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for Effective Government*

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Fundamentals of Debt Restructuring

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OVERVIEW: BACKGROUND & TERMINOLOGY

➤ **General Obligation Bonds**

- ❖ Pledge of full faith and credit of the issuer
- ❖ Supported by the issuer's ability to levy and collect ad valorem taxes

➤ **Revenue Bonds**

- ❖ Backed by the revenues of a facility/system/enterprise that is being financed
 - ❑ Sewer, water, sales tax, income tax, TIF revenue bonds
- ❖ Generally, not a tax/general obligation pledge (unless it's a "double-barrel" pledge)
- ❖ Typically involves a trust indenture, which may contain various covenants
 - ❑ Debt service coverage ratio
 - ❑ Liquidity ratios
 - ❑ Reporting requirements
 - ❑ Additional debt limitations

OVERVIEW: BACKGROUND & TERMINOLOGY

➤ **Continuing disclosure obligations**

- ❖ Only applicable to public bond offerings of \$1,000,000 or greater
- ❖ Requires disclosure of certain events affecting outstanding bonds
 - ❑ Bond call
 - ❑ Defeasance
 - ❑ Modification of rights of bondholders
 - ❑ Release, substitution or sale of property securing bonds

OVERVIEW: BACKGROUND & TERMINOLOGY

➤ Tax status of bond issues

- ❖ *Tax-Exempt bonds* – Interest paid to bondholder is not subject to taxation as income
 - ❑ Generally, lower interest rate, factoring in tax savings to bondholder
 - ❑ Generally redeemable at par plus accrued interest, but can include redemption premium
- ❖ *Taxable bonds* – Interest paid to bondholders is subject to taxation as income
 - ❑ Generally, higher interest rate because interest income is taxable
 - ❑ Often include “make-whole” redemption provisions

OVERVIEW: BACKGROUND & TERMINOLOGY

➤ **Methods of sale**

❖ Capital Markets (Public sale)

- ❑ Bond issuer works with an underwriter to sell bonds to public investors
- ❑ Typically involves an offering document, continuing disclosure, coordination with markets

❖ Private placement

- ❑ Bond issuer sells bonds directly to a bank or small group of sophisticated investors, usually financial institutions

REFUNDING CONCEPTS

- Usually to achieve interest rate savings and/or cash flow relief
 - ❖ “Scoop and toss” and “re-amortization” refundings
- Also non-economic reasons such as the elimination of burdensome covenants
- Compliance with additional debt covenants, coverage and liquidity ratios
- Two types of refundings under federal tax law:
 - ❖ **Current refundings:** Old debt is paid off *within 90 days* of the issuance of the new bonds
 - ❖ **Advance refundings:** The proceeds of the new bonds are deposited into escrow to pay the old debt off in *more than 90 days* of the issuance of the new bonds. Currently these are limited to refunding taxable or direct-pay debt unless advance refunding debt itself will be taxable.
 - ❖ **Taxable refunding:** Pay off outstanding debt with taxable bond proceeds, may be convertible to tax-exempt
- **Defeasance:** formal release of the lien of the ordinance or indenture on the pledged assets or revenues in exchange for the pledge of cash/securities sufficient to repay the bonds

REFUNDING CONCEPTS

- Redemption prior to maturity
 - ❖ Referred to commonly as “optional redemption”
 - ❖ “No call” period, generally 10 years or less for federal tax reasons
 - ❖ “Noncallable” bonds – generally lower interest rate, but no ability to redeem

- Price of optional redemption
 - ❖ Redemption premium
 - ❖ “Make-whole” call provisions, generally associated with taxable bonds

REASONS FOR RESTRUCTURING

- Financial Distress

- Cash Flow Considerations (negative and positive)
 - ❖ Negative – In jeopardy of not meeting debt service obligations and/or bond covenants
 - ❖ Positive – Defeating debt or accelerating debt service because of higher than expected revenues and available funds on hand.

- Operational Uncertainty
 - ❖ Uncertain short-term or long-term revenues

- Legal
 - ❖ Restrictive covenants

PROCESS AND CONSIDERATIONS

- Situational Assessment
 - ❖ Current Operations and Cash Flows
 - ❖ Projected Operations and Cash Flows

- Analysis of available financing vehicles
 - ❖ Capital Markets – Bonds and Notes
 - ❖ Bank Purchase / Private Purchase – Bonds and Notes
 - ❖ Cash

- Potential rating impact (negative or positive)

- Disclosure requirements

- Targeted / desired outcome(s)

CASE STUDY – FCCFA

COVID-19 Impact

➤ **Loss of Events**

- ❖ 59% events rescheduled for a later date; 41% events cancelled
- ❖ Year-Over-Year visitors through July: Decrease of approximately 73%

➤ **Reduction in 2020 Revenue**

- ❖ 2020 hotel tax revenue projected to be 40% of 2019 revenue
- ❖ Convention Center projected operating loss
 - ❑ FCCFA equity reserves to cover deficit

CASE STUDY – FCCFA

COVID-19 Response

- Parking garage debt restructured to achieve cash flow savings in 2020 and 2021
- Reduced Convention Center expenses
- Non-emergency capital projects placed on hold and all discretionary spending frozen
- Exhibit halls set up to accommodate temporary surge in hospital needs
- Convention Center was used for Franklin County Municipal Court traffic and eviction case hearings
- Convention Center was used for a number of smaller sporting events
- Developed a comprehensive plan of finance to address debt service and operational funding requirements

CASE STUDY – FCCFA

Plan of Finance

Components

- **Refunding for interest cost savings**
 - ❖ Taxable advance refunding of the callable Series 2014 Bonds (the 2029 through 2035 maturities using an accelerated savings structure)

- **Restructuring for cash flow relief in 2020 through 2024**
 - ❖ Tax-exempt and taxable restructuring/defeasance of the 2020 through 2024 maturities of the Series 2014, 2015, and 2017 Bonds
 - ❖ Final maturity extended to 2047 from 2035

- **Replenishment and re-capitalization of the reserve funds**
 - ❖ New money component to replenish the Rental Reserve Fund for previous draws used to pay debt service
 - ❖ Re-capitalize the Rental Reserve Fund to its required level of 50% of maximum annual debt service
 - ❖ Re-capitalize the Debt Service Reserve Fund balance to its required level of 100% of maximum annual debt service

CASE STUDY – FCCFA

Historic and Projected 2020 Revenue

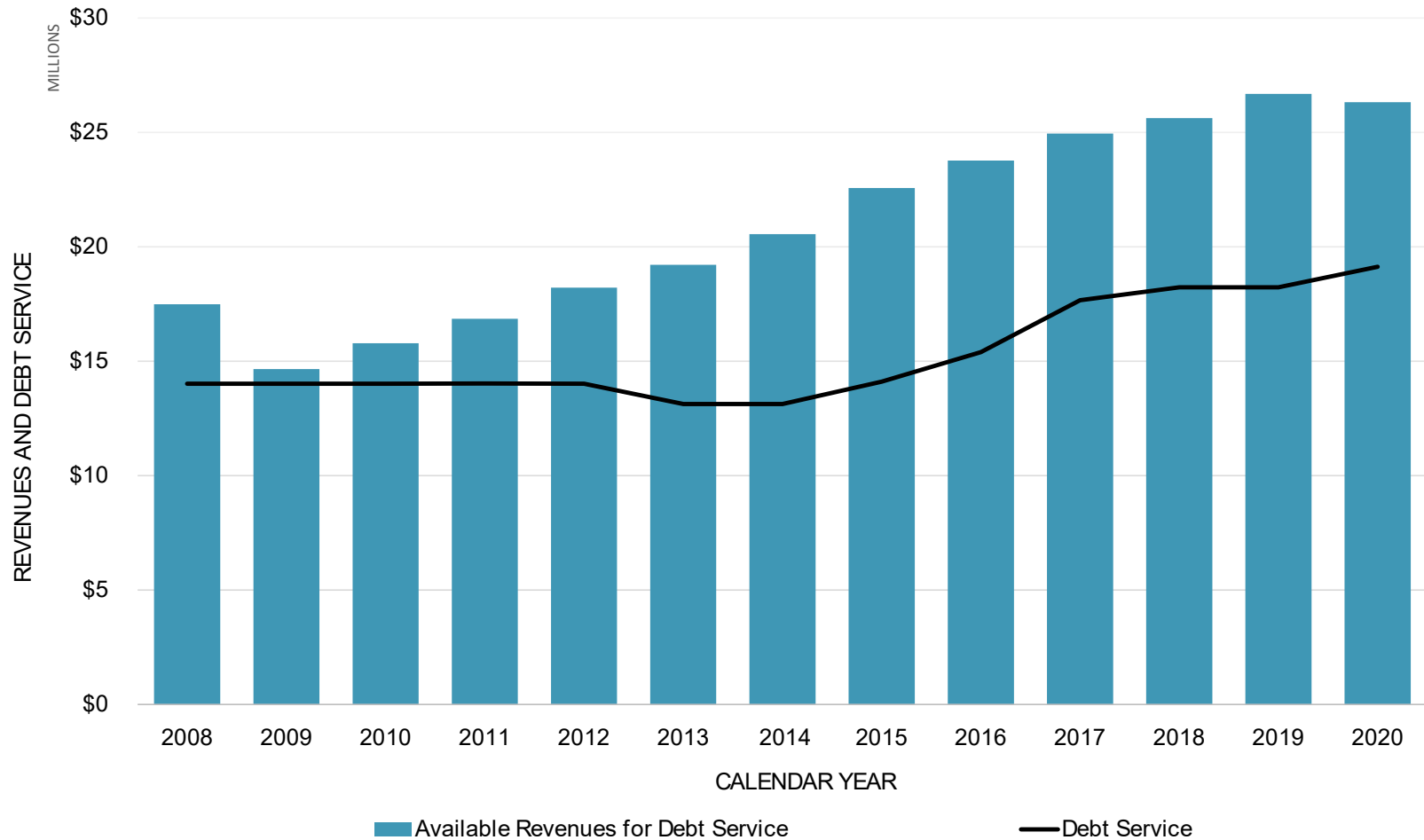
- Prior to COVID-19, the FCCFA maintained healthy debt service coverage from tax collections. After recovering from the 2008-2009 recession, the FCCFA maintained debt service coverage between 1.13x – 1.60x.

Year	Hotel/Motel Taxes Collected	Reserve Fund Earnings	Rental Reserve Fund Earnings	Bond Fund Earnings	Revenues for Debt Service	Debt Service	Coverage x
2008	\$16,356,431	\$656,057	\$240,402	\$237,027	\$17,489,917	\$14,017,644	1.25x
2009	13,723,219	606,862	265,345	62,157	14,657,583	14,017,394	1.05
2010	14,921,226	597,092	257,646	5,708	15,781,672	14,017,369	1.13
2011	16,130,120	506,071	212,880	5,890	16,854,961	14,022,194	1.20
2012	17,641,191	399,823	170,548	2,979	18,214,541	14,019,269	1.30
2013	18,851,325	252,285	105,411	1,701	19,210,722	13,124,497	1.46
2014	20,203,554	233,016	110,092	3,804	20,550,466	13,127,113	1.57
2015	22,190,146	248,169	122,254	11,974	22,572,543	14,102,192*	1.60
2016	23,317,996	267,562	135,725	44,997	23,766,280	15,393,565*	1.54
2017	24,441,477	289,485	148,090	74,533	24,953,585	17,663,073*	1.41
2018	24,998,762	336,158	166,717	128,627	25,630,264	18,231,815	1.41
2019	26,013,712	358,778	166,814	145,964	26,685,268	18,231,251	1.46
Original Budgeted Revenues and Original Debt Service							
2020	25,623,732	365,954	170,150	158,000	26,317,836	19,128,454	1.38
Revised Revenue Projection and Original Debt Service							
2020	10,500,000	340,000	85,000	40,000	10,965,000	19,128,454	0.57
Revised Revenue Projection and Plan of Finance Debt Service							
2020	10,500,000	340,000	85,000	40,000	10,965,000	5,639,979	1.94

* Adjusted to include capitalized interest from the Series 2014 Bonds.

CASE STUDY – FCCFA

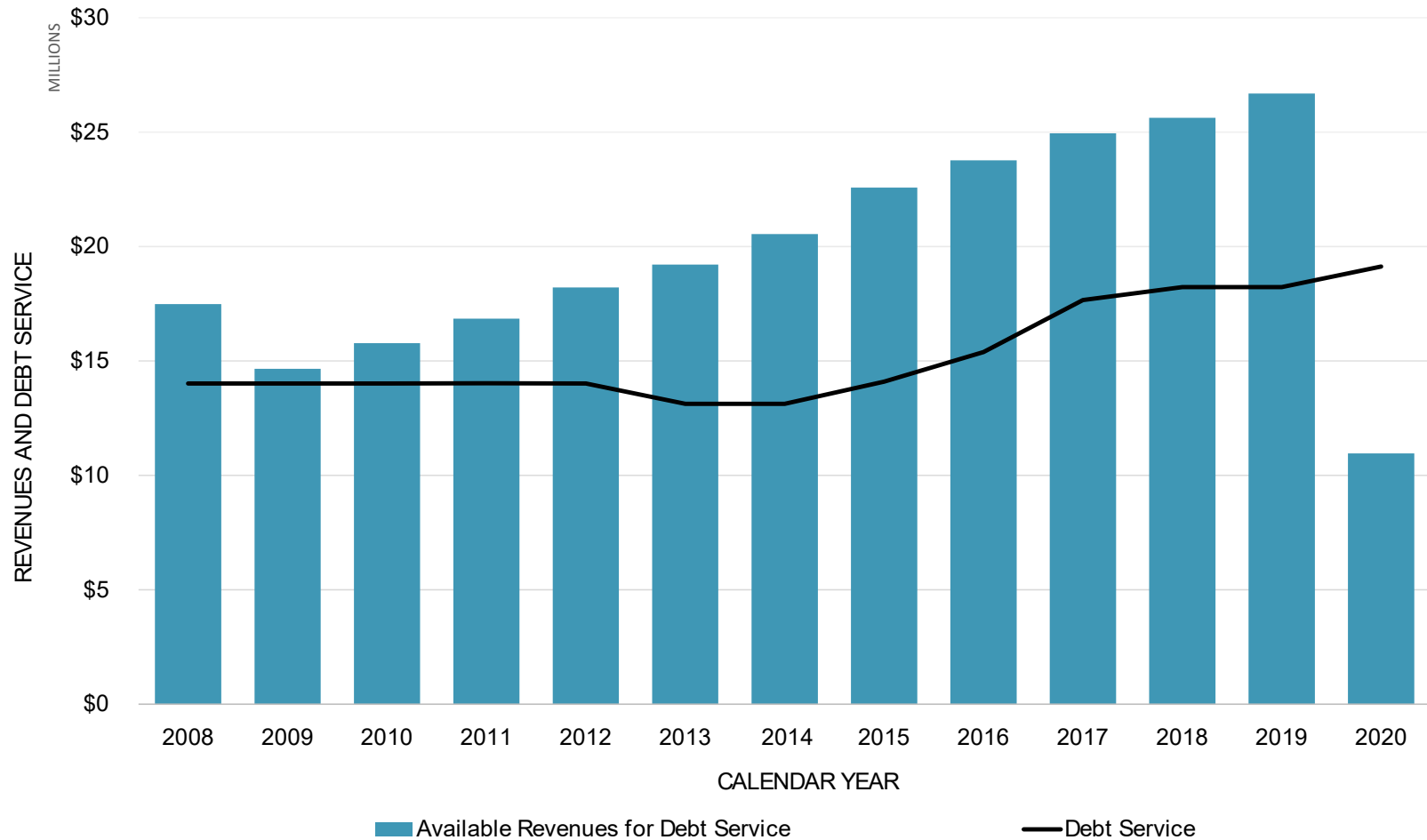
2020 Original Budgeted Revenues and Original Debt Service



Adjusted to include capitalized interest from the Series 2014 Bonds (years 2015 – 2017).
2020 Budgeted.

CASE STUDY – FCCFA

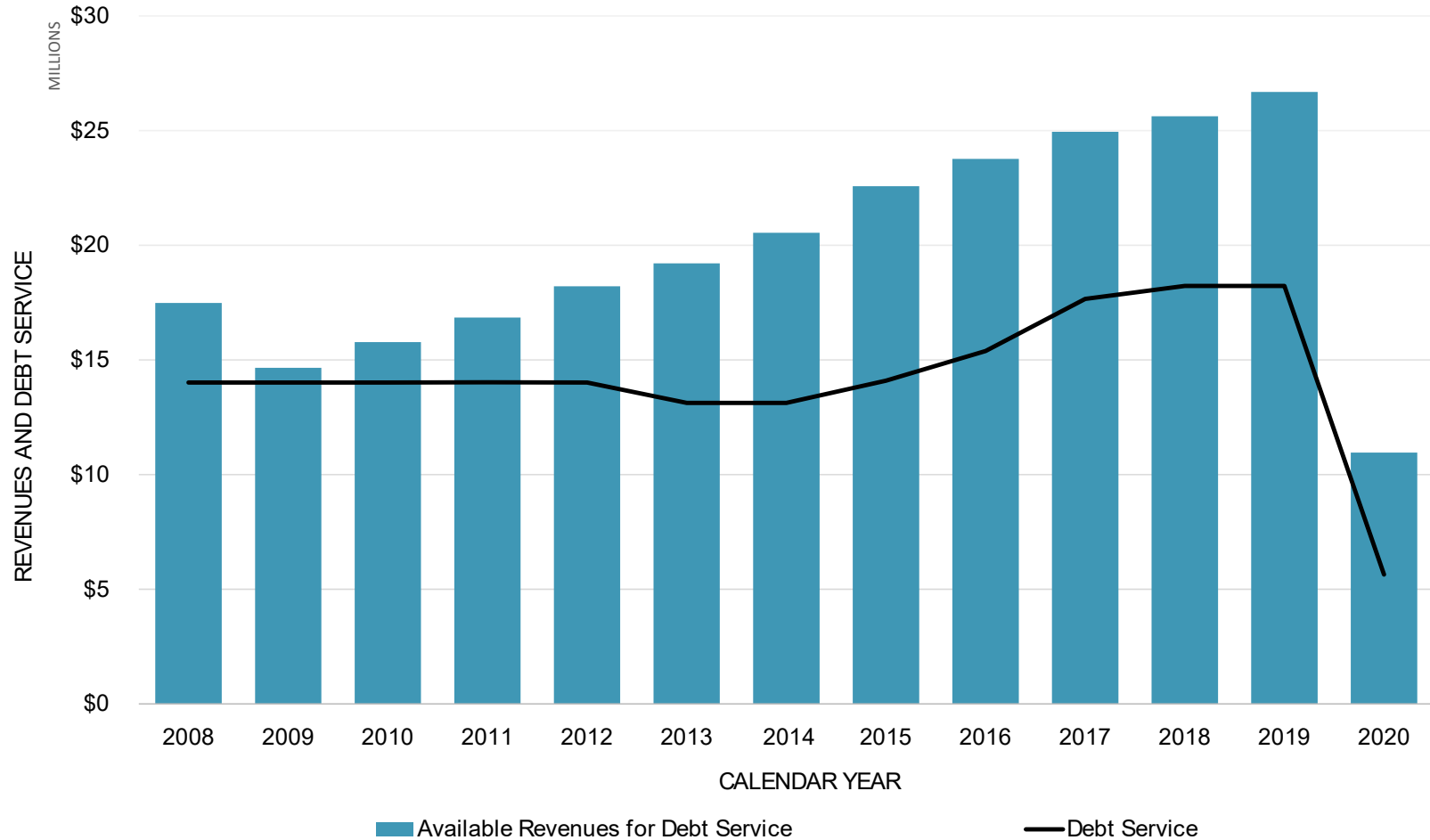
2020 Revised Revenue Projection and Original Debt Service



Adjusted to include capitalized interest from the Series 2014 Bonds (years 2015 – 2017).
2020 Budgeted.

CASE STUDY – FCCFA

2020 Revised Revenue Projection and Plan of Finance Debt Service



Adjusted to include capitalized interest from the Series 2014 Bonds (years 2015 – 2017).
2020 Budgeted.

CASE STUDY – FCCFA

Results

- Restructured the existing bonds to achieve debt service that fits within the FCCFA's projected revenues. Debt service coverage is projected to be between 1.18x and 3.19x over the next 10 years
- Replenished the Rental Reserve Fund balance for previous draws and funded it to the required level: 50% MADS
- Increased the Debt Service Reserve Fund balance to its required level: 100% MADS
- Debt service payments and appropriation pledges were reduced through 2024:
 - ❖ FCCFA's annual debt service payments were reduced from approximately \$19 million to between \$5.6 million and \$9.5 million
 - ❖ City and County's annual appropriation pledges were reduced from approximately \$9.5 million each to between \$2.8 million and \$4.8 million

CASE STUDY – FCCFA

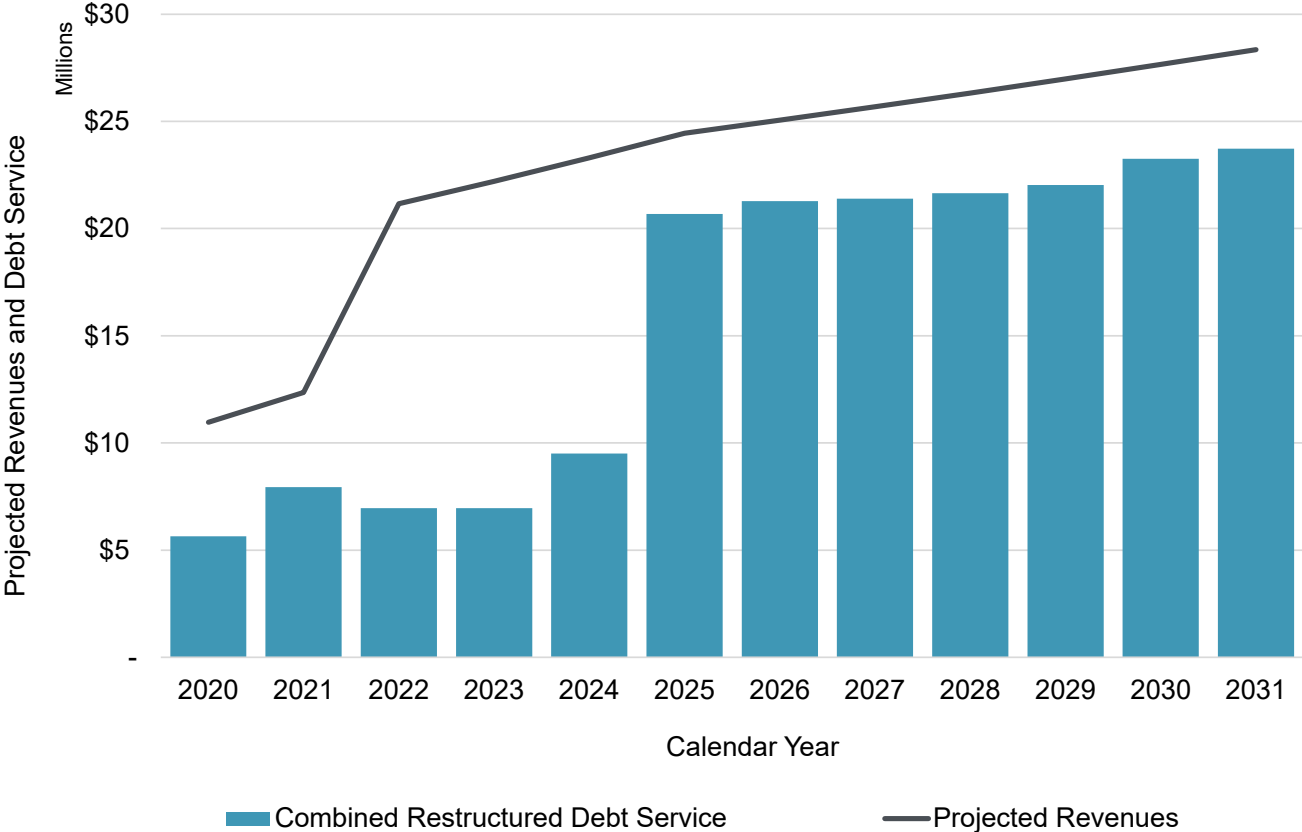
Results (Continued)

- The structure is projected to avoid:
 - ❖ Unplanned future draws of the Rental Reserve Fund balance
 - ❖ Use of City and County lease appropriation guarantees
 - ❖ Draws on the Debt Service Reserve Fund balance

- Starting in 2021, the structure is projected to provide a minimum of \$3.76 million annually to support operations

CASE STUDY – FCCFA

Projected Coverage



Year	Projected DSC
2020	1.94x
2021	1.56x
2022	3.04x
2023	3.19x
2024	2.45x
2025	1.18x
2026	1.18x
2027	1.20x
2028	1.22x
2029	1.22x
2030	1.19x
2031	1.19x

CASE STUDY – FCCFA

Keys to Success

- Open and Frequent Communication with:
 - ❖ City and County
 - ❖ Rating Agencies
 - ❖ Working Group Members
 - ❖ Investors (Voluntary and Continuing Disclosure)

- Proactive Approach to Develop Comprehensive Plan of Finance

- Utilized Market Data and Third-Party Analytics to make educated revenue and expense projections over the next five years

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