

Cleaning Out the Closet

A Post-Issuance Checklist for Putting your Public Finance House in Order

Kansas GFOA Fall 2009 Conference





Introductions

■ Dennis Lloyd

- President and Owner
- Over 28 years of municipal finance experience
- Experience with bond counsel, investment banking and financial advisory firms
- Focus on complex and structured transactions
- Education: Economics and Law
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■ Kelsi Powell

- First Vice President
- Over five years of municipal finance experience
- Debt and cash flow modeling expertise
- Focus on traditional municipal and structured transactions
- Education: Economics
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”Economics is extremely useful as a form of employment for Economists”
---John Galbraith



Post Issuance Checklist

- ✓ Investment Bond Proceeds
- ✓ Maintain Records
- ✓ Arbitrage Rebate
- ✓ Continuing Disclosure
- ✓ Debt Management
- ✓ Update or Develop Debt Policy
- ✓ Communicate with Rating Agency
- ✓ Talk to Financial Advisor



” My second favorite household chore is ironing. My first is hitting my head on the top bunk bed until I faint. ~Erma Bombec



Invest Bond Proceeds

- What can I invest in?
 - “Permitted Investments” defined in Trust Indenture or Bond Resolution and State Law
 - Typically include:
 - Direct obligations of US Government or any agency
 - Interest-bearing time deposits in commercial banks located in the county or counties in which the City is located
 - Repurchase agreements
 - Investment agreements with counterparties within a specified rating range
 - Municipal bonds
 - Kansas Municipal Investment Pool

”The safe way to double your money is to fold it over and put it in your pocket” --- Frank Hubbard



Maintain Records

- Protect your asset...the ability to pay tax-exempt interest
- Records to maintain
 - Bond Transcript
 - Documentation of expenditure of bond proceeds
 - Documentation showing the use of the bond-financed property by public and private users
 - Documentation evidencing all sources of payment or security for the bonds
 - Documentation pertaining to any investment of bond proceeds and related funds
- Keep records for three years after the last bond of series matures
- Do not discard records if bonds are refunded



Arbitrage Rebate

- What is Arbitrage?
 - Arbitrage is the profit earned from the investment of tax exempt bond proceeds in higher yielding securities

- What is the Concern?
 - If the return received on the investment of the higher yielding securities is greater than the yield on the bonds (a required calculation of the average interest rate on the bonds) than the excess must be paid or “rebated” to the federal government

- When is Rebate due?
 - Arbitrage rebate is payable every 5 years and upon final payment of the last maturing bond

- What happens if Non-Compliant?
 - Loss of tax exempt status
 - If not due to willful neglect, a penalty may be assessed



Arbitrage Rebate

■ What is Needed to Prepare Calculation?

REQUIRED RECORD	SOURCE
Bond Transcripts which include Official Statement, Arbitrage or Tax Certificate, IRS Form 8038, Cashflows, Trust Indenture, Escrow Verification, Credit Enhancement Agreement, Investment Contracts, Swap related documents	Provided by Bond Counsel at closing
Evidence of receipt of bonds into your accounts	Trustee of issuer bank statements; wire reference numbers
The date paid and amount for any expenditure of bond proceeds	Trustee of issuer bank statements
The date received and amount of any interest earnings allocable to bond proceeds	Trustee of issuer bank statements
If funds were invested in a Guaranteed Investment Contract or Swap, then records of GIC activity or Swap transaction activity and copy of GIC or Swap broker certificate	Trustee of issuer bank statements; GIC counterparty

"One of the advantages of being disorderly is that one is constantly making exciting discoveries." ---A. A. Milne



Arbitrage Rebate

■ Commingled Funds

- Fund that contains both proceeds of a bond issue and amounts that are not proceeds of bond issue
- Present a challenge to calculating rebate
- Fund must be uncommingled and cashflows must be separated and earnings allocated between the proceeds and non-proceeds part of the balance

■ Benefits to Annual Calculations

- Rebate liability can be monitored and set aside – minimizing surprises
- Documents and records are more accessible
- Bond proceeds remaining in a project fund for more than 3 years become yield restricted – sometimes possible to have yield restriction problem and owe payment to the IRS even if no rebate was payable originally



Arbitrage Rebate

- Exceptions to the rule
 - Small Issuer – Entities issuing less than \$5M of debt in a calendar year
 - Tax and Revenue Anticipation Notes – exempt if 90% of deficit occurs within six months of issuance
 - Debt Service Funds – in most cases, investments in debt service funds are exempt from rebate
 - Spending Exceptions – there are a few exceptions if bond proceeds of certain funds, most commonly the project fund, are spent within a certain time frame



Continuing Disclosure

- Rule 15c2-12
 - Requires that an issuer agree to annually disclose a specific list of information and file material event notices with each Nationally Recognized Municipal Securities Information Repository (“NRMSIR’s”)
 - Information that issuer is required to disclose is outlined in the Continuing Disclosure Agreement

- How do I file?
 - MSRB established as sole repository for continuing disclosure and material event notices
 - EMMA – Electronic Municipal Market Access – www.emma.msrb.org
 - Effective July 2009 – all required filings must be made through EMMA must be in PDF format
 - Effective January 2010 – all reports and notices must be filed in PDF word-searchable format
 - An agent can file on issuer behalf



Continuing Disclosure

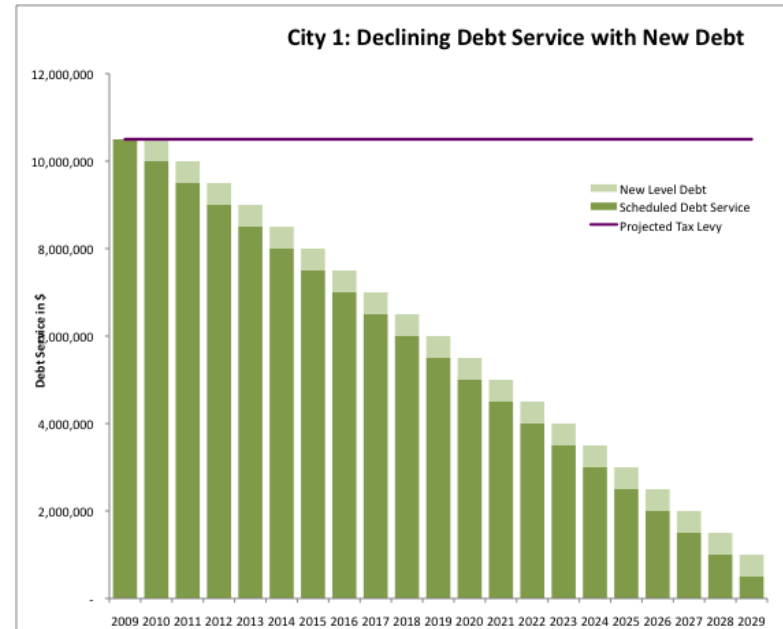
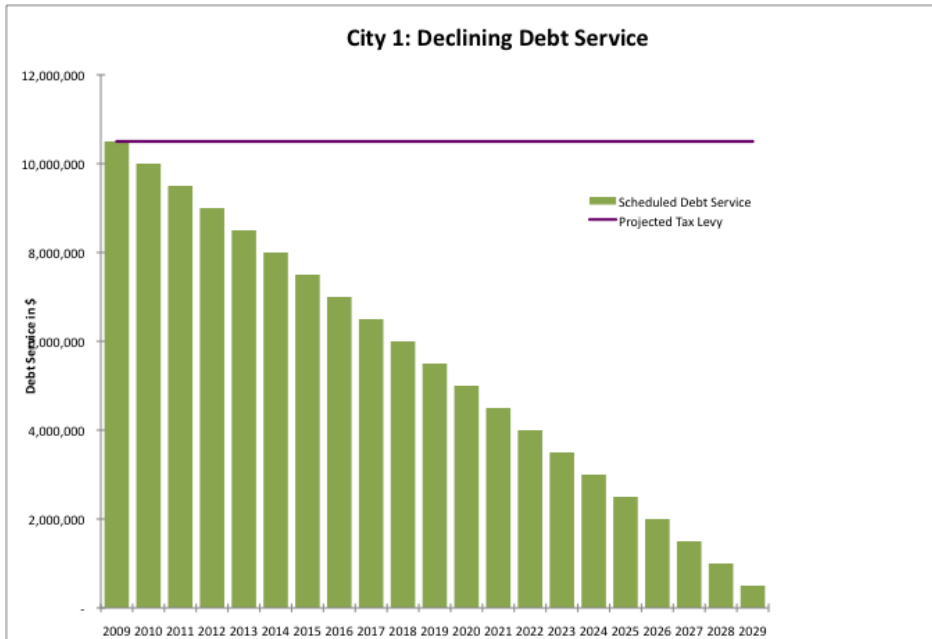
- Rule 10b-5
 - Requires that disclosure be accurate and not omit material information
- What is material to bondholders?
 - Required material event disclosure under 15c2-12
 - Voluntary disclosure - difficult to distinguish interesting vs material information
 - Anything that could reasonably impact the value of a bond





Debt Management

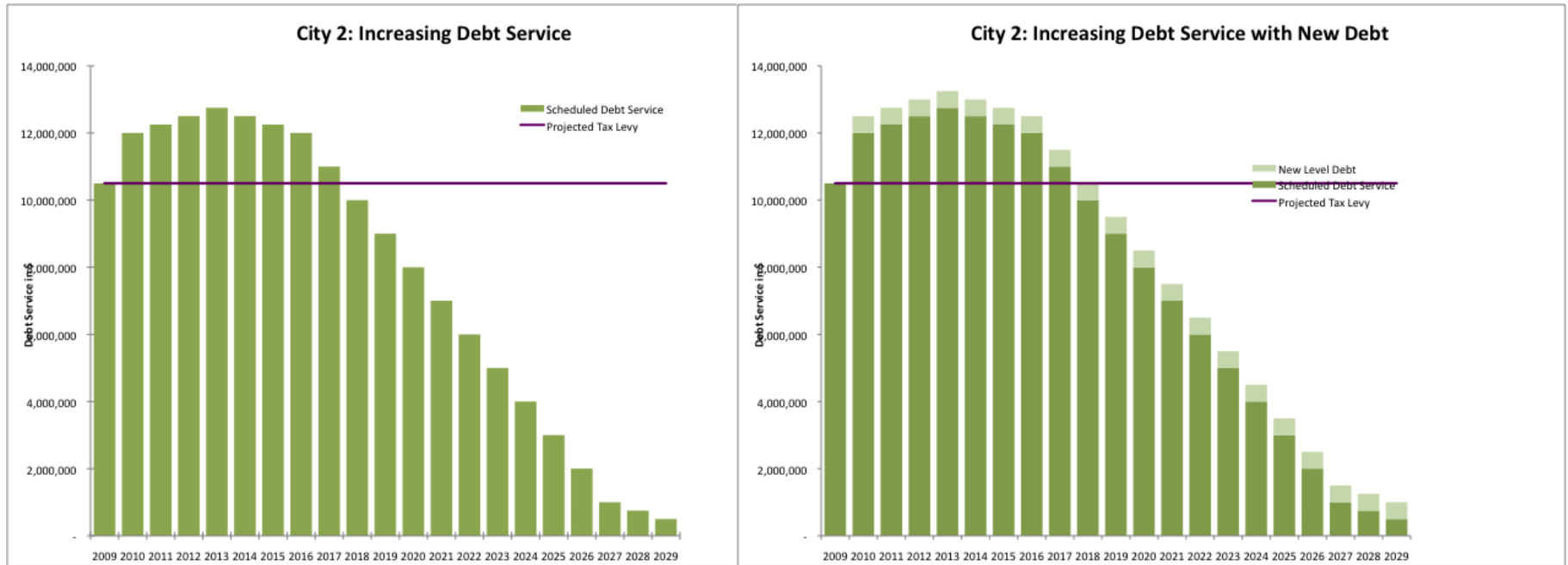
- Create and or update a debt profile
 - One of the best tools for forecasting future debt demands, guiding long term capital program and identifying potential issues before they occur
- What should your debt profile look like?





Debt Management

- What should your debt profile look like?

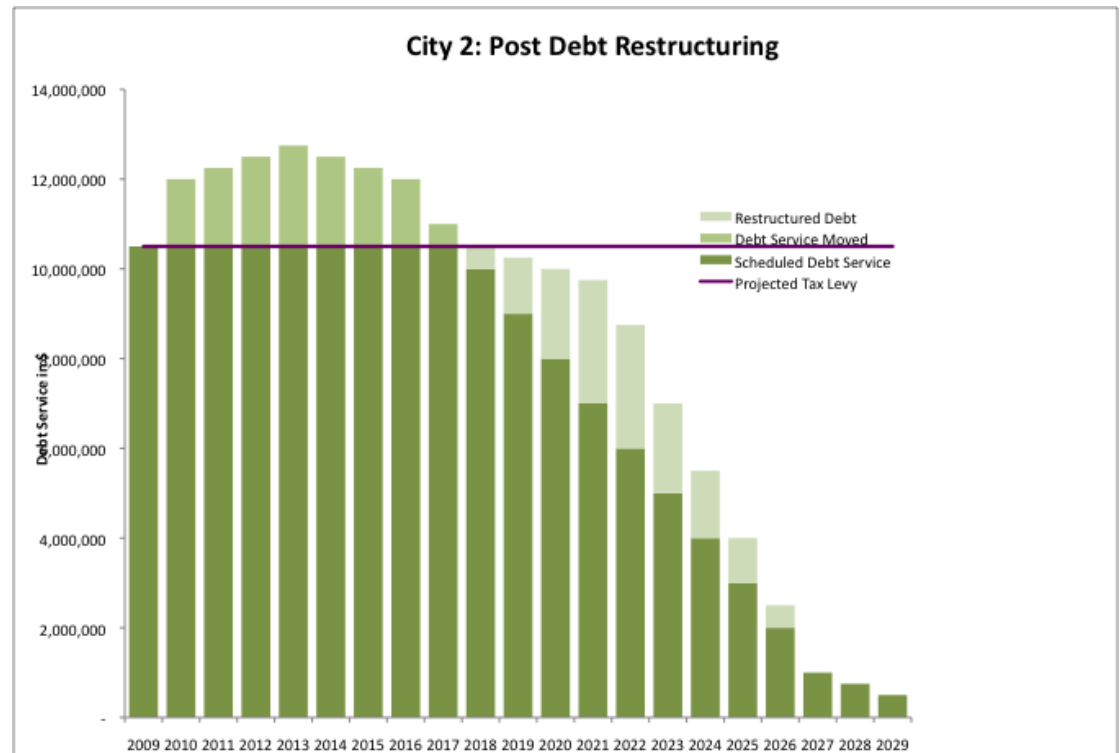


“An economist is an expert who will know tomorrow why the things he predicted yesterday didn’t happen today” --- Laurence J. Peter



Debt Management

- Debt management includes periodically evaluating debt for refunding opportunities
 - Set specific thresholds for targeted refunding savings
 - Don't look at refundings in isolation – evaluate how the refunding impacts your overall debt profile
 - Take advantage of savings opportunities
 - Refundings may provide budgetary relief



"Budget: A mathematical confirmation of your suspicions." --- A.A. Latimer



Update or Develop Debt Policy

- Do you have a Debt Management Policy?
 - A debt management policy sets forth the parameters for issuing debt and managing the outstanding debt portfolio and provides guidance to decision makers
 - It is statement of shared values by and between the governing body and City staff
 - Not a set of handcuffs
 - Not a static document
- If your answer is yes, then maybe its time to dust it off and review and if your answer is no, then maybe it's time to develop one
- The market cares about your debt management practices



Communicate with Rating Agency

- It is important to communicate with your Rating Agency
 - Keep you rating agency analyst aware of any significant changes in the financial health of your City.
 - Speak to them earlier rather than later
 - If the news is negative – share what your City is doing to deal with the issue, how the City is planning to adapt to the unforeseen situation

- Weathered the financial downturn well?
 - If you are in reasonable shape, you may want to ask for an upgrade?

” Anybody who thinks talk is cheap has never argued with a traffic cop. -Henry Youngman.



Talk to Financial Advisor

Columbia Capital Management, LLC



Columbia provides a broad array of services to issuers of municipal bonds:

- CIP evaluation and development
- Bond plan of finance development
- Managing competitive sales
- Advising on negotiated sales
- Cashflow modeling and reporting
- Economic development advice
- Derivatives advisory work
- Strategic/crisis financial consulting
- Financial policy development
- Arbitrage rebate compliance
- ARRA implementation and advice
- Short-term cash management
- Structured investment products
- Idle Funds Safety Audit™
- Arbitrage rebate compliance

Ask us about our new **Debt Management Dashboard™** service: an affordable, streamlined way to manage the most annoying (but important!) annual debt management tasks.

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