

Roles & Responsibilities of Issuers in the Debt Issuance Process

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Objectives

- Reasons for Issuing Long-term Debt
- Selection of the Financing Team
- Pre-and Post-Administrative Issues



Debt Issuance Process

- ❑ Need identified or Refunding opportunity presented
- ❑ Include debt service of proposed financing in long-term financing model to validate debt capacity
- ❑ Go to Board for their approval of the project in concept, usually with a recommendation to select a financing team
- ❑ Select financing team
- ❑ Work with financing team to determine optimal structure & prepare bond documents (read and understand all documents)
- ❑ Make rating agency presentations
- ❑ Work with team during the marketing and selling of the bonds
- ❑ Closing
- ❑ Living with the debt – covenants and continuing disclosure



Reasons for Issuing Long-Term Debt

- New Money
 - Used to finance capital projects that will be of long-term use
 - Day-to-day operating expenses of state and local governments are not debt financed they should be paid out of ongoing revenue
- County's Process:
 - Five Year "Call for Projects" – Annual (August)
 - Needs Facilities Planning Board Review
 - Scoring/ranking of projects
 - Capital Improvement Needs Assessment (CINA)
 - Typically cash fund projects under \$10 mil and bond finance projects over \$10 mil



Considerations for New Money Debt

- How will the obligation be repaid?
- What is the impact of the additional debt on our debt portfolio?
- What is the impact of the additional debt on our debt ratio?
- How will the rating agencies view it? Will it effect our credit rating?
- Do we have the appropriate staff resources to execute the financing successfully?
- Do we have the funds to pay the ongoing O&M of the capital project once it is built?



Reasons for Issuing Refunding Debt

□ Refundings

- A considerable portion of the municipal market involves the issuance of new bonds to refund old bonds.
- The proceeds of the new bonds are invested in government securities and are used to pay the principal, interest, and any call premium of the old bonds, to either the maturity or the call date.
- Reasons for pursuing a refunding:
 - Interest rate savings, change outdated or unwanted debt covenants, or change the debt service structure



San Diego County Refunding Policy

- Refunding issues should generate a minimum of 3% NPV savings.
- The final maturity of the refunding bonds should be no longer than the final maturity of the refunded bonds.
- Refunding issues should be structured to achieve level annual debt service savings on the transaction or to level out the overall debt service on the total portfolio.
- Refunding issues should generate a minimum of \$1 million total NPV savings and at least \$100,000 of savings on an annual basis.

Note: NPV Savings should always be calculated net of all issuance fees and should take into account the difference in interest earnings on the refunded bonds and the refunding bonds debt service reserve funds.



Participants in Debt Financings

- County
 - Board of Supervisors
 - Debt Advisory Committee
 - Risk Overview Committee
- Financing Team
 - Financial Advisor
 - Underwriter(s)
 - Bond Counsel
 - Disclosure Counsel
 - Trustee
 - LOC/Liquidity (variable)
- Rating Agencies
 - Moody's
 - S&P
 - Fitch
- Bond Insurers (if applicable)
- Investors



Long Term Financial Obligation Policy

- Board Policy B-65
- Requires DAC approval for all long term obligations prior to BOS approval
- Sets parameters for bond issue:
 - Limits amount of portfolio composed of variable rate obligations to 15%
 - Requires obligations receive an investment grade rating



Debt Advisory Committee

- Debt Advisory Committee
 - Consists of CFO, A&C, and TTC
 - Selects financing team
 - Recommends debt management policies to BOS for approval
 - Makes decisions regarding issuances of debt, including optimal structure
 - Reviews debt portfolio and municipal market changes on monthly basis.



Risk Overview Committee

- Assist in identifying, reviewing, monitoring and mitigating significant risks
 - Legal
 - Contractual
 - Financial
 - Operational

- Disclosure Working Group



Financing Team Selection

- Review your procurement requirements
- Consider forming pools of professionals to select from on a deal by deal basis instead of having to do a RFP for each deal
- Always call references provided in proposals
- Do your own research by contacting colleagues and peers for references
- Compare costs for services (keeping in mind service and experience may come at a price)
 - Cheaper isn't necessarily better

Financing Team Selection

<i>Team Member</i>	<i>Role</i>	<i>Selection process</i>	<i>Cnty of SD Firm</i>
Financial Advisor	Independent party retained to advise and assist in executing a financing.	RFP- On-going contract	Gardner, Underwood & Bacon
Bond Counsel & Disclosure Counsel	Attorney that gives legal opinion confirming the bonds are valid and binding obligations and in most cases exempt from federal and state income taxes. Also prepare bond documents related to financing. Disclosure counsel ensures compliance with federal and state securities law.	RFP- Ongoing contract	Orrick, Herrington & Sutcliffe
Underwriters	An underwriter purchases bonds from an issuer with an intent to resell the bonds to investors. In negotiated transactions the underwriter is part of the financing team from the beginning of the process.	RFP- created Underwriter pool to select from on deal by deal basis	Goldman Sachs, Citi, & Loop

Financing Team Selection

<i>Finance Team Member</i>	<i>Role</i>	<i>Selection process</i>	<i>Cnty of SD Firm</i>
Underwriter's Counsel	Coordinates preparation of the Official Statement and prepares Continuing Disclosure Agreement	Selected by Underwriter-Cnty typically recommends firm	Hawkins, Delafield & Wood
Trustee	Establishes and maintains funds relating to the bond issue, pays the bondholders, and protects the interest of the bondholders by monitoring compliance of the covenants.	Solicit bid for each deal from same trustee	Zions First National Bank
LOC/ Liquidity Facility	A LOC is issued by a bank and the trustee draws on the LOC to make debt service payments, which the issuer later reimburses to them. Liquidity is a standby obligation of a bank to make debt service payments if the issuer fails to do so.	RFB- deal by deal basis (FA requested bids)	Wells Fargo (LOC)

Credit Rating Agencies

- Three primary: Fitch, Standard & Poor's, & Moody's
- Important to maintain strong relationship with rating analysts and have open lines of communication
- Consider Fitch's Reassessment & Moody's Migration in rating strategy

County of San Diego's Credit Ratings

	Moody's	S&P	Fitch
Issuer Rating	Aa2	AA+	AA+
COPs Rating	A1	AA	AA
POBs Rating	Aa3	AA	AA



Prudent Financial Management Practices

- ❑ Fund balance reserve policy/working capital reserves
- ❑ Multi-year financial forecasting
- ❑ Monthly or quarterly financial reporting and monitoring
- ❑ Contingency planning policies
- ❑ Policies regarding nonrecurring revenue
- ❑ Debt affordability reviews and policies
- ❑ Superior debt disclosure practices
- ❑ Pay-as-you-go capital funding policies
- ❑ Rapid debt retirement policies (greater than 65% in 10 years)
- ❑ Five-year capital improvement plan integrating operating costs for new facilities
- ❑ Financial reporting and Budgeting awards
- ❑ Accounting for Other Post Employment Benefits



Investor Relations

- Who are our investors?
 - Retail (individuals)
 - Institutional (commercial banks, insurance companies)
- Bond financing structure needs to meet not only needs of issuer but also needs of investors
- County' investor relations website:
<http://www.sdcounty.ca.gov/fg3/outstandingdebt.html>
- Digital Assurance Corporation (DAC)



Living with the Issue

- ❑ Making Annual Debt Service Payments
- ❑ Monitor investment and expenditure of bond proceeds
- ❑ Compliance with Reserve Requirements
- ❑ Compliance with Tax Covenants
- ❑ Ongoing Disclosure Requirements
- ❑ Accounting for the Proceeds
- ❑ Refunding Potential
- ❑ Update budget and CAFR to reflect new bonds

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Questions

