



Debt Management 102

2022 WASBO Spring Conference

Today's Topics

Continuing Disclosure

Bond Proceeds
Investment/Arbitrage

Refundings

Defeasances

Escrow Agent

Paying Agent

Key Players

- Issuer - You
- Municipal Advisor
- Bond Counsel
- Disclosure Counsel
- Purchaser
(Underwriter/Broker-Dealer)
- Rating Agency
- Third Party Service Providers



Debt Issuance Process



Post Issuance Debt Management

- Adopt Post-Issuance Debt Compliance Policy
- Maintain adequate & updated disclosure
- Investing debt proceeds
- Ensure compliance with Arbitrage requirements
- Paying principal & interest
- Policies related to future debt issuance
- Surveillance ratings

Post-Issuance Debt Compliance Policy

Form **8038-G**

(Rev. October 2021)

Department of the Treasury
Internal Revenue Service

Information Return for Tax-Exempt Governmental Bonds

▶ Under Internal Revenue Code section 149(e)

▶ See separate instructions.

Caution: If the issue price is under \$100,000, use Form 8038-GC.

▶ Go to www.irs.gov/F8038G for instructions and the latest information.

OMB No. 1545-0047

- 43** If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box ▶
- 44** **If the issuer has established written procedures to monitor the requirements of section 148, check box** ▶
- 45a** If some portion of the proceeds was used to reimburse expenditures, check here ▶ and enter the amount of reimbursement ▶ _____
- b** Enter the date the official intent was adopted ▶ (MM/DD/YYYY)

Continuing Disclosures

SEC Rule 15c2-12

- Issuers of municipal securities bound by Continuing Disclosure Agreements to disseminate:
 - ✓ Financial & operating information
 - ✓ Material event notices
- Disclosures filed with MSRB via EMMA



Continuing Disclosures: Required Information



**CURRENT
PROPERTY
VALUATIONS**



DIRECT DEBT



**TAX LEVIES &
COLLECTION**



**POPULATION &
EMPLOYMENT
TRENDS**

- Vary by obligation type & pledged revenues
- Defined by Continuing Disclosure Agreement

Continuing Disclosures: Required Event Notices

Must be filed within 10 business days of occurrence.

Principal & interest payment delinquencies

Non-payment defaults

Unscheduled draws on debt reserves

Unscheduled draws on credit enhancements

Substitution of credit / liquidity providers

Events affecting tax-exempt status

Modifications to security holders' rights

Securities calls & tender offers

Defeasances

Release, sub. / sale of securing property

Rating changes

Bankruptcy, insolvency / receivership

Merger, acquisition or sale

Trustee successor appt, add. / name change

Private placement & bank purchased

Material capital leases

Continuing Disclosures: Voluntary Disclosures

- Districts may choose to disclose certain events
 - ✓ Financial impacts of COVID-19
 - ✓ Interim financial or operating data
 - ✓ Privately placed debt not subject to Events 15 & 16



USE CAUTION!
Market communications are subject to SEC regulations.

Continuing Disclosures: EMMA

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MSRB Education Center
Access resources for municipal market

MOST ACTIVELY TRADED MUNICIPAL SECURITIES

For 9/14/2015 as of 10:50 AM

Previous 1 2 3 4 5 Next

Security	Maturity	Interest	High/Low	High/Low	Trade	Total Trade
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Investing Bond Proceeds: First Steps

Develop a
sound
investment
policy

- Serves as your roadmap
- Ensures legal & regulatory requirements defined
- Defines accounting responsibilities
- Details oversight requirements

Establish
Objectives

- Safeguard principal balances
- Ensure liquidity for needed expenditures
- Maximize yield

Investing Bond Proceeds: Building Blocks

Cash Flow Forecasting

- Build into debt plan
- Plan for investment earnings

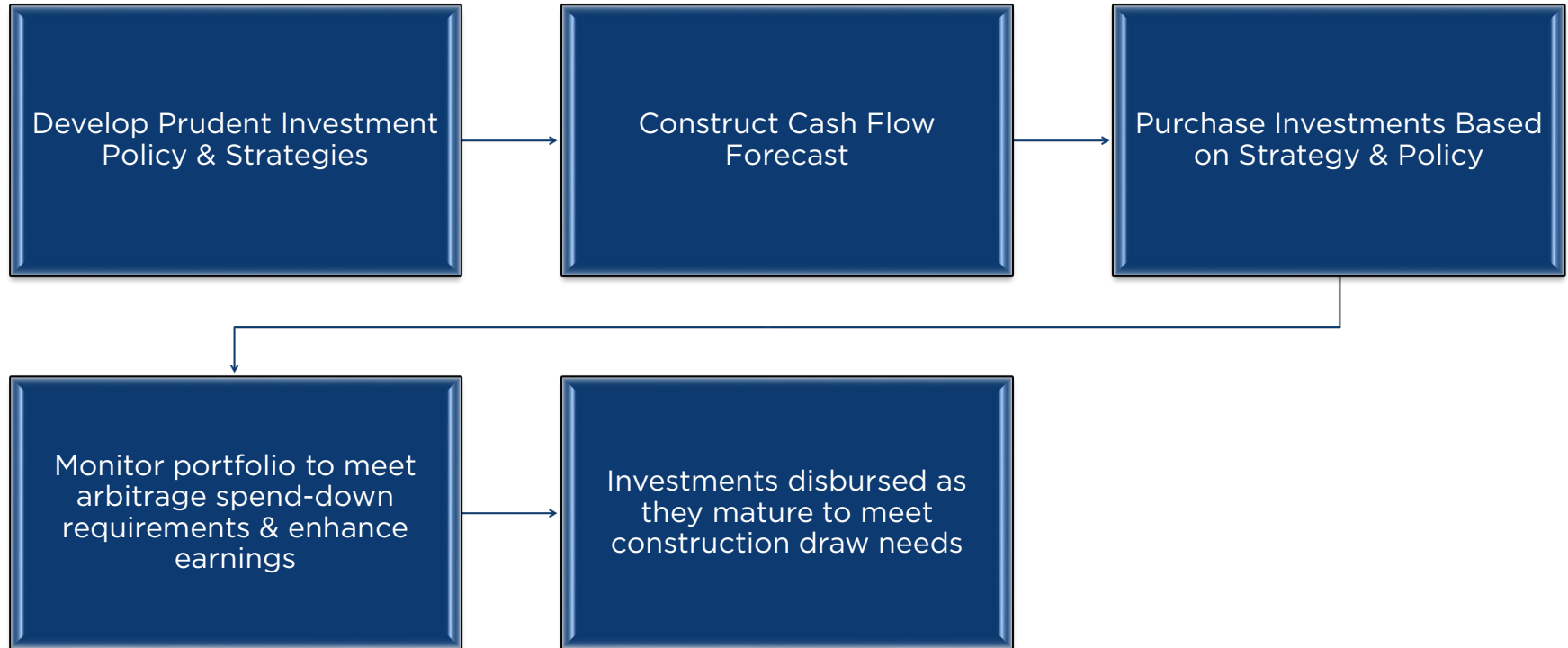
Compliance

- Permissible investments
- Arbitrage

Construction Draw Schedule

- Ensure funds available when needed

Investing Bond Proceeds: Process



Arbitrage: What exactly is it?

ARBITRAGE CREATION



Investment of
Bond Proceeds

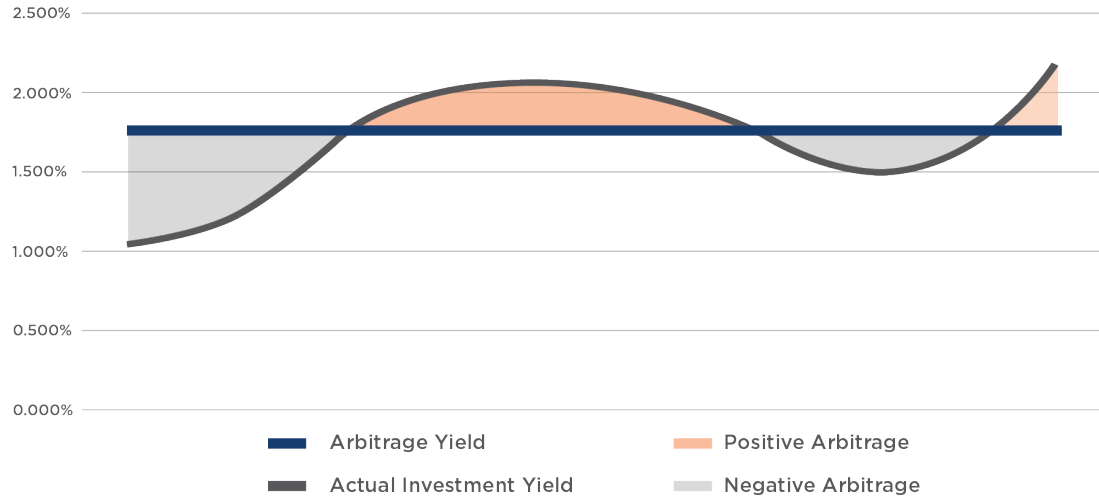


Issuance of
Municipal Debt



Arbitrage: What exactly is it?

ARBITRAGE MONITORING



Arbitrage Rebate

- Rebate earnings unless an exception applies:
 - ✓ “Small issuer”
 - ✓ Spending (6-month, 18-month, & 2 year)
 - ✓ Bona fide debt service fund
- Yield restrictions:
 - ✓ 3-year|5-year temporary period

Arbitrage: IRS Form 8038-T

- Payment sent to IRS no later than 60 days after soonest of:
 - ✓ Each 5-year anniversary date of issue - OR -
 - ✓ Date in which Bonds are no longer outstanding
- IRS compliance checks:
 - ✓ Questionnaires
 - ✓ Audits & investigations

Debt Management: Revenue vs. Expense

Revenue

- Levy for calendar year
- P&I payments
- ✓ November 2022 levy -
Spring & Fall 2023 payments

Expense

- Budget for fiscal year
- P&I payments
- ✓ 2022-2023 Budget - Fall
2022 payments & Spring
2023 payments

Refundings: Purposes



Save Money

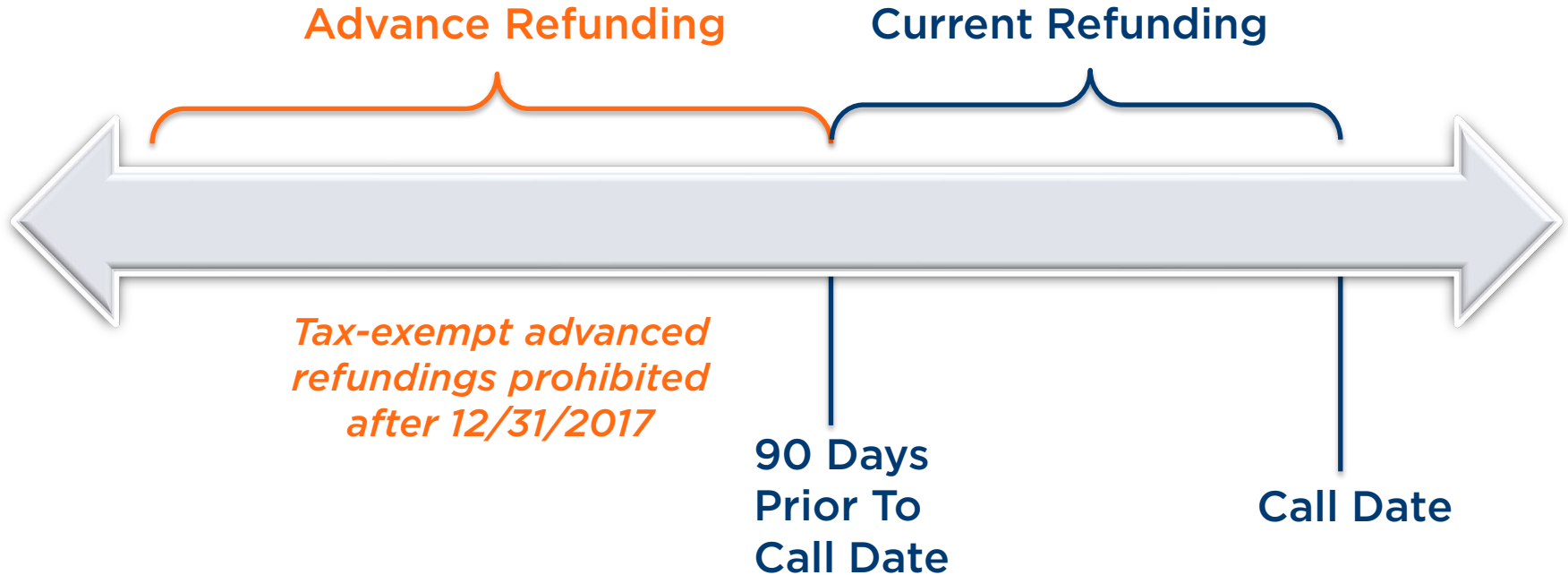
- Reduce debt payments



Restructure Debt

- Extend or shorten term
- Change individual payments

Refundings: Two Primary Options



Considerations to Help Maximize Savings

- Potential savings
- Yield curve
- Taxable vs. tax-exempt rates
- Escrow inefficiencies
- Up-front costs



Refundings: Redemption (Call) Provision

Payment Due Date	Principal	Rate	Interest
02/01/10	530,000.00	3.000	655,025.00
08/01/10	-	-	459,925.00
02/01/11	605,000.00	3.000	459,925.00
08/01/11	-	-	450,850.00
02/01/12	-	-	450,850.00
08/01/12	-	-	450,850.00
02/01/13	-	-	450,850.00
08/01/13	-	-	450,850.00
02/01/14	-	-	450,850.00
08/01/14	-	-	450,850.00
02/01/15	535,000.00	3.000	450,850.00
08/01/15	-	-	442,825.00
02/01/16	270,000.00	3.000	442,825.00
08/01/16	-	-	438,775.00
02/01/17	285,000.00	3.000	438,775.00
08/01/17	-	-	434,500.00
02/01/18	380,000.00	3.000	434,500.00
08/01/18	-	-	428,800.00
02/01/19	770,000.00	3.250	428,800.00
08/01/19	-	-	416,287.50
02/01/20	885,000.00	3.500	416,287.50
08/01/20	-	-	400,800.00
02/01/21	920,000.00	4.000	400,800.00
08/01/21	-	-	382,400.00
02/01/22	960,000.00	4.000	382,400.00
08/01/22	-	-	363,200.00
02/01/23	1,470,000.00	4.000	363,200.00
08/01/23	-	-	293,800.00
02/01/24	1,625,000.00	4.000	293,800.00
08/01/24	-	-	221,300.00
02/01/25	1,780,000.00	4.000	221,300.00
08/01/25	-	-	145,700.00
02/01/26	1,960,000.00	4.000	145,700.00
08/01/26	-	-	66,500.00
02/01/27	1,325,000.00	4.000	66,500.00
	24,300,000.00		13,251,450.00

OPTIONAL REDEMPTION: Bonds maturing February 1, 2020 and thereafter are subject to call for prior redemption on February 1, 2019 and any date thereafter, at par.

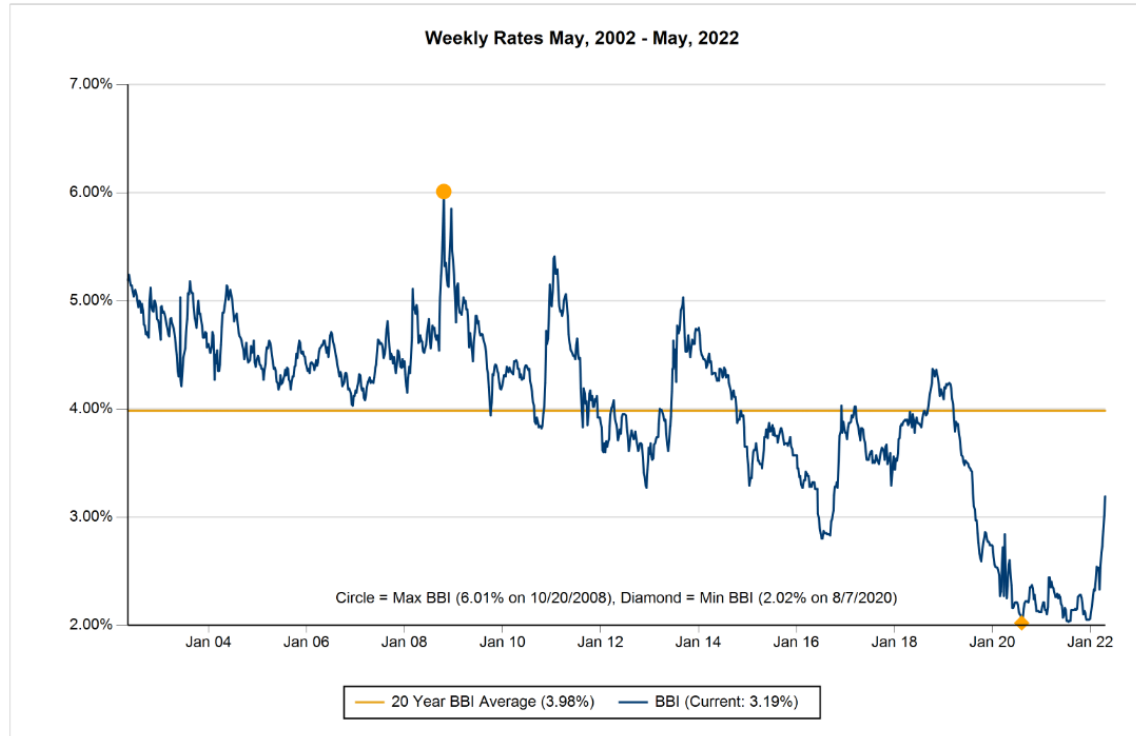
Call Date

Callable maturities \$20,925,000

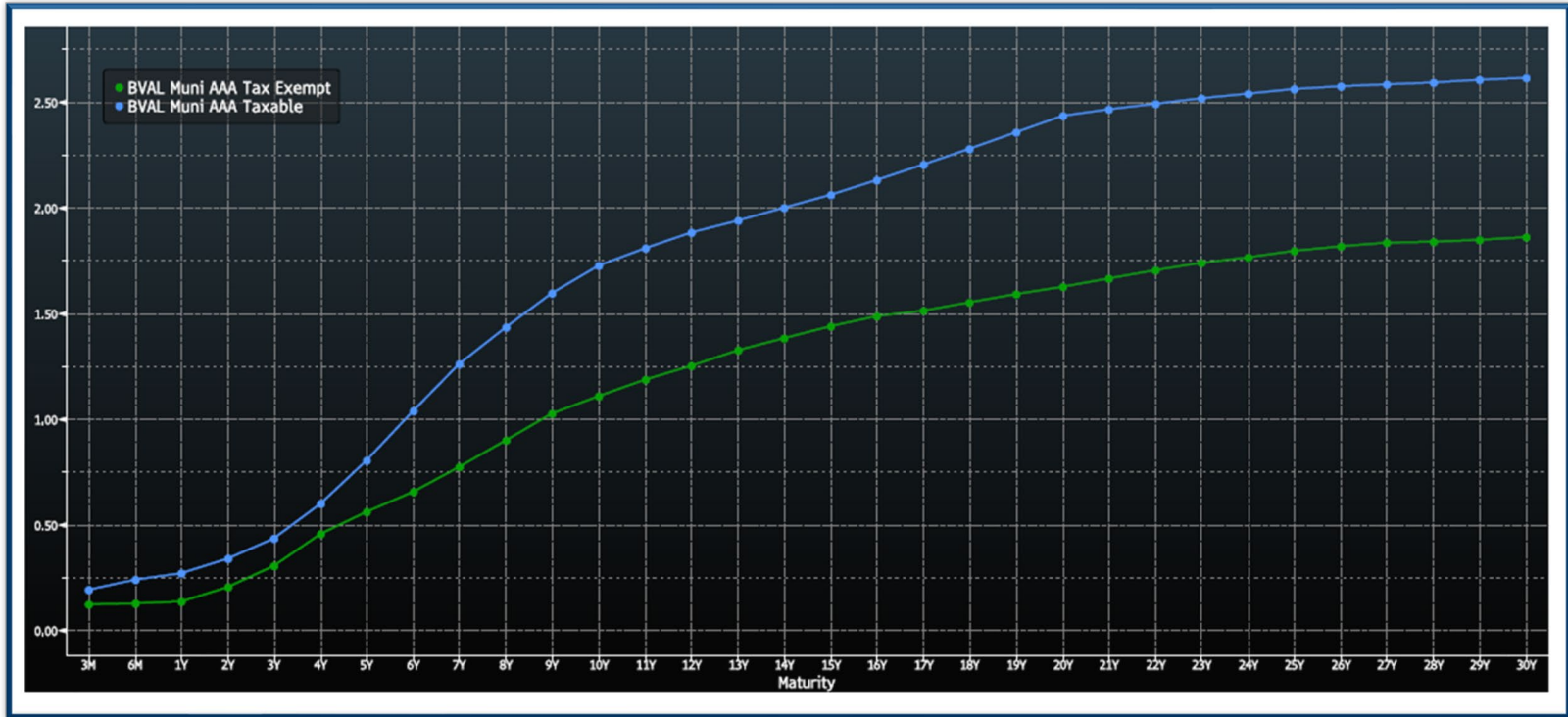
Total interest eligible for reduction \$4,579,975

Interest Rate Trends

20 YEAR TREND IN MUNICIPAL BOND INDICES



Yield Curve: Tax Status & Term Impact Rates



Escrow Inefficiencies

Escrow Fund Cashflow								
Date	Principal	Rate	Interest	Zero Coupon	Reinvestment	Receipts	Disbursements	Cash Balance
05/01/2021	-	-	-	-	-	75.00	-	75.00
07/15/2021	691,000.00	-	-	(691,075.00)	-	(75.00)	-	-
07/31/2021	-	-	528,806.25	-	-	528,806.25	-	528,806.25
08/01/2021	-	-	-	-	691,075.00	691,075.00	1,219,075.00	806.25
01/31/2022	690,000.00	-	528,806.25	-	-	1,218,806.25	-	1,219,612.50
02/01/2022	-	-	-	-	-	-	1,219,075.00	537.50
07/31/2022	690,000.00	-	528,806.25	-	-	1,218,806.25	-	1,219,343.75
08/01/2022	-	-	-	-	-	-	1,219,075.00	268.75
01/31/2023	60,435,000.00	1.750%	528,806.25	-	-	60,963,806.25	-	60,964,075.00
02/01/2023	-	-	-	-	-	-	60,964,075.00	-
Total	\$62,506,000.00	-	\$2,115,225.00	(691,075.00)	\$691,075.00	\$64,621,300.00	\$64,621,300.00	-

Investment Parameters	
Investment Model [PV, GIC, or Securities]	Securities
Default investment yield target	Bond Yield
Cash Deposit	75.00
Cost of Investments Purchased with Bond Proceeds	64,495,521.79
Total Cost of Investments	\$64,495,596.79
Target Cost of Investments at bond yield	\$62,592,345.46
Actual positive or (negative) arbitrage	(1,903,251.33)

Negative Arbitrage

Bond Issuance Costs

Current Refunding

- Municipal Advisor
- Bond Attorney
- Rating Agency
- Paying Agent

Advance Refunding

- Municipal Advisor
- Bond Attorney
- Rating Agency
- Paying Agent
- Escrow Agent
- CPA Verification
- Open Market Bidding Agent

Sensitivity Analysis

Wait or refund now?

Sensitivity analysis provides guidance

Early effort to analyze may save district millions

Sensitivity Analysis: Example

Sensitivity Analysis - Advance vs. Current Refunding		
\$59,095,000 G.O. School Building Bonds, Series 2015A		
Call Date:	April 1, 2025	
Date of Analysis:	August 6, 2021	
Taxable Advance Refunding		
Dated:	10/1/2021	
Estimated Savings:		
Future Value of All Savings		\$1,493,830
Present Value as of	10/1/2021	1,273,440
PV Savings as % of PV of Ref. Principal		2.56%
Present Value as of	2/15/2024	1,334,124
Tax-Exempt Current Refunding		
Dated:	2/15/2024	
Estimated Savings, Based on Current Interest Rates		
Future Value of All Savings		\$7,747,239
PV Savings as % of PV of Ref. Principal		14.62%
Present Value as of	2/15/2024	7,279,674
Present Value of savings, if interest rates change by:		
	1.50%	2,742,772
	1.60%	2,458,272
	1.70%	2,175,572
	1.80%	1,894,472
	1.90%	1,614,672
	2.00%	1,335,972
	2.10%	1,058,172
Break-Even Analysis		
Estimated Break-Even Point:	2.00%	
Ehlers estimates that, if interest rates increase by less than 2.00% between now and 02/15/2024, then the district would gain greater savings by waiting to conduct a current refunding than they would receive from an advance refunding in the near future.		

Timing

- Don't react too quickly!
- Obtain all information to help with decision
- Evaluate all data to best inform your decision



Defeasance

A defeasance is a formal process of funding an escrow with cash that is available now to pay future bond payments that are more than 90 days from their call date. The future bond principal & associated interest payments are funded from the escrow account until the original bonds are paid off at the call date.

Defeasance

“Paying Off” Debt

- Pay all or a portion prior to payment date
- Escrow account
- Excess operating funds
- Levy in advance

Why?

- Debt service & tax savings
- Debt restructuring – Stabilize mill rate for future plans
 - ✓ Future bond planning & capital needs

Defeasance Requires an Escrow Agent

- Proposed defeasance requires cash & investment earnings sufficient for the planned (partial) defeasance
- Because defeasance is being completed prior to call date, cash must be placed with escrow agent
 - ✓ Holds funds & completes debt service payments until bonds are paid off on maturity or call date

Defeasance Requires Legal Action

- School Board must adopt formal resolution authorizing the defeasance & redemption of outstanding bonds

Defeasance Service Providers

Bond Counsel

Original Paying Agent

CPA Escrow Verification Agent

Escrow Agent

Bidding Agent (if State & Local Government Series Market – SLGS – is closed)

Paying Agent

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

Key Takeaways



Responsibilities of issuer & other key players



Comply with Debt Issuance regulations



Create policies & follow them



Multiple debt issuance approaches exist; understand their benefits & drawbacks



Don't ever feel pressured into executing a financial transaction; taking your time may be more cost-effective

Key Takeaways



Plan for use of debt proceeds, investing & spend down



Utilize paying agent to ensure timely payments



Monitor expenses & levy management



Partner with your Municipal Advisor to identify refunding or defeasance opportunities



Questions? Ask your Municipal Advisor!

Thank You!

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