

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



A PROGRAM BROUGHT TO YOU BY:

JOSH MANDEL

TREASURER OF OHIO

Basics of Borrowing

Part 1

FIN 104

Presenters

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ISSUANCE OF DEBT

- Steps to Issue Debt
- Types of Obligations
- Debt Limits
- Debt Structure
- Federal Tax Law
- Securities Law



OVERVIEW

- What is a Bond and Why Issue?
 - Debt instrument issued by a governmental issuer
 - New capital expenditure
 - Refinance outstanding bonds
- Why Tax-Exempt?
 - Tax-Exempt Municipal Bonds enjoy special advantageous status in the investment community because the interest paid on most municipal debt is not subject to federal income taxation to bond investors and that generally translates to lower interest rates

OVERVIEW*

- Participants in a Private Placement
 - Issuer (Governmental Entity) – central actor that borrows the money
 - Purchaser/Bank – Provides the funds and determines/influences the structure
 - Placement Agent and/or Municipal Advisor
 - Bond Counsel
- Participants in a Public Offering
 - Issuer (Governmental Entity)
 - Underwriter – Access to market
 - Investor
 - Bond Counsel
 - Municipal Advisor

*Participants vary depending on the type and structure of financing.

OVERVIEW

- Governmental Purpose Bonds
 - Debt Instrument issued by governmental issuer/proceeds used by the governmental issuer
 - Bonds and Bond Anticipation Notes
- Conduit Bonds
 - The government acts as an issuer pursuant to an arrangement with a private conduit borrower in order for the debt to be tax-exempt
 - The conduit borrower is solely responsible for making debt service payments
 - Conduit Bonds are not considered debt of the government issuer

~ Our focus is on Governmental Purpose Bonds ~

I. STEPS TO ISSUE DEBT

- Authority to Issue Debt
 - Public Purpose
 - Debt Limits
 - Maturity Limitations
- Methods of Sale
 - Private Placement
 - Negotiated Sale/Public Offering
 - Public Bid

II. TYPES OF OBLIGATIONS - BONDS

- General Obligation (GO) Bonds
 - Backed by property taxes of community
 - Other revenue available to pay for debt service then the millage is not levied
 - Subject to constitutional/statutory limitations
 - Voted and unvoted
- Revenue Bonds
 - Completely self-supporting
 - Backed by a particular source of revenue
 - Types of Revenue Bonds:
 - Income Tax Bonds
 - Sales Tax Bonds
 - Enterprise Fund Revenue Bonds, like Water Revenue Bonds

II. TYPES OF OBLIGATIONS - BONDS

- Special Assessment Bonds
- Double Barreled Bonds
 - Secured by both a defined source of revenue (other than property taxes) and the full faith and credit or taxing power of an issuer (General Obligation)

II. TYPES OF OBLIGATIONS - NOTES

- Bond Anticipation Notes (BANs)
 - Usually have 6-month or 1-year maturity
 - Principal and interest payable at maturity
 - Lower interest rate (but takeout interest rate risk)
 - For GO BANs, after five years must amortize principal as if bonds had been issued

II. Types of Obligations – Bonds vs. Notes

- Bonds
 - Payment schedule/interest rate set for life of Bond issue
- Bond Anticipation Notes
 - 1 year BAN / \$1,000,000 / interest rate 2.00%
 - Issue date: June 1, 2017
 - Maturity date: June 1, 2018
 - June 1, 2018, pay holder interest due plus pay down \$100,000, roll over BAN in amount of \$900,000
 - New BAN / \$900,000
 - Issue date: June 1, 2018
 - Maturity date: June 1, 2019
 - Interest rate: new interest rate

II. Types of Obligations – Bonds vs. Notes

- Bond Payment Schedule

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
06/01/16		2.2110%	32,692.90	32,692.90	
12/01/16	227,445.00	2.2110%	27,498.70	254,943.70	287,636.60
06/01/17		2.2110%	24,984.30	24,984.30	
12/01/17	230,000.00	2.2110%	24,984.30	254,984.30	279,968.60
06/01/18		2.2110%	22,441.65	22,441.65	
12/01/18	235,000.00	2.2110%	22,441.65	257,441.65	279,883.30
06/01/19		2.2110%	19,843.73	19,843.73	
12/01/19	240,000.00	2.2110%	19,843.73	259,843.73	279,687.46
06/01/20		2.2110%	17,190.53	17,190.53	
12/01/20	245,000.00	2.2110%	17,190.53	262,190.53	279,381.06
06/01/21		2.2110%	14,482.05	14,482.05	
12/01/21	250,000.00	2.2110%	14,482.05	264,482.05	278,964.10
06/01/22		2.2110%	11,718.30	11,718.30	
12/01/22	255,000.00	2.2110%	11,718.30	266,718.30	278,436.60
06/01/23		2.2110%	8,899.28	8,899.28	
12/01/23	265,000.00	2.2110%	8,899.28	273,899.28	282,798.56
06/01/24		2.2110%	5,969.70	5,969.70	
12/01/24	265,000.00	2.2110%	5,969.70	270,969.70	276,939.40
06/01/25		2.2110%	3,040.13	3,040.13	
12/01/25	275,000.00	2.2110%	3,040.13	278,040.13	281,080.26

II. TYPES OF OBLIGATIONS – REFUNDING BONDS

- Refunding Bonds:
 - Call options in original deal
 - Most bonds sold in market callable after 10 years
 - Sometimes a redemption premium applies
 - Refund in lower interest rate environment (hi to low)
 - Two Types:
 - Current Refunding: Bonds being refunded are outstanding < **90** days after the date of the refunding
 - Advance Refunding: Bonds being refunded are outstanding > **90** days after the date of the refunding

II. TYPES OF OBLIGATIONS – REFUNDING BONDS

- Advance Refunding
 - Only one opportunity to “Advance Refund” (tax-exempt rules)
 - Example:
 - Call Date: December 1, 2019
 - Refunding Bond Close Date: December 1, 2017
 - Refunding Bond Proceeds: Escrow Account
 - Money held in Escrow until December 1, 2019, the earliest call date, at which point the Escrow is used to pay off the outstanding bonds

III. DEBT LIMITS

- Statutory Debt Limit or Direct Debt Limit:
 - County -- Ohio Revised Code (ORC) § 133.07
 - Unvoted GO debt limit: aggregate principal may NOT exceed 1% of its tax valuation
 - Other limitations based upon tax valuation (voted and unvoted GO debt limit)
 - A county with a valuation not exceeding \$100,000,000 = 3% of that tax valuation;
 - A county with a tax valuation exceeding \$100,000,000 but not exceeding \$300,000,000, \$3,000,000 plus 1 - ½% of that valuation in excess of \$100,000,000; and
 - A county with a tax valuation exceeding \$300,000,000, \$6,000,000 plus 2 – ½% of that tax valuation in excess of \$300,000,000

III. DEBT LIMITS

- City – Direct Debt Limit
 - A municipality must not incur net indebtedness (i.e., principal amount of outstanding securities less amount in bond retirement funds) that exceeds an amount equal to 10½% of its valuation, or incur without a vote of the electors net indebtedness that exceeds an amount equal to 5½% of the tax valuation

III. DEBT LIMITS

- Township
 - Limited home rule townships may issue general obligation limited tax debt (unvoted) up to five and one half percent (5½%) of its tax valuation and may not incur total debt, voted and unvoted, in excess of ten and one half percent (10½%)
 - Townships shall not incur indebtedness unless authorized by a vote of the electors and shall not incur indebtedness in excess of five percent (5%) of its tax valuation unless authorized by other sections of the ORC

III. DEBT LIMITS

- Township (continued)

Special Obligation

- 505.262: allows construction or purchase of equipment, buildings and sites
 - Debt service charge in first year cannot exceed 1/10th of the township's total revenues from all sources
- 505.37: allows purchase of necessary firefighting equipment, buildings and sites and construction of firefighting buildings
 - Not subject to 1/10th rule
 - Subject to greater of \$150,000 or 2% of AV

III. DEBT LIMITS

- School District
 - Unvoted
 - 1/10th of 1% of assessed valuation (AV)
 - 9/10th of 1% of AV for HB 264 Energy Conservation
 - Voted
 - Permission from ODE to exceed 4% of AV
 - Special Needs approval from ODE to exceed 9% of AV

III. DEBT LIMITS

- Exemptions from Statutory Debt Limit (some examples):
 - Special Assessment Bonds
 - Revenue Bonds
 - Sales Tax Bonds
 - Conduit Debt
 - Specified Debt: i.e., Jail Bonds

III. DEBT LIMITS

FINANCIAL STATEMENT FOR COUNTY

Section 133.07, O.R.C.

STATE OF OHIO)
) SS:
 COUNTY OF _____)

I, _____, County Auditor of _____ County, Ohio, do hereby certify that the following statements concerning the finances of said County are true and correct as appear from the records in my office:

1. Assessed valuation of the taxable property of the County, as shown on the tax duplicate for the year 200_, which is the latest tax duplicate at the date hereof: \$ _____
2. Total amount of all bonds, notes and certificates of indebtedness ("securities") issued and outstanding (do not include industrial development revenue bonds issued pursuant to Sec 165.03, O.R.C. or hospital revenue bonds issued pursuant to Sec. 140.06, O.R.C.) and including the present issue of \$ _____
3. Exempt Debt:
 - (1) Securities issued in anticipation of the levy or collection of special assessments (excluding County portion): \$ _____
 - (2) Securities described in Sec. 307.201, O.R.C. for subways: \$ _____
 - (3) Self-supporting securities issued for any purposes including, without limitation, any of the following general purposes: \$ _____
 - (a) Water systems or facilities: \$ _____
 - (b) Sanitary sewerage systems or facilities, or surface and storm water drainage and sewerage systems or facilities, or a combination of those systems or facilities: \$ _____
 - (c) County or joint county scrap tire collection, storage, moncell, monofill, or recovery facilities, or any combination of those systems or facilities: \$ _____
 - (d) Off-street parking lots, facilities, or buildings, or on-street parking facilities: \$ _____
 - (e) Facilities for the care or treatment of the sick or infirm, and for housing and persons providing such care or treatment and their families: \$ _____
 - (f) Recreational, sports, convention, auditorium, museum, trade show, and other public attraction facilities: \$ _____
 - (g) Facilities for natural resources exploration, development, recovery, use and sale: \$ _____
 - (h) Correctional and detention facilities and related rehabilitation facilities: \$ _____
 - (4) Securities issued for the purpose of purchasing, constructing, improving, or extending water or sanitary or surface and storm water sewerage systems or facilities, or a combination of those systems or facilities to the extent that an agreement entered into with another subdivision requires the other subdivision to pay to the County amounts equivalent to debt charges on the securities: \$ _____
 - (5) Voted general obligations securities issued for the purpose of permanent improvements for sanitary sewerage or water systems or facilities to the extent that the total principal amount of voted securities outstanding for the purpose does not exceed an amount equal to two percent of the County's tax valuation: \$ _____
 - (6) Securities issued for permanent improvements to house agencies, departments, boards, or commissions of the County or of any municipal corporation located, in whole or in part, in the County, to the extent that the revenues, other than revenues from unvoted County property taxes, derived from leased or other agreements between the County and these agencies, departments, boards, commission, or municipal corporations relating to the use of the permanent improvements are sufficient to cover of all operating expenses of the permanent improvements paid by the County and debt charges on the securities: \$ _____
 - (7) Securities issued pursuant to Sec. 133.08, O.R.C. (Revenue Bonds): \$ _____
 - (8) Securities issued for the purpose of acquiring or constructing roads, highways, bridges, or viaducts or acquiring or making other highways, bridges, or viaducts or acquiring or making other highway permanent improvements or for the purpose of procuring and maintaining computer systems for the office of the clerk of any county-operated municipal court for the office of the clerk of the court of common pleas, or for the office of the clerk of the probate, juvenile, or domestic relations division of the court of common pleas to the extent that the legislation authorizing the issuance of the securities includes a covenant to appropriate from moneys distributed to the county pursuant to division (B) of section 201.162, 2151.541, 2153.081, 2301.031 or 2303.201 or Chapter 4501, 4503, 4504 or 5735 of the Ohio Revised Code a sufficient amount to cover debt charges on and financing costs relating to the securities as they become due: \$ _____
 - (9) Securities issued for the purpose of acquiring, constructing, improving, and equipping a County, multicounty or multicounty-municipal jail, workhouse, Juvenile detention facility, or correctional facility: \$ _____

- (10) Securities issued for the acquisition, construction, equipping, or repair of any permanent improvement or any class or group of permanent improvements enumerated in a resolution adopted pursuant to division (D) of Sec. 5739.026, O.R.C. to the extent that the legislation authorizing the issuance of the securities includes a covenant to appropriate from moneys received from the taxes authorized under Sec. 5739.023 and Division (4)(5) of Sec. 5739.026, O.R.C. an amount sufficient to pay debt charges on the securities and those moneys shall be pledged for that purpose: \$ _____
 - (11) Securities issued for county or joint county solid waste or hazardous waste collection, transfer disposal facilities, or resource recovery and solid or hazardous waste recycling facilities, or any combination of those facilities: \$ _____
 - (12) Securities issued for the acquisition, construction, and equipping of a port authority educational and cultural facility under section 307.671 of the Ohio Revised Code: \$ _____
 - (13) Securities issued for the acquisition, construction, equipping and improving of a municipal educational and cultural facility under division (B)(1) of section 307.672 of the Revised Code: \$ _____
 - (14) Securities issued in anticipation of the collection of current revenues for the fiscal year or other period not to exceed twelve consecutive months, or securities issued in anticipation of the collection of the proceeds from specifically identified voter-approved tax levy: securities issued for purposes described in Sec. 133.23, O.R.C., securities issued under Chapter 122, 725 or 761 or Sec. 131.23, O.R.C., and bonds issued to pay final Judgments or court approved settlements under authorizing laws and securities issued under Sec. 2744.081, O.R.C.: \$ _____
 - (15) Voting machine notes issued pursuant to Sec. 3507.02, O.R.C. and vote tabulating equipment notes issued pursuant to Sec. 3506.03, O.R.C.: \$ _____
4. Total of items in 3: \$ _____
5. Total securities subject to direct limitation (2 minus 4): \$ _____
6. Securities included in item 5 above but issued WITHOUT AUTHORITY OF AN ELECTION: \$ _____
- (a) Amount in sinking fund or bond retirement fund applicable to the payment of principal thereof: \$ _____
 - (b) Line 6a minus Line 6b: \$ _____
 - (c) Amount of Line 1 times .01: \$ _____
 - (d) Line 6c must be greater than line 6b: \$ _____
- I further certify that the income, after covering the cost of all operating expenses, of the facilities described in item 3 is sufficient to pay interest on and retire the securities for each such use.
- The net indebtedness of the county, without a vote of the electors, issued for the purpose of paying the County's share of the cost of the construction, improvements, maintenance or repair of the state highways, shall not exceed an amount equal to .005 times the amount of Line 1.
- The amount on 5b shall never exceed without the vote of the electors, an amount equal to one of the following limitations, that applies to the County:
- (1) a county with a valuation not exceeding \$100,000,000 3% of that tax valuation;
 - (2) a county with a tax valuation exceeding \$100,000,000 but not exceeding \$300,000,000, \$3,000,000 plus 1 - 1/2% of that valuation in excess of \$100,000,000; and
 - (3) a county with a tax valuation exceeding \$300,000,000, \$6,000,000 plus 2 - 1/2% of that tax valuation in excess of \$300,000,000.
7. Amount of bonds or notes listed in 2 issued in current year: \$ _____
8. Total amount of bonds or notes expected to be issued in current year: \$ _____
9. Amount of bonds or notes issued in the current year for organizations described in Sec. 501(o)(3) of the Internal Revenue Code (i.e. nonprofit hospital, nursing home or housing corporations) by the County or any of its agencies (i.e. county hospital commission): \$ _____
10. Capitalized leases entered into by the County during the current year: \$ _____
- | | |
|-------------------------------|-----------------------------|
| <u>Lessor Property Leased</u> | <u>Face Amount of Lease</u> |
|-------------------------------|-----------------------------|
11. Total amount of capitalized leases expected to be entered into by the County during the current year: \$ _____
12. Total of 8, 9, and 10: \$ _____

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____, 200_.

Treasurer
Peck, Shaffer & Williams LLP
 BOND ATTORNEYS
 CINCINNATI AND COLUMBUS, OHIO

III. DEBT LIMITS

- Constitutional Debt Limit
 - Ten-Mill Limit
 - Indirect Debt Limit
 - Prohibits taxation of property >1% of value (Ten Mills) without vote of the electorate
 - Applies to Overlapping Subdivisions
 - Total millage of the Issuer and overlapping subdivisions pledged to debt service may not exceed ten mills in the aggregate

III. DEBT LIMITS

TEN-MILL CERTIFICATE For Political Subdivisions Issuing Unvoted General Obligation Debt

I, County Auditor of _____ COUNTY, OHIO, hereby certify in connection with the following proposed issue of obligations of _____ COUNTY, OHIO (the "Issuer") in the principal amount of \$1,000,000 that the tax rates required to produce an amount to pay the highest annual aggregate debt charges for the proposed issue and all other obligations of the Issuer and the subdivisions overlapping it, which are payable from taxes subject to the ten-mill limitation of Article XII, Section 2, Ohio Constitution and applicable Revised Code provisions, based on the facts set forth below and assuming that all levies were to be made for those debt charges on the general tax list and duplicate, are as follows:

Overlapping Subdivision	Assessed Valuation	Bonds and Notes Outstanding Payable from Tax Inside 10-Mill Limitation	Present Principal Amount	Debt Charges for calendar year in which they will be the highest (2018)		Required Tax Rate in Mills for Two Previous Columns
				For Principal	For Interest	
County	\$416,772,470	Bonds and Notes	\$402,302	\$36,204	\$19,268	0.1331
City	\$80,207,540	Bonds and Notes	\$161,280	\$32,256	\$7,741	0.4987
School District	\$174,406,060	Bonds and Notes	None	\$0	\$0	0.0000
		PROPOSED ISSUE	\$1,000,000	\$100,000	\$60,000	0.3839
					TOTAL	1.0157

DATED this ____ day of _____, 2017

COUNTY AUDITOR

DINSMORE & SHOHL LLP
BOND ATTORNEYS

III. DEBT LIMITS

- Constitutional Debt Limit (continued)
 - Only applied to bonds with a GO Pledge
 - N/A to:
 - Voted Bonds
 - Revenue Bonds
 - Sales Tax Bonds

IV. DEBT STRUCTURE

- Most Common: Level Debt
- Level Principal repays faster; lower total interest; front loads the debt service
- 3 Times Test: P&I in any 1 year may not be more than 3x P&I in any other single year

V. BANK QUALIFIED

- Bank Qualified/Qualified Tax-Exempt Obligations
 - Issuer reasonably anticipates will not issue more than \$10,000,000 of “new money” tax-exempt obligations during calendar year
 - Issuer must designate the obligation as Bank Qualified
 - Benefit to Bank, can deduct 80% of carrying cost/means lower interest rate to Issuer



VI. FEDERAL TAX LAW

- 3 General Rules
 - Don't Borrow Too Much
 - Don't Borrow Too Soon
 - Borrow for the authorized purpose that generally benefits the public purpose with very limited use for the benefit of private entities

VII. SECURITIES LAW

- Governmental bonds not subject to some of the federal securities laws
 - Issuer IS subject to antifraud provisions of both the Securities Act of 1933 and the Securities Exchange Act of 1934
 - SEC Rule 15c2-12 Official Statement

VII. SECURITIES LAW

- Continuing Disclosure Annual Requirement
 - Annual financial information and/or operating data must be provided annually (MSRB-EMMA electronic system)
 - After the current issuance of the security, if the issuer has in outstanding GO debt:
 - \$10,000,000 or more:  financial and operating data
 - Less than \$10,000,000:  only financial information
 - For private placements: voluntary filing with EMMA

VII. SECURITIES LAW

- Exemption to Continuing Disclosure Agreement
 - \$100,000 denomination or greater
 - And
 - Sold to NO more than 35 sophisticated investors
 - Or
 - Have a maturity of 9 months or less

CONTACT INFORMATION

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