGE** | "Full faith and credit" of issuer<br>Secured by property taxes | Lease payments for use of government asset; paid from general fund | Net revenue of a specified enterprise, such as water, sewer, solid waste, or parking | Bonds paid from a direct pledge of an add-on / special tax (typically sales tax) | Lien on property; bonds paid from tax levied in addition to normal 1% ad valorem tax | Lien on property; bonds paid from annual assessment on property that benefits |
| **VOTE?** | 2/3rds vote threshold; Schools may be 55% | **No public vote required** | **No public vote required** | 2/3rds vote threshold | 2/3rds vote of property owners by acreage or by vote of registered voters | 50% + 1 vote of assesses, weighted by amount of assessment |

# Bonds or COPs?

- Bonds are a debt
  - Usually have a statutory basis, such as GO, revenue bonds, assessment bonds

- Certificates of Participation (COPs) were created to address situations where statutory authority was limited for debt that otherwise met the constitutional debt limit exception
  - Originally used to avoid statutory restrictions on lease revenue bonds, such as requirement for competitive sale and maximum interest rates
  - Are based on a contract that is legal under one of the "debt limit exceptions"

- While most common for lease obligations, COPs can also be used for special fund obligations
  - Commonly used by general law cities to avoid 1941 Act voter requirements for enterprise revenue bonds

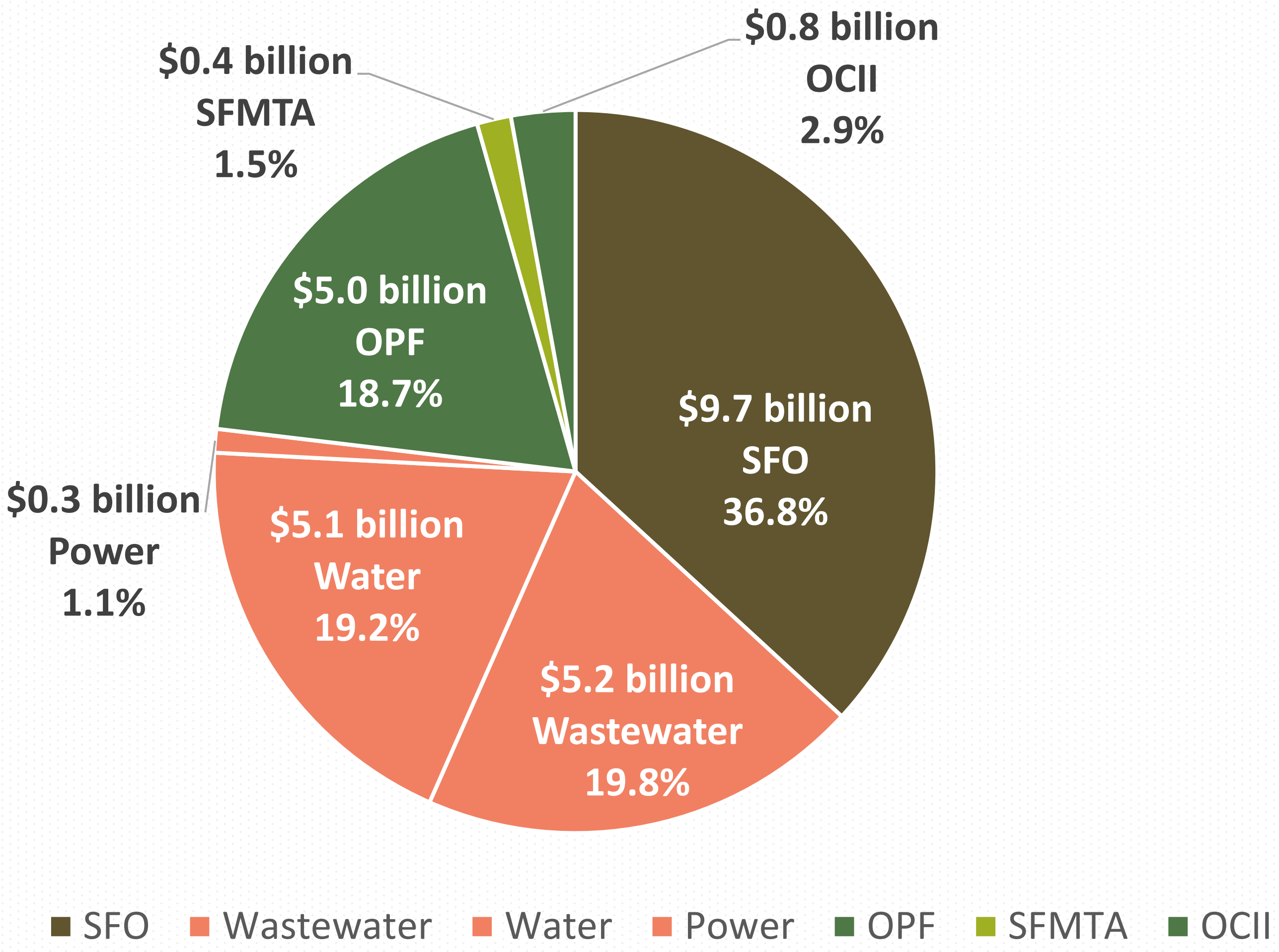
- **Bottom line**: Not much substantive difference between a "Bond" and a "COP"

# City and County of San Francisco: Long-Term Borrowing Programs

## TYPES OF BORROWING PROGRAMS

| | OFFICE OF PUBLIC FINANCE PROGRAMS | | | OTHER AGENCY PROGRAMS | |
|---|---|---|---|---|---|
| | GENERAL OBLIGATION | LEASE OBLIGATION | SPECIAL TAX ON PROPERTIES & TAX INCREMENT | ENTERPRISE REVENUE | OCII |
| PROJECTS FUNDED: | • Affordable Housing<br>• Streets & Roads<br>• Parks & Recreation<br>• Seismic & Earthquake Safety | • Administration & Other Facilities<br>• Convention Center<br>• Affordable Housing<br>• Streets & Roads<br>• Various City Capital Improvements | • Transbay Transit Center<br>• Treasure Island<br>• Mission Rock Facilities & Services | • Water & Sewer System Projects<br>• Airport & Port Infrastructure<br>• Transit Improvements | • Project Area Infrastructure<br>• Affordable Housing |

# San Francisco Outstanding Debt



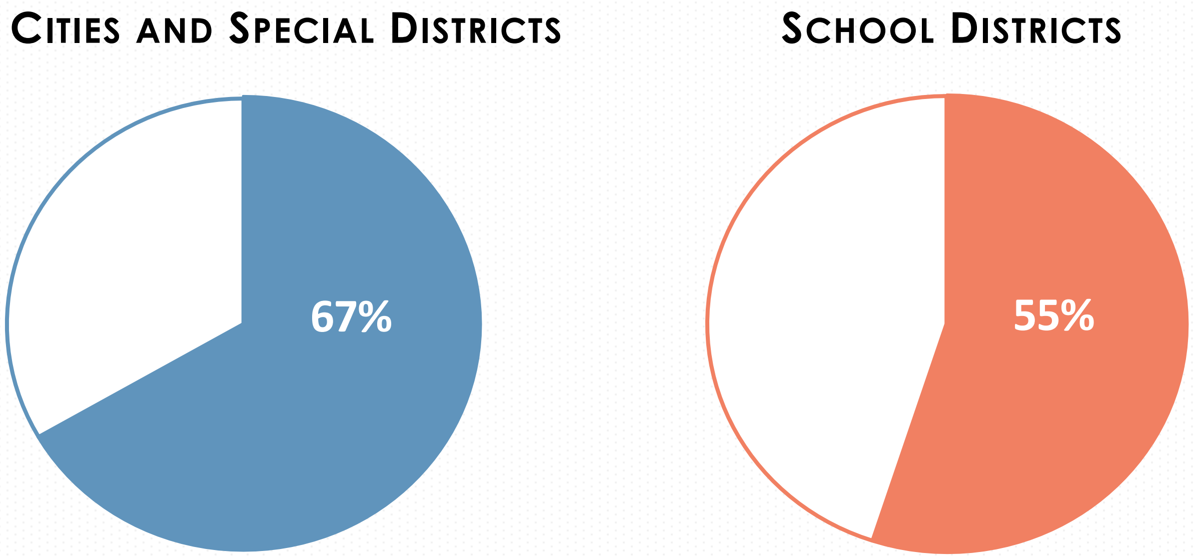

*Outstanding amounts as of June 30, 2025.

- Various agencies and departments within San Francisco issue debt
- $26 billion is among the various issuing entities as follows:
  - $10.6BN Public Utilities Commission
  - $9.7BN San Francisco Airport
  - $5.0BN Office of Public Finance
  - $0.8BN Office of Community Investment & Infrastructure (Successor Agency)
  - $0.4BN Municipal Transportation Agency
  - $0.03BN Port

# Voter Approved Indebtedness: General Obligation Bonds

- True "indebtedness" under Constitutional debt limit
- Secured by special levy of ad valorem taxes
  - Generates additional revenue to pay debt service on bonds issued for capital improvements
- Approved by 2/3 majority vote
  - Proposition 39 school bonds approved by 55% majority

VOTER APPROVAL THRESHOLDS



# San Francisco GO Bond Programs

- Under the State Constitution and San Francisco’s City Charter, City bonds secured by ad valorem property taxes (“GO Bonds”) can only be authorized by two-thirds approval of the voters

- San Francisco voters have authorized the issuance of $7.2 billion in GO Bonds

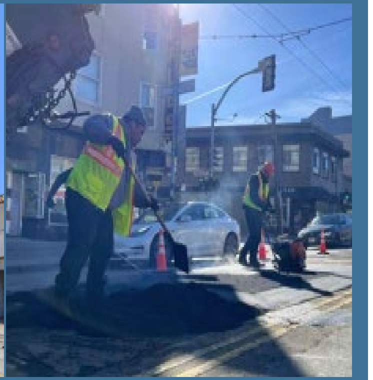
- The City has issued $5.5 billion in GO Bonds under voter-approved authorizations – with $1.7 billion of authorized but unissued GO debt

- The City has also issued $1.0 billion of GO <u>Refunding</u> Bonds to refinance outstanding GO Bonds

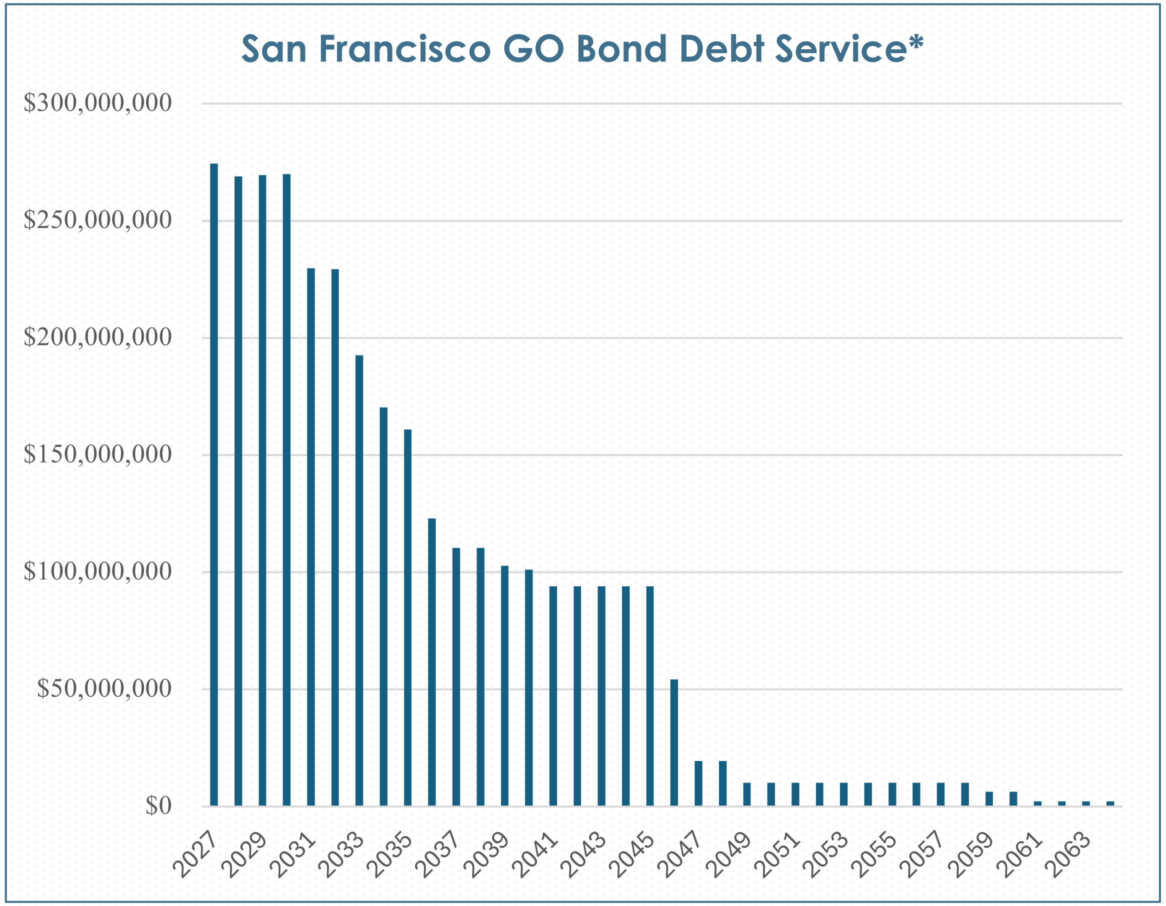
# San Francisco GO Bond Programs
(CONTINUED)

| BOND AUTHORIZATION | ELECTION DATE | AUTHORIZED AMOUNT * | BONDS ISSUED* | AUTHORIZED & UNISSUED* |
|---|---|---|---|---|
| Seismic Safety Loan Program & Reauthorization for Affordable Housing | 11/03/92 11/08/16 | $350,000,000 | $302,535,450 | $47,464,550 |
| Clean & Safe Neighborhood Parks | 02/05/08 | $185,000,000 | $185,000,000 | -- |
| San Francisco General Hospital & Trauma Center Earthquake Safety | 11/04/08 | $887,400,000 | $887,400,000 | -- |
| Earthquake Safety & Emergency Response Bond | 06/08/10 | $412,300,000 | $412,300,000 | -- |
| Road Repaving & Street Safety | 11/08/11 | $248,000,000 | $248,000,000 | -- |
| Clean & Safe Neighborhood Parks | 11/06/12 | $195,000,000 | $195,000,000 | -- |
| Earthquake Safety & Emergency Response Bond | 06/03/14 | $400,000,000 | $400,000,000 | -- |
| Transportation & Road Improvement | 11/04/14 | $500,000,000 | $500,000,000 | -- |
| Affordable Housing Bond | 11/03/15 | $310,000,000 | $310,000,000 | -- |
| Public Health and Safety Bond | 06/07/16 | $350,000,000 | $350,000,000 | -- |
| Embarcadero Seawall & Earthquake Safety | 11/06/18 | $425,000,000 | $208,690,000 | $216,310,000 |
| Affordable Housing Bond | 11/05/19 | $600,000,000 | $492,460,000 | $107,540,000 |
| Earthquake Safety & Emergency Response Bond | 03/03/20 | $628,500,000 | $385,515,000 | $242,985,000 |
| Health & Recovery Bond | 11/04/20 | $487,500,000 | $374,805,000 | $112,695,000 |
| Affordable Housing Bond | 03/05/24 | $300,000,000 | $147,230,000 | $152,770,000 |
| Health, Safe and Vibrant SF Bond | 11/05/24 | $390,000,000 | $83,635,000 | $306,365,000 |
| Earthquake Safety and Emergency Response Bond | 06/02/26 | $535,000,000 | $0 | $535,000,000 |
| TOTAL: | | $7,203,700,000 | $5,482,570,450 | $1,721,129,550 |

*As of July 1, 2026

# San Francisco GO Bond Program Management




*As of July 1, 2026

- **City Charter Limitations:** City GO Bond par may not exceed 3% of assessed value

| CITY CHARTER GO BOND LIMIT ($ in billions) | |
|---|---|
| FY 2025-26 Total Net AV | $357.80 |
| Outstanding City GO Bonds* | $2.36 |
| City GO Bonds as a % of Net AV | 0.70% |

- **Policy Limitations:** City Tax Rate levy for **GO Bond debt service** may not exceed 0.12%

| CITY POLICY TAX RATE LIMIT ($ in billions) | |
|---|---|
| FY 2025-26 Total Net AV | $357.80 |
| Maximum City Tax Rate Levy | 0.12% |
| FY 2025-26 Maximum GO Bond Debt Service | $0.429 |

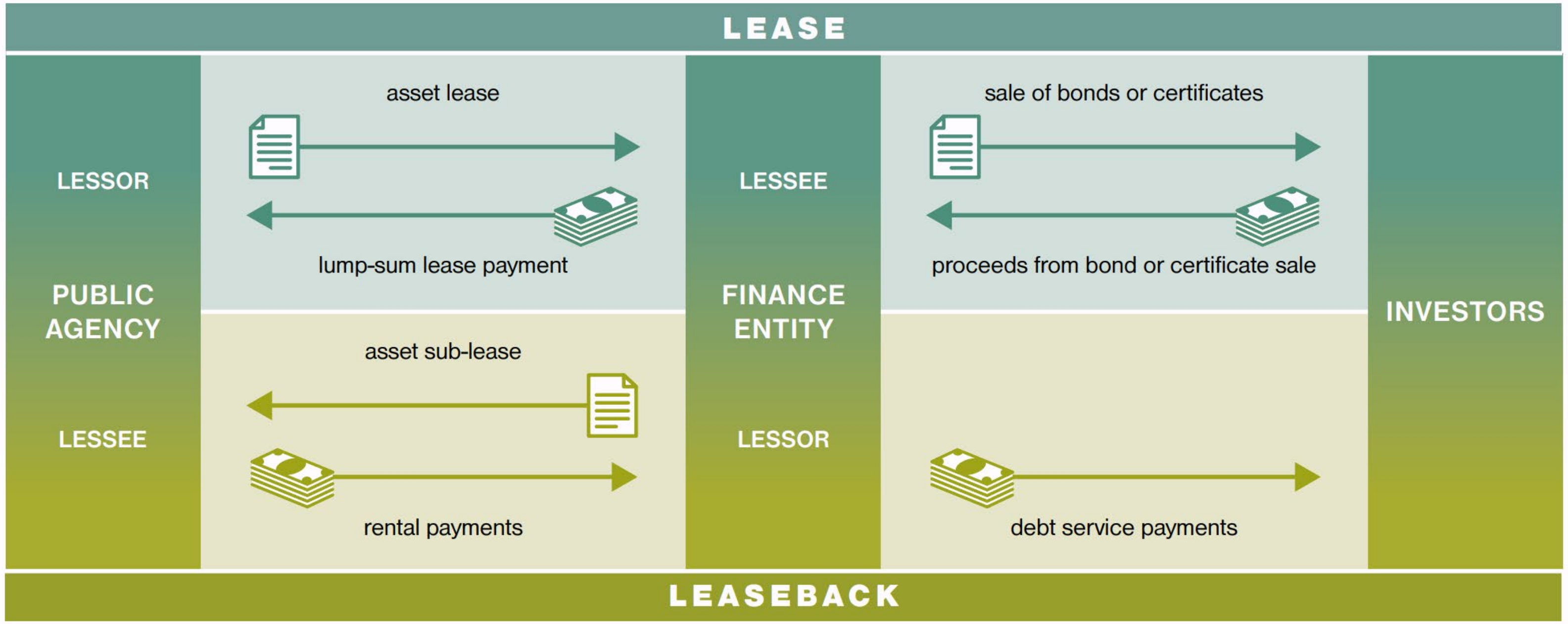
# Exception 1: Lease Obligations

- Lease rules in California commonly referred to as "Offner-Dean," after the two key California Supreme Court cases
  - Payment for "beneficial use and occupancy" of leased facilities in that year
  - Payment **abated** with loss of use and occupancy
  - No acceleration of future rent in the case of a payment failure
  - Rent cannot exceed "fair rental value" of leased assets

- Payable from "legally available funds"
  - In practice, this means general fund revenues

- Overcoming Abatement Risk
  - Capitalizing interest payments until project is complete
  - Asset transfer—lease leaseback of existing asset
  - Insurance
  - Reserve Fund

# Lease Financing Mechanics




- Issuer leases an asset to a financing entity as leasing partner
- Issuer then subleases asset back, and agrees to make lease payments for use of property
- Lease payments serve as debt service on Lease Revenue Bonds or COPs
- Trustee can sue for rent if issuer does not make payments when asset available for use

# San Francisco Lease Obligation Debt

## LEASE BORROWING PROGRAM (AS OF 7/1/26)

| GENERAL FUND CERTIFICATES OF PARTICIPATION ("COPs") | |
|---|---|
| City COPs Issued Under the Master Indenture: | $910,320,000 |
| Other COPs Issued Under Separate Indentures: | $493,835,000 |
| TOTAL CITY COPs: | $1,404,155,000 |

| OTHER LEASE OBLIGATIONS | |
|---|---|
| Lease Purchase Financings | $1,848,731 |
| Lease Revenue Bonds Moscone Convention Center (Variable Rate) | $26,200,000 |
| Lease Revenue Bonds Other City Projects | $11,755,000 |
| TOTAL OTHER LEASE DEBT: | $39,803,731 |

- The issuance of General Fund COPs is an important component of the ongoing delivery of the City's Capital Plan
- The City's COP issuances generally fund/finance the City's general infrastructure needs and funding vehicles tend to include both short-term and long-term approaches
    - Commercial Paper Certificates of Participation
    - Certificates of Participation
- Uses of available City assets as Leased Property
    - Asset transfer
    - Project lease
- Over the next ten years, the City's Capital Plan anticipates the approval and issuance of approximately $480 million of COPs

# San Francisco Master Lease Borrowing Program

## MASTER LEASE BORROWING PROGRAM

- The City utilizes its Master Lease to finance various City capital projects; larger standalone projects may utilize a separate financing lease supported by the project itself
- Leased Property comprised of four essential City properties
    - The City may designate additional property as Leased Property, or substitute other improved real property for all or part of the Leased Property

### CITY MASTER LEASE

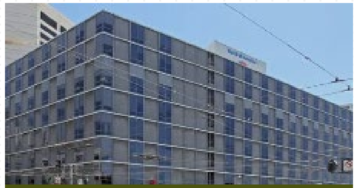
| | |
|---|---|
| Total Value of Master Lease Leased Property | $1.4 Billion |
| Total Outstanding Master Lease COPs | $910 Million |
| Authorized but Unissued Master Lease COPs | $611 Million |

Base Rental Payments = Lease Payments = Debt Service Payments

| | Certificates | | | | |
|---|---|---|---|---|---|
| **Payment Date** | **Principal** | **Interest** | **Total** | **Parity Certificates Debt Service[(1)]** | **Total Annual Fiscal Year Debt Service** |
| 4/1/2026 | $14,140,000 | $4,929,056.94 | $19,069,056.94 | $40,570,450.00 | $59,639,506.94 |
| 10/1/2026 | - | 6,419,250.00 | 6,419,250.00 | 26,187,200.00 | - |
| 4/1/2027 | 11,900,000 | 6,419,250.00 | 18,319,250.00 | 40,867,625.00 | 91,793,325.00 |
| 10/1/2027 | - | 6,121,750.00 | 6,121,750.00 | 25,839,250.00 | - |
| 4/1/2028 | 12,495,000 | 6,121,750.00 | 18,616,750.00 | 41,233,975.00 | 91,811,725.00 |
| 10/1/2028 | - | 5,809,375.00 | 5,809,375.00 | 25,537,025.00 | - |
| 4/1/2029 | 13,120,000 | 5,809,375.00 | 18,929,375.00 | 41,504,850.00 | 91,780,625.00 |
| 10/1/2029 | - | 5,481,375.00 | 5,481,375.00 | 25,235,550.00 | - |
| 4/1/2030 | 13,775,000 | 5,481,375.00 | 19,256,375.00 | 41,801,450.00 | 91,774,750.00 |
| 10/1/2030 | - | 5,137,000.00 | 5,137,000.00 | 24,924,925.00 | - |
| 4/1/2031 | 14,465,000 | 5,137,000.00 | 19,602,000.00 | 42,120,025.00 | 91,783,950.00 |
| 10/1/2031 | - | 4,775,375.00 | 4,775,375.00 | 24,588,750.00 | - |
| 4/1/2032 | 15,185,000 | 4,775,375.00 | 19,960,375.00 | 33,195,150.00 | 82,519,650.00 |
| 10/1/2032 | - | 4,395,750.00 | 4,395,750.00 | 24,348,312.50 | - |
| 4/1/2033 | 15,945,000 | 4,395,750.00 | 20,340,750.00 | 33,393,187.50 | 82,478,000.00 |
| 10/1/2033 | - | 3,997,125.00 | 3,997,125.00 | 24,101,156.25 | - |
| 4/1/2034 | 16,740,000 | 3,997,125.00 | 20,737,125.00 | 33,631,731.25 | 82,467,137.50 |
| 10/1/2034 | - | 3,578,625.00 | 3,578,625.00 | 16,963,743.75 | - |
| 4/1/2035 | 17,580,000 | 3,578,625.00 | 21,158,625.00 | 31,678,143.75 | 73,379,137.50 |
| 10/1/2035 | - | 3,139,125.00 | 3,139,125.00 | 16,657,193.75 | - |
| 4/1/2036 | 18,460,000 | 3,139,125.00 | 21,599,125.00 | 29,808,743.75 | 71,204,187.50 |
| 10/1/2036 | - | 2,677,625.00 | 2,677,625.00 | 16,369,043.75 | - |
| 4/1/2037 | 19,385,000 | 2,677,625.00 | 22,062,625.00 | 27,808,671.88 | 68,917,965.63 |
| 10/1/2037 | - | 2,193,000.00 | 2,193,000.00 | 16,124,646.88 | - |
| 4/1/2038 | 20,355,000 | 2,193,000.00 | 22,548,000.00 | 28,036,946.89 | 68,902,593.77 |
| 10/1/2038 | - | 1,684,125.00 | 1,684,125.00 | 15,878,246.89 | - |
| 4/1/2039 | 21,370,000 | 1,684,125.00 | 23,054,125.00 | 28,279,887.51 | 68,896,384.40 |
| 10/1/2039 | - | 1,149,875.00 | 1,149,875.00 | 15,625,212.51 | - |
| 4/1/2040 | 22,435,000 | 1,149,875.00 | 23,584,875.00 | 28,528,593.76 | 68,888,556.27 |
| 10/1/2040 | - | 589,000.00 | 589,000.00 | 15,409,543.76 | - |
| 4/1/2041 | 23,560,000 | 589,000.00 | 24,149,000.00 | 28,730,775.01 | 68,878,318.77 |
| 10/1/2041 | - | - | - | 15,191,725.01 | - |
| 4/1/2042 | - | - | - | 16,122,675.00 | 31,314,400.01 |
| 10/1/2042 | - | - | - | 15,330,575.00 | - |
| 4/1/2043 | - | - | - | 15,981,531.25 | 31,312,106.25 |
| 10/1/2043 | - | - | - | 15,485,781.25 | - |
| 4/1/2044 | - | - | - | 15,828,675.00 | 31,314,456.25 |
| 10/1/2044 | - | - | - | 138,900.00 | - |
| 4/1/2045 | - | - | - | 7,083,900.00 | 7,222,800.00 |
| **Total** | **$270,910,000** | **$119,225,806.94** | **$390,135,806.94** | **$966,143,768.85** | **$1,356,279,575.79** |


LAGUNA HONDA HOSPITAL


SAN BRUNO JAIL COMPLEX


ONE SOUTH VAN NESS

MOSCONE CENTER NORTH

# Exception 2: Special Fund Obligations

- Debt limitation interpreted to define restricted "debt" as being paid out of general taxes (traditionally, property taxes)
  - Does not apply to debt that is paid for out of special revenues and used to finance an asset which is part of a project or system generating such revenues
  - Enterprise fund revenue debt, paid out of service fees and other user charges
- Concept expanded to all "special funds"
  - Special taxes, fees, assessments
- If special fund revenues are insufficient, there can be no obligation of local agency to pay debt service
  - Lack of a pledge of taxes a key fact distinguishing special fund obligations under California law
  - General Fund revenues usually cannot be transformed into special funds for purpose of securing debt

**TYPES OF LIMITED OBLIGATION BONDS**

I. Special Tax (on Property) and Assessment Bonds

II. Special Fund Bonds
   - Tax Increment Bonds
   - Sales Tax Revenue Bonds

III. Enterprise Revenue Bonds

# I. Special Tax & Assessment Bonds

- **Basic premise**
  - Public agency sponsors creation of special district - Property owners agree to a charge on property to fund certain facilities
- **Bond financing**
  - Bonds generate up-front funds for capital projects
  - Repaid with special taxes or assessments levied annually on property tax bill
  - Issuer may foreclose on delinquent parcels
  - In the event of a foreclosure, land value serves as ultimate collateral securing repayment

BENEFITS & CONSIDERATIONS

**Benefits**

- New revenue stream created for projects
- No payment obligation for public agency

**Considerations**

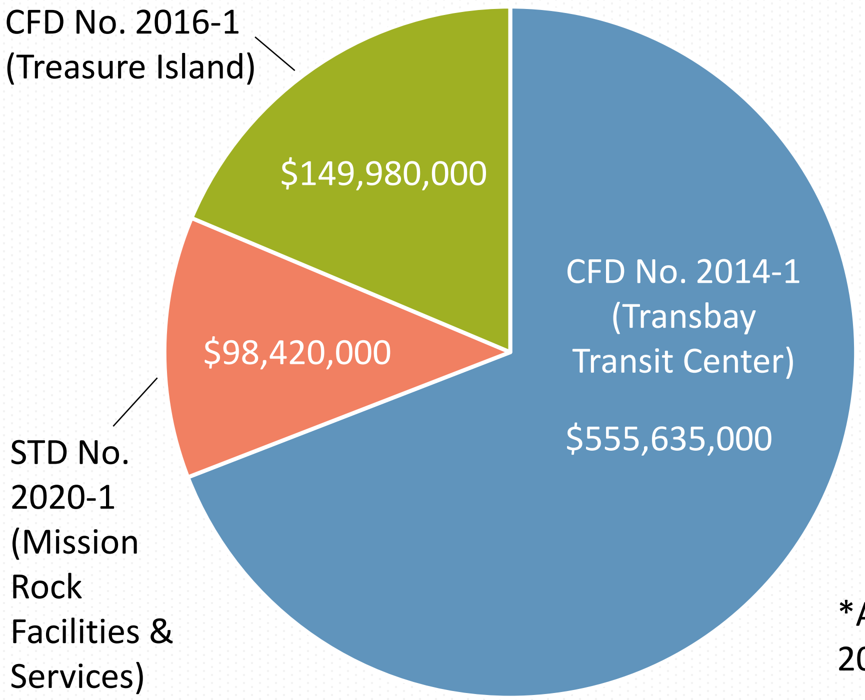
- Requires formation of district, which takes time, and voter (often property owner)-approval
- Development projects can be risky (e.g., hard to finance) in early stages
- Assessment spreads vulnerable to legal challenge

# Special Tax & Assessment Bonds (CONTINUED)

| | COMMUNITY FACILITIES DISTRICT (CFD) | ASSESSMENT DISTRICT (AD) |
|---|---|---|
| **Statute** | Mello-Roos Act of 1982 | 1915 Act/1913 Act |
| **Security** | Annual special tax on property tax roll | Annual assessment levied on property tax roll |
| **Vote** | 2/3rds vote of undeveloped property owners (if less than 12 registered voters) or registered voters | Less than 50% majority protest (Protest Hearing) |
| **Scope** | Capital projects with "specific capital projects and maintenance benefits" only | Direct and special benefit improvements, no general public benefit |
| **Spread of Lien** | "Reasonable" spread of costs in special tax formula<br>Dynamic payment obligation, can change as development proceeds | Spread must be proportional to benefit<br>Fixed payment obligation |

# San Francisco Special Tax Bonds

## SAN FRANCISCO CFD & STD BONDS*




*As of Jul
2026

**Total Special Tax Bonds: $804,035,000**

- **Special Tax District (STD)**
  - Mission Rock
- **Community Facilities District (CFD)**
  - Transbay Transit Center

# II. Special Fund Bonds

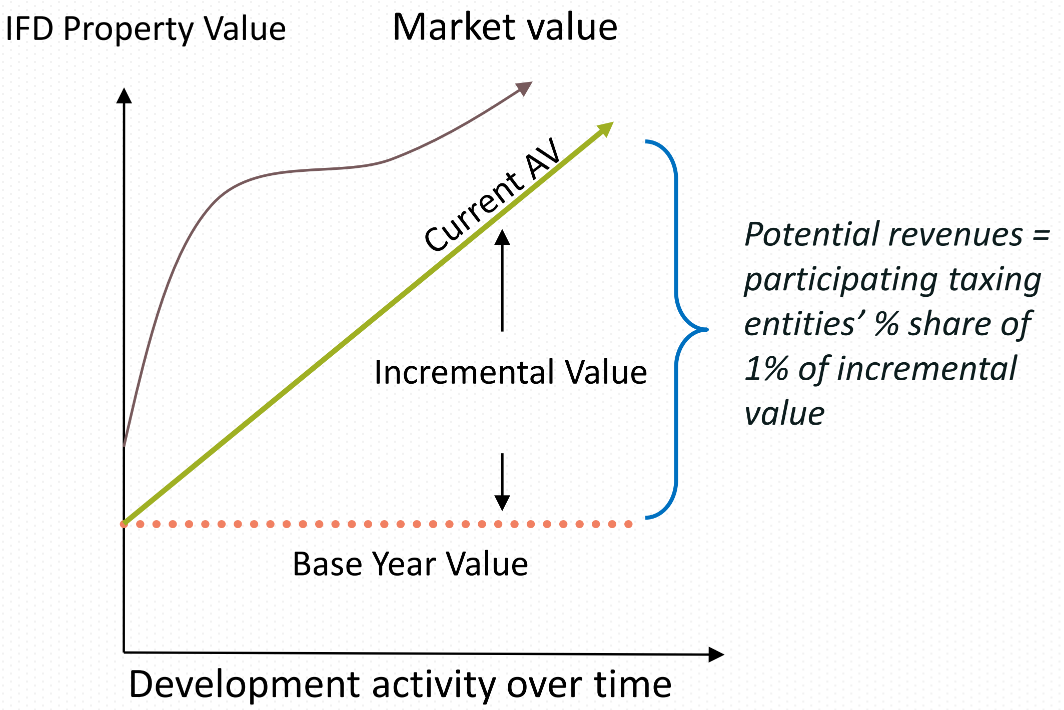
- Tax-Increment Bonds
  - Secured by dedicated share of property tax (tax increment)
  - While redevelopment bonds were limited by dissolution, replaced by more limited Enhanced Infrastructure Financing District (EIFD) bonds

- Sales Tax Revenue Bonds for special purposes or by special districts
  - Payable from and secured by revenues from the imposition of a sales and use tax on retail transactions within the issuer's boundaries

- Conduit Agency Bonds
  - To provide tax-exempt financing for certain “exempt” private activities, secured by a loan to entity

# Tax Increment Bonds

- **Three primary statutory vehicles in California**
  - Enhanced Infrastructure Financing District (EIFD)
  - Infrastructure and Revitalization Financing District (IRFD)
  - Infrastructure Financing District (IFD)




## BENEFITS & CONSIDERATIONS

**When Used?**

- For large-scale projects with significant rezoning and net fiscal benefit
- For projects that address infrastructure deficiencies and have long-term maintenance commitments
- Typically, in combination with other tools, like a CFD

**Considerations**

- Limited, passive revenue stream
- No tax increment revenue until growth occurs; assessed values lag development activity
- Tax increment revenues decline if assessed values decline
- Often limited geographic area with concentrated tax base

# San Francisco Tax Increment Bonds

## TREASURE ISLAND IRFD

**Purpose:** Captures property tax increment to issue bonds that pay for public improvements, transportation infrastructure, and affordable housing

**Project Areas:** Covers five specific zones—Project Area A on Yerba Buena Island and Project Areas B, C, D, and E on Treasure Island

**Formation:** Adopted on January 31, 2017, via Board of Supervisors Ordinance No. 21-17 following a public hearing and landowner vote

**Bond Authorizations:** The City has periodically authorized and issued tax increment revenue bonds under this district to maintain ongoing construction of facility infrastructure and affordable housing

- As of July 1, 2026 $63.98 million IRFD No. 1 Bonds are outstanding

The Treasure Island Infrastructure and Revitalization Financing District (IRFD) No. 1 is a special financing district formed by the City and County of San Francisco in January 2017 to fund critical public infrastructure and affordable housing for the Treasure Island/Yerba Buena Island Development Project.

# Sales Tax Revenue Bonds

- **Direct pledge of sales tax revenues** requires 2/3 voter approval
  - Most sales tax revenue bonds are issued by countywide transportation authorities

- General sales taxes (majority approval) can be used to pay debt service on **general fund lease debt**
  - **Example:** City passes a general sales tax measure for various purposes, including police and fire
  - **Project:** New police administration building
  - **Financing Vehicle:** General Fund lease debt
  - **Debt Service Payment:** Sales tax from special fund transferred to General Fund to offset

## BENEFITS & CONSIDERATIONS

**Benefits**

- Broad-based tax support for public improvements
- Generates new revenue source to repay debt; no support from general fund

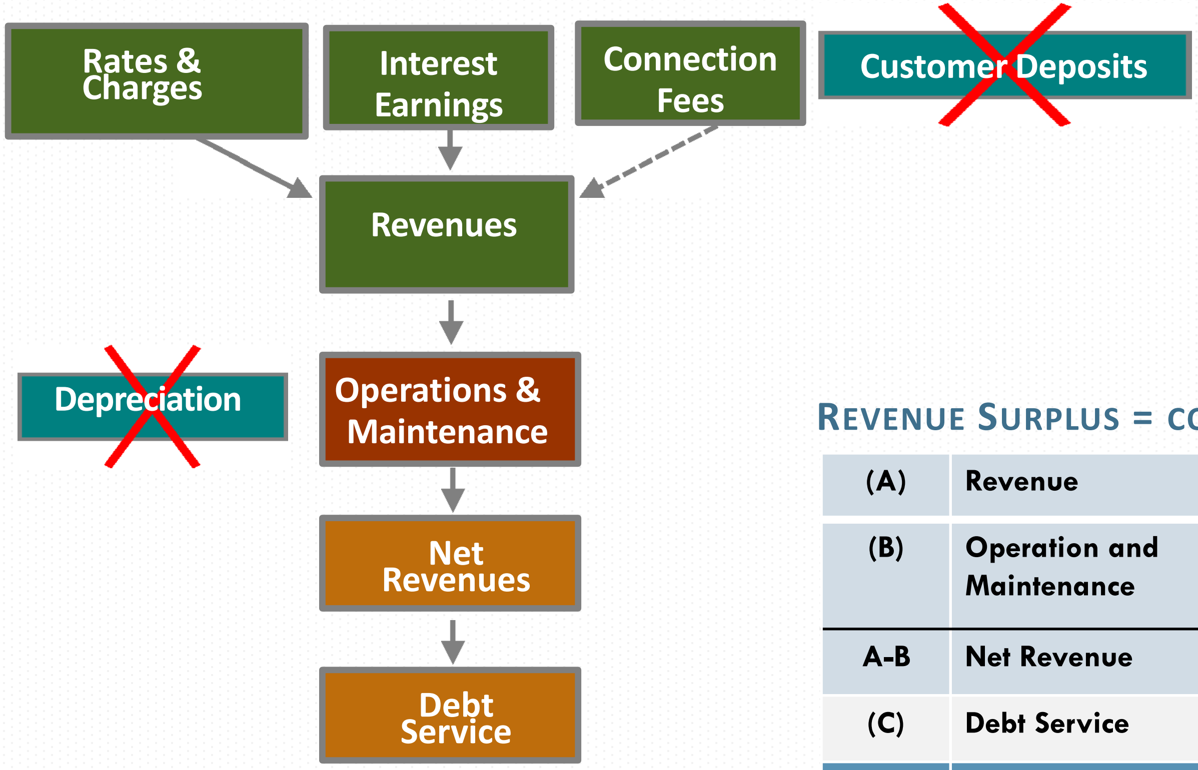
**Considerations**

- Time, expense and uncertain outcome of election
- Voter authorization of sales tax required: general tax (majority voter approval) v. special tax (2/3 voter approval)
- Sales tax increase

# III. Enterprise Revenue Bonds

- Public agencies sell bonds secured by the following enterprises:
  - **Utilities:** Water, wastewater, electric, solid waste
  - **Transportation:** Airports, ports, toll roads, streets & roads, bridges
- Specific revenue stream pledged to bonds
  - Usually for a separate enterprise fund or separate agency supported by user fees
  - Enterprise typically consists of an entire revenue-generating system
- Revenue bond features
  - Rate covenants to maintain minimum coverage requirement
  - Requirements for issuing additional parity debt (Additional bonds test)

# III. Enterprise Revenue Bonds (CONTINUED)




CAPITAL PROJECT COSTS PAID AFTER DEBT SERVICE

### REVENUE SURPLUS = COVERAGE

| | | |
|---|---|---|
| (A) | Revenue | $10,000,000 |
| (B) | Operation and Maintenance | 7,000,000 |
| A-B | Net Revenue | $3,000,000 |
| (C) | Debt Service | 1,500,000 |
| (A-B)/C | Debt Service Coverage (Net) | 2.0x |

## REVENUE BOND SECURITY PLEDGE

- **Net Revenue Pledge**: fees and charges of enterprise after payment of operations and maintenance (excluding depreciation); no security interest in physical assets of enterprise
- **Rate Covenant:** issuer commits to charge rates sufficient to pay debt service with a coverage cushion; may require rate increases in future with Proposition 218 process
- **Additional Bonds Test:** limits subsequent financings secured by same revenues

# Exception 3: Obligation Imposed by Law

- **Debt is a non-contingent obligation of General Fund**
- **Pension Obligation Bonds ("POBs")**
  - Most common use of this vehicle
  - Taxable bonds used to extinguish all or a portion of an agency's unfunded pension liability
  - Proceeds are deposited with retirement association, resulting in potential investment gains or losses - risk arbitrage
  - Recent case law provides precedent that agencies can rely on in the issuances of POBs
- **Judgment Obligation Bonds ("JOBs")**
  - AB 218 has resulted in a flood of litigation against local governments across California, prompting the consideration of JOBs to lessen the financial impacts on public programs and services

## CITY OF SAN JOSÉ V. HOWARD JARVIS TAXPAYERS ASSOCIATION (DECEMBER 2025)

- California Supreme Court unanimously upheld the City of San José's authorization of the issuance of up to approximately $3.5 billion in POBs to refund the City's unfunded actuarial pension liability ("UAL"), holding that—even if the bonds constitute "new" debt—the issuance falls within the exception to the constitutional debt limitation for an "obligation imposed by law" … therefore:
- POBs do not require two-thirds voter approval under Article XVI, section 18(a) of the California Constitution
- The constitutional debt limit does not constrain the discretion over how to address such obligation, including by choosing to issue POBs without a vote

# QUESTIONS?

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*Managing Director*
KNN Public Finance

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City and County of San Francisco

**MELISSA SHICK**
*Managing Director*
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# SESSION FIVE
## Short-term Instruments

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CDIAC

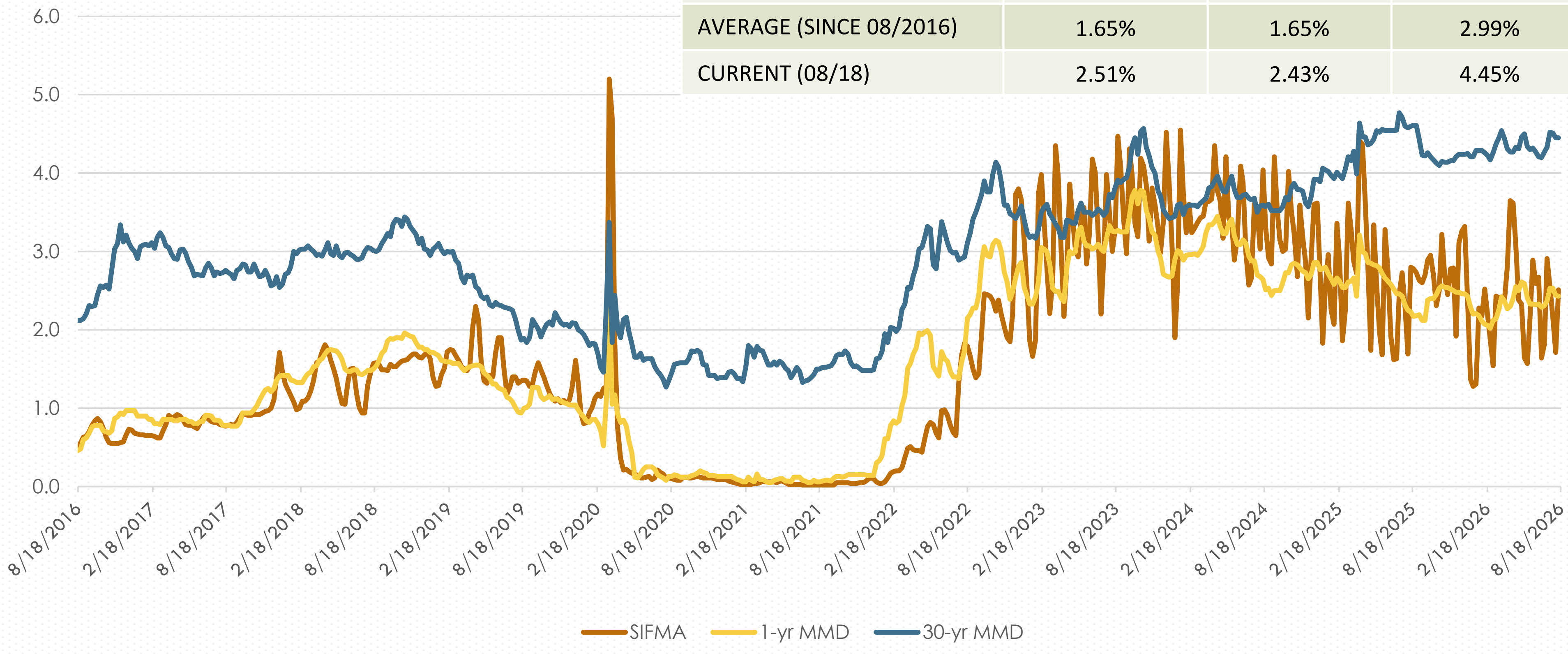
# Short-Term Debt is Loosely Defined

- In general, **"short-term"** is characterized as debt that bears interest based on **short-term interest rates**
- However…debt term/amortization may vary
  - Short-Term: 1-year to 3-years (generally)
  - Long-Term: Up to 30-years
- And…coupon structures may also vary
  - Fixed rate
  - Variable rate

# Short-Term Interest Rates Have Historically Provided a Lower Cost of Borrowing

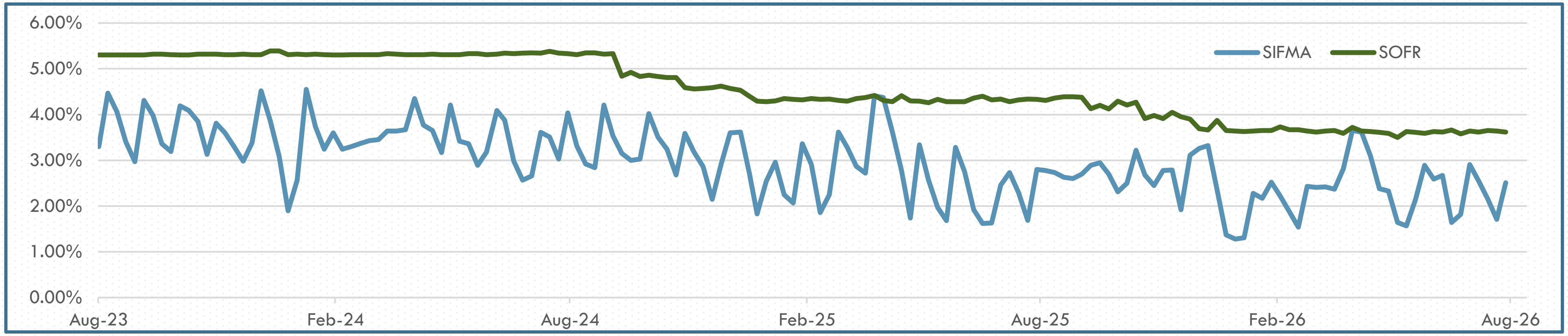
## SHORT-TERM VERSUS LONG-TERM INTEREST RATES (LAST TEN YEARS)

| | SIFMA | 1-YR MMD | 30-YR MMD |
|---|---|---|---|
| MIN | 0.02% | 0.05% | 1.27% |
| MAX | 5.20% | 3.78% | 4.77% |
| AVERAGE (SINCE 08/2016) | 1.65% | 1.65% | 2.99% |
| CURRENT (08/18) | 2.51% | 2.43% | 4.45% |

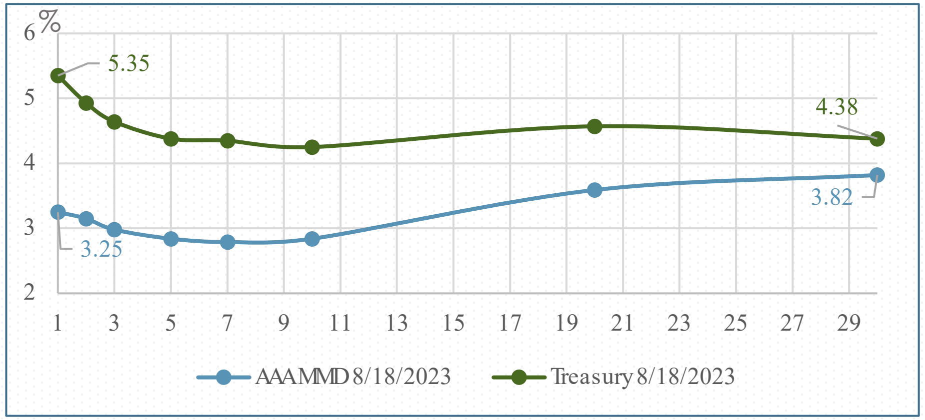


# Short-Term Interest Rates Can be Variable or Fixed

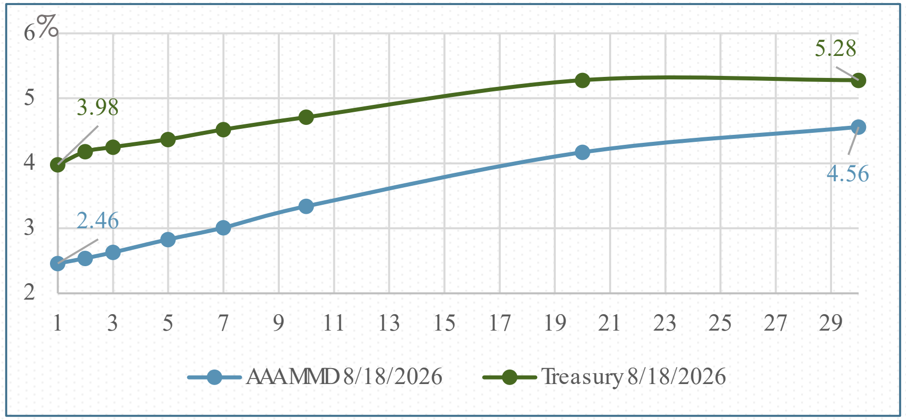
## TAX-EXEMPT (SIFMA) & TAXABLE (SOFR) VARIABLE RATES (LAST THREE YEARS)




## FIXED RATE YIELD CURVE (AUG 2023)




## FIXED RATE YIELD CURVE (AUG 2026)



# Types of Debt Characterized as "Short-Term"

| | |
|---|---|
| **I. BRIDGE FINANCINGS** | • Provide interim financing for capital projects, to be taken out with permanent financing<br>• Types of bridge financings:<br>  • Commercial Paper (CP), Revolving Line of Credit<br>  • Bond or Grant Anticipation Notes (BANs or GANs)<br>• **Short-term** maturity at **fixed** or **variable short-term interest rates** |
| **II. CASHFLOW FINANCINGS** | • Provide working capital to pay operating expenses<br>• Most common type: Tax and Revenue Anticipation Notes (TRANS) accommodate early year expenditures such as pension prepayment and late year revenues such as property tax<br>• **Short term** maturity at **fixed short-term interest rates (typically)** |
| **III. PERMANENT FINANCINGS** | • Provide long-term funding at short-term interest rates by pairing a long, nominal maturity(s) with a variable interest rate<br>• Types of permanent financings:<br>  • Variable Rate Demand Obligations/Bonds (VRDOs/VRDBs)<br>  • Floating Rate Notes (FRNs)<br>  • Put Bonds<br>• **Long-term** maturity at **fixed** or **variable short-term interest rates** |

# I. Bridge Financings Interim Borrowing Needs

- **WHY** are bridge financings used?
  - Less certain about larger scale borrowing needs, but some initial project investment is needed
  - Desire to fund projects on a "just in time basis" as opposed to "upfront"

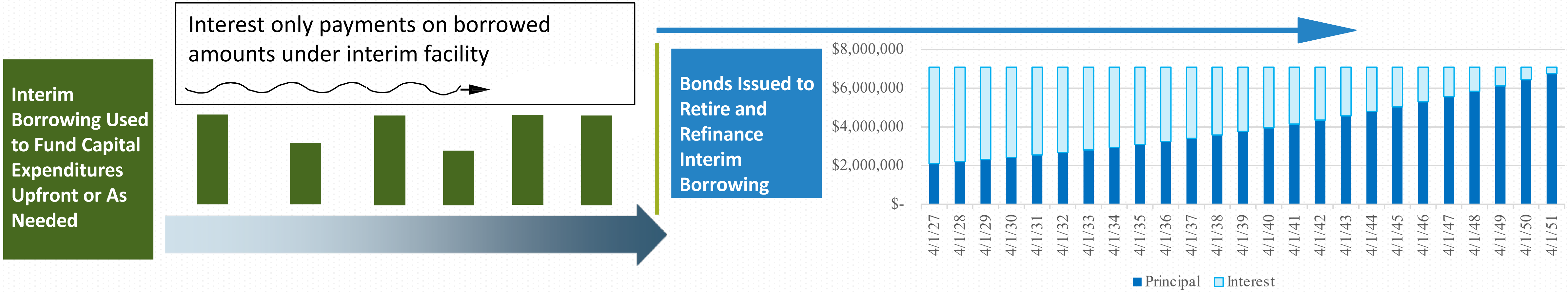
- **WHAT** are the primary types of interim financing vehicles?

| | COMMERCIAL PAPER | BANK LINE OF CREDIT | SHORT-TERM LOANS (BANs or GANs) |
|---|---|---|---|
| Issuance Type | Public Offering | Private Placement/Bank | Public Offering OR Private Placement/Bank |
| Funding | Draw/Issued As Needed | Draw/Issued As Needed | Provided Upfront |

# I. Bridge Financings
# Interim Borrowing Needs (Continued)

- **HOW** are bridge financings typically structured?
  - Short-term maturities 0-270 days (commercial paper) or ranging from 1- to 3-years (fixed notes)
  - Interest only with no repayment of principal until “take-out”

- **WHEN** are bridge financings repaid?
  - Typically, with long-term borrowings and sometimes with available revenues/grants



# I. Bridge Financings: Commercial Paper

| COMMERCIAL PAPER | |
|---|---|
| **Purpose** | • **Construction:** Financing day-to-day costs of a construction project in which the issuer needs cash on hand in order to pay contractors and suppliers<br>• **Working Capital:** Financing short-term obligations involved in daily operations, such as funding accounts payable and inventory needs<br>• **Interim financing**: Providing the issuer with liquidity leading up to a larger and longer term bond issue |
| **Benefit(s)** | • Offers flexibility to create template for borrowing program and then draw down project funds as needed |
| **Considerations(s)** | • **Interest rate risk** related to rate reset process<br>• Requires third-party (bank) liquidity |
| **Interest Rate** | • **Liquidity costs + Fixed rate** set to a stated maturity date between 1 and 270 days |
| **Primary Buyer(s)** | • Money Market Funds |

- While CP Notes have fixed maturities, CP does not have a fixed long-term amortization schedule like bonds
  - The issuer maintains flexibility with respect to the timing, amounts, and how the CP outstanding principal will be repaid
- There are several ways in which an issuer can obtain the funds to provide payment to note holders at the CP Note maturity
  1. CP Notes can be **"rolled"** with proceeds of a subsequent CP Note issuance
  2. CP Notes can be **"refunded"** with proceeds of a long-term bond issuance
  3. CP Notes can be **"retired"** with available funds on hand

# San Francisco General Fund Commercial Paper Program

- The City's CP program is a dynamic program employed by multiple City departments for multiple projects on different time schedules
- Structured as a lease financing security consistent with the City's long-term Certificates of Participation borrowing program
- Board authorization and approval of the issuance of long-term Certificates of Participation to finance City projects typically allow for the issuance of CP Notes to later be refinanced with the Certificates
    - *The proceeds of the Certificates will be used, together with other available funds of the City, to (i) finance and/or refinance the Project, <u>including through the retirement of certain commercial paper notes of the City issued therefor</u>; (ii) fund a debt service or other similar reserve, as appropriate; and (iii) pay costs of issuance of the Certificates*

**CITY AND COUNTY OF SAN FRANCISCO COMMERCIAL PAPER PROGRAM**

| SERIES | AMOUNT | BANK | DEALERS |
|---|---|---|---|
| Series 1 & 2<br>Series 1 & 2T | $150,000,000 | T.D. Bank, N.A | J.P. Morgan |
| Series 3<br>Series 3-T | $100,000,000 | Bank of the West | US Bancorp |

**TAX-EXEMPT PROJECTS:**

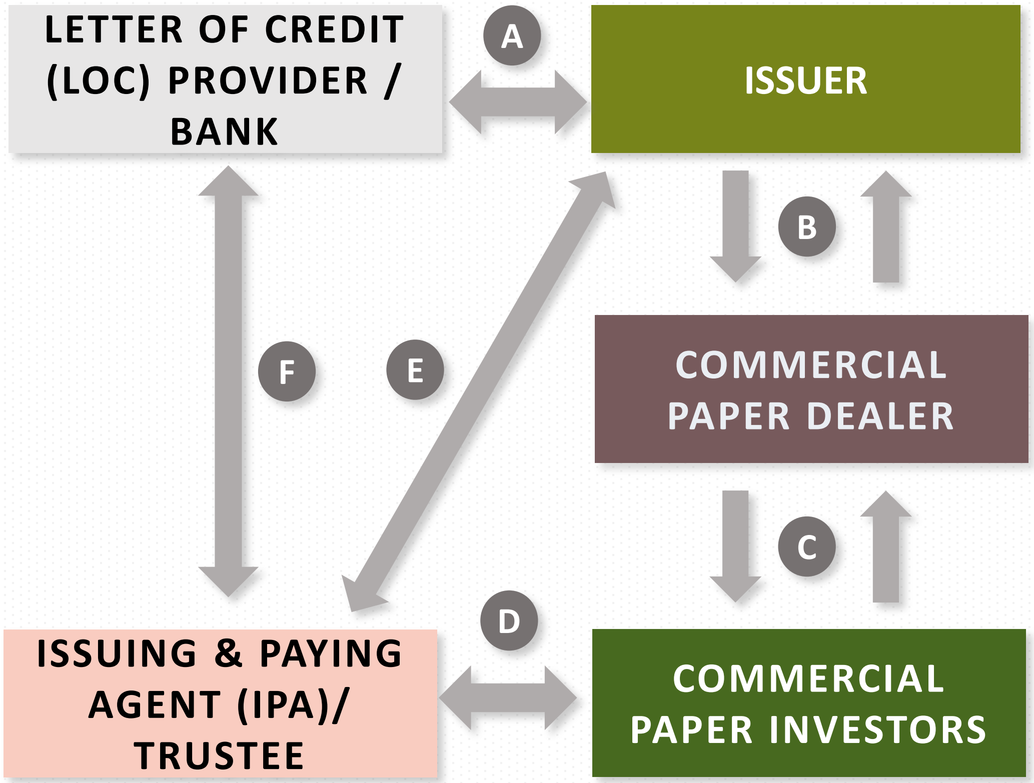
- Facility Improvements
- Streets & Roads
- Utility Infrastructure

**TAXABLE PROJECTS:**

- Affordable Housing
- Davies Hall, Opera Hall

# San Francisco Commercial Paper Program Mechanics

## PARTIES INVOLVED




## KEY ROLES

- **A** i) Issuer obtains bank support; ii) Bank provides credit or liquidity in the event CP notes cannot be rolled/placed with investor
- **B** i) Issuer requests issuance of "new" CP or “rollover” of CP; ii) Issuer and Dealer determine maturity of CP notes
- **C** CP notes sold through the Dealer either to a new investor or to an investor holding a maturing note
- **D** i) IPA directs P&I payments to investors when note matures; ii) IPA deposits new money CP note proceeds from investors into project and cost of issuance funds; iii) IPA deposits principal from investors into LOC repayment funds
- **E** i) Issuer transfers amount of interest due to IPA; ii) Issuer provides Issuance instructions to IPA; iii) IPA receives proceeds from new money notes for project costs and transfers to Issuer
- **F** i) IPA draws on the LOC in the amount of principal and interest due at the CP Note maturity to pay investors; ii) IPA takes interest payment from Issuer and principal from investor to repay LOC draw

# San Francisco Commercial Paper Issuance Management

- Flexibility to determine timing of issuance needs and the maturity of each issuance, but requires active program management
- Rollover occurs for each portion of the CP program on the relevant maturity date
- Actively work with dealer in selecting the maturity dates of individual CP Notes to minimize interest expense and align notes with program administration needs

**EXAMPLE: $100 MILLION CP PROGRAM**

<table>
<tr><th></th><th>Jul-26</th><th>Oct-26</th><th>Jan-27</th><th>Apr-27</th><th>Jul-27</th><th>Oct-27</th><th>Jan-28</th><th>Apr-28</th><th>Jul-28</th></tr>
<tr><td>Note A - $25 mm</td><td>New Note</td><td>Roll #1</td><td>Roll #2</td><td>Roll #3</td><td>Roll #4</td><td colspan="2">Roll #5</td><td>Roll #6</td><td></td></tr>
<tr><td>Note B - $25 mm</td><td></td><td colspan="2">New Note</td><td colspan="2">Roll #1</td><td colspan="2">Roll #2</td><td>Roll #3</td><td></td></tr>
<tr><td>Note C - $25 mm</td><td></td><td></td><td>New Note</td><td colspan="3">Roll #1</td><td colspan="2">Roll #2</td><td></td></tr>
<tr><td>Note D - $25 mm</td><td></td><td></td><td></td><td colspan="2">New Note</td><td colspan="2">Roll #1</td><td>Roll #2</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>$100 mm Bonds</td></tr>
</table>

# I. Bridge Financings: Bank Line of Credit

| BANK LINE OF CREDIT | |
|---|---|
| **Purpose** | • **Construction:** Financing day-to-day costs of a construction project in which the issuer needs cash on hand in order to pay contractors and suppliers<br>• **Working Capital:** Financing short-term obligations involved in daily operations, such as funding accounts payable and inventory needs<br>• **Interim financing**: Providing the issuer with liquidity leading up to a larger and longer term bond issue |
| **Benefit(s)** | • Offers flexible funding "as needed"<br>• Can be more streamlined and easier administration as compared to commercial paper |
| **Considerations(s)** | • **Interest rate risk** related to rate reset process (if floating)<br>• Requires bank agreement and bank terms |
| **Interest Rate** | • **Floating rate + fixed credit spread** based on SIFMA, SOFR (or % of SOFR)<br>• **Fixed rate + fixed credit spread** set to a stated maturity |
| **Lenders** | • Direct Purchase Banks |

- Mechanically, a bank line of credit provides the funding flexibility consistent with a commercial paper program, but does not require the following:
  - Public disclosure/offering memorandum
  - CP dealer
  - Credit ratings
- Bank credit is extended in form of a "loan" versus "liquidity"

# I. Bridge Financings: BANs or GANs

| BOND ANTICIPATION NOTES & GRANT ANTICIPATION NOTES | |
|---|---|
| **Purpose** | Capital projects |
| **Benefit(s)** | Can provide seed financing in advance of a planned long-term financing |
| **Consideration(s)** | Hard maturity requires a high- degree of certainty around take- out mechanism |
| **Interest Rate** | **Fixed** at time of sale |
| **Primary Buyer(s)** | The investor base has shifted away from Money Market Funds (“MMF”) towards and short duration bond funds |

## ILLUSTRATION

**BANs**

- Sales tax authorization approved by voters but revenue collections do not begin for another two years
- Issuer can issue BANs now to tap future debt capacity
- BANs are repaid with long-term financing
- Credit ratings are typically based on expected terms of future take-out and assessment of future market access

**GANs**

- State or federal government provides grant commitment but funding does not flow immediately or is provided on an incremental or reimbursement basis (typical of transportation funding arrangements)
- GANs are issued to “accelerate” grant funding
- Credit ratings are typically based on the timing and reliability of expected grant receipts

# II. Cash Flow Financings: TRANs

- **California Constitution limits "any indebtedness… exceeding in any year the income and revenue provided for such year"**
  - TRANs are indebtedness that is fully repaid out of current year revenues
  - Typically issued early in the fiscal year to fund payroll expenditures prior to receipt of property tax revenues
- **TRANS issued for cash flow**
  - Property tax and business license taxes are the most cyclical of revenues, received beginning in December
  - Salary expenditures are level all year
  - Some extraordinary expenditures may be front loaded (i.e. prepayments to retirement systems)
- **Some factors when considering issuing TRANs**
  - Real cashflow needs
  - Reinvestment opportunities (can keep any arbitrage as long as planned deficit occurs)
  - Costs of issuance are current expenses, not amortized over many years

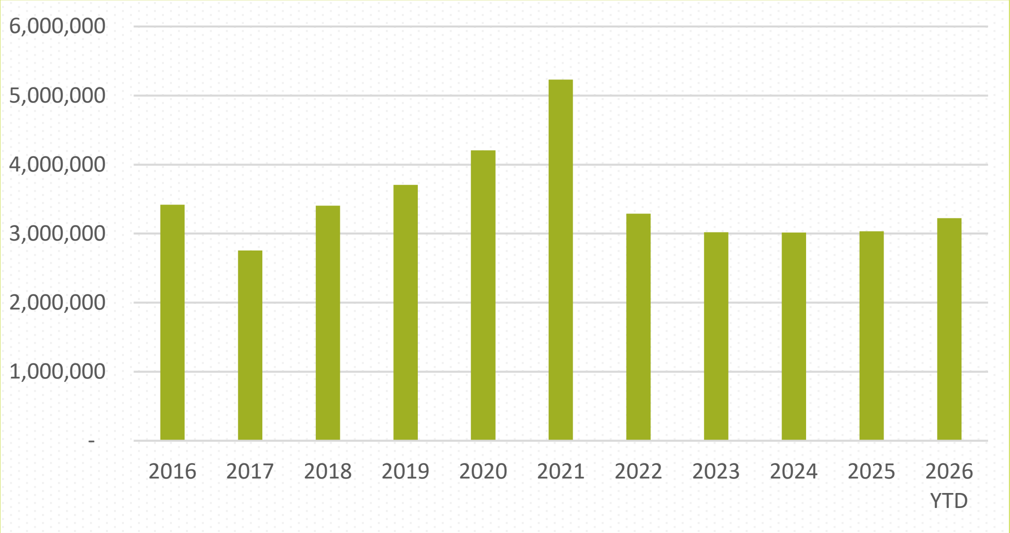
# II. Cash Flow Financings: TRANs

| TAX AND REVENUE ANTICIPATION NOTES | |
|---|---|
| **Purpose** | Cashflow borrowing or capital projects |
| **Benefit(s)** | Smooths-out inconsistent revenue stream, such as property taxes or grants |
| **Consideration(s** | Short tenor and mandatory repayment require careful forecasting of future cashflows to appropriately time payment date(s) |
| **Interest Rate** | **Fixed** at time of sale |
| **Primary Buyer(s)** | The investor base has shifted away from Money Market Funds ("MMF") towards and short duration bond funds |
| **Requirement(s)** | Statutory and tax limits |

**SELECT CALIFORNIA FY 2026-27 TRAN ISSUANCES**

| AMOUNT ($000'S) | ISSUER | SALE DATE | MATURITY |
|---|---|---|---|
| $ 1,440,570 | City of Los Angeles | 6/24/2026 | 6/24/2027 |
| $ 700,000 | County of Los Angeles | 6/9/2026 | 6/30/2027 |
| $ 350,000 | County of Riverside | 6/15/2026 | 6/30/2027 |
| $ 332,000 | City of San Diego | 6/16/2026 | 6/30/2027 |

**HISTORICAL CALIFORNIA TRAN ISSUANCE VOLUME**



# III. Permanent Financings: Why Use Variable Rate Debt?

- **Debt Portfolio Diversification**
  - Interest cost, timing, investor base
- **Asset / Liability Balance**
  - Short-term investments naturally hedge variable rate liabilities
- **Prepayment Flexibility**
  - Remarketed securities often have flexible redemption terms; can be refinanced on any “put” date (daily, weekly, monthly, yearly)
- **Interest Cost Management**
  - Historically, has offered the lowest cost of capital
  - Can avoid locking in rates for long tenors in unfavorable markets

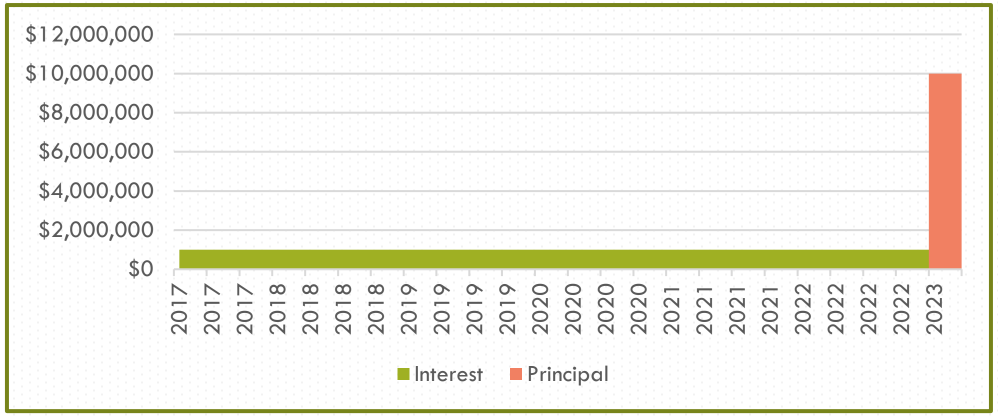
**Thus…variable rate debt tends to be most utilized by issuers with large**

- **Enterprises**
- **Capital programs**
- **Debt programs**

# III. Permanent Financings:
# Fixed Rate Versus Variable Rate Interest

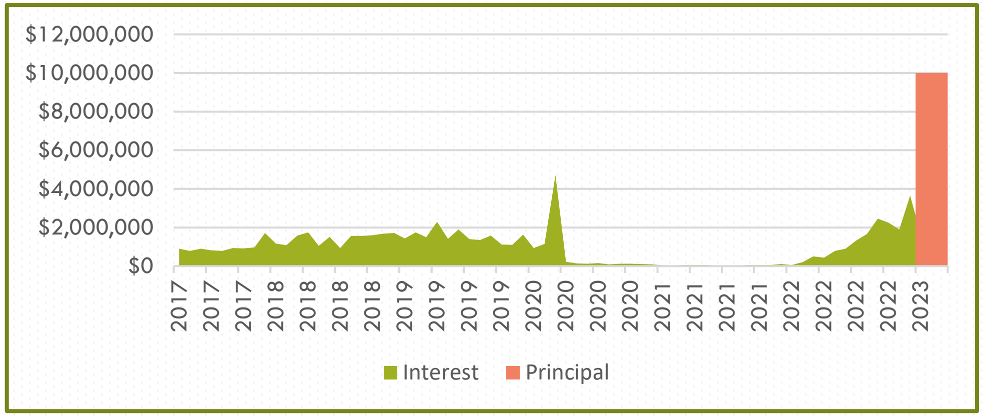
## FIXED RATE DEBT

- Rates (coupons) are set on the day of the pricing and do not change
- Issuer will pay scheduled interest (usually twice a year) for as long as the bonds are outstanding




## VARIABLE RATE DEBT

- Rates are reset to different coupons at predetermined points throughout the year
- Issuer's interest payments will vary for the life of the bonds based on market conditions or changes in an index




**PRO**

Fixed rate debt:
- Budget certainty
- No bank credit support necessary

Variable rate debt:
- Asset/liability management
- Portfolio diversification/flexibility

**CON**

Fixed rate debt:
- Less flexible prepayment feature
- Can be higher cost

Variable rate debt:
- Interest cost variability
- Requires bank credit support

# III. Permanent Financings:
## Primary Variable Rate Financing Vehicles

| | DAILY VRDBS | WEEKLY VRDBS | FLOATING RATE NOTES | PUT BONDS |
|---|---|---|---|---|
| **Product Overview** | • Bonds with a long-term nominal maturity bearing interest at variable rates adjusted at **daily** or **weekly** intervals<br>• VRDB holders have the option to tender securities for purchase to the issuer<br>• Short-term tender features give VRDBs the liquidity and principal preservation characteristics of money market paper, allowing for pricing at the short end of the yield curve | | • Alternative to traditional variable rate products (VRDBs) to generate committed floating rate funding<br>• Interest is paid monthly at the index plus a spread, which is set at pricing and fixed through maturity or mandatory tender date | • Fixed rate bonds that have a long-term nominal maturity with a mandatory investor put prior to maturity<br>• Priced to the put date, allowing issuers to lock in rates at the shorter end of the yield curve |
| **Predominant Buyer** | Money Market Fund | Money Market Fund | Short Duration Intermediate | Short Duration Intermediate |
| **Maturity** | Long-term (e.g. 30Y) | Long-term (e.g. 30Y) | Long-term (e.g. 30Y) | Long-term (e.g. 30Y) |
| **Tender / Put Tenor** | Daily | Weekly | 1-10 Years | 1-10 Years |
| **Rate Reset Period** | Daily | Weekly | On Mandatory Tender Date | On Put Date |
| **Bank Liquidity Required?** | Yes | Yes | No | No |
| **Pricing** | ~SIFMA | ~SIFMA | SIFMA + Spread<br>% SOFR + Spread | MMD + Spread<br>(+ Put Premium) |

# Bank Liquidity Concepts: CP and VRDBs

## BANK LIQUIDITY FACILITIES

- Standby Bond Purchase Agreements (SBPA) or Revolving Credit Agreements
- Banks fund the purchase price of a failed remarketing
- Does not guarantee the payment of principal & interest
- The bank has the option to terminate or suspend payments immediately in case of:
  - Voluntary issuer bankruptcy
  - Issuer fails to pay principal or interest
  - Issuer defaults on parity debt
  - Involuntary bankruptcy
  - Issuer falls below investment grade
- VRDBs/CP carry bank's short-term ratings
- VRDBs carry issuer's long-term ratings

## BANK DIRECT PAY LETTER OF CREDIT

- Reimbursement Agreement or Letter of Credit (LOC)
- Supports payment of principal and interest when due
- Banks must pay noteholders – guaranteed payment of principal and interest
- Issuer generally pays a larger premium to the bank for the guarantee
- The bank does not have the option to terminate or suspend payments despite:
  - Bankruptcy of the issuer
  - Downgrade in ratings
  - Default of the issuer on outstanding VRDBs or parity debt
- VRDBs/CP carry the bank's short-term ratings
- VRDBs carry bank's long-term ratings

# Put Features:
# VRDBs, FRNs, and Put Bonds

## VRDB PUT FEATURES – AT REMARKETING

- Investors can "put" VRDOs back to the remarketing agent at each rate reset date
  - If an investors "puts" the VRDO back, the remarketing agent will attempt to remarket the securities to a new investor
  - If a remarketing is unsuccessful, and the remarketing agent is unable to find new investors to purchase the VRDOs, the remarketing agent may, **but is not obligated to**, purchase the securities
  - If a remarketing is unsuccessful and the remarketing agent elects **not** to purchase the securities, the liquidity provider must purchase the securities

## NOTE/BOND PUT FEATURES – AT TENDER DATE

**Soft Put**

- If notes/bonds are not refinanced at the mandatory tender date, the issuer pays a punitive stepped-up interest rate on the bonds/notes, but no event of default occurs
- The interest rate may "step-up" over a few periods if the bonds continue to remain outstanding, or it may automatically step up to a maximum rate
- May be structured similar to the "term-out" feature of a bank liquidity facility whereby principal is paid over a defined period

**Hard Put**

- If notes/bonds are not refinanced at the mandatory tender date, the issuer is considered to be in default

# QUESTIONS?

**DAVID BRODSLY**
*Managing Director*
KNN Public Finance

**GRANT CARSON**
*Debt Capital Markets Specialist*
City and County of San Francisco

**MELISSA SHICK**
*Managing Director*
KNN Public Finance

# SESSION SIX
## Initial Disclosure and Legal Documents

**JACQUELYNNE JENNINGS**
*Counsel*
ArentFox Schiff LLP

**PATRICIA REAVEY**
*Deputy Executive Director of Finance and Administration*
Alameda County Transportation Commission



CDIAC

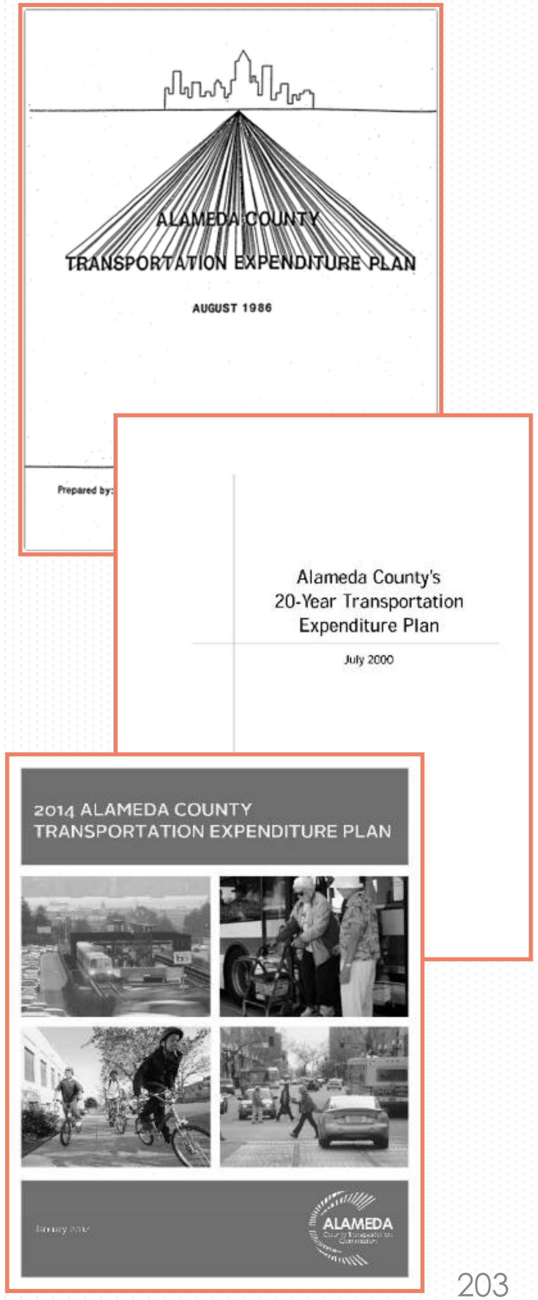
# Overview of ArentFox Schiff

- ArentFox Schiff LLP is internationally recognized in core industries where business and the law intersect.
- With offices in Boston, Chicago, Los Angeles, New York, San Francisco, Silicon Valley, and Washington, DC, and more than 650 lawyers and policy professionals, ArentFox Schiff provides strategic legal counsel to clients that range from Fortune 500 corporations and start-ups, to state, local, and foreign governments, trade associations, and private individuals.
- Our attorneys know that being Smart in Your World isn’t just about having great legal skills. It means knowing your business, your industry, and your goals — and using that insight to solve challenges creatively and efficiently. Through decades of service, our attorneys have understood that hard work and talent are just a starting point for being considered a premier law firm, a distinction that ArentFox Schiff has earned from The American Lawyer, Chambers USA, and Legal 500.
- As one of the most diverse general practice law firms in the country, ArentFox Schiff has roots in government service, a focus on legal excellence, and a commitment to the administration of justice. Our lawyers have consistently distinguished themselves as leaders in pro bono representation, while many continue to play prominent roles in public service.
- ArentFox Schiff is proud of its reputation for understanding our clients’ business, their industry, and their world.

Smart In
Your World°

# Alameda County Transportation Commission

- The Commission is a joint powers authority that plans, funds, and delivers significant transportation projects and programs throughout Alameda County
  - Alameda County Encompasses 821 square miles, with a population over 1.6 million
- Alameda CTC and its predecessor agencies have:
  - Collected and administered sales tax revenues since 1987,
  - Successfully delivered almost all projects included in both the 1986 and 2000 Measure B Transportation Expenditure Plans as promised to voters, and
  - Currently working to deliver projects and programs in the 2014 Measure BB Transportation Expenditure Plan



# Alameda CTC Governance


- The governing body of Alameda CTC consists of 22 Commissioners:
  - All five County Supervisors,
  - Two representatives from the City of Oakland,
  - One representative from each of the 13 incorporated cities in the County,
  - One representative from San Francisco Bay Area Rapid Transit District (BART) and
  - One representative from the Alameda-Contra Costa Transit District (AC Transit)

# Alameda CTC Overview

- Mission - to plan, fund and deliver transportation programs and projects that expand access and improve mobility to foster a vibrant and livable Alameda County.
- Manages Alameda County's one-cent transportation sales tax, Measure BB, approved by more than two-thirds of voters in 2014 in support of the 2014 Transportation Expenditure Plan (TEP) which includes various transportation projects and programs throughout Alameda County and expires in 2045
- Serves as Alameda County's congestion management agency
- Delivers more than $350 million each year in transportation improvements that create jobs, enhance mobility and enrich communities

**PLAN**

Alameda CTC develops a range of plans that guide transportation development and funding decisions

**FUND**

Alameda CTC's investment decisions are guided by voter-approved transportation expenditure plans

**DELIVER**

Alameda CTC's current Capital Program totals about $2.7 billion, with $2.05 billion of project work advancing through to the environmental, design, and construction phases

# Alameda CTC Credit Highlights

- AAA ratings from both S&P and Fitch supported by many factors, including strong sales tax growth and central position within the Bay Area economy

**Very Strong Regional Economy**

- Broad and diverse tax base
- Strong employment and wealth indicators in the County

**Robust Sales Tax Revenues**

- FY2022 sales tax revenues were 1 cent and at all-time high of $385.9M
- FY2023 collections up 7.9% over FY2022 through first half of fiscal year

**Strong Debt Service Coverage and Liquidity**

- MADS coverage ratio of 35.68x after Series 2022 Bonds issued
- Prudent management of cash flows with healthy balance in excess of $660M before issuance

**Strong Legal Provisions**

- Gross sales tax revenue pledge net of administration costs
- Trustee intercept provides enhanced security
- ABT: 2.0x MADS
- Measure BB capital funding allocation of approximately 46% establishes “programmatic coverage” of approximately 2.25x

**Management Strength and Stability**

- Management team averages over 25 years of experience
- Proven track record of delivering projects on time and on budget
- Experience managing prior debt program under previous Measure B Sales Tax Measures

# Preliminary Considerations

- **What** is being financed?
- **What** law authorizes the financing?
- **How** will the financing be structured?
- **What** is the source of funds to repay the borrowing?
- **Who** is the issuer's representative that will be responsible for ongoing compliance?
- **Who** will comprise the Financing Team?
- **What** is a Financing Team?

# The Financing Team

ISSUER TEAM + OTHER PROFESSIONALS = FINANCING TEAM

## ISSUER TEAM

- Issuer
- Department Representatives
- Issuer’s Counsel
- Bond Counsel
- Disclosure Counsel
- Municipal Advisor
- Feasibility Consultant
- Dissemination Agent
- Appraiser

## OTHER PROFESSIONALS

- Trustee / Paying Agent / Fiscal Agent
- Trustee’s Counsel
- Underwriter
- Underwriter’s Counsel
- Securities Repository (DTC)
- Credit Enhancer
- Rebate Consultant
- Borrower and Borrower’s Counsel (Conduit Transaction)
- Verification Agent (Refundings)
- Remarketing Agent (Variable Rate Transaction)
- Letter of Credit Bank (Variable Rate Transaction)

# Disclosure Laws

- **Securities Act of 1933** – "Truth in Securities Law"
  - Requires that investors receive financial and other significant information for securities prior to sale
  - Section 17(a) – Antifraud Rule – Prohibits deceit, misrepresentations, and fraud in sale of securities
- **Exchange Act of 1934** – Created the SEC; conferred broad authority to the SEC to register, regulate, an oversee securities transactions and participants; and require periodic filings
  - **Section 10(b)** – prohibits use of manipulative or deceptive acts in connection with purchase or sale of securities
    - Rule 10b-5 – prohibits the making of untrue statements of material facts or omitting to state material facts that are necessary to make the statements in the offering document not misleading
- **Rule 10b-5**

# Application of Disclosure Laws

- Federal antifraud laws require that municipal issuers use reasonable care to ensure that all information prepared in connection with their security offerings is "**materially**" accurate and does not omit a "**material**" fact that makes the information misleading.
- Whenever the issuer "speaks to the market"
- Examples:
  - Primary disclosure in Official Statements and Offering Memoranda
  - Annual Reports
  - Event Notices and Voluntary Filings Pursuant to Rule 15c2-12
  - Investor Communications
  - Other public statements made by the Issuer and its officials, including press releases, public statements, interviews, website, social media, and speeches
  - Reports delivered to governmental agencies
  - Issuer statements made that are reasonably expected to reach investors are also subject to antifraud provisions

# What Makes a Statement or Omission Material?

- A statement or omission is material if:
  - “there is a **substantial** likelihood that a **reasonable** investor would consider it important in making the decision to purchase or sell the securities”
  - “there is **substantial** likelihood that having the information would have been viewed by the **reasonable** investor as having significantly altered the total mix of information available”
- Determined in the context of all relevant facts and circumstances, and upon the incurrence of each financial obligation
- **No set checklist**
- Guidance is primarily from SEC staff legal bulletins, SEC enforcement cases, and court decisions
- However, SEC staff legal bulletins are not legally binding but are statements of SEC staff views and may be used in enforcement actions

# Disclosure Policies and Procedures

- Provides general guidelines for the preparation of initial and continuing disclosure, including:
  - Identifying members of the Disclosure Working Group
  - Roles and responsibilities of Disclosure Working Group members for preparing disclosure
  - Defining a process for drafting, reviewing, and finalizing all disclosure documents
  - Identifying person(s) responsible for providing final sign-off for prepared disclosure
  - Empowering staff at all levels to provide input
  - Providing legislative body sufficient time for review and comment
  - Providing for periodic review and update of disclosure policies and procedures

# Disclosure Policies and Procedures
(CONTINUED)

- Incorporates best practices
- Focuses on the “big picture”
- Encourages disclosure of the good and the bad
- Retains knowledgeable counsel and professionals
- Provides appropriate and regular training to officials and staff
- Is reviewed and revised periodically by the Disclosure Working Group

# What is an Official Statement?

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS
S&P: "AAA"
Fitch: "AAA"

*In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the Series 2022 Bonds and requirements of the Internal Revenue Code of 1986, as described herein, interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that, under existing law, interest on the Series 2022 Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein.*

**$124,030,000**
**ALAMEDA COUNTY TRANSPORTATION COMMISSION**
**Measure BB Senior Sales Tax Revenue Bonds**
**(Limited Tax Bonds)**
**Series 2022**

**Dated: Date of Delivery** **Due: March 1 as shown on inside cover**

The Alameda County Transportation Commission Measure BB Senior Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2022 in the aggregate principal amount of $124,030,000 (the "Series 2022 Bonds") are being issued by the Alameda County Transportation Commission ("Alameda CTC") pursuant to an Indenture, dated as of July 1, 2022, as supplemented by a First Supplemental Indenture, dated as of July 1, 2022 (together, the "Indenture"), each between Alameda CTC and U.S. Bank Trust Company, National Association, as trustee (the "Trustee"). Proceeds of the Series 2022 Bonds will be applied (i) to finance and/or reimburse Alameda CTC for certain costs of implementing a portion of the transportation improvements outlined in the 2014 Transportation Expenditure Plan, as described herein, and (ii) to pay costs of issuance of the Series 2022 Bonds. See "PLAN OF FINANCE" herein.

The Series 2022 Bonds will be registered in the name of Cede & Co, as holder of the Series 2022 Bonds and nominee for The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive certificates representing their interest in the Series 2022 Bonds purchased. The principal of and interest on the Series 2022 Bonds are payable by wire transfer to DTC which, in turn, will remit such principal or interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Series 2022 Bonds, as more fully discussed herein.

The Series 2022 Bonds will mature in the amounts and will bear interest at the rates set forth in the inside cover page hereof. Interest is payable on March 1 and September 1 of each year, commencing September 1, 2022. The Series 2022 Bonds are being issued as fully registered bonds without coupons in the denominations of $5,000 and any integral multiple thereof.

The Series 2022 Bonds are subject to optional and mandatory redemption prior to their maturity, as more fully described herein.

The Series 2022 Bonds are limited obligations of Alameda CTC secured by a pledge of the Pledged Revenues, consisting primarily of the Pledged Tax Revenues, and certain funds held by the Trustee. The Measure BB Sales Tax is an aggregate one percent (1.00%) retail transactions and use tax imposed in the County of Alameda (the "County"). In November 2014 more than two-thirds of the electorate of the County approved Measure BB to extend an existing one-half of one percent retail transactions and use tax then set to expire on March 31, 2022 and to impose and collect an additional one-half of one percent (1/2%) retail transactions and use tax. The Measure BB Sales Tax took effect on April 1, 2015 and was imposed at a rate of a one-half of one percent (1/2%) from April 1, 2015 through March 31, 2022. On April 1, 2022, the Measure BB Sales Tax increased to one percent. The Measure BB Sales Tax is scheduled to expire on March 31, 2045. The Series 2022 Bonds are secured by a pledge of Pledged Tax Revenues, which consist of amounts collected on account of the Measure BB Sales Tax, minus any refunds and any fees imposed by the California Department of Tax and Fee Administration for the performance of functions incident to the administration and operation of Ordinance No. 2014-1 and four percent administrative costs of Alameda CTC. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2022 BONDS" herein.

THE SERIES 2022 BONDS ARE LIMITED TAX BOND OBLIGATIONS OF ALAMEDA CTC PAYABLE SOLELY FROM PLEDGED REVENUES, PRIMARILY CONSISTING OF PLEDGED TAX REVENUES AND CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE, AND ALAMEDA CTC IS NOT OBLIGATED TO PAY THE SERIES 2022 BONDS EXCEPT FROM PLEDGED REVENUES AND THOSE CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE. THE SERIES 2022 BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OF THE STATE OTHER THAN ALAMEDA CTC, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OR OF ANY POLITICAL SUBDIVISION OF THE STATE. THE CREDIT OR TAXING POWER (OTHER THAN AS DESCRIBED HEREIN AND IN THE INDENTURE) OF ALAMEDA CTC IS NOT PLEDGED, FOR THE PAYMENT OF THE SERIES 2022 BONDS, THEIR INTEREST, OR ANY PREMIUM DUE UPON REDEMPTION OF THE SERIES 2022 BONDS. THE SERIES 2022 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF ALAMEDA CTC OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE PLEDGED REVENUES AND CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE.

**This cover page contains certain information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision with respect to the Series 2022 Bonds. Capitalized terms used and not defined on the cover of this Official Statement have the meanings ascribed thereto herein.**

*The Series 2022 Bonds will be offered when, as and if received by the Underwriters, subject to the approval of validity by Norton Rose Fulbright US LLP, Bond Counsel to Alameda CTC, and certain other conditions. Certain legal matters will be passed upon for Alameda CTC by its Disclosure Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, and by Fennemore Wendel, General Counsel to Alameda CTC, and for the Underwriters by their counsel, Nixon Peabody LLP. It is anticipated that the Series 2022 Bonds in definitive form will be available for delivery through the facilities of DTC on or about July 14, 2022.*

**Citigroup**

**Goldman Sachs & Co. LLC** **Jefferies**

Dated: June 29, 2022

- A document prepared by or on behalf of a state or local government in connection with the issuance of municipal securities
- An official statement is similar to a prospectus that is used in corporate securities offerings
- Provides material information to investors about the transaction

# Roadmap of the Official Statement

Material information needed by investors to make a decision to purchase the securities, including:

- Introduction
- Plan of Finance
- Sources and Uses of Funds
- Project Description
- Security for the Bonds and Sources of Payment
- Capital Improvement Plan
- Issuer Financial and Relevant Operating Information
- Risk Factors
- Absence of Material Litigation
- Continuing Disclosure Compliance
- Appendices
  - Audited Financial Statements
  - Economic, Demographic, and Statistical Data
  - Form of Bond Opinion
  - Form of Continuing Disclosure Undertaking
  - DTC Disclosure
  - Third Party Documents and Certifications
  - Summaries of Bond Security Documents

# Basic Legal Documents

- Authorizing Resolution(s)
- Trust Agreement / Indenture of Trust / Indenture
- Loan Agreement / Leases / Installment Sale Agreement
- Preliminary Official Statement (POS) / Official Statement
- Bond Purchase Agreement (BPA) / Bond Purchase Contract
- Continuing Disclosure Undertaking (CDU)
- Tax Certificate
- Closing Certificates, Documents and Opinions

# Authorizing Resolution

**PARTIES:**

- Issuer
- Borrower

**PURPOSE:**

- Authorizes the sale of the bonds by the Issuer and establishes the parameters for the issuance of the bonds, authorizes the execution and delivery of each of the financing documents, directs staff to take other actions necessary to complete the transactions, delegates officers to approve revisions to financing documents consistent with the parameters

**KEY PROVISIONS:**

- Maximum principal amount of bonds to be issued
- Maximum interest rate
- Maximum Underwriter's discount
- Maximum term
- Approves forms of the issuing documents, POS, BPA, and CDU
- Estimate of financing costs
- For refundings, the minimum savings to be achieved
- Delegation of Authority to Officers

# Indenture of Trust / Trust Agreement / Bond Resolution / Bond Ordinance

**PARTIES:**

- Issuer
- Trustee
- For Ordinances and Resolutions, only the Issuer

**PURPOSE:**

- Evidences the contract between the Issuer and the Trustee for the benefit of the bondholders
- Establishes the rights, duties, responsibilities, and remedies of the Issuer and the Trustee
- Authorized the Trustee to administer the funds and property established as security for the bonds
- Specifies the security for repayment of the bonds

# Indenture of Trust / Trust Agreement / Bond Resolution / Bond Ordinance

(CONTINUED)

## KEY PROVISIONS:

- Definitions
- Permitted Investments
- Pledge of Collateral
- Reserve Fund
- Flow of Funds
- Additional Debt
- Interest Rates
- Principal and Interest Payment Dates
- Maturity Dates
- Redemption / Prepayment
- Defeasance Provisions
- Representations, Warranties and Covenants of the Issuer
- Maintenance of Rates, Fees & Charges
- Continuing Disclosure
- Rights and Responsibilities of the Trustee
- Events of Default and Remedies
- Insurance Provisions

- (Blue text = Indicates provisions that require critical review)

# Loan Agreement / Lease Agreement / Project or Facilities Lease / Installment Sale Agreement

**PARTIES:**

- Issuer
- Borrower

**PURPOSE:**

- Evidences the loan of bond proceeds by the Issuer to finance the project and for user (borrower) of the project to make payments sufficient in time and amount to repay the bonds
- For Installment Sale Agreements and Leases, the title to the project will transfer at the end of the term and maturity of the bonds

**KEY PROVISIONS:**

- Pledge of Revenues
- Lease Payments
- Additional Payments
- Representations & Warranties
- Covenants
- Prepayment Provisions
- Abatement

# Preliminary and Final Official Statements

**PARTIES:**

- Issuer
- Borrower

**PURPOSE:**

- Discloses to investors why the bonds are being issued, including, terms of the bonds, descriptions of project(s) being financed or bonds being refunded, security and sources for repayment, risk factors, issuer financial and operating information, description of obligated parties, outstanding material litigation, and compliance with prior continuing disclosure undertakings
- Discloses all information a "reasonable investor" would consider to be important in making an investment decision to purchase the bonds
- The Preliminary Official Statement is complete as of its date except for pricing information and is used by the Underwriter to presell the bonds
- The Final Official Statement, reflecting pricing information, is dated the date the bonds are sold to the Underwriter

# Preliminary and Final Official Statements
(CONTINUED)

## KEY PROVISIONS:

- Project Description
  - Size, location, costs, funding sources, contractor and type of contract, required approvals and stats thereof, expected commencement and completion dates
- Security for the Bonds and Sources of Payment
- Risk Factors
- Absence of Material Litigation
- Financial and Operating Information
- Continuing Disclosure
- Economic, Demographic, and Statistical Data

**You Are Not Alone**

# Bond Purchase Agreement/ Bond Purchase Contract

## PARTIES:

- Issuer
- Underwriter
- Borrower
- Obligated Party

## PURPOSE:

- Provides for the sale of the bonds by the Issuer to the Underwriter
- Specifies (i) the terms of the bonds; (ii) conditions precedent to the obligation of the Underwriter to purchase of the bonds; (iii) the delivery date of the bonds; (iv) the conditions permitting the Underwriter to withdraw from the agreement (the “Underwriter’s Outs”); (v) representations and warranties of the Issuer and Borrower, including a representation that the Preliminary Official Statement was deemed final by the Issuer as of its date  and compliance with past continuing disclosure undertakings; (vi) the documents to be delivered at closing; (vii) the Underwriter's fees; (viii) the expenses to be paid by various parties; (ix) certain SEC requirements to be followed by all parties; and (x) the method for determining the issue price of the bonds
- Executed after the bonds have been priced by the Underwriter

# Bond Purchase Agreement/ Bond Purchase Contract (CONTINUED)

## KEY PROVISIONS:

- Pricing Information
  - Representation & Warranties
  - Underwriter’s Outs
  - Expenses
  - Closing Conditions
  - Closing Documents
  - Form of Opinions
  - Redemption Provisions
  - Form of Issue Price Certificate (Tax–Exempt Bonds)

# Continuing Disclosure Undertaking

## PARTIES:

- Issuer
- Obligated Party
- Trustee
- Dissemination Agent

## PURPOSE:

- Contains the undertakings of the Issuer (and each Obligated Party) to provide annual updates of specified information (Annual Reports) by a specified date certain and notices of the occurrence of significant events, generally within 10 business days following occurrence, pursuant to Rule 15c2-12
- Remains in effect during the lifetime of the bonds

# Continuing Disclosure Undertaking
(CONTINUED)

## KEY PROVISIONS:

- Content of the Annual Report
  - Audited Financial Statements
  - Updates to specified tabular information
- Filing Date for the Annual Report
- List of 16 Significant Events
- Date for Filing Notices of the Occurrence of Significant Events
- Amendment Procedures
- Dissemination Agent Duties

## ADDITIONAL CONSIDERATIONS:

- Rule 10b-5

# Tax Certificate / Tax and Non-Arbitrage Certificate

## PARTIES:

- Issuer
- Borrower (Conduit Transaction)

## PURPOSE:

- Sets forth the certifications and covenants of the Issuer (and the Borrower) necessary to maintain the tax-exempt status of the bonds
- Includes rules for investment of the bond proceeds, compliance with arbitrage and rebate requirements

## KEY PROVISIONS:

- Sources and Uses of Proceeds
- Investment of Proceeds
- Representations and Warranties
- Tax Compliance Program
- Others – depending upon the purpose of the financing

# Closing Certificates, Documents, & Opinions

## PARTIES:

- All

## PURPOSE:

- *Documents the satisfaction or waiver of the conditions precedent to closing the transaction*
  - Issuer and Borrower Certificates
  - Receipts
  - Requisitions
  - Documents for Deposit of Funds
  - Opinions

# Alameda CTC's Debt Issuance Approach

**NEW ISSUE – BOOK-ENTRY ONLY** | **RATINGS**

**S&P: "AAA"**
**Fitch: "AAA"**

*In the opinion of Orrick Herrington & Sutcliffe LLP, Bond Counsel to Alameda CTC, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2014 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2014 Bonds. See "Tax Matters" herein.*

ALAMEDA County Transportation Commission

**$137,145,000**
**ALAMEDA COUNTY TRANSPORTATION COMMISSION**
**Sales Tax Revenue Bonds**
**(Limited Tax Bonds)**
**Series 2014**

**NEW ISSUE—BOOK-ENTRY ONLY** | **RATINGS**

**S&P: "AAA"**
**Fitch: "AAA"**

*In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the Series 2022 Bonds and requirements of the Internal Revenue Code of 1986, as described herein, interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that, under existing law, interest on the Series 2022 Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein.*

ALAMEDA County Transportation Commission

**$124,030,000**
**ALAMEDA COUNTY TRANSPORTATION COMMISSION**
**Measure BB Senior Sales Tax Revenue Bonds**
**(Limited Tax Bonds)**
**Series 2022**

- Based on ACTC Capital Improvement Plan and cash flow projections develop a long-term debt strategy with Municipal Advisor
- Alameda CTC funds capital projects on a pay-as-you-go basis as long as reasonably possible (minimize financing costs)
- Alameda CTC issues debt when funding is needed to move capital projects forward efficiently
- Gain Commission approval for:
    - Update to debt policy, as needed
    - Internal fund borrowing, as needed, to allow for optimal timing on entering the market
    - A par amount range in order to be responsive to market conditions on day of sale
    - Continuing disclosure certificate

# Alameda CTC's Evolving Official Statement Topics

Additional disclosure items in 2022 Official Statement (OS) vs. 2014 OS

- Risk to Pledged Revenues
  - Economy
    - Effect of COVID-19
    - Risk of natural disasters (e.g. major earthquake since we live in California)
  - Investments
    - Market fluctuations
    - Reduced interest income
  - Cyber Security
    - Hacking, viruses, malware, ransomware and other attacks (Alameda CTC or CDTFA)
  - Climate Change
    - Sea level rise
    - Extreme temperatures and weather events

# Issuer Considerations

- Disclosures in the OS are important to protect the issuer
  - Include material risks that may arise related to the revenues, project, industry, demographics, etc.

- Development of OS
  - Work with the Issuer's Counsel to prepare document
  - Review all sections prepared by Disclosure Counsel from publicly available documents closely (read everything to ensure authenticity and accuracy)
  - Discuss industry-specific risks and what should be included in OS
  - Slow down a transaction when necessary or let Disclosure Counsel know if information is not yet available and when it is expected to be available (e.g. audited financial statements, pledged revenues, etc.)

# Takeaways

- Be mindful of your obligations under **Securities Laws**
- **Disclosure evolves** to reflect current circumstances and concerns
- Make sure that all the **right people are in the room**
- Raise concerning issues with your **Issuer Team**
- Follow **Adopted Policies and Procedures**
- Provide **Regular Training**
- Develop **Compliance Checklists**
- Frequent issuers should review the Official Statement for "**disclosure bloat**"
- **Tell the full story**

# Additional Resources

- California Debt and Investment Advisory Commission (www.treasurer.ca.gov/cdiac)
- Government Finance Officers Association (www.gfoa.org)
- Municipal Securities Rulemaking Board (www.msrb.org)
- National Association of State Auditors, Comptrollers and Treasurers (www.nasact.org)
- National Federation of Municipal Analysts (www.nfma.org)
- Securities Industry and Financial Markets Association (www.sifma.org)

# QUESTIONS?

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ArentFox Schiff LLP

**PATRICIA REAVEY**
*Deputy Executive Director*
*of Finance and Administration*
Alameda County
Transportation Commission