

Overview of Municipal Bonds

Ocean Highway & Port Authority

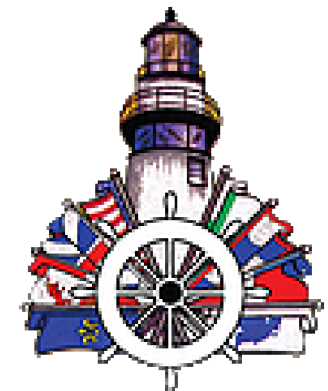
August 2021

Julie Santamaria
Director

RBC Capital Markets
100 Second Avenue South, Suite 800
St. Petersburg, Florida 33701
727-895-8871
Julie.santamaria@rbccm.com

Duane Draper
Shareholder

Bryant Miller Olive
One Tampa City Center, Suite 2700
Tampa, Florida 33602
Main: (813) 273-6677
ddraper@bmlaw.com



**Bryant
Miller
Olive**



RBC Capital Markets

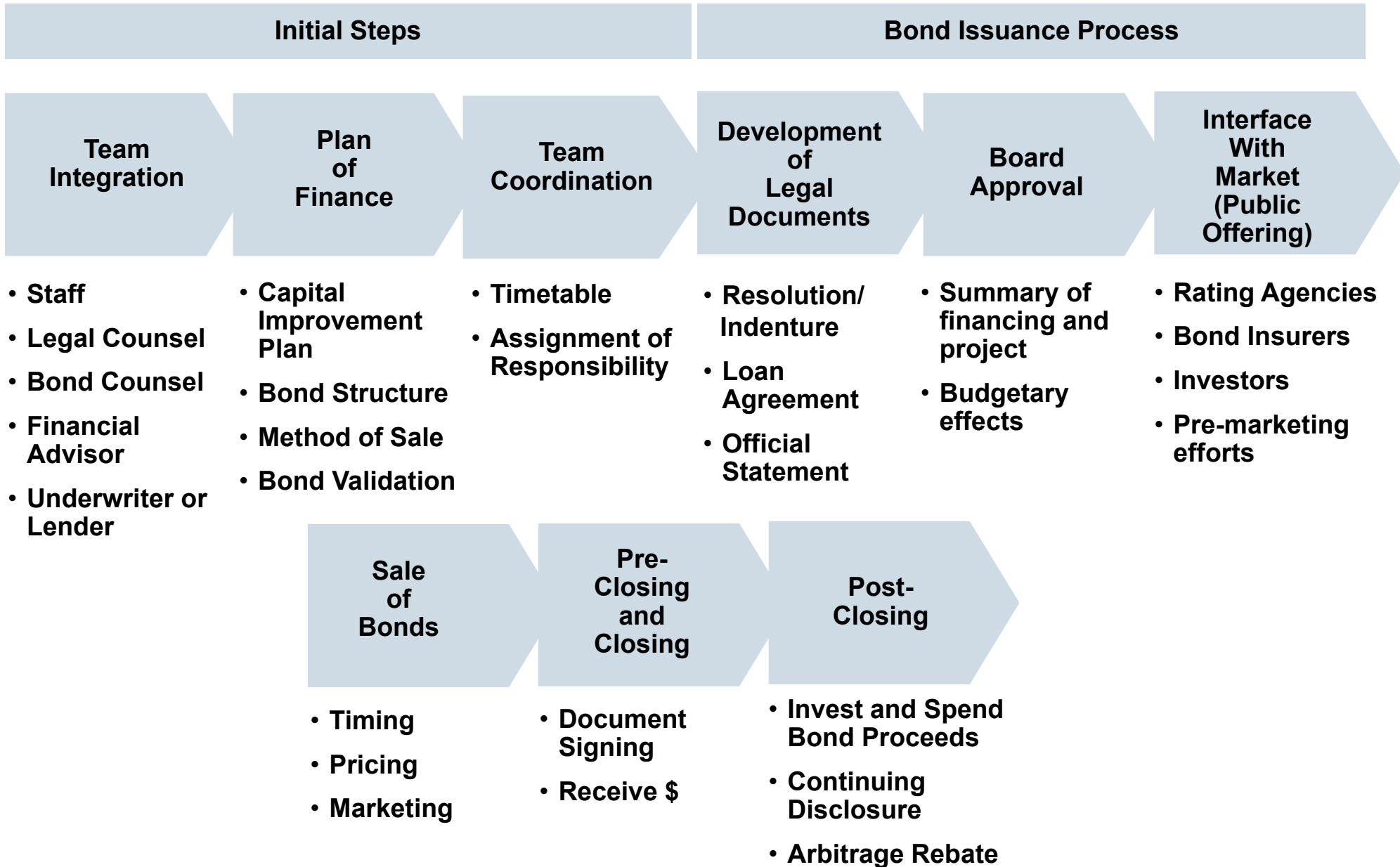
What is a Municipal Bond?

- Debt instrument used by local governmental authority to borrow funds for project
- Debt repaid from pledged security or revenues
- Florida governments issue mostly revenue bonds
 - Secured by general government taxes or enterprise fund revenue
- Issued as either tax-exempt or taxable securities

Industrial Development Bonds (IDB)

- Alternative method of financing economic development projects
- Bonds may be securities sold to investors or direct placement with bank
- Proceeds used to finance project
- Borrower makes debt payments
- Tax-exempt IDBs allow certain types of businesses the opportunity to finance facility construction and related costs at an interest rate typically 1 – 2% below conventional financing rates

Overview of Bond Process



Finance Team

- **Issuer Staff**

- Finance
- Attorney
- Administration
- Operating Department Director

- **Role of Staff**

- Protect Government's Interests
- Liaison with Board Members
- Provide financial, operating and project information

- **Borrower (IDB)**

Finance Team

- **Bond Counsel**

- Responsible for preparation of legal documents and bond covenants
- Opines on validity of bonds
- Opines on tax exemption
- Assists Finance Team in structuring of debt to extent legal analysis required

- **Disclosure Counsel**

- Prepares Preliminary Official Statement (POS) and Official Statement (OS)
- Provides knowledge of disclosure requirements, including continuing disclosure
- Assist with material event filings

Finance Team

- **Financial Advisor**
 - Helps develop structure of debt
 - Operating needs
 - Long-term capital needs
 - Helps with selection of finance team
 - Document review
 - Coordinates ratings and bond insurance
 - Advises on pricing

Finance Team

- **Underwriter (Publicly Offered Bonds)**
 - Purchases bonds from Issuer for resale to investors
 - Helps develop structure of financing
- **Lender (Bank Loan/Direct Placement)**
- **SRF Loans**
 - State Revolving Fund run by DEP for drinking water, wastewater and stormwater projects

Finance Team

- **Consulting Engineer**

- Necessary for certain construction projects
- Provides information on construction cost and rate implications

- **Financial Feasibility Consultant**

- Project finance
- Independent, third party analysis
- Cashflow projections

- **Rating Agencies**

- Objective evaluation of credit
- Ratings enhance sale of bonds
- Additional source of information for investors on suitability of investment

Finance Team

- **Others**

- Trustee or Paying Agent
- Escrow Agent (defeasance/refunding)
- Bond Insurer
- Verification Agent (refunding)
- POS and OS Printer/Electronic Publisher
- Auditors

Finance Plan

- **Capital Improvement Plan**
 - Improves effectiveness of multi-year budgeting
 - Focuses parties on priority needs
 - Considerations
 - Increased operating expenses from new projects
 - Deferred maintenance items
 - Balance financing sources – cash vs borrowing
 - Fund balances - formal vs. informal

Finance Plan

- **Pledged Revenue depends on**
 - Type of project
 - Strength and availability of revenues to pledge
 - Stability
 - Economic risk
 - Bond Covenants
 - New debt may be constrained by existing covenants
 - Maximize future flexibility with new covenants

What Projects Can Be Financed With an IDB?

- Projects can include cost of building or refurbishing manufacturing or processing plant, or setting up utility facility
- Project must either create new jobs or retain jobs that would have been lost if project was not done
- Specifically, an IDB can be used to pay for:
 - Land acquisition
 - New construction
 - Purchase or renovation of existing facilities
 - Purchase of new machinery and equipment

Limitations on IDB Financings

- Maximum amount is \$10 million
- Higher issuance costs when compared to traditional taxable bank financing
- At least 95% of amount financed must be spent on qualifying project
- No more than 2% of amount financed may be spent on bond issuance costs
- No more than 3% of amount financed may be used for related non-capital expenses
- Expenses must not be incurred before 60 days prior to Authority's Inducement Resolution that starts bond issuance process

IDB \$10 Million Size Limitation

- \$10 million limit includes prior small issues and capital expenditures during six-year period (three years before bond issuance and three years after) for facilities in same incorporated municipality or county used by principal user of financed facility or related person
- Capital expenditures include any expenditures chargeable to capital account of any person
- Capital expenditures include moved equipment acquired within six-year measurement period
- Leased equipment can be excluded if leased from manufacturer or leasing company
- \$40 million nationwide cap

Finance Plan

- **Debt Analysis**

- Review outstanding debt
- Debt service pattern and revenue cash flow
- Consider existing and future debt structures
- Identify any refunding candidates
- Term of debt (1-30 years)
 - Life of asset, duration of pledged revenues
- Type of Debt
 - Fixed vs. variable rate
 - Tax-exempt vs. taxable
- Current market conditions

Key Areas of Market Focus

1

Market Awaiting Congressional Action on President's Economic Plans

1) \$1.2 Trillion Bi-partisan Infrastructure Plan

- Senate voted for procedural motion to move forward with infrastructure bill, including \$550 billion new spending
- Approximately \$110 billion in new spending for roads and bridges, \$73 billion of power grid upgrades, \$66 billion for rail and Amtrak, \$65 billion for broadband expansion, \$55 billion for clean drinking water and \$39 billion for transit
- Expands authorized uses of Private Activity Bonds (PABs):
 - Expansion of surface transportation PABs from \$15 billion to \$30 billion
 - Authorizes new PABs for qualified broadband and carbon capture projects
- Senators Wicker (R-MS) and Bennet (D-CO) have filed amendment to bill authorizing establishment of American Infrastructure Bonds (direct-pay bonds)

2) \$3.5 Trillion “Human Infrastructure” Agenda

- Only needs to be passed with 50 Democratic Senate votes via process of budget reconciliation
- Democratic Senators Joe Manchin (WV) and Kyrsten Sinema (AZ) expressed reservations about \$3.5 trillion price tag currently being discussed
- Includes expanding child tax credits; establishing paid family and medical leave; funding universal preschool and free community college; further action on climate change

Key Areas of Market Focus

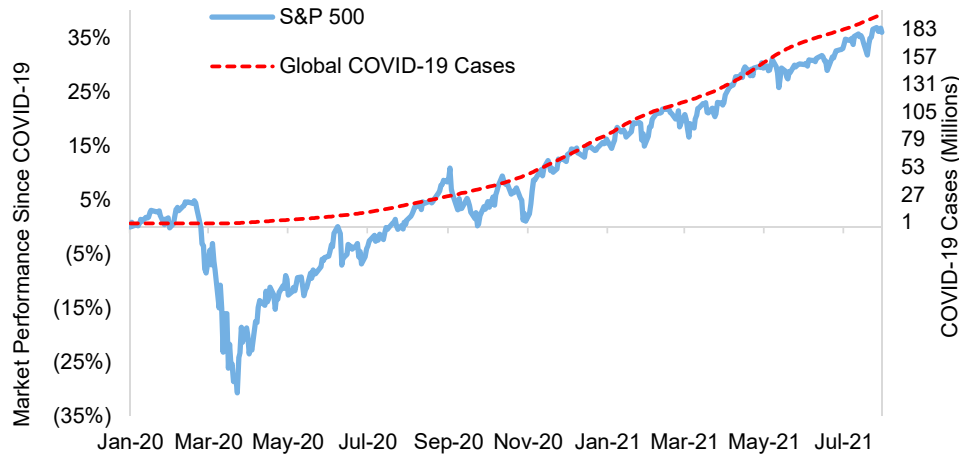
Investors Focused on Potential for More Economic Lockdowns

2

- CDC reversed course on masking guidance
 - Recommends that people, regardless of vaccination status, wear mask indoors in areas where “substantial and high transmission” of COVID, as well as in K-12 schools
 - 1,495 counties fall into highest transmission grouping and another 548 counties in substantial tier; those counties combined make up 225 million Americans
 - New studies shown breakthrough infections in vaccinated individuals have just as much viral load as infected people who are unvaccinated
- Several cities and counties reinstated indoor mask mandates, including for those who are vaccinated
 - Los Angeles County was first major U.S. locality to reinstate mandate
 - Clark County (NV), Washington D.C., Atlanta, New Orleans, Kansas City, Savannah and St. Louis have put on new mask mandates
 - New York City Mayor recommended vaccinated people wear mask in crowded indoor settings, but stopped short of making masking mandatory in city
- Many jurisdictions declared their unwillingness to revisit mandatory requirements for face coverings
 - Laws passed that restrict local governments from imposing mask orders in Iowa, Florida, Montana, Arizona, North Dakota and Arkansas
 - Governors in Texas, Tennessee and South Carolina have signed executive orders that prohibit local governments from enacting own mask mandates

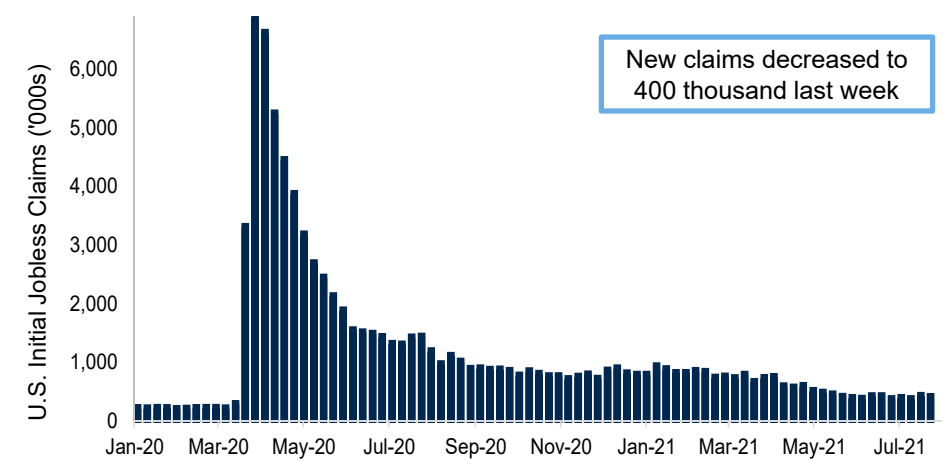
Economic Overview

Equity Market and Global Confirmed Coronavirus Cases



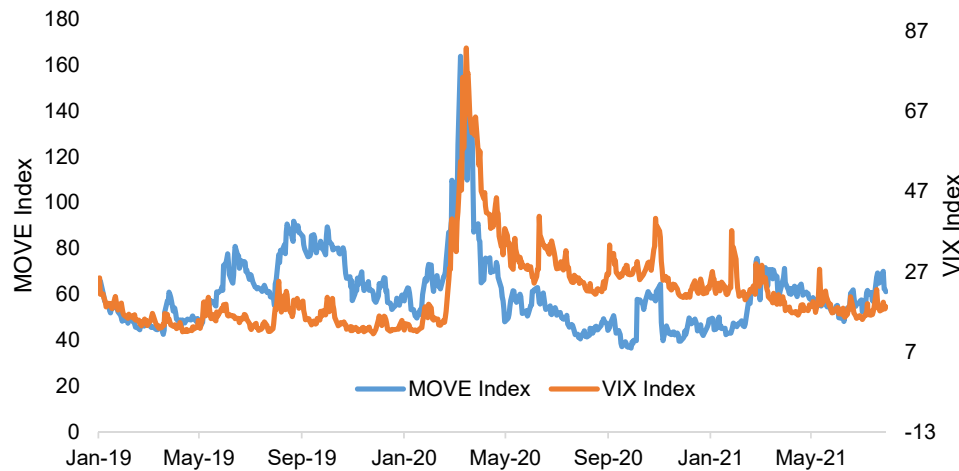
Source: Bloomberg, as of market close July 30, 2021

U.S. Initial Jobless Claims



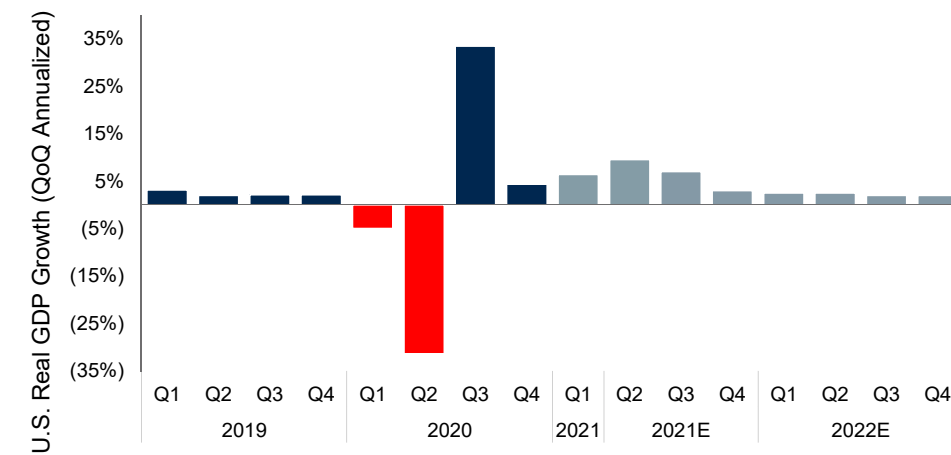
Source: Bloomberg, latest data for week ending July 23, 2021

Equity Volatility Approaching Pre-COVID Levels while Treasury Volatility Increased



Source: RBC Economics

U.S. GDP Growth

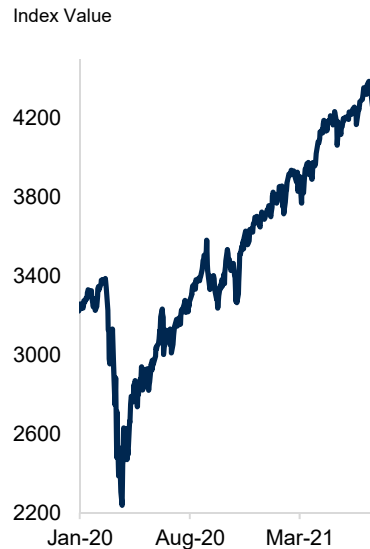


Source: RBC Economics

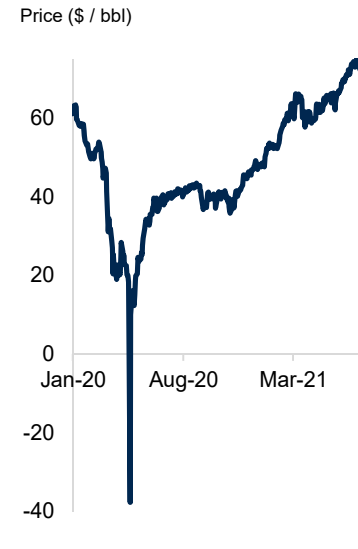
Recent Performance of Major Asset Classes

- FOMC formally began discussions of tapering the asset purchase program, which could begin later in 2021
 - RBC economists expect tapering to begin in December 2021, with rate hike to follow in late 2022
- GDP grew at annualized pace of 6.5% in Q2, falling short of 8.4% Bloomberg consensus
- Core inflation, as measured by PCE deflator, rose at annualized pace of 3.5% during June
- ISM data revealed continued growth in manufacturing sector in July

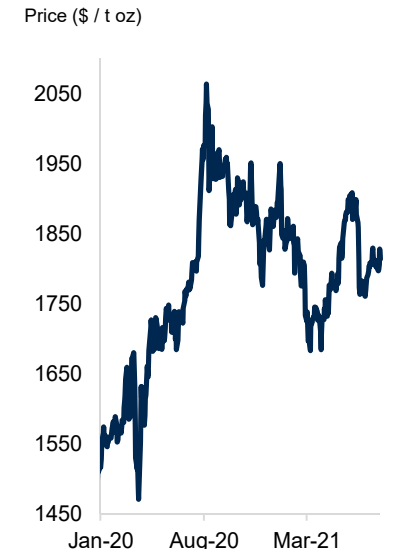
S&P 500 Index



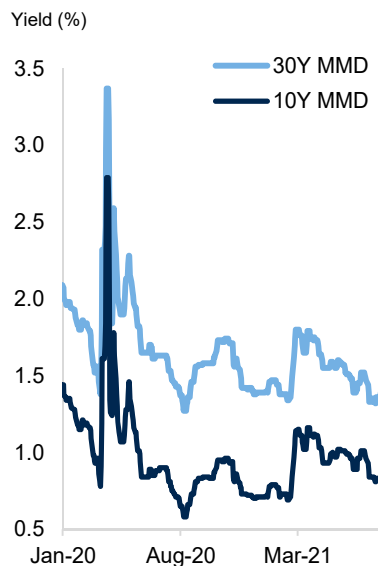
Oil (WTI)



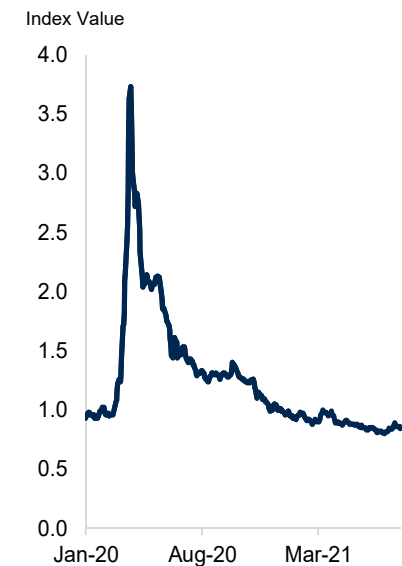
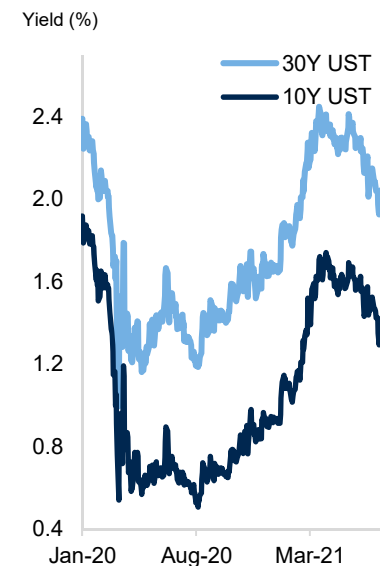
Gold



MMD Yields



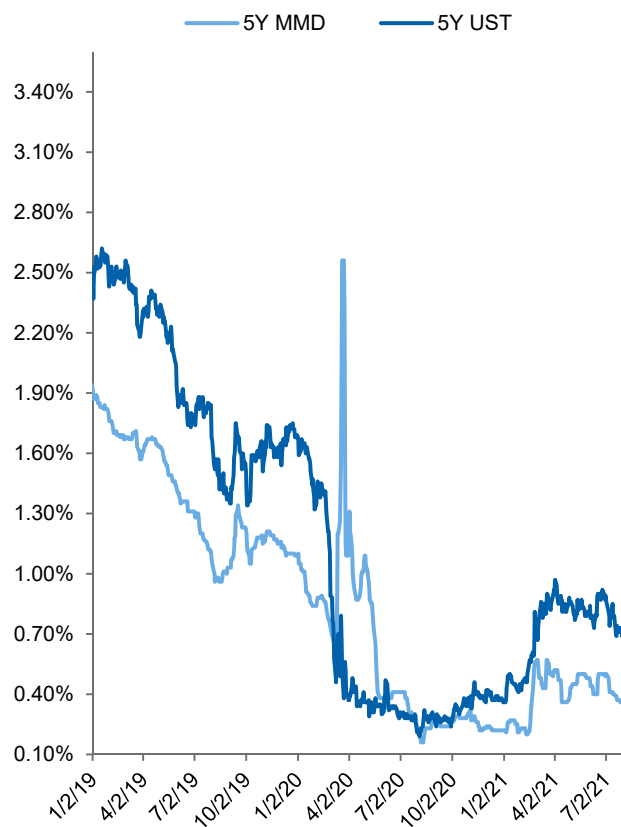
U.S. Treasury Yields IG Corp Bond Spreads



Source: Bloomberg, RBC Capital Markets as of July 30, 2021. For more sources, see disclaimer slide.

Interest Rate Movements

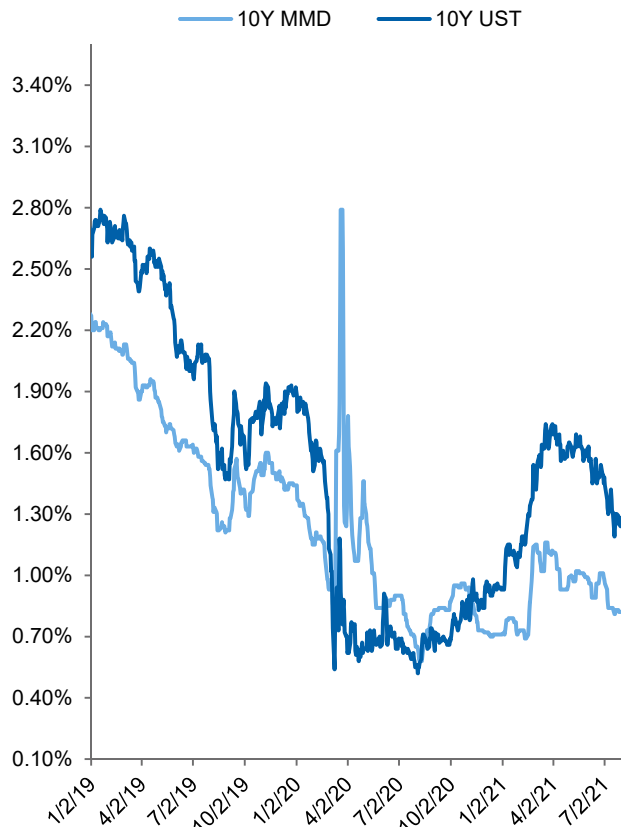
5 Year MMD⁽¹⁾ and 5 Year UST



Change in MMD

	01/02/2019	07/30/2021	Δ (bps)
3yr MMD	1.790	0.130	-166
5yr MMD	1.920	0.360	-156
7yr MMD	2.040	0.570	-147
10yr MMD	2.270	0.820	-145
30yr MMD	2.990	1.390	-160

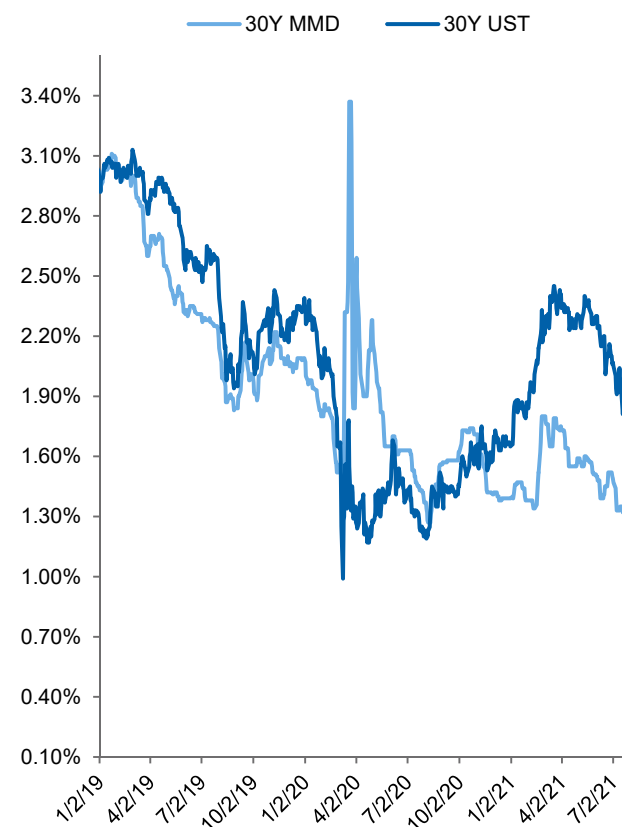
10 Year MMD and 10 Year UST



Change in Treasuries

	01/02/2019	07/30/2021	Δ (bps)
3yr UST	2.470	0.350	-212
5yr UST	2.490	0.690	-180
7yr UST	2.560	1.000	-156
10yr UST	2.660	1.240	-142
30yr UST	2.970	1.890	-108

30 Year MMD and 30 Year UST



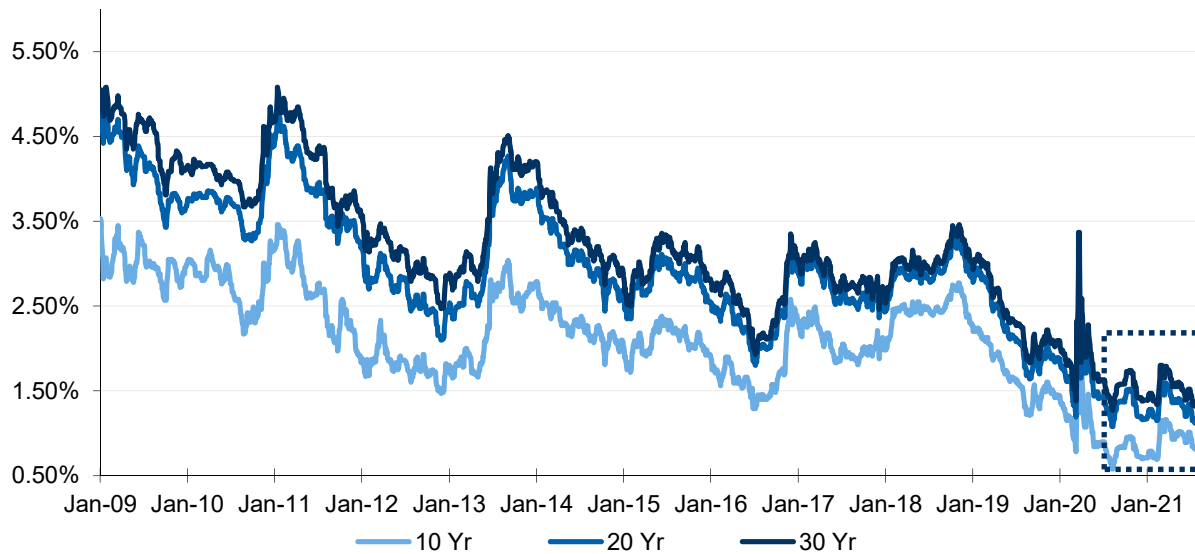
Change in MMD/UST Ratio

	01/02/2019	07/30/2021	Δ (%)
3yr Ratio	72%	37%	-35%
5yr Ratio	77%	52%	-25%
7yr Ratio	80%	57%	-23%
10yr Ratio	85%	66%	-19%
30yr Ratio	101%	74%	-27%

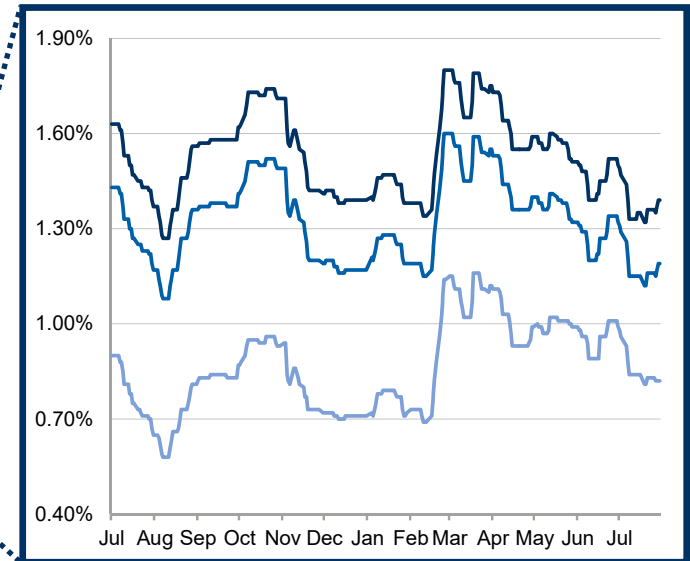
(1) MMD stands for Municipal Market Data; which is the daily index off of which all municipal bonds are priced. Source: Thomson Reuters

Current Municipal Market Conditions: AAA MMD Index

AAA MMD January 1, 2009 to Present



Shift in AAA MMD Since July 2020



January 1, 2009 to Present

	10 Year	20 Year	30 Year
Maximum	3.53%	4.89%	5.08%
Minimum	0.58%	1.08%	1.27%
Current	0.82%	1.19%	1.39%

July 1, 2020 to Present

	10 Year	20 Year	30 Year
Maximum	1.16%	1.60%	1.80%
Minimum	0.58%	1.08%	1.27%
Average	0.87%	1.32%	1.52%

Shift in 30-year "AAA" MMD

2014	2015	2016	2017	2018	2019	2020
-1.34%	-0.01%	0.27%	-0.51%	0.47%	-0.93%	-0.68%

Source: TM3, Thomson Reuters
10, 20, and 30 year "AAA" MMD shown to represent different average lives of municipal transactions
Rates as of July 30, 2021

Finance Plan

- **Debt Analysis**
 - Method of Sale
 - Public Offering
 - Bank Loan/Private Placement or Direct Purchase
 - Underlying Ratings
 - Insured or Uninsured
 - Assured Guaranty
 - Build America Mutual

Ratings

- **Rating Process**
 - Provide bond documents to rating agencies
 - Analysis
 - Have conference call or meeting
 - Complete analysis
 - Rating committee
 - Rating released
 - Ongoing surveillance

Bond Documents

- **Bond Resolution or Indenture**
 - Contract with bondholders
 - Generally a master resolution for particular revenue source
 - Typical provisions
 - Supplemental or series resolution provides specifics for each issue
- **Loan Agreement**
 - Change in corporate tax rate
 - Acceleration in event of default

Bond Documents

- **Official Statement (OS)**

- Provides information to investors on pledged revenues and risks
- Disclosure standard
 - No material inaccuracy
 - No material omission
- SEC clearly stated that OS is legally issuer's document
- SEC Rule 15c2-12: underwriter's duty to have "reasonable basis for belief in the truthfulness and completeness of the key representations made in any disclosure documents used in the offering"

Bond Documents

- **Bond Purchase Agreement**

- Contract between Issuer and Underwriter for publicly offered negotiated sales
- Prepared by Underwriter's Counsel
- Executed after pricing
- Includes
 - Transaction terms
 - Responsibilities
 - Document requirements
 - "Outs"

Bond Documents

- **Continuing Disclosure Agreement**
 - Disclose information via Municipal Securities Rulemaking Board's EMMA website
 - Annual financial information
 - Material event notices
 - Not required for bank loans and private placements

Bond Pricing and Sale

- **Method of Sale**

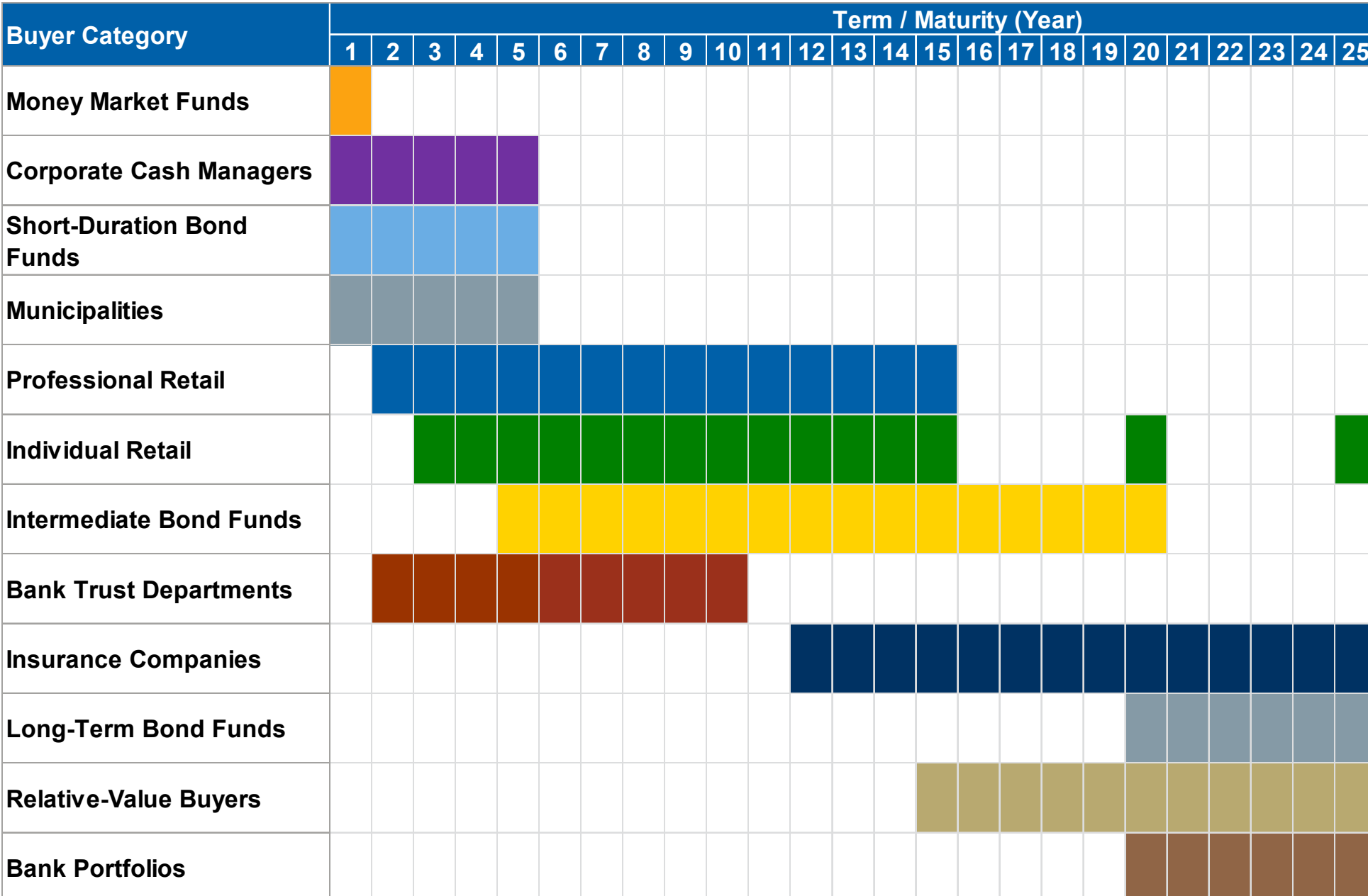
- Negotiated Sale (Public Offering)

- Underwriter chosen prior to sale
- Assists with structuring and pre-marketing
- Greater market timing flexibility

- Competitive Sale

- Underwriters submit bids electronically
- Specific bid date and time
- Awarded by lowest true interest cost

Typical Investor Maturity Preferences



Source: RBC Capital Markets

Bond Pricing and Sale

- **Negotiated Bond Sale Process**

- Establish pricing structure (“scale”) for coupons and yields
- Day of pricing
 - Underwriter releases scale around 9:30am
 - Receives retail and institutional orders
 - May be pricing adjustments based on market conditions, investor demand
 - Yields may be decreased or increased based on orders
- Underwriter makes offer to underwrite to issuer
- Bond Purchase Agreement finalized and signed that afternoon or next day

Closing

- Official statement finalized in week after pricing
- Bond Counsel and Disclosure Counsel prepare closing documents
- Additional bonds (parity) test
- Financial Advisor or underwriter prepares closing memorandum
 - Wiring instructions and amounts for day of closing
- Documents signed at pre-closing
- Closing occurs 2-3 weeks after pricing
 - Wires sent and receipt confirmed
- Closing call with Bond Counsel, Underwriter, Paying Agent and DTC

Post-Closing

- **Resolution Requirements**
 - Rate covenant
 - No impairment
 - Permitted investments
 - Restriction on asset sales
 - Insurance requirements
- **Arbitrage**
 - Interest earnings may exceed interest expense on bonds
 - Creates positive interest gain (arbitrage)
 - Interest in excess of bond yield must be rebated to IRS

Post-Closing

- **Continuing Disclosure**

- Annual Filings with EMMA
- Information specified in Continuing Disclosure Agreement
- CAFR/Financial Statements
- Timing requirements
- Material Event Notices

- **Managing Rating and Rating Agency Relationship**

- Ongoing surveillance
- Maintain communication
- Communicate value of your rating to constituents

Disclaimer

This presentation was prepared exclusively for the benefit of and use by the recipient for the purpose of considering the transaction or transactions contemplated herein. This presentation is confidential and proprietary to RBC Capital Markets, LLC (“RBC CM”) and may not be reproduced, distributed or used for any other purpose by the recipient without RBCCM’s express written consent.

By acceptance of these materials, and notwithstanding any other express or implied agreement, arrangement, or understanding to the contrary, RBC CM, its affiliates and the recipient agree that the recipient (and its employees, representatives, and other agents) may disclose to any and all persons, without limitation of any kind from the commencement of discussions, the tax treatment, structure or strategy of the transaction and any fact that may be relevant to understanding such treatment, structure or strategy, and all materials of any kind (including opinions or other tax analyses) that are provided to the recipient relating to such tax treatment, structure, or strategy.

The information and any analyses contained in this presentation are taken from, or based upon, information obtained from the recipient or from publicly available sources, the completeness and accuracy of which has not been independently verified, and cannot be assured by RBC CM. The information and any analyses in these materials reflect prevailing conditions and RBC CM’s views as of this date, all of which are subject to change.

To the extent projections and financial analyses are set forth herein, they may be based on estimated financial performance prepared by or in consultation with the recipient and are intended only to suggest reasonable ranges of results. The printed presentation is incomplete without reference to the oral presentation or other written materials that supplement it.

IRS Circular 230 Disclosure: RBC CM and its affiliates do not provide tax advice and nothing contained herein should be construed as tax advice. Any discussion of U.S. tax matters contained herein (including any attachments) (i) was not intended or written to be used, and cannot be used, by you for the purpose of avoiding tax penalties; and (ii) was written in connection with the promotion or marketing of the matters addressed herein. Accordingly, you should seek advice based upon your particular circumstances from an independent tax advisor.