



# Municipal Debt 101

Covering the Fundamentals



# Today's Topics

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**Key Concepts**



**Market Players & Roles**



**Debt Issuance Process**



**Investing Bond Proceeds**



**Post Issuance Obligations**

# Capital Financing: No Borrowing

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



# Eligible Borrowing Purposes

- Capital projects with valid authorization under state law
- Projects already completed or planned for future
  - ✓ Federal & sometimes State tax exemption rules apply for expenditure reimbursement & timely spending of debt proceeds



PROJECT TYPES

Available Financing Tools for Capital Projects

	New Buildings/ Bldg. Purchase	Building Additions	Building Renovations	Site Improvements	Deferred Maintenance	Health/Safety Projects	Parking Lots	Energy Improvements	Security Improvements	Furnishings/ Equipment	Voter Approval Required	Property Tax Impact	Ag Bond Credit	Limitations	Maximum Borrowing	Other Notes
Building Bonds	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Y	Y	Y	None	Statutory debt limit	State Review & Comment required
Operating Referendum	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Y	Y		Annual revenue; not all up-front	No borrowing State maximum revenue/ pupil	Annual revenue can be used to make payments on debt issue
Capital Project Levy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Y	Y		Annual revenue; not all up-front	No borrowing	(lease purchase, capital facilities bonds, capital notes)

PROJECT TYPES

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Facilities Maintenance Bonds (All except old Alt. Fac. Districts)					✓								Y	Payments financed from LTFM revenue	Statutory debt limit	State approval required
			1			✓						Y	Y	HVAC, fire suppression, asbestos over \$100k or remodeling for Pre-K	Statutory debt limit	State approval required
Facilities Maintenance Bonds (Old Alt. Fac. Districts)			1		✓	✓						Y	Y	None	Statutory debt limit	State approval required

1. Facilities Maintenance Bonds can be used to finance building remodeling required to accommodate state-funded voluntary pre-kindergarten programs.

PROJECT TYPES

Available Financing Tools for Capital Projects

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Capital Facilities Bonds			✓	✓		✓	✓	✓	✓				Y	Payments financed from general fund revenue	Annual pmts. can't exceed operating capital revenue	State approval required
Capital Notes										✓			Y	Payments financed from general fund revenue	Annual pmts. can't exceed operating capital revenue	State approval required

PROJECT TYPES

Available Financing Tools for Capital Projects

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Lease Purchase without Levy	✓	✓		✓			✓			✓				Payments financed from general fund revenue		
Lease Purchase with Levy	2	✓		3								Y		Instructional & school storage use only Additions limited to 20% of existing building space	Annual lease levy limited to \$212/pupil	Annual state approval required with upfront capital lease approval prior to financing

- Lease levy can be used for new buildings, building purchases, or building additions under 20% of existing building, but only if the facilities are used for instruction or school storage, and not for "regular elementary or secondary instruction." Permitted examples would include buildings used for early childhood education, special education, alternative learning centers or adult education.
- Lease levy can be used for site improvements for cocurricular or other instructional uses, e.g., athletic fields and tracks.



## Available Financing Tools for Capital Projects

### PROJECT TYPES

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Abatement Bonds							✓					Y	Y	Permitted uses limited to parking construction & improvements	Annual debt service limited to 10% of NTC	Public hearing required

# Capital Financing: Borrowing

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- Debt Issuance
  - ✓ Preserve existing cash & resources
  - ✓ Cost of asset amortized over useful life
  - ✓ Asset paid for & benefited by users
  - ✓ Manage & stabilize tax rates
  - ✓ Some debt service exempt from levy limitation



# 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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- Two Primary Types:
  - ✓ General Obligation (G.O.)
    - irrevocable pledge to levy ad valorem tax for debt service payment
  - ✓ Revenue – secured by specific source
    - lease payments, State aids, tax revenue



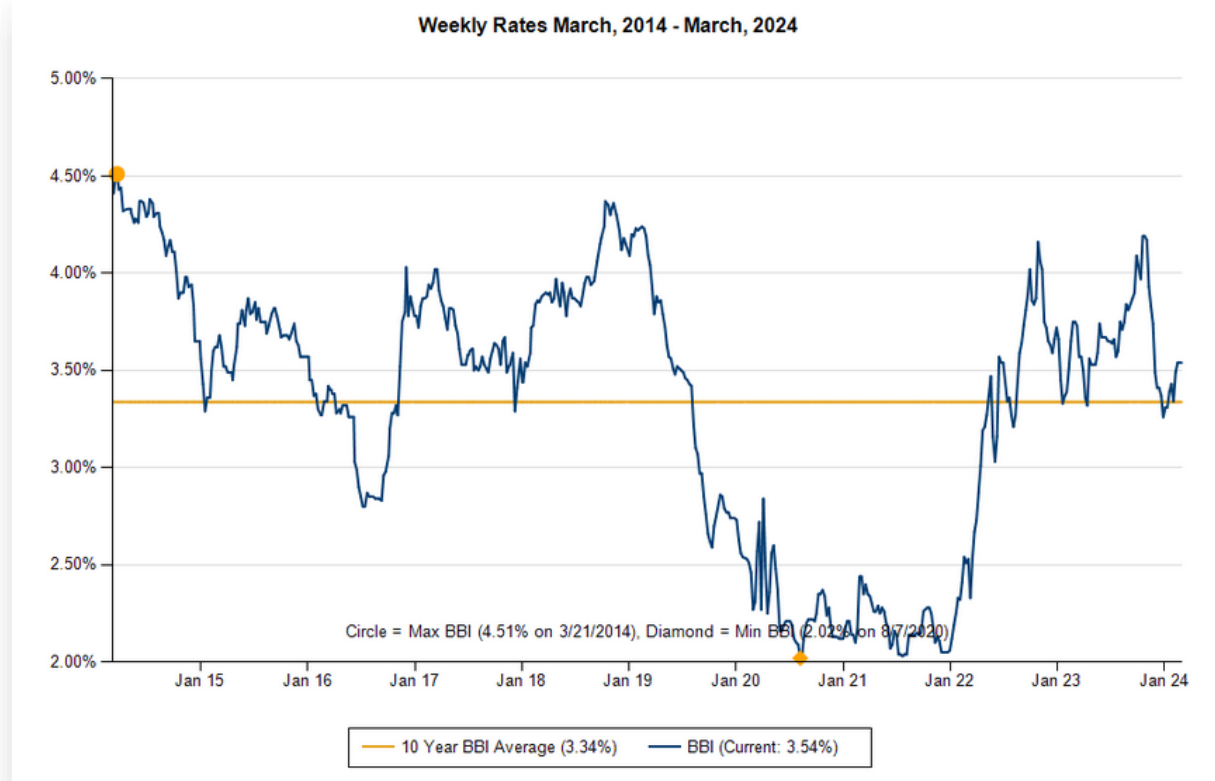
**Unlimited tax G.O.  
*generally* considered  
strongest & attracts  
lowest available rates**

# Tax Exempt Debt

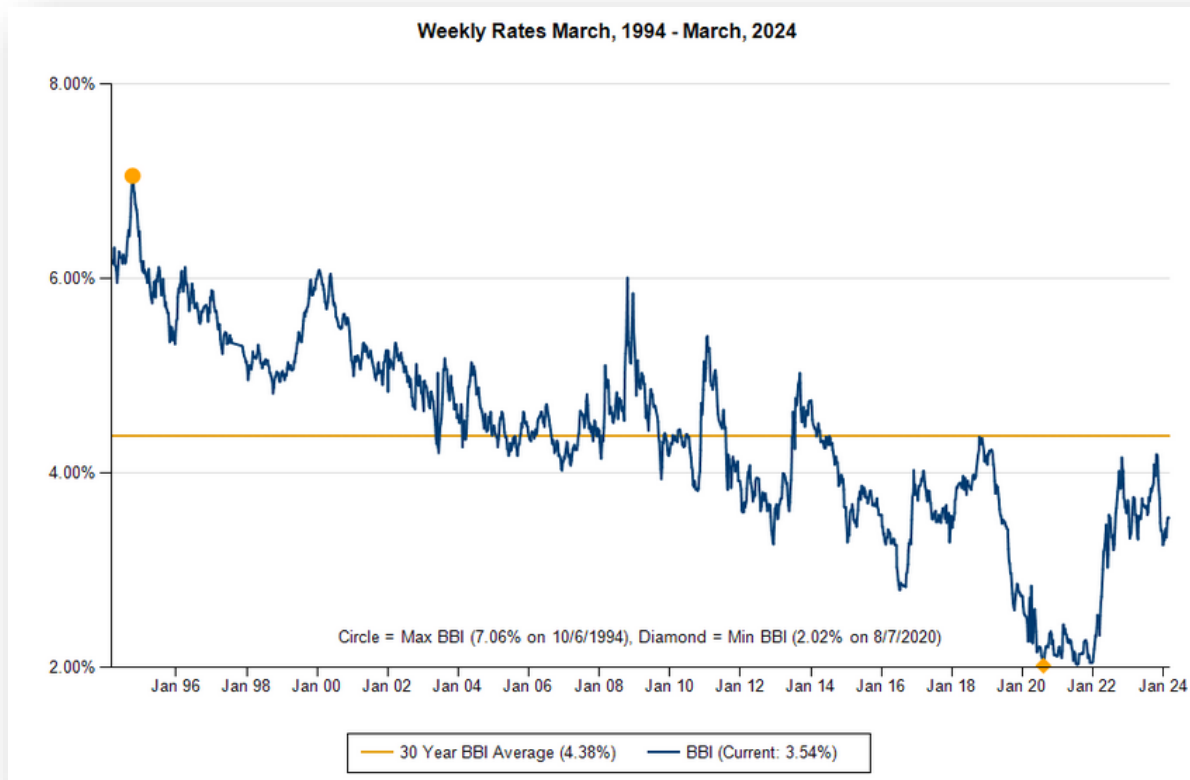
- Municipal debt issued for public purposes is typically tax exempt & carries favorable interest rates.



# 10-Year Trend in Municipal Bond Indices



# 30-Year Trend in Municipal Bond Indices



# Key Players: Municipal Advisor

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



# Key Players: Bond Counsel

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- 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
- Represents issuer
- Typically paid flat fee from issuance proceeds

# Key Players: Rating Agency

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- Renders independent credit assessment of issuer & specific transaction
- Represents itself as a commercial business & interests of the primary & secondary markets
- Monitors issuer via ongoing surveillance
- Typically paid flat fee from issuance proceeds

# Key Players: Purchaser/Underwriter

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- 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”
- Commercial banks purchase directly for their own account & may or may not charge a fee

# Key Players: Paying/Fiscal Agent

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- 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)
  - ✓ Charges issuer initial set-up fee, annual fees thereafter



# Key Players: Investment Adviser

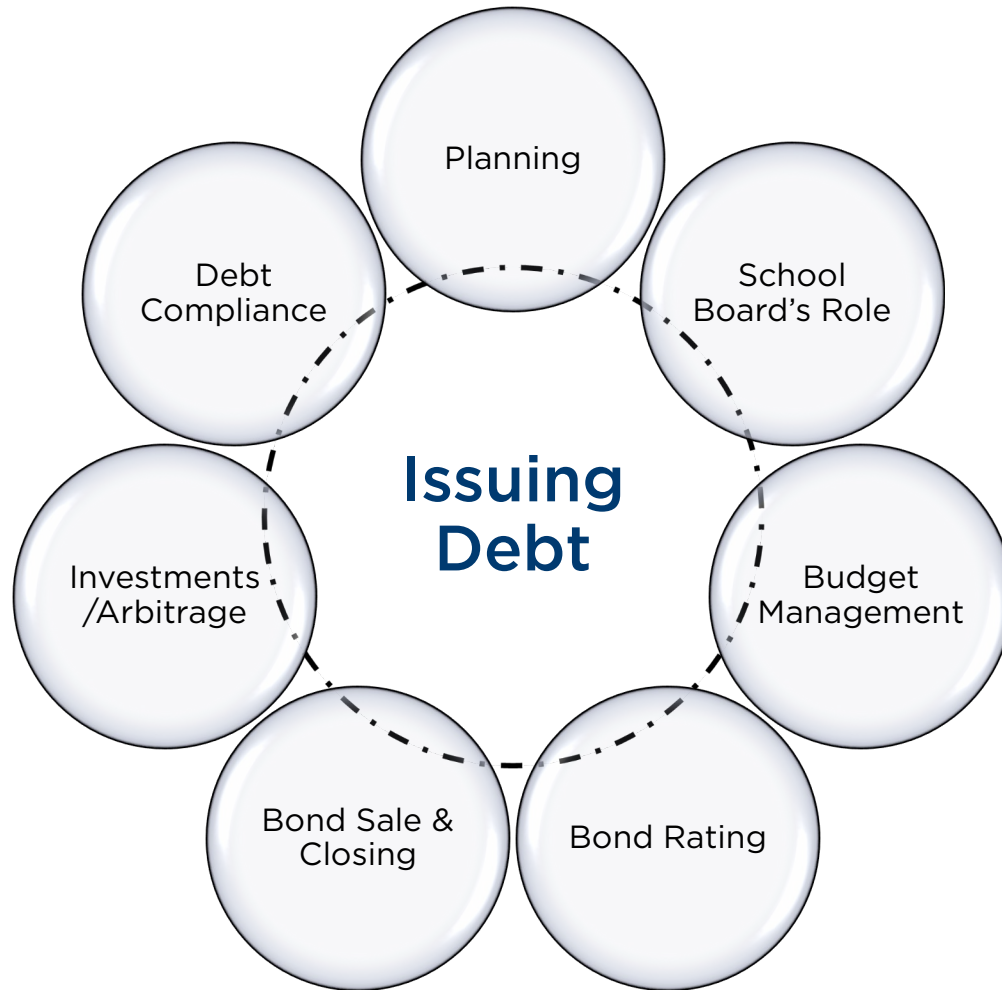
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- Manages bond proceeds portfolio
- Assists with policy analysis & creation
- Reports to issuer on performance & benchmarks
- Maintains regulatory, statutory & policy compliance
- Represents issuer as a fiduciary
- Generally, paid flat fee as a percentage of assets under management

# Key Players: Arbitrage Consultant

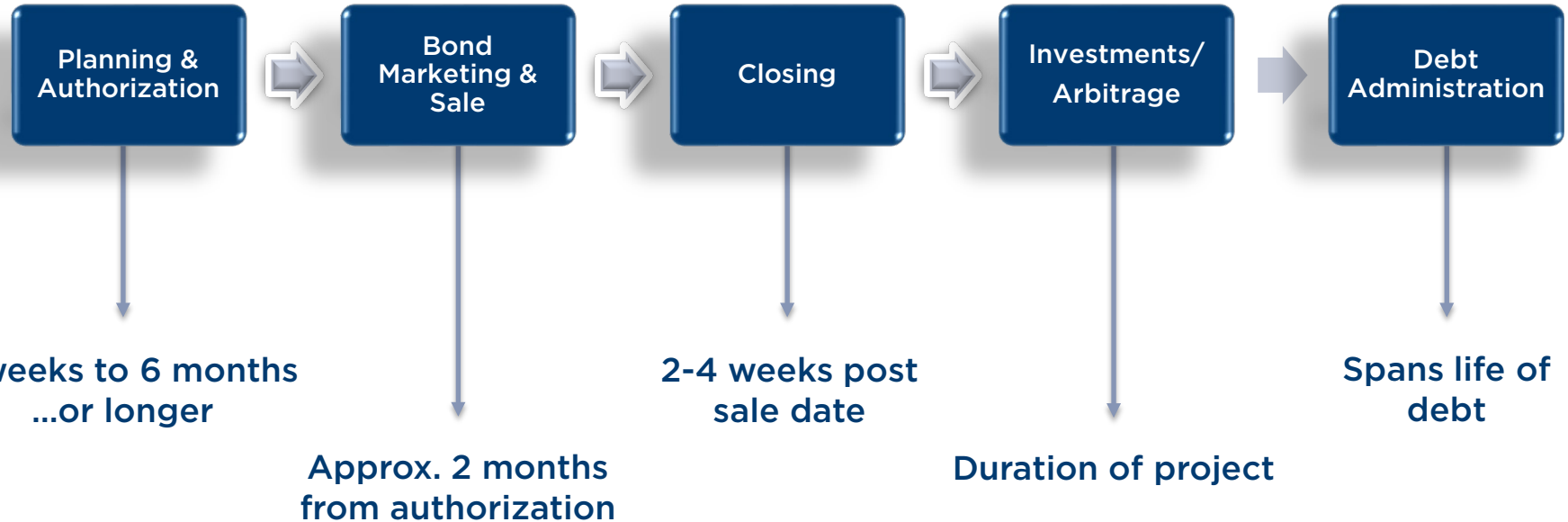
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- Assists with arbitrage consulting, monitoring & rebate reporting
- Calculates arbitrage
- Helps issuer with IRS inquiry & audit preparation
- Assists in post-issuance compliance policy development
- Reviews for compliance
- Represents issuer
- Contracted & paid separately for reporting & audit assistance



# Issuing Debt: Process & Timing

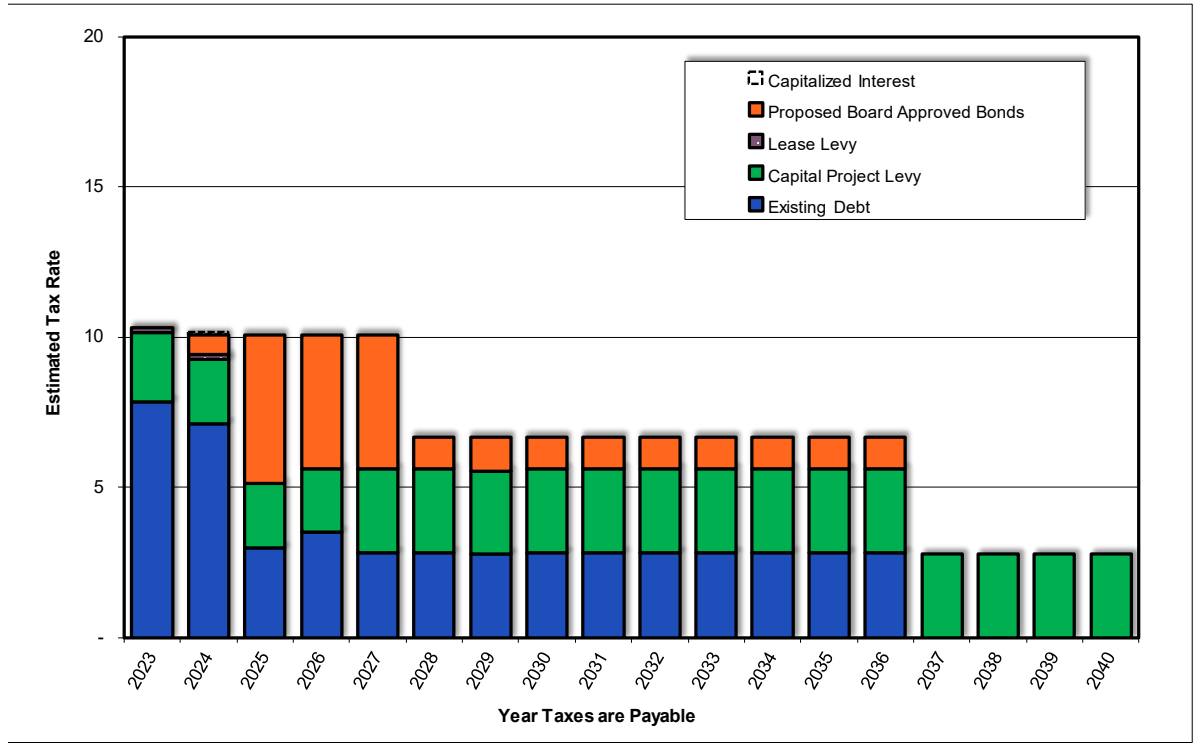
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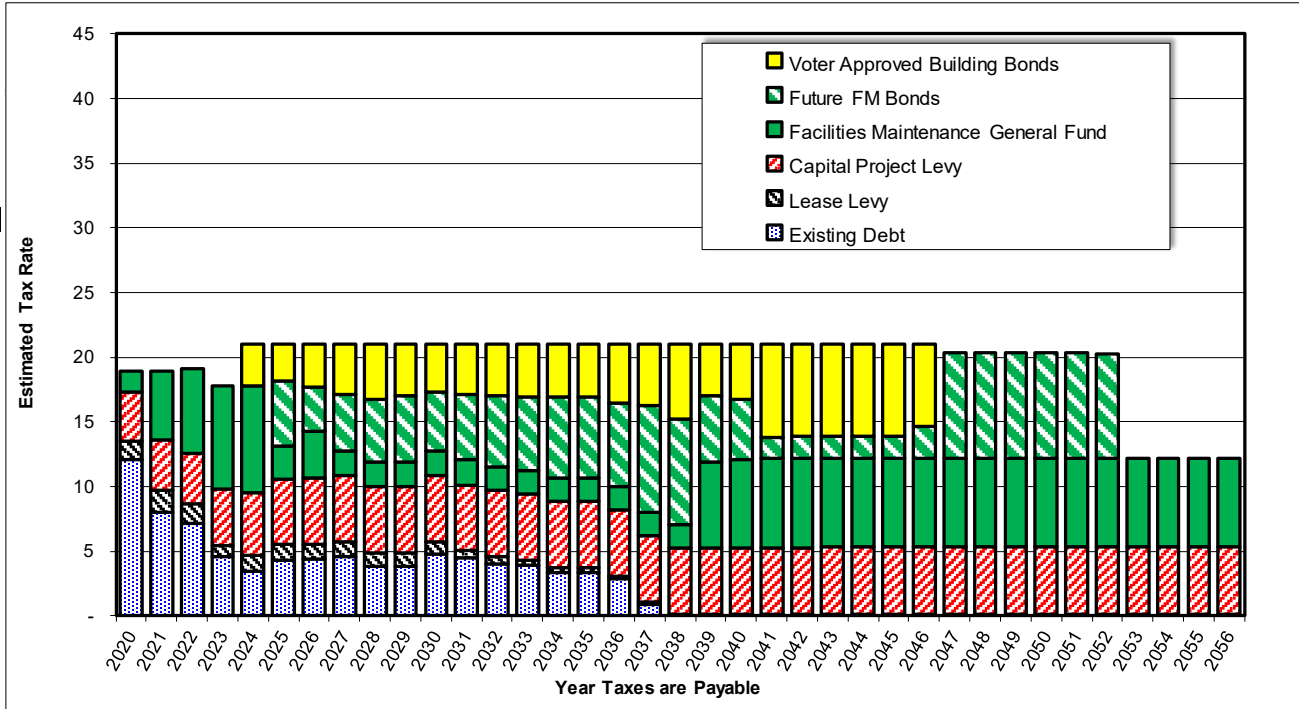
# Issuing Debt: Structure Consideration

**\$8,985,000 Bond Issue**  
**13 Tax Levies, 12 Year Bond Term**  
**Wrapped Around Existing Debt**



# Issuing Debt: Structure Consideration

Voter Approved School Building Bonds (2 Issues) (\$223.225m) Nov. 2023 Election  
 Facilities Maintenance Bonds 2024 (\$138.350m)  
 Future Bond Issues in 2026, 2028, 2030, 2032, 2034, & 2037



# Rating Considerations

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- Methodologies
- Multi-year budget planning
- Better credit rating generally garners better access to markets & lower interest costs
- Not all municipal issuers or transactions are rated

**S&P Global**

**MOODY'S**  
INVESTORS SERVICE

**FitchRatings**

# Rating Agency Methodologies

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## Moody's

- Economy
- Financial Performance
- Institutional Framework
- Leverage

## Standard & Poor's (S&P)

- Economy
- Financial Measures
- Debt & Liability
- Institutional Framework
- Management

# Multi-Year Budget Planning

Definitions	Actual 2022-2023	Budget 2023-2024	Projected 2024-2025	% Chg	Projected 2025-2026	% Chg	Projected 2026-2027	% Chg	Projected 2027-2028	% Chg	Projected 2028-2029	% Chg
Revenue	\$80,987,155	\$84,683,635	\$85,508,617	1.0%	\$87,809,455	2.7%	\$90,159,524	2.7%	\$92,323,794	2.4%	\$94,269,539	2.1%
Expenditures	<u>\$81,888,907</u>	<u>\$86,315,831</u>	<u>\$87,410,113</u>	1.3%	<u>\$88,803,133</u>	1.6%	<u>\$89,947,160</u>	1.3%	<u>\$91,114,069</u>	1.3%	<u>\$92,304,315</u>	1.3%
Revenue Over (Under) Expenditures	<u>(\$901,753)</u>	<u>(\$1,632,196)</u>	<u>(\$1,901,496)</u>		<u>(\$993,678)</u>		<u>\$212,363</u>		<u>\$1,209,725</u>		<u>\$1,965,224</u>	
Fund Balance	<u>\$3,067,542</u>	<u>\$1,435,346</u>	<u>(\$466,150)</u>		<u>(\$1,459,828)</u>		<u>(\$1,247,464)</u>		<u>(\$37,739)</u>		<u>\$1,927,485</u>	
Assigned Fund Balance	\$586,921	\$586,921	\$586,921		\$586,921		\$586,921		\$586,921		\$586,921	
Unassigned Fund Balance	\$2,480,621	\$848,425	(\$1,053,071)		(\$2,046,749)		(\$1,834,385)		(\$624,660)		\$1,340,564	
Percent Unassigned	3.0%	1.0%	-1.2%		-2.3%		-2.0%		-0.7%		1.5%	
Unassigned Target Fund Balance %	10.0%	10.0%	10.0%		10.0%		10.0%		10.0%		10.0%	
Minimum Unassigned Fund Balance	\$8,188,891	\$8,631,583	\$8,741,011		\$8,880,313		\$8,994,716		\$9,111,407		\$9,230,432	
Fund Balance Over (Under) Target	<u>(\$5,708,270)</u>	<u>(\$7,783,158)</u>	<u>(\$9,794,082)</u>		<u>(\$10,927,062)</u>		<u>(\$10,829,101)</u>		<u>(\$9,736,067)</u>		<u>(\$7,889,868)</u>	

# Investing Bond Proceeds: Building Blocks

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## 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: Objectives

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- Safety of Principal
- Liquidity
- Yield

Investment Suitability

Fiduciary responsibility

The Guide: Investment Policy



# Permissible Investments

MN. Statutes 118A

- Time deposits (Certificate of Deposit)
- Securities issued or guaranteed by federal government, its commission, board or other instrumentality “Treasuries” or “Agencies”
- Municipal bonds/notes of municipalities





# Permissible Investments

MN. Statutes 118A

- Money Market Funds or other overnight investment products
- Repurchase Agreements
- Guaranteed Investment Contracts



# What is Arbitrage & Why Does it Matter?

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Issuer tax covenants associated with ALL tax-exempt debt

# Arbitrage: General Considerations

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

# Arbitrage: Spending Exceptions

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	6 Month Spending Exception	18 Month Spending Exception	24 Month Spending Exception
6 Months	100%	15%	10%
12 Months	-	60%	45%
18 Months	-	100%	75%
24 Months	-	-	100%

# 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 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**

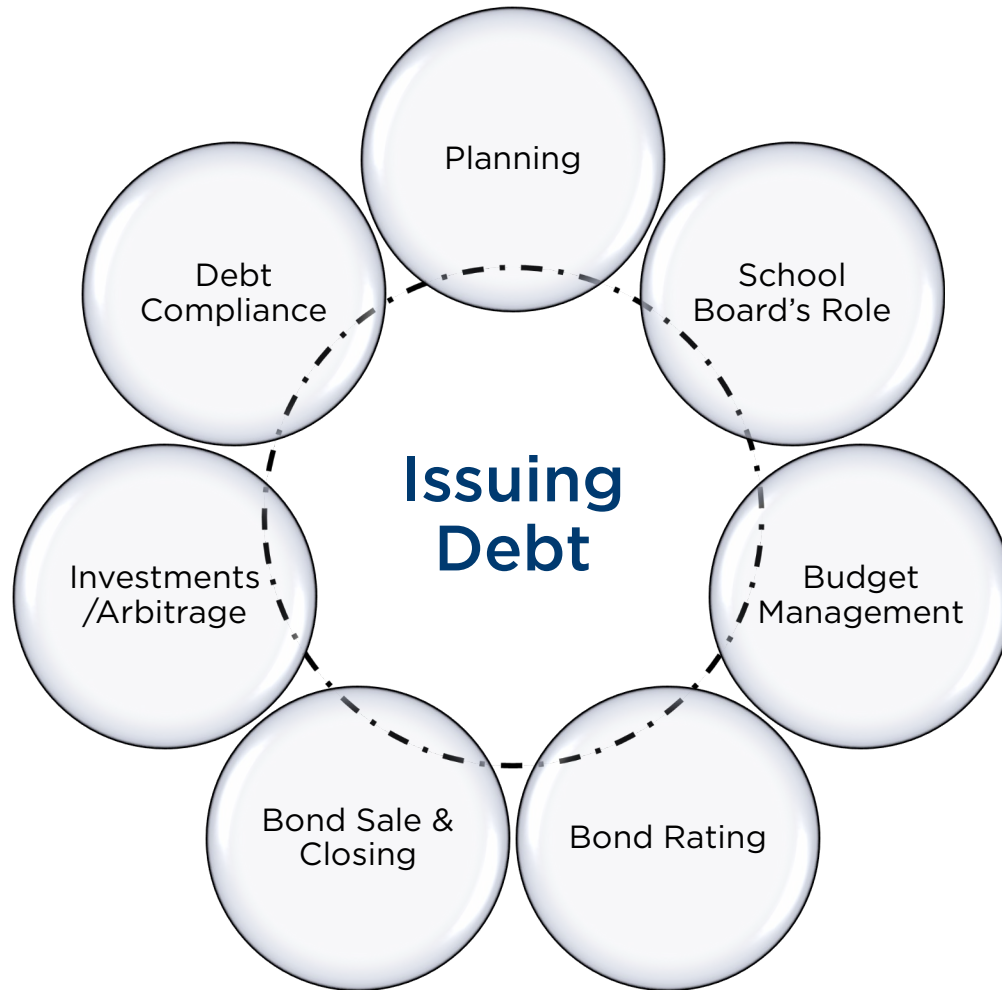
- Audited Financial Statements
- Additional information varies by obligation type & pledged revenues – defined by Continuing Disclosure Agreement

# Post Issuance: Refunding Considerations

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- Original bonds issued with a “call provision”
  - ✓ Allows the District to prepay certain maturities
  - ✓ Usually issue new debt to pay off the original issue
- Two reasons
  - ✓ Take advantage of lower interest rates
  - ✓ Restructure the original debt for planning purposes
- Annual savings are passed on to the taxpayers through decreased levies





# Let's Talk!

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