

Bonds & Bond Levies

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Bonds & COPs Overview

General Obligation (GO) Bonds

- Backed by the full faith and the credit of all taxpayers
- District is REQUIRED to levy enough mills for debt service
- Requires voter approval
- Limited to 20% of Assessed Valuation (with exceptions)
- Bond mill levy covers annual principal and interest
- Bonds typically come in \$5,000 increments and pay interest semi-annually

Certificates of Participation (COPs)

- Are a lease-purchase transaction
- Do NOT require voter approval
- Do NOT have a mill levy, debt service funded by GF or CRF
- Are not limited by Assessed Valuation
- Trade just like bonds in terms of \$5,000 increments
- The Board of Ed CAN non-appropriate and default on COPs



Objectives

- Overview of Bond Process
- Finance Team
- Finance Plan
- Bond Ratings
- Bond Documents
- Pricing and Sale
- Post-Closing
- Bond Mill Levy Calculation



Principal Players

- Staff
- Bond Counsel - (Butler Snow and Kutak Rock)
- Financial Advisor - (contact bond counsel)
- Underwriter - (RBC and Stiefel)
- Disclosure Counsel/Underwriter's Counsel
- Rating Agencies
- Consulting Engineer/Rate Consultant



Staff

- Finance
- Attorney
- Administration
- Facilities Director

Role of Staff

- Protect government's interests
- Obtain lowest borrowing cost (consistent with risk)
- Liaison with board members & community
- Review financing documents/provide info for O/S and rating agencies



Bond Counsel

- Prepares legal documents
- Opines on validity of bonds
- Opines on tax exemption (tax certificate)
- Adequate disclosure is the responsibility of the issuer not bond counsel
- Adequate disclosure is the responsibility of the issuer, not bond counsel or disclosure counsel



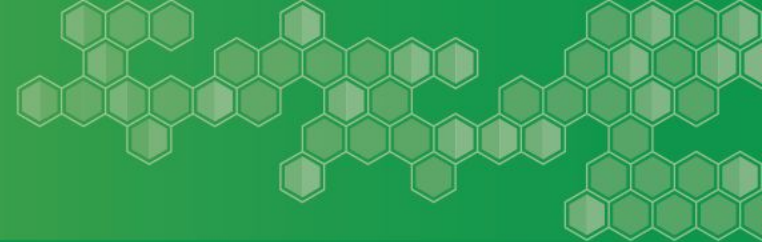
Financial Advisor

- Partners structure of debt (w/underwriter)
 - Variable vs. Fixed Rate
 - Level debt service for each issue or level for all outstanding debt
 - Coverage
 - Maximum maturity of bonds
- Provides recommendation on economic feasibility of refunding
- Helps with selection of finance team
- Conducts document review
- Coordinates ratings and bond insurance
- Advises on fairness of pricing, terms and bond ratings



Underwriter

- Sell issuer's bonds to investors, Underwriter will “take down” unsold bonds and eliminate market risk to issuer
- Purchases bonds from issuer for resale to investors
- Underwriters do not represent the issuer
- Based upon market demands, provide input into the structure and timing of financing
- Monitors outstanding debt for refunding opportunities
- Conducts document review
- Assists with ratings and bond insurance



Rating Agencies

- Objective and expert evaluation of credit
 - Insured Ratings – Based on rating of bond issuer
 - Underlying Ratings – Based on rating of issuer and source of repayment of bonds
- State Intercept Rating - All districts are in unless they opt out
- Provide feedback on bond structure
- Improve efficiency of market
- Additional source of information for investors on suitability of investment
- Investment grade ratings enhance sale of bonds



Paying Agent/Escrow Agent

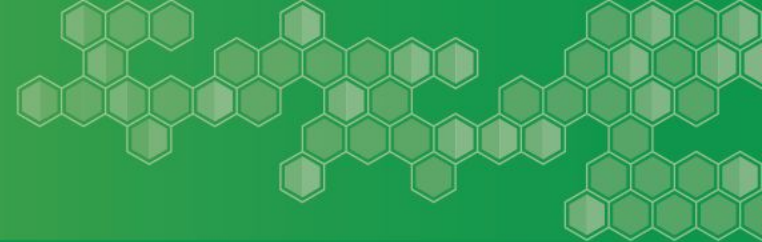
- Invoices issuer when debt payment is due
- Makes payment to bondholders
- Holds refunding escrow on behalf of bondholders
- Sends redemption notice to bondholders for refunding



Other Participants

- Accountants and Auditors
- Credit Enhancers (Insurance, Letters of Credit)
- Verification agents (refunding)

Bond Ratings



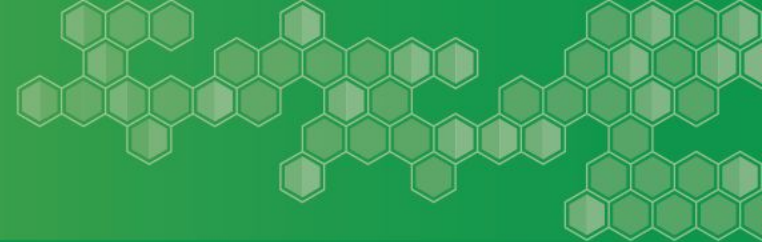
What is a Bond Rating?

- Measure of risk to bondholders
- Agencies: S & P, Moody's and Fitch
- Reflects issuer's ability and willingness to repay debt on time and in full (who, how, what)
- Denotes credit quality by rating level
- Independent opinion (subjective process)
- Forward looking projection
- Each credit is unique



Bond rating is not...

- ...an audit
- ...a recommendation to buy, sell or hold a security
- ...static or permanent
- ...an opinion of a community's quality of life
- ...a performance evaluation of current political leadership
- ...a judgment of quality of service delivery



Value of Bond Ratings

- Maybe lower interest rates on bonds if insurance purchase but state intercept may overcome
- Access to market for lesser known credits
- More efficient secondary market trading
- Increased investor demand
 - Some institutional investors can only purchase certain rated securities

Bond Documents

- Bond Resolution or Indenture
- Official Statement
- Bond Purchase Agreement
- Competitive Sale Documents
- Continuing Disclosure Certificate
- Other Documents
- A lot of work (mostly by the CFO/Business Mgr)



Official Statement (O/S)

- Prepared by Disclosure Counsel or Underwriter's Counsel
- Not a sales document
- Disclosure standard
 - No untrue statement
 - No material omission
- Issuer is responsible for disclosure
- Certificates and Opinions
- Disclosure subject to rules promulgated by the SEC



Call Features

- Optional redemption

Issuer's right to prepay after a stated date at specific price

- Call Date – typically 8 to 10 years from date of issuance
- Call Premium – typically 100 at par (100 percent)



Method of Sale

- **Competitive Sale**
- Underwriters bid against each other
 - Specific bid date and time
 - Sealed or electronic bid
 - Awarded by lowest true interest cost
- **Negotiated Sale**
 - Underwriter chosen prior to sale
 - Assists with structuring and pre-marketing
 - Greater market timing flexibility
- **Private Placement**



Negotiated Bond Sale Process

- Establish target sale date
- Monitor market for favorable conditions
- Pre-marketing
- POS distributed
- Marketing circular for sales/marketing
- Communication with potential buyers
 - Conference calls
 - Direct mailings

Negotiated Bond Sale Process (continued)

- Day prior to sale have pricing call
 - Underwriter and financial advisor
 - Preliminary yields
- Establish pricing structure (“scale”)
 - Sale at par
 - Original issue discount
 - Original issue premiums
- Retail order period
 - Day prior to institutional order period
 - Committed entirely to retail orders
 - Priority for local residents



Negotiated Sale Day of pricing

- Underwriter and FA confirm initial pricing
- Underwriter “goes into market” around 9 a.m.
- Receives retail and institutional orders
 - Individual investors
 - Bond mutual funds
 - Insurance companies
 - Banks – own portfolios, trust departments



Negotiated Sale--Day of pricing (continued)

- Repricing
 - Changes in market conditions
 - Significantly more or less orders than bonds
 - Yields may be decreased or increased based on orders
- Underwriter makes offer to underwrite to issuer
- Issuer gives verbal award
- Underwriter prepares final numbers
- Bond purchase agreement finalized and signed that afternoon



Topics

- Managing rating and rating agency relationships
- Maintenance of funds and accounts
- Other resolution requirements
- Arbitrage
- Investment of proceeds

Continuing Disclosure

<http://www.emma.msrb.org/>

- **EMMA and Municipal Market Transparency**

The EMMA website is funded and operated by the Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization charged by Congress with promoting a fair and efficient municipal securities market. EMMA is designated by the U. S. Securities and Exchange Commission as the official source for municipal securities data and disclosure documents. The website provides free public access to objective municipal market information and interactive tools for investors, municipal entities and others. EMMA supports municipal market transparency but is not a platform for buying or selling bonds.

What is EMMA?

The EMMA website was established to increase transparency of the municipal securities market by providing free public access to municipal securities documents and data. EMMA provides investors, state and local governments and other market participants with key information about individual municipal bonds as well as tools to assess bond prices and market trends. Get access to:

Information about Specific Municipal Securities

- Official statements (the prospectus for a municipal bond)
- Trade prices, yields and other data about a bond's trading history
- Financial disclosure documents from the issuer of the bond
- Other ongoing disclosure documents about events affecting the bond
- Information about 529 savings plans and ABLE programs

Market-Wide Information

- Yield curves and indices from third-party providers
- Calendar of municipal securities scheduled to be offered
- Calendar of upcoming economic reports and events that may have an impact on the municipal bond market
- Market statistics about overall trading patterns and most active securities



Maintenance of Funds and Accounts

- Construction Fund - Fund 41
 - Records Bond & Premium Proceeds and Cost of Issuance from the Bond Sale
 - Records the expenses related to the Project
 - Recommend using a SRE code to distinguish bond proceeds from the bond sale, ***especially if the district already has activity in Fund 41.***
 - This separation of multiple funding will be needed to calculate the Arbitrage.

Bond Fund Accounting



Project Summary

	Total Project Cost	Amount	Percentage
	A: Bond/COP Proceeds (State's BEST Grant Award)	27,215,920.00	82.74%
	B: District's Proceeds (District's Match)	5,677,077.00	17.26%
		<u>32,892,997.00</u>	

Revenue Booking

			DEBIT	CREDIT
		FASB Codification "FASB 13 prior to codification": Capitalized Lease Rules or Grant Accounting Treatment (Note under GASB #87, will be Capital Financing and Grant)		
	(Booking Expense in GL)			
	District's Proceeds used for B: Matching Money Bond	The following is the amount of money the district turned over to the state as matching funds (generated by bond/COP proceeds sold by the state).		
Asset	41.000.00.0000.8105.000.0000	Cash with Fiscal Agent	5,677,077.00	
Revenue	41.000.00.0000.5XXX.000.0000	Bond (5110) & Bond Premium(5120) /COP (5400) Proceeds		5,677,077.00
Expense (If Bond)	41.XXX.00.5100.0330.000.0000	BOND ISSUANCE COSTS..If Applicable	XXX	
		To book the district's matching monies - sale of bonds/COPs included in the State's COP Issue		

Debt Service Fund Accounting

Maintenance of Funds and Accounts-continued

- Building Fund - Fund 41
 - Book construction expenses
 - Program expense (usually 4000 program code)
 - Object expense (usually 07XX object code)
 - Location code (code to proper site)
 - Review chart of accounts for specific program and object codes
 - Building new schools - Ok to fund library, food service, etc
 - Construction Team - Internal or External

Debt Service Fund Accounting

Maintenance of Funds and Accounts-continued

- Debt Service Fund - Fund 31
 - Records Property Tax collection -
 - If district passes a Bond in November 2022, the district will need to certify mills in December 2022, even if Bond Sale will occur in the near future, often January.

Debt Service Fund Accounting

0900 Other Uses of Funds. This series of codes is used to classify transactions which are not properly recorded as expenditures to the school district but require budgetary or accounting control. These include redemption of principal and interest on long-term debt, housing authority obligations and fund transfers.

0910 Redemption of Principal. Outlays from current funds to retire serial bonds and long-term loans.
Note: object codes 0910 through 0919, except for 0913, should only be used for voter approved debt

0911 Long-term Principal.

0912 Short-term Principal.

0913 Principal on Financing Arrangements (Leases). Payments made for capital financing (leases), Certificates of Participation activity and non-voter approved debt. See Appendix L, "Capital Leases," or "Leases, after GASB Statement No. 87" for additional information.

0919 Other Principal.

0920 Housing Authority Obligations. Outlays from current funds to satisfy housing authority obligation of the school district. A public school housing authority is a public or quasi-public corporation having power to issue authority bonds for public school purposes, construct public school buildings, lease public school buildings to local public school administrative units or transfer title to such units. All expenditures of this nature are classified in this category.

0940 Payments to Escrow Agents. Payments made to institutions through escrow agents acting on behalf of the school district.

0950 Initial Outlay from Lease (Which is not Capital Outlay). Initial payments made by the school district from leases which do not result in the acquisition of capital equipment or facilities. See Appendix L, "Capital Leases," or "Leases, after GASB Statement No. 87". For the capital outlay related to a lease acquired under GASB Statement No. 87, see object code 0770.



Arbitrage

- Bonds issued are tax-exempt (Federal and maybe State)
 - If bond proceeds invested, interest earnings may exceed interest expense on bonds for a limited period, after that IRS rebate kicks in
 - Creates positive interest gain (arbitrage)
 - Interest in excess of bond yield must be rebated to IRS every five years (Form 8038)
- *SRE Code to keep multiple bonds separate

Setting your Bond Levy



Items needed for the calculation:

- Bond election question(s)
 - Need to know the maximum annual debt service limit
- Assessed Valuation (AV)
 - Preliminary AV (August)
 - Final AV (November/December)
- Bond Amortization Schedule(s)
 - What is the annual principal and interest for the calendar year
 - Need to consolidate the schedules if there are multiple bonds
- Bond Reserve Target
 - One year principal and interest is most common
 - Cash flow is absolutely essential based on pymt dates
 - Payment Dates are usually June and December
 - Some districts just levy the same mills each year, regardless of AV

Sample Bond Mill Levy Calculation (Monthly Model)

2022				
Assessed Valuation			Revenue	
Bond Mill Levy			\$0	Interest Rate
Bond Redempt Fund Beg Bal				1.00%
	<u>Interest</u>	<u>Revenues</u>	<u>Debt Svc</u>	<u>Cash Balance</u>
-January	0	0		0
-February	0	0		0
-March	0	0		0
-April	0	0		0
-May	0	0		0
-June	0	0		0
-July	0	0		0
-August	0	0		0
-Sept	0	0		0
-Oct	0	0		0
-Nov	0	0		0
-Dec	0	0		0
		\$0		

Sample Bond Mill Levy Calculation (Annual Model)

	2021 Bond
Debt Service Requirement	17,792,991
Assessed Valuation	3,511,392,070
Mill Levy	5.067

	2021 Bond
Debt Service Require	17792991
Assessed Valuation	='Mil Levy Cert!D7
Mill Levy	=(D4/D6)*1000

Bond Reserve Strategies

- Creating a “reserve” in Fund 31
- Remember, you can’t levy more than the annual debt service limit per the election question. **Ballot Question will state a maximum \$ amount that can be collected.**
- **Multiple Strategies**
 - Best Practice is to slightly over collect to build a reserve on the annual payments.
 - 3-5% for districts with stable Assessed Value
 - 5-10% for districts with more variable Assessed Value-Oil & Gas
 - or keep one year debt service beyond current requirement for fiscal prudence

Contact us

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