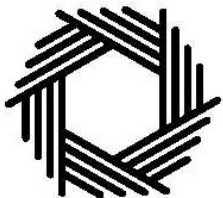




# Fundamentals of a Bond Issue: The “Nuts & Bolts”

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## Summary of Disclaimer

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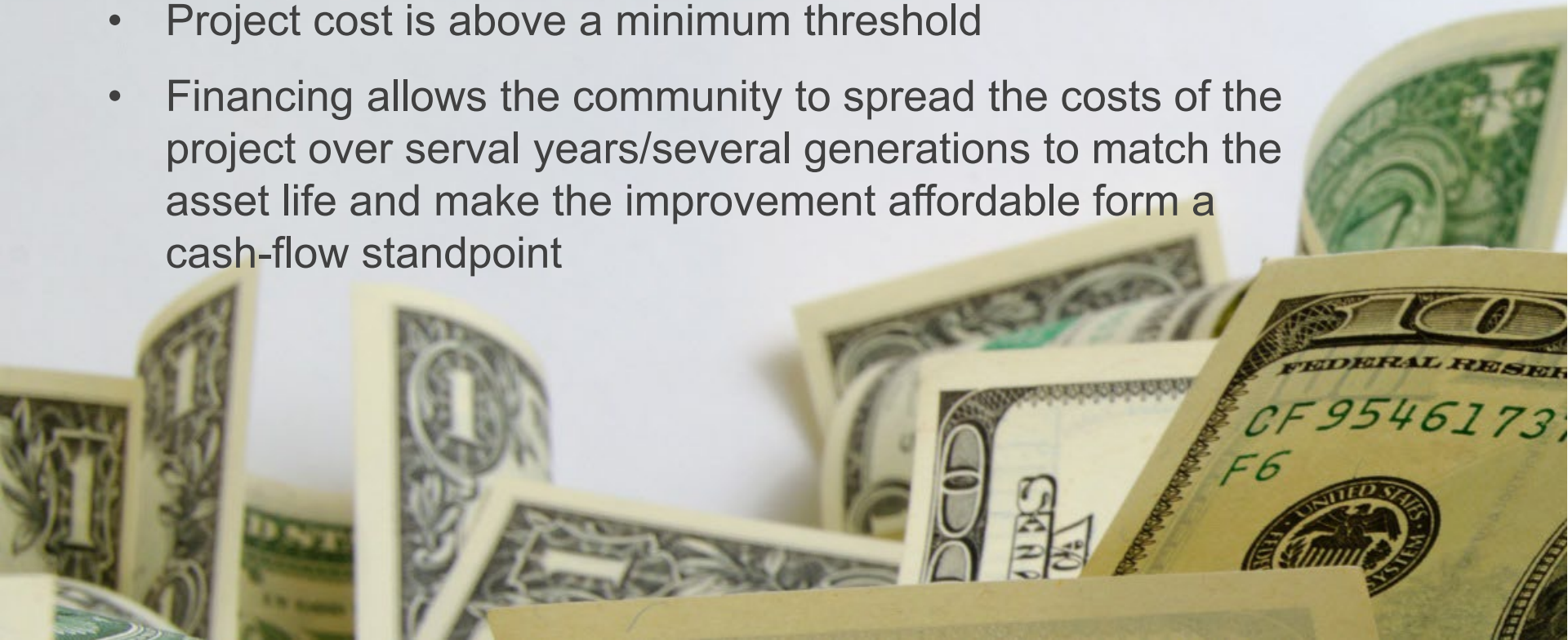
# Why do communities incur debt?

They need “stuff” – capital assets.

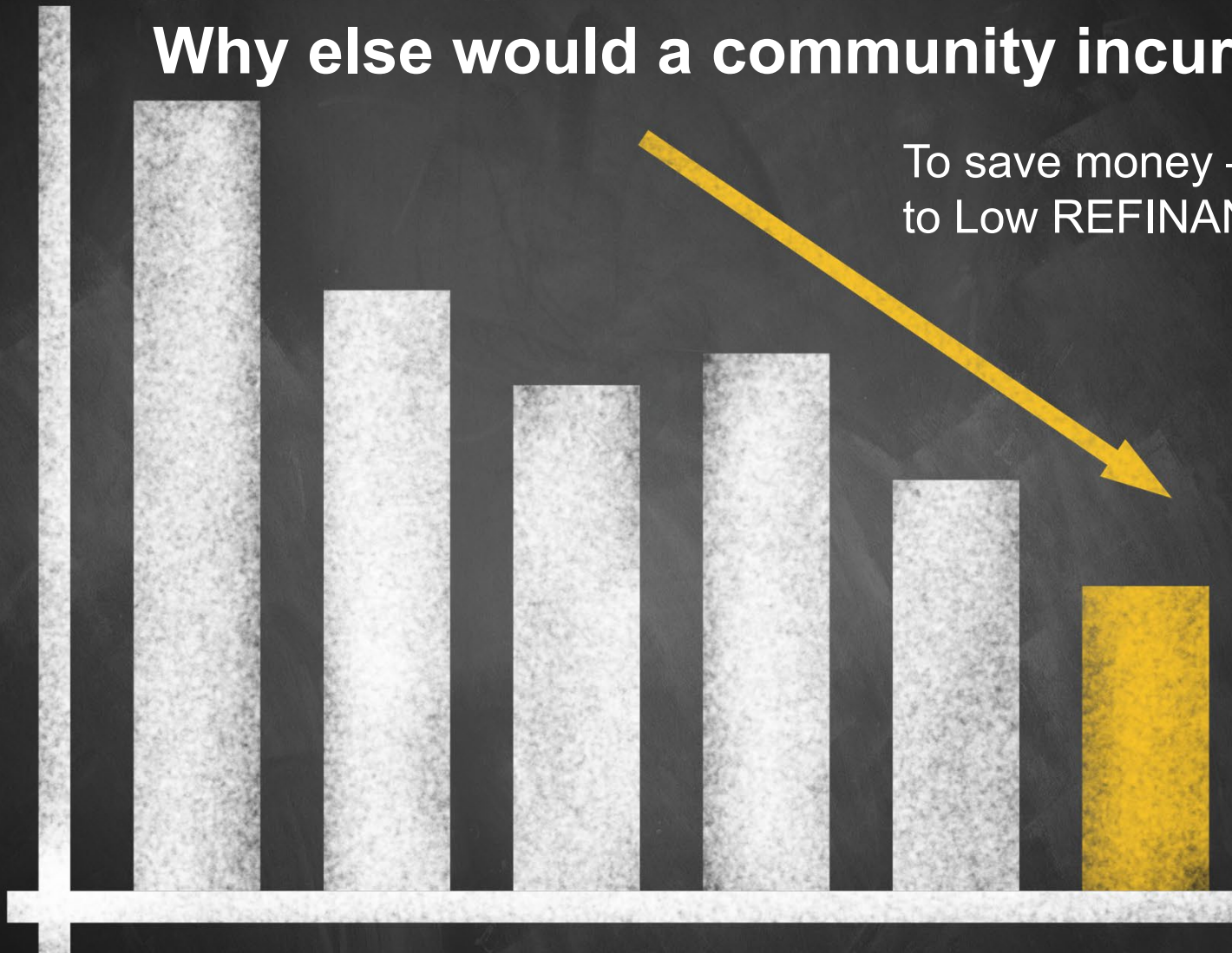


## Why do communities incur debt?

- Don't have cash to pay for the capital assets/projects.
- Need a long-lived capital asset that is tax-exempt debt eligible (public use)
- Project cost is above a minimum threshold
- Financing allows the community to spread the costs of the project over several years/several generations to match the asset life and make the improvement affordable from a cash-flow standpoint



# Why else would a community incur debt?



To save money – High  
to Low REFINANCE

## Federal Tax Law

Interest to the Investor is not taxed for federal and Ohio income purposes.

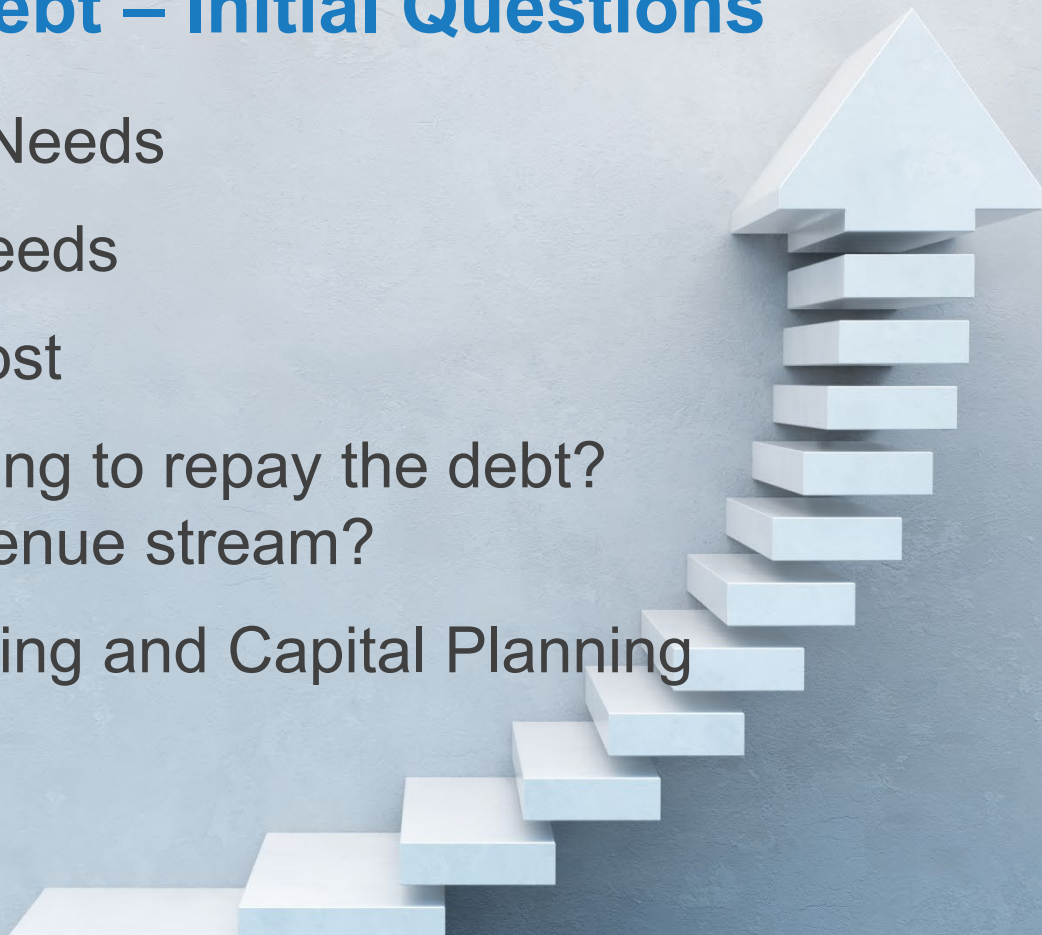
### 3 General Rules

- » Don't Borrow Too Much
- » Don't Borrow Too Soon
- » Borrow for the authorized purpose that generally benefits the public purpose with very limited use for the benefit of private entities



## Steps to Issue Debt – Initial Questions

- » Determine the Needs
- » Prioritize the Needs
- » Estimates of Cost
- » How are we going to repay the debt?  
Anticipated revenue stream?
- » Financial Planning and Capital Planning





# Government Buildings and Renovations



# Water System Infrastructure





## **Sidewalks, Curbing, Resurfacing of Streets**



## Storm Sewers on Baker Street

# “Permanent Improvements”

Estimated life or period of usefulness > 5 years

Examples:

- » Real estate
- » Buildings
- » Equipment
- » Site improvements
- » Resurfacing (but not ordinary repair) of streets
- » Water / wastewater improvements
- » Other utilities – electric, storm water improvements

# Related Costs of the Project

- » Related direct administrative costs
- » Engineering, architectural, legal (soft costs)
- » Feasibility/consulting/surveys/cost estimating fees
- » Financing Costs
- » Title work
- » Reimbursements
- » Reserve Funds



## Financing Operations

- » Generally cannot finance operations
- » Limited circumstances where revenue or tax anticipatory securities are permitted to be issued.
- » Call your bond lawyer

## Types of Governmental Bonds/Security

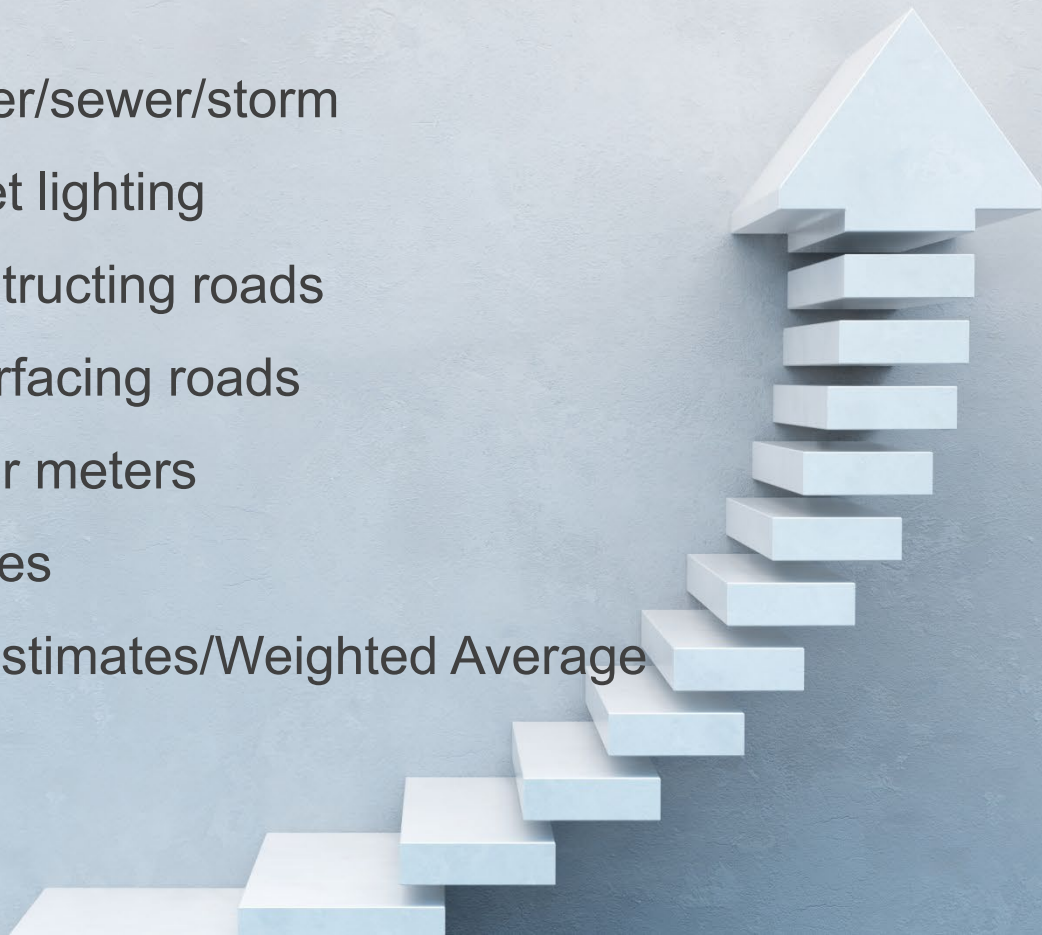
- » General Obligation (GO) Bonds
- » Revenue Bonds
- » Special Assessment Bonds
- » Certificates of Participation (COPs) or “Subject to Appropriation”
- » Double Barreled Bonds



# Maximum Maturity

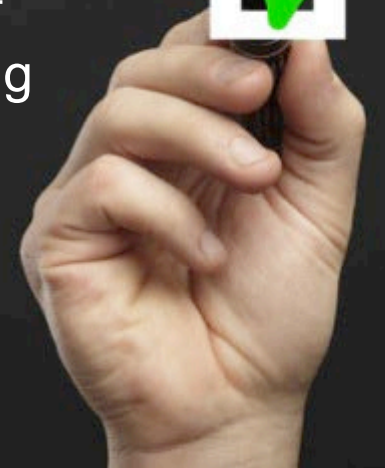
## Examples

- » 40 years – water/sewer/storm
- » 30 years –street lighting
- » 20 years –constructing roads
- » 15 years –resurfacing roads
- » 10 years –water meters
- » 5 years –vehicles
- » Fiscal Officer Estimates/Weighted Average



## 3 Times Test/First Principal Payment

- » Substantially equal principal installments
- » P&I substantially equal
- » P&I not more than 3 times the amount in any other fiscal year
- » 1st principal payment – not later than 1st day of 2nd February following 15th day of July following passage of authorizing legislation – HUH?  
WHAT?



## Bond Anticipation Notes (BANs)

- » Short term instruments, usually maturity 1-year or less
- » Interim financing used during construction of a project
- » All principal and interest due at maturity
- » Proceeds from anticipated bonds pays BANs
- » Take-out risk
- » Ability to “roll” the notes and add additional money to fund costs over time (more like a construction loan)
- » Limits on rolling notes (lesser of 240 months or max maturity of anticipated bonds plus 5 years)
- » Rollover up to 5 years before reducing principal

# Other Available Financing Sources

- » Ohio Water Development Authority
- » Ohio Public Works Commission
- » Ohio Department of Transportation
- » United States Department of Agriculture



# Constitutional and Statutory Limitations – GO Debt

## Indirect Debt Limitation (Constitutional)

- » Ten-mill limitation based on total outstanding debt service for all overlapping subdivisions
- » Only Applies to UNVOTED GO Debt
- » Exclusions: Revenue obligations and voted GO debt

## Direct Debt Limitation (Statutory)

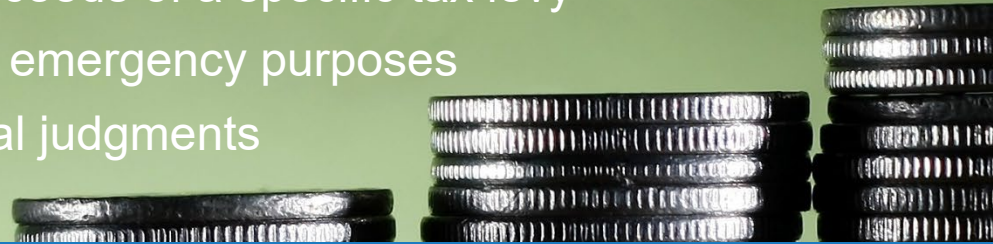
- » Based upon the value of all property in the community as listed and assessed for taxation
- » Debt limit varies for each type of political subdivision



# Statutory Limitations – GO Debt

## Direct Debt Limitation

- » Exempt Debt – Debt not included in the direct debt limit calculation
  - » Self-supporting GO debt, i.e. revenues from the facilities financed are sufficient to pay applicable operating and maintenance expenses and related debt service and other requirements
  - » Bonds issued in anticipation of the collection of special assessments
  - » Revenue bonds
  - » Note issues in anticipation of the collection of current revenues or in anticipation of the proceeds of a specific tax levy
  - » Notes issued for certain emergency purposes
  - » Bonds issued to pay final judgments



# Limitations for Revenue Debt

Additional Bonds Test for revenue bonds



# Participants in a Financing

## Issuer (Official Statement)

- » Approve bond legislation
- » Assist with preparation of disclosure data
- » Develop financing plan
- » Make rating & insurance presentations (if applicable)
- » Make bond payments

## Rating Agencies / Bond Insurance Policy

- » Review credit worthiness of the Issuer
- » Rating agencies issue bond rating
- » Insurance companies insure issue (if economically beneficial)

## Investors

- » Purchase bonds
- » Receive interest and principal payments from paying agent

## Bond Counsel (Legal Opinion)

- » Prepare bond resolution
- » Provide Official Statement/disclosure preparation assistance
- » Prepare various deal related legal documents
- » Provide legal opinion to investors

## Underwriter - Investment Bankers

- » Perform due diligence on disclosure
- » Provide financing plan assistance
- » Provide rating agency & bond insurer preparation assistance
- » Provide investment advice and advance refunding services
- » Not a fiduciary to issuer/borrower

**Sales Force** – Market the Bonds

## Municipal Advisor

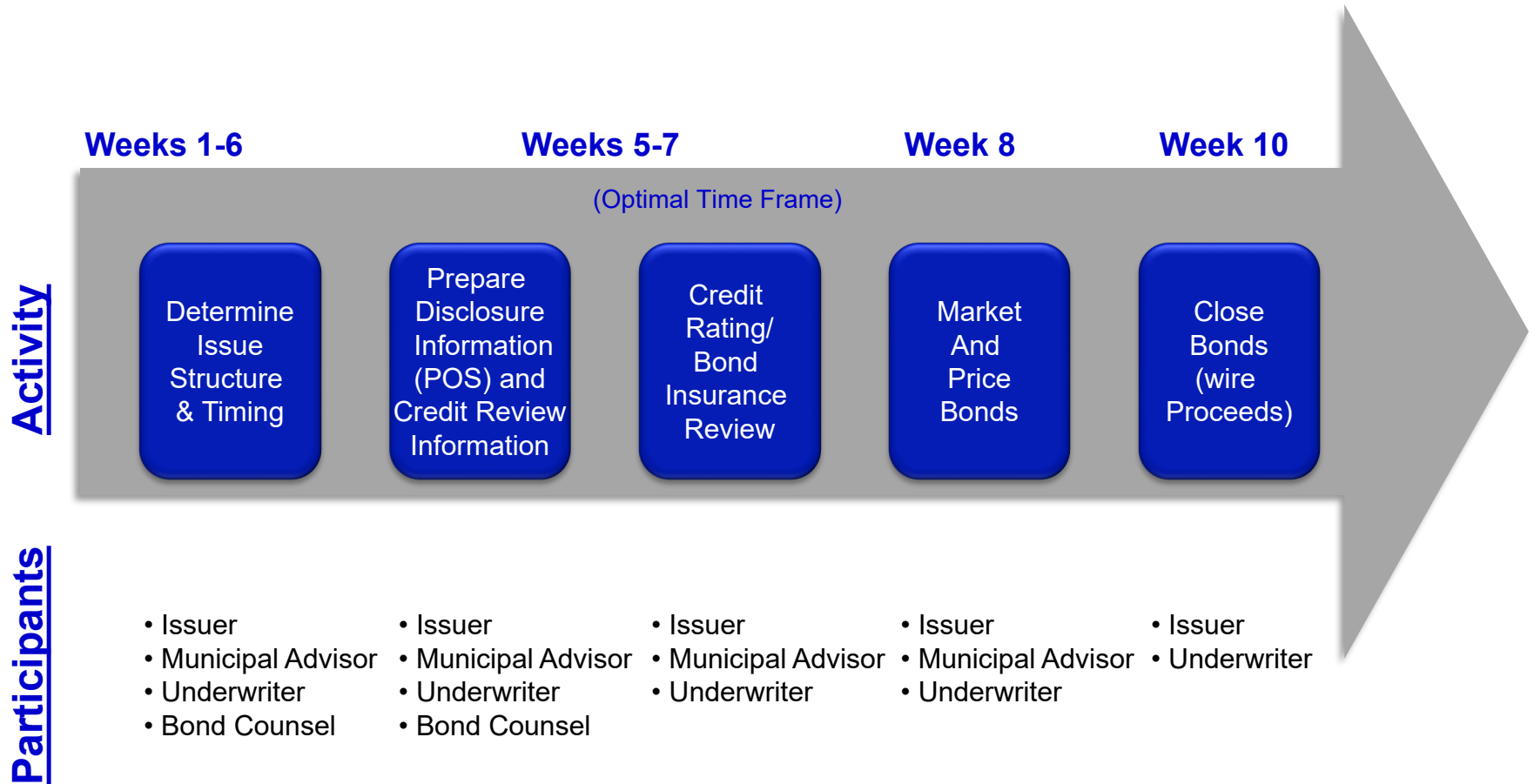
- » Advises regarding debt structuring
- » Recommends method of sale
- » Assists with selection of Underwriter and other finance team members
- » Advises regarding credit strategy and provides rating agency & bond insurer preparation assistance
- » Price negotiation
- » Has a legal fiduciary role to issuer/borrower

## Paying Agent/Registrar/Trustee (P&I Payments)

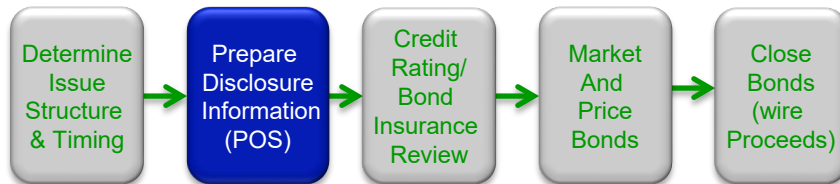
- » Authenticate bonds
- » Receive interest and principal payments from Issuer
- » Make interest and principal payments to investors



# Activities and Time Frame



# Prepare Disclosure (POS)

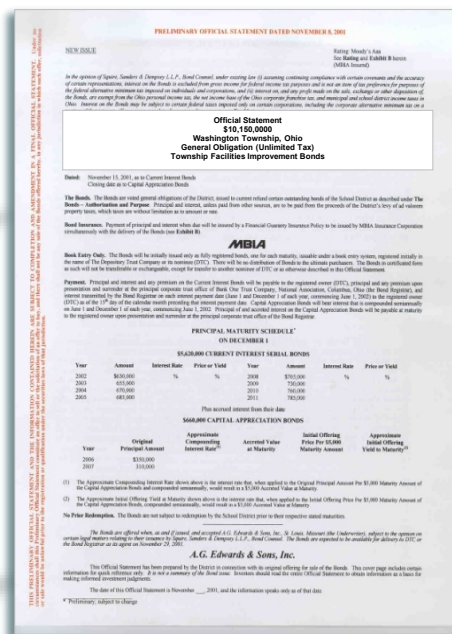


## Issuer

- Issuer overview
- Projections
- Facilities data
- Financial outlook
- Financial Statements

## Underwriter

- Structuring information
- Continuing disclosure agreement



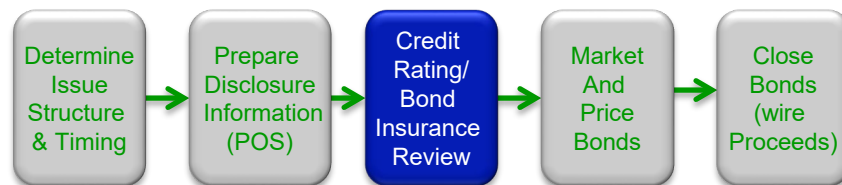
## Bond Counsel

- Demographic info from Census & other sources
- Description of tax base and other sources of revenue
- Debt limitation tables
- Debt tables
- Financial appendices
- Bond counsel opinion
- Interface with County Auditor
- Actual production of document




## County Auditor

- Assessed Valuation data
- Building Permits info
- Tax tables
- Largest taxpayer list

# Credit Rating

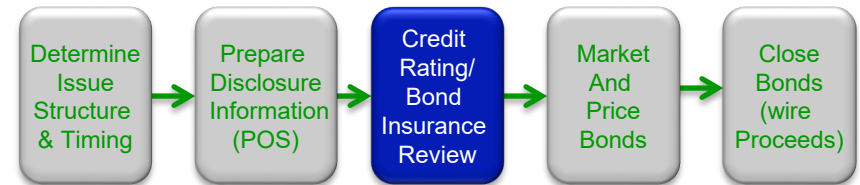


## Bond Rating Services

	 Moody's Investors Service	 STANDARD & POOR'S	 FitchRatings
Best Quality	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2 Aa3	AA AA-	AA AA-
High Quality	A1	A+	A+
	A2 A3	A A-	A A-
	Upper Medium Grade		
Medium Grade	Baa1	BBB+	BBB+
	Baa2 Baa3	BBB BBB-	BBB BBB-

**(Lower Interest Rates)**

# Role of Credit Rating Agencies



- » Categorize creditworthiness of the security pledge and likelihood of default
- » View the same credit structure differently – different methodologies
- » Will conduct a rating call or meeting
- » After a rating is provided, rating agency will conduct regular surveillance while the issue is outstanding

**Fitch**Ratings

**MOODY'S**

**S&P Global**  
Ratings

# Credit Rating Analysis

- » Criteria may differ by credit type/agency
- » General Obligation Bonds
  - » Economy and demographics
  - » Financial Condition
  - » Debt Burden
  - » Management
- » Revenue Bonds
  - » Project feasibility
  - » Service area
  - » Capacity of rates, fees and charges
  - » Debt service coverage
  - » Legal provisions



# Securities Law

## Continuing Disclosure Annual Requirement

- » Annual financial information and/or operating data must be provided annually (MSRB-EMMA electronic system)
- » After the current issuance of the security, if the issuer has in outstanding debt:
  - » \$10,000,000 or more: financial and operating data
  - » Less than \$10,000,000: only financial information

## Material Event Notices - Two New Events

