



## Municipal Debt 101

From Planning to Post-Issuance Compliance

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### Bond Basics: Today's Topics

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Key Concepts

Terms

The "Deal Team"

Issuance Options & Processes



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## Why Minnesota Governments Borrow

- Capital projects with valid authorization under state law
  - ✓ Equipment
  - ✓ Facilities
  - ✓ Infrastructure
- Refundings



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## Capital Financing Alternatives

"Pay As You Go"		"Pay As You Use"	
<p><b>Cash &amp; Reserves</b></p> <ul style="list-style-type: none"> <li>• Use existing cash from budget or reserves</li> <li>• Efficient for short-lived assets</li> <li>• Sometimes difficult to save enough</li> <li>• Those who "paid" may not benefit</li> </ul>	<p><b>Interfund Loans</b></p> <ul style="list-style-type: none"> <li>• Loan between fund(s)</li> <li>• Involved funds should be treated fairly</li> <li>• May cause fund balance &amp; cash flow issues</li> </ul>	<p><b>Debt</b></p> <ul style="list-style-type: none"> <li>• Preserve existing cash</li> <li>• Asset amortized over useful life</li> <li>• Asset "paid" for &amp; benefits users</li> <li>• Better manage tax rates &amp; user fee</li> </ul>	<p><b>You're Here!</b></p>



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## Tax-Exempt Debt

- Municipal debt issued for public purposes can be tax-exempt
- Interest paid to debt holders generally exempt from Federal & State income taxes
  - ✓ Therefore, tax-exempt debt carries favorable interest rates!
- Tax-exemption is a privilege
  - ✓ Must comply with federal regulations
  - ✓ U.S. Treasury is governing body & IRS enforces regulations

**Municipal issuers can also issue taxable debt.**

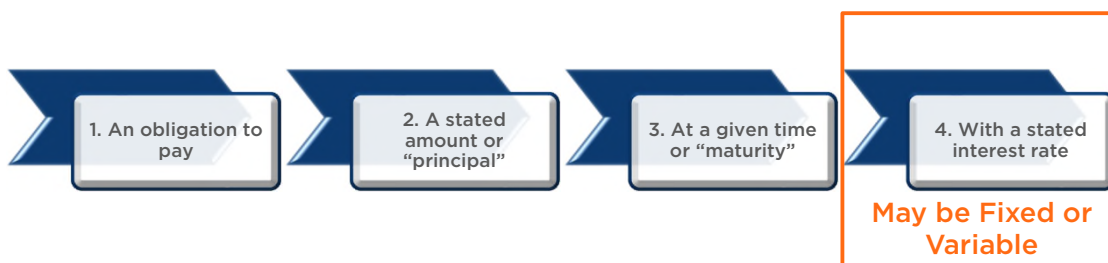


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## What is a Municipal Bond?

A debt instrument issued by a governmental agency to support capital outlays...



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## Types of Pledge & Security

- General Obligation (G.O.)
  - ✓ Payable from any available source
  - ✓ Irrevocable pledge to levy property
- Limited Obligation
- Revenue Obligation
  - ✓ Gross revenue
  - ✓ Net revenue
- Appropriation Pledge



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## Capital Financing: Legal Authority & Limitations

### Issuance & Repayment Authority

- Procedural requirements
- Project type(s)
- Pledge & repayment source
- Subject to voter approval?
- Other limits by charter, ordinance or policy

### Debt Limitations

- Net debt limit & exceptions
- Maximum amount of debt and/or annual debt service
- Maximum term
- Other limits by charter, ordinance or policy



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## Common Types of Bonds – Minnesota

### Improvement Bonds (M.S. 429)

- Paid with a minimum of 20% of project costs assessed to benefitting properties and balance can be paid with taxes

### Utility Revenue Bonds (M.S. 444)

- Paid with utility revenues

### Capital Improvement Plan Bonds (M.S. 475.521)

- Paid with taxes after the public hearing and 30-day reverse referendum



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## Common Types of Bonds – Minnesota

### Street Reconstruction Overlay Plan Bonds (M.S. 475.58)

- Paid with taxes after the public hearing and 30-day reverse referendum

### Tax Abatement Bonds (M.S. 469.1814)

- Paid with abatement revenues from specific property for the years authorized and taxes

### Tax Increment Financing Bonds (M.S. 469.178)

- Paid with a minimum of 20% of tax increment revenues



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## Common Types of Bonds – Minnesota

### Sales Tax Revenue Bonds (State Authorization)

- Paid with local option sales tax revenues

### Lease Revenue Bonds (M.S. 465.71 & 469.103)

- Paid by annual appropriated funds

### Equipment Certificates Bonds (M.S. 469.178)

- Paid with taxes

### General Bonding Authority (M.S. 475)



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## Key Terms

### Par

- The face value of the debt issued

### Principal

- The face value or amount of a security payable at an installment date



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## Key Terms, Continued...

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### Maturity

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



## Key Terms, Continued...

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### Optional Redemption or “Call” Feature


- The ability of an issuer to retire debt **prior** to stated maturity at specified time(s) & price(s)
- “Par call” = date debt can be optionally paid at face value (i.e., no penalty)

### Official Statement

- Municipal securities offering & disclosure document
- “Preliminary” prepared prior to issuance & “Final” issued after sale

## Debt Issuance Players

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




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## Municipal Advisor

<b>Who are they?</b>	A SEC licensed financial professional A “General Contractor” for the debt issuance process
<b>What role do they play?</b>	Recommend structure, timing, terms & method of sale Help prepare offering & disclosure documents
<b>Who do they represent?</b>	Represents only the issuer as a fiduciary Must put clients’ interests above its own
<b>How do they get paid?</b>	Typically paid flat fee from issuance proceeds




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## Bond Counsel

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<b>Who are they?</b>	An attorney or law firm
<b>What role do they play?</b>	Provide the validity and tax opinions for the bond issue Prepare legal documents, agenda text & agreements
<b>Who do they represent?</b>	Attorney/client relationship with issuer Opinions can accrue benefit to issuer/bondholder(s)
<b>How do they get paid?</b>	Typically paid flat fee from issuance proceeds


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## Credit Rating Agency

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<b>Who are they?</b>	Private, for-profit companies S&P Global, Moody's, Fitch Ratings
<b>What role do they play?</b>	Independent credit opinion of issuer or transaction Monitor issuer via ongoing surveillance
<b>Who do they represent?</b>	Themselves as a commercial business The interests of the primary & secondary markets
<b>How do they get paid?</b>	Typically paid flat fee from issuance proceeds


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## Underwriter



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## Issuing Debt: Process & Timing



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## Planning & Authorization

What	Who
<ul style="list-style-type: none"> <li>Determine amount to borrow</li> <li>Structure transaction (type, terms, etc.)</li> <li>Establish timing of debt sale</li> </ul>	<ul style="list-style-type: none"> <li>Issuer</li> <li>Municipal Advisor</li> </ul>
<ul style="list-style-type: none"> <li>Obtain legal authorization                             <ul style="list-style-type: none"> <li>✓ Initial authorization &amp; public notice</li> <li>✓ Report or study adoption?</li> <li>✓ Referendum?</li> </ul> </li> <li>Determine tax-exempt status</li> </ul>	<ul style="list-style-type: none"> <li>Issuer</li> <li>Municipal Advisor</li> <li>Bond Counsel</li> </ul>

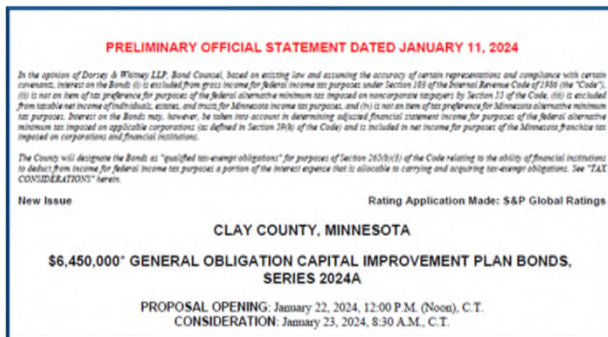
### Legal Documents & Official Statement



## Bond Marketing & Sale: Borrowing Options

### Securities Offering

- Bonds sold in capital markets through underwriter
- Preliminary Official Statement serves as offering document



## Bond Marketing & Sale: Borrowing Options

### Direct Placement

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



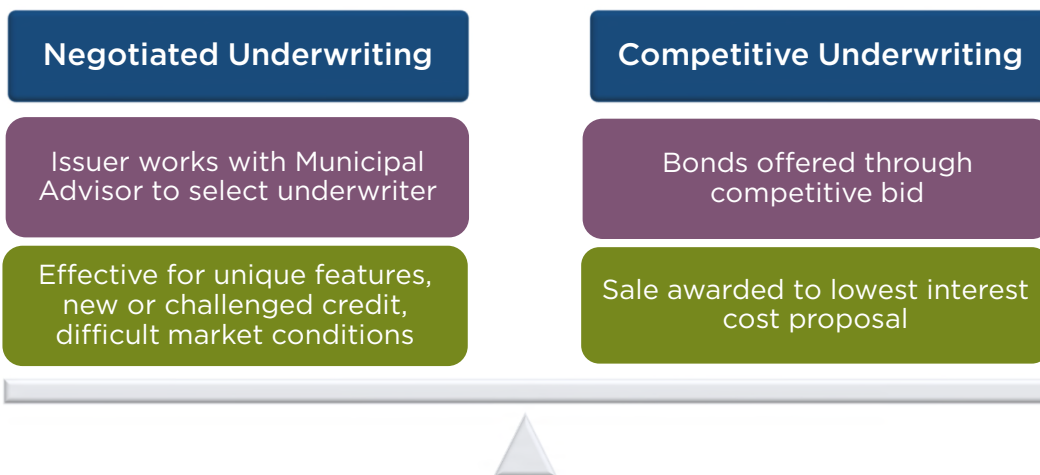
**Still must follow same process when working with local banks!**



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## Bond Marketing & Sale: Borrowing Options



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## Bond Sale & Closing

### Sale

- Finalize rates, terms and structure
- Approve awarding documents (governing body)
- Prepare & distribute Final Official Statement, if needed
- Receive “good faith” deposit

### Closing

- Deliver funds to issuer
- Distribute fees to third-party professionals
- Complete accounting entries
- Segregate & invest funds until expenditures



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## Final Thoughts

- Capital financing can be achieved through both “pay-go” & debt issuance
- Many reasons and allowable uses for issuing public debt
- Proper planning is critical – today’s decisions can last for 20 years or more
- Prudent debt administration is as, if not more, important than issuing debt itself
- Seek guidance from public finance professionals



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## Let's Talk!

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