

SIOUX CITY | SEPTEMBER 18-20 | 2024

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ANNUAL CONFERENCE & EXHIBIT

Bonding vs. Pay-As-You-Go

Nate Summers, UMB Bank



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Bonding vs. Pay-As-You-Go: A Strategic Approach

UMB Financial Services, Inc.
2024 Iowa League of Cities





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Who We Are



- UMB Public Finance Group
 - Services detailed on following slides
- West Des Moines office with Iowa focus
- UMB has been in the Iowa public finance market for two-plus decades
- Nate brings 14 years of public finance experience in Iowa
- Grew up in Aplington, Iowa (population 1,095)

Municipal Advisory Resources



By partnering with UMB Bank, UMBFSI's municipal advisors have the resources available to access to a full range of innovative capital solutions with a service-first approach. Our personal service, paired with our strong financial advisory experience, market insight and industry relationships uniquely positions us to serve financial institutions, municipalities, corporations, public and not-for-profit organizations across the U.S.

UMBFSI also has access to a range of UMB Bank's Underwriting services.



Connected to Capital

The exceptional experience of our advisory team, together with the valuable insights and real-time market information provided by tenured UMB Bank, n.a. Capital Markets Division's ("CMD") municipal underwriters and sales professionals, allows us to deliver sound advice and innovative financing solutions to meet each institution's strategic objectives.



Service and Integrity

Our advisors are dedicated to serving the best interest of our clients with each engagement. We combine the business values and relationship-based responsiveness of a regional municipal advisory firm with the capabilities, market data, reach and sophistication of a large national institution.



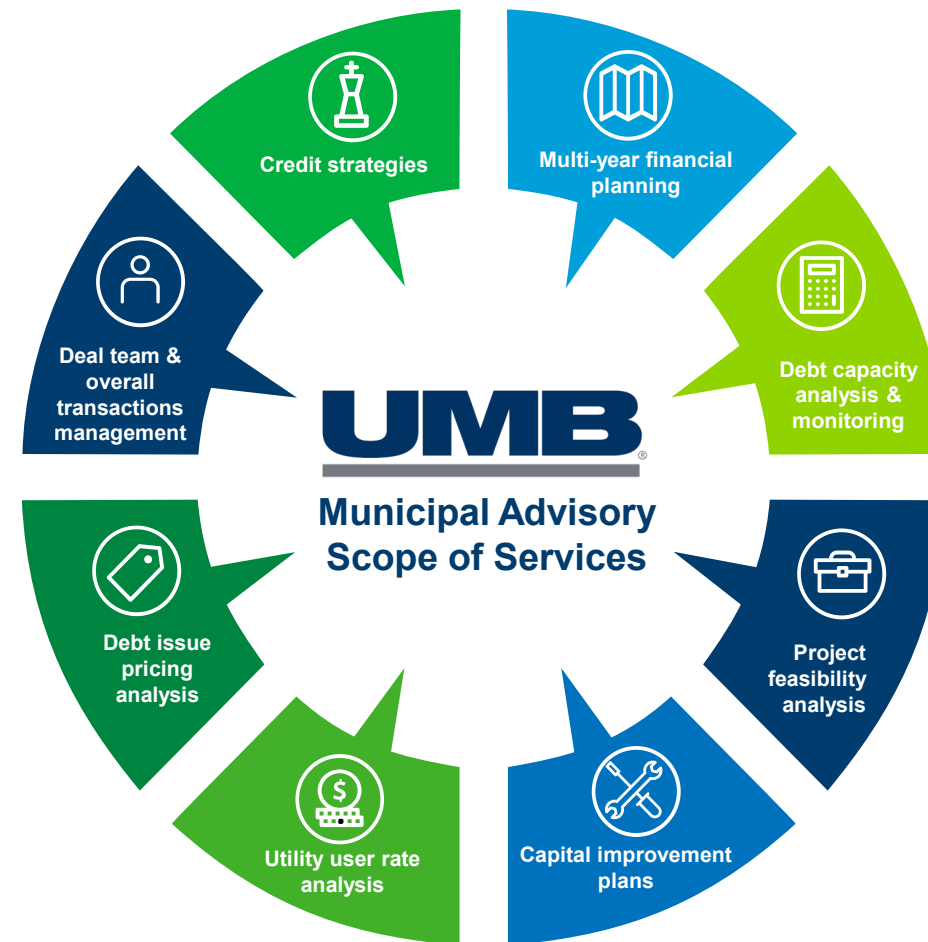
Breadth and Depth of Experience

Having participated in over 3,000 bond issues over the past decade, our municipal advisory and public finance resources are able to leverage this knowledge and experience on each project to provide our clients with valuable guidance and analysis throughout the financing process.



Market Knowledge

UMB Financial Corporation (UMBFC) and its subsidiaries UMB Bank, n.a. and UMB Financial Services, Inc. provide access to, and insights about key aspects of the public finance market in a single reliable source for our clients to inform decisions about their financial needs.



Topic Introduction

- Financing capital projects is vital to city development.
 - Question is how to pay for it?
 - Two general approaches (other than grants):
1. Pay-As-You-Go (or PAYGO):
 - Using cash to pay for projects as they come up
 2. Bonding / Other Debt Instrument:
 - Incurring debt to undertake a larger capital project all at once

Capital Projects Overview



Construction, renovation, or expansion of essential infrastructure and facilities within a city.



Typically require substantial financial investments aimed at improving the city's overall quality of life, economic vitality, and environmental sustainability.



Enhance urban development, attract businesses, and ensuring the well-being of residents by addressing critical needs such as water supply, wastewater treatment, and public amenities like streets and stormwater management.

Capital Projects Overview

- Examples:
 - Streets and Sidewalks
 - Fire Station
 - City Hall Renovation
 - Water/Wastewater Treatment Plant
 - Water Main Replacement
 - Sewer Lagoon Addition/Renovation
 - Water Tower Replacement
 - Urban Renewal/Economic Development
 - Land banks and development work



The Pay-As-You-Go Approach



Pay-As-You-Go

- Projects are undertaken as they come up
- Typically smaller projects and maintenance
- Can be larger projects if fund balances are accumulated over time, but as we'll explore, this way of thinking has its flaws
- Summary: Today's citizens pay for infrastructure for the future

Pay-As-You-Go

- Various sources of revenue for PAYGO projects:
 - General Fund
 - Local Option Sales Tax
 - Franchise Fees
 - Road Use Tax
 - Tax Increment Financing (TIF)
 - Hotel/Motel Tax
 - Water/Sewer/Electric Revenues
 - Other Revenues (Golf, Pool, etc.)

The Bonding / Debt Approach



Bonding / Debt Approach

- Economies of scale
- Spreading cost burden over a longer time horizon
- Maximizing tax-exempt interest rates
- This helps minimize the impact of inflation
- Available excess cash could be contributed toward the project
- Summary: Instead of today's citizens paying for tomorrow's infrastructure, citizens' taxes pay debt service over time for the infrastructure they will be using themselves

Bonding / Debt Approach

- Construction Costs & Inflation
 - Labor costs, material prices and regulatory requirements all tend to cost more as time passes
 - Savings for a capital project “purchase” can get eaten up by the effects of inflation
- Recent data from St. Louis Fed FRED system
 - Non-residential construction costs have been outpacing general inflation, with an annual increase of approximately 7.8% over the past five years (2019-2024).
- Applying that data mathematically, \$1 million street project could cost \$1,350,000 in five years

Bonding / Debt Approach

- Long Term Financing & Inflation
 - Mitigates risk of construction [inflation](#)
 - Especially when utilizing [tax-exempt debt](#)
 - Creates a hedge vs. inflation over the timeframe of financing
 - Leads to predictability and stability (debt service levy) for taxpayers
- Interest Rates vs. Inflation
 - Tax-exempt [municipal bond rates](#) have remained around 3% to 5%, even as interest rates have increased over the past few years (and fallen again recently)
 - This can result in an interest rate that is lower than the rate of inflation

Sample Analysis



GENERAL OBLIGATION DEBT

Sample City, Iowa									
Principal Only	Preliminary	Preliminary			TIF Rebate/		5.00%	Legal	75% Self-
Fiscal	Fire Station	AVCC	Reserved	Principal	Dev. Agmts.	Total	Debt Cap.	Debt Cap.	Debt Cap.
Year	Series 2025	Series 2025	FUTURE	Total	Ann. Approp.	Outstanding	Utilized (%)	Remaining (\$)	Remaining (\$)
2024	-	-	-	-	-	3,000,000	46%	3,468,808	1,851,606
2025	-	-	-	-	-	5,000,000	66%	2,554,182	665,636
2026	160,000	110,000	-	270,000	308,333	5,308,333	67%	2,623,558	640,585
2027	170,000	115,000	-	285,000	308,333	5,038,333	64%	2,893,558	910,585
2028	175,000	115,000	-	290,000	308,333	4,753,333	60%	3,178,558	1,195,585
2029	185,000	120,000	-	305,000	308,333	4,463,333	56%	3,468,558	1,485,585
2030	190,000	125,000	-	315,000	183,333	4,033,333	51%	3,898,558	1,915,585
2031	200,000	135,000	-	335,000	183,333	3,718,333	47%	4,213,558	2,230,585
2032	205,000	140,000	-	345,000	183,333	3,383,333	43%	4,548,558	2,565,585
2033	215,000	145,000	-	360,000	183,333	3,038,333	38%	4,893,558	2,910,585
2034	225,000	150,000	-	375,000	183,333	2,678,333	34%	5,253,558	3,270,585
2035	235,000	155,000	-	390,000	183,333	2,303,333	29%	5,628,558	3,645,585
2036	245,000	160,000	-	405,000	183,333	1,913,333	24%	6,018,558	4,035,585
2037	255,000	170,000	-	425,000	183,333	1,508,333	19%	6,423,558	4,440,585
2038	265,000	175,000	-	440,000	-	900,000	11%	7,031,891	5,048,918
2039	275,000	185,000	-	460,000	-	460,000	6%	7,471,891	5,488,918
2040	-	-	-	-	-	-	0%	7,931,891	5,948,918
2041	-	-	-	-	-	-	0%	7,931,891	5,948,918
2042	-	-	-	-	-	-	0%	7,931,891	5,948,918
2043	-	-	-	-	-	-	0%	7,931,891	5,948,918
2044	-	-	-	-	-	-	0%	7,931,891	5,948,918
Total:	3,000,000	2,000,000	-	5,000,000	2,700,000				
Call Date:	TBD	TBD	TBD		*See separate				
Status:	Preliminary	Preliminary	Future		tab for break-				
Original Par:	3,000,000	2,000,000	-		down and				
Dated Date:	6/1/2024	6/1/2026	TBD		details.*				

*Self-imposed debt limit of 75% utilization of debt limit defined in Iowa Code.

Sample Analysis



Principal & Interest							2.50%	
Fiscal				P&I	Less	Net	Taxable	Debt Service
Year	Series 2025	Series 2025	FUTURE	Total	Abatements	P&I	Valuation	Levy
2024	-	-	-	-	-	-	74,639,030	0.00000
2025	-	-	-	-	-	-	76,381,050	0.00000
2026	283,000	192,000	-	475,000	(200,000)	275,000	78,290,576	3.51256
2027	286,440	192,490	-	478,930	(200,000)	278,930	80,247,841	3.47586
2028	284,470	187,775	-	472,245	(200,000)	272,245	82,254,037	3.30981
2029	287,295	188,060	-	475,355	(200,000)	275,355	84,310,388	3.26597
2030	284,710	188,140	-	472,850	(200,000)	272,850	86,418,147	3.15732
2031	286,920	193,015	-	479,935	(200,000)	279,935	88,578,601	3.16030
2032	283,720	192,480	-	476,200	(200,000)	276,200	90,793,066	3.04208
2033	285,315	191,740	-	477,055	(200,000)	277,055	93,062,893	2.97707
2034	286,500	190,795	-	477,295	(200,000)	277,295	95,389,465	2.90698
2035	287,275	189,645	-	476,920	(200,000)	276,920	97,774,202	2.83224
2036	287,640	188,290	-	475,930	(100,000)	375,930	100,218,557	3.75110
2037	287,595	191,730	-	479,325	(100,000)	379,325	102,724,021	3.69266
2038	287,140	189,760	-	476,900	(100,000)	376,900	105,292,121	3.57957
2039	286,275	192,585	-	478,860	(100,000)	378,860	107,924,424	3.51042
2040	-	-	-	-	-	-	110,622,535	0.00000
2041	-	-	-	-	-	-	113,388,098	0.00000
2042	-	-	-	-	-	-	116,222,800	0.00000
2043	-	-	-	-	-	-	119,128,371	0.00000
2044	-	-	-	-	-	-	122,106,580	0.00000
Total:	4,004,295	2,668,505	-	6,672,800	(2,400,000)	4,272,800		
					<i>*See separate tab for break-down and details.*</i>			

Sample Analysis

LEVY HISTORY & PLANNING WORKSHEET

<i>Sample City, Iowa</i>						
Valuation as of:	Fiscal Year	Base Levies	Debt Service Levy	Total Levy	Total Levy %	Actual or Proposed
1/1/2019	FY 20-21	9.94293	5.33967	15.28260		<i>Actual</i>
1/1/2020	FY 21-22	9.94293	5.20858	15.15151	-0.86%	<i>Actual</i>
1/1/2021	FY 22-23	10.95219	3.40529	14.35748	-5.24%	<i>Actual</i>
1/1/2022	FY 23-24	12.79953	2.26289	15.06242	4.91%	<i>Actual</i>
1/1/2023	FY 24-25	14.01000	-	14.01000	-6.99%	<i>Proposed</i>
1/1/2024	FY 25-26	14.01000	3.51256	17.52256	25.07%	<i>Future</i>
1/1/2025	FY 26-27	14.01000	3.47586	17.48586	-0.21%	<i>Future</i>
1/1/2026	FY 27-28	14.01000	3.30981	17.31981	-0.95%	<i>Future</i>
1/1/2027	FY 28-29	14.01000	3.26597	17.27597	-0.25%	<i>Future</i>
1/1/2028	FY 29-30	14.01000	3.15732	17.16732	-0.63%	<i>Future</i>
1/1/2029	FY 31-32	14.01000	3.16030	17.17030	0.02%	<i>Future</i>
1/1/2030	FY 32-33	14.01000	3.04208	17.05208	-0.69%	<i>Future</i>

Sample Analysis



TIF/GENERAL FUND ANNUAL IMPACT ANALYSIS

Sample City, Iowa

Baseline Assumptions				TIF REVENUE GENERATION							GENERAL FUND IMPACT			
TIF Increment		General									General Fund	General	Missing	
Total Taxable	TIF	Fund	Total	TIF Taxable	TIF Levy	Annual TIF	LMI	LMI Set-	Remaining	General Fund	Fund Levy	Annual GF	General Fund	
Valuation	%	%	%	Valuation	Rate (est.)	Revenue	Rate	Aside	TIF Revenue	Valuation	Rate (est.)	Revenue	Revenue	
67,204,316	100.00%	0.00%	100.00%	67,204,316	35.37203	2,377,153	0.00%	0	2,377,153	0	8.77500	0	589,718	
67,204,316	90.00%	10.00%	100.00%	60,483,884	35.37203	2,139,438	0.00%	0	2,139,438	6,720,432	8.77500	58,972	530,746	
67,204,316	80.00%	20.00%	100.00%	53,763,453	35.37203	1,901,722	0.00%	0	1,901,722	13,440,863	8.77500	117,944	471,774	
67,204,316	70.00%	30.00%	100.00%	47,043,021	35.37203	1,664,007	0.00%	0	1,664,007	20,161,295	8.77500	176,915	412,803	
67,204,316	60.00%	40.00%	100.00%	40,322,590	35.37203	1,426,292	0.00%	0	1,426,292	26,881,726	8.77500	235,887	353,831	
67,204,316	50.00%	50.00%	100.00%	33,602,158	35.37203	1,188,577	0.00%	0	1,188,577	33,602,158	8.77500	294,859	294,859	
67,204,316	40.00%	60.00%	100.00%	26,881,726	35.37203	950,861	0.00%	0	950,861	40,322,590	8.77500	353,831	235,887	
67,204,316	30.00%	70.00%	100.00%	20,161,295	35.37203	713,146	0.00%	0	713,146	47,043,021	8.77500	412,803	176,915	
67,204,316	20.00%	80.00%	100.00%	13,440,863	35.37203	475,431	0.00%	0	475,431	53,763,453	8.77500	471,774	117,944	
67,204,316	10.00%	90.00%	100.00%	6,720,432	35.37203	237,715	0.00%	0	237,715	60,483,884	8.77500	530,746	58,972	
67,204,316	0.00%	100.00%	100.00%	0	35.37203	0	0.00%	0	0	67,204,316	8.77500	589,718	0	

*Included taxable valuation, TIF levy rate and General Fund levy rate from FY2025 budget and other publicly available documents.

Sample Analysis



CAPITAL IMPROVEMENT PLAN FUNDING MODEL

Sample City, Iowa																		
Capital Project	Today \$ Estimated Cost	Priority	Project Begin	Project Finish	Req. Vote?	Repayment Source											Balance	
						GO Bond	Revenue Bond	Donations / Grant \$	General Fund Cash	LOST Cash	H/M Tax Cash	RUT Cash	Water Cash	Sewer Cash	Storm Sewer Cash	TIF Cash		Golf Cash
Fire Station	3,250,000	1	2025	2026	N	3,000,000	-	-	250,000	-	-	-	-	-	-	-	-	-
Intersection	190,000	1	2025	2025	N	-	-	-	-	-	-	190,000	-	-	-	-	-	-
Dodge Durango Pursuit (Police) - outfitting	50,000	1	2025	2025	N	-	-	-	-	50,000	-	-	-	-	-	-	-	-
Cellular water meter update	250,000	2	2025	2029	N	-	-	-	-	-	-	-	250,000	-	-	-	-	-
Pool pumps and filters	61,000	2	2025	2027	N	-	-	-	-	61,000	-	-	-	-	-	-	-	-
Acoustic traffic camera	60,000	3	2025	2025	N	-	-	-	-	60,000	-	-	-	-	-	-	-	-
Fairway mower	70,000	3	2025	2025	N	-	-	-	-	-	-	-	-	-	-	-	-	70,000
AVCC	3,700,000	3	2025	2027	N	2,000,000	-	1,187,000	250,000	163,000	100,000	-	-	-	-	-	-	-
Park Trail	530,000	3	2025	2026	N	-	-	499,000	-	-	31,000	-	-	-	-	-	-	-
Golf course bathroom	45,000	4	2025	2025	N	-	-	5,000	-	-	-	-	-	-	-	-	-	40,000
Ambulance	300,000	1	2026	TBD	N	-	-	100,000	-	200,000	-	-	-	-	-	-	-	-
Side Streets	6,000,000	2	2026	Ongoing	N	-	-	-	400,000	3,030,000	-	865,000	-	935,000	770,000	-	-	-
Sewer Lift Station	45,000	2	2026	2026	N	-	-	-	-	-	-	-	-	45,000	-	-	-	-
Ballfield Flood Lights	70,000	2	2025	2026	N	-	-	-	-	-	70,000	-	-	-	-	-	-	-
Greens mower	50,000	3	2026	TBD	N	-	-	-	-	-	-	-	-	-	-	-	-	50,000
Street Sweeper	150,000	3	2026	TBD	N	-	-	-	-	-	-	150,000	-	-	-	-	-	-
City Hall Renovations	400,000	4	2026	TBD	N	-	-	-	-	400,000	-	-	-	-	-	-	-	-
Highway 59	788,333	1	2029	TBD	N	-	-	-	-	-	-	379,333	-	409,000	-	-	-	-
Copiers (City Hall & Library)	40,000	5	2030	TBD	N	-	-	-	-	40,000	-	-	-	-	-	-	-	-
Backhoe	75,000	5	2030	2030	N	-	-	-	75,000	-	-	-	-	-	-	-	-	-
Additional side streets (pending pavement study)		4	TBD	TBD	N	-	-	-	-	-	-	-	-	-	-	-	-	-
	16,124,333					5,000,000	0	1,791,000	975,000	4,004,000	201,000	1,584,333	250,000	1,389,000	770,000	0	160,000	0

Sample Analysis



LOCAL OPTION SALES TAX CASH FLOW

Sample City, Iowa													
	Assumed Growth	Budgeted Transfers Out		Capital Improvement Projects (est. in today's dollars)								Cash	
Fiscal	2.00%	to G.F.	to Golf	Pool	Durango Outfit	AVCC	Ambulance	City Hall	Copier (CH)	Copier (Lib.)	Acoustic Cam.	Side Streets	Balance
Year	Est. Revenue												
2024	308,000	-50,000	-40,000	-25,000									596,221
2025	314,160	-50,000	0	-12,000	-50,000						-60,000		738,381
2026	320,443	-50,000	0	-12,000		-163,000	-200,000					-200,000	433,824
2027	326,852	-50,000	0	-12,000				-400,000				-195,000	103,676
2028	333,389	-50,000	0									-220,000	167,065
2029	340,057	-50,000	0									-195,000	262,122
2030	346,858	-50,000	0						-20,000	-20,000		-245,000	273,980
2031	353,795	-50,000	0									-270,000	307,775
2032	360,871	-50,000	0									-295,000	323,646
2033	368,089	-50,000	0									-295,000	346,735
2034	375,450	-50,000	0									-295,000	377,185
2035	382,959	-50,000	0									-295,000	415,144
2036	390,618	-50,000	0									-295,000	460,763
2037	398,431	-50,000	0									-230,000	579,194
2038	406,399	-50,000	0										935,593
2039	414,527	-50,000	0										1,300,120
2040	422,818	-50,000	0										1,672,938
2041	431,274	-50,000	0										2,054,213

Sample Analysis



PRO FORMA OPERATING STATEMENT										
City of Iowa / Water Utility		PRELIMINARY - SUBJECT TO CHANGE								
A	C	D	E	F	G	H	I	J	K	L
		14.0%	-1.1%	30.5%	0.0%	14.0%	3.0%	3.0%		
	Audit	Audit	Audit	City	Estimates					
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027		
OPERATING REVENUES						14.00%	3.00%	3.00%		
Charges for Service	456,383	520,294	514,577	671,546	671,546	765,563	788,530	812,186		
Capital Project Surcharge	-	-	-	-	-	-	-	-		
Use of Money & Property	-	-	20	-	-	-	-	-		
Total Operating Revenues	456,383	520,294	514,596	671,546	671,546	765,563	788,530	812,186		
OPERATING EXPENDITURES					3.00%	3.00%	3.00%	3.00%		
Business Type Activities	271,870	359,107	468,549	589,252	606,930	625,138	643,892	663,209		
Total Operating Expenditures	271,870	359,107	468,549	589,252	606,930	625,138	643,892	663,209		
Net Revenues for Debt Service	184,513	161,187	46,047	82,294	64,616	140,425	144,638	148,977		
Debt Service										
Existing Debt Service	-	-	-	-	(127,300)	(127,480)	(127,620)	(126,720)		
Reserved for Future Debt	-	-	-	-	-	-	-	-		
Debt Service Coverage					0.51x	1.10x	1.13x	1.18x		
Cash Flow After Debt										
Meter Deposits	11,274	12,450	13,050	-	-	-	-	-		
Meter Deposit Refunds	(3,434)	(3,630)	(5,787)	-	-	-	-	-		
Transfers In/(Out)	(94,821)	(90,000)	503,223	-	-	-	-	-		
Sale of Assets	-	-	161,629	-	-	-	-	-		
Capital Projects	-	-	-	-	-	-	-	-		
Bond/Note/Grant Proceeds	-	-	-	-	-	-	-	-		
Total Non-Operating Items	(86,981)	(81,180)	672,114	-	-	-	-	-		
Annual Surplus / (Deficit)	97,532	80,007	718,162	82,294	(62,684)	12,945	17,018	22,257		
Beginning Cash	72,968	170,500	250,507	968,669	1,050,963	988,279	1,001,224	1,018,241		
Ending Cash	170,500	250,507	968,669	1,050,963	988,279	1,001,224	1,018,241	1,040,498		
Cash as % of OpEx	63%	70%	207%	178%	163%	160%	158%	157%		
Monthly Billing Estimates Summary										
Connections (Residential)				895	895	895	895	895		
Base Rate - up to 1,000 Gallons				38.82	38.82	44.25	45.58	46.95		
1,001 to 10,000				8.83	8.83	10.07	10.37	10.68		
10,001 and up				7.74	7.74	8.82	9.09	9.36		
Capital Project Surcharge				0.00	0.00	0.00	0.00	0.00		
Average Monthly Bill (assumes 3,200 gallon usage)				58.25	58.25	66.40	68.39	70.44		

Best Practices and Conclusion

Evaluate both options on a project-by-project basis, but realistically consider the math. Tax-exempt interest rates are powerful vs. inflation expectations.

PAYGO and Debt both have their place and best use cases.

Debt doesn't necessarily mean your city is being irresponsible or “swiping the credit card” to live beyond your means. It can be a tool used to maximize resources.

Research: Grants (CDBG, USDA, etc.) and loan forgiveness (SRF). Free money is the cheapest funding available!

Consider: Can a longer-term approach mean overall lower cost for citizens? Seek individualized solutions for your city!

Involve: Professionals (bond attorneys, underwriters and municipal advisors) early in the process.

Disclosure



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