

Financing Options for Local Government

Indiana Bond Bank

The primary mission of the Indiana Bond Bank is to assist local government or qualified entities with the process of issuing debt

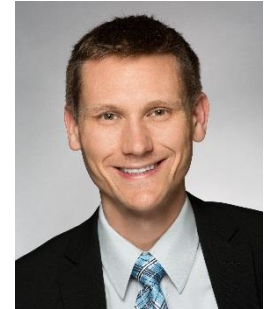
Indiana Bond Bank Highlights

General Information

- Created by the General Assembly in 1984 (I.C. 5-1.5)
- Self-supporting quasi-governmental entity
- Seven member board governs the Bond Bank
- The State Treasurer statutorily serves as the Chair of the Board
- The Director of the Indiana Finance Authority statutorily serves as a board member
- The Governor appoints five members

Indiana Bond Bank Team

- **Mark Wuellner**, Executive Director
- **Ron Mangus**, Director of Operations
- **Aaron Barnett**, Compliance Officer
- **Matt Zimmerman**, Program & Marketing Director



Who is able to use the IBB & why?

We Serve

Public School Corporations

Cities

Towns

Counties

Public Libraries

Townships

County Hospitals

Redevelopment Districts

Special Taxing Districts

Public Universities

Not-For-Profit Water Organizations

Other Taxing Authorities

Why use the IBB...

Economies of scale

All inclusive rates

Exemption to bid financing

Known commodity

Expertise of staff & professionals

See I.C. 5-1.5-1-8 for entire "qualified entity" list defined.

Essential Equipment

Equipment Leased



HELP Program

Assists local government with essential equipment lease financing

- Lease-purchase of essential equipment
- Bond Bank exempts entity from bidding the financing (I.C. 5-1.5-8-3c)



Overview

- Since 1991
- Assisted over 220 communities
- Over \$254 million in equipment
- Nine program underwriters: Centier Bank, Crossroads Bank, Huntington Bank, J.P Morgan Chase Bank, Key Bank, PNC Bank, Regions Bank, US Bank, Wayne Bank

IBB's HELP Program

Advantages

- Eliminates need to bid financing (*I.C. 5-1.5-8-3c*)
- Competitive interest rates
- IBB assistance throughout financing process
- User friendly program
- One page application (submitted at any time)
- Lease assigned to local bank
- Title passes to entity at the conclusion of lease

HELP Activity

Fiscal Year *	# of Leases	Amount
2010	16	\$8,023,270
2011	14	\$5,479,923
2012	10	\$3,438,510
2013	13	\$2,923,250
2014	17	\$7,849,069
2015	21	\$8,500,825
2016	21	\$9,710,536
2017	31	\$24,449,397
2018 (partial)	21	\$4,784,524

* Fiscal Year - July -June

Frequently Asked Questions

Q: What is the Hoosier Equipment Lease Purchase (HELP) Program?

A: The HELP Program is a lease financing option available to assist government entities with purchasing essential equipment.

Q: What are the advantages of the HELP Program?

A: The HELP Program offers many advantages, including competitive interest rates, eliminates the need to bid the financing (IC 5-1.5-8-3(c)), a streamlined one-page application and flexible repayment schedules.

Q: Is there a minimum or maximum amount?

A: No. For leases under \$25,000 please contact the IBB directly. Leases over \$2,000,000 will require IBB Board of Directors approval prior to closing.

Q: What kind of equipment can be financed through the HELP Program?

A: The Indiana Bond Bank (IBB) is able to finance essential equipment for an entity, such as police cars, fire trucks, snow plows, dump trucks, computer equipment, and many other essential items. The IBB has declined to fund certain non-essential items, such as statues and waterslides. Additionally, the IBB is not able to finance permanent fixtures, including air conditioning and heating units. If you have any questions about whether your equipment can be financed through HELP, please contact the IBB.

Q: When does the IBB accept applications?

A: Applications can be submitted at any time.

Community Funding Resource

- Idea developed out of the Treasurer of State/Indiana Bond Bank Roundtable Discussion
- Senate Enrolled Act 306
- Essential new money projects
- Term not to exceed 10 years
- Funds available each quarter
- Provides a new alternative for infrastructure financing

Community Funding Resource Types

- **General Obligation (G.O.)**
 - Property Taxes
- **Revenue Bonds**
 - Water, Wastewater and Storm water Utilities
 - Income Tax
 - Other Revenue Streams
- *Applications are now available...*



Frequently Asked Questions

Q: What is the purpose of the Community Funding Resource (CFR)?

A: The CFR program provides local governmental units with an alternative financing tool for infrastructure and other related projects. The CFR is for cities, towns, school corporations, townships, libraries, counties and other local governmental units.

Q: Is the Bond Bank's CFR a grant or loan?

A: The CFR is a loan that is paid back in full plus interest through a third party trustee.

Q: What can be the source of repayment for the CFR?

A: Entities can borrow against, property taxes, utility revenues, income taxes, TIF and other revenue sources. Please contact your Municipal Advisor to structure the financing that works best for your entity.

Q: When are funds available for the program?

A: The Bond Bank intends to issue bonds quarterly through the CFR program. Please contact Matt Zimmerman for a timeline of when applications are due and when funding is available.

Q: What is the maximum financing term for CFR?

A: The Bond Bank can finance your project for ten years or less through CFR. If you need financing for over ten years, please contact Matt Zimmerman regarding other Bond Bank programs.

Q: Is there a limit to the amount you can borrow?

A: No, but loans over \$2 million require additional approval by the Bond Bank's Board of Directors

Indiana Bond Bank Special Program Bonds

Long-term debt program to finance sewer, water, storm water, community and other infrastructure projects

Special Program Bonds Funding

- General Obligation (GO) from property taxes to fund debt service
- Revenue from utility user fees
- Tax Increment Financing (TIF)
- Income Taxes

Advantages

- Bond Bank assists you through the process
- Pooling of projects provides economies of scales for borrowers
 - Share in borrowing costs
 - Boilerplate documents
 - IBB assists entity through process
- **Bond Bank assist you with post issuance compliance including continuing disclosure**

Potential Disadvantages

- Timing of putting together a pool

Fuel Budgeting Program (Costless Collar)

Purchase fuel from current supplier

2018 Administration fee \$0.032 per gallon

Entities can hedge up to 80% of estimated fuel consumption

Level of protection set each year

Process for the Fuel Budgeting Program

Credit Application (Sept.)

Entity determines level of Protection

Protection Set (Dec.)

Fuel Budgeting Collars for 2018

\$1.6610

Diesel collar

\$2.3700

\$1.6600

Gasoline collar

\$2.2300

Fuel Budgeting Program

- Budgeting tool to guard against rising fuel prices (budget insurance)
- Allows smaller entities to pool their fuel budgeting needs to create an effective hedge size (42,000 gallons)
- Share program costs for cost efficiency
- Experience of IBB Staff/Professionals
- Indiana Bond Bank (IBB) Posts Collateral for the Costless Collar



2018 Fuel Budgeting Program (Costless Collar)

- 6 Participants
 - 4 School Corporations
 - 2 Cities
- Gasoline (RBOB)
 - Collar
 - \$1.660 - \$2.230
- Diesel (ULSD)
 - Collar
 - \$1.661 - \$2.370
- Administrative Fee
 - 2018 program fee
 - 3.2 cents per gallon.
 - Entities will be notified of the fee in early December



Fuel Budgeting – Cap Only

- **Cap Only**
 - New York Mercantile Exchange (NYMEX) fuel pricing
- **Administrative Fee**
 - 2017 Program Fee
 - 1.5 cents per gallon
 - Entities will be notified of the fee in early December
- **1 Participants**
 - Indiana Department of Transportation
- **Gasoline (RBOB)**
 - 2017 Cap
 - \$1.50
- **Diesel (ULSD)**
 - 2017 Cap
 - \$1.50 - \$1.55

Fuel Budgeting Advantages

Advantages

- Protect fuel budget against rising cost and industry uncertainty
- Program acts as insurance for your budget
- QE purchases fuel from their own provider
- Bond Bank provides the collateral to participate in this program

Frequently Asked Questions

Q: If I participate in the Indiana Bond Bank's (IBB) Fuel Budgeting Program (the "Fuel Program"), where would I purchase my fuel?

A: There is no change to how Entities purchase fuel. The Fuel Program is a financial instrument only. Entities may purchase and pay for fuel from any vendor.

Q: What are the advantages of using IBB's Fuel Program?

A: The Fuel Program acts like insurance for your fuel budget. It is designed to protect your budget from rising fuel prices, and provides flexibility in setting this protection. Additionally, the IBB is transparent in the costs of its program. Other fuel providers (i.e. jobbers) may charge hidden costs when they fix fuel prices.

Q: When are applications available?

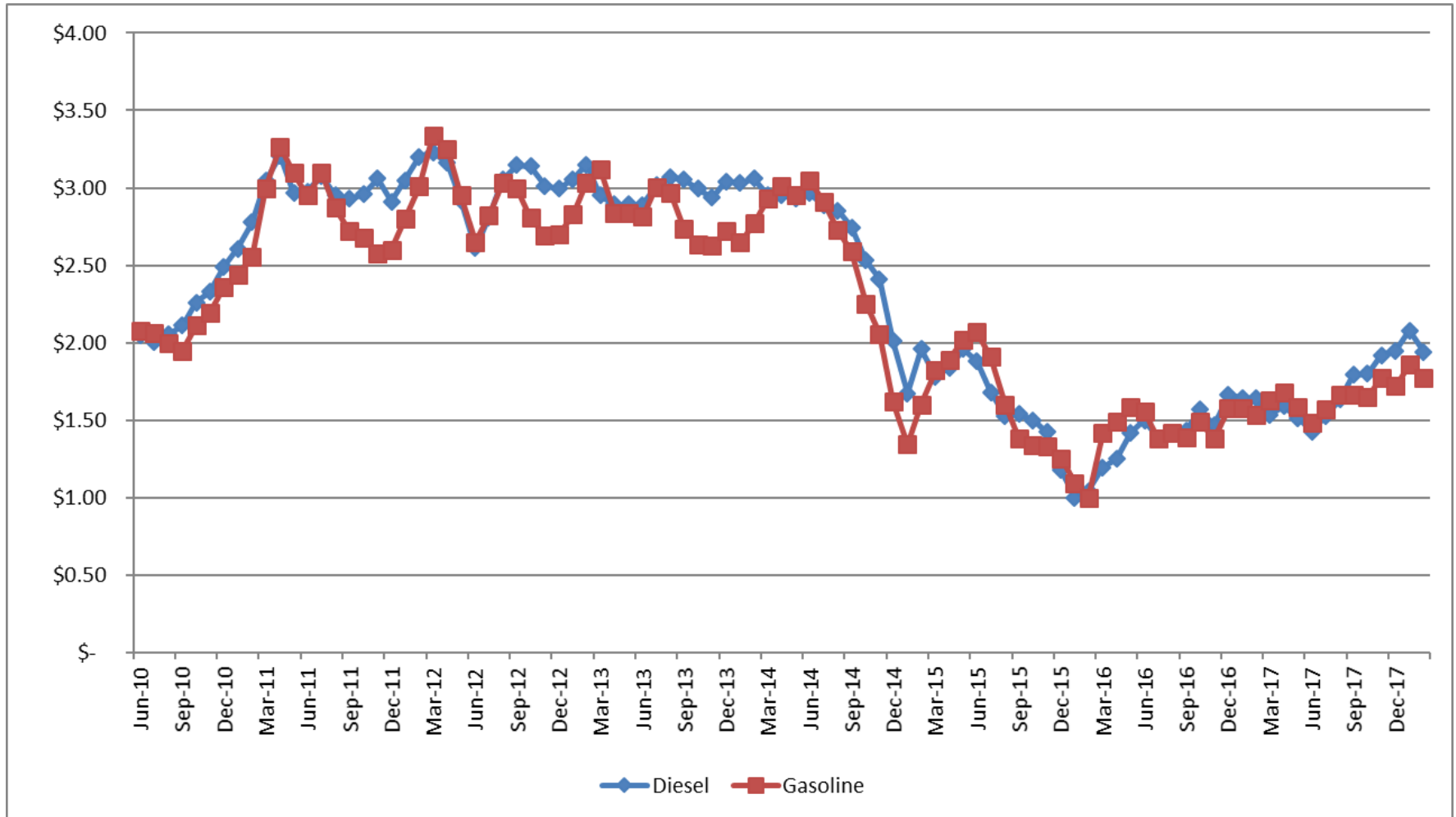
A: This is an annual program. Applications are typically made available in early September and are due back by late October.

Q: Can I participate in the Fuel Program if I fix my price with my vendor?

A: If you fix 100% of your fuel price for the entire year, you cannot participate in the Fuel Program. However, you can participate if you bid and set the price each month, or have a portion of your volume that is not fixed with your vendor.

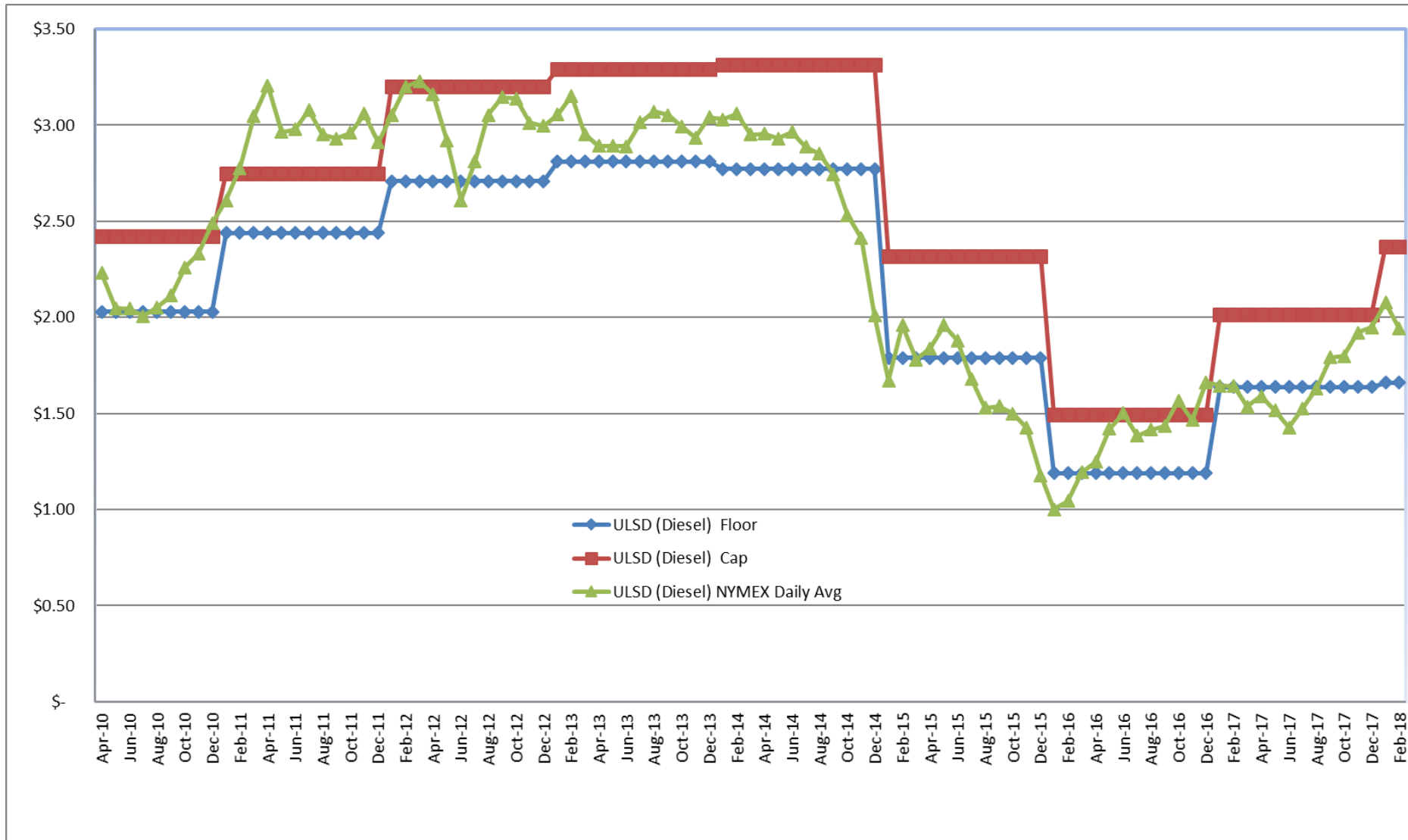
Gasoline v. Diesel (based up on NYMEX)

- NYMEX price for Diesel and Gasoline (pump price approximately \$0.50 higher)
- Difficult to predict or budget for fuel costs



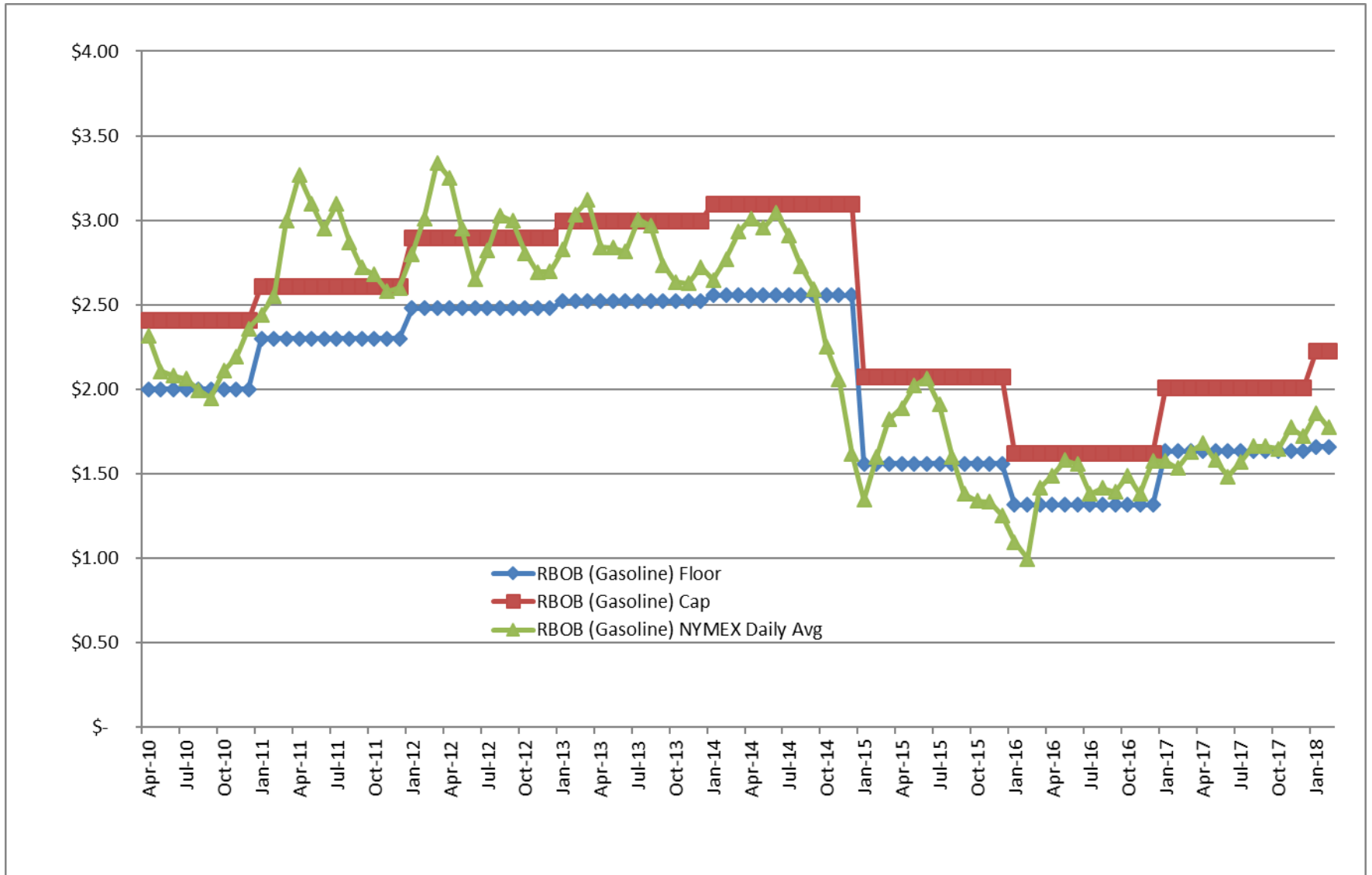
Please note: past results have no indication on future outcomes

Diesel Collar Graph



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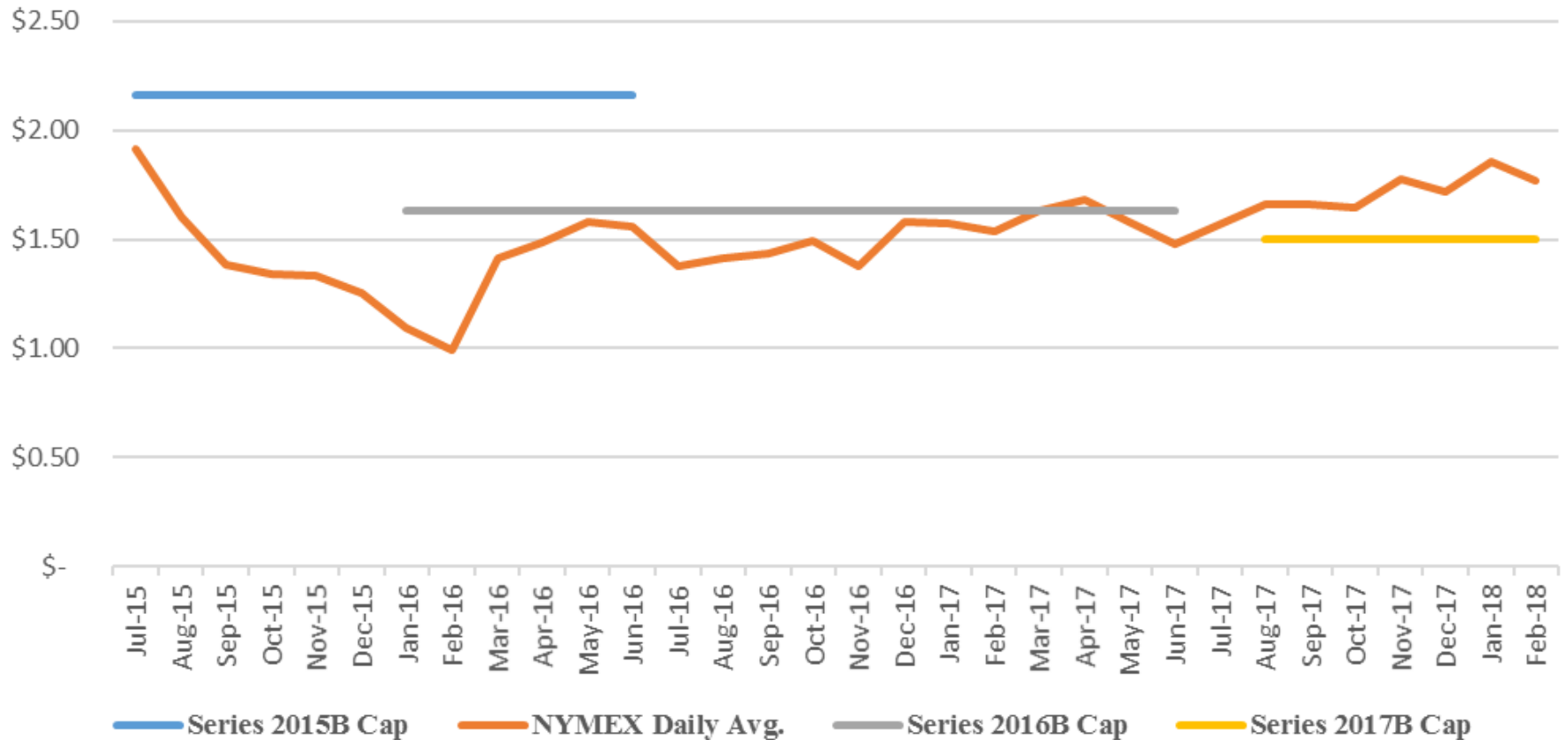
Gasoline Collar Graph



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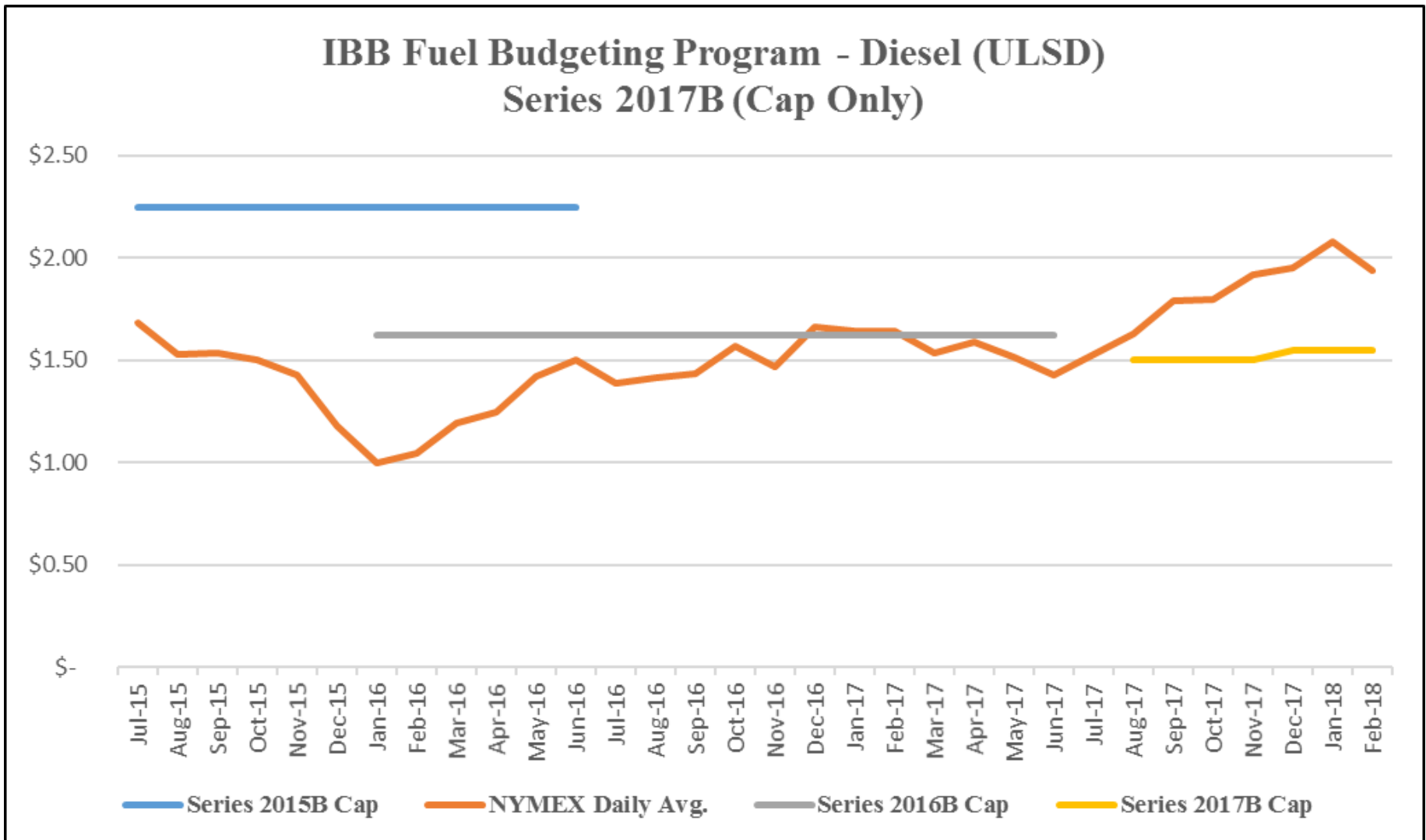
Gasoline Cap Only Graph

IBB Fuel Budgeting Program - Gasoline (RBOB)
Series 2017B (Cap Only)



Please note: past results have no indication on future outcomes

Diesel Cap Only Graph



Please note: past results have no indication on future outcomes

Opportunities for the IBB to assist local government

Not-for-Profit
Water

Cash Flow
Financing -
Advance Funding

Essential Equipment
Financing -
HELP

Community
Funding Resource

Assist Local Government
-
*Debt Issuance &
Protection*

USDA-RD
*Financing for
Construction Period*
**Interim Loan
Program**

Special Program
Bonds
Long Term Debt

Common School
Fund

Fuel Budget
Protection -
Fuel Budgeting

IBB Contact Information

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INDOT Fuel Hedging Program

➤ INDOT Fuel Budget:

- INDOT consumes, on an annual basis, approximately;
 - 1,250,000 gallons of gasoline
 - 2,600,000 gallons of diesel
 - Annual fuel cost averages about \$7M to \$8M
- Consumption can vary greatly depending on severity of winters.

➤ Purpose:

- Global events affect Indiana prices.
- Insulates our fuel budget from major unexpected market price increases
- An “Insurance Policy”

➤ Not a Purpose:

- Using the program as a speculative revenue generator



Market (Budget) Disruptors

- Abrupt changes in domestic supply/demand
- Changes in environmental policies
- Financial markets
- Global economic upheavals
- Geo-political unrest: terminal/pipeline/oil field destructions
- OPEC volume/price manipulation
- Non-OPEC member actions



The INDOT Program

- INDOT only uses the Cap (Call) Program
 - ULSD (or HO) and RBOB (gasoline) @ N.Y. Harbor
- Typical hedge volumes:
 - 25%-30% of annual gasoline consumption
 - 50%-60% of annual diesel consumption
- Target total cost of hedge to around 2.5% of annual fuel budget
- Three levels of approval:
 - Sr. Director of Finance; Chief Financial Officer; Commissioner
- Began using the IBB Program in Fiscal Year 2016
 - FY 2016 Hedge Cost, 2.2% of Fuel Budget. Payout: Zero
 - FY 2017 Hedge Cost, 2.4% of fuel budget. Payout: \$22,500 (~10% of hedge cost)
 - FY 2018 Hedge Cost, 2.4% of fuel budget. Payout (year-to-date): > total hedge cost
 - *Curb unrealistic expectations of future performance. Remember, hedging is Insurance, not speculative revenue.*
- Hedge costs charged to fuel accounts
- Proceeds credited to fuel accounts

The INDOT Experience

- Fuel hedging is a valuable program for operational cost containment
 - Protection from the unexpected
- Currently planning our orders for FY 2019
 - Anticipate larger diesel volumes than in past series.
- Promote the purpose and manage expectations
 - Continually focus on the insurance aspect of fuel hedges
- Set parameters and policy
 - Establish limits for amount of budget to be allocated for hedge program cost
 - Establish a check & balance approval process
 - Provide monthly reporting
- The IBB Team is the key to success
 - INDOT cannot, by itself, enter into hedging contracts
 - Need IBB as the approved conduit to conduct such business
 - Provides all the “back-office” support
 - Valuable, knowledgeable, and trusted partner



Sources of Information

- **Indiana Bond Bank**
- **Futuresource Interactive Data** (NYMEX contract prices, volume, options)
 - <http://ifs.futuresource.com/quotes/quotes.jsp?CID=FS&iFSQgroup=energy>
- **CME Group** (Futures Market Data; crude, refined products)
 - <http://www.cmegroup.com/market-data/delayed-quotes/energy.html>
- **EIA (Energy Information Administration)**
 - NYMEX futures prices historical data https://www.eia.gov/dnav/pet/pet_pri_fut_s1_m.htm
 - Petroleum Spot Prices https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm
 - Analysis & Projections <https://www.eia.gov/petroleum/>
- **International Energy Administration** (Global energy insight)
 - <https://www.iea.org/>
- **Baker Hughes North American Rig Count** (Drilling activity - leading indicator)
 - <http://phx.corporate-ir.net/phoenix.zhtml?c=79687&p=irol-reportsother>
- **North American Cooperation on Energy Information** (Cross-border energy relationships)
 - <http://nacei.org/#!/overview>