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Mr. Rosenberg joined USCA as a Managing Director, Public Finance Group, in the Austin office. Mr. Rosenberg’s background includes service in the public sector as a city finance director and for an international accounting firm as an accounting industry professional and business consultant. Mr. Rosenberg holds a BBA–Accounting degree from the University of Texas at Austin. He also holds the FINRA Series 7, Series 63 and Series 50 securities licenses.
Financing Team Members, Mechanics and Timing
<table>
<thead>
<tr>
<th>Role</th>
<th>Description</th>
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<tbody>
<tr>
<td>Borrower/Issuer</td>
<td>Issues debt, receives proceeds and repays debt.</td>
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<tr>
<td>Financial Advisor</td>
<td>Works with the Issuer to develop a financing plan. Responsible for coordinating and implementing the financial transaction. Assists the Issuer in determining the best sale method, coordinates rating and credit enhancement process. Assists with preparation of offering documents, and timetables and assists in the closing of the transaction.</td>
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<tr>
<td>Bond Counsel</td>
<td>Responsible for bond and tax opinion, legality under state and federal tax laws. Coordinates Attorney General approval process. Important contributor in developing transaction structuring ideas.</td>
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<td>Rating Agencies</td>
<td>Provides an independent credit evaluation based on the financial condition of the Issuer.</td>
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<td>Role</td>
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<td>Bond Insurers:</td>
<td>Guarantee repayment of debt through the issuance of a municipal bond insurance policy.</td>
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<td>Underwriter</td>
<td>An Underwriter or Purchaser will purchase the bonds of the issuer to reoffer to the public. Direct Purchasers of debt buys the debt from the Issuer for investment purposes (e.g., TWDB, USDA, private bank or leasing company).</td>
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<td>Attorney General:</td>
<td>Opines on legality of debt. Upon approval, debt is not contestable, except for fraudulent issuance.</td>
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<tr>
<td>Paying Agent/Registrar:</td>
<td>Maintains bondholder registry and forwards issuer payments of principal and interest to bondholders. The Depository Trust Company (DTC) is often used on public, market transactions.</td>
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<td>Verification Agent:</td>
<td>Independently verifies the sufficiency of an escrow used to refund or defease outstanding debt.</td>
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Bond Sale Mechanics

The most common sale methods are:
- Competitive Market Sale
- Negotiated Market Sale

- Competitive – purchaser is not known until bids received. Provides the most transparency and allows more firms to potentially purchase the Issuer’s bonds. Issuer maintains flexibility on market timing and bond structure.

- Negotiated – underwriter(s) pre-selected by the Issuer; interest rates are set by underwriting team working with the Issuers Financial Advisor; could be preferred method for difficult or unusual transactions.

- For both competitive and negotiated sales compliance with Securities and Exchange Commission Rule 15c2-12 will be required.

- Ratings and Municipal Bond Insurance, if applicable.
Bank Solicitation

In the past several years, banks have become more aggressive buyers at attractive rates.

- Shorter Term – normally 15 years or less, sometimes 20 years but fewer banks will provide 20 year fixed rates; investment letter recommended with no public re-offering allowed; Issuer can solicit bids from several banks to determine the best rate and optimal structure.
- Typically no bond rating is required and usually lower fees.
- Well suited for small, shorter-term borrowings.
Bond Sale Mechanics (continued)

- Governmental Agencies:
  - TWDB - numerous programs offering different rates, typically up to 30 years; at least one program offers up to 40 years.
  - USDA - grant/loan packages and 40 year financing. USDA holds bonds for own account.
Bond Sale Mechanics (continued)

- **Watch for Conflicts of Interest**
  - Municipal Advisors (and Financial Advisors) acting as the Underwriter for the same transaction is prohibited by regulatory agencies due to conflict of interest.
  
  - **Nature of Conflict** – Municipal Advisor represents and has a fiduciary responsibility to the issuer. The Underwriter’s primary role is to purchase securities for the purpose of distribution/resale and the Underwriter’s interest differ from that of the issuer. For negotiated sales, the Underwriter must provide a MSRB Rule G-17 Letter to the issuer. It will disclose their role and actual and potential material conflicts of interest.
When to Sell Bonds

- Match needs, when possible, with funding to minimize interest expense on bond proceeds
  - Time bond sales to match construction cash flow needs.
  - Are internal funds available to reduce the borrowing amount and interest expense?
  - Do you need a Reimbursement Resolution?

- Consider Bank Qualified (“BQ”) versus Non-BQ
  - BQ - $10 million tax-exempt calendar year limit.
  - If improvements exceed $10 million - can they be split into multiple fiscal years and deferred to make the bonds BQ?

- General considerations, if possible,
  - Avoid days late in calendar year.
  - Avoid days adjacent to holidays and long weekends.
  - Most sales are scheduled for Tuesday – Thursday, but can be scheduled for later Monday morning.
When to Sell Bonds

ISSUER, TEXAS
DEBT TYPE (GO BONDS, COS, REVENUE BONDS)

MEETING DATES AND TIME

Tentative Timetable of Events

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Complete By  Day  Event  Parties

12
Strategic Planning

- Planning Elements –
  - Capital Improvement Plan (CIP) – Develop and maintain CIP.
  - Assess affordability of needs:
    - Finance Officer and Financial Advisor develop affordability model to simulate repayment cost.
    - Considerations include: (1) multi-year financing plan; (2) effect on customer utility rates; (3) effect on tax rates.
  - Affordability assessment enables development of strategic financing plan
    - Local and governing body sentiments influence financing tactics, e.g. voted or un-voted tax debt, revenue bonds, other options.
    - Retirement of existing debt, internal funding, external funding, e.g. EDC sales tax availability also influence strategic planning.
Debt Instruments
Types of Debt

- Distinguished Generally by Source of Payment
  - Tax Backed - Paid from taxes such as Ad Valorem Taxes, Sales Taxes, Hotel Occupancy Taxes.
  - Revenue Debt - Paid from Enterprise Fund Operations.
  - Double-Barreled - Paid from combination of sources.
  - Lease Obligations – Typically not debt under the State’s Constitution.

- Tax Backed Debt
  - Voted - General Obligation Bonds.
    - Source of Payment - Ad Valorem Taxes. Taxes can be reduced or eliminated by transfers from Enterprise Funds.
    - Two election dates per year: May & November*

* An amendment to Section 41.001 of the Election Code prohibits a County from holding a May election in even-numbered years.
Types of Debt (continued)

- Certificates of Obligation (“COs”) – Voter Election Not Required
  - Same security, market acceptance and rates as General Obligation bonds.
  - No voter election required, but petition and referendum process by 5% of the registered voters would then require an election.
  - Situations when COs are most frequently used:
    - Paid from enterprise (little or no tax effect from issuance).
    - Mandated improvements must be made.
    - Avoids risk, time and costs of election process.
Types of Debt (continued)

Certificates of Obligation – Voter Election Not Required

From: *Public Finance Handbook for Texas Counties*

“Limitation on the Use of Certificates of Obligation After a Failed Bond Election”:

In 2015, Section 271,047, Texas Local Government Code was amended to prohibit the use of CO’s for the same purpose that had been presented to the voters in a bond election which failed within the three preceding years. The legislature provided that the three year prohibition on the use of CO’s after a failed bond election does not apply to the following situations:

1. a case of public calamity if it is necessary to act promptly to relieve the necessity of the residents or to preserve the property of the issuer;
2. a case in which it is necessary to preserve or protect the public health of the residents of the issuer;
3. a case of unforeseen damage to public machinery, equipment, or other property; and
4. to comply with a state or federal law, rule, or regulation.
Types of Debt (continued)

- Tax Notes – Voter Election Not Required
  - Same security, market acceptance and rates as General Obligation Bonds and Certificates of Obligation.
  - No voter election required.
  - No petition and referendum process.
  - Final maturity limited to seven years from issuance.
  - Suitable for short-lived assets or aggressive repayment situations.
  - Better than contractual obligations. More flexibility for projects and payable from debt tax (I&S) not maintenance and operations (M&O).
  - Flexibility to handle different maturities for different assets within single tax note issuance.
  - Can be refunded into long-term debt.
Types of Debt (continued)

- General Obligation Refunding Bonds – Voter Election Not Required
  - No voter election required to refund outstanding General Obligation Bonds, COs, Tax Notes.
  - Refund Water and Sewer Revenue Bonds. No election required.
  - Not authorized for refinancing obligations of debt that is not lawfully created.

- Other Types of Debt
  - Contractual Obligations
  - Contract Tax Debt
  - Time Warrants
  - Lease Purchaser Obligations
Types of Debt (continued)

- Revenue Bonds – General
  - Payable solely from pledged revenues of enterprise operations or dedicated revenue stream.
  - Pledged Revenues – For enterprises is typically defined as gross revenues less operating expenses excluding depreciation.
  - Generally no voter election required.
  - Typically allocates the debt costs to users of system.
Types of Debt (continued)

- Revenue Bonds Structural Characteristics:
  - Rate Covenants - typically some percentage of coverage is required
  - Debt Service Reserve Fund – the maximum allowable debt service reserve fund pursuant to the federal tax code is a cash reserve of lesser of: (1) maximum amount of annual debt service, (2) 125% average annual debt service, or (3) 10% of stated principal amount. Currently there is a trend towards smaller reserve requirements.
  - Additional Bonds Test – typically require a percentage of coverage of net revenues over maximum or average annual debt service, including the proposed debt
  - Sales tax and other special revenue bonds may be higher.
Types of Debt (continued)

- Lease Obligations
  - Typically subject to annual appropriation.
  - Most not considered lawfully created “debt” under State law.
  - Borrowing rates could be higher due to annual appropriation, reduced liquidity and lack of securitization.
  - Cannot be refunded by Attorney General approved debt obligations; must be purchased with cash or refinanced with the existing lender.
  - Normally paid from M&O taxes and are subject to rollback calculations.
Refunding Basics
Refundings

- Types of Refundings
  - Current: Bonds that are within 90 days of the optional redemption date (call date).
  - Advance: Bonds that are refunded more than 90 days from the optional redemption date. The signing of the Tax Cuts and Jobs Act of 2017, eliminated an issuers ability to advance refund tax-exempt bonds with tax-exempt refunding bonds. Issuers can still advance refund bonds with taxable bonds, if it’s financially advantageous.
  - Present value savings generally key benchmark – for most issuers is 3.0-3.5% or greater.
- Reasons to Refund
  - Save money through lowering interest rate.
  - Change covenants.
  - Restructure debt payment pattern.
Refundings (continued)

- Parameters sale
  - State law authorizes governing body to set minimums to complete refunding and appoint pricing officer to execute bond documents once rates can be locked.
  - Principal advantage is timing flexibility.
  - Used both for negotiated and competitive.
Questions?