



Bond Basics

Wisconsin Association of School Business
Officials – SBO Professionals Conference

Bond Basics: Today's Topics



Key Concepts & Terms



Market Players & Their Roles



Issuance Process



Post Issuance Obligations



Investing Bond Proceeds

Why Wisconsin School Districts Borrow

Facilities

- New Schools, Facilities, & Additions
- Facilities Maintenance and Improvements
- Operational (Tax & Revenue Anticipation Notes)

Infrastructure

- HVAC
- Energy Conservation Strategies

Equipment

- District-wide equipment
- Vehicles (buses, vans)

Types of Capital Financing

- “Pay as you go”
 - ✓ Use existing cash & reserves
 - Efficient if sufficient cash reserves or if budgeted for
 - ✓ Efficient for short-lived assets
 - ✓ Sometimes difficult to save enough
 - ✓ Those who “paid” may not benefit



Types of Capital Financing

- Debt issuance
 - ✓ Preserve existing cash & resources
 - ✓ Cost of asset amortized over useful life and term of financing
 - ✓ Asset paid for & benefited by users
 - ✓ Manage & stabilize tax rates, fees
 - ✓ Some debt service exempt from levy limits
 - Additional revenue source



Types of Pledge & Security

Two Primary Types:

- General Obligation (G.O.)
 - ✓ Irrevocable pledge to levy ad valorem tax for debt service payment
- Revenue – secured by specific source
 - ✓ Utility system, lease payments, tax increment, etc.
 - ✓ State/Federal aids & grants



Unlimited tax G.O.
***generally* considered**
strongest & attracts
lowest available rates

Key Terms

Bonds

Notes

Securities

Obligations

All general
terms for
DEBT

Key Terms

Maturity:

- Refers to the date the contract between debt issuer & investor(s) ends
- Debt issuer makes final principal payment



Key Terms

Par:

- The face value or principal amount of debt issued



Key Terms



Coupon: The stated interest rate of debt issued

Fixed
Variable



Yield: The measure of investor return on debt issued over life of that debt

Yield MAY NOT equal coupon
Dependent on price

Key Terms

Optional Redemption or “Call” Feature:

- The ability for an issuer to pay debt PRIOR to maturity at specified times & prices
- “Par call” = date debt can be paid at face value.

Official Statement:

- Municipal securities offering & disclosure document

Tax Exempt Debt

Municipal debt issued for public purposes is typically tax exempt & carries favorable interest rates.



Tax-Exempt Debt

- Interest paid to debt holders exempt from federal income tax
- Tax-exemption
 - ✓ Must comply with federal regulations
 - ✓ U.S. Treasury is governing body
 - ✓ IRS enforces regulations
- Bank Qualification (Qualified tax-exempt)

Municipal issuers can also issue taxable debt.

Debt Issuance Players

- Who are they?
- What role do they play?
- Who do they represent?
- How do they get paid?

Municipal Advisor

- Advises on financing plan & calendar
- Assists with assembly of financing team
- Recommends structure, size, timing, terms & method of sale
- Helps prepare offering & disclosure documents
- Represents issuer's interests throughout process
- Maintains fiduciary obligation to issuer
- Typically paid flat fee from issuance proceeds

Bond Counsel

- Provides validity & tax opinions
- Helps support debt authorization under state law
- Prepares legal documentation & agenda language
- Drafts & reviews specific sections of official statement
- Prepares continuing disclosure agreement
- Typically paid via flat fee from issuance proceeds

Rating Agency

- Renders independent credit assessment of issuer & specific transaction
 - ✓ Better rating = better market access, lower cost of financing
 - ✓ Not all municipal issuers or transactions rated
- Monitors issuer via ongoing surveillance
- Paid direct fee from issuers, but doesn't represent them

S&P Global

MOODY'S
INVESTORS SERVICE

FitchRatings

Underwriter

- Purchases bonds & sells to investors
- Represents their own commercial interests that may differ from issuer's
- Adheres to suitability & fair dealing standard, not fiduciary
- Paid by issuer via “underwriter discount”

\$10 Discount = \$10/\$1,000 or 1.00% face value	
\$1,000,000 issue	\$10,000 discount
Underwriter pays \$990,000 for \$1,000,00 in bonds	

Paying/Fiscal Agent

- Bank or trust company that:
 - ✓ Helps issuer complete scheduled payments to bondholders
 - ✓ Disseminates certain notices on issuer's behalf
 - ✓ Acts as issuer's agent with Depository Trust & Clearing Corporation (DTCC)
- If not engaged, issuer must work directly with DTCC
- Pay set-up fee at closing & annual fee over life of debt



Issuing Debt: Process & Timing



Planning & Authorization

What	Who
<ul style="list-style-type: none">• Determine amount to borrow• Structure transaction (type, terms, etc.)• Establish timing of debt sale	<ul style="list-style-type: none">• Issuer• Municipal Advisor
<ul style="list-style-type: none">• Obtain legal authorization<ul style="list-style-type: none">✓ Initial authorization & required actions✓ Referendum/Election• Determine tax-exempt status	<ul style="list-style-type: none">• Issuer• Municipal Advisor• Bond Counsel

Legal Documents & Official Statement

Bond Marketing & Sale: Borrowing Options

Securities Offering:

- Bonds sold in capital markets through underwriter
- Can achieve fixed rates up to 20 years
- Official Statement serves as offering document

New Issue

Rating Application Made: S&P Global Ratings

SCHOOL DISTRICT OF RIVER FALLS, WISCONSIN
(Pierce and St. Croix Counties)

\$13,665,000* GENERAL OBLIGATION REFUNDING BONDS, SERIES 2021A

BID OPENING: January 13, 2021, 10:00 A.M., C.T.

CONSIDERATION: Not later than 11:59 P.M., C.T. on January 13, 2021 (PARAMETERS RESOLUTION)

PURPOSE/AUTHORITY/SECURITY: The \$13,665,000* General Obligation Refunding Bonds, Series 2021A (the "Bonds") are authorized pursuant to Section 67.04, Wisconsin Statutes, by the School District of River Falls, Wisconsin (the "District"), for the purpose of effecting a current refunding of certain outstanding general obligations of the District as more fully described herein. The Bonds are general obligations of the District for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Quarles & Brady LLP, Milwaukee, Wisconsin.

DATE OF BONDS: February 11, 2021

Bond Marketing & Sale: The Municipal Bond

- Municipal security issued by a governmental body
- Evidence of debt that specifies:

1. An obligation to pay

2. A stated amount or “principal”

3. At a given time or “maturity”

4. With a stated interest rate

Bond Marketing & Sale: Borrowing Options

Negotiated Underwriting

Issuer works with Municipal Advisor to select underwriter

Effective for unique features, new or challenged credit, difficult market conditions

Competitive Underwriting

Bonds offered through competitive bid

Sale awarded to lowest interest cost proposal

Bond Marketing & Sale: Borrowing Options

Direct Placement:

- Banks & other institutions active lenders to public entities
- No official statement required (term sheet)
- Attractive for smaller issues, unique features
- Bank demand changes over time
 - ✓ Compare “all-in” costs to capital market options



Still must follow process when working with banks!

Bond Sale & Closing

Sale

- Rates & terms are fixed
- Governing body approves final documents
- If securities offering, final Official Statement prepared & distributed

Closing

- Funds delivered to borrower
- Costs of issuance paid to professionals
- Funds invested until needed

You've Secured Funding! Now What?



**Post-Issuance
Obligations**

Post Issuance: Debt Management

Post-Issuance Compliance

- Adopt Policies & Procedures
- Maintain adequate and updated disclosure
- Ensure compliance with Arbitrage requirements
- Policies related to future debt issuance

Disclosure

- Primary Disclosure
 - ✓ Before and during issuance
- Secondary (Continuing) Disclosure
 - ✓ After issuance and while bonds outstanding

Primary Disclosure

- Official Statement (OS):
 - ✓ Review Official Statement
 - ✓ Perform Due Diligence
 - ✓ Sign Certificates
 - ✓ Disclosure Counsel

Continuing Disclosure

- SEC Requires Continuing Disclosure Agreement (CDA):
 - ✓ Enter into with underwriter
 - ✓ Requires filing of certain information and event notices within specified time frames
 - ✓ Filing requirements
- Purpose
 - ✓ Municipal issuers provide ongoing information
 - ✓ Ensure market transparency
 - ✓ Ensure properly priced bonds

Continuing Disclosure

- Exempt
 - ✓ Issues < \$1 million
 - ✓ Private placement
- Limited Disclosure
 - ✓ Outstanding debt < \$10 million
 - ✓ Audited financial statements
 - ✓ Event Notices
- Full Disclosure
 - ✓ Outstanding debt > \$10 million
 - ✓ Audited financial statements
 - ✓ Annual financial information and operating data
 - ✓ Event notices

Continuing Disclosure – Event Notices

- Principal and interest payment delinquencies
- Non-Payment related defaults
- Unscheduled draws on debt reserves, reflecting financial difficulties
- Unscheduled draws on credit enhancements, reflecting financial difficulties
- Substitution of credit or liquidity providers
- Events affecting the tax-exempt status of securities
- Modifications to the rights of security holders
- Securities calls, if material, and tender offers
- Defeasances
- Release, substitution or sale of property securing repayment of securities
- Rating changes
- Bankruptcy, insolvency, receivership or similar event
- Merger, acquisition or sale of all issuer assets
- Appointment of a successor or additional trustee or the change of trustee name
- Incurrence of a financial obligation, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect security holders, if material
- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation, any of which reflect financial difficulties

Continuing Disclosure-EMMA

The screenshot shows the EMMA (Electronic Municipal Market Access) website. The browser address bar displays <http://emma.msrb.org/>. The page header includes the EMMA logo, navigation links for MyEMMA, EMMA Dataport, and Contact Us, and a Quick Search box with the placeholder text "Enter CUSIP or Name".

The main navigation bar contains 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 a search box 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 box with the placeholder "Enter CUSIP-9".

At the bottom of the page, there are two additional sections:

- MSRB Education Center**: Access resources for municipal market.
- MOST ACTIVELY TRADED MUNICIPAL SECURITIES**: For 9/14/2015 as of 10:50 AM. Includes a table with columns: Security, Maturity, Interest, High/Low, High/Low, Trade, Total Trade. The table is currently empty.

Arbitrage: What exactly is it?

ARBITRAGE CREATION



Investment of
Bond Proceeds

Interest Earnings



TAXABLE
SECURITIES MARKET

Issuance of
Municipal Debt

Interest Payments



TAX-EXEMPT
SECURITIES MARKET

Arbitrage

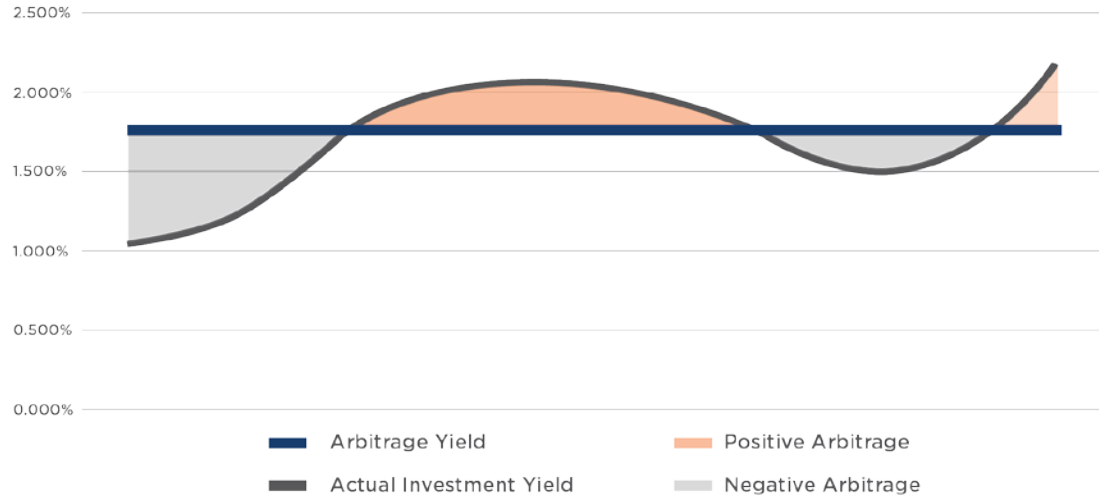
- Prohibit abuse associated with investing proceeds of a tax-exempt issue in higher yielding taxable securities
- IRS limitations related to:
 - ✓ Issuing earlier than necessary
 - ✓ Issuing more than necessary
 - ✓ Keeping longer than necessary
- Must prove each tax-exempt issue complies with requirements

District Responsibilities

- Follow IRS arbitrage rules
 - ✓ Legal documents create obligation to follow rules
- Filing requirement after 5 years and final maturity
- Difference in bond interest and investment earnings

Arbitrage: What exactly is it?

ARBITRAGE MONITORING



Arbitrage Rebate

- Rebate earnings unless an exception applies
 - ✓ “Small Issuer”
 - ✓ Spending
 - 6 month, 18 month, and 2 year
 - ✓ Bona Fide Debt Service Fund
- Yield Restrictions
 - ✓ 3-Year Temporary Period
 - ✓ 5-Year Temporary Period

Arbitrage

- 6 month spending exception
 - ✓ 100 percent within 6 months
- 18 month spending exception
 - ✓ At least 15 percent within 6 months;
 - ✓ At least 60 percent within 12 months; and
 - ✓ 100 percent within 18 months
- 2 Year spending exception
 - ✓ At least 10 percent within 6 months;
 - ✓ At least 45 percent within 1 year;
 - ✓ At least 75 percent within 18 months; and
 - ✓ 100 percent within 2 years

Arbitrage

- IRS Form 8038-T
 - ✓ Payment 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 and Investigations

Arbitrage

- Potential Consequences:
 - ✓ Fines
 - ✓ Deem bonds taxable
 - ✓ Bonds removed from market (cash or taxable debt)
 - ✓ Bond holder lawsuits
 - ✓ SEC investigations
 - ✓ Credit ratings risks
 - ✓ Reputational risk
 - ✓ Difficulty issuing future debt

Paying Agent

- Facilitates delivery of payments through DTCC (Depository Trust & Clearing Corporation)
- Trust company or issuer
- Typically paid flat fee by issuer, generally from bond proceeds

Post Issuance: Investments

Investment of Bond Proceeds

Cash Forecasting:

- Build into Debt Plan
- Plan for Investment Earnings

Maintain Compliance:

- Permissible Investments
- Arbitrage

Construction Draw Schedule

- Ensure Funds are Available as Needed

Let's Talk!



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