



Introduction to PFM Financial Advisors LLC

Independent Financial Advisory Services and Borrowing 101 for School District Capital Projects

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What is an Independent Financial Advisor?

- ◆ In its simplest terms, an Independent Financial Advisor **represents the Issuer's best interests** throughout the entire process of any debt issuance
 - Selection of financing type (bond issue, bank loan etc.)
 - Method of sale (competitive, negotiated, hybrid, etc.)
 - Negotiations of interest rates, commissions, and loan provisions
 - Ultimate recommendation whether or not to proceed based on current market conditions
- ◆ PFM Financial Advisors LLC "PFM" has a **fiduciary** duty to the Issuer and no one else. **Underwriters have no fiduciary duty to the Issuer.**





PFM Financial Advisors LLC Overview †

PFM's #1 Rankings for 2022‡

Type

- Overall
- Tax-exempt
- Taxable
- Negotiated
- Bank Qualified
- New Money
- Refunding
- Variable Rate
- Private Placement

Sector

- Primary/ Secondary Education
- Transportation
- Public Power
- Water Sewer & Gas

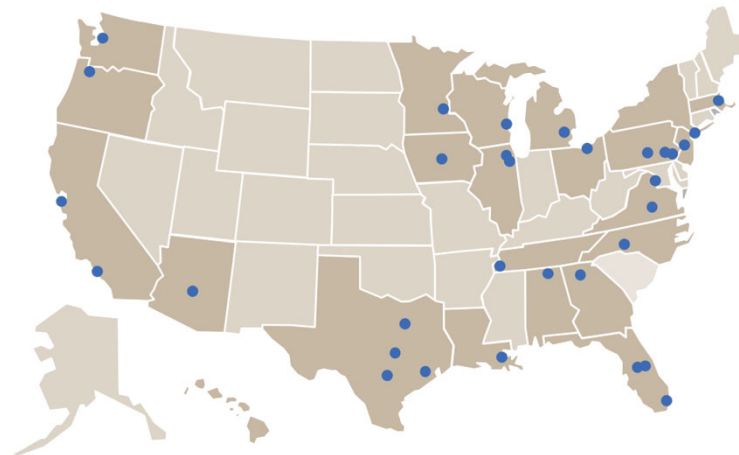
Region

- Pennsylvania
- Midwest
- Southeast
- West

Nation's #1 ranked Independent Financial Advisor ‡

- Leading financial advisor to state and local governments in the nation and advised on over \$59 billion of bond issuance in 2022. ‡

32 PFM locations across the U.S.*



*According to PFM Internal Resources as of June 1, 2023

PFM's First Place Ranking Overall Long Term 1998 - 2022

	Par Amount (millions)	# of Transactions
2022	59,813	652
2021	71,889	951
2020	76,160	924
2019	76,313	1,005
2018	63,557	796
2017	84,286	928
2016	94,660	1,193
2015	81,973	1,042
2014	70,048	855
2013	68,045	824
2012	79,032	957
2011	56,072	804
2010	90,501	1,067
2009	87,986	984
2008	69,794	842
2007	65,301	779
2006	53,572	803
2005	51,123	979
2004	43,693	892
2003	46,013	961
2002	37,904	902
2001	35,111	905
2000	21,003	585
1999	12,265	410
1998	13,963	424

Source: Ipreo



Pennsylvania Experience - Overall

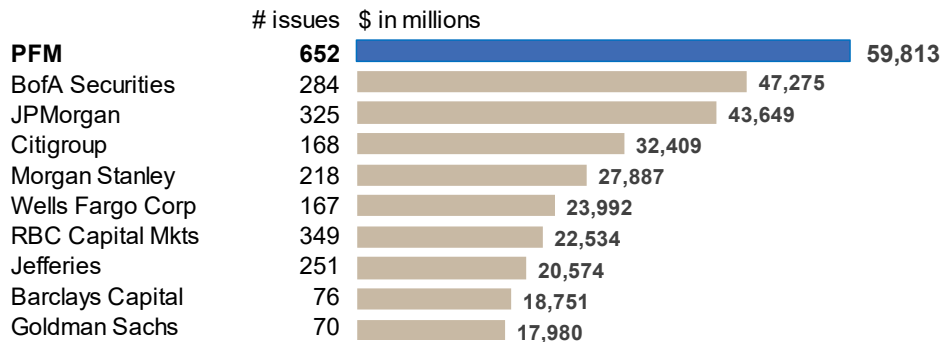
- ◆ PFM has been the #1 ranked financial advisor in Pennsylvania for over 20 years [1]
- ◆ Our clients include a wide spectrum of small and large tax-exempt issuers across the Commonwealth
- ◆ PFM advises on more debt issuances annually than any other financial advisor or underwriter

National Year Ending 2022 PFM vs. Underwriters

Pennsylvania Year Ending 2022 PFM vs. Underwriters

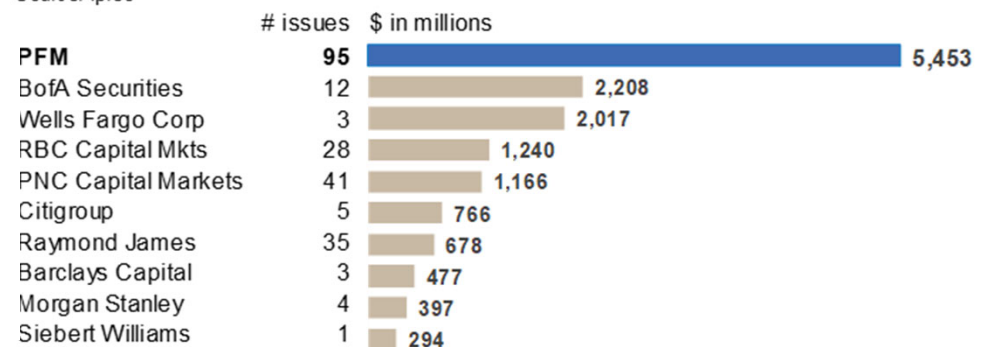
2022 Full Year Overall Long Term Municipal New Issues

PFM vs. Underwriter
Municipal Financial Advisory vs Underwriter Ranking
Full Credit to Each Financial Advisor; True Economics to Each Bookrunner
Source: Ipreo



2022 Full Year Pennsylvania Long Term Municipal New Issues

PFM vs. Underwriter
Municipal Financial Advisory vs Underwriter Ranking
Full Credit to Each Financial Advisor; True Economics to Each Bookrunner
Source: Ipreo





PFM's Dedicated Pricing Group

- ◆ PFM is among the most active participants in the municipal market. PFM's advisory volume compares favorably with the volume of the top underwriters in the municipal bond industry
- ◆ PFM works solely as a financial advisor and does not underwrite bonds. As a result, we can offer the District the benefits of unrivaled levels of participation, preparation, strategy and advocacy

PFM Pricing Group

- Constant access to market information and trends
- Leverage our national footprint and firm-wide knowledge
- Professional peer-to-peer relationships with underwriting desks to facilitate pricing negotiations

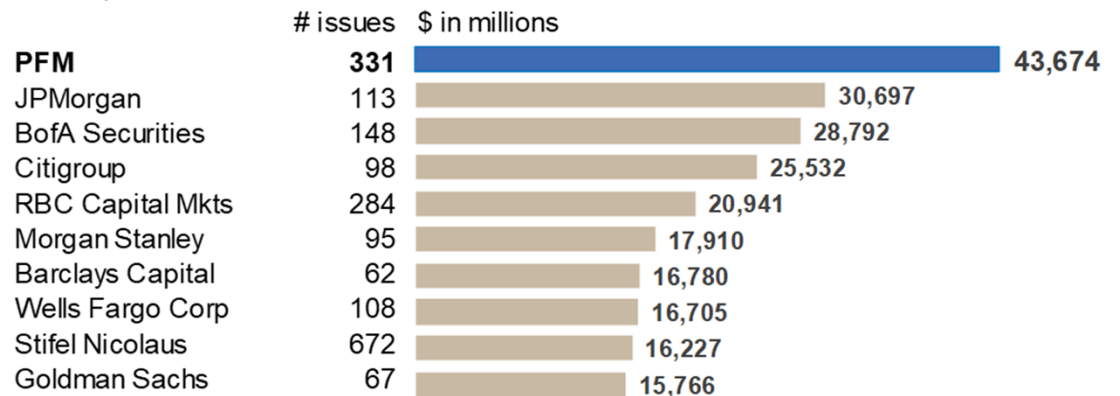
2022 Full Year Negotiated Long Term Municipal New Issues

PFM vs. Underwriter

Municipal Financial Advisory vs Underwriter Ranking

Full Credit to Each Financial Advisor; True Economics to Each Bookrunner

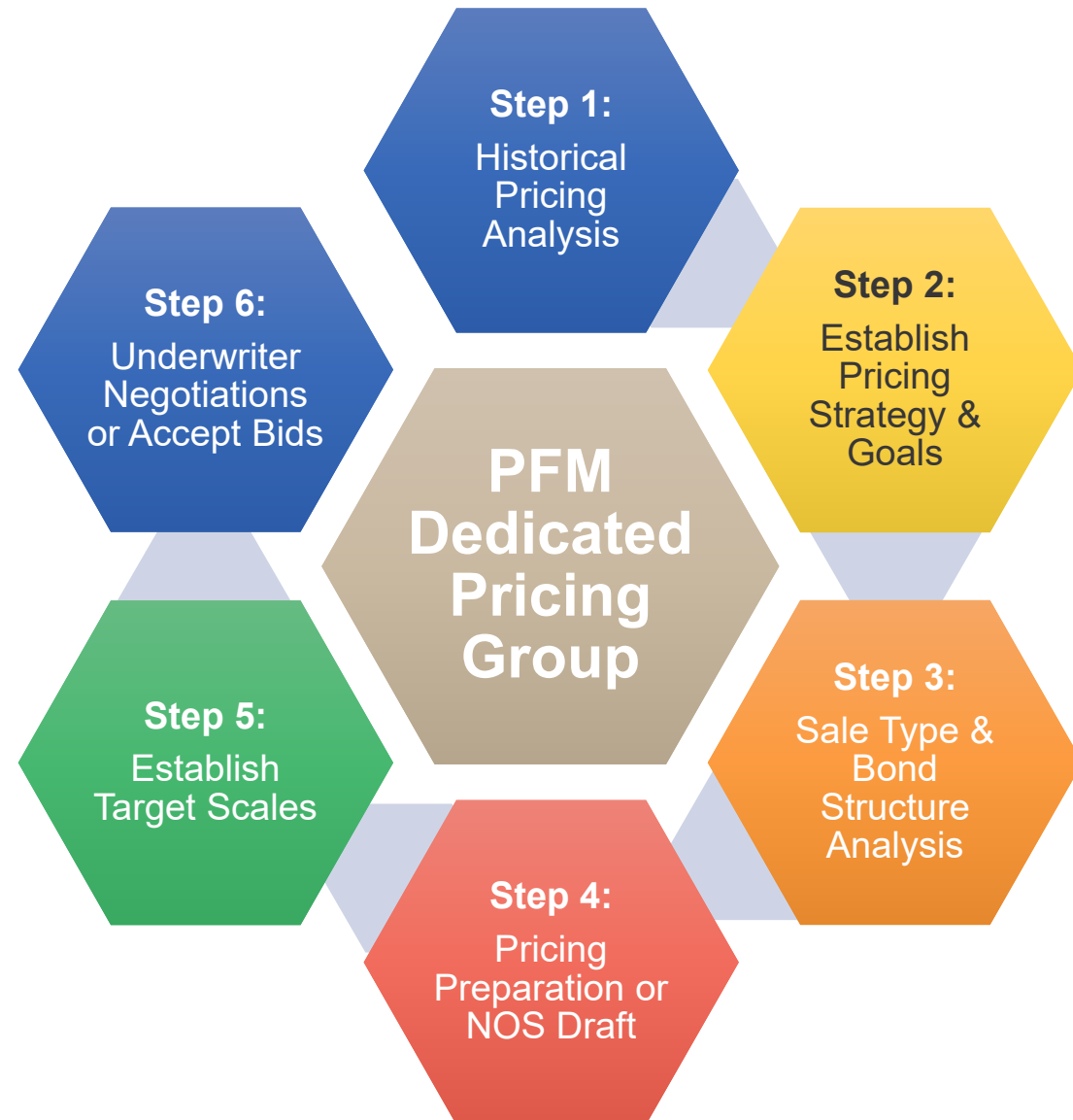
Source: Ipreo





PFM's Dedicated Pricing Group

- ◆ PFM's Pricing Group:
 - Provides centralized access to market information and trends
 - Leverages our knowledge firm-wide for our clients' benefit
 - Cultivates professional peer-to-peer relationships with underwriting desks
- ◆ **PFM utilizes is an in-house proprietary pricing database that contains detailed pricing information of every single bond issue that has priced in Pennsylvania year to date.**
 - This includes both PFM advised, and non-PFM advised bond transactions





Borrowing 101 for School District Capital Projects



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 School District Debt

- ◆ School districts 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 School District itself, although sometimes can be issued through a conduit authority (State Public School Building Authority or other local authority)



Types of Debt Available

◆ Public bond issues

- Most common form of financing – typically fixed rate
- Requires most amount of financing team members but may often result in lowest 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

◆ Bond pools

- Pool of smaller issuers grouping together for economies of scale
- Offers both fixed and variable rates
- May have exposure to interest rate swaps
- Examples include the Emmaus Bond Pool and the Delaware Valley Regional Finance Authority



What is a Referendum?

- ◆ With the passage of Act 1 in 2006, school districts are now limited in the amount they can raise real estate taxes annually. If a District wants to increase taxes, over and above that index it may need to seek voter approval.
 - There are two types of referenda available to Districts, a Debt Act Referendum (Electoral Debt) and an Act 1 Referendum
 - Debt Act Referendum (Electoral Debt): Voters vote on debt service millage for specific project
 - Act 1 Referendum: Voters vote on property tax increase beyond the Index – not specific project
- ◆ Given the current assumptions the project for a new high school or to renovate the existing building - the District would not require a Debt Act or an Act 1 Referendum.
 - ◆ The District is well within its legal borrowing capacity (approximately \$300+ million)
 - ◆ The District's future budget projects indicate that it can fit the borrowing in under the Act 1 limit over future budget years



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.



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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.
- Selected via competitive or negotiated process

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.*



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
- Typically in Pennsylvania, Moody's and Standard and Poor's are the most common ratings for a local government
- Pennsbury School District is currently rated Aa3 by Moody's

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

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



Internal Revenue Code

- ◆ Federal law that governs tax-exempt financing
- ◆ Law exists because of ability to borrow funds at a tax-exempt rate and invest at a higher taxable rate – arbitrage
- ◆ Primary restrictions
 - Purpose: capital project or qualified refinancing
 - Borrowing term can't exceed project useful life
 - Must reasonably expect to spend bond proceeds within 3 years
 - Arbitrage limitations
 - If \$15 million or less issued in a calendar year, arbitrage can be kept (“Small Issuer Exemption”)
 - If \$15 million exceeded - spending restrictions to keep arbitrage
- ◆ Bank Qualification - If \$10 million or less issued per calendar year
 - Bank Qualified Interest Rates are typically lower
 - 5 year call feature available



State Regulations

- ◆ In Pennsylvania, borrowing regulations at the state level are governed by the Local Government Unit Debt Act (LGUDA)
 - 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
 - Advertising requirements for incurring non-electoral debt
 - Level or declining overall debt service
 - Issuer is within legal borrowing capacity (225% of the 3 year average of net revenues depending on borrowing legal structure)



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Thank You



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