



Kennett Township

Introduction to PFM & Financing Options

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Agenda

BRIEF INTRODUCTION TO PFM

- ◆ What is a Financial Advisor?
- ◆ Who is PFM?
- ◆ How can PFM help Kennett Township?

KENNETT TOWNSHIP FINANCING OPTIONS

- ◆ Existing Note overview
- ◆ Refunding & new money structuring options

TIMELINE & FINAL THOUGHTS

- ◆ Estimated timeline
- ◆ Approval of PFM as Financial Advisor

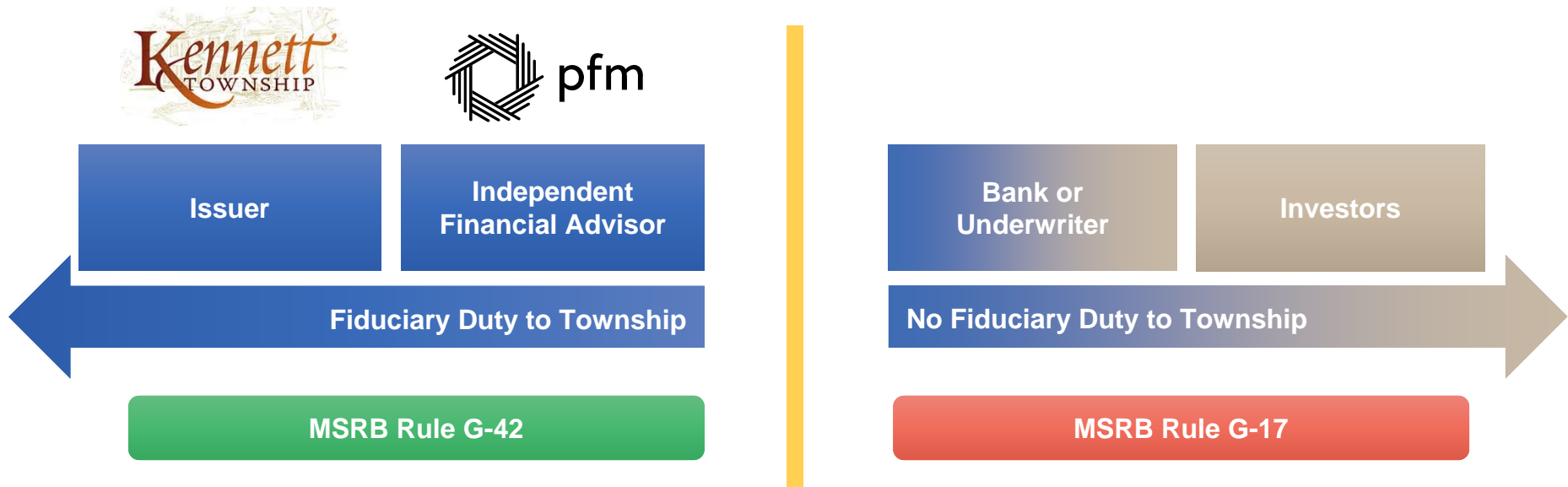


Brief introduction to PFM



Role of an Independent Financial Advisor

- 1) The role of an Independent Financial Advisor is simple – to **represent the best financial interests** of the Township with respect to the planning, structuring and execution of any debt issuance
- 2) Independent Financial Advisors and Banks/Underwriters are **not mutually exclusive** (one or the other); in-fact they are complementary to each other





Benefits of an Independent Financial Advisor

Quantitative Benefits

- ◆ **Ensuring the Township's interest rates on its debt are fair based on current market conditions and comparable transactions**
- ◆ Advanced planning, structuring and modeling abilities to make sure the financing plan is the most efficient based on available alternatives
- ◆ Negotiations with the Underwriter/Bank regarding compensation/fee/rate to ensure it's fair
- ◆ Advice related to timing of execution based on changing and volatile market conditions

Qualitative Benefits

- ◆ **Peace of mind from Board and public stakeholders that the Township's best interests are being represented**
- ◆ Ability to feel confident that all potential financing structures and plans have been explored and vetted
- ◆ Ability to rely and point to a third party with respect to certain recommendations or advice on debt structure and issuance
- ◆ Less burden on Township administrative team with PFM support of certain parts of the financing process
- ◆ Ongoing support related to continuing disclosure, credit rating surveillance, and other tasks (if necessary)
- ◆ Ability to draw on PFM's deep experience with PA local governments to utilize financing methods/ideas that have been successful elsewhere



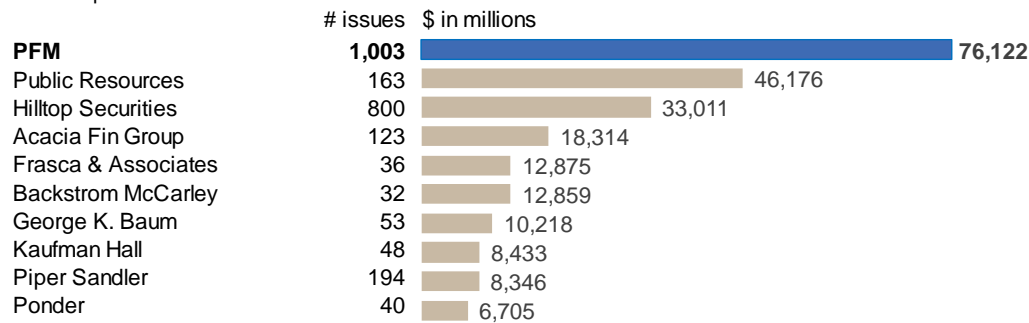
Leveraging National and Local Experience

1) PFM is the largest financial advisor in the country and in Pennsylvania

2019 Full Year Overall Long Term Municipal New Issues

Municipal Financial Advisory Ranking - Full Credit to Each Financial Advisor

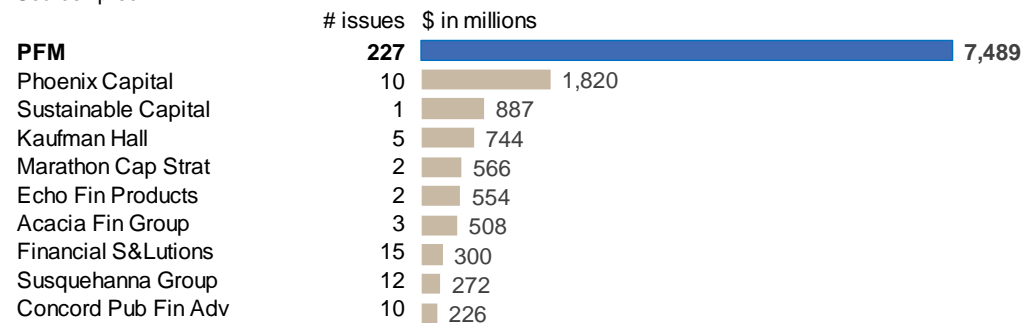
Source: Ipreo



2019 Full Year Pennsylvania Long Term Municipal New Issues

Municipal Financial Advisory Ranking - Full Credit to Each Financial Advisor

Source: Ipreo



Source: Ipreo rankings as of 12/31/2019

2) Several Chester County municipalities utilize PFM as Financial Advisor

School Districts

- 1) Kennett Consolidated School District
- 2) Avon Grove School District
- 3) Downingtown Area School District
- 4) Owen J Roberts School District
- 5) Oxford Area School District
- 6) Phoenixville Area School District
- 7) Tredyffrin/Easttown School District
- 8) Unionville-Chadds Ford School District
- 9) West Chester Area School District

Local Governments

- 10) County of Chester
- 11) East Goshen Township
- 12) Honey Brook Township
- 13) North Coventry Township
- 14) Thornbury Township
- 15) West Brandywine Township
- 16) West Whiteland Township
- 17) Atglen Borough
- 18) City of Coatesville

Other Notable PA Clients

- 1) Commonwealth of Pennsylvania
- 2) Bucks County
- 3) Montgomery County
- 4) City of Philadelphia
- 5) SEPTA
- 6) Pennsylvania Turnpike Commission
- 7) Penn State University
- 8) Pittsburgh School District
- 9) City of Bethlehem
- 10) PHEAA



How Can PFM Help Kennett Township?

- 1) **Analysis** and structuring options for any new issuance (see pages 11-12)
- 2) **Coordination** and **execution** of entire bank loan RFP process (if necessary):
 - a) Creation and distribution of RFP to an established list of local, regional and national banks
 - b) Summary analysis of responses received, including a True Interest Cost calculation to provide “apples to apples” comparison of all options & structures proposed (fixed, fixed & variable, etc.)
 - c) Vetting of all proposals for any hidden charges and/or loan requirements
 - d) Creation of necessary financing schedules, amounts, calculations, etc. required by Bond Counsel
 - e) Coordination of settlement & refunding payoff requirements
- 3) **Leveraging PFM’s presence** in bank loan market to ensure fair market interest rates and Township friendly terms & conditions
- 4) **Ongoing financial advice** & consultation for Township Administration post issuance and beyond



Kennett Township Financing Options



Existing 2018 Note Overview

- 1) Current principal outstanding of **\$2,829,309**
 - a) Originally \$5,000,000 maximum amount when issued on July 24, 2018
 - b) Approximately \$3,129,000 was drawn before December 1, 2019
 - c) \$300,000 was prepaid on October 17, 2019
- 2) Fixed rate of **4.24%** through July 25, 2025
 - a) Variable rate at 80% of 1 Month LIBOR + 2.25%
- 3) Semi-annual debt service payments of **\$355,000** through June 1, 2025
- 4) Loan Modification Agreement changed 2020 payment from June 1 to **September 1**
- 5) **Prepayable at any time** with no penalty

Estimated Annual Debt Service

	1	2	3	4
Year	Estimated Principal	Estimated Interest	Estimated Debt Service	
2020	590,872.91	119,127.09	710,000.00	
2021	620,398.69	89,601.31	710,000.00	
2022	647,352.77	62,647.23	710,000.00	
2023	675,477.90	34,522.10	710,000.00	
2024	295,206.89	6,362.04	301,568.92	
2025				
2026				
2027				
2028				
TOTALS	2,829,309.15	312,259.77	3,141,568.92	

Source: 2018 Note provided by Township as well as most recent Fulton Bank loan statement for outstanding balance. Actual amortization and amounts may differ based on actual payment dates as well as interest day count considerations.



Financing & Structuring Options

- 1) Based on initial discussions, the Township's "wish list" of potential financings
 - a) \$5 million to \$6 million total issuance, inclusive of \$2.9 million refunding
 - b) Draw period for up to 24 months
 - c) Fixed rate if possible
 - d) Maturity length of 15 to 20 years
- 2) Based on the above, PFM has created several financing options for the Township's consideration
- 3) **PFM will need guidance on the desired maturity length and principal amount today in order to meet expected financing timeline**

	1 OPTION 1			2 OPTION 2			3 OPTION 3		
	Refunding	New Money	Total	Refunding	New Money	Total	Refunding	New Money	Total
Principal	\$2,955,000	\$2,045,000	\$5,000,000	\$2,955,000	\$2,045,000	\$5,000,000	\$2,955,000	\$2,045,000	\$5,000,000
Timing	August 2020			August 2020			August 2020		
Term	10 years			15 years			20 years		
Assumed All-in Rate	3.00% (conservative)			3.50% (conservative)			4.00% (conservative)		
Total Interest ^[1]	\$359,694	\$546,890	\$906,583	\$623,693	\$947,438	\$1,571,131	\$983,392	\$1,448,386	\$2,431,778
+/- Annual Debt Service	\$590,658			\$438,075			\$371,589		

4 Fiscal Year Ending	5 Existing Debt Service ^[2]	6 Estimated Refunding Debt Service ^[1]	7 Estimated New Money Debt Service ^[1]	8 Total Overall Debt Service ^[1]	9 Estimated Refunding Debt Service ^[1]	10 Estimated New Money Debt Service ^[1]	11 Total Overall Debt Service ^[1]	12 Estimated Refunding Debt Service ^[1]	13 Estimated New Money Debt Service ^[1]	14 Total Overall Debt Service ^[1]
12/31/2020	710,000									
12/31/2021	710,000	512,044	77,540	589,583	345,718	90,463	436,181	269,392	103,386	372,778
12/31/2022	710,000	531,650	61,350	593,000	365,900	71,575	437,475	288,400	81,800	370,200
12/31/2023	710,000	528,000	61,350	589,350	366,450	71,575	438,025	291,400	81,800	373,200
12/31/2024	301,569	529,050	61,350	590,400	366,650	71,575	438,225	289,000	81,800	370,800
12/31/2025		529,650	61,350	591,000	366,500	71,575	438,075	291,400	81,800	373,200
12/31/2026		529,800	61,350	591,150	366,000	71,575	437,575	288,400	81,800	370,200
12/31/2027		154,500	436,350	590,850	365,150	71,575	436,725	290,200	81,800	372,000
12/31/2028			590,100	590,100	368,950	71,575	440,525	291,600	81,800	373,400
12/31/2029			588,900	588,900	367,225	71,575	438,800	292,600	81,800	374,400
12/31/2030			592,250	592,250	300,150	136,575	436,725	288,200	81,800	370,000
12/31/2031						439,300	439,300	288,600	81,800	370,400
12/31/2032						436,350	436,350	288,600	81,800	370,400
12/31/2033						438,050	438,050	288,200	81,800	370,000
12/31/2034						439,225	439,225	192,400	176,800	369,200
12/31/2035						439,875	439,875		373,000	373,000
12/31/2036									371,200	371,200
12/31/2037									374,000	374,000
12/31/2038									371,200	371,200
12/31/2039									373,000	373,000
12/31/2040									369,200	369,200
TOTAL	3,141,569	3,314,694	2,591,890	5,906,583	3,578,693	2,992,438	6,571,131	3,938,392	3,493,386	7,431,778

Notes

^[1] For these purposes, assumes a conservative estimate of current interest rates assuming a fixed rate bank loan for the life of the loan. Actual rates subject to change based on results of RFP process lead by PFM. Does not assume any benefit of any potential 18-24 month draw-down feature that may be available for the new money portion.

^[2] For these purposes, assumes the existing Note outstanding amount of \$2,829,309 is amortized in \$350,000 semi-annual debt service payments until fully amortized (per Note)

	1 OPTION 1			2 OPTION 2			3 OPTION 3		
	Refunding	New Money	Total	Refunding	New Money	Total	Refunding	New Money	Total
Principal	\$2,950,000	\$3,050,000	\$6,000,000	\$2,950,000	\$3,050,000	\$6,000,000	\$2,950,000	\$3,050,000	\$6,000,000
Timing	August 2020			August 2020			August 2020		
Term	10 years			15 years			20 years		
Assumed All-in Rate	3.00% (conservative)			3.50% (conservative)			4.00% (conservative)		
Total Interest ^[1]	\$314,204	\$773,546	\$1,087,750	\$542,272	\$1,342,245	\$1,884,517	\$854,939	\$2,059,994	\$2,914,933
+/- Annual Debt Service	\$708,775			\$525,634			\$445,747		

4	5	6	7	8	9	10	11	12	13	14
Fiscal Year Ending	Existing Debt Service ^[2]	Estimated Refunding Debt Service ^[1]	Estimated New Money Debt Service ^[1]	Total Overall Debt Service ^[1]	Estimated Refunding Debt Service ^[1]	Estimated New Money Debt Service ^[1]	Total Overall Debt Service ^[1]	Estimated Refunding Debt Service ^[1]	Estimated New Money Debt Service ^[1]	Total Overall Debt Service ^[1]
12/31/2020	710,000									
12/31/2021	710,000	591,854	115,646	707,500	390,497	134,920	525,417	299,139	154,194	453,333
12/31/2022	710,000	619,100	91,500	710,600	419,150	106,750	525,900	322,000	122,000	444,000
12/31/2023	710,000	617,750	91,500	709,250	417,775	106,750	524,525	323,600	122,000	445,600
12/31/2024	301,569	615,950	91,500	707,450	421,050	106,750	527,800	324,800	122,000	446,800
12/31/2025		618,700	91,500	710,200	418,800	106,750	525,550	325,600	122,000	447,600
12/31/2026		200,850	506,500	707,350	416,200	106,750	522,950	326,000	122,000	448,000
12/31/2027			709,050	709,050	418,250	106,750	525,000	321,000	122,000	443,000
12/31/2028			710,150	710,150	419,775	106,750	526,525	320,800	122,000	442,800
12/31/2029			710,650	710,650	170,775	356,750	527,525	325,200	122,000	447,200
12/31/2030			705,550	705,550		523,000	523,000	324,000	122,000	446,000
12/31/2031						523,125	523,125	322,400	122,000	444,400
12/31/2032						527,725	527,725	270,400	177,000	447,400
12/31/2033						526,625	526,625		444,800	444,800
12/31/2034						525,000	525,000		446,800	446,800
12/31/2035						527,850	527,850		443,200	443,200
12/31/2036									444,200	444,200
12/31/2037									444,600	444,600
12/31/2038									444,400	444,400
12/31/2039									443,600	443,600
12/31/2040									447,200	447,200
TOTAL	3,141,569	3,264,204	3,823,546	7,087,750	3,492,272	4,392,245	7,884,517	3,804,939	5,109,994	8,914,933

Notes
^[1] For these purposes, assumes a conservative estimate of current interest rates assuming a fixed rate bank loan for the life of the loan. Actual rates subject to change based on results of RFP process lead by PFM. Does not assume any benefit of any potential 18-24 month draw-down feature that may be available for the new money portion.
^[2] For these purposes, assumes the existing Note outstanding amount of \$2,829,309 is amortized in \$350,000 semi-annual debt service payments until fully amortized (per Note)



Structuring Considerations

- 1) Shorter amortizations (10 & 15 years) will generally be more attractive for banks, but come with higher annual debt service
- 2) Longer amortizations (20 years) may have a fixed rate for a period of time (7-10 years) and reset to a variable rate with a max rate ceiling
- 3) Annual affordability of debt service as it relates to current/expected volatility in Township's Earned Income Taxes collections

10-15 Year Maturity Considerations

- ✓ More likely to get a fixed rate for full term & responsiveness to RFP from banks
- ✓ Higher annual debt service requirements
- ✓ Less overall interest expense
- ✓ Pays off debt most rapidly

20 Year Maturity Considerations

- ✓ Small percentage of banks may pass because amortization is too long
- ✓ Fixed rate likely for only a period of time and subject to rate reset (with a maximum cap)
- ✓ Lower annual debt service requirements
- ✓ Higher overall interest expense
- ✓ More refunding optionality in the future



Estimated Timeline & Final Thoughts



Timeline Overview

- 1) With the Loan Modification Agreement, the Township's next payment on the existing Note is scheduled for September 1, 2020.
- 2) Feedback from banks recently has been that at least 3 weeks is preferred to review RFPs due to being overwhelmed by CARES Act loans
- 3) A special meeting **may** be required during the week of July 20th to review/approve a bank loan purchase proposal from RFP process
- 4) Bond Counsel typically requires 30-40 days from Board approval to settlement to allow for DCED approval
- 5) Based on these specifics, an estimated timeline is shown on the next page

KENNETT TOWNSHIP
Estimated Timeline
Series of 2020 Bank Loan

June 2020						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

July 2020						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

August 2020						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23/30	24/31	25	26	27	28	29

Timing	Event
July 1st (Board Meeting)	<i>Introduction to PFM</i> <i>Select financing option</i> <i>Authorization to proceed</i>
By July 2nd	<i>PFM distributes bank loan RFP</i>
July 15th (Board Meeting)	<i>Update to Board (if necessary)</i>
July 21st (Estimated)	<i>Bank loan responses due</i>
July 27th (Estimated) (Special Board Meeting)	<i>Accept winning bank loan proposal</i> <i>Board enacts Debt Ordinance prepared by Bond Counsel</i>
Week of August 3rd (or sooner)	<i>Bond Counsel submits debt proceedings to DCED</i>
August 31st (Estimated)	<i>Settlement of 2020 Note</i>



Final Thoughts

- 1) Given the unique and special circumstances facing the Township, PFM has agreed to reduce its fee to **\$17,500** to serve as Financial Advisor for the issuance of the 2020 Note.
- 2) The Township should be using an Independent Financial Advisor to ensure its financial interests are being represented
- 3) An independent third party like PFM can provide comfort to internal and external stakeholders
- 4) PFM's expertise and experience in the Pennsylvania local government space is unmatched compared to any other financial advisor or bank/underwriter
- 5) Engaging PFM as a Financial Advisor will help reduce workload & responsibilities of Township Administration for issuance of 2020 Note



Contact Information & Disclosures



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