



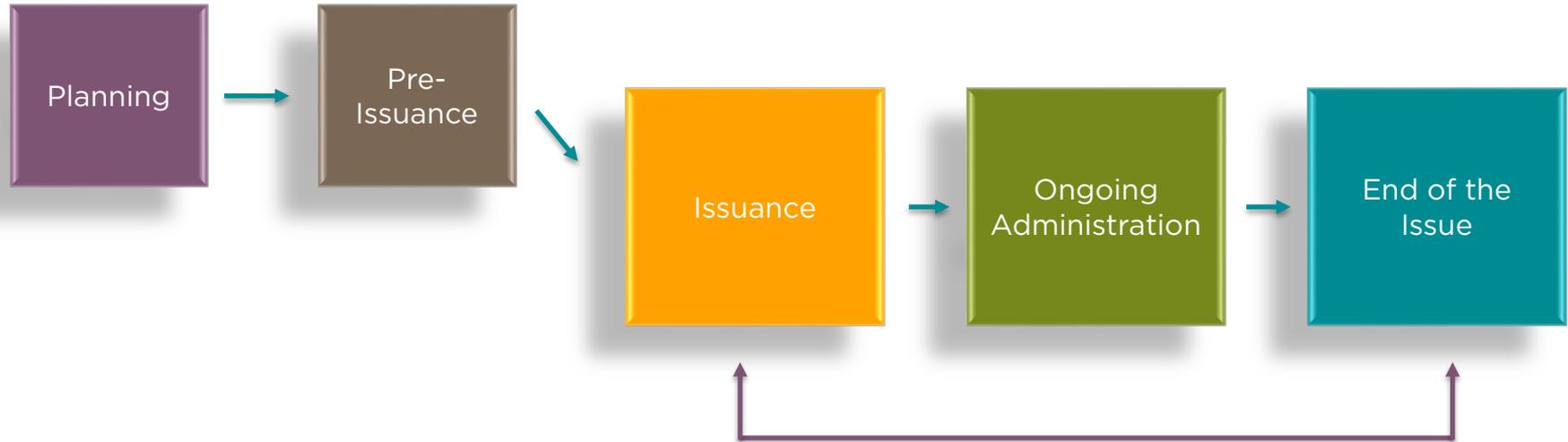
Managing Debt

From Proceeds to Payoff

Today's Discussion

- Receiving & Recording Proceeds
- Spending & Drawing Down Proceeds
- Funding & Paying Debt
- Reporting & Monitoring Debt
- Paying off the Debt
- Best Practices

Municipal Debt Issuance Process





Managing Debt: From Proceeds to Payoff

RECEIVING & RECORDING PROCEEDS

Gather Bond Documents

Closing Memo → Summary of all key details & terms of bond issuance

Calculation of Available Funds

Par Amount of the Bonds		\$5,760,000.00
Plus: Original Issue Premium		<u>537,491.00</u>
ISSUE PRICE/GROSS PRODUCTION		\$6,297,491.00
Less: Underwriter's Discount		<u>(50,850.29)</u>
PURCHASE PRICE		\$6,246,640.71
TOTAL AVAILABLE FUNDS		\$6,246,640.71
Less: Costs of Issuance ¹		
Ehlers (Municipal Advisor)	\$45,200.00	
Taft Stettinius & Hollister LLP (Bond Counsel)	20,000.00	
S&P Global Ratings (Rating Agency)	18,000.00	
Bond Trust Services Corporation (Paying Agent)	732.00	
Wright County (Auditor Certificate Fee)	<u>150.00</u>	
Total Issuance Costs		<u>(84,082.00)</u>
NET AVAILABLE FUNDS		<u>\$6,162,558.71</u>

Verify Receipt of Proceeds

Use a segregated “Bond Proceeds” investment account

Clearly identifies:

- Use of proceeds
- Spend-down timeline
- Investment earnings attributable to bond proceeds

Tie-out deposit received to the Distribution of Available Funds

Available day of closing to confirm receipt

Reconcile Distribution of Available Funds

Distribution of Available Funds

	Bond Proceeds	Total
FUNDS RECEIVED BY THE CITY		
Deposit to Construction Account		
Proceeds available for Project Costs	\$6,094,836.49	
Total Deposit to Construction Account		\$6,094,836.49
Deposit to Debt Service Account ²		
Capitalized Interest	67,722.22	
Total Deposit to Debt Service Account		67,722.22
TOTAL FUNDS RECEIVED BY THE CITY	\$6,162,558.71	
TOTAL DISTRIBUTION OF NET AVAILABLE FUNDS		\$6,162,558.71

Investing Bond Proceeds

- Project(s): spend-down duration & timing
- Financing complexity
- Bond covenants
- Current & future interest rate expectations
- Investment policy & coordinating strategy
- Arbitrage compliance plan

Multiple Purpose Issuance Example

Total Issue Sources And Uses

Dated 06/29/2023 | Delivered 06/29/2023

	Street Reconstruction	Sewer Revenue	Water Revenue	Equipment	Issue Summary
Sources Of Funds					
Par Amount of Bonds	\$1,925,000.00	\$2,525,000.00	\$835,000.00	\$475,000.00	\$5,760,000.00
Reoffering Premium	176,962.05	232,077.65	76,352.30	52,099.00	537,491.00
Total Sources	\$2,101,962.05	\$2,757,077.65	\$911,352.30	\$527,099.00	\$6,297,491.00
Uses Of Funds					
Total Underwriter's Discount (0.883%)	16,994.24	22,291.14	7,371.53	4,193.38	50,850.29
Costs of Issuance	30,172.67	34,786.51	12,188.97	6,933.85	84,082.00
Deposit to Capitalized Interest (CIF) Fund	53,736.11	-	-	13,986.11	67,722.22
Deposit to Project Construction Fund	2,001,059.03	2,700,000.00	891,791.80	501,985.66	6,094,836.49
Total Uses	\$2,101,962.05	\$2,757,077.65	\$911,352.30	\$527,099.00	\$6,297,491.00

Accounting for the Proceeds

Governmental: Tax-supported activities distributed in accordance with GAAP

Funds: Typically, Capital Project Funds, Debt Service Funds managed in the following accounts:

- Asset - Cash/Investments
- Expense - Debt Issuance Costs
- Other Financing Sources - Bonds Proceeds
- Other Financing Sources - Premium/Discount on Bond Issuance

Journal Entry		Debit	Credit
DSF - Street Recon / Equipment			
Asset	Cash - Investments	67,722.22	
OFS	Bond Proceeds (Capitalized Interest)		67,722.22
		67,722.22	67,722.22
CPF - Street Reconstruction			
Asset	Cash - Investments	2,001,059.03	
OFS	Bond Proceeds		1,871,263.89
OFS	Bond Premium		176,962.05
Expenditure	Bond Issuance Costs	47,166.91	
		2,048,225.94	2,048,225.94
CPF - Equipment Certificate			
Asset	Cash - Investments	501,985.66	
OFS	Bond Proceeds		461,013.89
OFS	Bond Premium		52,099.00
Expenditure	Bond Issuance Costs	11,127.23	
		513,112.89	513,112.89

Accounting for the Proceeds, Continued...

Proprietary: Business-type activities, supported by fees or charges

Funds: Typically, enterprise funds managed in the following accounts

- Asset - Cash/Investments
- Expense - Debt Issuance Costs
- Liability - Bonds Payable
- Liability - Bond Premium

Journal Entry		Debit	Credit
Water			
Asset	Cash - Investments	891,791.80	
Liability	Bonds Payable		835,000.00
Liability	Bond Premium		76,352.30
Expense	Bond Issuance Costs	19,560.50	
		911,352.30	911,352.30
Sewer			
Asset	Cash - Investments	2,700,000.00	
Liability	Bonds Payable		2,525,000.00
Liability	Bond Premium		232,077.65
Expense	Bond Issuance Costs	57,077.65	
		2,757,077.65	2,757,077.65



Managing Debt: From Proceeds to Payoff

SPENDING & DRAWING DOWN PROCEEDS

Eligible Expenses

- Consider date of IRS Declaration of Intent Resolution, expenses must be within 60 days of declaration to be reimbursed with proceeds
- If no Declaration of Intent Resolution was adopted, can go back 60 days from issuance except for “preliminary” costs
- Proceeds must be used on purposes indicated in the Council Resolutions authorizing and approving the debt

Use of Funds	Amount
To finance the City's street improvement share of the TH 25 project costs.	\$2,001,059.03
To finance the 2023 sewer system capital improvements and the sewer fund's share of the TH 25 project costs.	2,700,000.00
To finance the water fund's share of the TH 25 project costs.	891,791.80
To finance 2023 capital equipment purchases.	<u>501,985.66</u>
Total Uses	<u>\$6,094,836.49</u>

Project Expense Tracking

Provides documentation:

- Spend-down, or use, of bond proceeds on their authorized purposes
- Interest/investment earnings on proceeds while the spend-down is occurring

Track Projects Individually:

- Monitor the use of funds on associated projects separately (i.e. street vs. sewer)
- Utilize project accounting – can track small project components in a large facility project for example

Additional Funding:

- Consider additional project funding sources (i.e. grants, other financial assistance)
- Don't double count expenses as a use of proceeds and grant-reimbursed

Drawing Down Proceeds

Ask for anticipated draw schedule to maximize investment potential



Periodic draws of proceeds with the included expenses clearly documented

Determine a frequency that works for you
Consider a dollar amount threshold



Reconcile Project Tracking balances with Bond Proceeds investment account

Unspent bond proceeds are restricted investments



Don't forget about Capitalized interest

Draw down once interest is paid



Managing Debt: From Proceeds to Payoff

FUNDING & PAYING DEBT

Funding Sources

Property Tax Levy

- ✓ Levy for each individual bond's repayment
- ✓ Levy/Collect/Pay schedule
- ✓ MN Statute ~ 475.61 - 105% “over levy” – levy in an amount, that, with any pledged revenues produces 105% of the P&I due
- ✓ Council Resolution to increase or decrease
- ✓ Levy what is needed and avoid arbitrage issues

Tax Levy Schedule

Tax Levy Year	Tax Collect Year	Bond Pay Year	Total P+I	CIF	Net New D/S	P & I @105%	Net Levy
2022	2023	2024	53,736.11	(53,736.11)	-	-	-
2023	2024	2025	181,250.00	-	181,250.00	190,312.50	190,312.50
2024	2025	2026	181,750.00	-	181,750.00	190,837.50	190,837.50
2025	2026	2027	182,000.00	-	182,000.00	191,100.00	191,100.00
2026	2027	2028	182,000.00	-	182,000.00	191,100.00	191,100.00

Funding Sources, Continued

Special Assessments

- ✓ “Charge” imposed on properties for a particular improvement that benefits said properties
- ✓ MN Statutes Chapter 429
- ✓ Policy Considerations & Deferred Special Assessments
- ✓ Must follow specific process outlined by statute
 - Preliminary Assessment Roll identifying parcels
 - Proper notifications such as newspapers and mailed notices distributed to affected properties
 - Public Hearing
 - Adoption of Assessment Roll

Tax Levy Year	Tax Collect Year	Bond Pay Year	Total P+I	CIF	Net New D/S	P & I @105%	Assessments	Net Levy
2022	2023	2024	84,254.83	(84,254.83)	-	-	-	-
2023	2024	2025	285,770.00	-	285,770.00	300,058.50	135,214.19	164,844.31
2024	2025	2026	283,970.00	-	283,970.00	298,168.50	131,395.45	166,773.05
2025	2026	2027	276,970.00	-	276,970.00	290,818.50	127,576.73	163,241.77
2026	2027	2028	274,970.00	-	274,970.00	288,718.50	123,758.01	164,960.49

Funding Sources, Continued...

Pledged Revenues – typically utility revenues, derived from fees/charges for services

- Water/Sewer/Storm – Adjust rates if/when necessary to ensure sufficient revenues to pay debt service
- Sales Taxes
 - ✓ Not all authorities have this
 - ✓ Requires Legislative and Voter Approval
- Tax Increment Financing
 - ✓ Limited to pledged amount or maximum TIF
 - May need to use other funds if TIF revenues insufficient

Paying Debt

Principal typically due once a year and interest twice a year

Payment Date	ALLOCATION OF DEBT APPLICABLE TO:													
	Street Reconstruction				Utility Revenue - Sewer			Utility Revenue - Water			Equipment			
	Principal	Interest	Less: Total Funds Available for Debt Service	Net Fiscal Total	Principal	Interest	Net Fiscal Total	Principal	Interest	Net Fiscal Total	Principal	Interest	Less: Total Funds Available for Debt Service	Net Fiscal Total
2/1/2024	-	53,736.11	(53,736.11)	0.00	-	70,460.56	70,460.56	-	23,290.56	23,290.56	-	13,986.11	(13,986.11)	0.00
8/1/2024	-	45,625.00	-	-	-	59,825.00	-	-	19,775.00	-	-	11,875.00	-	-
2/1/2025	90,000.00	45,625.00	-	181,250.00	115,000.00	59,825.00	234,650.00	40,000.00	19,775.00	79,550.00	45,000.00	11,875.00	-	68,750.00
8/1/2025	-	43,375.00	-	-	-	56,950.00	-	-	18,775.00	-	-	10,750.00	-	-
2/1/2026	95,000.00	43,375.00	-	181,750.00	125,000.00	56,950.00	238,900.00	40,000.00	18,775.00	77,550.00	45,000.00	10,750.00	-	66,500.00
8/1/2026	-	41,000.00	-	-	-	53,825.00	-	-	17,775.00	-	-	9,625.00	-	-

Best Practices

- ✓ Monitor pledged revenues, such as special assessment, to ensure they are meeting expectations
- ✓ Use of paying agent/fiscal agent
- ✓ Use of Electronic Fund Transfers (EFT)
- ✓ Missed payments!

Accounting for the Payments

Governmental Funds:

Journal Entry		Debit	Credit
Expenditure	Bond Principal	185,000.00	
Expenditure	Bond Interest	51,750.00	
Asset	Cash		236,750.00
		236,750.00	236,750.00

Proprietary Funds:

Journal Entry		Debit	Credit
Liability	Bond Principal	185,000.00	
Expense	Bond Interest	51,750.00	
Asset	Cash		236,750.00
		236,750.00	236,750.00

Annual Accounting Entries

Recorded only in Proprietary Funds

Interest Accrual:

Remember to reverse or adjust for the difference of the prior year accrual amount

Payment Dates	February 1st & August 1st		
Months Accrued at year end (12/31)	5 out of 6 months		
Next Interest Payment	\$51,700		
Accrued Interest at 12/31	= (5/6) x \$51,700 = \$43,083		
Expense	Bond Interest	43,083.00	
Liability	Accrued Interest Payable		43,083.00
		<u>43,083.00</u>	<u>43,083.00</u>

Premium/Discount Amortization:

Amount to be amortized over the life of bond

Liability	Bond Premium	36,000.00	
Expense	Amortization Expense		36,000.00
		<u>36,000.00</u>	<u>36,000.00</u>



Managing Debt: From Proceeds to Payoff

REPORTING & MONITORING DEBT

External Reporting

MN Legal Compliance Reporting: Certificate of Outstanding Indebtedness

- Due annually on February 1st

Arbitrage Reporting

- Leverage a professional!
- Required under federal regulations
- Annually during construction period
- Periodic Reporting afterwards

Continuing Disclosures

- Best Practice – Utilize an expert!
- Specific to each issue, but at least annually
- Material Events – notification within 10 days

Monitoring Debt Service Funds

Cash flow projection

- All disbursements
- Interest earnings
- Special assessments revenues
- Any other revenues
- Sufficient cash at year end for principal & interest payment in subsequent year
- Maintain positive fund balance

Monitoring Debt Service Funds, Continued...

Collect Year	Fund Balance 1-Jan	Revenues						Expenses			Fund Balance 31-Dec	Bond Balance	100%	
		Property Taxes	Special Assess	Other Receipts	Transfer In	Investment Interest	Total Projected Receipts	Debt Payments	Other Disbursements	Total Projected Disbursements			Principal	Interest
2024	-			123,278	-	-	123,278	-	-	-	123,278	3,885,000	-	215,353
2025	123,278	246,372	166,698			616	413,686	215,353	-	215,353	321,611	3,885,000		
2026	321,611	246,635	166,698			1,608	414,941	359,650	-	359,650	376,902	3,705,000	180,000	179,650
2027	376,902	246,372	166,698			1,885	414,955	360,400	-	360,400	431,456	3,515,000	190,000	170,400
2028	431,456	245,585	166,698			2,157	414,440	360,650	-	360,650	485,246	3,315,000	200,000	160,650
2029	485,246	244,272	166,698			2,426	413,396	360,400	-	360,400	538,242	3,105,000	210,000	150,400
2030	538,242	247,685	166,698			2,691	417,074	359,650	-	359,650	595,666	2,885,000	220,000	139,650
2031	595,666	245,060	166,698			2,978	414,736	358,400	-	358,400	652,002	2,655,000	230,000	128,400
2032	652,002	247,160	166,698			3,260	417,118	356,650	-	356,650	712,470	2,415,000	240,000	116,650
2033	712,470	243,222	166,698			3,562	413,482	359,275	-	359,275	766,677	2,160,000	255,000	104,275
2034	766,677	244,010	166,698			3,833	414,541	356,275	-	356,275	824,943	1,895,000	265,000	91,275
2035	824,943	249,260	166,698			4,125	420,082	357,650	-	357,650	887,375	1,615,000	280,000	77,650
2036	887,375	248,210	166,698			4,437	419,344	358,275	-	358,275	948,444	1,320,000	295,000	63,275
2037	948,444	246,372	166,698			4,742	417,812	358,150	-	358,150	1,008,107	1,010,000	310,000	48,150
2038	1,008,107	242,172	166,698			5,041	413,911	358,900	-	358,900	1,063,117	685,000	325,000	33,900
2039	1,063,117	242,802	166,698			5,316	414,816	355,700	-	355,700	1,122,233	350,000	335,000	20,700



Managing Debt: From Proceeds to Payoff

PAYING OFF THE DEBT

Debt is Paid Off: What's Next?

- Excess proceeds/cash in Debt Service Fund
 - ✓ Utilize on debt service
 - ✓ Replace debt service levy with General Fund levy
 - ✓ Another “like” project
 - ✓ Closed Debt Fund - hold for best use
 - ✓ Other options - consult MA
- What to do if issue is too little?
 - ✓ Other revenue sources
 - ✓ Excess proceeds from past issuances
 - ✓ Interfund loan





Managing Debt: From Proceeds to Payoff

BEST PRACTICES

Best Practices

Debt Policy

- Include Post Issuance Compliance Policy – follow it!
- Designates Issuer Responsibilities and responsible parties within organization
- Viewed favorably by Rating Agencies
- Can be used as training and management tool
- Policies last beyond people

Calendar of Debt Related Tasks

- Debt Service Payments (invoices & reminders sent by Paying Agent)
- External Reporting Deadlines

Best Practices, Continued...

Leverage External Resources

- Government finance organizations
- Advisory services
- Paying agent
- Debt management software

Record Retention Requirements

- Maturity -> 6 years after final payment
- Refer to retention schedule

Key Take-Aways



Effective Debt Management

- Track bond proceeds
- ✓ Use for authorized purposes
- ✓ Maintain detailed records



Compliance

Comply with IRS rules, state statutes, and bond covenants at every stage; from proceeds to payoff!



Best Practices

Utilize best practices for managing revenues, making payments, and ensuring timely debt service



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