



Debt Capacity and Affordability

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*Presenter: William Reynolds, Senior Vice President
FirstSouthwest Company*



Why Issue Long-Term Debt in the first place?

- ✓ Intergenerational equity
 - Spread costs over the long-term life of the debt financed asset
- ✓ Timely compliance with regulatory mandates
 - Wastewater treatment plant
- ✓ Expand infrastructure to provide service or facilitate economic growth
 - School, streets and sewers, and redevelopment of blighted areas
- ✓ Expedite operational date of revenue generating facilities
 - Power plant, airport terminal, etc.
- ✓ Manage other long-term liabilities
 - Pension obligations and other post-employment benefits
- ✓ Match grant funds from intergovernmental and private sources
 - State of CA School Facility Program



✓ General Obligation (GO) Bonds

- Payable from ad valorem taxes
- Backed by the full faith and credit of the electorate
- Requires voter approval

✓ General Fund Obligations

- Includes Lease Revenue Bonds and Certificates of Participation (COPs)
- Backed by a Municipality's General Fund
- Usually requires a conduit issuer and Municipal assets
- No voter approval required



✓ Revenue Bonds

- Backed by a defined source of revenue
- *Usually* no voter approval required

✓ Special Tax or Assessment Bonds

- Backed by a special taxes or assessments on properties benefitting from the sale of bonds
- Voter approval by the property owners required



Legal Limitations on Debt Issuance



Legal Limitations of Debt Capacity

General Limitations

- ✓ Proposition 13 (1978)
 - Article XIII A (Tax Limitation)
 - Article XIII B (Spending Limitation: Proposition 4)
- ✓ Proposition 218 (1996)
 - Article XIII C (Voter Approval for Tax Levies)
 - Article XIII D (Assessments and Property Related Fees)
- ✓ Proposition 26 (2010)
 - Revised Sections of Article XIII A and XIII C



Legal Limitations of Debt Capacity

Other Debt Capacity Limitations

- ✓ Limitations on annual increases
 - CPI Adjustments
 - Cost of service restrictions
- ✓ Restricted use of funds
 - Limits on use of bond proceeds



Determining Debt Capacity



Analysis of Debt Affordability to Determine Debt Capacity

Debt affordability analysis is not an exact science

- ✓ Debt affordability analysis is used to establish spending priorities, maintaining a balance between capital needs and fiscal resources
- ✓ Debt burden metrics (compared to historic and peer group levels) are tools employed to gauge the capacity for new debt issuance
- ✓ Tax-supported debt ratios – transforming sources of wealth into revenues through taxation makes these sources good indicators of a borrower’s ability to repay its obligations
 - Debt as a percentage of assessed value
 - Debt per capita
 - Debt as a percentage of personal income
- ✓ Revenue supported debt ratios – the budgetary resources of general fund and self-supporting enterprises are used to measure debt capacity
 - Debt service as a percentage of general fund expenditures (or revenues)
 - Coverage of debt service by net revenues, typically defined as pledged revenues net of operating expenses (excluding non-cash charges like depreciation)



Analysis of Debt Affordability to Determine Debt Capacity

Example 1: Capacity of AA rated school district to issue additional GO bonds

- ✓ School district has \$5.52 billion of outstanding GO bonds at June 30, 2010
- ✓ Debt as a percentage of assessed value metric is utilized to gauge debt capacity -- 2.5% ratio is selected as policy maximum (legal debt limit)
 - Ratio at June 30, 2010 is 1.70%
 - Assessed valuation projections should be reasonable
 - \$3.35 billion is total amount of affordable additional GO bonds over five years (subject to voter authorization)



Analysis of Debt Affordability to Determine Debt Capacity

Example 1: Capacity of AA rated school district to issue additional GO bonds

(\$ millions)	Actual FY 2008	Actual FY 2009	Actual FY 2010	Budget FY 2011	Projected FY 2012	Projected FY 2013	Projected FY 2014	Projected FY 2015
Taxable Assessed Value	\$ 309,000	\$ 324,450	\$ 325,261	\$ 325,261	\$ 326,074	\$ 327,705	\$ 330,982	\$ 335,946
Annual Change	--	5.00%	0.25%	0.00%	0.25%	0.50%	1.00%	1.50%
Outstanding GO Bonds								
Existing GO Bonds	\$ 4,165	\$ 4,270	\$ 5,520	\$ 6,285	\$ 6,034	\$ 5,782	\$ 5,531	\$ 5,279
Additional GO Bonds								
FY 2011 Issue				225	218	210	203	195
FY 2012 Issue					1,100	1,063	1,027	990
FY 2013 Issue						1,150	1,112	1,073
FY 2014 Issue							400	387
FY 2015 Issue								475
Total GO Bonds	\$ 4,165	\$ 4,270	\$ 5,520	\$ 6,510	\$ 7,351	\$ 8,206	\$ 8,272	\$ 8,399
Ratio of Debt to Assessed Value								
Existing GO Bonds	1.35%	1.32%	1.70%	1.93%	1.85%	1.76%	1.67%	1.57%
Additional GO Bonds	--	--	--	0.07%	0.40%	0.74%	0.83%	0.93%
Total GO Bonds	1.35%	1.32%	1.70%	2.00%	2.25%	2.50%	2.50%	2.50%
Ratio of Debt per Capita	\$ 883	\$ 894	\$ 1,154	\$ 1,349	\$ 1,524	\$ 1,701	\$ 1,714	\$ 1,741



Analysis of Debt Affordability to Determine Debt Capacity

Example 2: Capacity of AA rated school district to issue additional GF Debt

- ✓ School district has \$218.6 million of outstanding lease obligations at June 30, 2010
- ✓ Debt service as a percentage of general fund expenditures is utilized to gauge debt capacity -- 1.5% ratio is selected as policy maximum
 - Ratio at June 30, 2010 is 0.27%
 - Budget projections should be reasonable
 - \$1.131 billion is total amount of affordable additional GF lease obligations over five years



Analysis of Debt Affordability to Determine Debt Capacity

Example 2: Capacity of AA rated school district to issue additional GF Debt

(\$ millions)	Actual FY 2008	Actual FY 2009	Actual FY 2010	Budget FY 2011	Projected FY 2012	Projected FY 2013	Projected FY 2014	Projected FY 2015
General Fund								
Total Revenues	\$ 5,876	\$ 6,462	\$ 6,573	\$ 6,994	\$ 6,954	\$ 6,850	\$ 6,900	\$ 6,950
Total Expenditures	6,131	6,436	6,488	6,733	6,992	6,850	6,825	6,850
Change in Fund Balance	\$ (255)	\$ 26	\$ 85	\$ 261	\$ (38)	\$ -	\$ 75	\$ 100
Debt Service on Lease Obligations								
D/S on Existing Lease Oblig.	\$ 15.264	\$ 18.772	\$ 17.541	\$ 19.077	\$ 15.502	\$ 14.354	\$ 13.114	\$ 11.827
D/S on Additional Lease Oblig.								
FY 2011 Issue				14.500	14.500	14.500	14.500	14.500
FY 2012 Issue					22.500	22.500	22.500	22.500
FY 2013 Issue						17.000	17.000	17.000
FY 2014 Issue							18.000	18.000
FY 2015 Issue								18.750
Total D/S on Lease Obligations	\$ 15.264	\$ 18.772	\$ 17.541	\$ 33.577	\$ 52.502	\$ 68.354	\$ 85.114	\$ 102.577
Debt Service as a % of GF Expend.								
Existing Lease Obligations	0.25%	0.29%	0.27%	0.28%	0.22%	0.21%	0.19%	0.17%
Additional Lease Obligations	--	--	--	0.22%	0.53%	0.79%	1.05%	1.32%
Total Lease Obligations	0.25%	0.29%	0.27%	0.50%	0.75%	1.00%	1.25%	1.50%
Outstanding Lease Obligations								
Existing Lease Obligations	\$ 190.2	\$ 233.9	\$ 218.6	\$ 237.7	\$ 193.2	\$ 178.9	\$ 163.4	\$ 147.4
Additional Lease Obligations								
FY 2011 Issue				180.7	175.2	169.5	163.5	157.1
FY 2012 Issue					280.4	271.9	263.0	253.7
FY 2013 Issue						211.9	205.5	198.7
FY 2014 Issue							224.3	217.5
FY 2015 Issue								233.7
Total Lease Obligations	\$ 190.2	\$ 233.9	\$ 218.6	\$ 418.4	\$ 648.8	\$ 832.2	\$ 1,019.7	\$ 1,208.1



Analysis of Debt Affordability to Determine Debt Capacity

Example 3: Capacity of AA- rated utility to issue additional revenue obligations

- ✓ Water utility has \$209.0 million of outstanding installment sale COPs at June 30, 2010
- ✓ Coverage of debt service by net revenues is utilized to gauge debt capacity -
 - 1.75x ratio is selected as policy maximum
 - Debt service coverage ratio at June 30, 2010 is 2.56x
 - Budget projections should be reasonable
 - \$52.27 million is total amount of affordable additional installment sale COPs over five years



Analysis of Debt Affordability to Determine Debt Capacity

Example 3: Capacity of AA- rated utility to issue additional revenue obligations

(\$ 000s)	Actual FY 2008	Actual FY 2009	Actual FY 2010	Budget FY 2011	Projected FY 2012	Projected FY 2013	Projected FY 2014	Projected FY 2015
Net System Revenues								
System Revenues	\$ 26,352	\$ 26,080	\$ 27,694	\$ 40,000	\$ 42,800	\$ 45,796	\$ 49,002	\$ 52,432
Operating & Maint. Expenses	18,010	20,123	18,411	21,000	21,420	21,848	22,285	22,731
Net Revenues	\$ 8,342	\$ 5,957	\$ 9,283	\$ 19,000	\$ 21,380	\$ 23,948	\$ 26,716	\$ 29,701
Debt Service on Revenue Oblig.								
Existing Revenue Oblig.	\$ 2,357	\$ 2,555	\$ 3,621	\$ 9,134	\$ 8,963	\$ 13,526	\$ 13,529	\$ 13,528
Additional Revenue Oblig.								
FY 2011 Issue				-	-	-	-	-
FY 2012 Issue					-	-	-	-
FY 2013 Issue						-	1,700	1,700
FY 2014 Issue							-	1,700
FY 2015 Issue								
Total D/S on Revenue Oblig.	\$ 2,357	\$ 2,555	\$ 3,621	\$ 9,134	\$ 8,963	\$ 13,526	\$ 15,229	\$ 16,928
Debt Service Coverage								
Existing Revenue Oblig.	3.54x	2.33x	2.56x	2.08x	2.39x	1.77x	1.97x	2.20x
Existing & Additional Rev. Oblig.	3.54x	2.33x	2.56x	2.08x	2.39x	1.77x	1.75x	1.75x
Outstanding Revenue Obligations								
Existing Revenue Oblig.	\$ 35,799	\$ 35,264	\$ 208,967	\$ 208,967	\$ 208,967	\$ 207,928	\$ 204,844	\$ 201,542
Additional Revenue Oblig.								
FY 2011 Issue				-	-	-	-	-
FY 2012 Issue					-	-	-	-
FY 2013 Issue						26,135	25,740	25,325
FY 2014 Issue							26,135	25,740
FY 2015 Issue								-
Total Revenue Obligations	\$ 35,799	\$ 35,264	\$ 208,967	\$ 208,967	\$ 208,967	\$ 234,063	\$ 256,719	\$ 252,607



Debt Capacity and Affordability QUESTIONS AND ANSWERS

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*William Reynolds, Senior Vice President
FirstSouthwest Company
1620 26TH Street, Suite 230 South
Santa Monica, CA 90404*

310-401-8054 william.reynolds@firstsw.com