



DEBT ISSUANCE

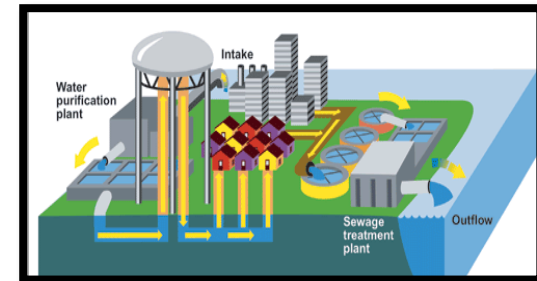
Bethany Pugh
Managing Director

PFM Financial Advisors LLC

April 24, 2019

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)

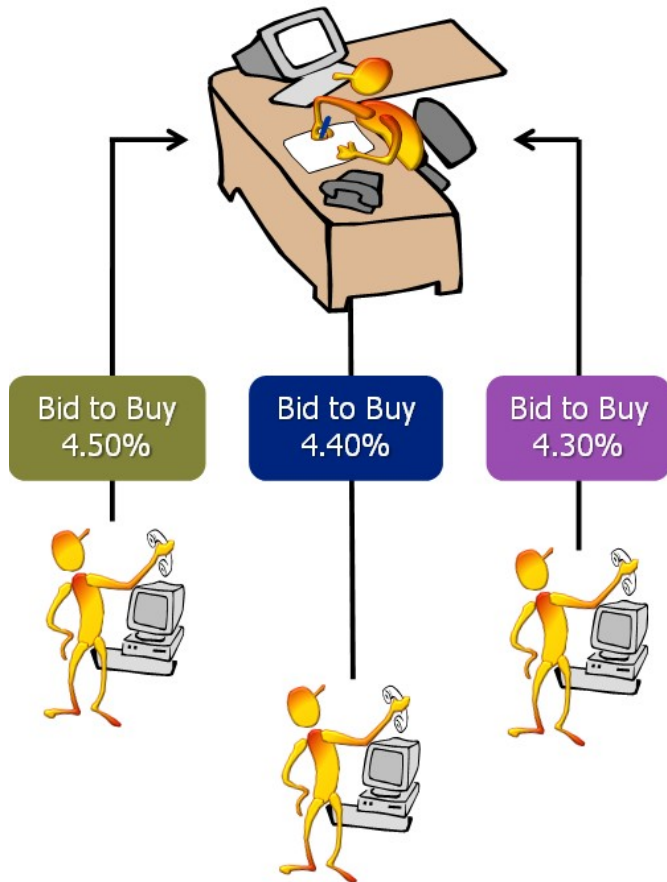


Debt Types

- 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

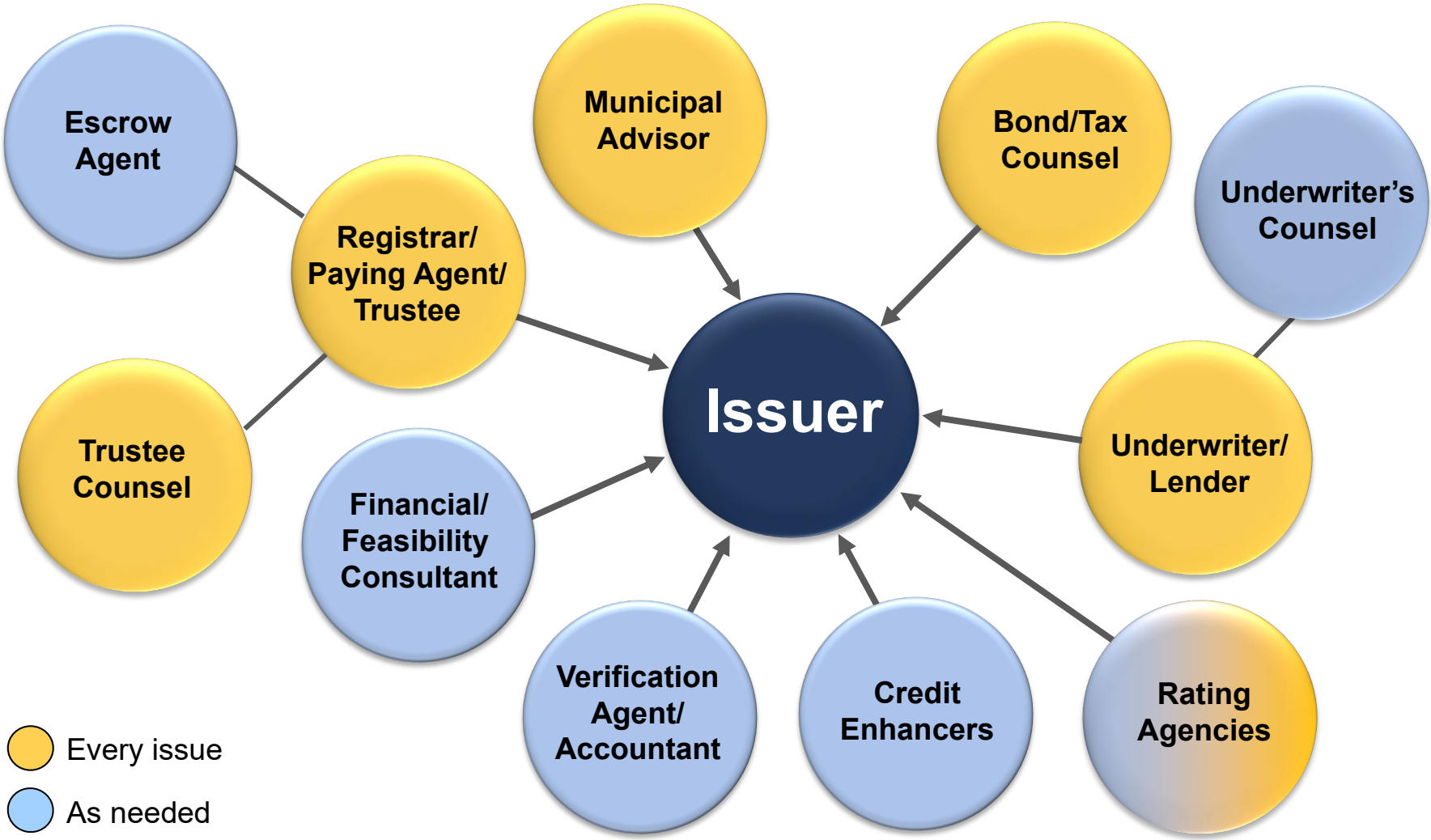
NEGOTIATED SALE



PRIVATE PLACEMENT



Debt Issuance Team



- Every issue
- As needed

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”
<http://www.gfoa.org/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

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**



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



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

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



Owned by MBIA

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

