How to Finance/Refinance Library Construction

2010 Michigan Library Association

Annual Conference

Presented by:

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Defining the Need for Capital Improvements

- Internal
  - Library services needed
  - Failing infrastructure
  - Environmental Issues
  - Technology issues
- External
  - Changing demographics
  - Demands for new services
  - ADA compliance

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Capital Planning Stages

- Facility Review and Needs Assessment
  - Support from Boards and other elected leaders
  - Staff supported
  - Community support
- Advisory Committee/Preliminary Election Analysis
- Prioritize Projects
- Impact Study
- Budget and Timelines
- Choosing the Professional Team

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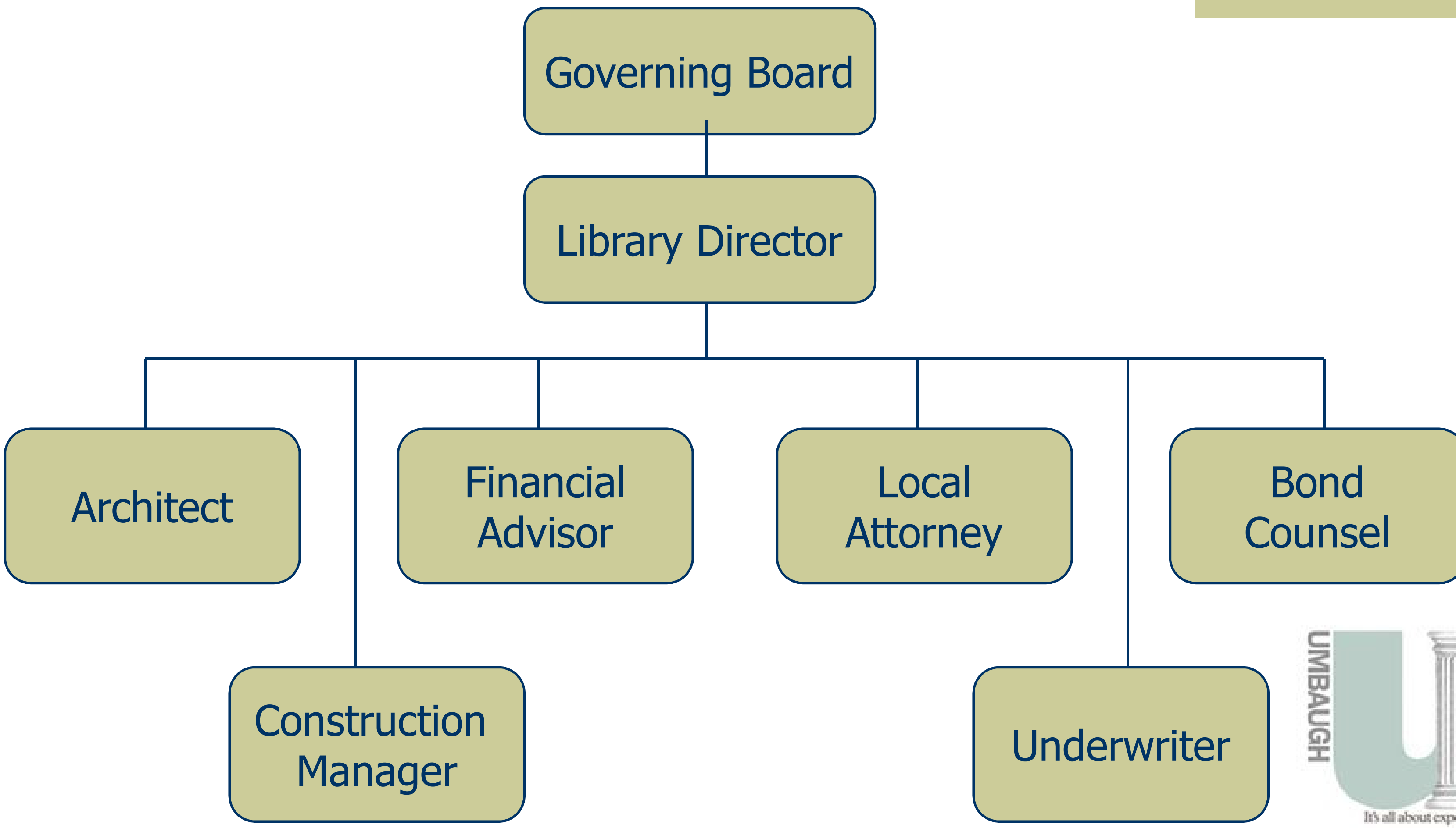
Cast of Characters

WHY DO I NEED ALL THESE PEOPLE?



Professional Team

- Architect – Project design and cost projections
- Financial Advisor – Bond sizing, repayment structure, tax impact, Official Statement, Bond sale, post Bond sale
- Local Attorney – Legal documents, required publications
- Bond Counsel – Issues opinion on tax exempt status of Bonds, assists with legal documents and compliance issues
- Construction manager – Oversees construction by acting as an agent for the library, assists with cost projections
- Underwriter – Purchaser of Bonds

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Source of Funds

- Cash
- General Obligation Bonds
- Grants
- Leases
- Fund Raising
- Bequeathed/ Donations

Financial Feasibility Study

- Preliminary Financial Planning
  - Proposed project budget
  - Overall financial condition
  - Operating costs
  - Bond sizing
  - Repayment structure
  - Potential tax impact
  - Source of Debt Service Funds
- Meet with working group to discuss timing and budget issues

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Type of Bonds

- Limited Tax Bonds General Obligation Bonds
- Unlimited Tax General Obligation Bonds
  - Levy what is necessary to meet the tax liability.

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Example

Summary of Project Costs and Funding

New Construction Cost	$7,000,000
Remodeling	2,500,000
Construction Contingency	950,000
Technology	500,000
Furnishings	300,000
Site Work	625,000
Site Acquisition	450,000
Miscellaneous construction soft cost	150,000
Architect Fees & Cost	625,000
Construction Management Fees & Cost	590,000
Total Estimated Project Cost	13,690,000
Bond Issuance and miscellaneous cost	100,000
Underwriters Discount	110,000
Interest during construction	
Interest Expense (capitalized interest) (1)	225,000
Interest Earnings (2)	(125,000)
	$14,000,000

Estimated Project Funding	Option 1	Option 2
Funds on Hand	$300,000	$300,000
Grants	0	2,500,000
General Obligation Bonds	13,700,000	11,200,000
	$14,000,000	$14,000,000

(1) Interest due prior to first levy of required tax.
(2) Interest earnings over construction period.

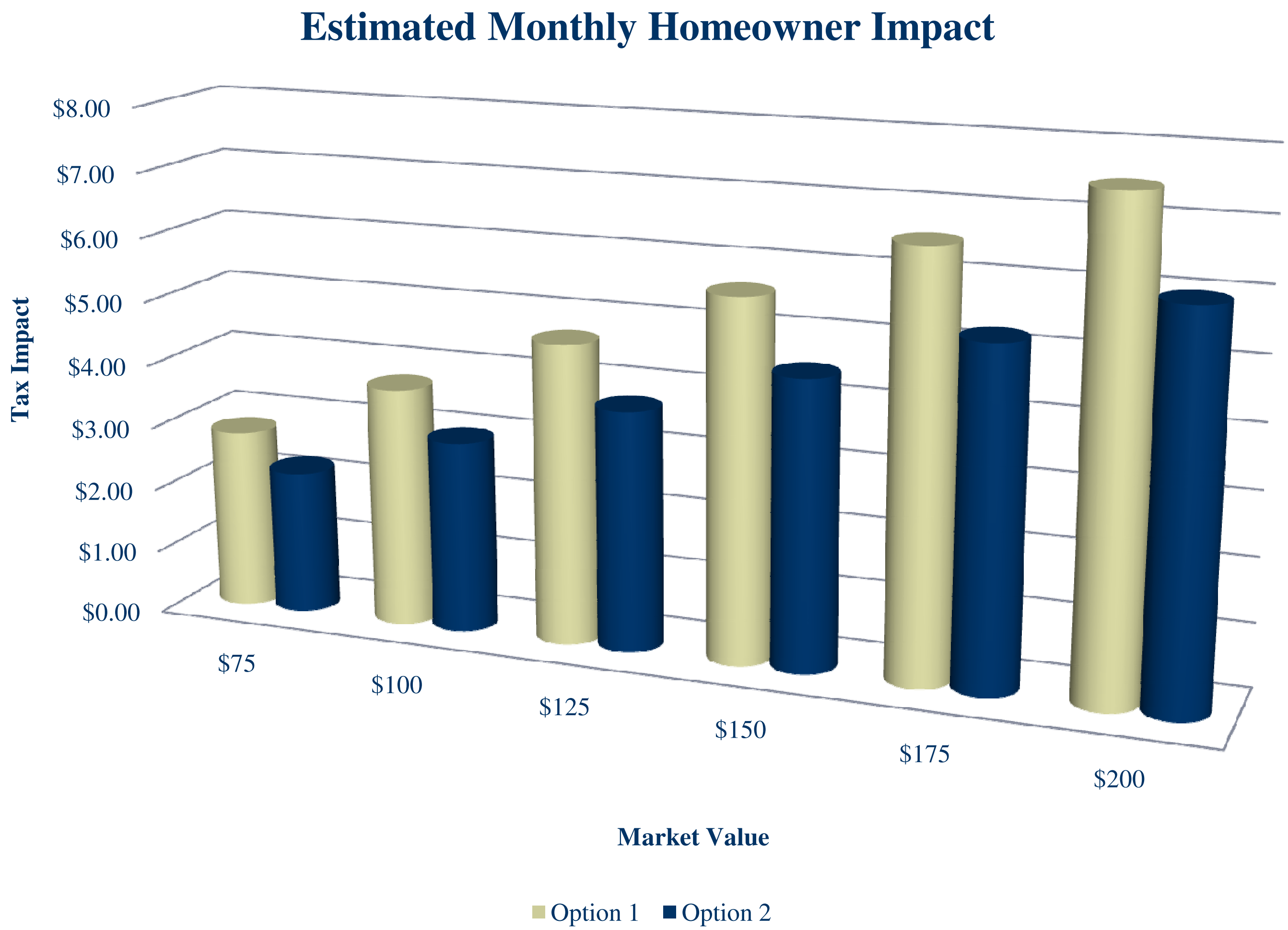
Estimated Tax Impact on Homeowners

Annual Tax Impact		
	Option 1	Option 2
Millage	0.45	0.36
Market Value ($0,000)	Option 1	Option 2
$75	$33.75	$27.00
$100	$45.00	$36.00
$125	$56.25	$45.00
$150	$67.50	$54.00
$175	$78.75	$63.00
$200	$90.00	$72.00

Monthly Tax Impact		
	Option 1	Option 2
Millage	0.45	0.36
Market Value ($0,000)	Option 1	Option 2
$75	$2.81	$2.25
$100	$3.75	$3.00
$125	$4.69	$3.75
$150	$5.63	$4.50
$175	$6.56	$5.25
$200	$7.50	$6.00

•Assumed library district has a taxable value of $2.5 billion.

Tax Impact Graph



Debt Limit Considerations

	% of Assessed Valuation (SEV)
City, Village and School District Libraries	¼ of 1%
District Libraries	5%
Township Libraries	1%

*Any outstanding or authorized debt are included in computation of allowable borrowing.

General Obligation Debt Limit

Market Value	$2,600,000,000
Divide by 2	1,300,000,000
Times constitutional debt limit (Township Library Example)	1.00%
General Obligation Debt Limit	$13,000,000

Show SEV – Taxable Value

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Bond Issuance Process

- Library District must qualify to issue debt with Michigan Department of Treasury within six months of the end of their fiscal year end.
- Set up study team of district administration, board, community members, architect, financial advisor, and other interested parties to review the needs and options of the district.
- Present results of study team to general public and get additional input related to the proposed options previously defined.

Bond Issuance Process

- Final determination of project, cost and sources of funds
- Board Calls for the election (70 days before election date) if funds are needed that are greater than available from current funds on hand or annually through the operating budget.
- Election to approve millage (debt or operating)
- Sale of Bonds (about 30-60 days after a favorable election)
- Closing on Bonds (about 15 days after pricing/sale of bonds.

2011 Election Dates

Regular Election Dates for Bond or Millage Elections

February 22   May 3   August 2   November 8

Petition Initiative Floater Dates

January 4, 11, 18

June 14, 21, 28

September 13, 20, 27

October 4

December 20, 27

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Credit Enhancement Considerations

- Bond Ratings
  - Opinion of the general creditworthiness of an obligor, or a particular debt security of an obligor, based in relevant risk factors
- Four basic analytical areas to assess capacity and willingness to repay debt:
  - Economic Base
  - Financial Indicators
  - Debt Factors
  - Management Factors

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Credit Enhancement Considerations

- Evaluation of Bond Insurance
  - Insurance is generally obtained for bond issues greater than $3 to $4 million
  - May request a preliminary evaluation
  - Bond insurance premiums must be evaluated against the interest expense differential

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Official Statement

- Preliminary Official Statement
  - Marketing tool
  - Provides potential bond purchasers with information on project, bond structure, security, etc.
  - Financial advisor prepares and distributes to Underwriters
- Final Official Statement
  - Finalize after bond sale
  - Distribute to winning underwriter

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Bond Sale

- Competitive sale
  - Financial advisor coordinates sale
  - Manual or electronic bid options
  - Bonds awarded to underwriter with the lowest true interest cost
- Negotiated sale
  - Negotiate interest rates with underwriter(s)
    - May send Request for Proposal to several underwriter's before selecting one

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Bond Closing

- Financial Advisor prepares After Sale Letter
  - Summarizes bond issue/closing
    - Flow of funds, wire transfer instructions, final amortization schedule, lease rental schedule
- Closing approximately two weeks after sale
  - Handled primarily by local attorney and bond counsel
  - Proceeds are held separate from other funds
- Commence Construction

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Post Closing Considerations

- Investing the funds
- Continuing disclosure reporting
- Arbitrage rebate
- Construction fund management

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Bond Proceeds Investing

- Do it yourself or investment professional?
  - Broker-Dealer
  - Financial Institution
  - Investment Advisor, Exempt or Registered
- Conflict of Interest Issues /Dual Roles

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Investing the Proceeds

- Draw Schedule
  - Timing issues
  - Stages of construction
  - Construction limitations
- Safety - Liquidity – Yield
  - Know who you are doing business with
  - Investments complies with written investment policy
  - Avoid Chasing Rates
  - FDIC limitations
  - Protect your investment portfolio

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Refunding Bonds

- Refunding Bonds are driven by the bond redemption provisions and are limited to one "advance refunding" and thereafter to "current refunding".
- Industry standards suggests the debt service differential generates a minimum present value savings of 2%

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Refunding Bonds

- Considerations that affect refunding opportunities:
  - Interest Rate differential
  - Escrow interest income rates
  - Spread between bond rates and escrow interest rates
  - Call date for existing bonds
  - Cost of Issuance

Refunding Bonds

- Advance refunding:
  - Bonds are issued 'in advance' of the actual call date. (more than 90 days)
  - Placed in an escrow account pending the call for the refunded maturities
  - Escrow account can earn interest up to the arbitrage rate to help pay the debt service interest payments pending the call date.

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Refunding Bonds

- Current refunding:
  - Proceeds of the refunding bonds are used to redeem the callable bonds debt within 90 days of the call date (may be some nominal interest on the escrow account to the call date)

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Refunding Bonds

- Other Considerations:
  - New money bonds may be blended with refunding bonds for cost efficiencies
  - Consider impact on construction fund earnings, if applicable
  - Structuring debt services with consideration of future construction needs or new bond issues.
  - Applying cash on hand
  - Market Timing

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Refunding Bonds

Always Remember:

“ If it sounds too good to be true,

it probably is”.

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Questions ?

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