



Financing Library Construction and Improvement Projects Michigan Library Association

October 20, 2022

**PFM Financial
Advisors LLC**

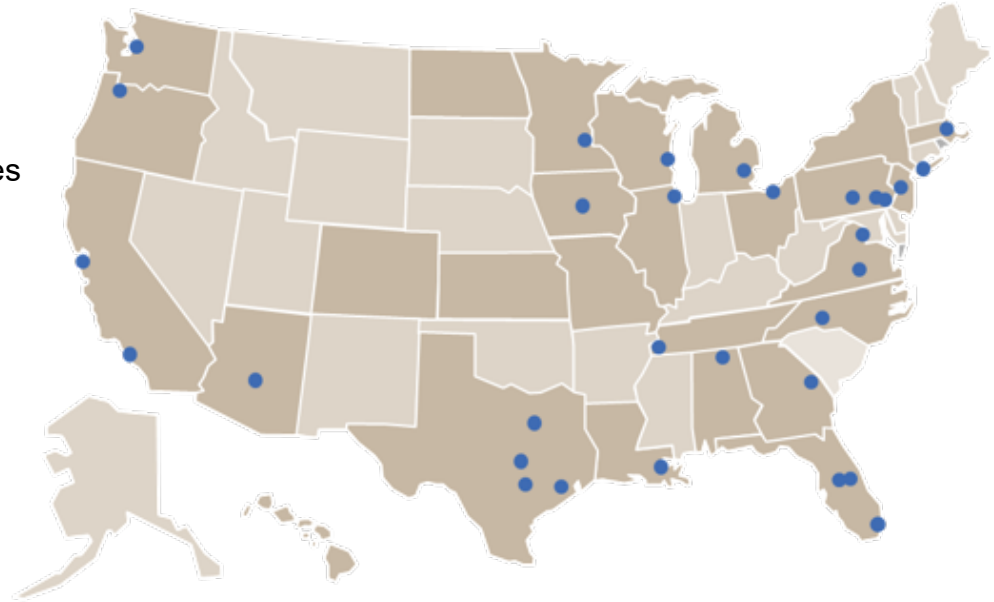
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Who We Are

- PFM's¹ original practice founded in 1975**
 - on the principle of providing sound, **independent** financial advice to governmental and not-for-profit entities
- Largest financial advisory firm in the nation**
 - 31 professional locations²
 - More than 350 employees
- Nations leading financial advisory firm**
 - Ranked #1 Financial Advisor in the country for 27 consecutive years³.
 - In 2021 alone, we advised our clients on 951 issues totaling over \$71.889 billion³.
- PFM's size provides several unique advantages**
 - Wide array of technical resources
 - Breadth of staff knowledge and "deep bench"
 - Large and frequent market presence and participation
- Client-centric philosophy**
 - Project managers with local expertise
 - Supported by experts in specialized aspects of financial management
 - Solutions tailored to our clients' unique situations and needs



**According to PFM Internal Resources as of August 22, 2022*

2021 Full Year Overall Long Term Municipal New Issues

Municipal Financial Advisory Ranking - Full Credit to Each Financial Advisor

Source: Ipreo

	# issues	\$ in millions
PFM	951	71,889
Public Resources	187	60,100
Hilltop Securities	758	35,496
Acacia Fin Group	140	17,167
Frasca & Associates	40	16,751
Piper Sandler	214	12,259
KNN Public Finance	77	10,442
Estrada Hinojosa	84	9,824
RBC Capital Mkts	125	8,941
Swap Financial	14	7,930

1 Please refer to the last page for Disclosures

2 As of August 22, 2022

3 Source: Ipreo



Library Financing Options

◆ Possible Funding Sources

- Fund Equity
- Capital Campaign Fund Raising
- Borrowing Through Bonds
 - Voted
 - Non-Voted

◆ Non-District Libraries: Bonds are Issued by Municipality

◆ District Libraries: Bonds are Issued by Library



Capital Campaign Fund Raising

- ◆ Donor Funding May be Received Over Several Years
 - Funding Received Before and During the Construction Phase May Be Used for Construction or for Payment of Principal and Interest on Bonds
 - Funding Received After Construction Phase May Be Used For Payment of Principal and Interest on Bonds
 - Pledges For Funding that is Expected to be Received in Later Years are More Uncertain, Less Reliable



Public Acts and Legal Debt Margins

◆ **For District Libraries**, Authorization From District Library Financing Act, P.A. 265 of 1988

- Limited to 5% of State Equalized Valuation
 - Including outstanding Voter Approved and Non-Voter Approved Bonds
 - Example: \$28.5 Million Bonding Capacity Based on \$570 million of 2021 State Equalized Valuation (SEV) and No Outstanding Bonds

◆ **For Non-District Libraries**

(Other Statutes May Apply)

- Non-Voted Capital Improvement Bonds authorized by Public Act 34 of 2001 are limited to 5% of State Equalized Valuation
- Cities, Villages and Charter Townships are further limited to 10% of SEV for all general obligation bond debt and equivalent valuation for state shared revenues
- General Law Townships do not have a Debt Limit
- Communities may also request voter approval (and related millage) for bonds



Allowable Projects Funded by Bond Proceeds

◆ What Can be Bond Financed?

- Library Construction and/or Renovation
- Building Acquisitions (for Library Use)
- Site Acquisition and Improvements
- Associated Planning and Design Costs
- Furnishings and Equipment
- Financing Costs
- Contingencies

Sources: Public Act 265 of 1988, Michigan Public Acts
Public Act 34 of 2001, Michigan Public Acts



Non-Voted and Voted Bonds

◆ Non-Voted General Obligation Bonds

- Provides Funding Source but not Repayment Source
- Payable from Existing Resources or Voted Millage

◆ Voted General Obligation Bonds

- Provides Funding Source and Repayment Source
- Payable from Taxes Levied in Addition to All Other Voted Millages

Sources: Public Act 265 of 1988, Michigan Public Acts
Public Act 34 of 2001, Michigan Public Acts



Bond Planning Process

- ◆ Establish Timeline for Project & Bonding
- ◆ Review Cost Estimates of Architect / Construction Manager
- ◆ Determine Millage Ranges (What is Acceptable?)
- ◆ Calculate Impact of Project on Taxpayers
- ◆ Tax Impact Too High... Projects Prioritized
- ◆ “Feasible” Project Scope and Amount Determined
- ◆ Calculate Values for Ballot Language



Bond Proposal

Voter Approval Required

Voters must authorize the Library (or Municipality) to issue a not-to-exceed dollar amount of bonds to pay for improvements identified in the ballot proposal.

Unlimited Debt Millage

The Library (or Municipality) levies the number of mills on taxable property necessary to pay the annual principal and interest payments. Debt service is paid by the debt levy, not the General Fund.

Items Required on Ballot¹

Maximum amount of bonds

Bond purpose

First year's estimated millage rate for new bonds

Simple **average annual millage** rate for new bonds

Maximum **term** of the bonds

¹ Source: Act 206 of 1893, Public Acts of Michigan



Bond Proposal Example

Bond Proposal

Shall the Ransom District Library, formed by the City of Plainwell and the Township of Gun Plain, County of Allegan, State of Michigan, and the Charter Township of Cooper, County of Kalamazoo, State of Michigan, borrow the sum of not to exceed Six Million Two Hundred Thousand Dollars (\$6,200,000) and issue its general obligation unlimited tax bonds therefor, for the purpose of paying all or a portion of the costs of acquiring, constructing, equipping and furnishing a new library facility to replace its existing library facility, to demolish the existing library building and to improve the sites thereof, located at 180 S. Sherwood Avenue, Plainwell, Michigan, including costs related thereto?

Yes

No

The following is for informational purposes only:

The maximum number of years the bonds may be outstanding, exclusive of refunding, is twenty-five (25) years; the estimated millage to be levied to pay the proposed bonds in the first year is 0.85 mills (which is equal to \$0.85 per \$1,000 of taxable value); and the estimated simple average annual millage required to retire the bonds over 25 years is 0.75 mills (\$0.75 per \$1,000 of taxable value).



Bond Sizing Schedule Example

Estimated Expenditures Average Life = 0.70 years

Date	Project Expenditures	Issuance & Other Costs	Totals	Month	Payout %	Project Fund Balance
Nov 23						\$5,300,000
Nov 23	\$150,000	\$135,584	\$285,584	1	5.33%	5,014,416
Dec 23	150,000		150,000	2	8.13%	4,870,684
Jan 24	150,000		150,000	3	10.93%	4,726,772
Feb 24	150,000		150,000	4	13.73%	4,582,680
Mar 24	385,000		385,000	5	20.92%	4,203,409
Apr 24	385,000		385,000	6	28.11%	3,823,663
May 24	385,000		385,000	7	35.30%	3,443,443
Jun 24	385,000		385,000	8	42.49%	3,062,747
Jul 24	385,000		385,000	9	49.68%	2,681,575
Aug 24	385,000		385,000	10	56.87%	2,299,927
Sep 24	385,000		385,000	11	64.06%	1,917,802
Oct 24	385,000		385,000	12	71.24%	1,535,200
Nov 24	385,000		385,000	13	78.43%	1,152,119
Dec 24	385,000		385,000	14	85.62%	768,559
Jan 25	385,000		385,000	15	92.81%	384,519
Feb 25	385,000		385,000	16	100.00%	0
Mar 25	0		0	17	100.00%	0
	<u>\$5,220,000</u>	<u>\$135,584</u>	<u>\$5,355,584</u>			

Project Amount	\$5,220,000
Issuance Costs	<u>135,584</u>
Project & Issuance Costs	\$5,355,584
Estimated Interest Earnings on Bond Proceeds	<u>(55,584)</u>
Bond Amount	<u>5,300,000</u>



Summary of Bonding Alternatives Example

Below is a summary of bond proposal options and different bond terms:

Scenario Table No.	Bond Amount	Bond Term	Estimated Total Interest Cost	Estimated Interest Rate	Ballot Info for New Debt Alone		Estimated Maximum Mills
					First Year Millage	Average Millage	
1	\$5,300,000	17.5 yrs.	\$1,993,265	3.65%	0.75	0.69	0.75
2	5,300,000	19.5 yrs.	2,305,313	3.75%	0.70	0.63	0.70
3	5,300,000	21.5 yrs.	2,662,660	3.85%	0.65	0.58	0.65
4	5,300,000	24.5 yrs.	3,221,800	4.00%	0.60	0.53	0.60

ASSUMPTIONS:

- an debt levy of 0 mills for 2022.
- August 2022 vote, Bonds Dated November 2023.
- an annual change in Taxable Value of 2.50%.

NOTATION:

- The interest rates shown above are estimates. The actual interest rates will be determined at the time of sale. Changes in interest rates may impact the millage required. The final millage will be based on actual interest rates, actual bond payments and actual taxable values.



Estimated Taxpayer Impact Example

Scenario Table	Bond Amount	Bond Term	Estimated Increase in Debt Levy	Estimated Market Value							
				\$120,000	\$140,000	\$160,000	\$180,000	\$200,000	\$220,000	\$240,000	\$260,000
				Taxable Value							
				\$60,000	\$70,000	\$80,000	\$90,000	\$100,000	\$110,000	\$120,000	\$130,000
Estimated Initial Tax Increase*											
1	\$5,300,000	17.5 yrs.	0.75	\$45.00	\$52.50	\$60.00	\$67.50	\$75.00	\$82.50	\$90.00	\$97.50
2	5,300,000	19.5 yrs.	0.70	42.00	49.00	56.00	63.00	70.00	77.00	84.00	91.00
3	5,300,000	21.5 yrs.	0.65	39.00	45.50	52.00	58.50	65.00	71.50	78.00	84.50
4	5,300,000	24.5 yrs.	0.60	36.00	42.00	48.00	54.00	60.00	66.00	72.00	78.00

*Based upon Taxable Value defined as the lesser of: A) assessed value [1/2 of true cash value]; or B) the prior year's Taxable Value, less losses times the rate of inflation plus additions. In the scenario outlined in 1 for example, a person with a 'Taxable Value' of \$100,000 (which would be a market value of at least \$200,000 or more) would have an estimated increase in taxes of approximately \$75.00.

NOTE: If taxpayer qualifies for the State homestead property tax credit, the "net" tax increase would be less than shown above.



Millage Projection Before Election Example

<u>Series 2023</u>		Ballot Information	
Amount:	\$5,300,000	Election Date	August 8, 2023
TIC:	3.91%	First Yr. Millage	0.75
Dated Date:	Nov 1, 23	Levy Cycle: December Only	
First Payment:	May 1, 24 < 6 Months	Millage Impact	
First Levy:	Dec 1, 23	Projected	0.75
Bond Term:	17 yrs., 6 mo.	Current	0.00
Average Life:	10.30	Net Increase	0.75

Series 2023							Delinquency	Use of Funds			Mills	
Tax Year	Payment Year	Principal Due May 1	Interest Rate	Interest Due May 1	Interest Due Nov 1	Total Debt Service	Allowance 8.00%	on Hand \$0	Adjusted Payments	Projected Tax Base	Growth Rate	New Bond Avg. 0.69
2022	2023	\$0	0.000%	\$0	\$0	\$0	\$0	\$0	\$0	\$470,000,000	2.87%	
2023	2024	140,000	3.650%	96,725	94,170	330,895	28,905	1,512	361,312	481,749,999	2.50%	0.75
2024	2025	185,000	3.650%	94,170	90,794	369,964	0	382	370,345	493,793,749	2.50%	0.75
2025	2026	200,000	3.650%	90,794	87,144	377,938	0	1,666	379,604	506,138,593	2.50%	0.75
2026	2027	220,000	3.650%	87,144	83,129	390,273	0	(1,178)	389,094	518,792,058	2.50%	0.75
2027	2028	235,000	3.650%	83,129	78,840	396,969	0	1,853	398,821	531,761,859	2.50%	0.75
2028	2029	260,000	3.650%	78,840	74,095	412,935	0	(4,235)	408,700	545,055,906	2.50%	0.75
2029	2030	270,000	3.650%	74,095	69,168	413,263	0	0	413,263	558,682,304	2.50%	0.74
2030	2031	285,000	3.650%	69,168	63,966	418,134	0	0	418,134	572,649,361	2.50%	0.73
2031	2032	295,000	3.650%	63,966	58,583	417,549	0	0	417,549	586,965,595	2.50%	0.71
2032	2033	305,000	3.650%	58,583	53,016	416,599	0	0	416,599	601,639,735	2.50%	0.69
2033	2034	320,000	3.650%	53,016	47,176	420,193	0	0	420,193	616,680,729	2.50%	0.68
2034	2035	330,000	3.650%	47,176	41,154	418,330	0	0	418,330	632,097,747	2.50%	0.66
2035	2036	345,000	3.650%	41,154	34,858	421,011	0	0	421,011	647,900,190	2.50%	0.65
2036	2037	355,000	3.650%	34,858	28,379	418,236	0	0	418,236	664,097,695	2.50%	0.63
2037	2038	370,000	3.650%	28,379	21,626	420,005	0	0	420,005	680,700,138	2.50%	0.62
2038	2039	380,000	3.650%	21,626	14,691	416,318	0	0	416,318	697,717,641	2.50%	0.60
2039	2040	395,000	3.650%	14,691	7,483	417,174	0	0	417,174	715,160,582	2.50%	0.58
2040	2041	410,000	3.650%	7,483	0	417,483	0	0	417,483	733,039,597	2.50%	0.57
		<u>\$5,300,000</u>		<u>\$1,044,995</u>	<u>\$948,270</u>	<u>\$7,293,265</u>	<u>\$28,905</u>	<u>\$0</u>	<u>\$7,322,170</u>			



Financial Advisor Role During Bond Sale Process

- ◆ Helps Determine Method of Sale
- ◆ FA Prepares Financial Parameters to be used in Bond Authorizing Resolution
- ◆ Prepare Timeline for Sale and Delivery of Bonds
- ◆ Schedule Bond Sale (if Competitive Sale) or Bond Pricing Date (if Negotiated Sale)
- ◆ Preliminary Official Statement
- ◆ Assist in Securing Credit Ratings



Competitive Sale – Tabulation of Bids Example

\$5,300,000 Library Facility Bonds					
Bidder 1		Bidder 2		Bidder 3	
Premium: \$100,000		Discount: \$110,000		Premium: \$130,000	
Purchase Price: \$5,400,000		Purchase Price: \$5,190,000		Purchase Price: \$5,430,000	
<u>Principal Due</u>	<u>Interest Rate</u>	<u>Principal Due</u>	<u>Interest Rate</u>	<u>Principal Due</u>	<u>Interest Rate</u>
2024	3.000%	2024	2.300%	2024	3.000%
2025	3.000%	2025	2.350%	2025	3.000%
2026	3.000%	2026	2.400%	2026	3.500%
2027	3.000%	2027	2.500%	2027	3.500%
2028	3.000%	2028	2.600%	2028	3.500%
2029	3.500%	2029	2.750%	2029	3.500%
2030	3.500%	2030	2.850%	2030	3.500%
2031	3.500%	2031	2.950%	2031	3.500%
2032	3.500%	2032	3.050%	2032	4.000%
2033	3.500%	2033	3.150%	2033	4.000%
2034	3.500%	2034	3.200%	2034	4.000%
2035	4.000%	2035	3.350%	2035	4.000%
2036	4.000%	2036	3.400%	2036	4.000%
2037	4.000%	2037	3.450%	2037	4.000%
2038	4.000%	2038	3.550%	2038	4.000%
2039	4.000%	2039	3.600%	2039	4.000%
2040	4.000%	2040	3.650%	2040	4.000%
2041	4.000%	2041	3.700%	2041	4.000%
True Interest Cost:	3.58%	True Interest Cost:	3.60%	True Interest Cost:	3.62%



2023 and 2024 Elections and Estimated Lead Time

Election Dates	Filing Deadline
May 2, 2023	Feb. 7, 2023
Aug. 8, 2023	May 16, 2023
Nov. 7, 2023	Aug. 15, 2023
Mar. 12, 2024	Dec. 19, 2023
May 7, 2024	Feb. 13, 2024
Aug. 6, 2024	May 14, 2024
Nov. 5, 2024	Aug. 13, 2024

Estimated Lead Time

- ◆ 5 Months to 1 year before election, depending on project
- ◆ Ballot prepared before filing deadline with County Clerk(s)
- ◆ Project scope finalized no later than a week before ballot is to be written

NOTE: Election Dates and Deadlines are as reported by the State of Michigan – Secretary of State



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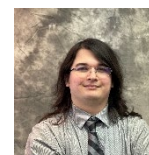
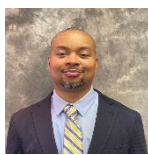
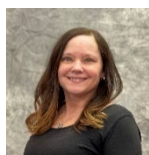
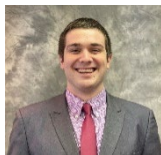
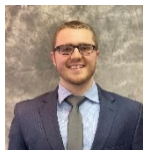


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Disclosures

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Consulting services are provided through PFM Group Consulting LLC. PFM's financial modelling platform for strategic forecasting is provided through PFM Solutions LLC.

For more information regarding PFM's services or entities, please visit www.pfm.com.



Appendix A: Bond Sale Methods

◆ There are 3 methods of sale for bonds, as shown below.

1. Competitive Sale

- Sold at a specific date and time following publication of a Notice of Sale
- Any firm may bid on the bond offering – most received via internet
- Bonds awarded to the lowest conforming bid

2. Negotiated Sale

- Underwriter pre-selected (may be through an RFP process)
- Underwriter offers bonds for sale to investors (includes local citizens)
- Flexible Pricing date
- Commonly used for complex financings, distressed credits and/or in volatile market conditions

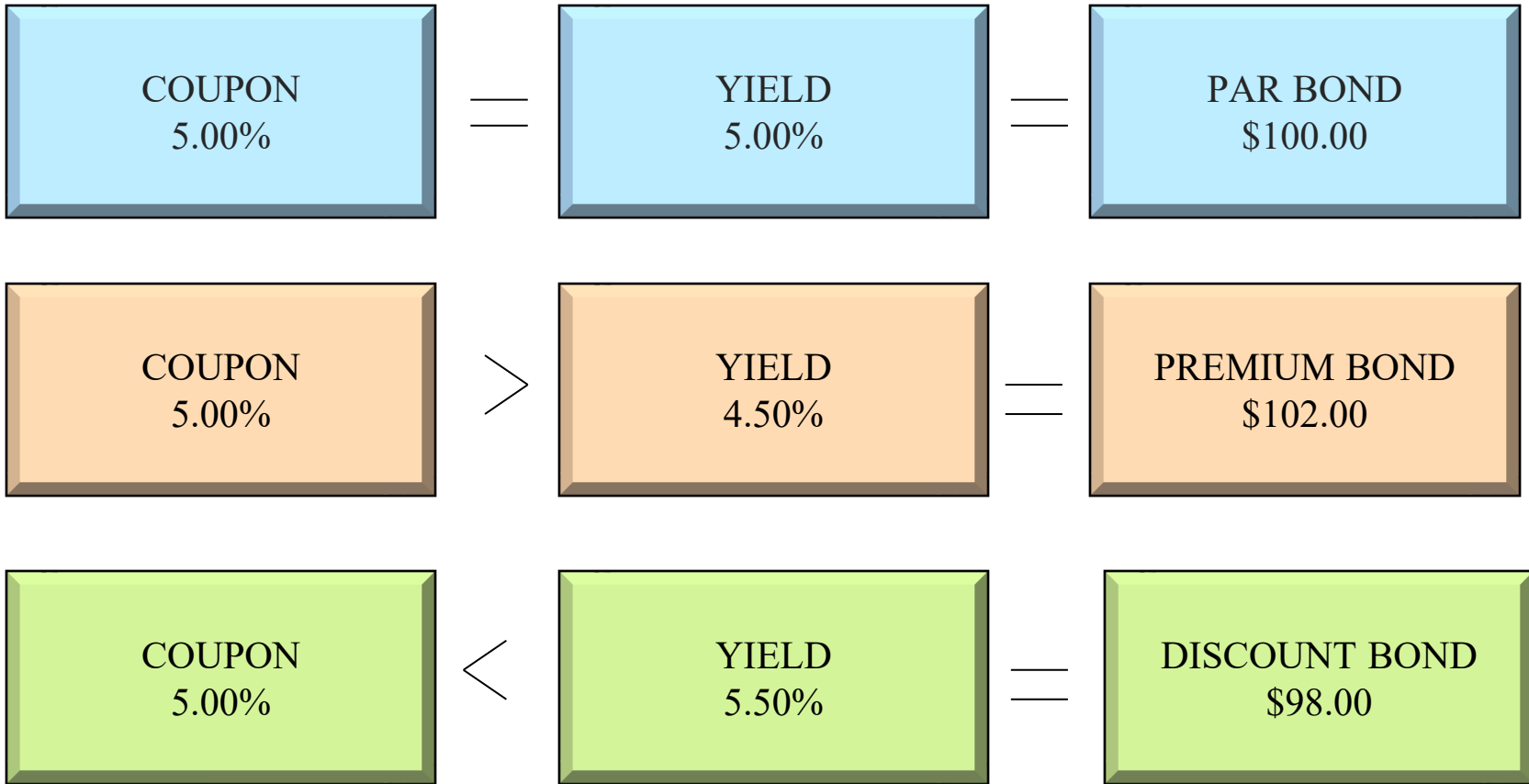
3. Direct or Private Placement

- Bonds are sold directly to private investor or bank (may be through an RFP process)
- Typically shorter bond terms and small bond amounts





Appendix B: Examples of Premium and Discount



- **Fundamentally, the relationship between a bond's coupon and yield will determine the price of a bond**