



Debt Management 102

WASBO Spring 2024

Your Presenters



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Session Overview

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

Debt Proceeds Management & Compliance

Think about
it here...



...Don't wait
'til here!

Legislative Update: Senate Bill 773, Act 128

**Updated notes
issuance
maximum term**

- Notes may be issued for a term of up to 20 years
- Competitive bid not required on notes

**Increased
maximum for
State
Guarantee
Fund**

- DFI may provide up to \$1M to the state or any local government for losses resulting from the deposit of public moneys in a failed financial institution
- May impact district policies, existing references, or collateralization requirements

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 they remain outstanding

Continuing Disclosure

- SEC Requires Continuing Disclosure Agreement (CDA), unless an exemption can be met:
 - ✓ Municipal issuers must enter into CDA with underwriter
 - ✓ CDA requires issuer to file certain information & material event notices within specific time frames
 - ✓ Filing requirements
- Purpose
 - ✓ Municipal issuers provide timely information to investors material to determining price or impacting purchase or sale of securities

Continuing Disclosure for Municipal Securities

Exempt

- Entire issue < \$1 million
- Denominations of \$100,000 or more & 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
- Material event notices

Full Disclosure

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

Continuing Disclosure: EMMA

The screenshot displays the EMMA website interface. At the top, the URL is <http://emma.msrb.org/>. The EMMA logo is prominently displayed, along with the text "Electronic Municipal Market Access" and "A service of the MSRB". Navigation links include "MyEMMA", "EMMA Dataport", and "Contact Us". A "Quick Search" bar is present with the placeholder text "Enter CUSIP or Name".

The main navigation bar includes: ADVANCED SEARCH, BROWSE ISSUERS, FIND 529 PLANS, MARKET ACTIVITY, and EMMA HELP.

On the left side, there are several links: "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.", and "Read about EMMA updates.".

The central section is titled "Search for Municipal Bonds" and contains three search options:

- Quick Search:** Find municipal bonds by CUSIP number or name. Includes a search bar with the placeholder "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 a search bar with the placeholder "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

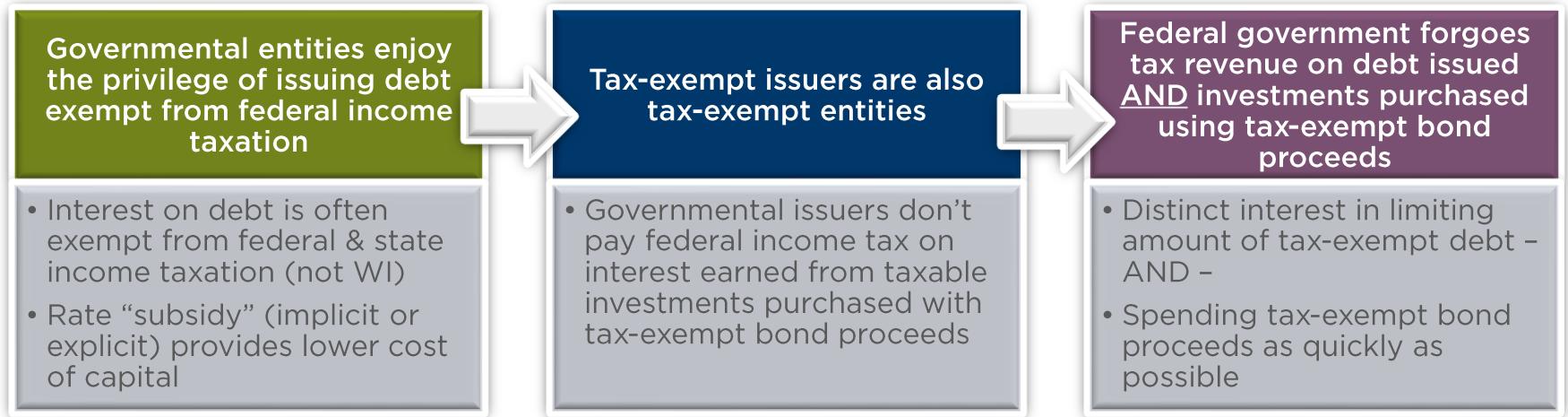
- November 2023 levy - Spring and Fall 2024 payments

Expense

Budget for fiscal year
P&I payments

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

Debt Proceeds Management: Arbitrage Regulations



Why Arbitrage Matters



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 potential!

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 that each tax-exempt issue complies with requirements at time of issue

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 issuer reasonably expects to issue no more than \$15 million 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% within 24 months

NEW TERM!

Issue Price



Earnings

— Deposit to Reserve Fund

— Proceeds Used to Finance Issue Costs

Construction Proceeds

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 on 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!
Monitoring DOES NOT = Reporting



Investing Bond Proceeds

Safety :

- Seek to minimize investment risk

Liquidity:

- Ensure access to funds for project costs

Yield:

- Seek to maximize investment earnings

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

Wisconsin 66.0603: Deposits & Investments

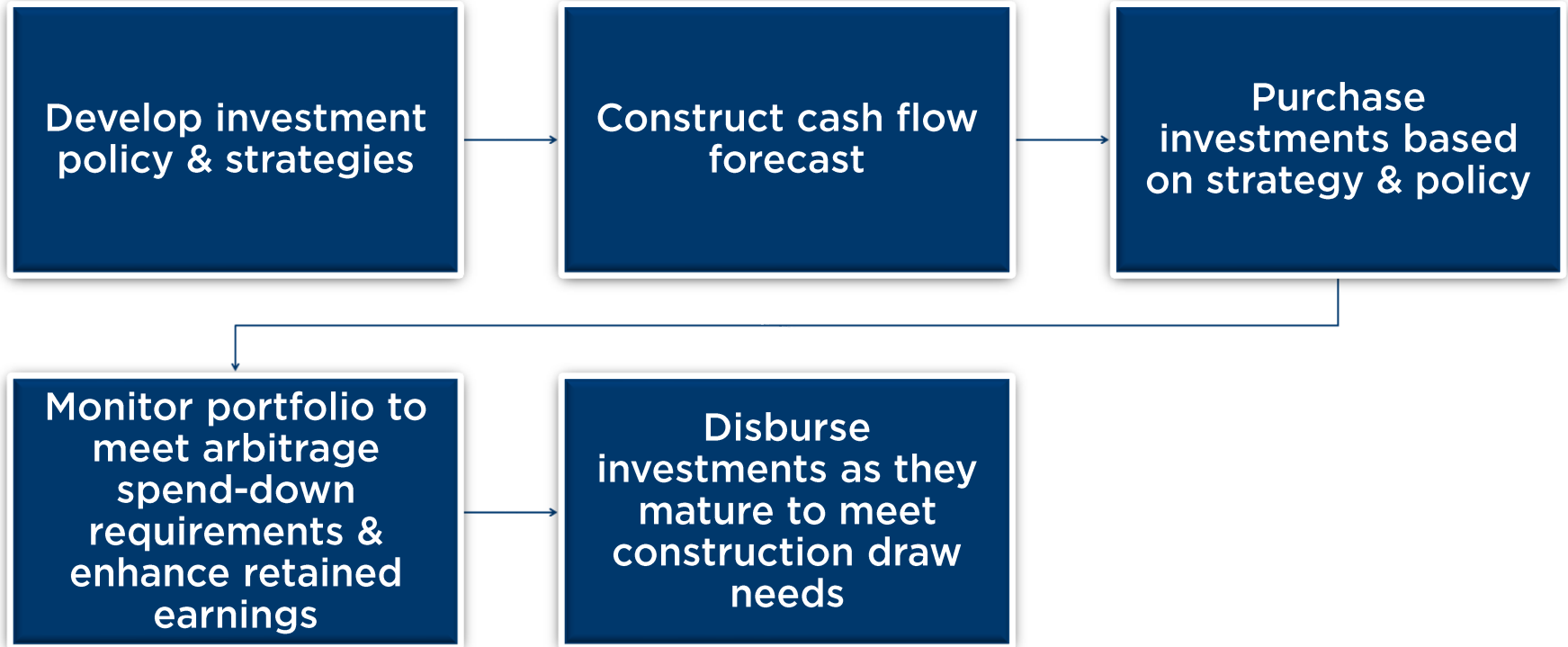
Deposits

- Collateral
- Perfecting collateral

Permissible Investments

- Types
- Fixed vs. variable-rate investments

The Investment Process



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

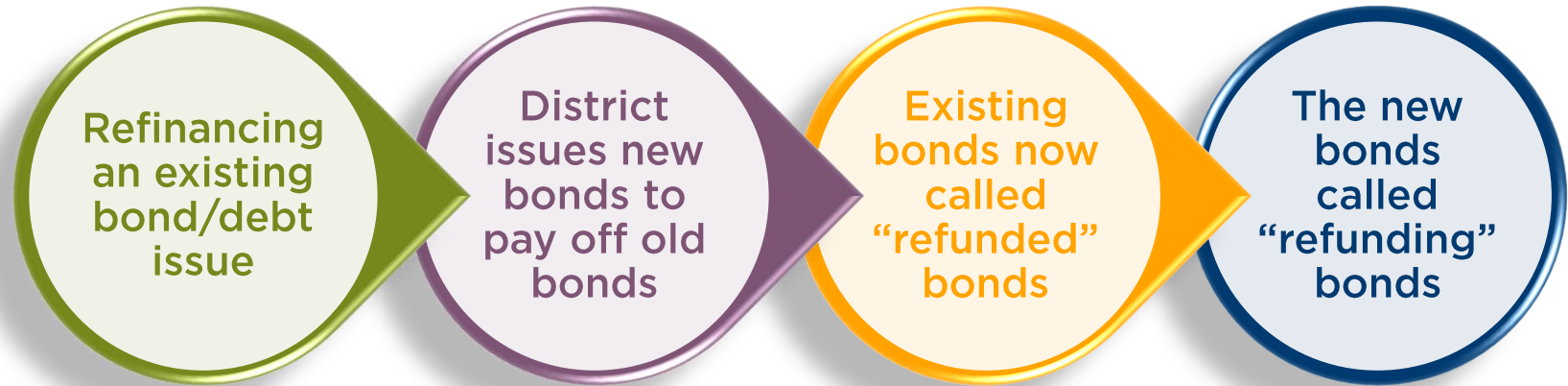


- Extend or shorten payment schedule
- Change payments for certain years

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

Callable maturities
\$20,925,000

Total interest eligible for reduction
\$4,579,975

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

Debt Proceeds Management: Best Practices



Thank you!



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