



Ohio GFOA

Debt Issuance

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Why Issue Debt

◆ Project Type

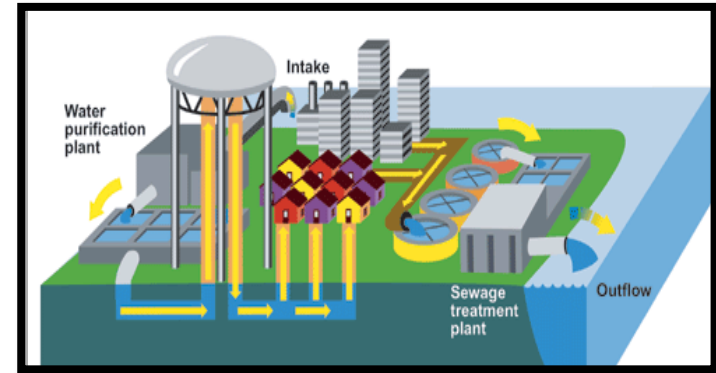
- Long-lived capital asset
- Public Use: tax-exempt eligible

◆ Project Cost

- Available resources
- Above minimum threshold

◆ Project Purpose

- Anticipated revenue stream
- Intergenerational equity





How to Issue Debt

Debt Management Policy

- ◆ Debt management policies are written guidelines that guide debt issuance practices
- ◆ GFOA recommends that state and local governments adopt comprehensive written debt management policies that reflect local, state, and federal laws and regulations
- ◆ Elements of a debt policy include:
 - Purposes for debt issuance
 - Types of debt
 - Limitation on indebtedness
 - Method of sale
 - Method of selecting consultants and professionals
 - Refunding policies
 - Disclosure



Steps in the Process

Plan of Finance

- Debt size and structure
- Security and source of repayment
- Method of sale
- Finance team

Legal Framework

- Required approvals – voter, governing body, other: notices and hearings
- Bond counsel analysis – tax due diligence, legal compliance
- Disclosure documentation

Marketing

- Ratings and/or credit enhancement
- Underwriter and investor outreach
- Sell and price bonds

Administration

- Closing/money transfer
- Invest bond proceeds
- Comply with Arbitrage Rebate Regulations (IRS/Tax Code)
- Ongoing disclosure by complying with SEC Rule 15(c)2-12



Tax Status

- ◆ Interest received by the investor is not taxed for federal and/or state income purposes:
 - Project being built serves the public
 - No private use
 - Requires counsel opinion
 - Bank qualified (BQ)
 - IRS distinction for “qualified small issuers”
 - Generally, tax-exempt obligations that will be issued during the calendar year cannot exceed \$10 million
 - Financial institutions can deduct a portion of the interest from BQ bonds from their income taxes
 - Attracts lower interest rates than comparable non-BQ transactions





Security



- ◆ General Obligation Bonds
- ◆ Revenue Bonds
- ◆ “Subject to Appropriation”, or Lease Revenue Bonds, or Certificates of Participation
- ◆ Special Tax Bonds
- ◆ Special Assessment Bonds
- ◆ Tax Increment Financing (TIF)



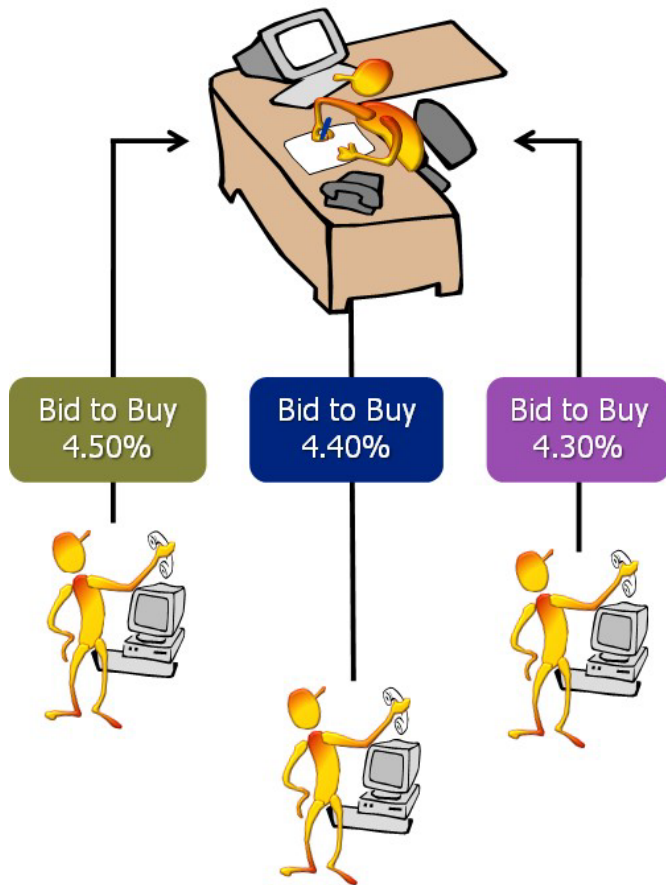
Debt Types

- ◆ Long-term bonds: term > 10 years
- ◆ Short-term notes: term < 10 years
 - In anticipation of:
 - Taxes (TANs)
 - Revenues (RANs)
 - Bonds (BANs)
 - Interim financing used during construction of a project
 - Rollover up to 5 years before reducing principal
- ◆ Capital and operating leases



Debt Placement Options

COMPETITIVE SALE



- ◆ Debt can be issued via public offering
 - Competitive Sale
 - Negotiated Placement
- ◆ Directly purchased by a bank
- ◆ Privately placed

NEGOTIATED SALE



PRIVATE PLACEMENT





Debt Issuance Team





Municipal Advisor (MA)

- ◆ GFOA Best Practice – “GFOA recommends that issuers hire a municipal advisor prior to the undertaking of a debt financing unless the issuer has sufficient in-house expertise and access to current bond market information” <https://www.gfoa.org/materials/selecting-and-managing-municipal-advisors>
- ◆ Advises the issuer throughout the bond issue process
 - Debt structuring
 - Recommending method of sale
 - Selection of the underwriting team
 - Assisting in selection of other finance team members
 - Credit strategy and credit ratings process
 - Price negotiation



Municipal Advisor (MA)

◆ Role may vary according to:

- Expertise of issuer staff
- Type of bonds
- Method of sale
- Scope of Services



◆ Relationship may be transactional or on a “Retainer” basis

◆ MA has a Fiduciary Responsibility to represent the issuer and only the issuer

◆ Assists in a broad array of capital planning and debt issuance tasks

◆ Often acts as extension of staff



Issuance Costs



- ◆ Underwriting spread
 - Takedown
 - Management fee
 - Underwriter expense
- ◆ Bond counsel
- ◆ Municipal advisor
- ◆ Other costs
 - CUSIP
 - DTC
 - Printing
 - Rating agency (if the Issue is rated)
 - Travel
 - Paying agent
 - Ohio Municipal Advisory Committee (OMAC)
 - Verification agent (if refunding)



Role of Credit Rating Agencies

- ◆ Rating agencies rate municipal bond issuers in order to categorize the creditworthiness of the security pledge and likelihood of default by an issuer
- ◆ Rating agencies view the same credit structure differently – using different methodologies
- ◆ Ratings calls or meetings are conducted when a rating is requested for a bond issue
- ◆ Once a rating agency provides a rating for an issue, they will conduct regular surveillance while the issue is outstanding

FitchRatings

MOODY's

S&P Global
Ratings

KBRA **KROLL BOND
RATING AGENCY**



Ratings Categories

- ◆ Credit ratings play a role in broadening the investor base for an issuer
- ◆ Usually a stronger rating = lower cost of capital
- ◆ Each category (except triple-A and below Caa/CCC) has 3 “notches”
- ◆ Moody’s modifies with 1, 2 and 3 (i.e., Aa1, Aa2, Aa3)
- ◆ S&P and Fitch modify with plus (+) and minus (-) signs (i.e., AA+, AA, AA-)

Credit Ratings				
		Moody's	S&P	Fitch
Investment Grade	STRONGEST	Aaa	AAA	AAA
		Aa	AA	AA
		A	A	A
		Baa	BBB	BBB
Non-Investment Grade	WEAKEST	Ba	BB	BB
		B	B	B
		Caa	CCC	CCC
		Ca	CC	CC
		C	C	C
		C	D	D



Credit Rating Analysis

- Criteria used by the agencies differs by credit type and by agency, to some extent
- 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



Credit Ratings: Economy and Demographics

◆ Employment

- Largest employers, industry mix, by sector, employer concentration, unemployment

◆ Tax base

- Size, diversity, structure, assessed value trends

◆ Wealth

- Levels relative to region, state, nation

◆ Population

- Rising or falling, age, education, labor skills

◆ Proximity to transportation networks, cities and markets





Credit Ratings: Financial Condition

- Financial reporting
 - GAAP and GFOA, timeliness, adequacy
- Revenues
 - Trends, diversification
- Expenditures
 - Composition, stability, predictability
- Balance sheet
 - Liquidity, adequacy of fund balance, reserves, inter-fund transfers
- Cash management and investment practices



Credit Ratings: Debt Burden

- ◆ Affordability of obligations compared with available resources
 - Debt service as percentage of annual revenues
 - Debt outstanding as percentage of total assessed value
- ◆ Rapidity of debt repayment
- ◆ Capital improvement plan
- ◆ Mix of fixed versus variable rate debt
- ◆ Pension and other post-employment benefit liabilities



Credit Ratings: Management

- Strong budgeting framework
 - Conservative/accurate revenue projections
 - Expense monitoring and controls
 - Multi-year planning and/or forecasting
- Contingency planning
- Fund balance policies
- Liquidity management
- Capital improvement planning
- Debt planning
- Debt management policy



Bond Insurance

- ◆ Bond insurance (also known as “financial guarantee insurance”) is a type of insurance whereby an insurance company guarantees scheduled payments of interest and principal on a bond in the event of a payment default by the issuer of the bond
- ◆ As compensation for its insurance, the insurer is paid an upfront premium by either the issuer or owner of the security to be insured



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Key Timeline Items

- ◆ Developing finance schedule – key dates
 - Governing Board approvals
 - Ratings meetings
 - Day of sale
 - Market indices
 - Competing transactions
 - Closing
- Key tasks
 - Debt structuring analyses
 - Document drafts sent to rating agencies
 - Pre-pricing discussions and analysis
 - Post-pricing analyses
 - Closing document signatures and logistics



Post-Issuance Tasks

- ◆ Repay the debt, on time
- ◆ Track and monitor compliance with arbitrage rebate regulations
- ◆ Provide annual and other disclosure to investors as required by SEC Rule 15c2-12
 - As of July 1, 2009, disclosure documents are required to be filed electronically through the “EMMA” system
 - EMMA = Electronic Municipal Market Access
- ◆ Rule 15c2-12 requires
 - Notice of material events not more than 10 business days after the event
 - Annual financial and operating data by a certain date
 - Notice of failure to provide annual information



Questions

