SESSION ONE

The Issuer's Role in Planning a Debt Issuance

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CDIAC

AGENDA

1. Financial Planning
2. Developing & Maintaining a Debt Policy
3. Issuing Debt for Capital Projects
4. Issuer Roles & Responsibilities

Financial Planning

Dennis Kauffman
City of Roseville

Financial Planning

- Multi-year financial planning
- Capital planning policies
- Capital improvement plan

Multi-Year Financial Planning

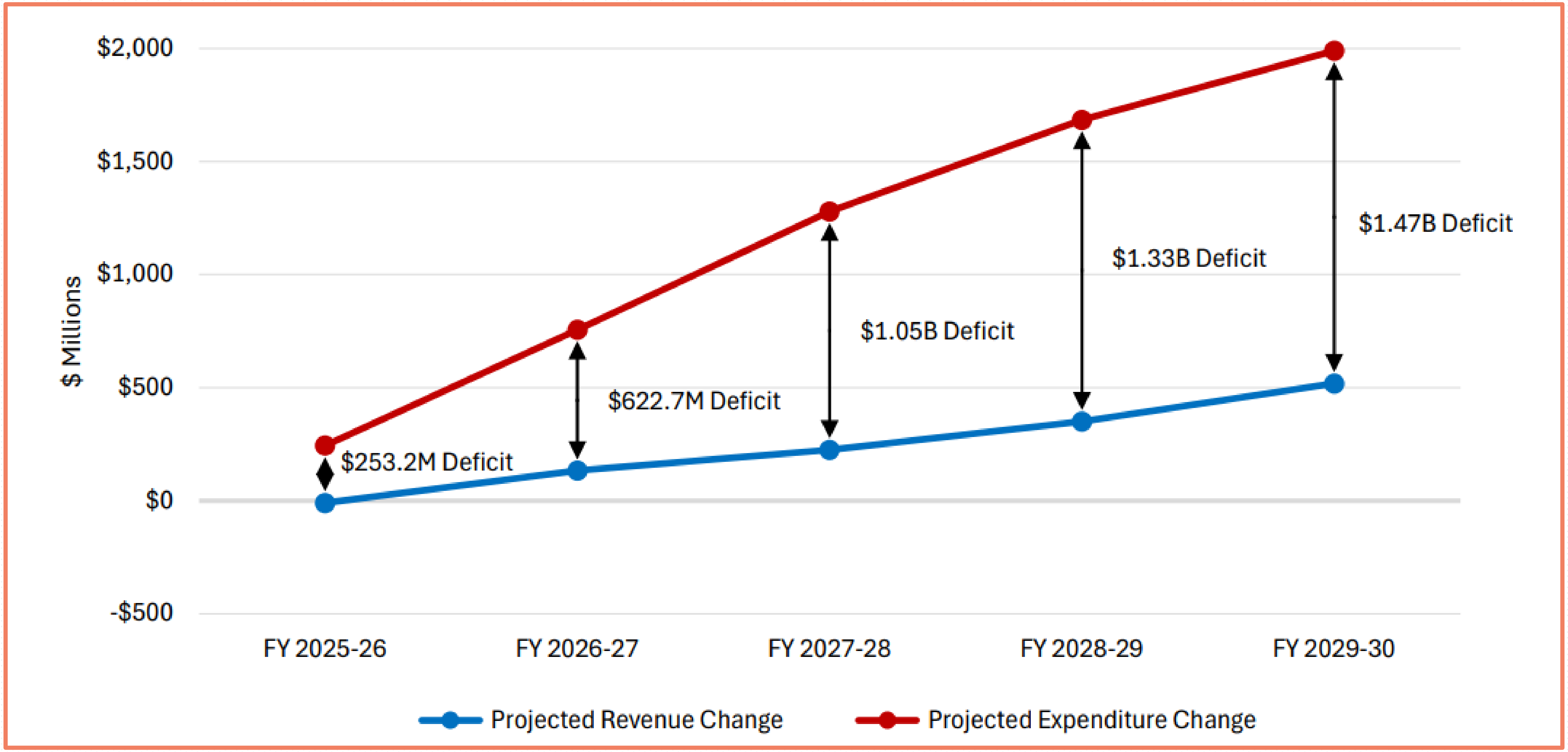
- Governments should develop a realistic multi-year financial plan
- The plan should include:
  - Operating revenue estimates (focus on largest revenues)
  - Operating expenses, including O&M related to capital assets
  - Capital projects – growth-related, and rehab and replacement
  - Financing for capital projects
- Governments should maintain multi-year financial plans for each significant fund
  - General Fund
  - Enterprise funds

Multi-Year Financial Planning

(CONTINUED)

- Plan does not need to be complex
- Make sure to capture future events
- Labor agreements
- Facilities coming online
- Known/projected changes to revenues
- Should capture at least a five-year picture
- Clearly discuss your assumptions
- Update at least annually, but monitor monthly/quarterly
- Present annually to your governing board
- A simple PLAN is better than no PLAN

Examples of Multi-Year Financial Planning



Examples of Multi-Year Financial Planning
(CONTINUED)

Electric Fund ($ in millions)	FY2026-27 Budget	FY2027-28 Projected	FY2028-29 Projected	FY2029-30 Projected	FY2030-31 Projected
Revenues					
Operating	$ 238.0	$ 243.4	$ 244.3	$ 247.9	$ 247.3
Non-Operating	0.7	4.5	4.6	4.5	4.4
Capital	9.8	8.8	3.0	3.0	3.0
Total Revenues	**248.5**	**256.7**	**251.9**	**255.4**	**254.7**
Expenses					
Power Supply	99.0	103.4	99.5	107.4	105.6
Generation	32.2	28.0	28.9	31.4	33.1
Operating	76.8	70.7	73.0	75.9	75.3
Non-Operating	20.5	20.2	20.2	20.2	20.2
Capital	34.2	31.4	32.4	27.0	27.9
Total Expenses	**262.7**	**253.6**	**253.9**	**261.8**	**262.0**
Revenues Less Expenses	**$ (14.2)**	**$ 3.1**	**$ (2.1)**	**$ (6.4)**	**$ (7.4)**

Capital Planning Policies

- Governments should develop and adopt capital planning policies
  - Who? How?
- Framework for stakeholders to understand their roles and responsibilities and process expectations
  - Who are the stakeholders?

Capital Planning Policies

(CONTINUED 2 of 3)

- Policies should:
  - Promote sound, long-term operational and capital financing strategies
  - Describe approach to capital planning
  - Define what is a capital improvement project
  - Identify how prioritization and decision-making for projects occur
  - Require assessment of entity's fiscal capacity (e.g., each fund)

Capital Planning Policies

(CONTINUED 3 of 3)

- Policies should:
  - Link funding strategies with useful lives of assets
  - Require multi-year capital improvement plan (CIP) that includes long-term financing considerations and strategies
  - Develop a process to ensure compliance with legal requirements for capital project funding (e.g., AB1600)
  - Include significant capital maintenance projects (rehab and replacement)
  - Have a process for monitoring and oversight of the CIP program

Capital Improvement Plan: Best Practice

- GFOA Best Practice – Multi-Year Capital Planning
  - Governments should adopt comprehensive, fiscally sustainable, multi-year CIP to ensure effective management of capital assets
- CIP should cover five years or more
- Review/update annually

Capital Planning and Infrastructure Best Practices

Example of Capital Improvement Plan

Capital Improvement Program

The five-year Capital Improvement Program (CIP) plans for the maintenance, enhancement and expansion of core infrastructure to ensure the continuation of high levels of service.

The following is a breakdown of CIP expenses by program areas (in millions):

Program area	FY2026–27	Five-year CIP
Citywide Technology	$ 1.5	$ 3.0
Electric	$ 33.4	$ 154.6
General Government	$ 5.9	$ 5.9
Parks, Recreation & Libraries	$ 17.9	$ 72.4
Public Safety	$ 1.0	$ 1.0
Public Works	$ 5.5	$ 207.1
Waste Services	$ .2	$ .2
Wastewater	$ 13.1	$ 99.0
Water	$ 12.0	$ 76.0
Total	**$ 90.5**	**$ 619.2**

Capital Improvement Plan: Needs

- Identify Needs:
  - Using information such as development projections, strategic plans, comprehensive plans, facility master plans, and regional plans
  - Governments should identify present and future service needs that require capital infrastructure or equipment
  - Develop a capital asset life cycle for major capital assets
  - Break out by fund (e.g., general fund, enterprise funds)

Capital Improvement Plan: Impacts

- Determine Financial Impacts
  - Capital asset life cycle should include costs to operate, maintain, administer and rehab or replace the capital asset
  - An estimate of all major components required to implement a project should be outlined, including land acquisition needs, design, construction, contingency, and post-construction costs
  - Impact on operating budget resulting from capital projects

Capital Improvement Plan: Prioritization

- Prioritize expected needs based on a strategic plan
- Scope and timing of a planned project should be well defined in the early stages of the planning process
- When evaluating capital requests, governments should first prioritize based on:
  - Health and Safety
  - Asset Preservation
  - Service/Asset Expansion

Capital Improvement Plan: Prioritization
(CONTINUED)

- In prioritization process, attention should be given to:
  - Coordination with related entities
  - Allow submitting department to provide initial prioritization
  - Incorporate input and participation from major stakeholders and the public
  - Apply analytical techniques, as appropriate, for evaluating potential projects (e.g., net present value, payback period, cost-benefit analysis, life cycle costing, cash flow modeling)
  - Use a rating system to facilitate objective decision-making

Capital Improvement Plan: Financing Plan

- Capital financing plan should:
  - Anticipate expected revenue and expenditure trends including relationship to multi-year financial plans and ongoing impacts to the operating budget due to the capital plan
  - Consider cash flow projections of the amount and timing of the capital financing
  - Specify funding sources (PAYGO, debt, combination)
  - Comply with all established financial policies
  - Recognize appropriate legal constraints

Capital Improvement Plan: Environmental, Social & Governance (ESG)

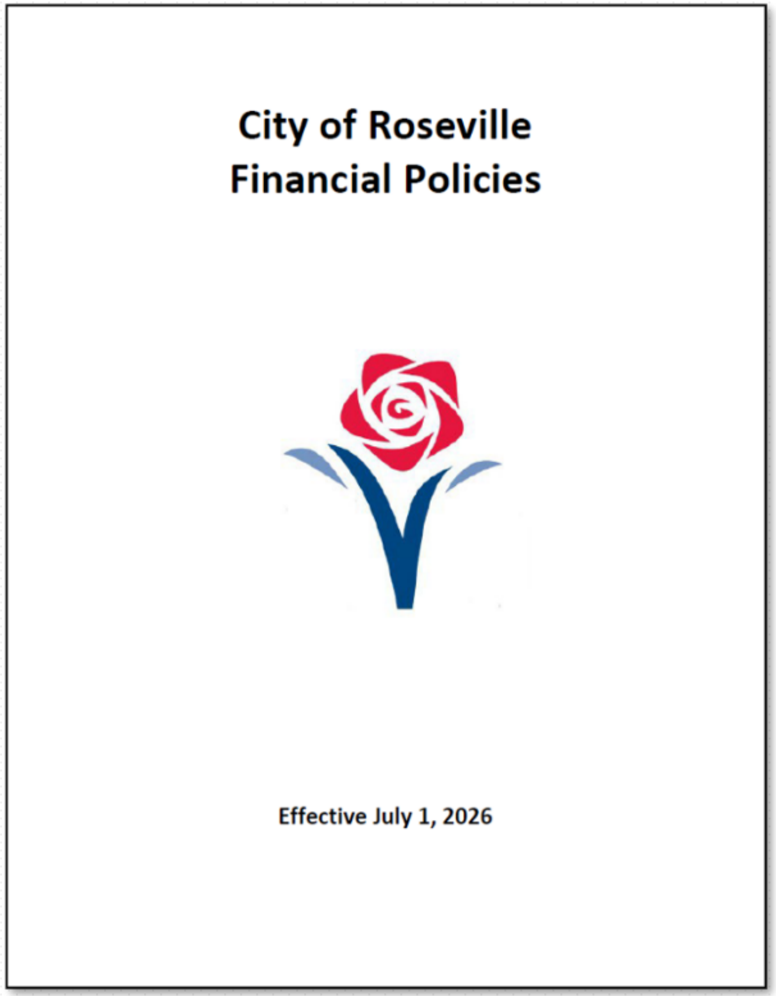
- GFOA recommends integrating ESG into capital planning by:
  - Provide any project that has a direct or related E, S, or G material risk or measurable benefit with a brief description to inform financing team
  - Summarizing potential ESG projects in the CIP to highlight the initiatives for public interest
  - Consider prioritizing debt financing for ESG projects

Developing & Maintaining a Debt Policy

Dennis Kauffman
City of Roseville

Developing and Maintaining a Debt Policy

- Importance of a debt policy
- Components and compliance
  - Issuance and management practices
  - Structuring parameters
  - Disclosure and tax compliance
- Implementation and maintenance


City of Roseville
Financial Policies

Effective July 1, 2026

Importance of a Debt Policy

- Guides the debt issuance practices of state or local governments
- Improves the quality of decisions
- Communicates policy goals to internal and external parties
- Provides guidelines for the structure of debt issuance
- Demonstrates a commitment to long-term capital and financial planning and enhances intergenerational equity
- Displays commitment to adhere to local, state, and federal laws
    - SB 1029

Importance of a Debt Policy
(CONTINUED)

- Provides information and guidance to staff and elected officials
- Enhances internal management practices
- External recognition and transparency
  - Credit rating agencies
  - Investors and the public know the entity’s parameters
- Regulators ask for evidence of policies and procedures
- Establishes a road map of procedures to stay out of trouble

Components of a Debt Policy

- Authority to Issue Debt
- Entity's debt limits
  - Legal restrictions (e.g., state constitution, bond referenda)
  - Public policies (purposes, tied to CIP, economic development)
  - Financial restrictions (debt limits and debt capacity)
    - Debt per capita
    - Debt to personal income
    - Debt to personal property
    - Debt service payments as % of general fund revenues/expenditures

Components of a Debt Policy

(CONTINUED 2 of 5)

Types of Debt Allowed to be Issued

- General obligation and parameters of that pledge
- Revenue
- Taxable (including tax-credit and subsidy)
- Fixed or variable rate
- Direct purchase (bank loan or private placement)
- Refundings
- Other products: pension obligation bonds (POBs), OPEB bonds, swaps and other derivatives
  - GFOA advisories

Components of a Debt Policy

(CONTINUED 3 of 5)

Debt Structuring

- Maximum term
- Average maturity
- Debt repayment structure
- Use of optional redemption features
- Other features such as bond insurance and reserve accounts

Components of a Debt Policy

(CONTINUED 4 of 5)

Debt Issuance Practices

- Selection of external professionals
- Process and criteria for determining method of sale
- Evaluating bond pricing
- Use of credit rating agencies
- Primary disclosure practices and procedures

Components of a Debt Policy

(CONTINUED 5 of 5)

Debt Management Practices

- Investment of bond proceeds
- Budgeting for and making debt service payments
- Continuing disclosure practices
- Federal tax law compliance (e.g., arbitrage, private use)
- Monitoring refunding opportunities
- Investor relations

Implementation and Maintenance

- Develop with team (with a team leader)
- Internal staff sign off
- Approval from governing body
- Dissemination to team (internal and external)
- Compliance procedures for the policy
  - How will we do what we said we would do?
  - Develop checklists to document compliance
- Periodically review and update policy in response to changing market and regulatory requirements (review at least annually)

Implementation and Maintenance: Final Thoughts

- If starting from scratch, review policies from peer governments
- Review Model Debt Management Policy - CMTA Certification Program
- Develop section by section
- Have separate policies where needed – e.g., continuing disclosure, investment of proceeds, use of derivatives
- Stay alert for changing state and federal laws and regulations
- Debt policy provides cover in certain situations
  - Outside Professionals
  - Elected Officials
  - The Media

Issuing Debt for Capital Projects

Anna Van Degna
City & County
of San Francisco

Confirm Debt is the Right Path for Your Project

- What is the Project?
  - Expected lifetime of asset (capital vs operating costs)
- What Are Your Financing Strategies?
  - Consider all funding alternatives, including cash funding or "Pay-as-you-go"
  - What revenues are available – or could be raised – to repay debt?
  - What financing tools are available in the current market at reasonable cost?
  - What is permissible under federal, state and local laws?
  - What is allowable per your debt management policy?

What is the Right Amount of Debt?

LEGAL LIMITS

Debt Capacity

- Most states impose legal limits on how much debt can be issued.
- Typically based on market value of property within a jurisdiction.
- Most often applicable only to general obligation debt.

FINANCIAL LIMITS

Based on Revenue Sources

- Revenue Bond capacity will depend on ability and willingness to raise rate and to maintain market accepted debt service coverage factors.

INTERNAL POLICY LIMITS

Debt Affordability

- Internal debt policies may provide additional limitations on how much debt can be issued.

Legal Limits on Municipal Borrowing

California Constitutional Debt limit

- Cities and counties cannot issue "debt" without a 2/3rds voter approval
  - Exceptions
    - Long term leases not long term "debt" if subject to annual appropriation/abatement
    - Special fund debt, such as water or sewer enterprise (rates and charges)
    - "Obligation imposed by law", such as pension or judgement liability

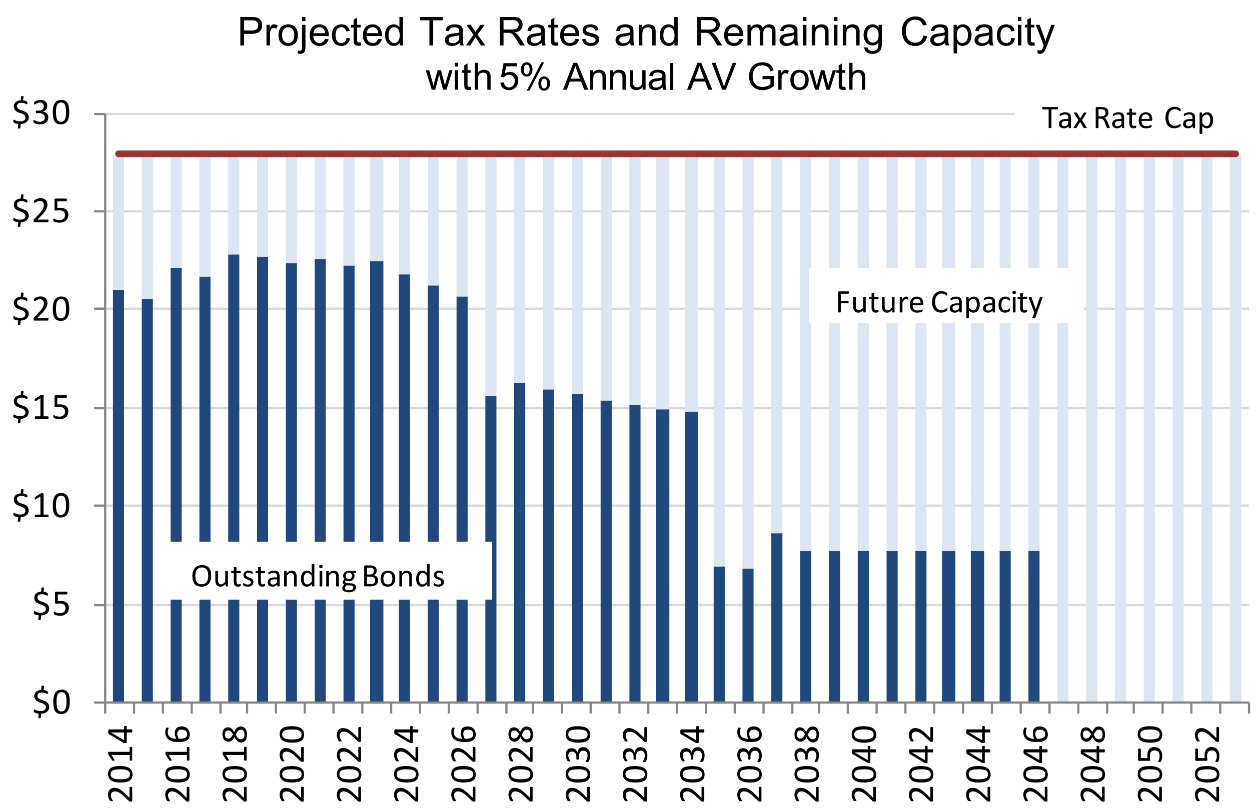
Federal Tax Law Limitations

- Projects must be for **governmental use** to qualify for tax-exemption
- Certain uses – housing, student loans, industrial development must compete for state private activity volume cap allocations (CDLAC in California) to qualify for <u>tax-exemption</u>
  - Arbitrage restrictions – no "printing press"; not an investment hedge
  - Taxable bonds are an alternative but are typically bear higher interest costs

Financial Limits

Structure debt to fit within available capacity

- How much debt are you legally allowed to issue?
- Debt covenant restrictions
- Future principal and interest payments
- Overlapping debt



Policy Considerations

- Excessive debt service as a percentage of expenses can serve to constrain future opportunities
  - Maximum Annual Debt Service (MADS) as a % of projected revenues/expenditures
- However, debt issued for projects also grows strategic programs, increases the entities revenue and operating expense base, and can provide additional prudent borrowing capacity in future years
- <u>Be mindful of rating agency analysis</u>

Debt Affordability & Credit Ratings

- Determining "affordability" is an art, not a science
- Rating agencies assess a municipal bond issuer's ability to repay debt and assign a rating based on the credit quality (likelihood of repayment) of the bonds.
  - Investment grade bond ratings range from a low of BBB/Baa to a high of AAA/Aaa
  - Higher ratings generally result in lower borrowing costs

	Credit Ratings		
	Moody's	**S&P**	**Fitch**
Investment Grade	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
Speculative Grade	Ba	BB	BB
	B	B	B
	Caa	CCC	CCC
	Caa	CCC	CCC
	C	C	C

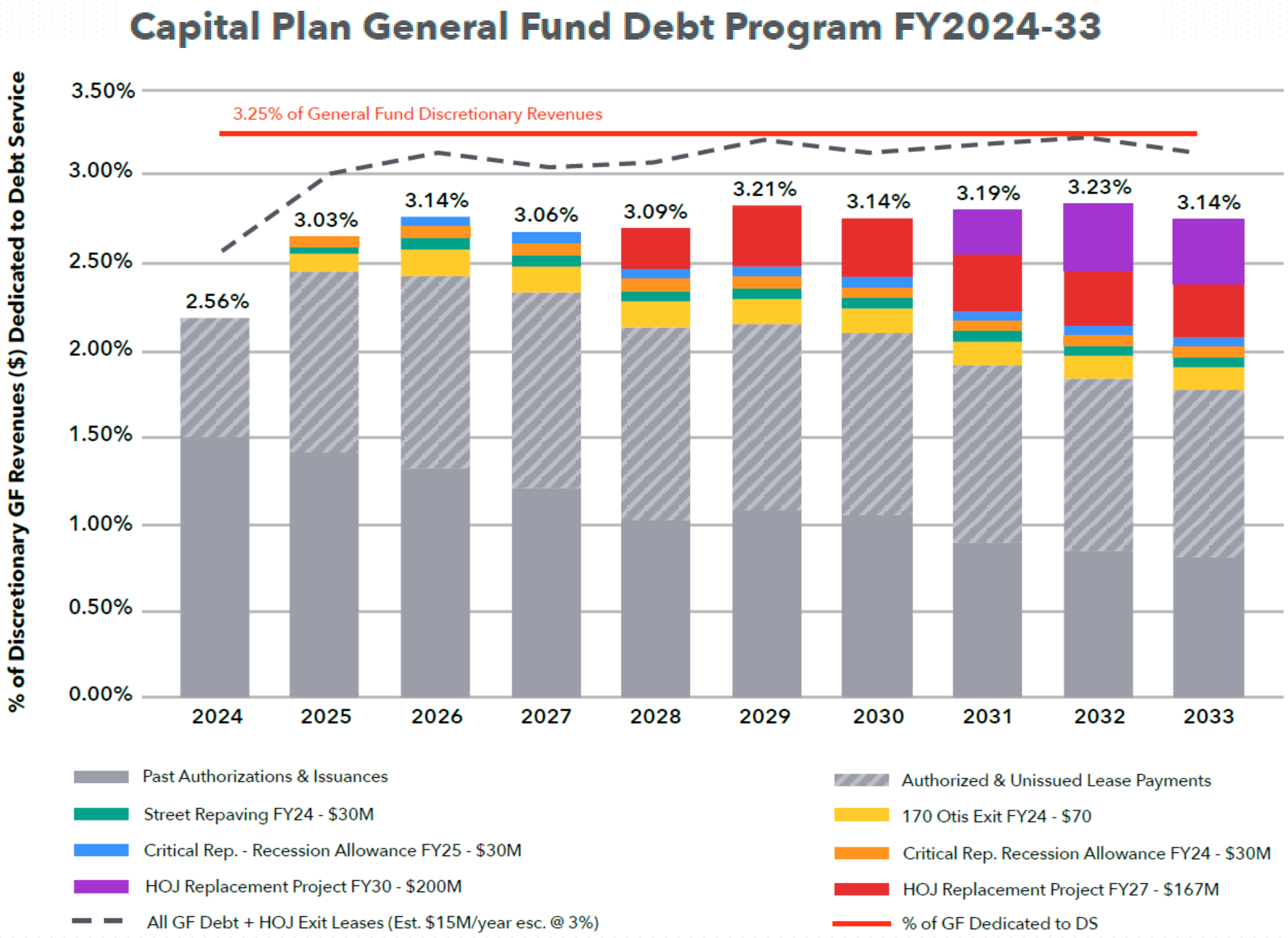
CASE STUDY:

What Type of Debt is Best for the Project?

- Policy and Legal Constraints vary by bond type

	GENERAL OBLIGATION BONDS	CERTIFICATES OF PARTICIPATION	SPECIAL TAX BONDS	TAX INCREMENT BONDS	REVENUE BONDS
SECURITY	Unlimited ad valorem property tax (voter approval required)	Annual appropriation for use and occupancy; subject to abatement	New special tax levied on property tax bill (property owners' vote < 12 registered voters)	% of increased property tax revenues above base year in district	Enterprise revenue, toll road or sales tax pledges as an example
POLICY AND/OR LEGAL CONSTRA-INTS	% of assessed value; Annual tax rate	Available assets; policy and/or affordability limits	CDIAC Land Secured Guidelines; Local Goals & Policies	Additional bonds test	Rate covenant; Additional bonds test

Case Study – What are the Potential Constraints?



Case Study – What are the Potential Constraints?

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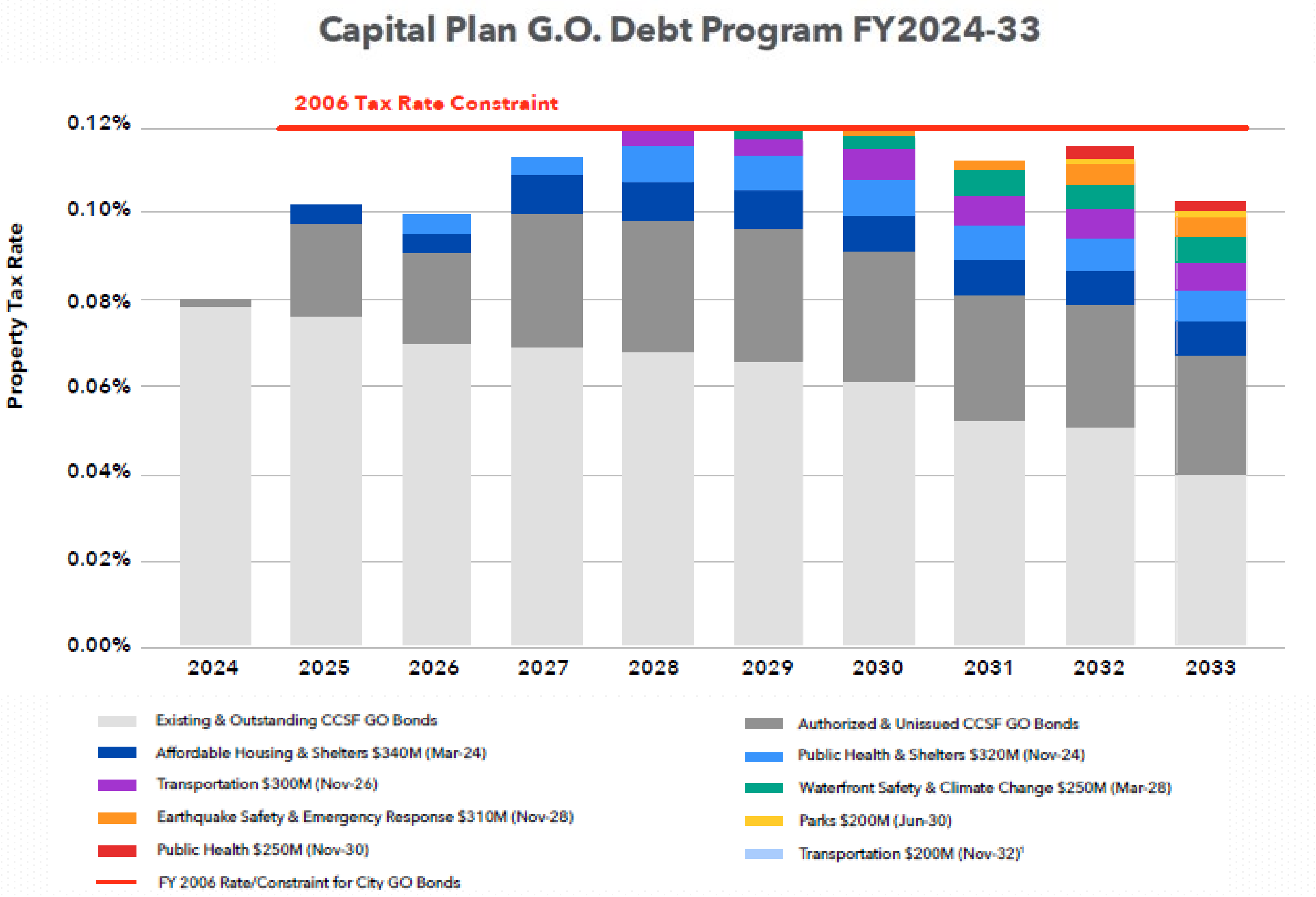
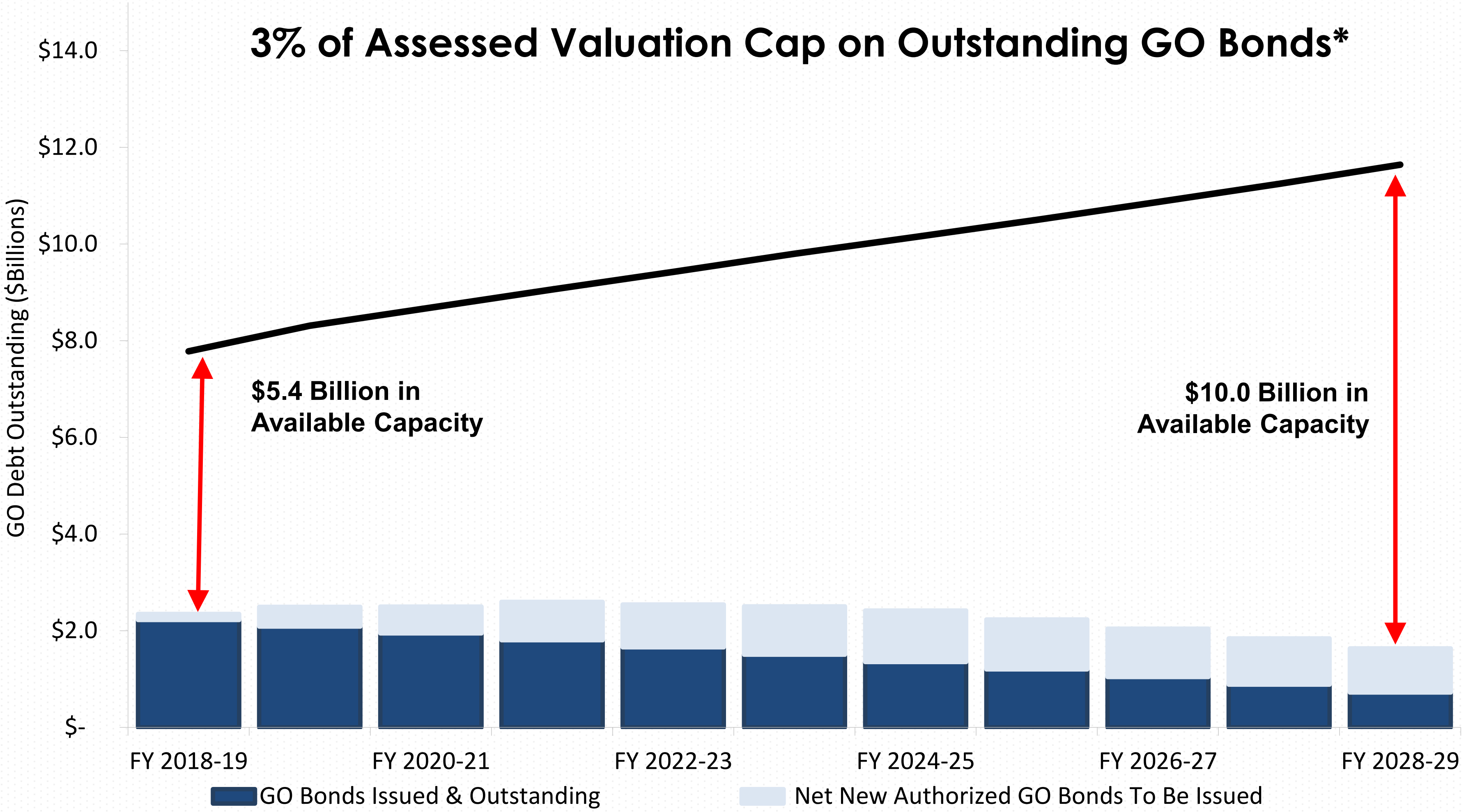


Case Study – What are the Potential Constraints?
(CONTINUED 3 of 3)



Per Section 9.106 of San Francisco's Charter.

Issuer Roles & Responsibilities

Anna Van Degna
City & County
of San Francisco

Understanding Your Responsibilities

- Debt Issuance is **NOT** a Casual Assignment
- This is YOUR transaction
- Your financing team assists largely until the "deal" closes - your [agency] then will have to live with this contractual obligation for the next 20-30 years –
- If anything goes wrong (i.e., default, audit, etc.), the regulators/enforcers will come knocking on **your** door
- Don't forget the potential for personal liability and reputational damage

Role of the Finance Officer

- Your role extends past administration of debt program
- You must understand your responsibilities as they relate to:
  - Federal Securities Law / Federal Tax Law
  - State Law
  - Your Entity Ordinances, Charter etc.
- Have documented policies and procedures
- Be aware of your roles and responsibilities PRIOR to starting the debt issuance process, ***not after***
- A finance officer's responsibility is to taxpayers and ratepayers to <u>ensure costs of debt repayment are most favorable in short and long-term</u>

Role of the Finance Officer

(CONTINUED 2 of 4)

- ***Hire experienced and trustworthy consultants***
- Be an active participant during the process
  - Attend every meeting
  - Read all the documents
  - <u>Don't be afraid to ask questions</u>
  - Be prepared to present the transaction to your governing board
  - If you don't understand the transaction, do not present it to the governing body
- Make sure your internal team understands their responsibilities
  - Offer bond training courses

Role of the Finance Officer

(CONTINUED 3 of 4)

- As you prepare to issue debt, issuer staff should coordinate internal team members (finance staff, internal city/county/district attorneys, project managers, etc.)
  - Work with "partner" agencies by providing direction, leadership, oversight, and guidance
  - Select and assign duties to outside finance team participants and manage performance
  - Manage the financing project and timeline
  - Structure financing within parameters of state and local law and legislatively adopted policy

Role of the Finance Officer

(CONTINUED 4 of 4)

- Select the method of sale in consultation with municipal advisor and be consistent with debt policy
- Negotiate business points and structure of the transaction
- Ensure consistent, accurate, and complete disclosure to the marketplace – both initial and ongoing
- Your job doesn't end when the bonds are issued
  - Oversee debt service payment process and disbursement of project funds
  - Ensure tax and disclosure compliance
    - Now comes the real work!

Who's Who on the Financing Team?

- Municipal Advisor (MA)
- Bond Counsel
- Disclosure Counsel
- Paying Agent/Trustee
- Underwriter (if negotiated sale)
- Underwriter's Counsel (if negotiated sale)
- *Verification Agent (if refunding)*
- *Bidding Agent (if open market escrow refunding)*
- *Others (examples: Special Tax Consultant, Appraiser)*

Types of Legal Counsel in Bond Transactions

Not all types of counsel are needed on every transaction. Will depend on type of bonds, method of selling bonds, and issuer preferences

- **Internal Issuer Counsel:** Issuers own internal counsel that focuses on ensuring compliance with local ordinances, codes, and policies
- **Bond Counsel:** Provides legal opinion that the bonds 1) are legally issued; and 2) meet IRS tax-exemption standards
- **Disclosure Counsel:** Assists issuers with primary disclosure obligations and typically also assists with secondary disclosure
- **Bank Counsel:** Similar to underwriter's counsel, bank counsel represents banks direct purchases, bank loans, etc.
- **Underwriter's Counsel:** represents underwriter in a negotiated bond sale

Financing Team Assembly/Procurement

- Are you getting good advice from experienced professionals?
  - Reference GFOA Best Practices
- GFOA Best Practices Include:
  - Selecting and Managing Municipal Advisors
  - Selecting Bond Counsel
  - Selecting and Managing the Method of Sale of Bonds
  - Selecting and Managing Underwriters for Negotiated Bond Sales
  - Issuer's Role in the Selection of Underwriters Counsel
- **KNOW YOUR ENTITY'S PROCUREMENT POLICIES!**

Who Should I Hire First?

- Unless you have in-house expertise and access to market information, hire a municipal advisor (MA) prior to undertaking a debt financing

- It is recommended to hire an MA through an RFP process and to establish a scope and fee schedule (for example - contingent vs. non-contingent) prior to determining whether or not to issue bonds and what the method of sale should be

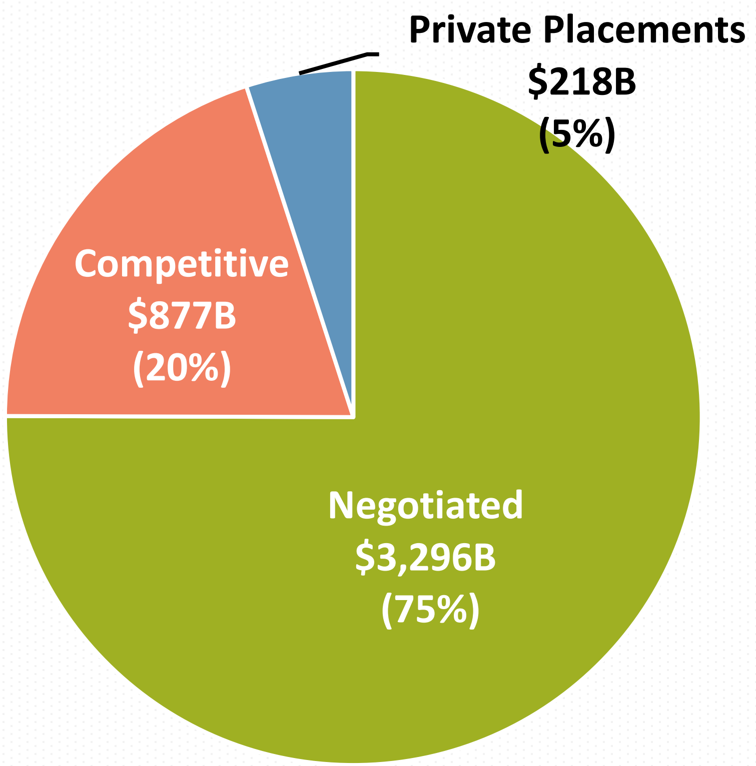
- **Prior to onboarding your Municipal Advisor, ensure your MA firm and the individual MA you are hiring is registered with the MSRB:**
  - http://msrb.org/MARegistrants.aspx

- Your MA is required under federal law to be **your** fiduciary (representing you the debt financing process)

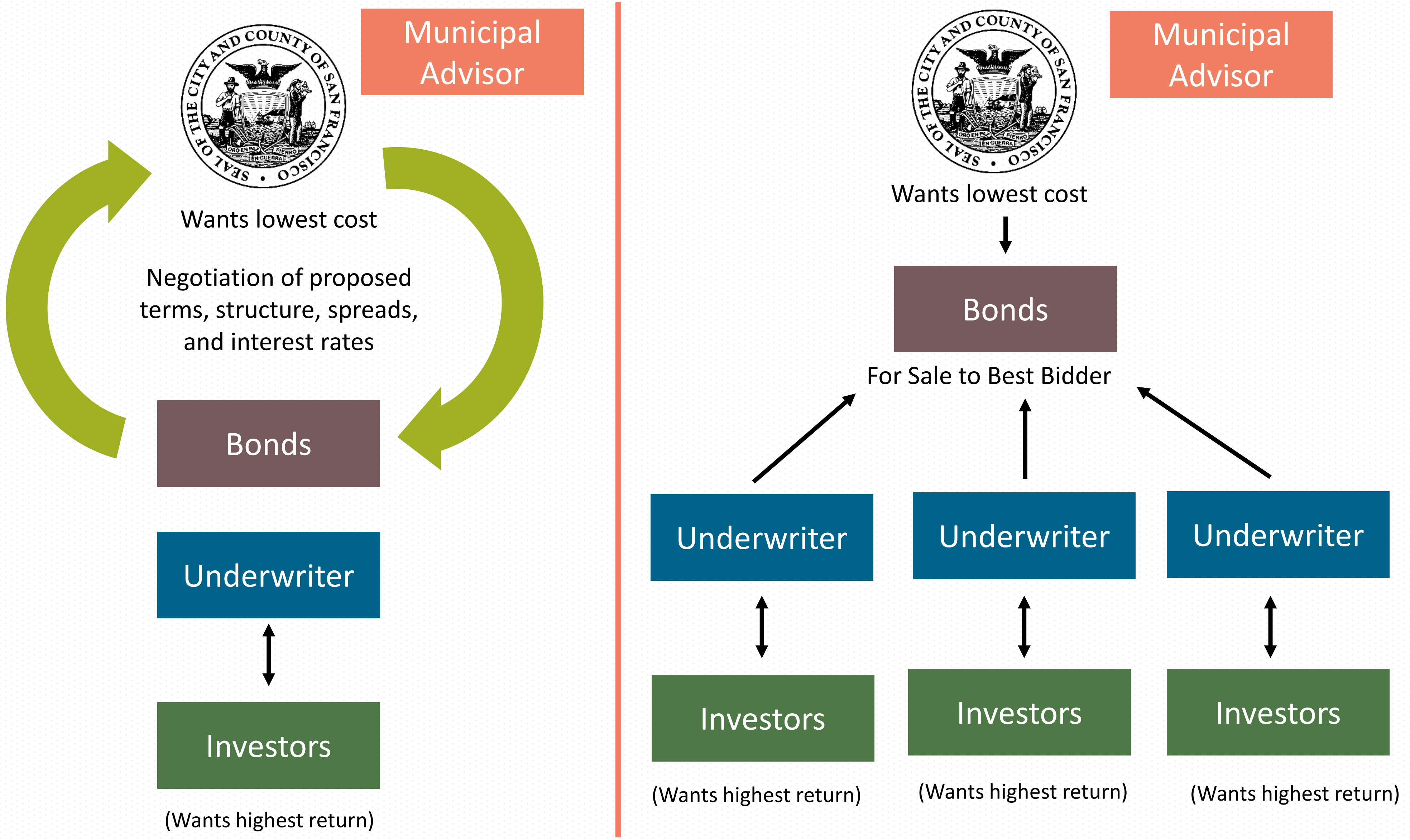
How are Municipal Bonds Sold?

- **Competitive**
  - Auction of bonds; Highest price, lowest yield wins
  - Led by municipal advisor
  - Underwriter not involved until bid
  - Typically no pre-marketing to investors
  - Underwriter(s) liable for unsold balance
- **Negotiated**
  - Interest rates and call features negotiated
  - Underwriter involved early in the process; due diligence
  - Pre-marketing to investors
  - Underwriter(s) liable for unsold balance
- **Private Placements**
  - Entire issue is typically bought by a single investor (or group of accredited investors)
  - Purchaser is typically a bank
  - Rate may be higher but costs of issuance can be lower

Last Decade of Municipal Bond Issuance By Type of Sale



Negotiated vs. Competitive Sale



Managing Your MA Relationship

- Ongoing Communication of Priorities, Objectives, And Expectations
  - Match to specific issuer project/financing needs
    - For example, swap advisor
  - Active vs. Passive
  - Continuity of MA staff
  - Written scope of services from issuer assists with this
- Use of Multiple MAs
  - Project or task-specific
  - Pricing and/or post-pricing specialists

Wrap Up:
Recap of the Bond Financing Process

<u>Financing Plan</u>
(Months 1-2)

- Engage financing team members
- Clarify project list
- Analyze financing options

<u>Preparing Bond Sale</u>
(Months 3-4)

- Draft legal documents and preliminary official statement (POS)
- Seek credit rating
- Secure Council/Board financing approvals

<u>Pricing/Closing</u>
(Months 5-6)

- Post POS/ Notice of Sale
- Market bonds to investors or bidders
- Set interest rates
- Deliver funds

<u>Post-Closing</u>
(Thereafter)

- Make timely debt payments
- Provide ongoing disclosure
- Tax compliance (Keep good records, spend proceeds timely)

QUESTIONS?

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