

# Presentation to City Council Bond Overview

City of Independence, Missouri  
*Presentation as March 13, 2023*



# BONDS 101

The Basics



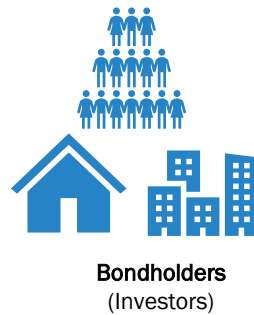
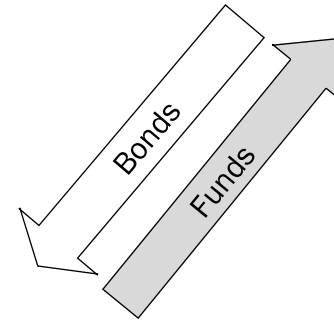
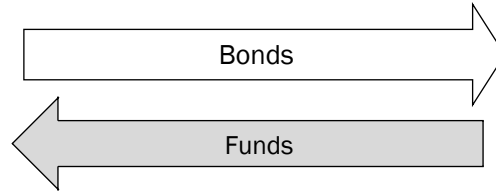
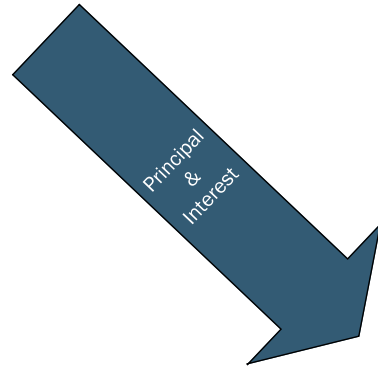


# What is a Municipal Bond?

- Security issued by states and local governments to finance projects, fund programs, refund outstanding debt, etc.
- Interest income typically exempt from Federal (and often State) taxation
- Tax-exemption allows bond issuers to borrow at lower rates of interest
- Variety of bond types: general obligation, sales tax revenue, utility revenue, etc.
- Most bonds are issued with fixed interest rates, semi-annual interest payments, and annual principal payments

# Selling Bonds to Investors

## Flow of Funds



# Key Transaction Participants

- City Staff
- Bond Counsel/Disclosure Counsel
- Financial Advisor
- Paying Agent/Trustee
- Underwriter

# GO BONDS

Issuing General Obligation Bonds In Missouri



# What is a General Obligation Bond?

- Debt secured by the City's full faith, credit, and taxing power
- Bondholders may seek repayment from all legally available funds of the municipality
- Principal and interest payable from the City's authority to levy property taxes, without limit, in an amount sufficient to repay principal and interest
- Courts can compel GO bond issuers to increase property taxes as necessary to repay debt



# Why might a City issue GO Bonds?

- Fund sizable, long-term capital projects in excess of cash on hand
- Mitigate project cost uncertainty (e.g., construction cost inflation)
- Maintain cash reserves
- Divide the cost of large projects into affordable payments made over the project's useful life
- Achieve **intergenerational equity** by ensuring the taxpayers repaying the bonds over time are the residents benefitting from the project



# GO Bond Uses & Limitations

- Missouri municipalities are authorized to issue GO bonds pursuant to the Missouri Constitution and statutes
- GO Bonds can be issued for any municipal purpose authorized by charter or Missouri law
- Total GO debt must not exceed **10%** of the City's assessed valuation, with certain exceptions:
  - City may incur GO debt for an **additional 10%** of the City's assessed valuation for street and sewer projects, or water, electric and light plant improvements
- Final maturity (repayment term) limited to a maximum of **20 years**
- Tax-exempt proceeds must be used for **capital** projects, not general maintenance or operations
- State statute dictates that property taxes raised from a debt levy may only be used to make debt payments



# City's GO Debt Limit

2022 Assessed Valuation: \$1,696,607,580

- *10% of Assessed Valuation: ≈ \$170 million*
- *20% of Assessed Valuation: ≈ \$340 million*

Source: 2022 Annual Comprehensive Financial Report

# Bond Election Requirements

Pursuant to State law, the City must obtain super-majority voter approval (4/7<sup>th</sup> or 2/3<sup>rd</sup>, as required) to issue GO bonds

Election Date (1st Tuesday after 1 <sup>st</sup> Monday)	Even Numbered Years	Odd Numbered Years
February	— — — 2/3	— — —
April	— — — 4/7	— — —
June	— — — 2/3	— — —
August	4/7	2/3
November	4/7	2/3

# Bond Issuance Process

- City Council passes ordinance calling for bond election
- City files notice of election with election authority (i.e., County Clerk)
- Bond election is held
- City Council passes ordinance to authorize bond issue in an amount less than or equal to the amount authorized by voters, and (ii) provide for the levy of an annual property tax sufficient to repay the bonds
- City works with transaction professionals to structure and price the financing
  - Prepare the legal and bond offering documents
  - Engage an investment bank (underwriter)
  - Structure and price the financing in the bond market
  - Close the transaction

QUESTIONS?