



# Municipal Debt 101

From Planning to Post-Issuance Compliance

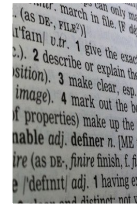


# Bond Basics: Today's Topics

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Key Concepts



Terms



Market Players



Issuance Process



Post Issuance  
Obligations

# Why Minnesota Governments Borrow

- Capital projects with valid authorization under state law
  - ✓ Equipment
  - ✓ Facilities
  - ✓ Infrastructure
- Refundings
- May also issue conduit revenue bonds
  - ✓ Multi-family housing
  - ✓ For non-profit organizations



# Capital Financing Alternatives

## “Pay As You Go”

### Cash & Reserves

- Use existing cash from budget or reserves
- Efficient for short-lived assets
- Sometimes difficult to save enough
- Those who “paid” may not benefit

## “Pay As You Use”

### Interfund Loans

- Loan between fund(s)
- Involved funds should be treated fairly
- May cause fund balance & cash flow issues

### Debt

- Preserve existing cash
- Asset amortized over useful life
- Asset “paid” for & benefits users
- Better manage tax rates & user fee

# Municipal Debt

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**Bonds**

**Notes**

**Securities**

**Warrants**

**All general  
terms for  
debt!**

# What is a Municipal Bond?

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

1. An obligation to pay

2. A stated amount or "principal"

3. At a given time or "maturity"

4. With a stated interest rate

May be Fixed or Variable

# Types of Pledge & Security

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



# Capital Financing: Legal Authority & Limitations

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## 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



# Key Terms

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## Par

- The face value or principal amount of debt issued

## Principal

- The face value or par amount of a security payable on a maturity/installment date



# Key Terms, Continued...

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## Maturity

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



# Key Terms, Continued...

- A single “Series” of bonds may contain multiple maturities

## Serial Bonds

- Maturities with a distinct interest rate coming due on a single date

## Term Bond

- Maturities subject to periodic sinking fund redemptions or installments of principal, with interest at a single rate

	<u>Maturity Date (May 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
Serial Maturities	2019	\$615,000	3.000%	1.830%
	2020	255,000	4.000	1.980
	2021	265,000	4.000	2.080
	2022	275,000	5.000	2.210
	2023	290,000	5.000	2.310
	2024	305,000	5.000	2.410
	2025	320,000	3.000	2.500
	2026	330,000	5.000	2.610
	2027	345,000	5.000	2.720
	2028	365,000	5.000	2.840
	2029	385,000	5.000	2.930*
	2030	400,000	5.000	3.040*
	2031	420,000	5.000	3.150*
	2032	445,000	5.000	3.200*
	2033	465,000	3.375	3.640
	2034	480,000	3.500	3.750
	2035	495,000	3.625	3.820
	2036	515,000	3.625	3.870
2037	535,000	3.750	3.910	
2038	555,000	3.750	3.930	

<u>Sinking Account Redemption Date (May 1)</u>	<u>Principal Amount to be Redeemed or Purchased</u>
2039	\$575,000
2040	600,000
2041	620,000
2042	645,000
2043*	670,000

\$3,110,000 4.000% Term Bonds due May 1, 2043 Yield: 4.070%;  
\$3,785,000 4.000% Term Bonds due May 1, 2048 Yield: 4.090%;

# Key Terms, Continued...



**Coupon:** The stated interest rate paid to bondholders

Fixed or Variable



**Yield:** The measure of investor return that incorporates all cash flows from purchase through final redemption

Yield might not equal coupon; Dependent on price

# 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 (no penalty)

## Official Statement

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

# Tax-Exempt Debt

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- Municipal debt issued for public purposes can be tax-exempt
- Interest paid to debt holders generally exempt from Federal & State income taxes
  - ✓ Therefor, 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.**

# Debt Issuance Players

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

# Municipal Advisor

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**Who are they?**

A MSRB licensed financial professional  
A “General Contractor” for the debt issuance process

**What role do they play?**

Recommend structure, timing, terms & method of sale  
Help prepare offering & disclosure documents

**Who do they represent?**

Represents only the issuer as a fiduciary  
Must put clients’ interests above its own

**How do they get paid?**

Typically paid flat fee from issuance proceeds



# Bond Counsel

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**Who are they?**

An attorney or law firm

**What role do they play?**

Provide the validity and tax opinions for the bond issue  
Prepare legal documents, agenda text & agreements

**Who do they represent?**

Attorney/client relationship with issuer  
Opinions can accrue benefit to issuer/bondholder(s)

**How do they get paid?**

Typically paid flat fee from issuance proceeds

# Credit Rating Agency

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**Who are they?**

Private, for-profit companies  
S&P Global, Moody's Investor Services, Fitch Ratings

**What role do they play?**

Independent credit opinion of issuer and transaction  
Monitor issuer via ongoing surveillance

**Who do they represent?**

Themselves as a commercial business  
The interests of the primary & secondary markets

**How do they get paid?**

Typically paid flat fee from issuance proceeds

# Underwriter

## Who are they?

- A registered broker/dealer or municipal securities dealer
- Can be more than one firm organized as a “syndicate”

## What role do they play?

- Purchase the entire bond issue from the issuer
- Resell the bonds to investors
- Hold inventory of bonds for sale to customers

## Who do they represent?

- Themselves & their own commercial interests
- Adheres to suitability & fair dealing standards

## How do they get paid?

- Paid by issuer through an “underwriter discount”

**\$10 Discount = \$10/\$1,000 or 1.00% face value**

**\$1,000,000 issue**

**\$10,000 discount**

**Underwriter pays \$990,000 for \$1,000,000 in bonds**

# 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

### PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 11, 2024

*In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on noncorporate taxpayers by Section 55 of the Code, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for Minnesota alternative minimum tax purposes. Interest on the Bonds may, however, be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations (as defined in Section 59(k) of the Code) and is included in net income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions.*

*The County will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes a portion of the interest expense that is allocable to carrying and acquiring tax-exempt obligations. See "TAX CONSIDERATIONS" herein.*

New Issue

Rating Application Made: S&P Global Ratings

CLAY COUNTY, MINNESOTA

**\$6,450,000\* GENERAL OBLIGATION CAPITAL IMPROVEMENT PLAN BONDS,  
SERIES 2024A**

PROPOSAL OPENING: January 22, 2024, 12:00 P.M. (Noon), C.T.  
CONSIDERATION: January 23, 2024, 8:30 A.M., C.T.

# Bond Marketing & Sale: Borrowing Options

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## 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

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## 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!**



# Bond Marketing & Sale: Borrowing Options

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## State Public Facilities Authority

Loan programs for sewer & water projects

Transportation loan programs

## USDA Rural Development

Loan programs for community facilities, sewer & water projects

Grant programs for similar uses

# Bond Sale & Closing

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## 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

# You've Secured Funding! Now What?



# Arbitrage: What exactly is it?

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# Arbitrage: General Considerations

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Planning	At Closing
Reimbursement Allocations & Official Intent	
✓ Spend-Down Duration	✓ Updated Draw-Down Schedules
✓ Financing Complexity	✓ Investment Policy & Strategy
✓ Project & Debt Service Accounting	✓ Arbitrage Compliance Plan

# Continuing Disclosures: What are they?

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## SEC Rule No. 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



**Investors are watching!**

# Continuing Disclosures: Specific Requirements

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## Full Disclosure: \$10 million or > in outstanding debt

- Annual Financial info & operating data
- Audited financial statements
- Event notices

## Limited Disclosure: <\$10 million in outstanding debt

- Audited financial statements
- Event notices



# Continuing Disclosures: Financial Information

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## CURRENT PROPERTY VALUATIONS



## DIRECT DEBT



## TAX LEVIES & COLLECTION



## POPULATION & EMPLOYMENT TRENDS

- Audited Financial Statements
- Additional information varies by obligation type & pledged revenues
  - ✓ Defined by Continuing Disclosure Agreement

# Continuing Disclosures: Required Event Notices

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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 or liquidity  
providers

Events affecting  
tax-exempt status

Modifications to  
security holders'  
rights

Securities calls &  
tender offers

# Continuing Disclosures: Required Event Notices

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Must be filed within 10 business days of occurrence.

Defeasances

Release,  
substitution or sale  
of securing  
property

Rating changes

Bankruptcy,  
insolvency or  
receivership

Merger, acquisition  
or sale

Trustee successor  
appointment,  
addition or name  
change

Material incurrence  
of a financial  
obligation

Default,  
acceleration,  
termination, term  
modification

# 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



# Your Presenters

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