Debt Issuance:

Select the best option for your district and your tax payers

Jeff Seeley
Senior Municipal Advisor

Tami Olszewski
Financial Specialist

October 30, 2017
Introductions

Jeff Seeley
Ehlers Municipal Advisor serving both WI and MN school districts. School Business Official in WI and MN prior to joining Ehlers.

Tami Olszewski
Financial Specialist for Ehlers serving WI school districts. Prior experience in financial services compliance.
Today’s Objectives

1. Bond Basics for Wisconsin Schools
2. Trends in WI School Referendums
3. Debt Issuance Options
4. Monitoring Existing Debt
5. Q&A
Bond Basics for Wisconsin Schools
Key Players

Issuing debt involves several Key Players:

- Issuer - You
- Municipal Advisor
- Bond Counsel
- Purchaser - Underwriter/Broker-Dealer
- Rating Agency
- Third Party Service Providers

Understanding the roles of key players in your debt issuance, what their interests are and how they are compensated can help you have a successful debt issuance.
Issuing Debt

1. Choose the debt instrument
2. Choose the method of sale
3. Size and structure the debt issue
4. Complete required legal and authorizing actions
5. Secure a credit rating if it is beneficial
6. Sell the bonds
7. Post Issuance Debt Management
Basic Debt Terminology

- General Obligation – a municipal bond or note secured by the full faith, credit, and taxing power of your district
- Bonds – generally a debt obligation that matures in 10 or more years
- Notes (including BANs, NANs) – generally a debt obligation that matures in less than 10 years
- Official Statement (OS) – the primary offering document prepared by the issuer
- Callable – subject to payment of the principal amount prior to the stated maturity date
- Non-Callable – cannot be called for redemption prior to the stated maturity date
Basic Debt Terminology

- Refunding – essentially refinancing of callable existing obligations
- Current Refunding – refunding within 90 days of stated call date
- Advance Refunding – refunding more than 90 days from stated call date
- Continuing Disclosure – obligation of an issuer to provide both annual financial and operating data and to report any material events – as promised in your OS
- EMMA – the official public dissemination web portal. emma.msrb.org
Funds to Pay Debt Service

Non Referendum Debt (Fund 38)
- Debt payments made within current operating funds
  - No authority to levy for additional revenues
  - Payments are made within existing revenue limit dollars

Referendum Authorized Debt (Fund 39)
- Additional funding authority
  - New authority to levy for additional revenues to make debt payments
  - Payments are made outside existing revenue limit dollars
Debt Issuance Options
Financing Tools

Wisconsin schools have several options to fund capital needs

- Municipal Bonds
- Promissory Notes
- State Trust Fund Loan
- Operating Referendum
- Lease Purchase Agreement
- Federal Tax Credit/Subsidy Bonds
Debt Instruments: Municipal Bonds and Notes

- General Obligation debt of the District
- Can be issued tax exempt, or taxable
- Issued for a public purpose within the District’s authority
- Voter approved and non-voter approved
  - Elections can be held anytime
  - Petition period
  - $1 Million
- Used for capital projects and purposes
  - Building projects, construction, equipment, deferred maintenance projects, etc.
- Provides up front cash for project
Debt Instruments: Municipal Bonds and Notes

- Most flexible debt structure
  - Payments can be coordinated with existing debt to control tax levy impact
  - Flexible terms (number of years)
- Low interest rates
  - General Obligation
  - Generally issued as tax exempt securities
  - Competitive sale process
- Debt payments are part of the shared cost and are eligible for equalization aid
Debt Instruments: Municipal Bonds and Notes

- Levy for calendar year payments for bonds/notes that carry levy authority
  - Debt service payments for calendar year are spread on Districts property value tax base
- Maximum length determined by state law
  - Bonds are between 10-20 years
  - Notes are 10 years or less
Method of Sale

- Choose the option that will net you the lowest overall financing cost
- Competitive vs. Negotiated
- Schools typically issue highly regarded General Obligation Bonds
  - High demand trading commodity (easy to sell)
  - Strong competition to purchase your GO Bonds - Results in lower cost and tax impact
Trends in Wisconsin School Referendums
School Referendums

Wisconsin Act 16 - Revenue limit regulations occurred in the 1993/94’ school year

Revenue limits cap how much additional money school districts can raise for each pupil through a combination of state aid and property tax

Districts that Under Levied:

- 1993/94’ 284 Districts
- 1999/00’ 127 Districts
- 2011/12’ 108 Districts
- 2016/17’ 116 Districts

Source: DPI.wi.gov
School Referendums

Between 2010 and 2017 (through the spring elections) there have been **745** total Referendum Elections

- **378 Operating Referendum elections**
  - ✓ 258 Operating Referendum elections passed
- **367 Debt Referendum elections**
  - ✓ 231 Bond Referendum elections passed

Source: DPI.wi.gov
# Approved Debt Issuance Referendums - Ten Largest in 2016

## April 2016 Passing Debt Issuance Referendum

<table>
<thead>
<tr>
<th>District Name</th>
<th>Vote Date</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superior</td>
<td>04/05/2016</td>
<td>$92,500,000.00</td>
</tr>
<tr>
<td>Hudson</td>
<td>04/05/2016</td>
<td>$90,400,000.00*</td>
</tr>
<tr>
<td>Mukwonago</td>
<td>04/05/2016</td>
<td>$49,500,000.00</td>
</tr>
<tr>
<td>Muskego-Norway</td>
<td>04/05/2016</td>
<td>$43,180,000.00</td>
</tr>
</tbody>
</table>

## November 2016 Passing Debt Issuance Referendum

<table>
<thead>
<tr>
<th>District Name</th>
<th>Vote Date</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sun Prairie Area</td>
<td>11/08/2016</td>
<td>$89,500,000.00</td>
</tr>
<tr>
<td>Germantown</td>
<td>11/08/2016</td>
<td>$84,000,000.00</td>
</tr>
<tr>
<td>McFarland</td>
<td>11/08/2016</td>
<td>$65,150,000.00</td>
</tr>
<tr>
<td>Oconomowoc Area</td>
<td>11/08/2016</td>
<td>$54,900,000.00</td>
</tr>
<tr>
<td>Beaver Dam</td>
<td>11/08/2016</td>
<td>$48,900,000.00</td>
</tr>
<tr>
<td>Franklin Public</td>
<td>11/08/2016</td>
<td>$43,300,000.00</td>
</tr>
</tbody>
</table>

*Represents the total of three separate referendum questions

Source: DPI.wi.gov
Debt Issuance Referendums-
Choosing Method of Sale

The Government Finance Officers Association (GFOA) believes that the presence of the following factors may favor the use of a competitive sale:

- The rating of the bonds, either credit-enhanced or unenhanced, is at least in the single-A category.
- The bonds are general obligation bonds or full faith and credit obligations of the issuer or are secured by a strong, known and long-standing revenue stream.
- The structure of the bonds does not include innovative or new financing features that require extensive explanation to the bond market.
- The issuer is well known and frequently in the market.

✓ Credit rankings may dictate method of sale in some circumstances, but not for the majority of WI Schools
✓ Issue general obligation debt instruments
✓ Issue debt with basic structure - generally not new features

Source: gfoa.org and DPI.org
Debt Issuance Referendums-
Choosing Method of Sale

According to the GFOA, the following factors may favor the use of a **negotiated sale**:

- The rating of the bonds, either credit-enhanced or unenhanced, is lower than single-A category.
- Bond insurance or other credit enhancement is unavailable or not cost-effective.
- The structure of the bonds has features such as a pooled bond program, variable rate debt, deferred interest bonds, or other bonds that may be better suited to negotiation.
- The issuer desires to target underwriting participation to include disadvantaged business enterprises (DBEs) or local firms.
- Other factors that the issuer, in consultation with its municipal advisor, believes favor the use of a negotiated sale process.

 ✓ In a Negotiated Sale, a Municipal Advisor can help the District negotiate the pricing with the Underwriter.
 ✓ Without a Municipal Advisor, a District has no basis for challenging the Underwriter results.

Source: gfoa.org and DPI.org
Debt Issuance Referendums- Choosing Method of Sale

**Competitive vs Negotiated**

- 6 out of the 10 largest 2016 Bond Referendums chose competitive as method of sale
- Choose the option that will net you the lowest overall financing cost
  - There are advantages and disadvantages to splitting the funds over the course of multiple years or multiple issues
  - Ensure the benefits of splitting an issue outweighs the costs associated with multiple issues and the risks of interest rates rising
- Schools typically issue highly regarded General Obligation Bonds
  - High demand trading commodity (easy to sell)
  - Strong competition to purchase GO Bonds may result in lower cost and tax impact
Monitoring Your Existing Debt
Post Issuance Considerations
Quick Recap

1. Investment of Bond Proceeds
2. Post-Issuance Compliance Policies
3. Arbitrage
4. Continuing Disclosure
5. Paying Agent
6. Managing your Levy
7. Surveillance Ratings
8. Refunding and Defeasance
Refunding

What is a Refunding?

- The refinancing of an existing bond/debt issue with new bonds/debt
- Opportunity for interest savings

What Are My Options?

- Advance refunding
- Current refunding
- Sensitivity analysis
Refunding - Purposes

Save Money

- Reduce debt payments by issuing new bonds with lower interest rates, to pay off the old bonds with higher interest rates
- Savings to the District, which reduce tax levies (and in some cases, state equalization aid)

Restructure debt payment schedules

- Extend a payment schedule
- Shorten a payment schedule
- Change the payments in certain years
Refunding

What should you do to make the best decision?

- Remember: proper timing = maximize savings
- Involve Board or Finance Committee
- Evaluate all the applicable information to form the best decision
  - Analysis of savings on a refunding conducted now
  - Analysis of savings on a refunding conducted at the call date
  - A sensitivity analysis
  - Information on market conditions
  - Other debt issuance considerations/needs for all calendar years between now and the year of the call date
  - All costs associated with both options, including
    - Issuance costs
    - Negative arbitrage
Historic Municipal Bonds Rates

50 YEAR TREND IN MUNICIPAL BOND INDICES

Weekly Rates October, 1967 - October, 2017

Circle = Max BBI (13.44% on 1/14/1982), Diamond = Min BBI (2.80% on 7/14/2016)

50 Year BBI Average (6.01%)  BBI (Current: 3.61%)

Source: The Bond Buyer
Advance Refundings

Is this the full picture?

Savings from refunding

$200,000

Advance (now)
Advance Refundings

The Full Picture: *Illustration of a Sensitivity Analysis*

- **Current Advance (18 months)**
- **Advance (now)**

<table>
<thead>
<tr>
<th>Sensitivity</th>
<th>Savings from refunding</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.00%</td>
<td>$400,000</td>
</tr>
<tr>
<td>0.25%</td>
<td>$399,750</td>
</tr>
<tr>
<td>0.50%</td>
<td>$399,500</td>
</tr>
<tr>
<td>0.75%</td>
<td>$399,250</td>
</tr>
<tr>
<td>1.00%</td>
<td>$399,000</td>
</tr>
<tr>
<td>1.25%</td>
<td>$398,750</td>
</tr>
<tr>
<td>1.50%</td>
<td>$398,500</td>
</tr>
<tr>
<td>1.75%</td>
<td>$398,250</td>
</tr>
<tr>
<td>2.00%</td>
<td>$398,000</td>
</tr>
<tr>
<td>2.50%</td>
<td>$397,500</td>
</tr>
<tr>
<td>2.75%</td>
<td>$397,250</td>
</tr>
</tbody>
</table>

In this example, rates would have to increase 1.25% in order to break even on savings.
Defeasance

“Paying off” all or a portion of a bond maturity prior to the payment date

- Involves establishing an escrow account
- Can use excess operating funds
- Can levy for debt service in advance of payment date to defease a portion of your debt

✓ Useful if your debt payments are scheduled to decrease and you wish to maintain the current tax rate to defease a future maturity to save money
Summary

- Know the basics of Debt Issuance
- Be aware of all of your options - seek out a cost effective solution that is in the best interest of your district and your tax payers
- Ask your Municipal Advisor or Underwriter about Competitive vs. Negotiated sales
- WI Referendum History - you are not alone
- Partner with your Municipal Advisor to identify refunding or defeasance opportunities

Talk with your Municipal Advisor about any questions.
Q&A and Thank You!

Jeff Seeley
Ehlers
Municipal Advisor
E-mail: jseeley@ehlers-inc.com

Tami Olszewski
Ehlers
Financial Specialist
E-mail: tolszewski@ehlers-inc.com