



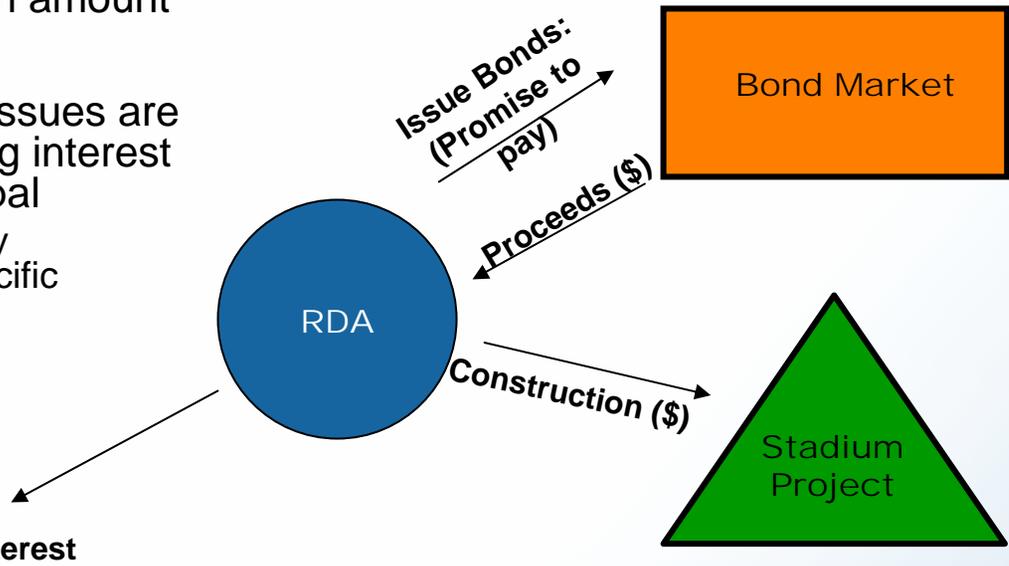
Municipal Bonds

Developed by
David Brodsky, Managing Director
KNN Public Finance

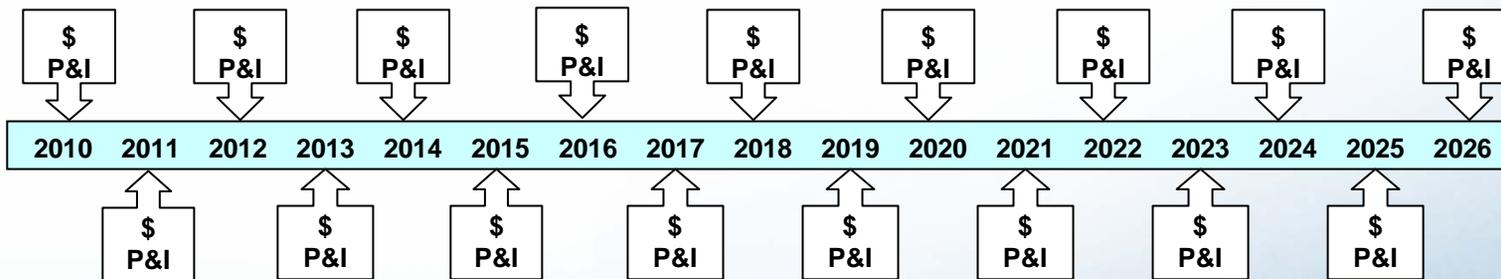
A Division of Zions First National Bank

What is a Bond?

- A promise by state or local governmental units to repay an amount of money borrowed
- Like a home mortgage, bond issues are “amortized”, periodically paying interest to date and a portion of principal
 - For bonds, principal is paid by retirement of each year’s specific maturity.



RDA pays principal and interest



Example Total Debt Service

- Paid by RDA tax increment
- Total debt service (principal + interest) is “level” or about the same each year
- Total debt service paid (principal + interest) is more than the principal of the bonds
- Average interest rate of various maturities is 4.77%

	Principal	Interest	Total	Total Outstanding
Beg. Bal.				\$ 50,000,000
2009	\$ 1,990,660	\$ 2,274,853	\$ 4,265,513	48,009,340
2010	1,879,410	2,386,106	4,265,516	46,129,930
2011	1,969,240	2,296,270	4,265,510	44,160,690
2012	2,062,980	2,202,535	4,265,515	42,097,710
2013	2,161,170	2,104,337	4,265,507	39,936,540
2014	2,264,480	2,001,033	4,265,513	37,672,060
2015	2,373,400	1,892,111	4,265,511	35,298,660
2016	2,488,040	1,777,476	4,265,516	32,810,620
2017	2,609,200	1,656,309	4,265,509	30,201,420
2018	2,737,310	1,528,197	4,265,507	27,464,110
2019	2,872,540	1,392,974	4,265,514	24,591,570
2020	3,015,590	1,249,921	4,265,511	21,575,980
2021	3,166,670	1,098,840	4,265,510	18,409,310
2022	3,326,270	939,240	4,265,510	15,083,040
2023	3,494,580	770,931	4,265,511	11,588,460
2024	3,672,100	593,406	4,265,506	7,916,360
2025	3,859,380	406,129	4,265,509	4,056,980
2026	4,056,980	208,529	4,265,509	-
Totals	<u>\$ 50,000,000</u>	<u>\$ 26,779,197</u>	<u>\$ 76,779,197</u>	

Why Do Cities Issue Bonds?

- Not enough cash on hand
 - Large project
 - Can't pay-as-you-go
 - Desire to spread cost over useful life so that cost is paid by both current and future users
- Most municipal bonds are tax-exempt, meaning no income tax is paid on interest income to investors
 - Results in investors' willingness to accept lower rates
 - Complex tax rules govern tax-exemption. Some stadium-related bonds might be taxable

Different Types of Financing

< Higher Rated		Types of Financing			Lower Rated >	
Bond Type	General Obligation	Lease Revenue (or Certificates of Participation)	Enterprise Revenue (e.g. Electric System)	Redevelopment (Tax Allocation)	Stadium Authority Revenue Bonds (Project Finance)	
Source of Repayment	Property taxes	General Fund	Utility fees	Incremental property taxes	Specific/identified revenues	
Revenue Pledge	“Full faith and credit” of issuer. Secured by supplemental property tax levy	Lease payments for use of an asset (usually leased-back from issuer-created third party). Paid from annual general fund appropriations	Net revenues of the utility. Pledge to raise rates in order to maintain debt service coverage (“rate covenant”)	Secured by tax increment, the share of the 1% property tax attributable to growth in assessed values after formation of the project area	Limited obligations expected to be secured from admission fee and naming rights revenues	
Vote Requirements	2/3rds voter approval; Schools may be 55%	Typically no public vote required	Typically no public vote required. (Santa Clara City Charter allows revenue bonds for electric without election)	No public vote required	No public vote required	

Bond Financing for Stadium

Bonds Issued by RDA

- Tax Exempt
- Tax Allocation Bonds
- Term to Maturity: 2026

Bonds Issued by Stadium Authority

- Taxable
- Revenue Bonds: 2 Bond Issues
- Admission Fee Bonds
- Naming Rights Bonds
- Per 49ers Proposal in April 2007: \$185 million

The Key Players: Finance Team

Player	Role	Specific Parties for Stadium Financing
The Issuer	The borrower, with the legal power to issue bonds.	The Redevelopment Agency for tax allocation bonds, a newly created Stadium JPA for project revenue bonds (admission tax and naming rights).
The Investor	The lender, individual and institutional investors in municipal securities.	Individuals, mutual funds, hedge funds, trusts and insurance companies.
Underwriter	Purchases the bonds for resell to investors Underwriting can be by competitive or negotiated sale.	Decision as to method of sale will be made closer to time of issuance. Municipal underwriters include Morgan Stanley, Citi, Merrill Lynch, and many other national and regional firms.
Bond Counsel	Drafts legal documents, renders opinions as to enforceability and tax-exempt interest.	Jones Hall is the City's bond counsel.
Disclosure Counsel	Drafts the official statement.	Jones Hall is expected to serve in this role as well.
Financial Advisor	The issuer's consultant in developing plan of finance and executing it with a bond issue.	KNN Public Finance is the City's financial advisor.
Rating Agencies	Assigns a rating to assist the market in judging relative credit quality.	Moody's Investors Service, Standard & Poor's Corporation, Fitch Ratings.

Structuring the Bond Deal

- Like a home mortgage, the costs of issuance are added to the principal amount of the loan
 - True costs of funds accounts for interest and amortization of up-front costs of issuance
 - Costs of Issuance can range from 1% to 3% of principal amount. Estimated at high-end for stadium financings
 - Cost of issuance includes underwriter's discount, bond insurance, and other costs of issuance (e.g. bond and disclosure counsel, financial advisor and bond rating)

Sample Bond Issue	
Estimated Sources And Uses of Funds	
Source of Funds	
Bond Proceeds	\$50,000,000
Use of Funds	
Costs of Issuance	\$1,500,000
Project Funds	48,500,000
	<hr/>
	\$50,000,000

Sample Sequence for Bond Issuance

- Drafting of documents
 - Official statement, indentures, trust agreements, bond authorizing resolutions, other agreements among parties involved
 - This takes 3-12 months depending on the complexities of the project and negotiations with other parties
- Staff secures ratings, finalizes insurance policy for bonds
- City Council/RDA Board adopts authorizing resolutions
- Staff goes into the marketplace to price and sell the bonds
 - During the sale, the interest rate on the various maturities will be determined by the marketplace, and the price per bond will be set
- After the sale, staff returns to City Council with a report on the success of the sale
- The bond issue is closed
 - City executes documents, the bond proceeds are transferred to construction accounts established by the City. This is similar in many ways to a mortgage closing for a private individual