



Managing Debt Effectively

Debt Management 102

WASBO Spring 2023

Overview

- Debt Management
 - ✓ Regulations & compliance
 - ✓ Paying agent
 - ✓ Managing levy
- Arbitrage Basics
 - ✓ Spend-down & yield
- Investment of Debt Proceeds
 - ✓ Objectives, policies, & draw schedule
- Bond Ratings Surveillance
- Refunding & Defeasance

Debt Proceeds Management & Compliance

Think about it here...



...Don't wait 'til here!

Post-Issuance Compliance

Primary
Responsibilities:

- Adopt policies & procedures
- Maintain adequate & required disclosures
- Ensure compliance with Arbitrage requirements
- Consider policies related to future debt issuance

Disclosure Types

Primary Disclosure

- Disclosures made as part of a primary (“new”) issue of municipal securities

Secondary (Continuing) Disclosure

- Following issuance of municipal bonds while the bonds remain outstanding

Continuing Disclosure

- SEC Requires Continuing Disclosure Agreement (CDA):
 - ✓ Municipal issuers must enter into CDA with underwriter
 - ✓ The CDA requires issuer to file certain information & event notices within specific time frames
 - ✓ Filing requirements

Purpose

- Municipal issuers provide information to investors material to determining the price, or impacting the purchase or sale of securities



Continuing Disclosure for Municipal Securities

Exempt

- Entire issue < \$1 million
- Denoms of \$100,000 or more and sold to no more than 35 sophisticated investors OR mature in nine months or less

Limited Disclosure

- Outstanding debt subject to a CDA < \$10 million
- Audited financial statements
- Event notices

Full Disclosure

- Outstanding debt subject to a CDA \$10 million or >
- Audited financial statements
- Annual financial information & operating data
- Event notices

Direct placements in the form of loans and are not securities subject to disclosure requirements of the SEC's Rule 15c2-12

Continuing Disclosure: EMMA

The screenshot displays the EMMA website interface. At the top, there is a navigation bar with links for "MyEMMA", "EMMA Dataport", and "Contact Us". The main header features the EMMA logo and the text "Electronic Municipal Market Access, A service of the MSRB". A "Quick Search" input field is located in the top right corner.

Below the header is a green navigation bar with the following links: "ADVANCED SEARCH", "BROWSE ISSUERS", "FIND 529 PLANS", "MARKET ACTIVITY", and "EMMA HELP".

The main content area is divided into two columns. The left column contains a sidebar with the following items:

- Are you new to EMMA?
- Find prices, disclosures and other information of municipal bonds.**
- Browse municipal securities information by issuer.
- Explore municipal market trends and data.
- Read about EMMA updates.

The right column is titled "Search for Municipal Bonds" and contains three search options:

- Quick Search**: Find municipal bonds by CUSIP number or name. Includes an input field labeled "Enter CUSIP or Name".
- Advanced Search**: Find municipal bonds based on certain specific characteristics, including rating, maturity and price.
- Price Discovery**: Find and compare trade prices of municipal bonds with similar characteristics. Includes an input field labeled "Enter CUSIP-9".

At the bottom left, there is a link to "http://emma.msrb.org/" and a section for the "MSRB Education Center" with the text "Access resources for municipal market".

At the bottom right, there is a section titled "MOST ACTIVELY TRADED MUNICIPAL SECURITIES" for 9/14/2015 as of 10:50 AM. It includes a pagination control (Previous, 1, 2, 3, 4, 5, Next) and a table header with columns: Security, Maturity, Interest, High/Low, High/Low, Trade, and Total Trade.

Paying Agent

What?

- Facilitates delivery of payments from issuer to bond holders through DTCC (Depository Trust & Clearing Corporation)

Who?

- Usually a bank or trust company but can be the issuer

Compensation?

- Typically paid flat fee by issuer at closing, generally from bond proceeds
- Annual fees while the issue is outstanding

Debt Management

Understand its impact to
district budget

Plan for annual levy vs.
fiscal budget

Debt Management: Levy vs. Expense

Revenue

Levy for calendar year
P&I payments

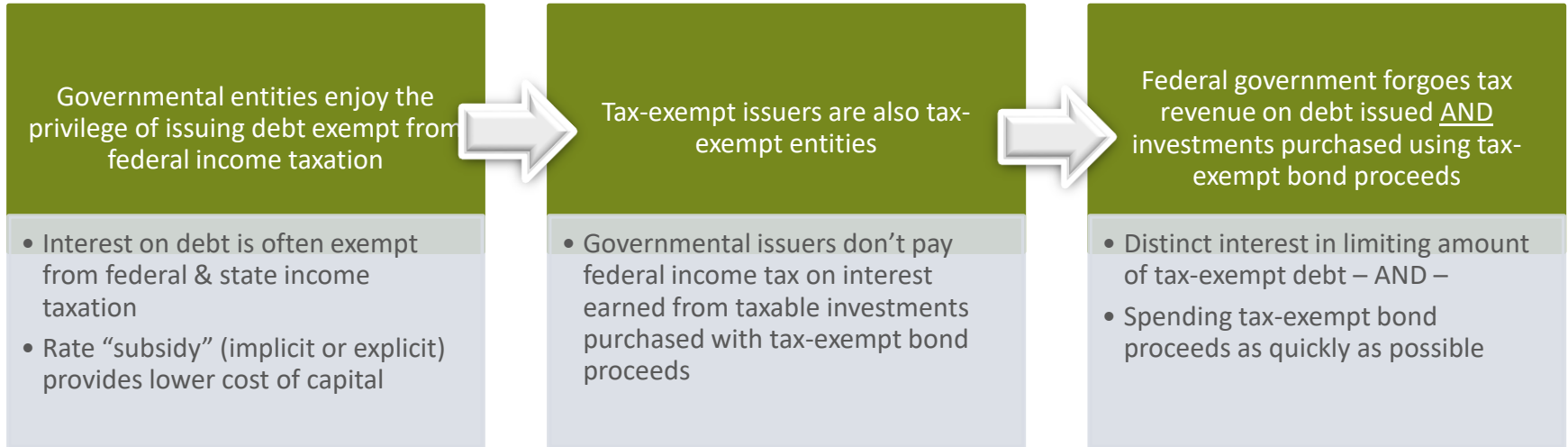
- November 2023 levy - Spring and Fall 2024 payments

Expense

Budget for fiscal year
P&I payments

- 2023-2024 Budget: Fall 2023 payments & Spring 2024 payments

Debt Proceeds Management: Arbitrage Regulations



Why It Matters *More* Now...



Yield environment for borrowing & reinvestment



Project/materials procurement delays extending expenditure periods = increased interest earnings potential



Earnings on ALL funds & accounts likely to increase due to higher short-term yields (debt service, reserve, etc.)

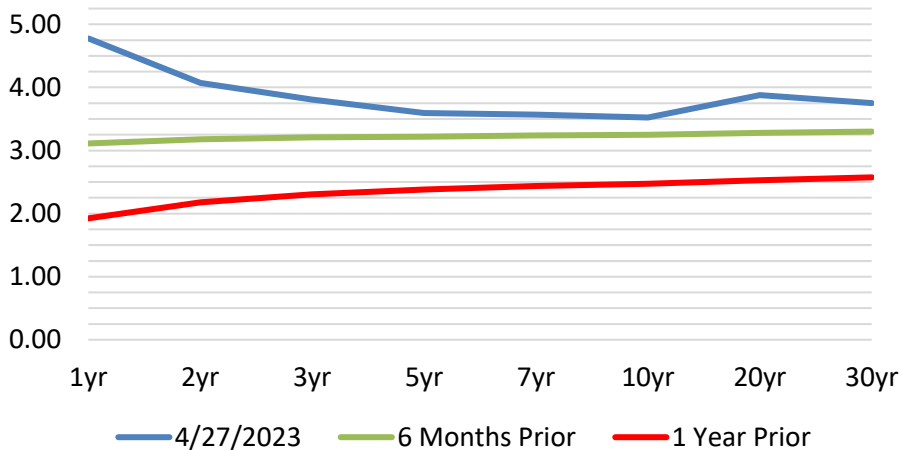


87,000 additional IRS employees = more audit eyes!

Yield Environment

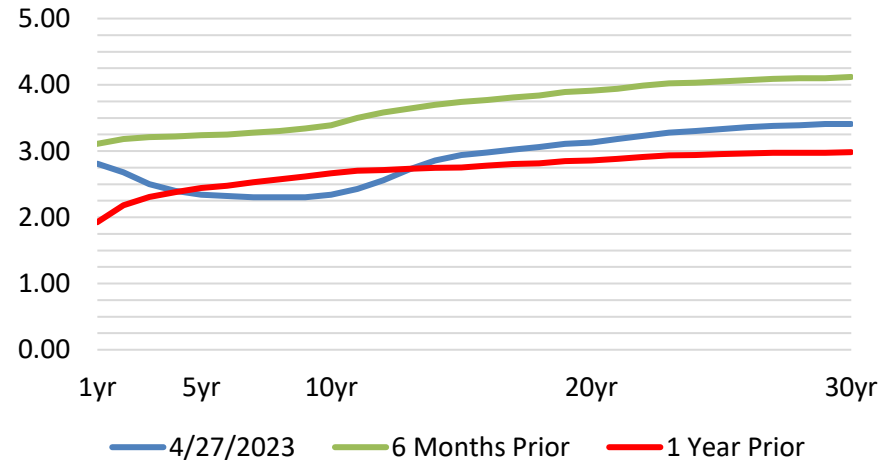
TAXABLE

US Treasury Yield Curve

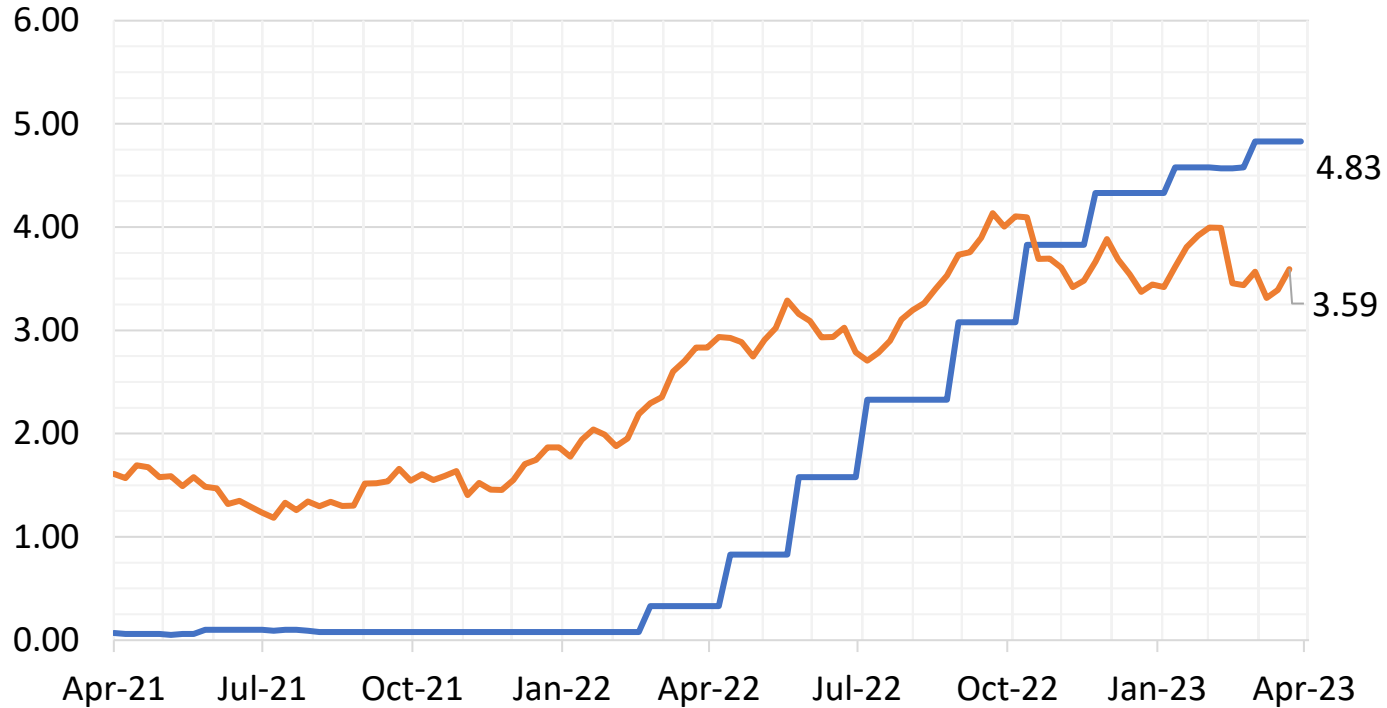


TAX-EXEMPT

AAA BVAL Muni Yield Curve

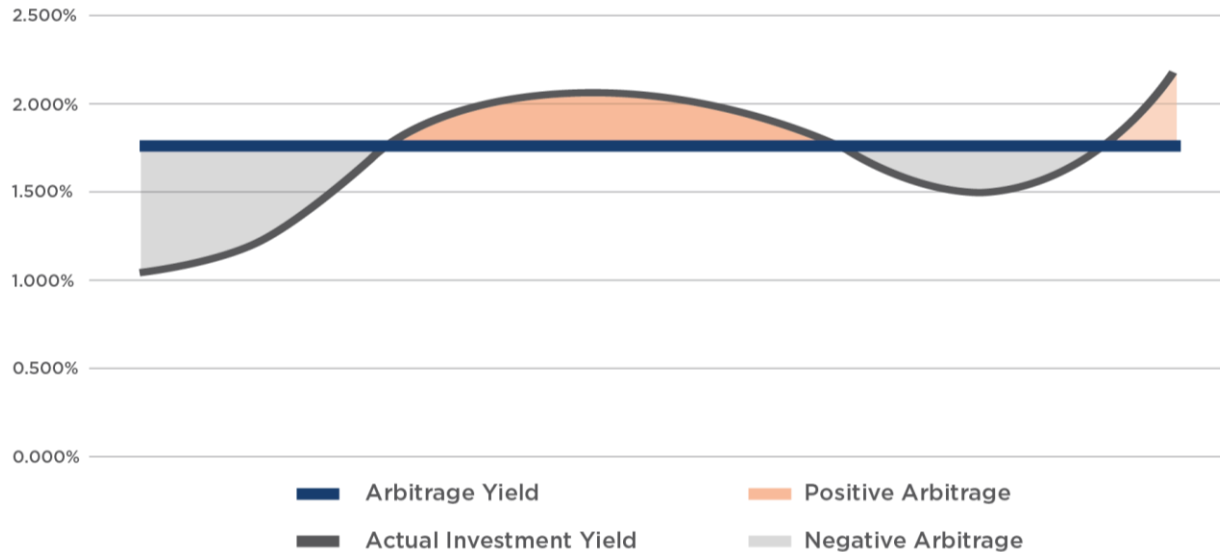


Fed Funds & 10-Year UST



Arbitrage Monitoring

It's ALWAYS been a “thing.”



Arbitrage & Yield Restriction

- Prohibits “abuse” associated with investing proceeds of tax-exempt debt in higher yielding taxable securities
- IRS limitations related to:
 - ✓ Issuing earlier than necessary
 - ✓ Issuing more than necessary
 - ✓ Keeping proceeds invested longer than necessary
- Must reasonably establish each tax-exempt issue complies with requirements

Temporary Periods

Expenditure Test

- 85% of sale proceeds must be allocated to expenditures within three years

Time Test

- Must expend at least 5% of sales proceeds within six months of date of issue

Due Diligence Test

- Project completion & sale proceeds allocation to expenditures must proceed with “due diligence”

Exceptions to Rebate

Small Issuer Status:

Applies to School District construction projects where the issuer reasonably expects to issue no more than \$15MM in tax-exempt debt during a calendar year

(\$5MM for general issuers)

Current refundings generally excluded from \$5 million limit.

Exceptions to Rebate

Spending Exceptions:

6-Month Exception

- Must spend 100% of gross proceeds within 6 months of issuance date

18-Month Exception

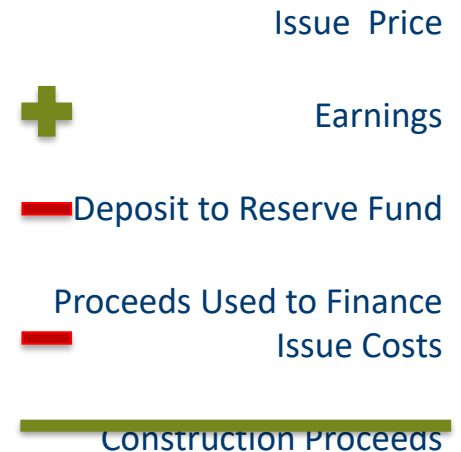
- Must spend at least 15% within 6 months of issuance date
60% within 12 months...
100% within 18 months

Exceptions to Rebate

24-Month Exception

- Must reasonably expect at least 75% of “construction proceeds” will be used for construction expenditures
- Must spend at least 10% of construction proceeds within 6 months of issuance date
 - 45% within 12 months...
 - 75% within 18 months...
 - 100% spent within 24 months

NEW TERM!



Exceptions to Rebate

- Establishing reasonable expectations at time of issuance
- Bifurcating & applying different exceptions to respective purposes (construction vs. “acquisition”)
- Paying penalty in lieu of rebate
 - ✓ 1.5% penalty at time of issuance
 - ✓ Can be difficult to calculate in advance
 - ✓ Risk of any deviation from construction schedule



UNCOMMON

Spending Gross Proceeds

Involves cash outlay to a governmental expenditure purpose

Reasonably expected to occur within five banking days of allocation

Exceptions apply, particularly for working capital borrowings

Monitoring & Reporting

- Rebate/Yield Restriction Payments (IRS Form 8038-T)
 - ✓ Sent to IRS no later than 60 days after soonest of:
 - Each five-year anniversary date of issue – OR –
 - Date in which bonds are no longer outstanding
- IRS Compliance Checks
 - ✓ Questionnaires
 - ✓ Audits & investigations

Arbitrage Compliance

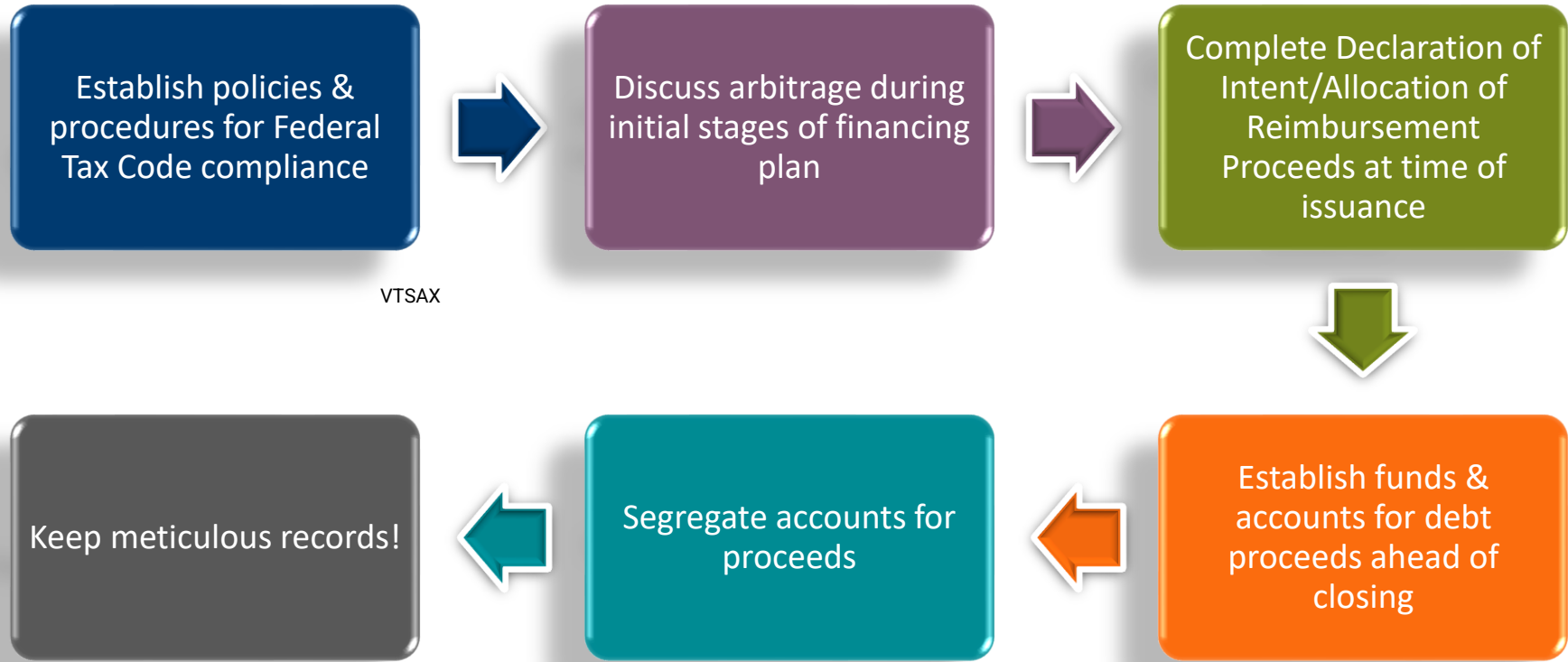
Develop plan & procedures for lifespan of project, bond issue

- Monitor spend-downs & adjust investing strategy/portfolio, as warranted
- When unspent funds remain after project completion, transfer to debt service fund or repurpose to other eligible expenditures
- Monitor all funds & accounts at least annually to maintain bona fide status
- File all required reporting!
DOES NOT = Reporting

Monitoring



Best Practices Process



The Price of Non-Compliance

A myriad of potential consequences...

Fines

Bonds deemed
taxable

Bonds removed
from market by
issuer

Bondholder
lawsuits

Required securities
disclosures

Credit rating risks

Reputational risk

Difficulty accessing
capital

Investing Bond Proceeds

Safety :

- Minimize investment risk

Liquidity:

- Access funds for project costs

Yield:

- Maximize investment earnings

Plan ahead! Be aware of arbitrage requirements & establish/adjust spend-down or investment strategy accordingly.

Wisconsin 66.0603 Deposits & Investments

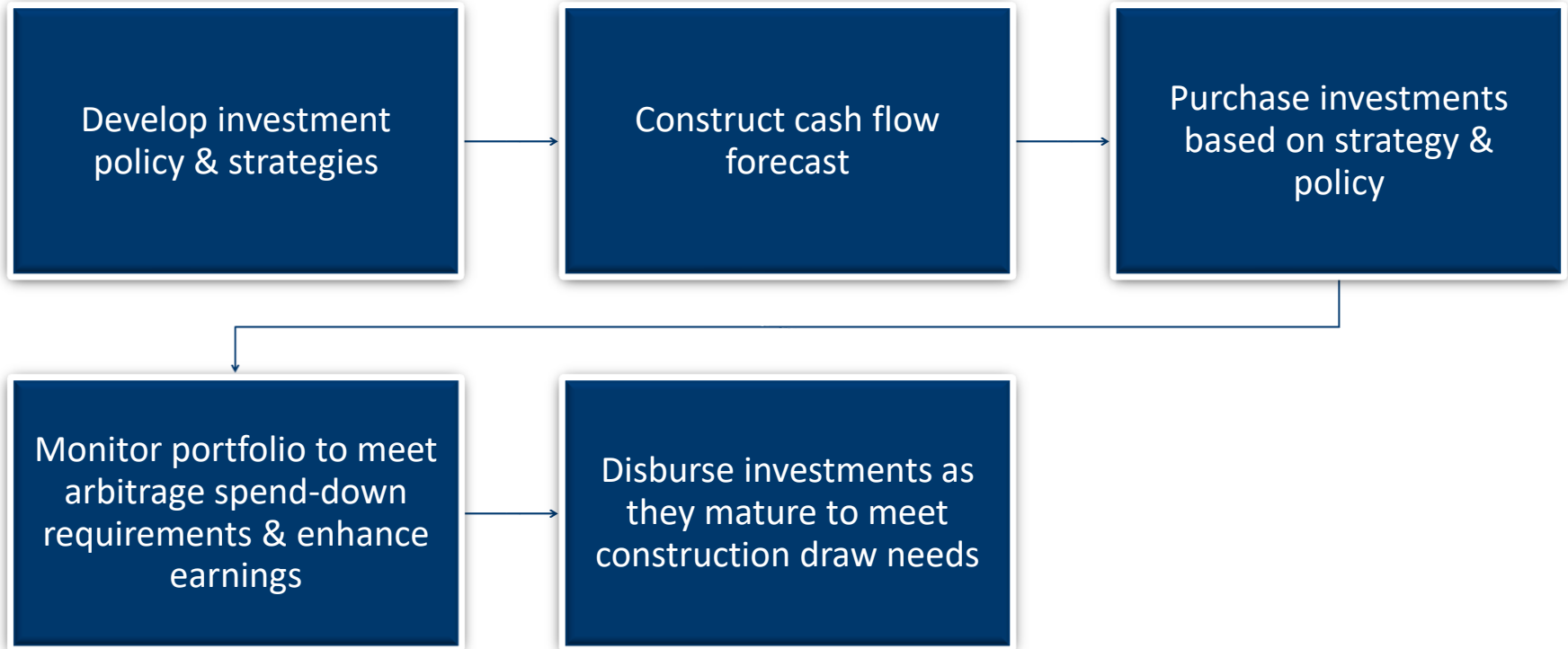
Deposits

- Collateral
- Perfecting collateral

Permissible Investments

- Types
- Fixed vs. variable-rate investments

The Process



Bond Rating Surveillance

- Primary Agencies:
- Rating Types
 - Non-rated
 - Rated
 - Surveillance

STANDARD
&POOR'S

MOODY'S
INVESTORS SERVICE

FitchRatings

- Rating agency may collect information periodically to evaluate if district's rating status should be reviewed
- Rating agency can schedule rating interview to evaluate current rating & may adjust based on new information

Refunding & Defeasance

Advantages

- Allows district to potentially save money
- Provides opportunity to restructure debt
- Aids district in planning for future debt

Refunding: Purposes

- Reduce debt payments
- Achieve lower interest rates

Savings

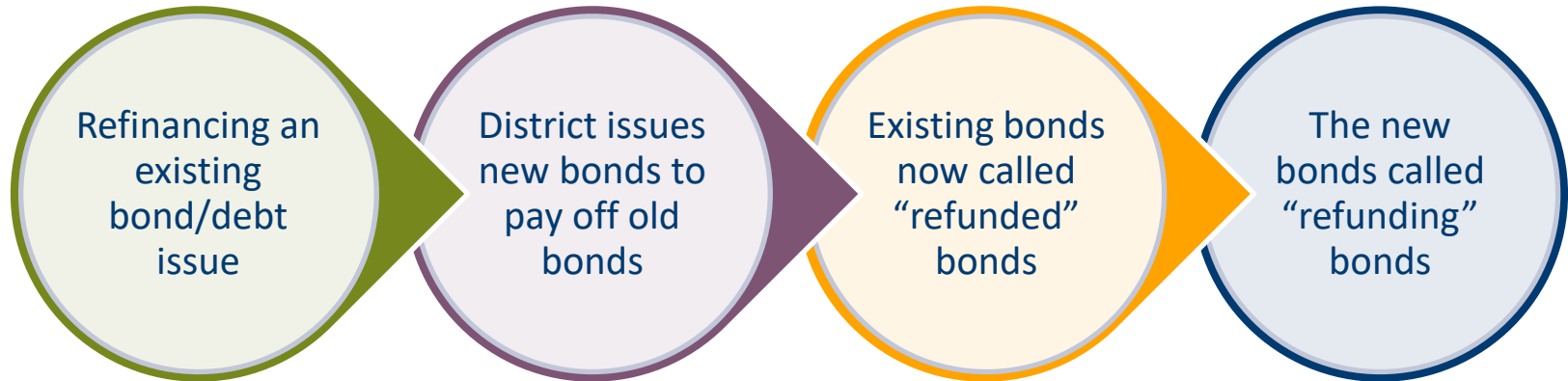


- Extend or shorten payment schedule
- Change payments for certain years

Restructure
Debt



Refunding: The Basics



Refundings: Redemption (Call) Provision

OPTIONAL REDEMPTION: Bonds maturing April 1, 2025, and thereafter are subject to call for prior redemption on April 1, 2024, and any date thereafter, at par.

Payment Due Date	Principal	Rate	Interest
4/1/2022	285,000	3.00%	438,775.00
10/1/2022			434,500.00
4/1/2023	380,000	3.00%	434,500.00
10/1/2023			428,800.00
4/1/2024	770,000	3.25%	428,800.00
10/1/2024			416,287.50
4/1/2025	885,000	3.50%	416,287.50
10/1/2025			400,800.00
4/1/2026	920,000	4.00%	400,800.00
10/1/2026			382,400.00
4/1/2027	960,000	4.00%	382,400.00
10/1/2027			363,200.00
4/1/2028	3,470,000	4.00%	363,200.00
10/1/2028			293,800.00
4/1/2029	3,625,000	4.00%	293,800.00
10/1/2029			221,300.00
4/1/2030	3,780,000	4.00%	221,300.00
10/1/2030			145,700.00
4/1/2031	3,960,000	4.00%	145,700.00
10/1/2031			66,500.00
4/1/2032	3,325,000	4.00%	66,500.00
10/1/2033			

Call Date (points to 4/1/2024)

Callable maturities \$20,925,000 (points to 4/1/2025)

Total interest eligible for reduction \$4,579,975 (points to interest payments from 4/1/2025 to 4/1/2032)

Defeasance

Pays all or a portion of an outstanding bond prior to maturity or optional redemption date



Involves establishing an escrow account



Can use excess operating funds



Can levy for debt service in advance of payment date to defease a portion of debt

Key Takeaways

Know Your Responsibilities!

- Maintain compliance with debt issuance regulations (continuing disclosure)
- Consider engaging a paying agent to ensure timely remittance of principal & interest payments
- Monitor expenses and levy management
- Partner with your Municipal Advisor to identify refunding or defeasance opportunities

Questions? Consult your Municipal Finance team!

Your Presenters



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