

The Basics of Bonds for Park Districts and Non-Home Rule Communities



Panelists

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Overview

Discuss why an issuer would want to issue bonds

Explore available borrowing options

Summarize timeline and participants involved

Why borrow money?

Public Capital Improvements

- Village hall, police station, golf courses, historical museums
- Roads and bridges
- Utility (water, sewer, electric) infrastructure
- Rec centers, playgrounds, pools
- Purchase golf equipment, ambulance, fire engine, fleet

Working Capital

- Operating expenses
- HVAC systems, roofs and utility upgrades

Refinance Outstanding Debt

- To realize debt service savings
- To restructure annual debt service

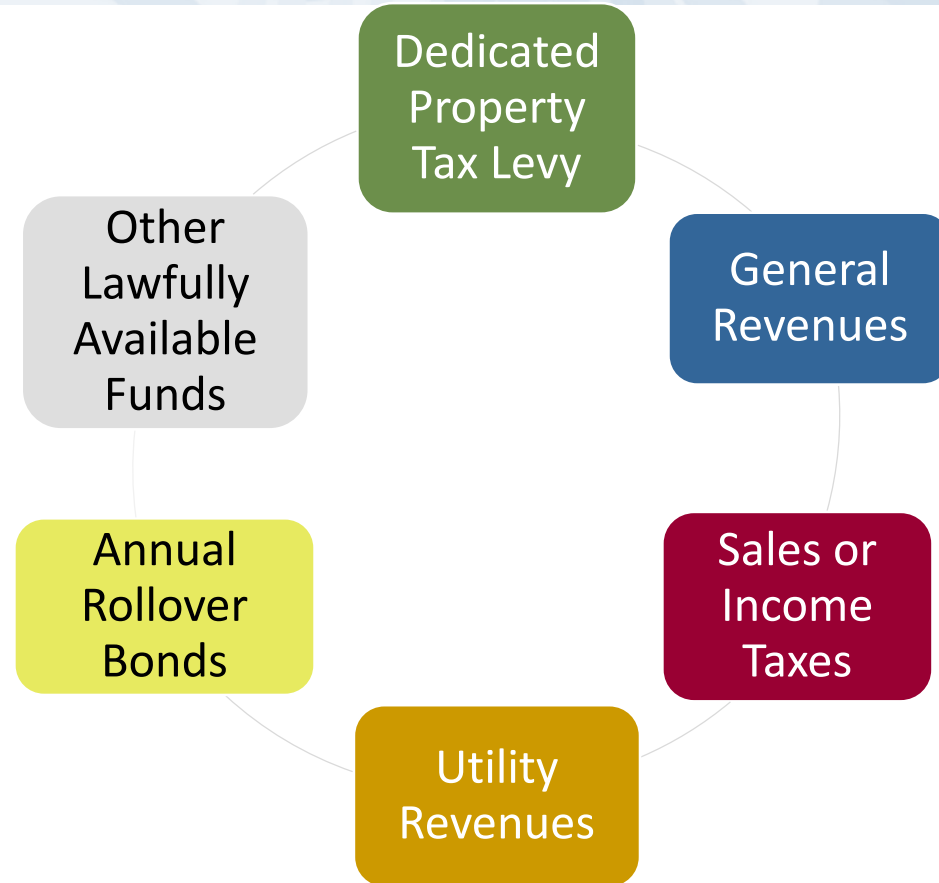
What are municipal bonds?

- A debt security issued to finance capital expenditures or operations, refund prior debt or for other authorized purposes.

Municipal bonds must be issued:

- For lawful public and corporate purposes.
- Subject to constitutional, statutory or other limitations (such as debt limits).
- Pursuant to proper constitutional, statutory or other (such as charter) provisions.

How will you pay it back?



Debt Limitations

- Overall Debt Limit
 - Includes general obligation bonds, debt certificates and financing leases.
 - Does not include tax anticipation warrants, revenue bonds and alternate revenue bonds (unless full faith and credit property tax is extended for payment).

	Non Home Rule Municipality	Park District
Overall Debt Limit	8.625% of EAV	2.875% of EAV
Non-Referendum Debt Limit	0.500% of EAV	0.575% of EAV

Types of General Obligation Bonds

Option	Security	Referendum Required	Max. Term	Subject to Debt Limit	Notes
Unlimited Tax General Obligation (“UTGO”) Bonds	Ad valorem property tax unlimited as to rate or amount.	Yes	20 Years	Yes	<ul style="list-style-type: none"> • Strongest security and lowest cost option.
Limited Tax General Obligation Bonds (“LTGO”)	Debt service extension base (“DSEB”). Ad valorem property tax unlimited as to rate, but limited as to amount.	No	20 Years or limited to DSEB.	Yes, non-referendum debt limit.	<ul style="list-style-type: none"> • Similar cost as UTGO bonds. • DSEB grows at lesser of change in CPI or 5%.
General Obligation Alternate Revenue Bonds	Dedicated revenue stream that will generate a minimum of 1.25x debt service coverage (1.1x for governmental revenue source). Additional security provided by ad valorem property taxes unlimited as to rate or amount.	No, but subject to 30-day backdoor referendum period.	40 Years or 125% of average annual life of project.	No, unless property tax levy is not abated.	<ul style="list-style-type: none"> • Similar cost as UTGO bonds. • Most common revenue sources pledged: <ul style="list-style-type: none"> • Water, sewer or electric utility revenues • Sales or income taxes • Annual issuance of LTGO’s – DSEB • Tax increment revenues • Levy is abated each year provided the pledged revenue is sufficient.

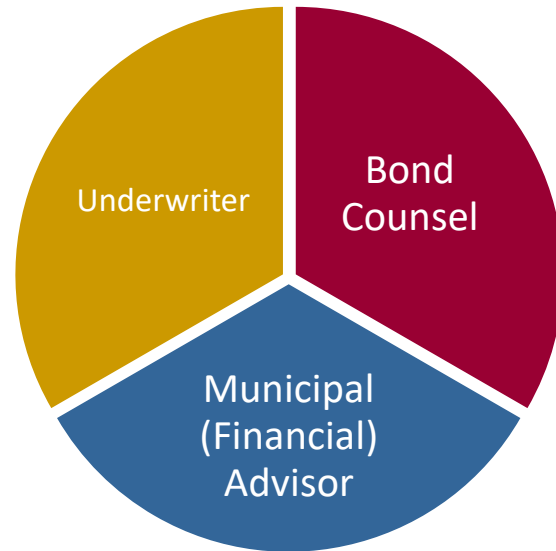
Other Borrowing Alternatives

Option	Security	Referendum Required	Max. Term	Subject to Debt Limit	Notes
Installment Contracts/Debt Certificates	Payable from any legally available revenue source. No dedicated property tax levy.	No	20 Years	Yes	<ul style="list-style-type: none"> • Weaker than GO bonds due to lack of property tax pledge, therefore higher borrowing cost. • First budget obligation with a pledge of the Issuer's general obligation. <ul style="list-style-type: none"> • Payable from general operating funds. • Generally rated the same as GO bonds.
Revenue Bonds	Payable solely from the revenues pledged. May pledge one or a number of revenue sources.	No	Limited to average life of the project being financed.	No	<ul style="list-style-type: none"> • Could be weaker security due to lack of property tax and general obligation pledge. • Investors like to see robust debt service coverage (e.g. 2x). • Typically requires a reserve fund to provide additional security to bondholders and receive a solid rating. • Rating outcome driven by revenue source, debt service coverage, reserve fund and other factors. <ul style="list-style-type: none"> • Generally lower than UTGO bond rating.

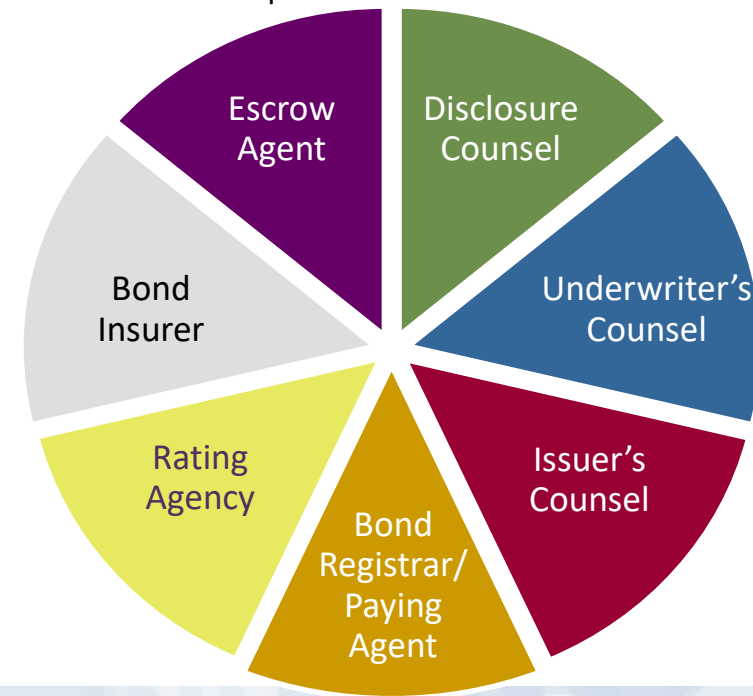
Who ya gonna call?

Bond financings are complicated and require coordination of a number of experts who bring different skills to the structuring and implementation of the financing.

Most Involved Participants
(Typically)



Other Important Professionals



Bond Counsel

- Helps evaluate the borrowing options available to an issuer.
- Renders an opinion on the validity, security, and federal tax treatment of the bonds.
- The bond opinion is unqualified, meaning it provides assurance that all legal and tax requirements are met and there are no reservations relating to the issue.
- Drafts all of the legal documents (such as the bond ordinance, tax agreement, and closing certificates) and ensures all statutory requirements are met (including posting/publishing notices and filings with county clerks).

Underwriter

- Purchases the securities from the issuer to resell them to investors both at fair and reasonable prices.
 - Regulated by MSRB Rule G-17 - must deal fairly with all persons (municipal issuers and investors) and may not engage in any deceptive, dishonest or unfair practice.
- Once engaged, may provide incidental financial advisory services in its capacity as underwriter.
 - Advice on the terms, timing, structure, insurance and rating strategy for a proposed offering.
- Review and/or assist in the drafting of the official statement.
- Needed on every public offered transaction.

Municipal (Financial) Advisor

- Municipal advisor assists and represents the issuer in the structuring, sale, and issuance of bonds, through a competitive or negotiated sale process.
- Could help select other members of the financing team and create the timeline.
- Assists with the drafting of the disclosure document (official statement).
- Has a fiduciary responsibility to the issuer.
 - GFOA recommended practice.

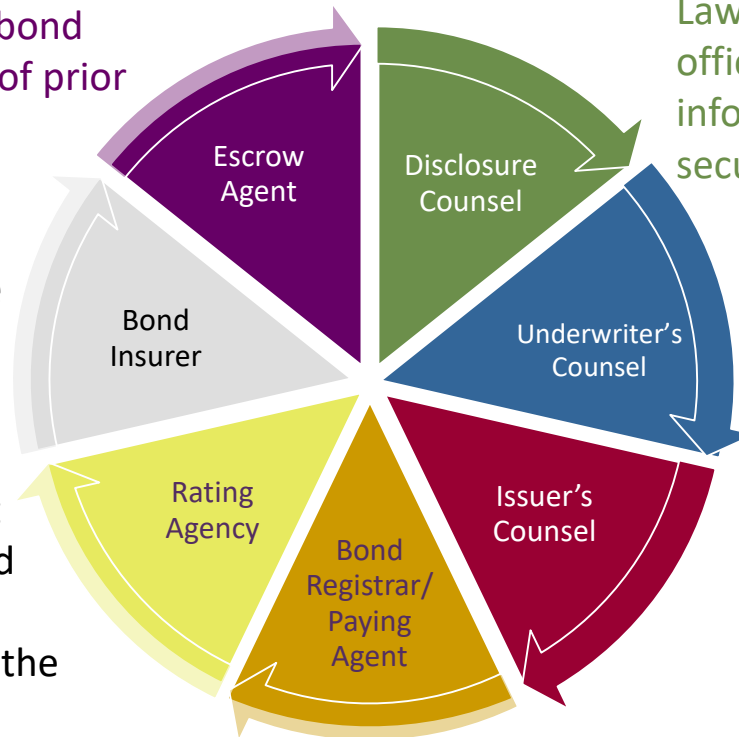
Other Potential Deal Participants

Bank that holds investment of bond proceeds through redemption of prior bonds in a refunding.

Company that issues a policy purchased by the issuer to insure the timely payment of principal and interest to bondholders.

Company that evaluates the credit quality of the issuer and bonds and issues a credit opinion and rating which can impact marketability of the bonds.

Trust department of a bank that sends debt service invoices to the issuer and upon receipt, pays bondholders.



Law firm retained by the issuer to prepare/review the official statement for assurance that all material information is disclosed and ensure compliance with securities laws.

Law firm retained by the underwriter to prepare/review documents, often including the official statement, on its behalf.

Attorney/law firm retained by the issuer to provide advice on legal matters and give a legal opinion the issuer is bound by the documents and there is no pending litigation prohibiting the issuance.

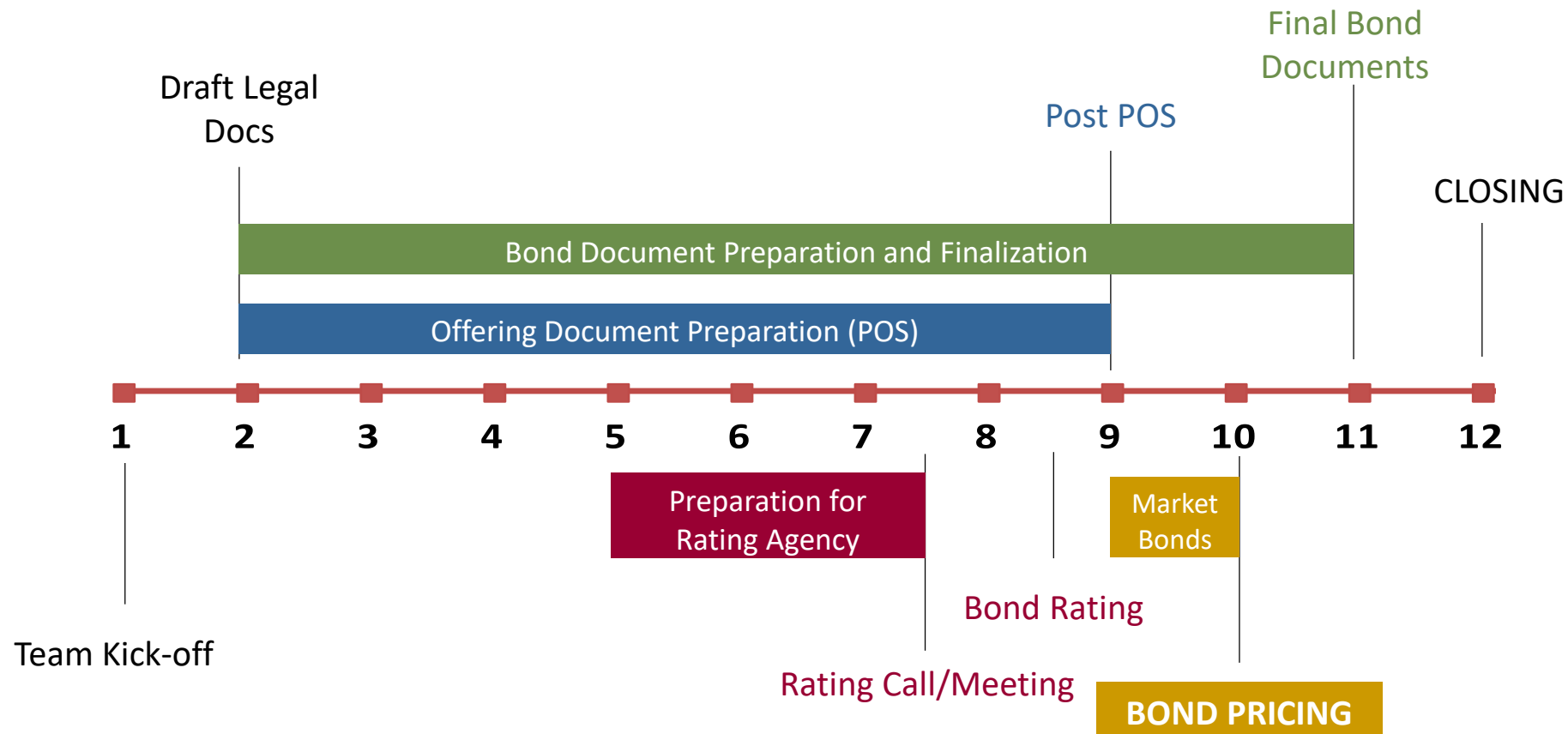
Bond Calendar

- Created/managed by Municipal Advisor or Underwriter.
- Identifies each step in the process and responsible parties.
- Considerations:
 - Do you have near final cost projects? If not, when?
 - When are proceeds needed?
 - How many board/council meetings are needed for approval?
 - Any required waiting periods?
 - Any public hearing and/or publication requirements?
 - Are the bonds going to be rated?
 - What are economic and market conditions?

Sample Timetable for Alternate Bonds

Week	Task	Responsible Participant(s)
Week 1	Selection of working group participants.	Issuer
Week 2	Distribute draft of Order calling the BINA hearing and Ordinance setting forth the intent to issue Alternate Bonds.	BC
Week 3	Distribute first draft of Bond Ordinance.	BC
TBD	Publication of Notice of BINA hearing (must be 7-30 days before BINA hearing).	Issuer
Board Meeting	BINA hearing and adopt Ordinance setting forth the intent to issue Alternate Bonds.	Issuer
TBD	Authorizing Ordinance published. (Starts the 30-day petition period.)	Issuer
Week 4	Distribute first draft of Preliminary Official Statement ("POS").	DC
Week 4	Receive comments on draft Bond Ordinance.	All
Week 5	Receive comments on first draft of POS.	All
Week 6	Distribute second draft of POS.	DC
Week 7	Receive comments on second draft of POS.	All
Week 7	Send draft documents to rating agency and bond insurers, if needed.	MA/UW
TBD	Back-door referendum period expires. (30 days after notices are published in local newspaper.)	-
Week 8	Conference call with the rating agency and due diligence session.	Issuer/MA/UW/ DC
Board Meeting	Adoption of Bond Ordinance.	Issuer
Week 9	Receive rating and insurance bids, if applicable.	MA/UW
Week 9	Post the POS.	DC
Week 10	Price/sell Bonds.	Issuer/UW
Week 10	Distribute draft of Final Official Statement ("FOS").	DC
Week 11	Receive comments on FOS and post.	All
Week 12	Delivery of Bonds.	All

Timing by Week



Public Offering vs. Private Placement

Public Offering

- A broker dealer serves as the underwriter (initial purchaser) and then resells the bonds to investors.
- Could be done through a negotiated or competitive sale.

Private Placement

- Limited offering to a small, select group of investors.
 - Often purchased by one investor.
- An investor typically purchases the bonds directly from the issuer to hold in its portfolio.

- A placement agent is an underwriting firm responsible for marketing the bonds to investors and negotiating terms on the issuer's behalf.

Negotiated vs. Competitive Sale

Negotiated Sale

- All parties, including underwriter, hired upfront.
- Underwriter negotiates a fair interest rate between the issuer and investors using flexible debt structures.
- Underwriter buys the bonds from the issuer after negotiating the best price and structure and sells them to investors.

Competitive Sale

- All parties, except underwriter, hired upfront.
- Strict interest rate bidding process using a pre-set debt structure and predetermined sale date/time.
- The underwriter that offers the lowest interest rate wins the deal.
- Underwriter sells the bonds to investors after winning the bid.

Negotiated vs. Competitive Sale

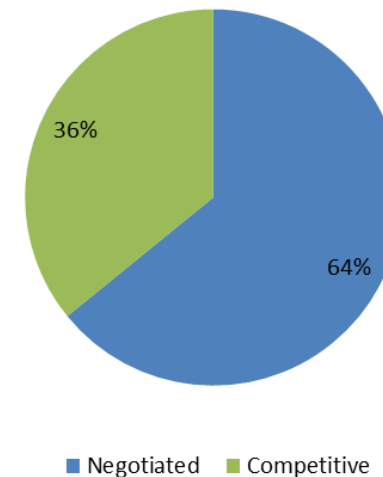
- No market consensus on the best method of sale.



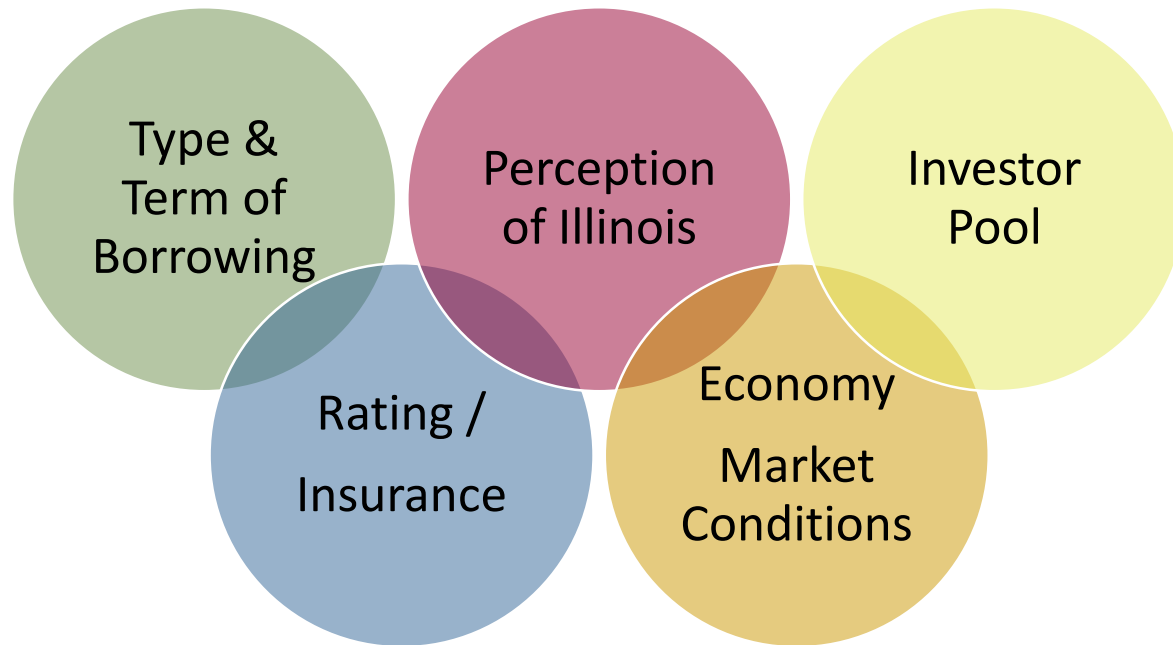
Bonds Issued Nationally 2008-2018

% Based on # of Issues

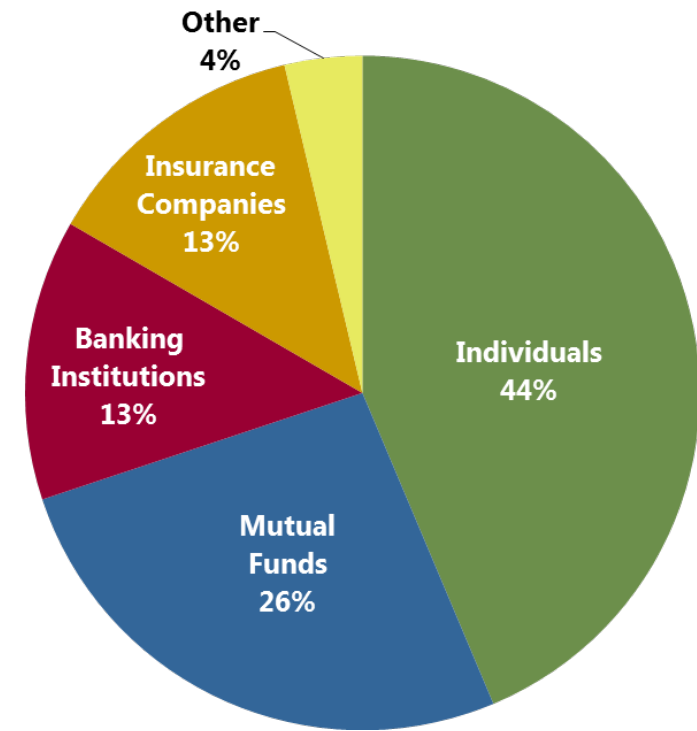
Source: Bond Buyer



What drives your overall cost of borrowing?



Who buys municipal bonds?



Stakeholder Management

Throughout the bond issuance process, each stakeholder group may require attention.



Elected Officials

- Before – Must be comfortable with the project and repayment plans (or at least agree with it).
 - Explore funding options, select the best for your situation.
 - Project and repayment plan should be in your budget and capital planning documents.
- Throughout the financing, it is important to keep elected officials apprised of key events.
 - Bond rating:
 - Is it affirmed or changed?
 - Where there key findings or recommendations?
 - Significant changes in the calendar.
 - Significant changes to rate or other terms.

Executive Director / Village Manager

- Critical for the Director / Manager to be completely on board with the project and repayment plan.
 - Will need to fully support the process.
- Will be more involved than elected officials.
- Key member of your bond rating call.
- Will help navigate political land mines.

Constituents

- Public has a right to know how we are obligating their money.

Bond Team

- Keep in mind events that will impact the bond deal or components of the transaction.

How do you gauge success?

- Did you get the money?
- Delivered according to the financing calendar?
- Did you get a market rate?
- Was there local investment in the bonds?
- Is the repayment schedule practicable?
- Did it meet your financial objectives?
- Were there hiccups along the way?

Thank you!

Questions?

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