



Introduction to Bonds

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Ways to Fund Projects

- ◆ Capital projects can be financed a multitude of ways
 - ◆ From operations (revenues and expenditures)
 - ◆ Typically, smaller maintenance type projects ("pay-go projects")
 - ◆ Cash reserve funds
 - ◆ Local government debt
 - ◆ Bonds (most common)
 - ◆ Bank loans
 - ◆ Bond pools
 - ◆ Grants
 - ◆ Donations/Fundraisers



Typical Characteristics of Township Debt

- ✓ Townships typically issue debt in the form of municipal bonds
- ✓ Typically issued for new money or refunding purposes
- ✓ Most frequently issued on a tax-exempt basis
- ✓ Can be fixed or variable rate
- ✓ Typically has final maturities up to 30 years
- ✓ Typically issued with a general obligation pledge (full faith, credit and taxing power)
- ✓ Issued by the Township itself, although sometimes can be issued through a conduit authority



Types of Debt Available

◆ **Public bond issues**

- ◆ Most common form of financing – typically fixed rate
- ◆ Requires most amount of financing members but often results in lowest total overall cost

◆ **Private bank loans or private placements**

- ◆ Most common for smaller principal size or shorter final maturities
- ◆ Smaller amount of financing team members
- ◆ Can be fixed or variable rate but fixed rates may not be available for full term
- ◆ Tax reform has impacted this option since effective date of 1/1/2018

◆ **Bond pools**

- ◆ Pool of smaller issuers grouping together for economies of scale
- ◆ Offers both fixed and variable rates (may achieve fixed rates through interest rate swaps)



Ability to Issue Tax-Exempt Bonds

- ◆ Requires a “Tax-Exempt Opinion” from a lawyer (Bond Counsel) that states the Bonds can be relied upon to be exempt from federal, state and local taxes
- ◆ Only local governments, municipal authorities, colleges/universities, 501(c)(3), and other public entities can issue tax-exempt debt
- ◆ Private and for-profit companies can NOT issue tax-exempt debt
- ◆ Conditions and terms dictated federally by the Internal Revenue Code of 1986



Department of the Treasury
Internal Revenue Service



What is a Bond Issue?

- In its simplest terms, a bond issue is a loan between an issuer and an investor sold and traded in the public markets.
- Similarities to a home mortgage:
 - ✓ Long term borrowing – typically 20 to 30 years
 - ✓ Fixed or variable rate
 - ✓ Periodic payments of principal & interest (monthly, semi-annually, etc.)
 - ✓ Costs of issuance
- Differences from a home mortgage:
 - ✓ Type of lender
 - ✓ Security of borrowing (who's paying it and what secures it)
 - ✓ **Most likely tax-exempt**



Sample Financing Team Members (1 of 2)

Issuer

- *Typically, a local government, higher education institution, or municipal authority issuing debt to provide funding for capital projects or refinancing existing debt.*

Independent Financial Advisor

- *Represents financial interests of Issuer when it comes to pricing and negotiations with Underwriter, including interest rates, call date provisions and other structuring considerations.*

Underwriter

- *Markets and sells bonds to investors who seek the highest return available.*
- *Receives an upfront fee that is directly related to the principal amount of the bonds.*

Investors

- *Ultimate providers of funding for Issuer's bond issue.*
- *Seeks highest interest rates available in the market.*
- *Includes both retail and institutional investors (insurance companies, hedge funds, etc.)*



Sample Financing Team Members (2 of 2)

Bond Counsel & Solicitor

- *Drafts all legal documents relating to bond issue.*
- *Provides tax-exempt opinion for bondholders.*
- *Handles submission of approval documents to DCED.*

Paying Agent/ Trustee

- *Handles debt service payments from Issuer to investors.*
- *Typically charges a small annual fee per bond issue for service.*

Rating Agency

- *Provides public rating of Issuer for investors.*
- *Typically requires a brief rating call with the Issuer's administration to discuss Issuer's finances and demographics.*

Bond Insurance (if applicable)

- *Provides insurance policy on debt service payments for bondholders in the event the Issuer were to default.*
- *Receives an upfront fee in an amount that is a percentage of the total debt service on the bonds.*



When Can You Consider Borrowing?

- **Federal Tax Laws***- The Internal Revenue Code (the “Code”) permits the Issuer to borrow funds at a tax-exempt interest rate and invest the proceeds at an unlimited yield during the period of project construction, but not more than 3 years, if the reasonable expectations of the Issuer are to meet the following 3 tests:
 - Expenditure Test – spend 85% of the proceeds within 3 years;
 - Time Test – incur within 6 months a substantial binding obligation to expend at least 5% of the proceeds;
 - Due Diligence Test – proceed with due diligence to complete the capital project and expend the proceeds for the capital project.



Basic Steps for a New Money Project Financing

- ✓ Know your existing debt service
- ✓ Identify the Township's capital needs
- ✓ Identify your financing team and begin discussions on size/timing/structure-both at the Administration level and via public presentations
- ✓ Prepare POS, Obtain Credit Rating & Insurance
- ✓ Sell Bonds/Note (lock in rates)
- ✓ Adopt Bond/Note Ordinance
 - ✓ Consider a Parameters Ordinance for greater flexibility
- ✓ Receive DCED Approval
- ✓ Settlement (Township Receives Funds)
- ✓ Post Issuance Compliance
 - ✓ Credit rating, arbitrage rebate, continuing disclosure



State Regulations

- In Pennsylvania, borrowing regulations at the state level are governed by the Local Government Unit Debt Act (LGUDA) and enforced by the Department of Community & Economic Development (DCED)
- Efforts to comply with LGUDA typically led by Bond Counsel and include
 - Filing and approval process with DCED
 - Approved use of proceeds within LGUDA
 - Capital projects
 - Refunding of existing debt
 - Unfunded debt
 - Funding of unfunded actuarial accrued liability (pensions)
 - Advertising requirements for incurring non-electoral debt
 - Level or declining debt service
 - Issuers within their legal borrowing capacity (250% of the 3-year average of net revenues)



Credit Rating Preparation

- Rating agencies are more diligent today than ever before with their rating criteria. PFM will guide you through the process as painlessly as possible while helping you secure the highest attainable rating.
 - PFM has the ability to perform our own credit rating assessment through our credit rating models, which will give an indication of where each rating agency would rate the Township.
- We will manage the rating process for you, coordinating due diligence meetings, rating presentations, and site visits as required.
- Available credit enhancement strategies can be analyzed for any potential pricing benefits on the transaction.
 - PFM will advise the Township on passage of helpful board policies that help build a positive picture for the Rating Agencies.
 - Post Issuance Compliance Policy
 - Debt Policy
 - General Fund Policy
 - Investment Policy

Moody's

S&P Global

Fitch Ratings



Credit Ratings

- The majority of bond issues in the capital markets have credit ratings from one or more of the three major credit rating agencies
- Standard & Poor's, Moody's or Fitch

MOODY'S DESCRIPTION OF RATINGS		
Investment Grade	Aaa	Strongest
	Aa1/Aa2/Aa3	Very Strong
	A1/A2/A3	Above-Average
	Baa1/Baa2/Baa3	Average
	Ba1/Ba2/Ba3	Below-Average
Below Investment Grade	B1/B2/B3	Weak
	Caa1/Caa2/Caa3	Very Weak
	Ca	Extremely Weak
	C	Weakest

S&P DESCRIPTION OF RATINGS		
Investment Grade	AAA	Strongest
	AA+/AA/AA-	Very Strong
	A+/A/A-	Above-Average
	BBB+/BBB/BBB-	Average
	BB+/BB/BB-	Below-Average
Below Investment Grade	B+/B/B-	Weak
	CCC+/CCC/CCC-	Very Weak
	CC	Extremely Weak
	C	Weakest



Credit Ratings & Moody's MFRA Information

The following information is the most recently available medians for various locations in Pennsylvania with Aaa ratings. Manheim Township currently utilizes S&P Global ratings for their underlying rating.

Demographic Information	Moody's Median Aaa	Manheim Township ^{[1][2]}
Population	19,673	44,138
Per Capita Income	\$66,780	\$55,752
Median Family Income	\$109,470	\$93,413
Revenues (General Fund)	\$15,067,000	\$30,909,850
Available General Fund Balance	\$10,928,000	\$23,778,443
Available Fund Balance Ratio (Total Governmental)	91.0%	110.4%
Debt	\$13,575,000	\$6,000,000
Top 10 Taxpayers as % of Total	11.6%	9.9%

[1] Source: 2022 Census Estimates

[2] Source: Township's Audited 2021 Financial Statements



Continuing Disclosure Assistance

- ◆ The Municipal Securities Rulemaking Board (“MSRB”) has launched a disclosure website to aid issuers in complying with their continuing disclosure requirements.
- ◆ This website is the Electronic Municipal Market Access (“EMMA”) and can be found at www.emma.msrb.org.
- ◆ Failure to comply with continuing disclosure requirements could make it difficult to issue bonds in the future (including any refinancings), as well as potentially face penalties and/or fines from regulators.
- ◆ **PFM can assist you with your continuing disclosure obligations, so staying compliant is more manageable.**





Current Continuing Disclosure Obligations

MANHEIM TOWNSHIP <i>Continuing Disclosure Requirements</i> <i>Fiscal Year Ending December 31, 2023</i>						
Bond Issue	Deadline	Due Date	Audit (FYE 12/31/2023)	Budget (FYE 12/31/2024)	Operating Data	Type (See below for definitions)
<i>Series of 2019 Bonds</i>	270 days	9/26/2024	Yes	Yes	Yes	<i>Market Value & Assessed Value, Taxes and Millage Rates Imposed, Real Property Tax Collection Results, & Top 10 Tax Payers and Tax Collection Rates</i>

For these purposes, the "current fiscal year" means the fiscal year ending December 31, 2024 and the "most recent fiscal year" means the fiscal year ending December 31, 2023

Disclaimer:

Information on Continuing Disclosure Requirements is based on what is stated in each Official Statement. Please be sure to cross reference these requirements with the content of the Township's Continuing Disclosure Agreement or Continuing Disclosure Certificate, which can be found in as part of the closing documents for each of the Township's bond issues. PFM makes no representation to the accuracy, completeness or fairness of the information contained in this informational worksheet.

- Currently the Township's Continuing Disclosure obligations consist of the current year's audited financial statements, next year's budget, and operating data.
- PFM will provide annual reminders of the upcoming deadline and are available to help answer any filing questions.
- The following items need uploaded to EMMA to satisfy prior year's requirements:

*2022 Budget
2023 Budget
2022 Audit
Operating Data (2022)*



Summary of Outstanding Indebtedness

Debt Service Requirements		
1 Fiscal Year Ended	2 G.O. Bonds Series of 2019	3 Total Debt Service
12/31/2024	568,400	568,400
12/31/2025	568,600	568,600
12/31/2026	568,300	568,300
12/31/2027	567,800	567,800
12/31/2028	567,100	567,100
12/31/2029	571,200	571,200
12/31/2030		
12/31/2031		
12/31/2032		
12/31/2033		
12/31/2034		
12/31/2035		
Totals	3,411,400	3,411,400

Principal*:	3,175,000	3,175,000
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Call Date: 12/1/2024

Purpose: Cur Ref 2014 & 2016

- The Township's G.O. Bonds, Series of 2019 is callable as of December 1, 2024.
- We are monitoring this refunding opportunity and will notify the Township when there are savings.



Summary of New Money

- Estimated – For illustrative purposes only
- Estimated rates. Actual rates to be determined at time of pricing. Rates assumes to be tax-exempt. Actual tax status to be determined by bond counsel.
- Additional structuring methods that may be considered and could reduce the overall budgetary impact. This concept can be further discussed in the future.

Principal	1	2
	Step 1	Step 2
Timing	\$20,000,000	\$20,000,000
Term	August 2024	August 2025
Structure	25 Years	25 Years
Total Interest ⁽¹⁾	Level	Level
Total Interest ⁽¹⁾	\$13,976,504	\$13,972,713

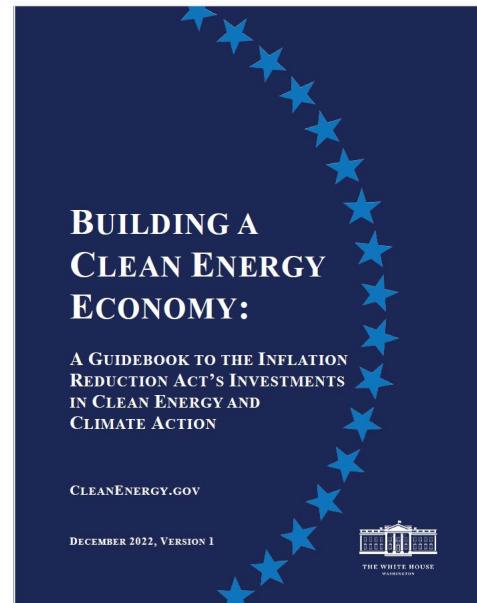
4	5	6	7	8	9
Fiscal Year Ending	Existing Debt Service	Estimated New Debt Service	Total Overall Debt Service	Estimated New Debt Service	Total Overall Debt Service
12/31/2024	568,400	287,804	856,004	856,004	856,004
12/31/2025	568,600	867,813	1,436,413	287,588	1,724,000
12/31/2026	568,300	1,367,813	1,935,913	867,763	2,803,675
12/31/2027	567,800	1,367,413	1,935,213	1,367,563	3,302,775
12/31/2028	567,100	1,366,413	1,933,513	1,367,363	3,300,875
12/31/2029	571,200	1,364,613	1,935,813	1,366,363	3,302,175
12/31/2030		1,367,013	1,367,013	1,364,563	2,731,575
12/31/2031		1,368,413	1,368,413	1,366,963	2,735,375
12/31/2032		1,368,813	1,368,813	1,368,363	2,737,175
12/31/2033		1,368,213	1,368,213	1,368,763	2,736,975
12/31/2034		1,366,613	1,366,613	1,368,163	2,734,775
12/31/2035		1,369,013	1,369,013	1,368,563	2,735,575
12/31/2036		1,365,213	1,365,213	1,368,963	2,734,175
12/31/2037		1,365,413	1,365,413	1,370,163	2,735,575
12/31/2038		1,369,413	1,369,413	1,370,163	2,739,575
12/31/2039		1,364,988	1,364,988	1,368,963	2,733,950
12/31/2040		1,369,288	1,369,288	1,364,538	2,733,825
12/31/2041		1,366,888	1,366,888	1,368,838	2,735,725
12/31/2042		1,368,000	1,368,000	1,366,438	2,734,438
12/31/2043		1,370,025	1,370,025	1,367,550	2,737,575
12/31/2044		1,370,025	1,370,025	1,364,575	2,734,600
12/31/2045		1,368,000	1,368,000	1,364,800	2,732,800
12/31/2046		1,368,950	1,368,950	1,368,000	2,736,950
12/31/2047		1,367,650	1,367,650	1,368,950	2,736,600
12/31/2048		1,366,125	1,366,125	1,367,650	2,733,775
12/31/2049		1,366,988	1,366,988	1,366,125	2,733,113
12/31/2050				1,366,988	1,366,988
12/31/2051					
TOTAL		3,411,400	33,976,504	37,387,904	33,972,713
					71,360,617



Inflation Reduction Act (“IRA”) Overview

Largest investment in U.S. Energy Infrastructure, with varied incentives to help subsidize the cost of achieving HRSD’s environmental & sustainability goals.

- Signed into law on August 16th, 2022
- Provides \$369 billion over the next decade for new & existing programs; accomplished through tax incentives & direct investment
- Goal of reducing emissions by ~40% by 2030; accomplished through tax incentives & direct investment
- Potential for tax incentives to touch multiple aspects of your operations & community
 - Installation of energy facilities (e.g., biogas digesters, solar, wind, geothermal, microgrid facilities)
 - Conversion of vehicle fleets to electric/hybrid
 - Electric Vehicle (EV) deployment to include the charging station network
 - Production of renewable fuels, such as biodiesel
 - Energy efficient building design & construction
 - Availability of many of these incentives to ratepayers
- Guidance on implementation still needed from Treasury (Initial comment period closed Nov. 4); Guidebook version 1 was released in December



Source: *Inflation Reduction Act, Pub. L. No. 117-169, 136 Stat. 1818 (2022)*,
<https://www.congress.gov/bill/117th-congress/house-bill/5376/text>



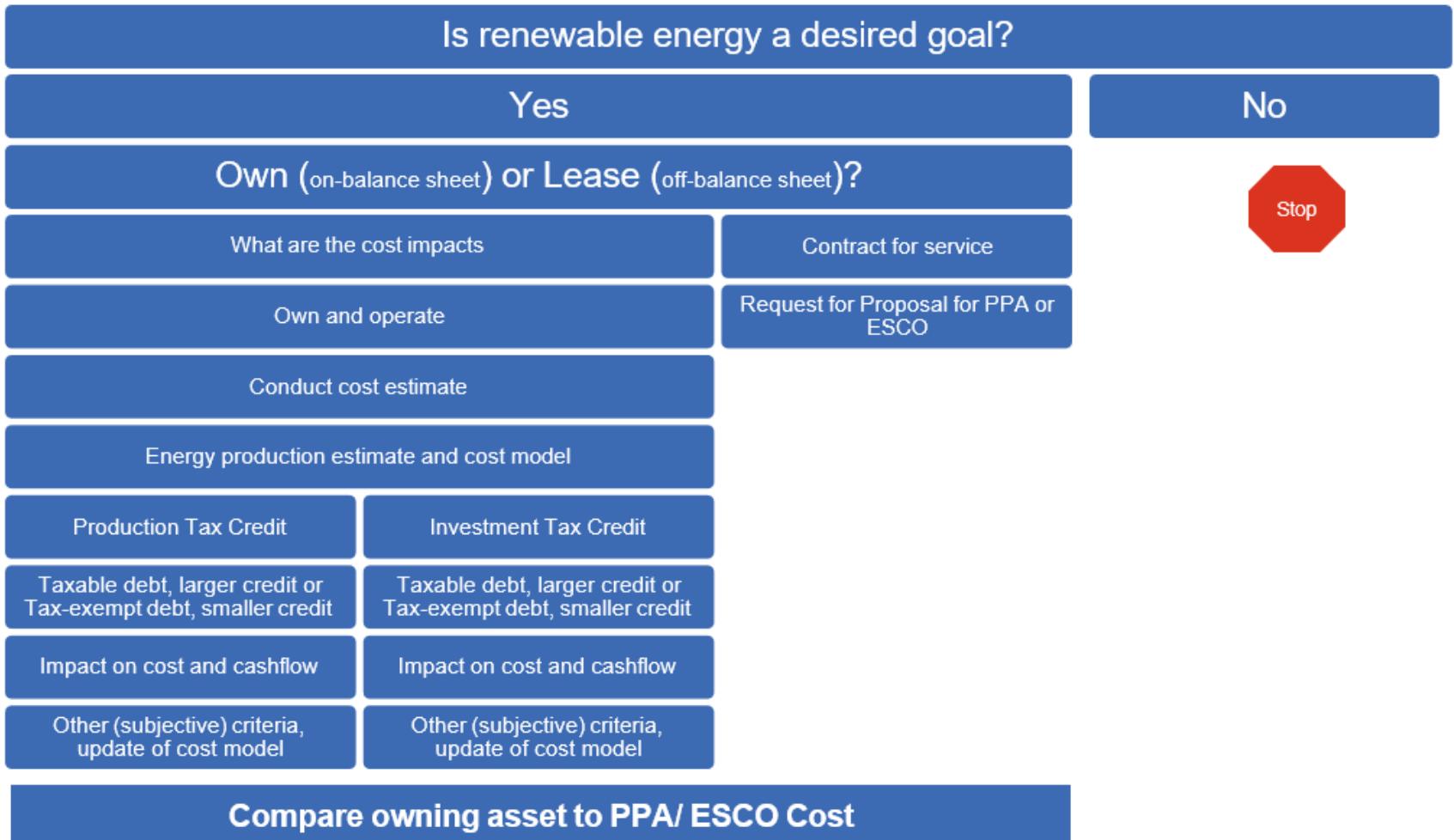
IRA Tax Incentives & Transformational Initiatives

There are several tax incentives within the IRA that could lower the cost of transforming to a greener, less carbon-intensive footprint

- Most of the incentives available would take the form of a **direct payment** from the U.S. Treasury, following project completion or acquisition
- The tax incentives are available to all eligible projects; **no competitive process** for receiving the subsidy
- The U.S. Treasury would like projects to be **registered** (portal open)
- PFM anticipates that the tax incentives for renewable projects will fundamentally & substantially **change how tax-exempt localities approach these projects – on balance sheet, off balance sheet (power purchase agreement, ESCO)**
 - **Evaluating the feasibility of owning and operating the asset should occur in the initial stages of the project development**
- Potential **advantages to accelerating projects** before the incentives expire or the requirements become more stringent
- Incentives also exist for other technologies ranging from electrification of vehicle fleets, improvements to buildings as well as for the **development of manufacturing facilities**



What Can Clients be Thinking About Now?



No

Stop



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Thank You

