
Ohio Township Association

Financing Capital Expenditures

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Presentation Overview

- What is a capital expenditure?
 - Definition
- Methods of finance
 - General Obligation
 - Revenue
 - Lease Structure (Master Lease Program)
- Lowering borrowing costs
 - Credit Analysis
 - Ratings
 - Bond Insurance
- Preparing your Township
 - Policies and Procedures
 - Utilizing resources
- Market Overview

What is a capital expenditure?

Definition For the purpose of general obligation and revenue bonds, ...

- **An expenditure for the acquisition of a "*permanent improvement*."**
- "***Permanent improvement***" means any property, asset, or improvement certified by the fiscal officer, which certification is conclusive, as having an estimated life or period of usefulness of five years or more, and includes, but is not limited to, real estate, buildings, and personal property and interests in real estate, buildings, and personal property, equipment, furnishings, and site improvements, and reconstruction, rehabilitation, renovation, installation, improvement, enlargement, and extension of property, assets, or improvements so certified as having an estimated life or period of usefulness of five years or more. The acquisition of all the stock ownership of a corporation is the acquisition of a permanent improvement to the extent that the value of that stock is represented by permanent improvements. A permanent improvement for parking, highway, road, and street purposes includes resurfacing, but does not include ordinary repair. (O.R.C. §133.01)

What is a capital expenditure?

For township lease-purchase purposes, ...

- Township Park
- Township Building (Administration, Firehouse, Garage etc)
- Public Library
- Solid Waste Facility
- Road Maintenance Vehicles
- Road Maintenance Equipment
- Police and Fire Vehicles
- Police and Fire Equipment
- ***All real or personal property that townships are authorized to acquire for public purposes (O.R.C. 505.262)***



Methods

of

Finance

General Obligation

- Townships are generally limited as to the issuance of General Obligation debt.

§ 133.09. Net indebtedness of township

(A) Unless it is a township that has adopted a limited home rule government under Chapter 504. of the Revised Code, **a township shall not incur net indebtedness that exceeds an amount equal to five per cent of its tax valuation and**, except as specifically authorized by section 505.262 [505.26.2] of the Revised Code or other laws, **shall not incur any net indebtedness unless authorized by vote of the electors.**

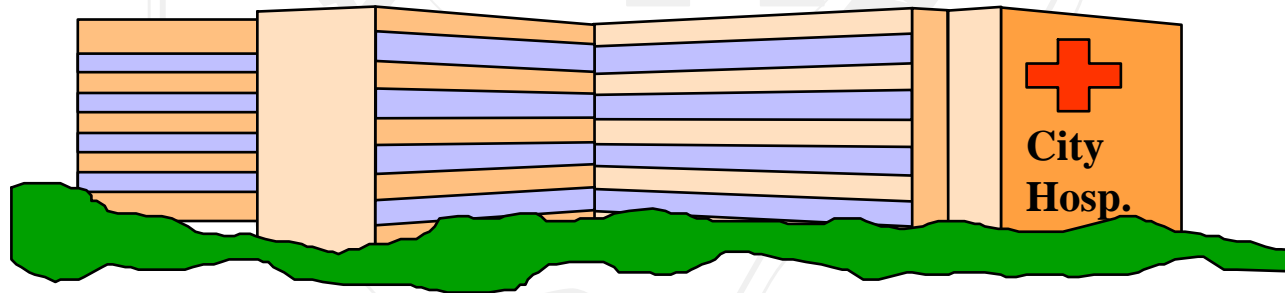
(B) **A township that has adopted a limited home rule government under Chapter 504. of the Revised Code shall not incur net indebtedness that exceeds an amount equal to ten and one-half per cent of its tax valuation, or incur without a vote of the electors net indebtedness that exceeds an amount equal to five and one-half per cent of that tax valuation.**

Revenue Bonds

- **ISSUED FOR A PROJECT THAT GENERATES REVENUES FROM ITS USE...**

e.g. Water/Sewer System, Airport, Hospital or Parking Garage (Art. XVIII, §3, Ohio Constitution)

- **SECURED SOLELY BY A PLEDGE OF THE NET REVENUES OF FINANCED FACILITY**



Lease Structure

- OTA Master Lease Program is based on the following:

Sub. H.B. No 97 - §505.267

- *"For any purpose for which a board of township trustees, or a board of trustees of a joint township police district, a township fire district, a joint fire district, or a fire and ambulance district is authorized to acquire real or personal property, that board may enter into a lease-purchase agreement in accordance with this section to acquire the property.*

OTA MASTER LEASE PROGRAM:

- Sponsored by OTA
- Designed with Townships specifically in mind
- The low cost option versus GO and Revenue Transaction
- Easy to apply for, execute a lease with and administer



Lowering
Borrowing
Costs

A Bond Rating:

IS

- An evaluation of relative risk to bondholders of an issuer's ability and willingness to repay debt on time and in full
- A forward looking projection

IS NOT

- An investment recommendation
- An audit of the issuer
- A quality of life measure

Credit Analysis

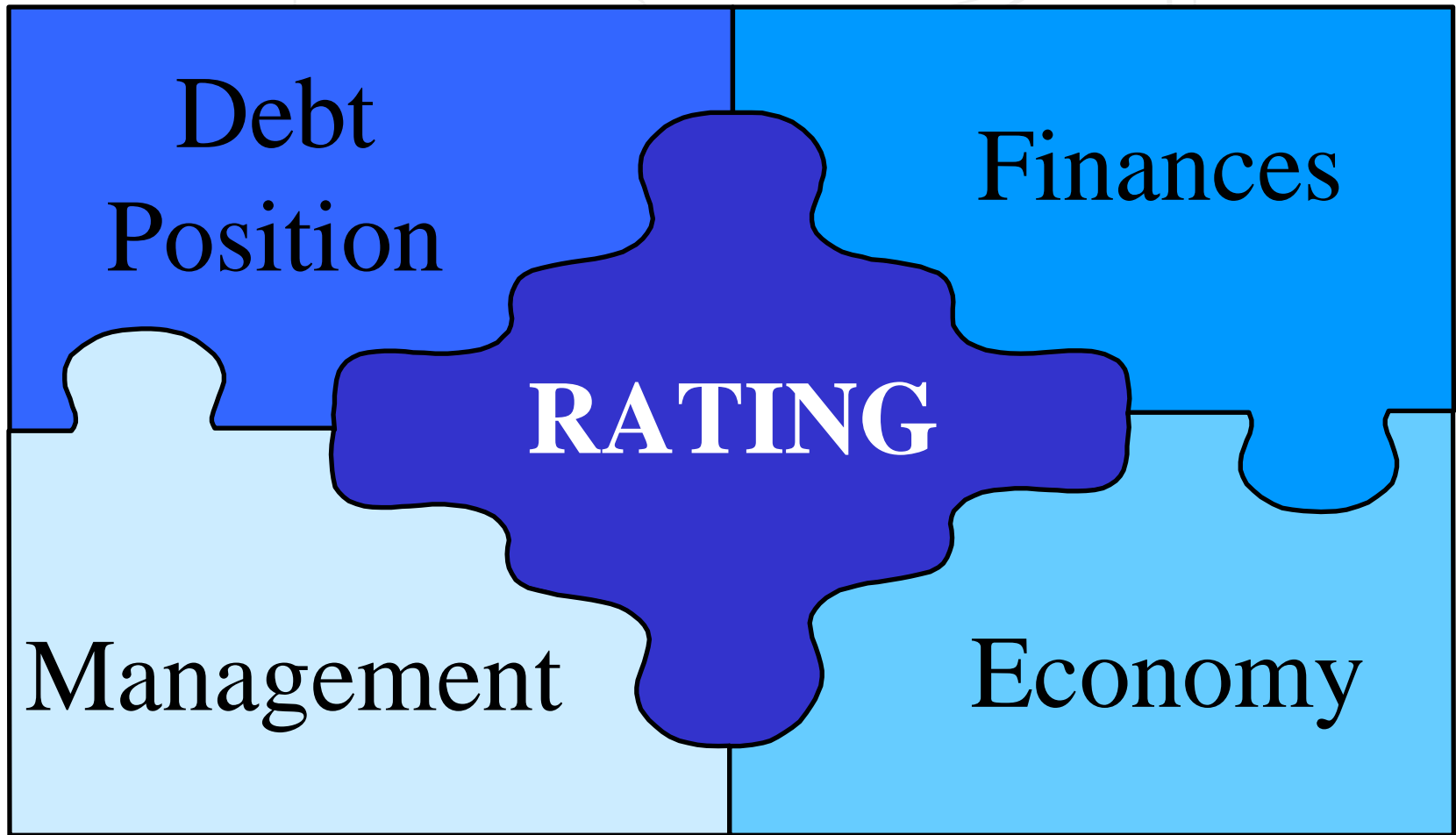
- Taxbase: Size, Location, Diversity, Components of Base, and Development
- Economic Trends: Retail Sales, Building Permits, Housing Prices, etc.
- Employment Base
- Socio-economic Profile: Wealth Indices, Population Trends, Unemployment, etc.

Lowering Borrowing Costs

Ratings

Investment Grade	Aaa	Highest Quality
	Aa1/Aa2/Aa3	High Quality
	A1/A2/A3	Upper Medium Quality
	Baa1/Baa2/Baa3	Medium Quality
Speculative Grade	Ba1/Ba2/Ba3	Below-Average Quality
	B1/B2/B3	Weak Creditworthiness
	Caa1/Caa2/Caa3	Danger of / In Default

Rating Context: Four Credit Factors



Rating Factors

- Debt Levels
 - Direct & Overlapping Debt
 - Overall Debt Burden
- Debt Structure
- Impact of Debt on Budgetary Expenses
- Capital Plans/Future Borrowing
 - Impact On Future Debt Position

Bond Insurance

- Issuers often prefer to offer their bonds with insurance in order to lower borrowing costs. By raising the rating on a security, bond insurance enables the issuer to save on interest costs, since bonds with the highest rating - and thus with the greatest security pay the least interest.
- Bond insurance is cost effective for an issuer as long as the interest cost savings exceed the premium paid to the insurer.
- Insurance can also increase the marketability of an issue. Small or infrequent issuers are unknown to most municipal investors, and bond insurance may improve the market's acceptance of their securities



Preparing

Your

Township

Financial Officer should be aware of:

- Trends of Annual Operating Performance
- Balance Sheet /Reserve Levels
- Sources of Revenue: Property, Income, Sales, Levy Limits, etc.
- Expenditure Controls/Financial Flexibility: Mandated Services, Mid-year Adjustments, etc.
- Adequate Liquidity
- Budgetary Planning

Your township should have:

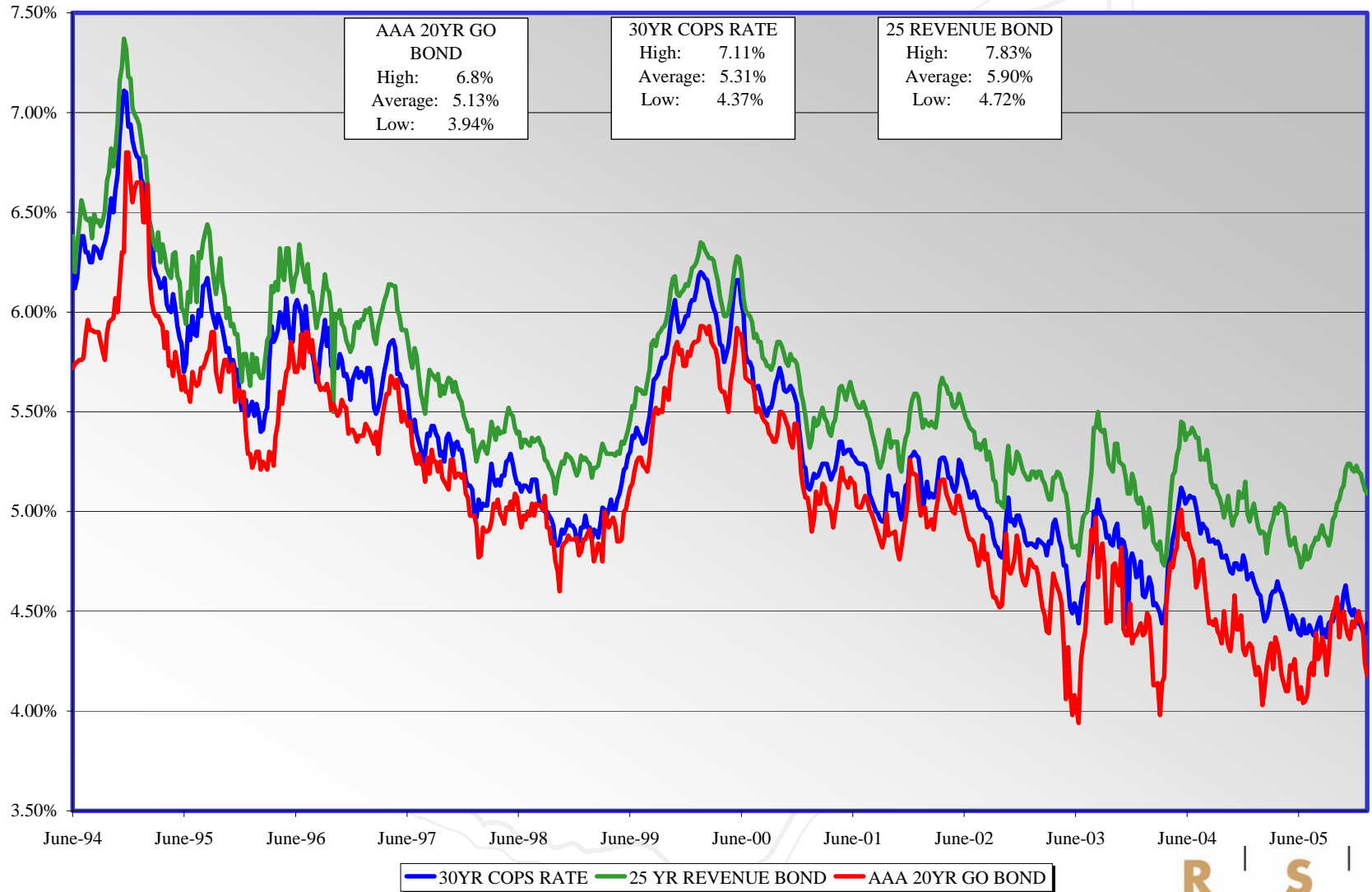
- Budgeting and Reserve Policies
- Ability to Achieve Budgetary Targets
- Debt Practices
- Ability to Make Mid-Year Adjustments
- Ability to Recognize & Respond to Changing Revenue Streams and Unexpected Expenses
- Investment Practices



Market *Conditions*

Market Conditions

Historic Borrowing Levels



Market Conditions

Since 1993:

- AAA 20 Year GO Average **5.13**
- AA 20 Year GO Average **5.23**
- A 20 Year GO Average **5.35**

Current:

- AAA 20 Year GO Average **4.18**
- AA 20 Year GO Average **4.30**
- A 20 Year GO Average **4.40**

For Follow up Questions

You may contact a representative from the Ohio Township Association Master Lease Program at:

800.543.1831