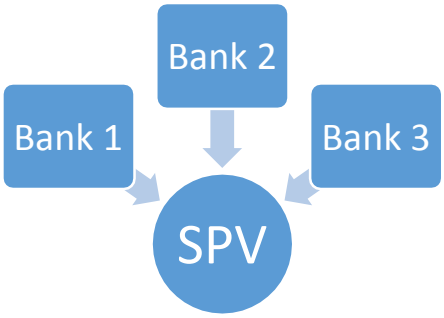
POSITION PAPER – ESTABLISHING A BOND TO ADVANCE A WMCA/MAYORAL FOUNDATION

(A Working Draft Document)

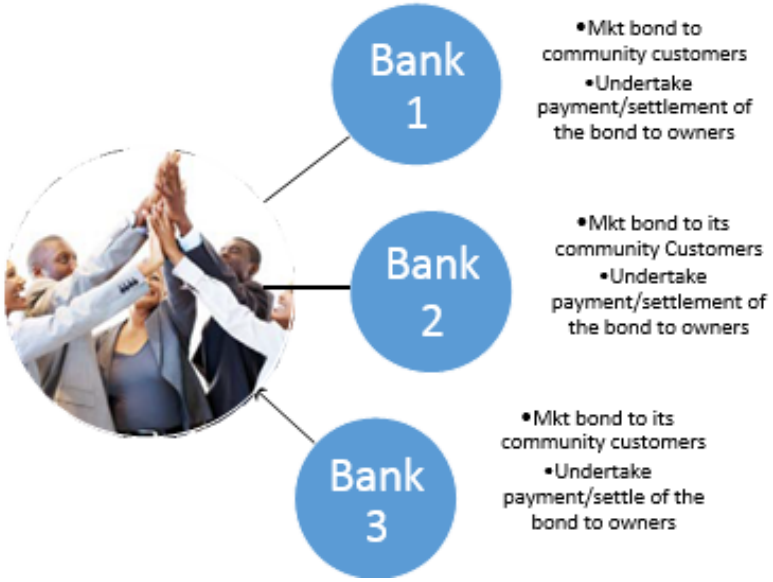
Currently, environment of Brexit and a back drop of economic recession a number of communities and initiatives are encountering difficulty in obtaining financing. This situation threatens long-term growth, employment generation, as well as limiting entrepreneurial and community development opportunities. Grants alone will not bridge the near or long-term financing gaps for infrastructural development and societal change. Ultimately, for region and the community to realise their goals, there is a need to look to itself to adopt innovative approaches in order to tap the resources to help communities succeed.

This paper outlines the likely steps for the potential introduction of a Community Bond (CB) in order to realise significant infrastructure development, employment and societal change in the West Midlands.

1. A proposed Special Purpose Vehicle



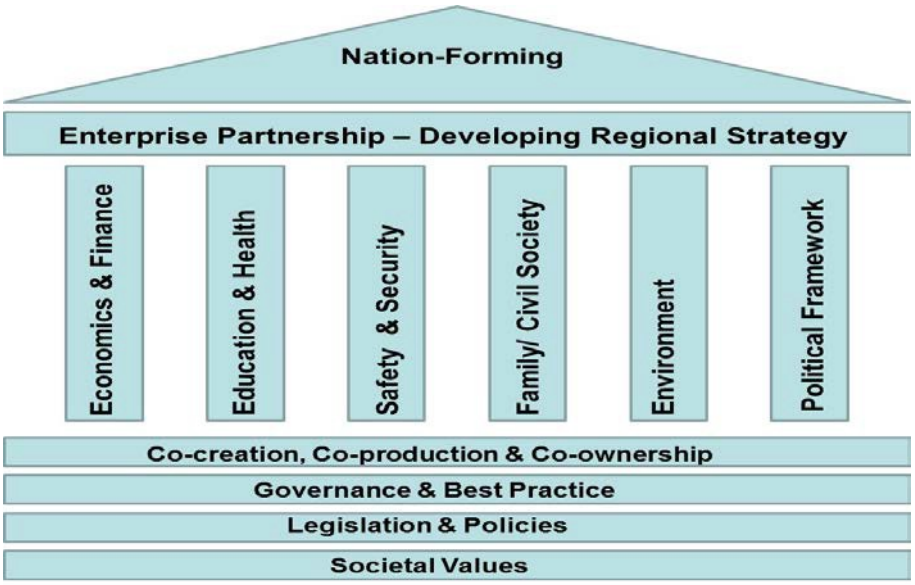
A Consortium is established of trusted financial institutions (FI); they undertake to collectively establish a private Special Purpose Vehicle (SPV) that will act as a Development Corporation (DC) on behalf of the Mayor. This DC would issue Bonds to undertake a number of pre-qualified development projects within the region; at scale, at pace and the FIs will market such bonds to the community. To ensure transparency and due conduct of the DC each FI will have a seat on the board of the DC. An independent oversight committee to the DC will be elected from members of the community.



The Consortium of banks maintain an active secondary market (creating liquidity in the asset class) between them and community client base whilst a Bond issue remains within maturity.

2. Underpinning Values

Community Bonds – Fabricating Sustainable Eco-system



The 'Economics and Finance' pillar, is an integral platform to a stable, system wide, infrastructural development and maintenance programme of any region. This should not be seen as a tangential part of 'Community Cohesion'.

The 'Purpose' of a private/public Community Development Corporation (DC), should be to contribute to the harmonious economic growth and development of the region. The DC could promote cooperation

across its societies, by mobilising the resources of the community in an efficient, responsive and collaborative manner with accountability, integrity and trust.

3. Sizing and Structuring of a Bond Issue

In sizing the offering, the DC will identify all costs to be paid from bond proceeds, which in turn determines how much debt should be issued. Capital project construction or acquisition costs are the primary use of bond proceeds.

Prior to evaluating the size or structure of a bond issue, certain basic characteristics of the offering should already have been determined. Among these characteristics are the purpose of the issue, the type of securities that will be sold by the DC (short-term notes or long-term bonds), the repayment source, and whether the bonds will be taxable or tax-exempt. The DC should at all times seek to ensure that bonds are tax-exempt to allow for the attractiveness to community members and to further encourage 'Community' investment.

The DC must take into account a broad range of legal, policy, and financial objectives in the process of structuring a bond offering. Among the questions often raised in the context of structuring the issue are:

- What legal or statutory constraints must be taken into account in devising the bond structure?
- What financial or policy objectives must be met through the structuring and sizing process?
- Will there be a need for the use of a rating agencies or credit enhancer or registration with security regulators?
- If the principal motivation for purchasing a community bond is loyalty is there a need to incur the cost of a rating agencies or credit enhance?
- Are there particular structures that can result in lower overall financing costs? For example, can certain structural features produce savings because they are attractive to community members?

The DC should take into consideration when sizing of bonds based upon its project experience or nature of the acquisition; confidence building within the community and forging better links will be necessary as a precursor for future bond issue success, as such it is suggested that an initial sizing of an issue should be in the range of £10 mil to £20 mil over a 10years maturity and offering a yield of say 5.75%. Effectively, the initial projects or acquisitions should fall with the range of £6mil (once initial costs and early year servicing of the bond has been taken into account) and £15mil (US$22mil). This should allow project revenue time to come to fruition to ensure the future year servicing of bonds to maturity or that an acquisition target existing revenue allows for a principal level bond retirement programme to be actively pursued.

If we take the former sizing of £10 mil as an initial issue this would necessitate the selling of 5000 bonds at a face value of £2,000.00.

The structure of debt service payments will reflect the pace at which the DC wants to retire the bonds. There are three general approaches to structuring bond payments but this paper will only consider two most frequently used being:

- Level debt service; or
- Level principal payment

A level debt service structure is designed to create equal annual debt service payments over the life of the bonds. This approach results in higher interest payments and lower principal

payments in the early years, similar to the amortization schedule used for many home mortgages. Over the life of the issue, the amount of principal repaid as a share of the total debt service gradually increases, until the debt is finally retired. The primary advantage of making debt service payments in this manner is that it is often easier for issuers to budget, and it may be consistent with the flow of pledged revenues used to retire the bonds. Another important advantage of a level debt service schedule is that it makes financing costs in the early years more affordable, particularly in the case of a new project or service. Level debt service produces a slower repayment of principal than a level principal structure, resulting in a longer average life for the issue.

Level principal payments, debt service is comprised of equal annual principal payments and declining interest payments over the life of the issue. The DC would pay higher total debt service costs in the early years relative to a level debt service structure, reflecting higher principal payments. As principal is retired, interest costs decline, thereby reducing the annual debt service payment over time. This approach results in a shorter average bond life, and provides comfort to the investors that the debt will be repaid in a timely manner.

Table 1: A Comparison of Level Debt Service and Level Principal Payment Schedules

		Level Debt Service			Level Principal Payments		
Year	**Coupon**	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
1	5.20%	£1,550,000	£1,150,338	£2,700,338	£2,000,000	£1,143,000	£3,143,000
2	5.45	1,630,000	1,069,738	2,699,738	2,000,000	1,039,000	3,039,000
3	5.55	1,715,000	980,902	2,695,902	2,000,000	930,000	2,930,000
4	5.65	1,810,000	885,720	2,695,720	2,000,000	819,000	2,819,000
5	5.75	1,915,000	783,456	2,698,456	2,000,000	706,000	2,706,000
6	5.80	2,025,000	673,342	2,698,342	2,000,000	591,000	2,591,000
7	5.85	2,140,000	555,892	2,695,892	2,000,000	475,000	2,475,000
8	5.90	2,270,000	430,702	2,700,702	2,000,000	358,000	2,358,000
9	5.95	2,400,000	296,772	2,696,772	2,000,000	240,000	2,240,000
10	6.05	2,545,000	153,972	2,698,972	2,000, 000	121,000	2,121 ,000
		£20,000,000	£6,980,834	£26,980,834	£20,000,000	£6,422,000	£26,422,000

4. Alignment to Mayoral Goals and Sustainability

Goal 1: Promote gender equality , diversity and empowering women

The encouragement of new ventures and projects as a result of direct investment from the Community will empower more women, and thereby help promote gender equality through increase employment in building the region.

The effective use of the proceeds of a Community Bond will help to empower women with greater independence and autonomy and help eliminate gender disparities by increasing the proportion of women in paid employment situations and enterprise creation.

"It is not only the money earned but also heightened self-esteem associated with employment,

education and knowledge that can make females more powerful in their home community". As stated in a recent report for the United Nations Division for the Advancement of Women. The survival and coping skills they develop can and should be tapped as potential sources of change and development. In turn, the empowerment of women in each generation will have effects on the next, providing children with role models and helping to influence both girls and boys into primary, secondary and tertiary education.

Goal 2: Sustainable Development

A proactive Community Development Corporation (DC) that is stably financed through the issuance of bonds, will be more readily able to integrate the principles of sustainable development into policies and programmes, and reduce the burden on public resources.

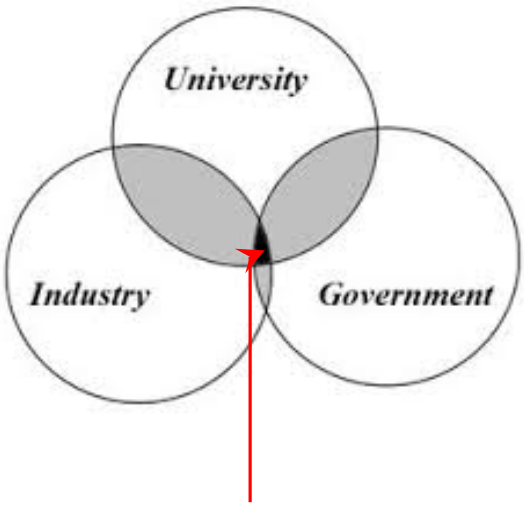
5. Community Creating Transformational Change

The Community should be considered not just as source of financing, but as a development partner. A stronger relationship between the CA/Mayoralty and the Community is therefore appropriate.

Community institutions can provide technical assistance and financial support to create the enabling environment for mainstreaming contributions in development frameworks for significant economic transitions. Comprehensive regional strategies, instead of ad hoc projects established through a dedicated Development Corporation would establish a trust base for proactive delivery.

Community financial contributions via a DC bond issue would stimulate and facilitate entrepreneurship and private sector growth in the region.

The 'Triple-helix' – An Industrial Regeneration and Economic Sustainability Model



The Community affords a unique opportunity with Diaspora bonds to translate regional strategy into dynamic economic growth and establish enterprise social value by; co-investing, co-owning and accelerating market access. Thereby ensuring high value job creation, improvement in education and sustainable of communities' Quality of Life (QoL).

This document will be transformed into a technical proposal