

# Public Sector Advisors





PRESENTATION TO:

**WGFOA**

*Debt Management and Compliance*

September 18, 2014

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# Should your organization have financial/debt management policies?

- The answer isn't always "YES!"
  - If have a policy need to allocate the resources to comply
- Does anyone besides finance director care?
  - S&P FMA (20%)
    - Revenue & expenditure assumptions
    - Budget amendments & updates
    - Long term financial planning
    - Long term capital planning
    - **Investment management policies**
    - **Debt management policies**
    - **Reserve & liquidity policies**
- Should also have a **post issuance compliance policy**
- Except post issuance compliance, policies will vary
  - size of organization, sophistication, rating, circumstances, etc.

# Purpose of debt management policy

- Policy goals – purpose statement
  - Use debt appropriately: financial stewardship
  - Provide funding in an efficient and cost-effective manner
  - Ensure best practices in its use
  - Provide for future funding flexibility
  - Minimize the cost to tax and rate payers
  - Compliance

# Value of debt management policy

- Improve quality of decision making – all levels
- Articulate public policy goals
- Guidelines for debt issuance process and structure
- Commitment to long term financial and capital planning
- Improve communication/transparency
- Provide guidance transcending staff turnover

# Debt management policy - Advanced

- Advanced elements in debt management polices:

- |                              |                             |                                     |
|------------------------------|-----------------------------|-------------------------------------|
| 1. Purposed and uses of debt | 13. Repayment provisions    | 25. Intergovernmental coordination  |
| 2. Types of debt             | 14. Maturity guidelines     | 26. When not to issue debt          |
| 3. Capital expenditures      | 15. General fund revenue    | 27. Operating revenue               |
| 4. Refunding bonds           | 16. Expenditure limitations | 28. Lease debt                      |
| 5. Disclosure                | 17. Professional Services   | 29. Capitalized interest guidelines |
| 6. Statutory limitations     | 18. Short-term debt         | 30. Market value limitations        |
| 7. Project life              | 19. Sale process            | 31. Credit enhancements             |
| 8. Rating agency relations   | 20. Assessed value          | 32. Special assessment bonds        |
| 9. Operating budget          | 21. Analysis requirements   | 33. Inter-fund borrowing            |
| 10. Revenue and TIF bonds    | 22. Reserve capacity        | 34. Variable rate debt              |
| 11. Bond rating goals        | 23. Per capita limitations  | 35. Debt service funds              |
| 12. Misc. limitations        | 24. Size of issuance        | 36. Derivatives                     |

# Debt management policy basics

- GFOA Best Practice - <http://www.gfoa.org/debt-management-policy>
  1. Debt limits
  2. Debt structuring
  3. Debt issuance practices
  4. Debt management practices
  5. Use of derivatives

# Debt management policy sections

1. Debt limits – specific limits or ranges for each type of debt based on:
  - A. Legal restrictions
    - i. Statutes – GO's limited to 5% of equalized value
    - ii. Local charter, ordinance, covenant – ex. 50% of Statutory limit
    - iii. Referendum – primarily schools, but cities & counties have some mandatory and permissive referendum restrictions for bonding – ex. city hall bonds – mandatory / county highway bonds - permissive



# Debt limits *cont.*

## B. Public policies – organizational

- i. Purposes - permitting or prohibiting debt financing (ex. equipment v. construction v. operations)
- ii. Types – permitted or prohibited types of debt (ex. GO v. Revenue)
- iii. Integration with overall CIP
- iv. Economic development policies and goals (ex. private development incentives, financing TIF)

# Debt limits *cont.*

## C. Financial restrictions – rating factors

- i. GO direct debt – ratios to per capita; personal income; equalized value; % of General Fund expenditures
- ii. Revenue debt – net revenue coverage to debt service (ex. 1.25X)
- iii. Conduit debt – public purpose limitations (ex. housing bonds, IDBs)
- iv. Short term debt – permitted uses; term & size limitations
- v. Variable rate debt – permitted conditions – not prevalent in WI

# Debt structuring practices

2. Debt structuring – specific guidelines for each type of debt, including:
  - A. Maximum term (ex. GO 20 years / Revenue 40 years / useful life)
  - B. Average maturity
  - C. Debt service structure (ex. level DS or principal / wraparound / ramping / match revenues)

## Debt structuring practices *cont.*

- D. Call features (ex. 7-year on Notes / 10-year on Bonds)
- E. Credit enhancements / variable or fixed rate –  
limitations on when to use
- F. Use of capitalized interest and deferring payment (ex.  
BANs)
- G. Use of surety to fund debt service reserve fund

# Debt Issuance practices

3. Debt issuance practices – guidelines for each type of debt, including:
  - A. Financial professionals ( ex. MA v. underwriter / bond counsel, co-managing underwriters - How selected in competitive and negotiated sale)
  - B. Method of sale (competitive v. negotiated v. private placement)
  - C. Method for investment of proceeds

## Debt Issuance practices *cont.*

- D. Market indices to evaluate negotiated sales (MMD 20 year)
- E. Criteria for advance and current refundings (ex. 3% NPV savings / Savings 2x COI)
- F. Credit ratings - who, #, non-rated

# Debt management practices

4. Debt management practices – ongoing administrative guidelines/assignments, including:
  - A. Investment of bond proceeds – maximize return but A/R concerns
  - B. Initial and continuing disclosure - MCDC
  - C. Arbitrage/Rebate calculations – Up to every 5 years and upon closing
  - D. On-going market & investor communication – frequent issuers

# Derivative use practices

5. GFOA Best Practice calls for defining if use of derivatives will be permitted
  - Involves interest rate swaps and put provisions
  - Requires very sophisticated issuer
  - Extremely rare in WI
  - GFOA resources:
    - <http://www.gfoa.org/using-debt-related-derivatives-and-developing-derivatives-policy>
    - <http://www.gfoa.org/sites/default/files/debtderivschecklistfinal.pdf>



# Effective debt management policies

- Require broad support – have adopted by governing body
- Are issuer specific – not all issuers are the same – size, sophistication, budget, rating, frequent issuers, etc.
- Require regular use/familiarity
- Require review and revision as circumstances dictate

# Questions?

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