

CDIAC Program

Important Documents and Managing Debt Service

*Pomona, California
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FULBRIGHT
& Jaworski L.L.P.

Lisel Wells


LONG BEACH
CITY COLLEGE

Ann-Marie Gabel

 FIELDMAN | ROLAPP
& ASSOCIATES

There is no substitute for experience.

Adam Bauer

Primary Forms of Borrowing for California Public Agencies

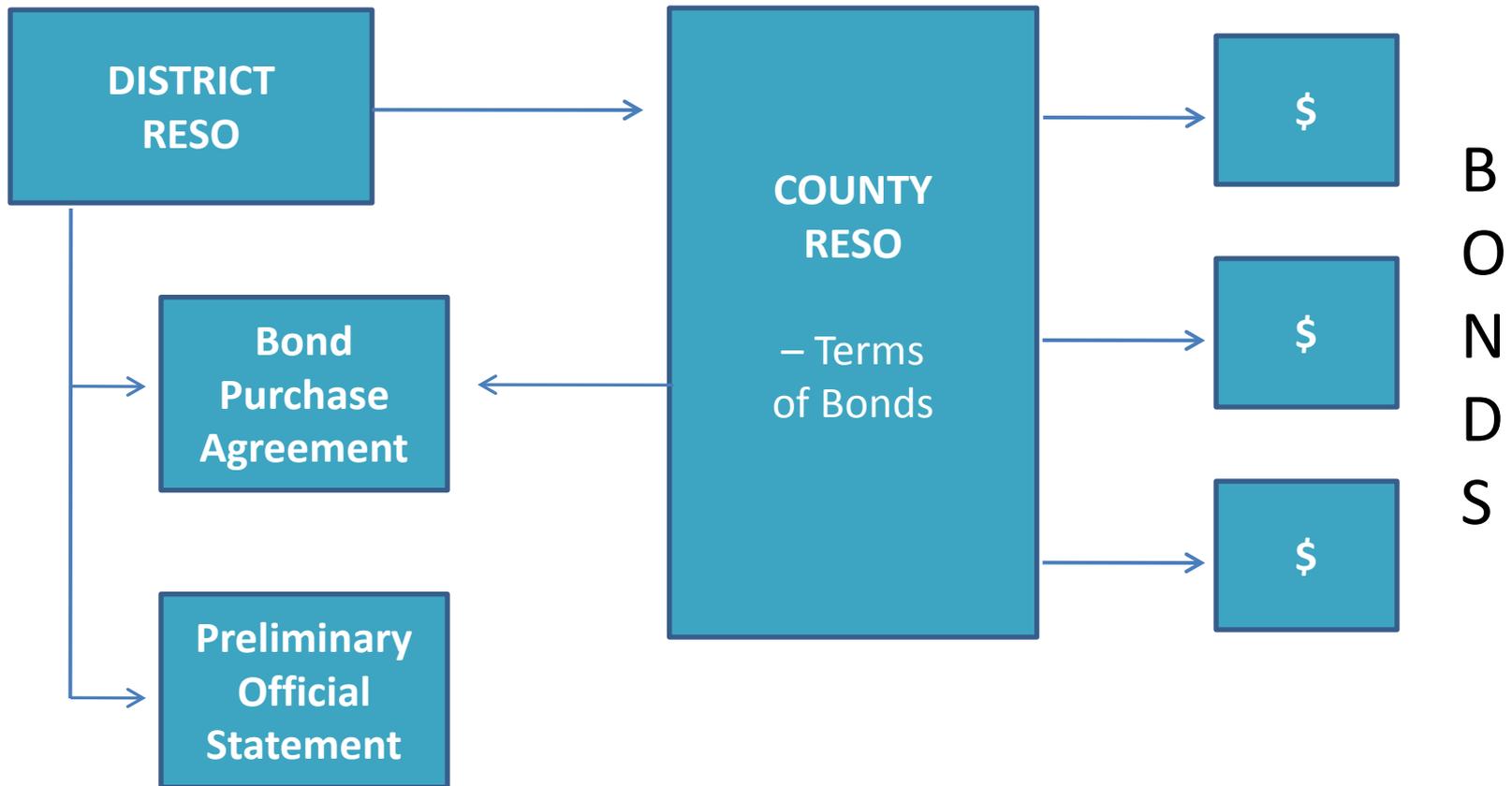
- **GENERAL OBLIGATION BONDS**
- **REVENUE BONDS**, including Mello-Roos
- **CERTIFICATES OF PARTICIPATION**
- **BANS**
- **TRANS**
- **VENDOR LEASES**

Primary Forms of Borrowing for California Public Agencies (cont.)

- Different document for each will be discussed
- **NOTE THAT BANK LOANS ARE NOT AN AUTHORIZED FORM OF BORROWING**
- All of the above obligations MAY be issued with EITHER taxable or tax-exempt interest

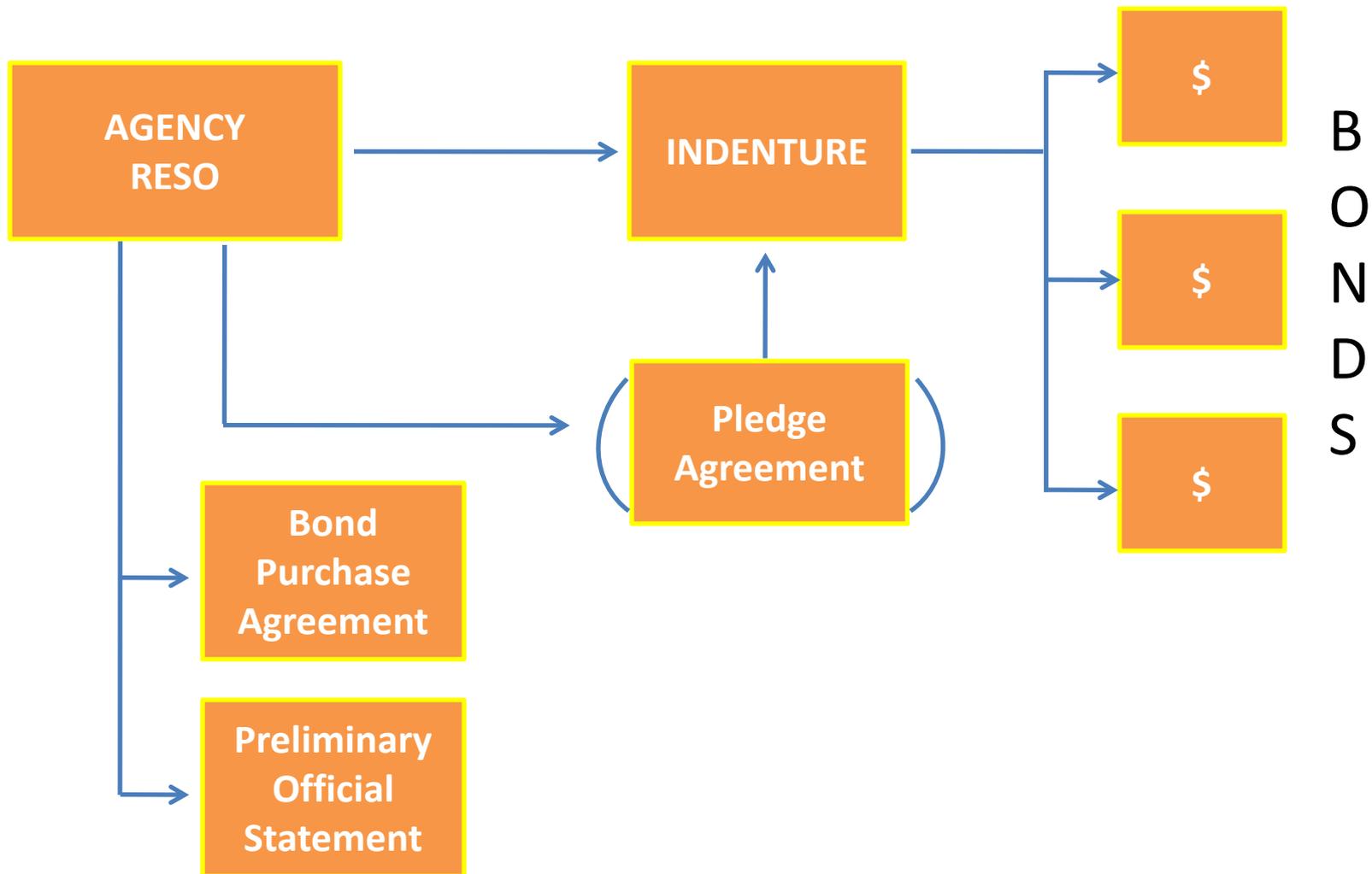
Basic Legal Documentation

Education Code General Obligation Bonds, K-14 Districts



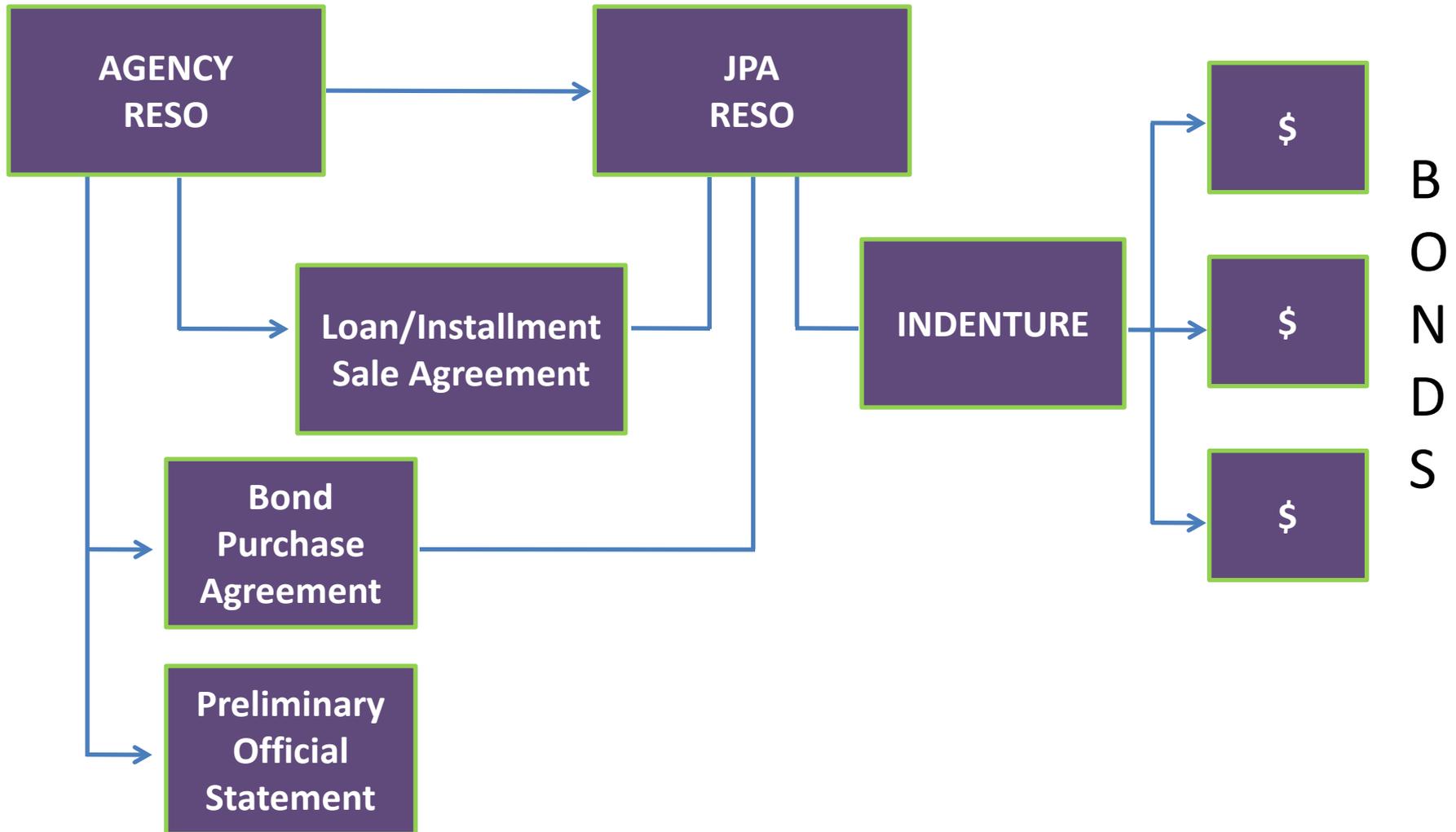
Basic Legal Documentation

Revenue Bonds, Part I



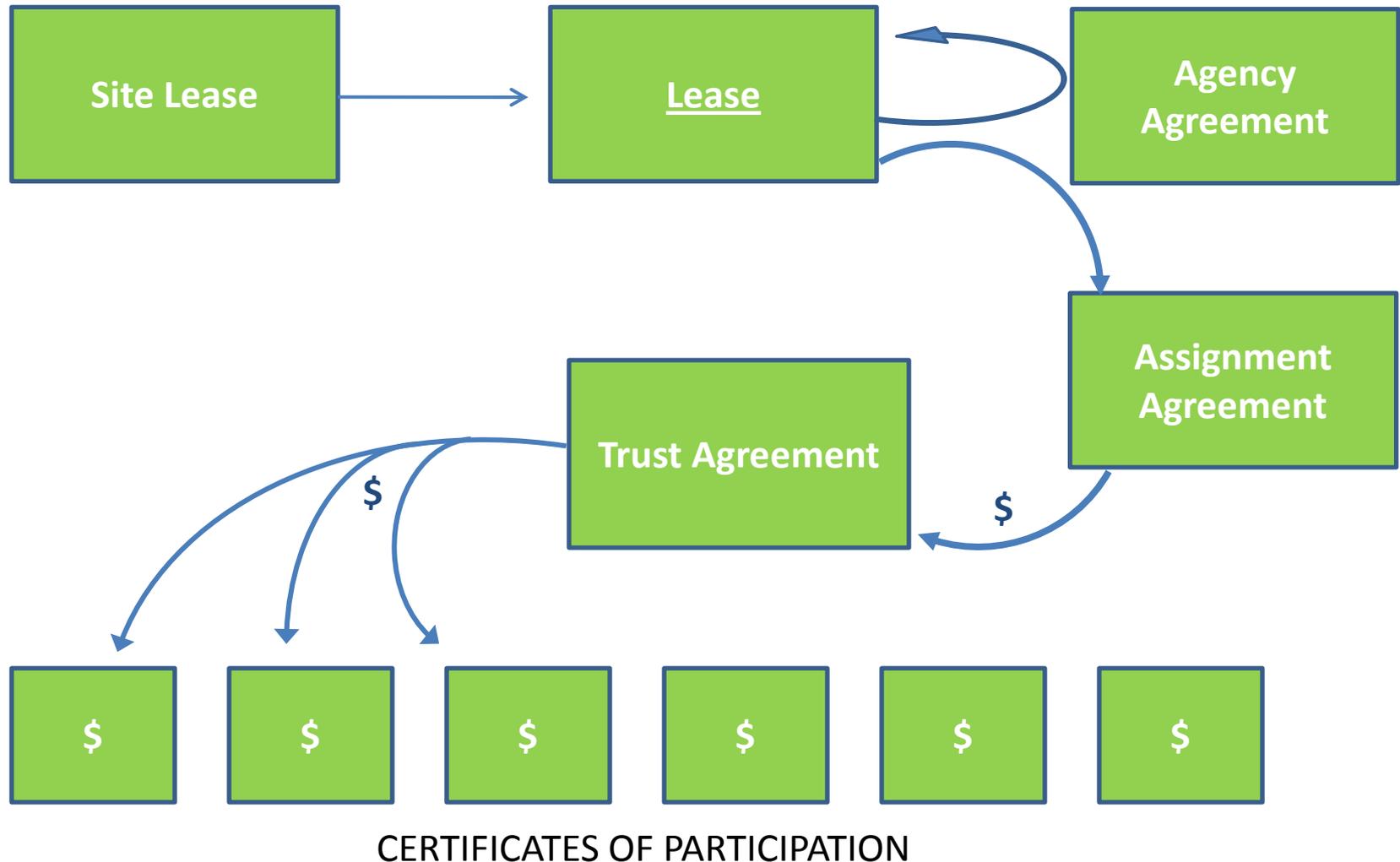
Basic Legal Documentation

Revenue Bonds, Part II



Basic Legal Documentation

Certificates of Participation



Every Tax-Exempt Deal Also Includes At Least:

- **TAX-EXEMPTION CERTIFICATE AND 8038G**
- **CONTINUING DISCLOSURE AGREEMENT**
(the latter is necessary even in taxable issues)

Continuing Disclosure Obligations

- Under SEC Rule 15c2-12, issuers and obligated parties make a contractual promise, in the form of a continuing disclosure agreement or certificate, to investors that to provide continuing information to the market place through EMMA, a service of the MSRB
- Continuing Disclosure for municipal entities is the equivalent to the annual and quarterly reporting filing requirements made by publically traded companies
- A Continuing Disclosure Agreement or Certificate must contain:
 1. Name(s) of the entity or entities that will provide the annual reports and 15 different reporting of significant event notices
 2. Specify the type of financial information and operating data that will be included in the annual report
 3. Specify the accounting principles to be used for any financial statements whether such financial statements be audited or unaudited
 4. Indicate the date in each year by which the annual for preceding fiscal year will be provided
 5. Provide a form of failure to file an annual report
- Preparation of the Annual Report is usually within 30 to 90 days prior to filing
- An issuer or consultant will gather or request the required content annual financial information and financial statements to prepare the annual report
- At the completion of the annual report, the issuer or dissemination agent will submit the annual report along with the financial statements to EMMA

Reporting of Significant Event Notices

Issuers are responsible to give notice not less than (10) business days after the occurrence of any of the following events with respect to the municipal debt obligation:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds;
6. Defeasances;
7. Tender offers;
8. Bankruptcy, insolvency, receivership or similar proceedings; and
9. Ratings changes.

Most common Reporting of Significant Events are as follows:

1. Notices of prepayments and redemption of debt obligations
2. Defeasances of debt obligations

Issuers are responsible to give notice of the occurrence of any of the following events with respect to municipal obligations, if material:

1. Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination;
2. Appointment of a successor or additional fiscal agent, paying agent, tender agent and/or trustee or the change of the name of a fiscal agent, paying agent, tender agent and/or trustee;
3. Non payment related defaults;
4. Modifications to the rights of debt holders;
5. Notices of prepayment; and
6. Release, substitution or sale of property securing repayment of the debt obligation.

3. Rating Changes - any change in credit rating letter classification by three major credit rating agencies (S&P, Moody's and Fitch)

- Issuer credit rating(s)
- Bond Insurer(s) credit rating(s)
- Liquidity Provider(s) credit rating(s)

GO Bonds

- **Assessed Valuation Drives Access**
 - *Ad Valorem* Property Taxes
 - Voter Approved Authorization \neq Cash Available Now
 - Higher growth allows earlier issuance
 - Lower growth / decline hinders issuance

Tax Rates

$$\text{Tax Rate} = \frac{\text{Annual Debt Service}}{\text{Assessed Valuation}}$$

- **Therefore, bonding capacity at a given tax rate is a function of the following variables:**
 - Beginning Assessed Valuation of Taxable Property
 - Assumed Growth Rate of Assessed Valuation
 - Number of Years Tax to be Levied
 - Assumed Interest Rates on Bonds
 - Timing and Amount of Individual Bond Sales
 - Shape of Debt Service Profile

Bond Anticipation Notes (BANs)

- **BANs are repaid from a future GO Bond issuance**
- **The proceeds from the sales of the Notes must be used only for authorized purposes of the bonds or to repay outstanding notes previously issued**

Certificates of Participation/Lease Revenue Bonds

- **A form of municipal borrowing that for State constitutional purposes is not considered debt, and is backed by the General Fund of the Issuer**
 - May be repaid over a long period of time
 - May be repaid using General Fund or other available revenues
 - **Identifying other available resources will help the rating and lower the cost**
 - No voter approval required
- **Uses of funds**
 - Can be used for the purchase of land, buildings, relocatable structures, vehicles, computers, and other equipment
 - Cannot be used for general operating purposes

Revenue Bond including Community Facilities Districts (CFD)

- Use the revenue to finance specified facilities and service
- Borrow money (by issuing bonds or incurring other debt) to assist with the facilities

Debt Service Schedule

Period Ending	Principal	Coupon	Interest	Total Debt Service
9/1/2012	\$ -		\$ -	\$ -
9/1/2013	205,000.00	1.55%	275,659.90	480,659.90
9/1/2014	235,000.00	2.15%	241,250.00	476,250.00
9/1/2015	240,000.00	2.60%	236,197.50	476,197.50
9/1/2016	250,000.00	2.75%	229,957.50	479,957.50
9/1/2017	255,000.00	3.10%	223,082.50	478,082.50
9/1/2018	265,000.00	3.40%	215,177.50	480,177.50
9/1/2019	270,000.00	3.60%	206,167.50	476,167.50
9/1/2020	280,000.00	3.90%	196,447.50	476,447.50
9/1/2021	295,000.00	4.10%	185,527.50	480,527.50
9/1/2022	305,000.00	4.25%	173,432.50	478,432.50
9/1/2023	315,000.00	4.30%	160,470.00	475,470.00
9/1/2024	330,000.00	4.35%	146,925.00	476,925.00
9/1/2025	345,000.00	4.45%	132,570.00	477,570.00
9/1/2026	360,000.00	4.55%	117,217.50	477,217.50
9/1/2027	375,000.00	4.65%	100,837.50	475,837.50
9/1/2028	395,000.00	4.75%	83,400.00	478,400.00
9/1/2029	415,000.00	4.85%	64,637.50	479,637.50
9/1/2030	435,000.00	4.95%	44,510.00	479,510.00
9/1/2031	455,000.00	5.05%	22,977.50	477,977.50
	\$ 6,025,000.00		\$ 3,056,444.90	\$ 9,081,444.90

Net Debt Service Schedule

Period Ending	Total Debt Service	Debt Service Reserve		
		Fund Interest Earnings	Capitalized Interest	Net Debt Service
9/1/2012	\$ -	\$ 2,716.42	\$ 1,557.87	\$ -
9/1/2013	480,659.90	21,258.92	284,458.60	170,668.09
9/1/2014	476,250.00	21,258.92	-	454,991.08
9/1/2015	476,197.50	21,258.92	-	454,938.58
9/1/2016	479,957.50	21,258.92	-	458,698.58
9/1/2017	478,082.50	21,258.92	-	456,823.58
9/1/2018	480,177.50	21,258.92	-	458,918.58
9/1/2019	476,167.50	21,258.92	-	454,908.58
9/1/2020	476,447.50	21,258.92	-	455,188.58
9/1/2021	480,527.50	21,258.92	-	459,268.58
9/1/2022	478,432.50	21,258.92	-	457,173.58
9/1/2023	475,470.00	21,258.92	-	454,211.08
9/1/2024	476,925.00	21,258.92	-	455,666.08
9/1/2025	477,570.00	21,258.92	-	456,311.08
9/1/2026	477,217.50	21,258.92	-	455,958.58
9/1/2027	475,837.50	21,258.92	-	454,578.58
9/1/2028	478,400.00	21,258.92	-	457,141.08
9/1/2029	479,637.50	21,258.92	-	458,378.58
9/1/2030	479,510.00	21,258.92	-	458,251.08
9/1/2031	477,977.50	501,918.82	-	(23,941.32)
	\$ 9,081,444.90	\$ 887,295.80	\$ 286,016.47	\$ 7,908,132.63

Understanding the Agency's Obligations

- **State law**
- **Charter requirements**
- **Legal documents**
- **Oral Representations**

Final Documents/Transcripts

- **Assurances of completeness**
- **Assurances of consistency with action of Governing Board**
- **Accessibility**
- **Pass-down collection**

Borrowing Matrix

	General Obligation Bonds	Revenue Bonds, including Mello-Roos	Certificates of Participation	Bond Anticipation Notes (BANs)	Tax Revenue Anticipation Notes (TRANS)	Vendor Leases
Authorization	Majority vote of Board Members must approval call for Bond Election; then either 2/3 voter approval (Prop. 46) or 55% voter approval (Prop. 39)	Majority of Board Members must approve creation of CFD and call for Bond Election; then 2/3 voter approval	Board action	Board action	Board action	Board action
Documents Required	<ul style="list-style-type: none"> • District Resolution • Bond Purchase Agreement • POS • County Resolution 	<ul style="list-style-type: none"> • Agency Resolution • Bond Purchase Agreement • POS • Loan/Installment Sale Agreement • Indenture • JPA Resolution (not always) • Pledge Agreement (not always) 	<ul style="list-style-type: none"> • District Resolution • Corporation Resolution • Lease • Site Lease • Trust Agreement • POS • Purchase Contract 	<ul style="list-style-type: none"> • District Resolution • Bond Purchase Agreement • POS 	<ul style="list-style-type: none"> • District Resolution • Bond Purchase Agreement • POS 	<ul style="list-style-type: none"> • District Resolution • Equipment Lease
Tax-Exempt	<ul style="list-style-type: none"> • Tax-Exemption Certificate and 8038G • Continuing Disclosure Agreement • Projection of Tax Rates Certificate 	<ul style="list-style-type: none"> • Tax-Exemption Certificate and 8038G • Continuing Disclosure Agreement 	<ul style="list-style-type: none"> • Tax-Exemption Certificate and 8038G • Continuing Disclosure Agreement 	<ul style="list-style-type: none"> • Tax-Exemption Certificate and 8038G • Continuing Disclosure Agreement 	<ul style="list-style-type: none"> • Tax-Exemption Certificate and 8038G • Continuing Disclosure Agreement 	<ul style="list-style-type: none"> • Tax-Exemption Certificate and 8038G
Source of Repayment	Ad valorem taxes <ul style="list-style-type: none"> • Limits apply 	Special Tax	General Fund or pledge of Special Taxes	GO Bonds	Revenue Stream	General Fund