

Turning the Page: Managing Public Library Projects, Debt Issuance and Tax Rates in the Tax Cap World



Indiana State Library

May 19, 2020

Discussion Topics

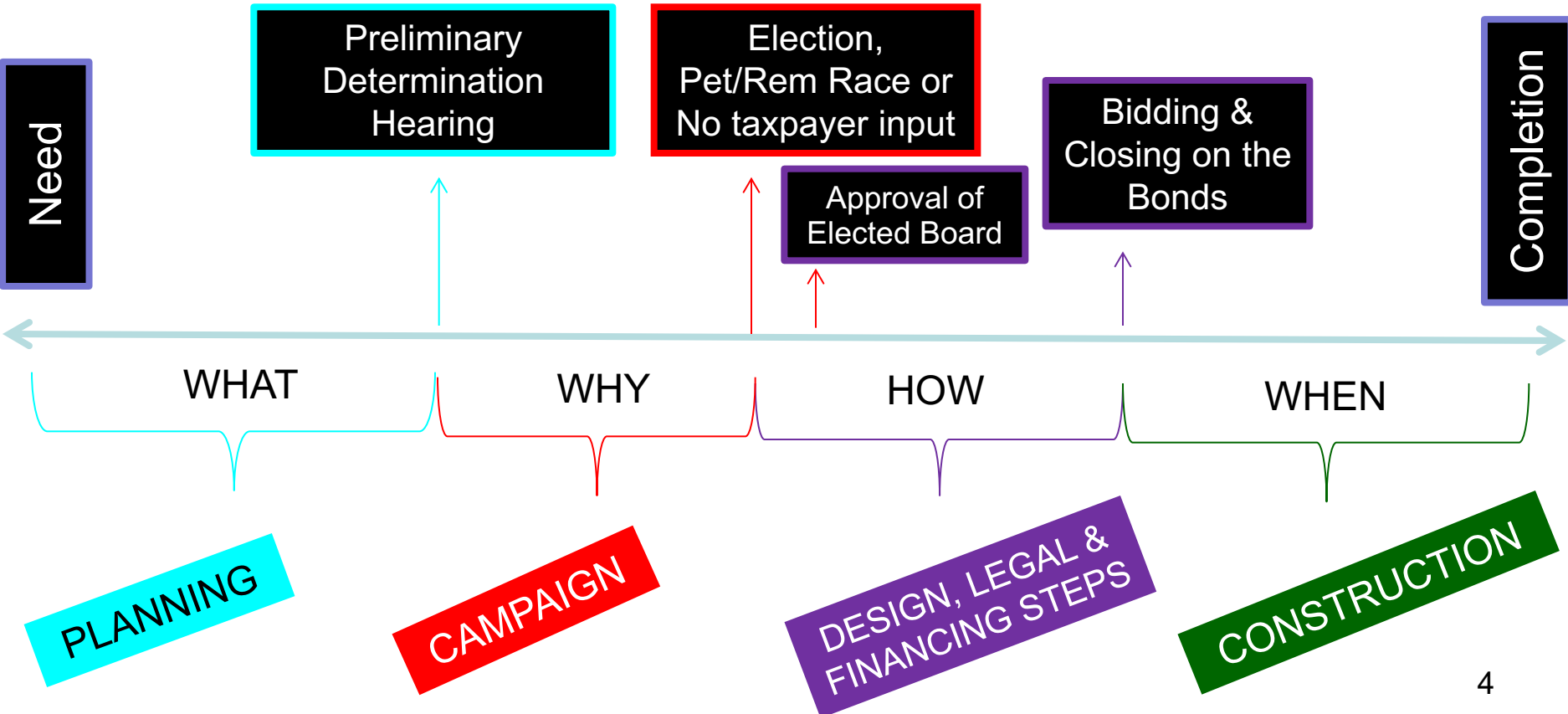
- Roles and Description of Project Finance Team
- Project Planning and Considerations
- Bond Structures & Types
- Legal Processes – Approval of the Bonds
- Sale of the Bonds and Post-Sale Activities

Learning Outcomes

- Participants will be able to identify members of the Project Finance Team (i.e. Working Group) and their roles in the financing
- Participants will be able to define the types of financings available to Libraries
- Participants will be able to develop and discuss a list of considerations when bonds are structured
- Participants will be able to summarize the process to gain approval for bonds

Just Like your GPS . . .

You'll need to pull back and look at the big picture and see how each turn gets you to your destination



Roles and Description of Project Finance Team

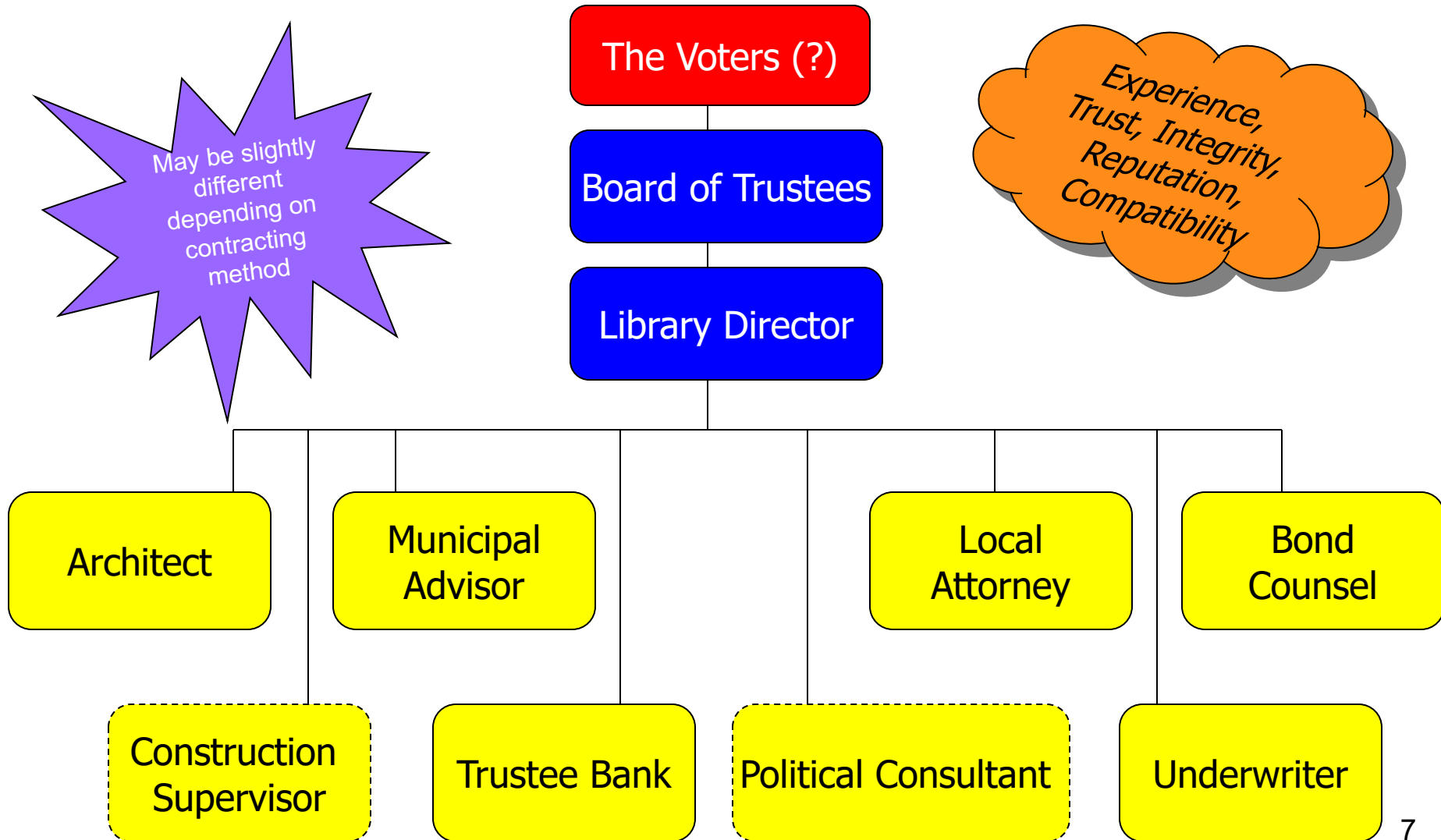


You'll need some Keys

Cast of Characters
– AKA the
"Professionals"

- These are services therefore public bidding not legally required
- Make sure experience matches the needs of your project
- Talk with references (and other Libraries who have used them)
- Communicate upfront expectations of fees and expenses (when they are to be paid & the amount to be paid if the project fails)

Project Finance Team



Roles of the Team

Architect

Assists Library in assessing building needs; prepares schematic, design development and construction plans; provides construction estimates; coordinates construction bidding and serves as liaison between owner and contractor.

Construction Supervisor

Construction supervision may be provided by construction manager, clerk of the works, architect through extended services contract or Library personnel. Oversees the construction. If construction manager used, they review plans and provide estimates of construction cost and generally are used with multiple construction contracts instead of one general contractor.

Roles of the Team (Cont'd)

Financial Advisor

Structures financing; advises on bond size, interest rates, circuit breaker tax caps and term of repayment; assists with determining and presenting tax impact to Board and taxpayers; prepares official statement, assists in rating process and conducts sale. May also be called a municipal advisor.

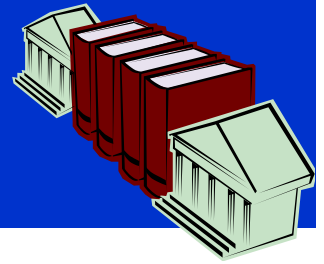
Underwriter

Lowest bidder in a public bond sale or the investment banker hired to underwrite the bonds when a negotiated sale is used. Provides financial advisor and Library with information on both current market and estimated future interest rates. Recommends best timing for sale.

Trustee Bank

Bank used in a lease financing which holds bond proceeds in trust; invests proceeds; writes checks for expenditures when authorized; collects lease rental and pays bondholders.

Roles of the Team (Cont'd)



Local Attorney

Regular Library attorney who oversees preparation of resolutions of Library board and building corporation; coordinates legal publications; arranges for appraisal proceedings, if needed; obtains title insurance and acts as general legal advisor to Library.

Bond Counsel

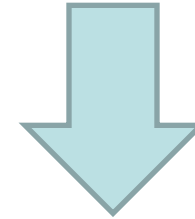
Advises on correct procedures to follow; prepares financing timetable; drafts major documents; advises (with other team members) on strategy for successful petition/remonstrance or referendum; shepherds closing on bonds; reviews all proceedings and delivers bond counsel opinion that lease/bonds are valid and interest on bonds is tax exempt.

Project Planning and Considerations

A Map of the Stops Along the Way

WHAT is the Need --
HOW DO YOU DECIDE WHAT IS
THE PROJECT?

Is the **NEED** tax
management?



► **Facility Assessment**
Quality & Function of Facilities




Don't let your
rate drop!

A Map of the Stops Along the Way

HOW MUCH -- HOW DO
YOU PLAN TO PAY & STRUCTURE
THE PROJECT?



HOW MUCH WILL THE OPTIONS COST &
WHAT TAX IMPACT



Hire a Financial
Advisor and Bond
Counsel



Working Group meets to
develop Financing Structure
& Timeline

Working Group Meeting

- **Typically attended by:** Director, Architect, Financial Advisor, Library Counsel and Bond Counsel.
- **Agenda:** Planning of project options (including structure, timing, processes, estimated costs) to present to the Library Board and public.

Planning Questions

- What types of projects are being contemplated?
- Is the Library currently using Operating or Capital Projects funds for capital expenditures?
- How will the par amount be determined (a maximum amount or project driven)?
- Are there funds on hand that will be contributed toward the project?
- What is the existing debt structure of the Library?
- How will Circuit Breaker Tax Credits be impacted from the issuance of bonds?
- Who is the approving fiscal body? What is the political environment?

Project Scope

- Renovation of existing facilities
- Addition to existing facilities
- New construction
- Land acquisition and development
- Roofing
- HVAC
- Carpeting
- Computers (hardware only)
- Technology infrastructure

Is the Library currently using Operating or Capital Projects funds for capital expenditures?

What is the useful life of the projects/improvements?



IDENTIFY OPTIONS AND THE COST OF EACH

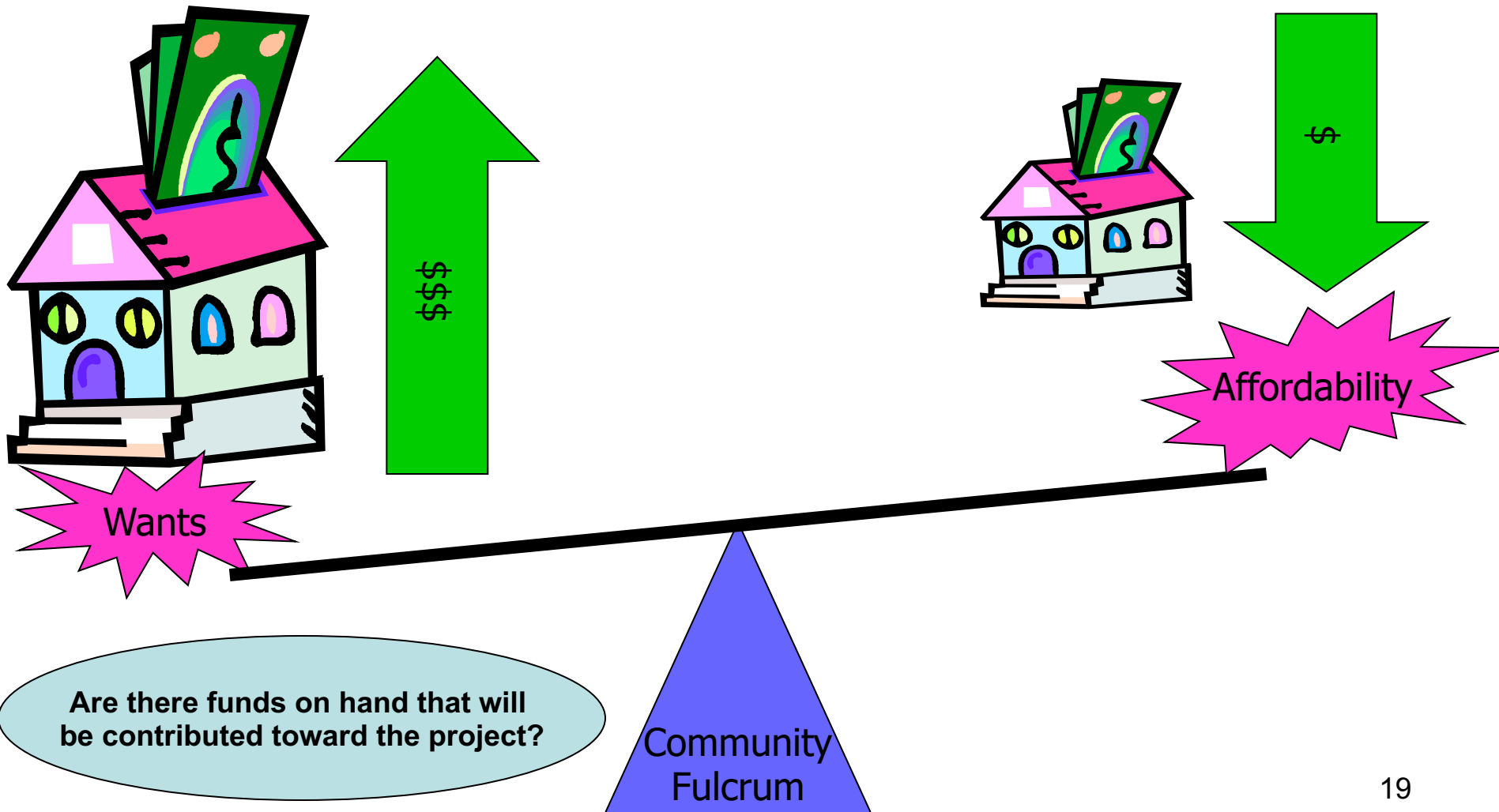
Always talk about --

TOTAL PROJECT
COSTS =

Hard Construction Costs +
Soft Construction Costs +
Costs of Issuing Bonds

Hard Costs	Soft Costs (20%-30%)	
Hard Construction	Soft Construction	Costs of Issuance
Construction, i.e., “bricks & mortar”	Architect	Financial advisor
Site work	Construction manager	Library counsel
Utility relocation	Printing of plans	Bond counsel
Contingency	Builder’s risk insurance	Title insurance
	General conditions	Trustee/Registrar/Paying Agent bank
	Equipment	Underwriter’s discount
	Technology	Official statement
	Land	Interest during construction

How to Size the Borrowing



Methods of Financing Library Projects

- Cash Funding
- Energy Savings Loan



- General Obligation Bonds
- Lease Rental Bonds



Debt Structuring

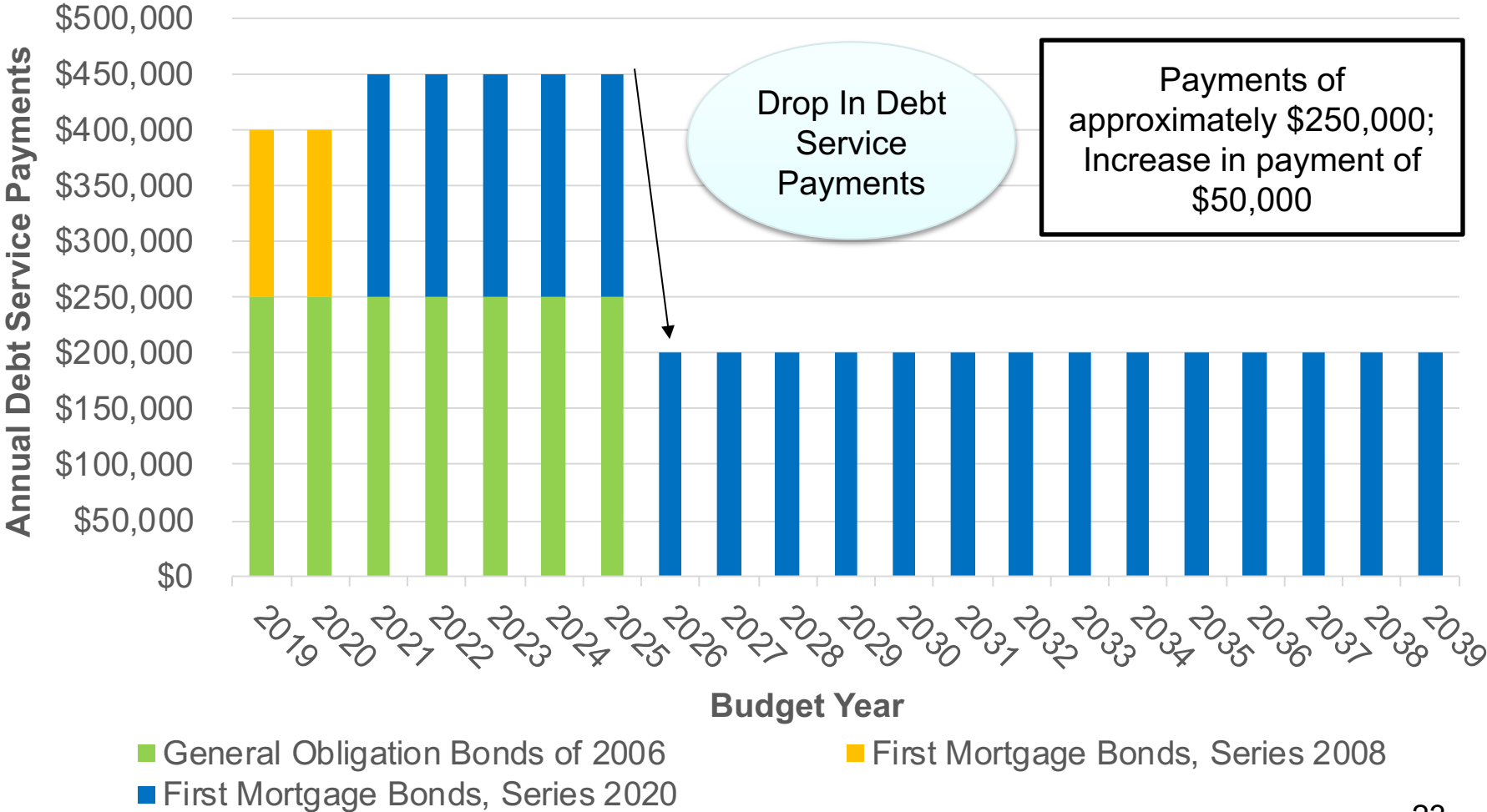
- Structure
 - Level : Same payments throughout repayment term, much in the same way your home mortgage is paid
 - Wraparound : Payments are increased as existing debt is repaid in an effort to maintain level payments for ALL outstanding debt
- Term
 - Maximum of 20 years
 - Should match the useful life of the projects/items that are being financed

General Obligation Debt Limit

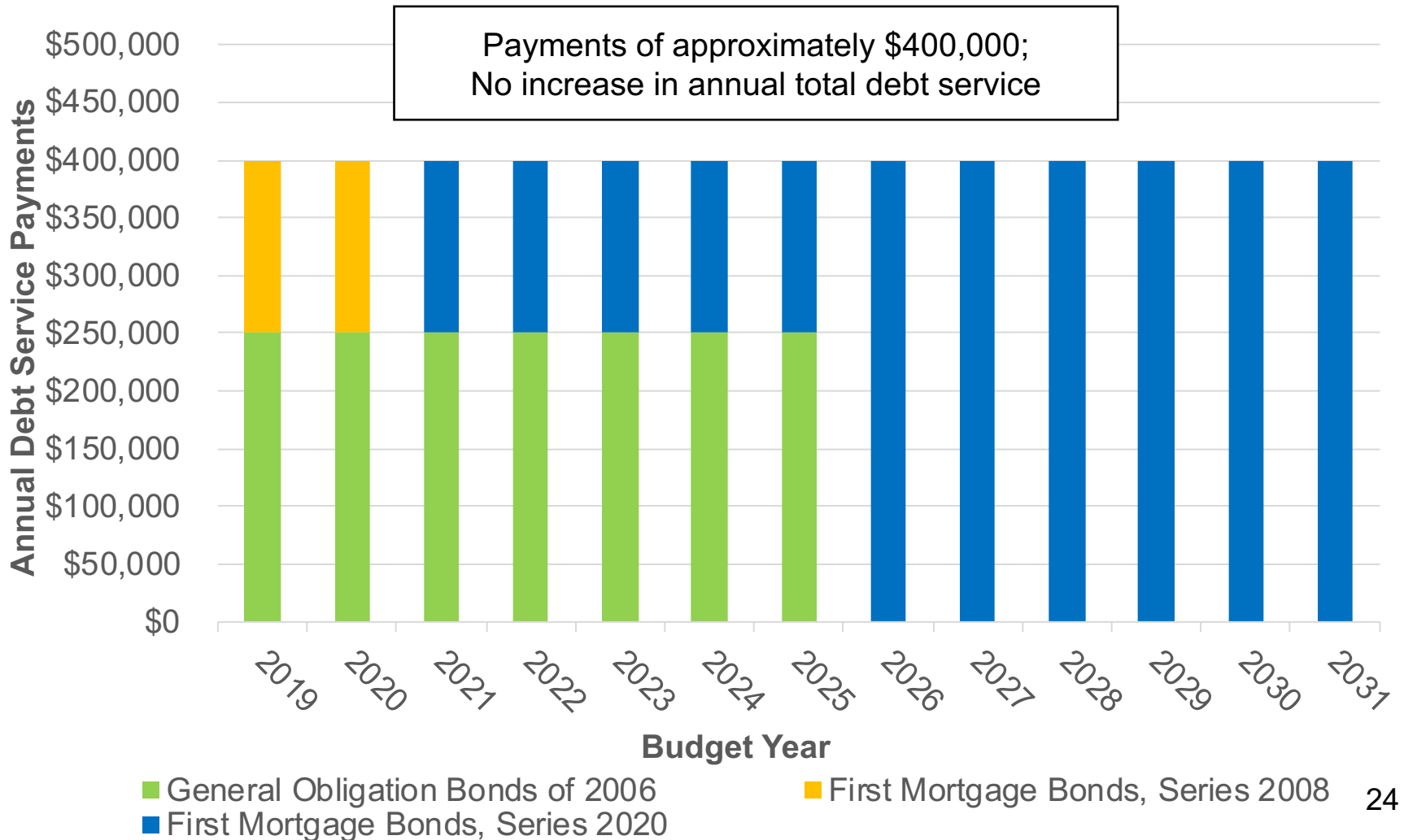
Net assessed valuation	\$566,700,000
Divided by 3	3
Times: 2% general obligation debt issue limit	<u>2%</u>
General obligation debt issue limit	3,778,000
Less: Outstanding general obligation debt	<u>(1,250,000)</u>
Estimated general obligation bonding capacity	<u><u>\$2,528,000</u></u>

If the total project cost exceeds the debt limit, the bonds must be issued as Lease Rental Bonds.

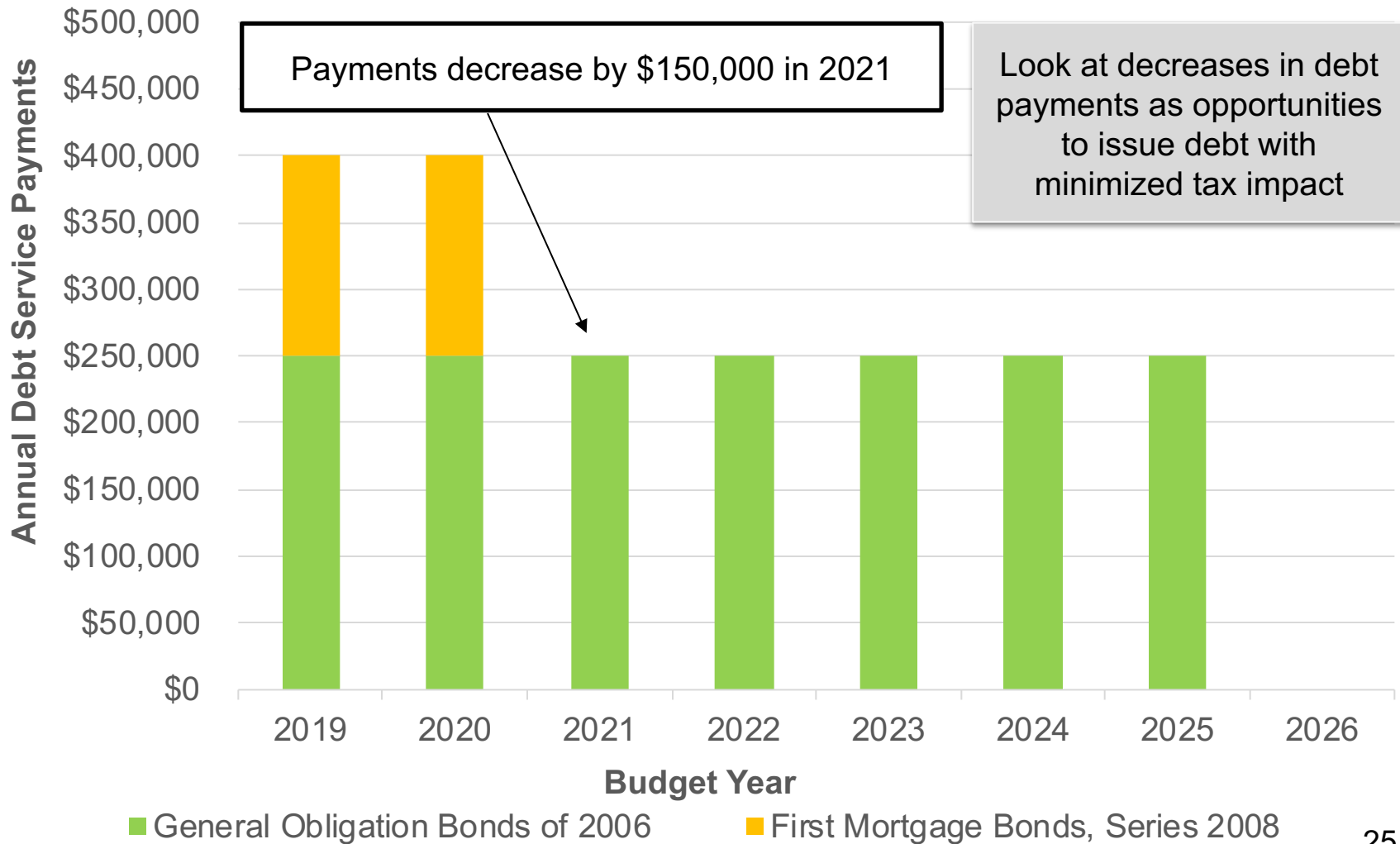
Level Debt Structure



Wraparound Debt Structure

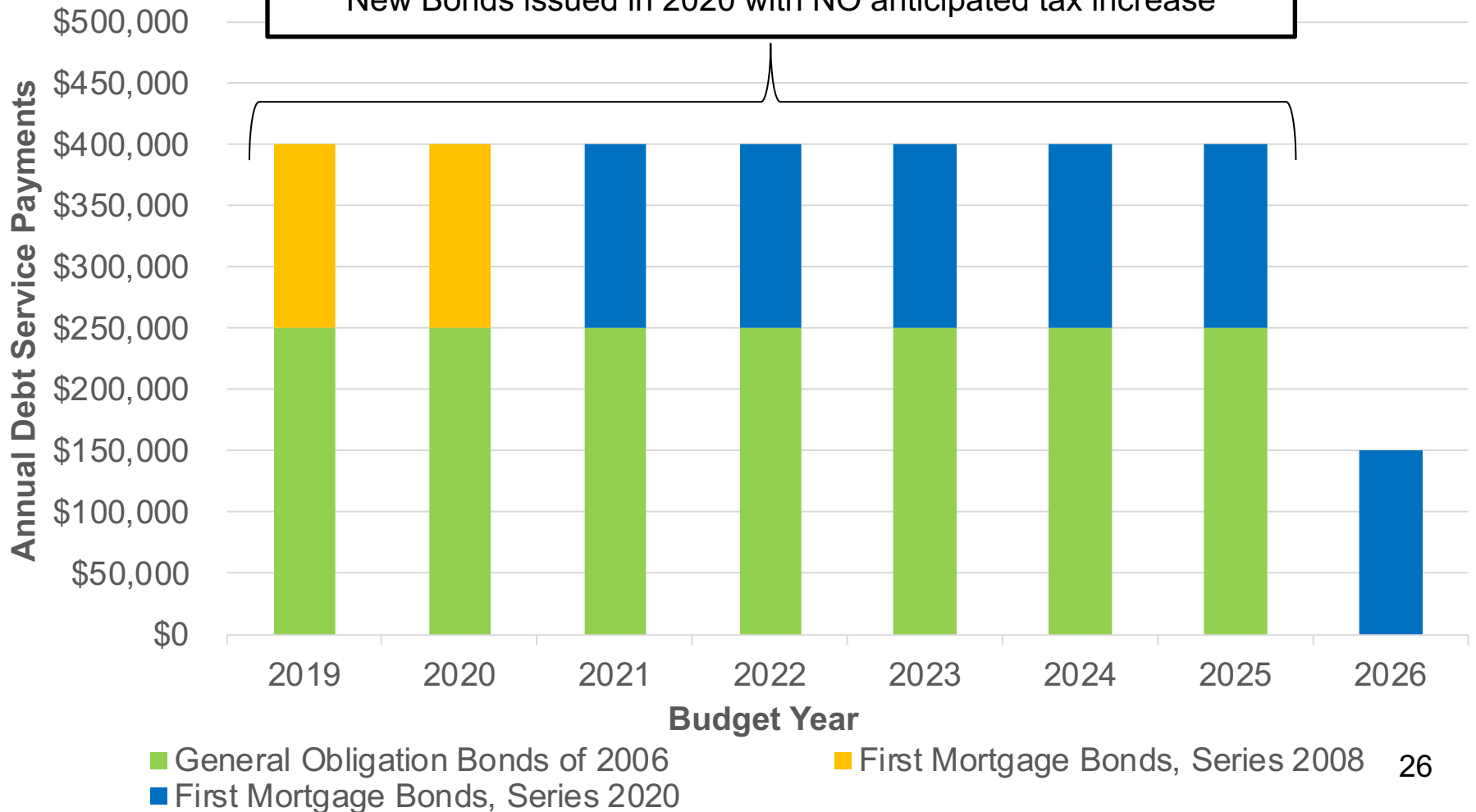


Tax Rate Management

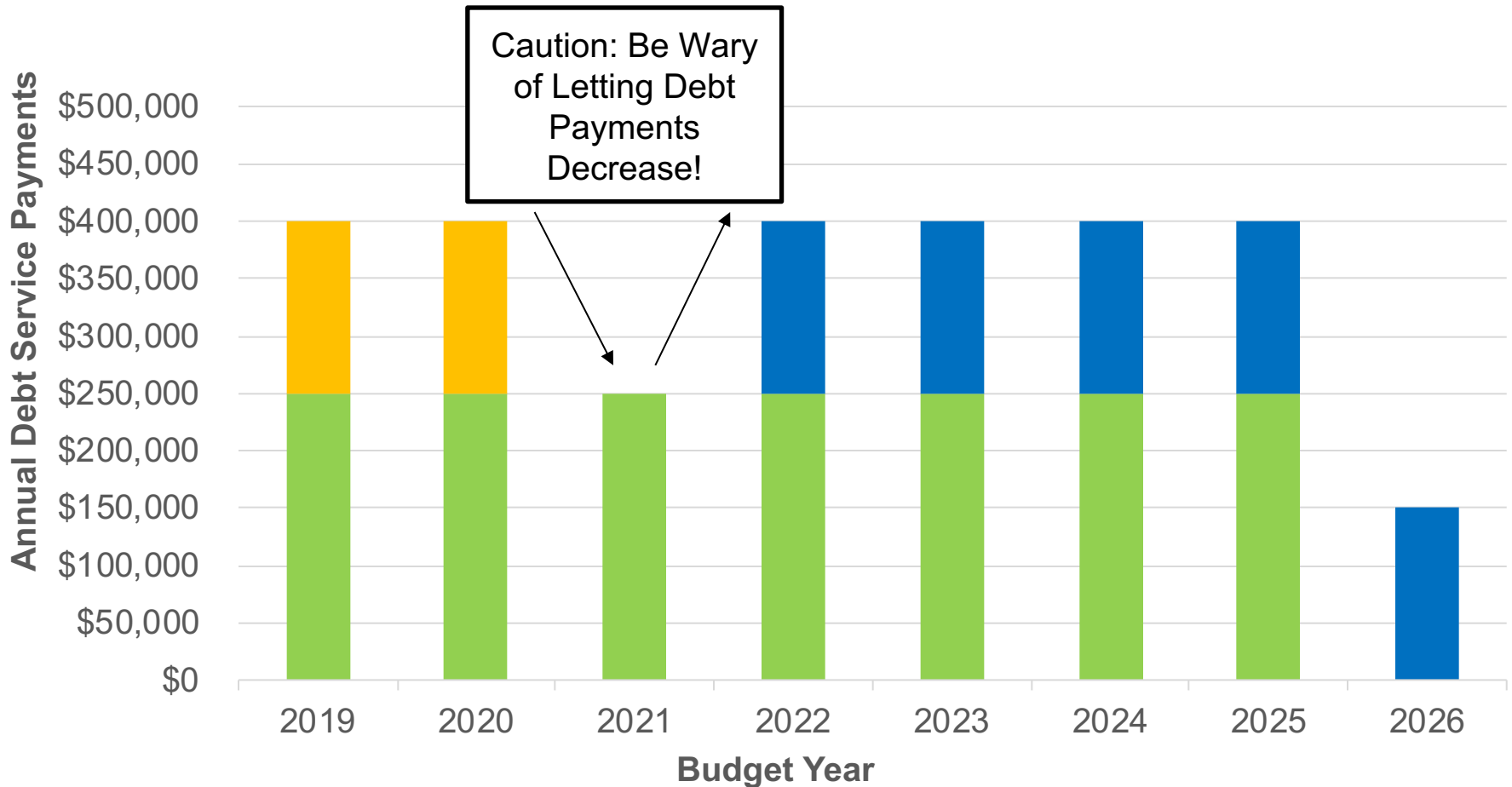


Tax Rate Management (Cont'd)

Total Payments = \$400,000
New Bonds issued in 2020 with NO anticipated tax increase



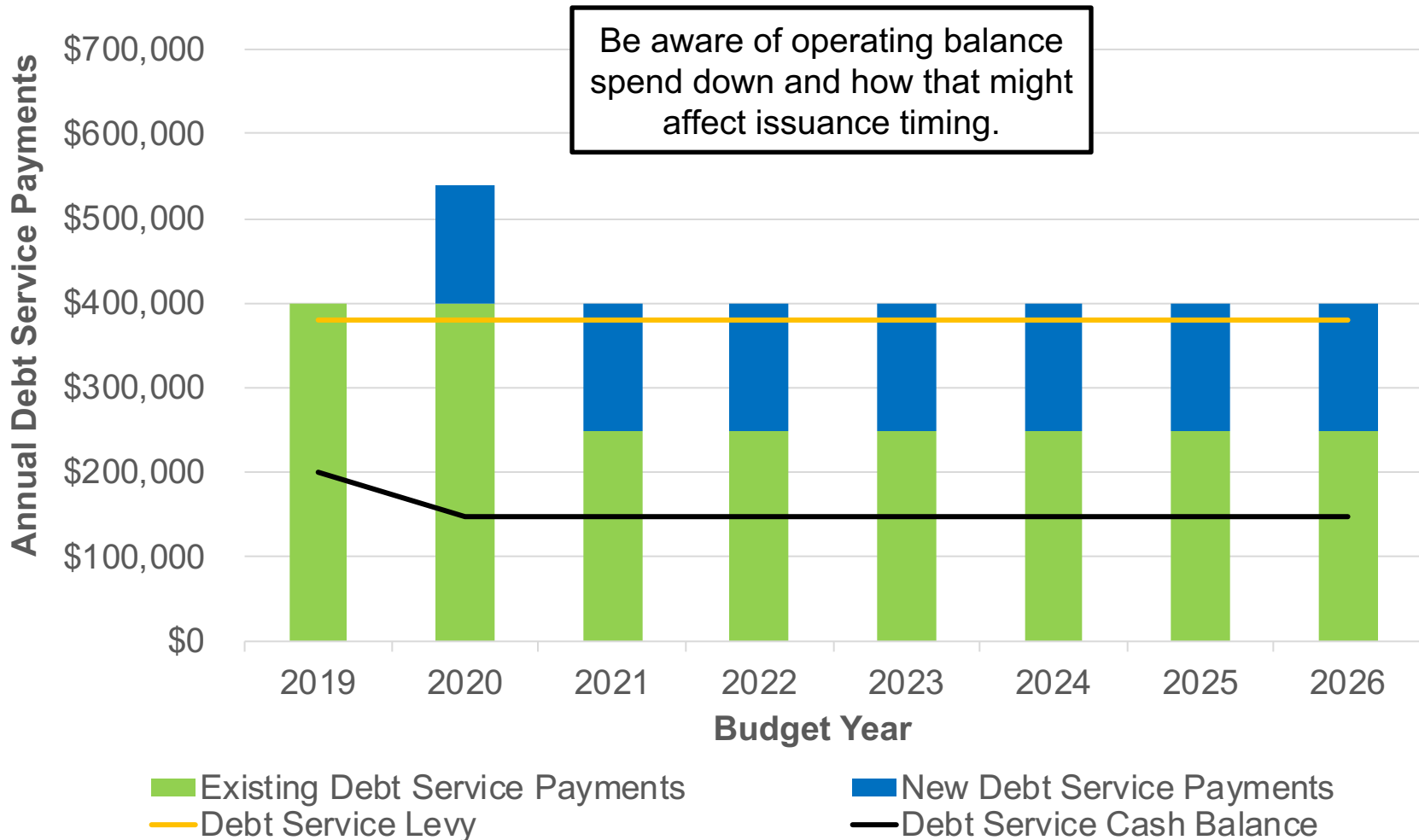
Tax Rate Management (Cont'd)



■ General Obligation Bonds of 2006
■ First Mortgage Bonds, Series 2021

■ First Mortgage Bonds, Series 2008

Tax Rate Management (Cont'd)



Circuit Breaker Tax Credits

Property Classification	Gross Assessed Value	Capped Percentage	Maximum Tax Liability
Homestead	\$100,000	1%	\$1,000
Other Residential, Rental, Agricultural Land and Long-Term Care Facilities	\$100,000	2%	\$2,000
Business (Real/Personal)	\$100,000	3%	\$3,000

How are Tax Credits Funded?

- Credits are funded by a reduction in property tax revenues of all Taxing Units in proportion to their levy.
- Property tax rates may not be increased to offset the shortfall.
- Funds may not be borrowed to offset the shortfall.

Meet Joe Taxpayer

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return

For the year Jan. 1–Dec. 31, 2008, or other tax year beginning

Label
(See instructions on page 14.)
Use the IRS label. Otherwise, please print or type.

Filing Status
Check only one box.

Exemptions

If more than four dependents, see page 17.

**L
A
B
E
L

H
E
R
E**

Your first name _____ Last name _____

If a joint return, your initial _____ Last name _____

Home address _____ have a P.O. box, street, or rural route _____

City, town, or village _____ State _____ Zip code. If you have a foreign address, see instructions.

1 Single

2 Married filing jointly, was not a dependent last year

3 Married filing separately. Enter spouse's SSN at the top of page 2.

6a Head of household

b Qualifying widow(er) with dependent child

(2) Dependents: _____
social security number _____



	\$100,000 Home 1% Cap	\$150,000 Home 1% Cap	\$200,000 Home 1% Cap	2% Cap (rental, farm)	3% Cap (business)
True Tax Value Homeowner/Taxpayer	\$100,000	\$150,000	\$200,000	\$150,000	\$150,000
Less Current Homestead Deduction	(\$45,000)	(\$45,000)	(\$45,000)	\$0	\$0
Less Supplemental 35% Homestead Deduction	(\$19,250)	(\$36,750)	(\$54,250)	\$0	\$0
Less Mortgage Deduction	(\$3,000)	(\$3,000)	(\$3,000)	\$0	\$0
Net True Tax Value	\$32,750	\$65,250	\$97,750	\$150,000	\$150,000
Divide by 100 = Net TTV per \$100	\$328	\$653	\$978	\$1,500	\$1,500
Times Estimated Tax Rate from All Taxing Units	\$3.50	\$3.50	\$3.50	\$3.50	\$3.50
Gross Tax Bill	\$1,148	\$2,285	\$3,423	\$5,250	\$5,250
Max. Tax Bill Taxpayer Pays (TTV x __%)	\$1,000	\$1,500	\$2,000	\$3,000	\$4,500
Less Tax Credit	(\$148)	(\$785)	(\$1,423)	(\$2,250)	(\$750)
Loss to Units	\$148	\$785	\$1,423	\$2,250	\$750

How are tax credits funded?

Taxing Unit	Tax Rate	Levy Reduction
County	\$0.3500	(\$14.80)
Township	0.0350	(1.48)
School	1.7500	(74.00)
Library	0.0525	(2.22)
City	<u>1.3125</u>	<u>(55.50)</u>
Total	<u>\$3.5000</u>	<u>(\$148.00)</u>

Beginning in 2014, Non-Exempt Debt Funds will NOT receive Circuit Breaker Tax Credits to the extent there are unprotected funds available to absorb the Circuit Breaker Tax Credits.

Gross Tax Bill \$1,148

\$148.00 difference

Capped at \$1,000



\$100K Home

County

City

School

Township

Library

Budgeted \$114.80

Budgeted \$430.50

Budgeted \$574.00

Budgeted \$11.48

Budgeted \$17.22

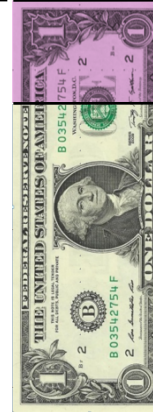
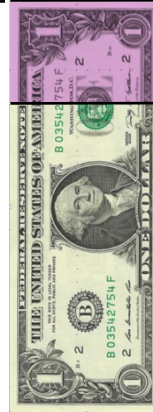
Receives \$100.00

Receives \$375.00

Receives \$500.00

Receives \$10.00

Receives \$15.00



Taxpayer / Voter Processes



Is it a "controlled project"?

Controlled Project =

- Project funded by bonds or a lease and will cost more than the lesser of:
 - 1) \$5,350,950* or
 - 2) **1% of total gross assessed valuation** (if at least \$1,000,000)
- Example:
 - Gross AV = \$250,000,000
 - Controlled Project = \$2,500,000
- **Indexed threshold: Increases in 2021 and beyond*

Cheat Sheet on Process

No Formal Power to Oppose	<u>Subject to**</u> Petition-Remonstrance	<u>Subject to**</u> Referendum
<p>Not a Controlled Project if lesser of:</p> <ul style="list-style-type: none"> i) \$5,350,950 *or ii) 1% gross AV but not less than \$1,000,000 	<p>More than the Non-controlled threshold up to the lesser of:</p> <ul style="list-style-type: none"> i) \$16,052,850*, or ii) 1% of gross AV <p>Note: Library can “opt in” to proceed with referendum</p>	<p>A) More than the lesser of:</p> <ul style="list-style-type: none"> i) \$16,052,850* or ii) 1% of gross assessed valuation <p>B) If this controlled project + controlled project for which preliminary determination adopted within previous 365 days exceeds \$25 million</p>

* For projects financed in 2020

**Only if petition filed by the lesser of i) 500 or ii) 5% of registered voters

Limits are expressed as total project costs (hard and soft construction, costs of issuance, capitalized interest and interest earnings)

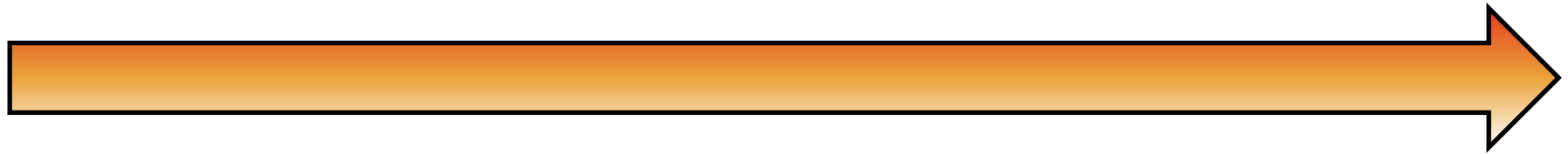
Project Thresholds - Examples

	Gross AV	Non-Controlled Not more than:	Subject to P/R Race	Subject to Referendum More than:
Knightstown Library	\$119,661,840	\$1,196,618		\$1,196,618
Hartford City Library	\$205,663,700	\$2,056,663		\$2,056,663
Parke County Library	\$1,046,154,490	\$5,350,950	\$5,350,951 - \$10,461,544	\$10,461,545
West Lafayette Library	\$1,559,231,670	\$5,350,950	\$5,350,951 - \$15,592,316	\$15,592,316
Pendleton Library	\$1,666,353,367	\$5,350,950	\$5,350,951 - \$16,052,850	\$16,052,850
Westfield Washington Library	\$5,075,114,990	\$5,350,950	\$5,350,951 - \$16,052,850	\$16,052,850

Thresholds Indexed Annually

	<i>Growth Quotient</i>		<i>Growth Quotient</i>	
2018 Thresholds	→	2019 Thresholds	→	2020 Thresholds
	3.40%		3.50%	
1% or \$5,000,000	→	1% or \$5,170,000	→	1% or \$5,350,950
\$10,000,000	→	\$10,000,000	→	\$10,000,000
\$15,000,000	→	\$15,510,000	→	\$16,052,850

“Subject to” Petition & Remonstrance or Referendum



Publish Notice of Hearings

1st Preliminary Determination Hearing

2nd Preliminary Determination
(establishes maximum financing terms)

Publish Notice of Adoption *(starts 30-day application period in which petition can be filed by the lesser of (i) 500 or (ii) 5% of registered voters)*

If petition is filed: Library may run race/referendum or cease and treat the project as defeated

If petition is not filed: Library may move forward with project

Controlled Project Process

Petition & Remonstrance Process

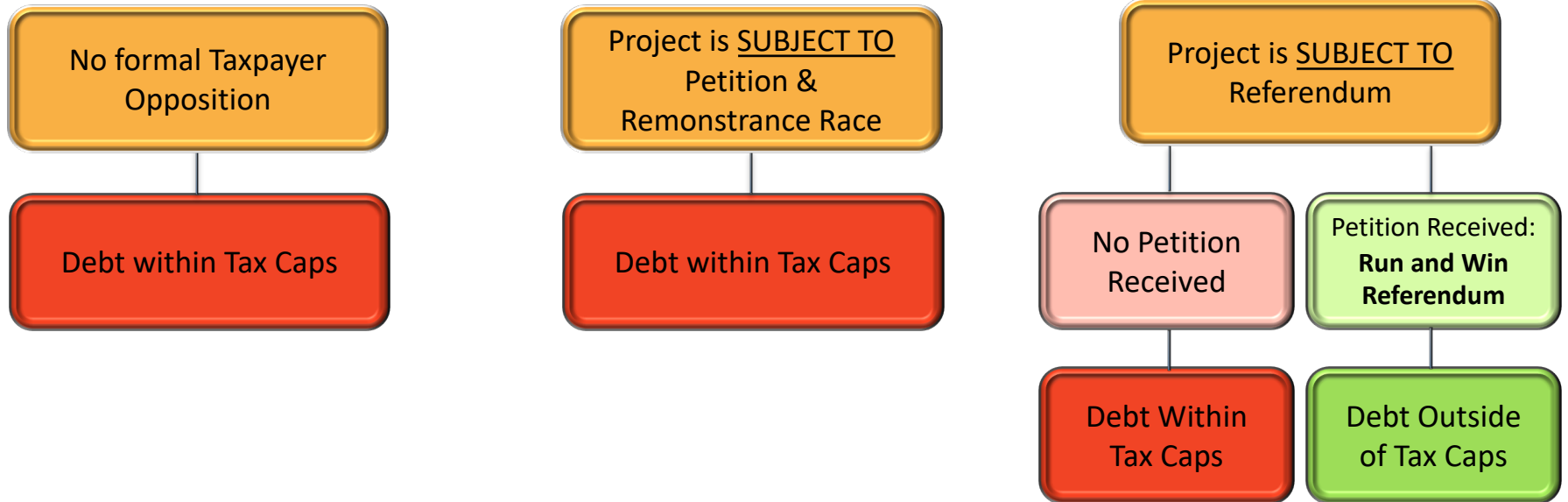
- 1) Publish Notice of Hearings
- 2) Preliminary Determination Hearings – Maximum Financing Terms established
- 3) Publish Notice of Adoption of Preliminary Determination (Begins 30-Day application period in which 5% or 500 voters/taxpayer may file an application petition)
- 4) If application petition filed – Petition & Remonstrance Race must occur in order to move forward
- 5) **Publish Notice of Applicability of Petition & Remonstrance Race**
 - **30-day petition (in favor) & remonstrance (opposed) drive**
 - **Whichever side gets the most valid signatures wins**
 - **If remonstrators are successful: Project defeated for one year**



Referendum Process

- 1) Publish Notice of Hearings
- 2) Preliminary Determination Hearings – Maximum Financing Terms established
- 3) Publish Notice of Adoption of Preliminary Determination (Begins 30-Day application period in which 5% or 500 voters/taxpayer may file an application petition)
- 4) If application petition filed – Election must occur in order to move forward
- 5) **Election Day:**
 - **Whichever side gets the most valid votes wins**
 - **If Library loses – project defeated for 2 years (unless petition filed)**

Significance of a Referendum



Upcoming Elections

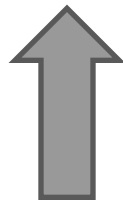
2020

Nov 2020
General
Governor,
US &
State
Reps. &
Senators
& County
Officials

May 2020
Primary
Governor,
US &
State
Reps. &
Senators
& County
Officials

2021

May 2021	Nov 2021
None	None



2022

May 2022
Primary
State
Auditor &
Treasurer
US &
State
Reps. &
Senators

Nov 2022
General
State
Auditor &
Treasurer
US &
State
Reps. &
Senators

2023

May 2023
Primary
Municipal
Elections
*Check
with your
Clerk

Nov2023
General
Municipal
Elections
*Check
with your
Clerk

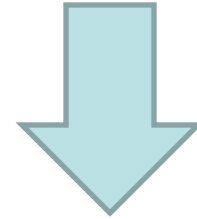
No scheduled elections in 2021
Library pays for election

*Note Library may have to pay
for polling places outside of
municipal limits.

A Map of the Stops Along the Way

WHAT are the Options

to Satisfy the **Needs** -- HOW DO
YOU DECIDE WHAT IS THE
PROJECT?



Evaluate **OPTIONS** to solve
the Problems



Stakeholder
Group (All
parts of
community
represented)

Many
Individual
meetings to
determine
viability of
options

Long Term Planning



– Ongoing Goodwill Campaign

Think politically



– Libraries & Community are partners – **DUTY to Communicate**



– Develop a **core group of volunteers** and a **communication network – politically connected** – grow those connections



– Educate about the money and how you spend it – **They need to know!**

Create & Bank Goodwill & Trust



- Get community members into your Library!! Especially elected board members
- Create volunteer opportunities for senior citizens (or other groups)
- Provide news releases about “good news” and “events” at the Library
- The better citizens feel about public library, the more likely they will vote yes and trust you with their money
- Build a relationship with the politicians!!!!



Construction Referendum Results for Libraries

Since 2009

November 2011 – Jasper Public Library –

LOST

1,461 yes to 3,884 no (27% - 73%)

May 2012- Hartford City Public Library –

Withdrew Question

May 2012 – Johnson County Public Library –

LOST

4,668 yes to 13,441 no (26%-74%)

November 2016 - Jasper Public Library –

WIN

4,652 yes to 3,368 no (58% - 42%)

Rules & Restrictions

- After Preliminary Determination Hearing, Library cannot “promote” using:
 - Employees on the clock
 - Library facilities
 - Library funds

Note: Rules apply to Petition & Remonstrance Race, Construction Referendum, & Operating Referendum



MORE Rules for Referendum & Petition/ Remonstrance Race

Can't **PROMOTE** using:

- Person/Organization that has a contract "**to provide goods and services**" can't spend money to promote
 - Attorney, architect, construction manager or financial advisor for services provided may not **spend money** to promote.

Board's Role in the Planning Process

- **Political eyes and ears** of the Library
- Strategically plan & participate in individual meetings with the **centers of influence**
- **Honest disagreement** and voicing concerns in a productive, respectful manner
- Identification of **campaign organizers**
- Identify the right project & process



Options to Discuss

- Multiple projects over time?
- Leases vs. general obligation bonds?
- Non-controlled or Controlled - Referendum vs. Petition-Remonstrance?
- Small projects with no taxpayer opposition?
- Short term plan vs. long term plan? (i.e. what if you lose?)

FACTORS:

Project & Financial need, construction efficiency, estimated cost, logistics & **POLITICS!!**



Method of Financing



General Obligation Bonds

General Obligation Bonds



Library



issues



Bonds



builds



New Building

Bonds subject to constitutional
debt limitation

True Tax Value / 3 X 2% = debt limitation

Example: \$900,000,000 / 3 X 2% = \$6,000,000

General Obligation Bond Characteristics

- ➔ Library obligated to repay
- ➔ Must be competitively bid
- ➔ Fewer steps, quicker, cheaper
- ➔ Uses debt capacity (not there for emergency)

Leases

Leasing Corporation



Bonds



Library



Lease payments

Leasing Corporation



Bond Holders

Lease Characteristics

- No debt limit
- May be limited by market
- Takes more time
- More expensive
- May be negotiated or sold competitively
- Mortgage property
- Deal with another entity—Building Corporation



Elected Board Approval

Elected Board Approval – Budget

After SEA 410

Budget is Greater than Growth Quotient IC 6-1.1-17-20.3	50% or more of Library's assessed valuation is outside City/Town limits:	If more than 50% of Library's assessed valuation is within the City/Town limits:	If Library is in more than 1 county
Body with <u>Binding</u> Approval	County Council	City/Town Council	County Council for the County in which most of the Library's assessed valuation is located
Balance in tax funds as of 12/31 = more than 150% of next year's budget			
Body with Binding Approval if approves resolution by 7/1 (<i>after hearing & notice</i>)	County Council	City/Town Council	County Council for the County in which most of the Library's assessed valuation is located

Elected Board Approval – Bond Issue

Approval of Bonds or Leases (not TAW's) IC 6-1.1-17-20.5	More than 50% parcels outside City/Town limits:	If 50% or more of parcels are within the City/Town limits:		
		A. Library district assessed valuation is located entirely within City/Town	B. Library originally established by City/Town	If not A or B = All Others
Body to Approve Issuance of Bonds	County Council	City/Town Council	City/Town Council	<i>County Council</i>

Additional Appropriation Approval?

Sale of Bonds and Post-Sale Activities

Rating & Marketing the Bonds

- Prepare Offering Document
- Obtain a bond rating (if applicable)
- Determine method of sale (competitive or negotiated)
- Bond Closing

Preliminary Official Statement

- Disclosure document which is a marketing tool.
- Provides potential bond purchasers with information on project, bond structure, security, legal opinion, etc.
- Provides rating agencies with information on the Library's background, history, finances, etc.
- Required for bond issues of \$1 million or greater.

Method of Sale

Considerations	Competitive	Negotiated
Type of Security	General Obligation, other strong established revenue source (i.e. property taxes)	Speculative or less consistent revenues, complicated security
Rating	Typically higher ratings with stable or positive outlooks, sometimes non-rated	Typically lower rated, potentially with a weak outlook, may consider private placement
Issuer	More frequent issuer, general purpose municipal borrower	New or infrequent issuer, special purpose or conduit issuer
Issuer Characteristics	Stable financial/political condition, no legal issues affecting issuance of bonds	Experiencing financial/political or legal problems
Market Conditions	Stable, predictable market, high investor demand and light supply	Volatile or declining market, high levels of uncertainty
Bond structure	Level or flexible debt service, standard bond covenants	Complex wrap or coverage structure, unique bond covenants, or very small or large bond issue

Method of Sale (Cont'd)

Considerations	Competitive	Negotiated
Issuer Interest Rate Risk	Lower ordering period risk: The potential purchaser will submit a bid at interest rate levels at which they believe they can sell bonds. If, after the sale, they cannot sell bonds at those rates it does not affect how much the Issuer pays as interest rates are locked in at the time of the sale.	Risk in ordering period: If bonds do not sell at proposed interest rates then rates will need to be increased to meet the market. Conversely, if the bonds are oversold, interest rates may be lowered.
Underwriter Fees	Bidding determines fees (minimum bid requirement – normally 0.50 % of borrowing amount)	Fee determined up front
Underwriter Risk	Potential for higher risk over negotiated because they are submitting a bid and do not have all bonds sold when doing so (thus, the fees may be higher on a percentage basis).	Underwriter will have more time prior to the pricing to work with potential investors meaning that all or a majority of the bonds could be sold by the end of the ordering period (thus, reducing underwriter risk). On the flip side, if bonds are not sold, an Underwriter may elect to “underwrite” a portion of the bonds or suggest an adjustment to interest rate levels to sell remaining balances.
Optionality for future refunding	No opportunity to discuss coupon structure with purchaser (although sale parameters could be included to account for this)	More discussion with Underwriter regarding coupon structure which has potential to allow for future refunding savings

Final Official Statement

- Finalize after bond sale
- Contains final interest rates and reoffering prices
- Includes bond rating information if applicable
- Distribute to winning underwriter within 7 days of sale

Closing

Principal Amount	\$6,375,000.00
Less Underwriter's Discount	(68,932.40)
Plus Original Issue Premium	522,131.15
Total Wire Amount	\$6,828,198.75

Deposit to Bond Interest Account = \$261,339.58

Used to pay principal & interest on the Bonds through 1/15/2012

Deposit to Bond Issuance Expense Account = \$65,000

Used to pay costs of issuance of the Bonds

Deposit to Construction Account = \$6,501,859.17

Used to pay contractors, architects, construction related costs, real estate & equipment

\$418,896.85 - Used to pay off the Bond Anticipation Note on 3/1/2011

Transfer to Library = \$1,761,402.07 for purchase of property. Deposit in Library Construction Account to be used on the renovation of the high Library.

Arbitrage/Rebate



Arbitrage = Refers to the difference between the yield on the Bonds and the interest earned by investing the proceeds

Exceptions to the Rebate Requirement:

- **Small Issuer Exception** -- \$5,000,000 or less in tax exempt borrowing annually
- **Two Year Spend Down Exception** –
 - 10% - 6 months
 - 45% - 1 year
 - 75% - 18 months
 - 100% - 2 years

If no exception met, rebate (if any) due 5 years after the closing

IRS Audits

Thank you!



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