



Fort Pierce Utilities Authority

Debt Issuance



October 10, 2006

Bryant ■ Miller ■ Olive
ATTORNEYS AT LAW





A Guide to Debt Issuance

- **Presentation Outline**
 - **Overview of Bond Process**
 - **Finance Team**
 - **Finance Plan**
 - **Refundings**
 - **Bond Ratings**
 - **Bond Documents**
 - **Pricing and Sale**
 - **Post-Closing**

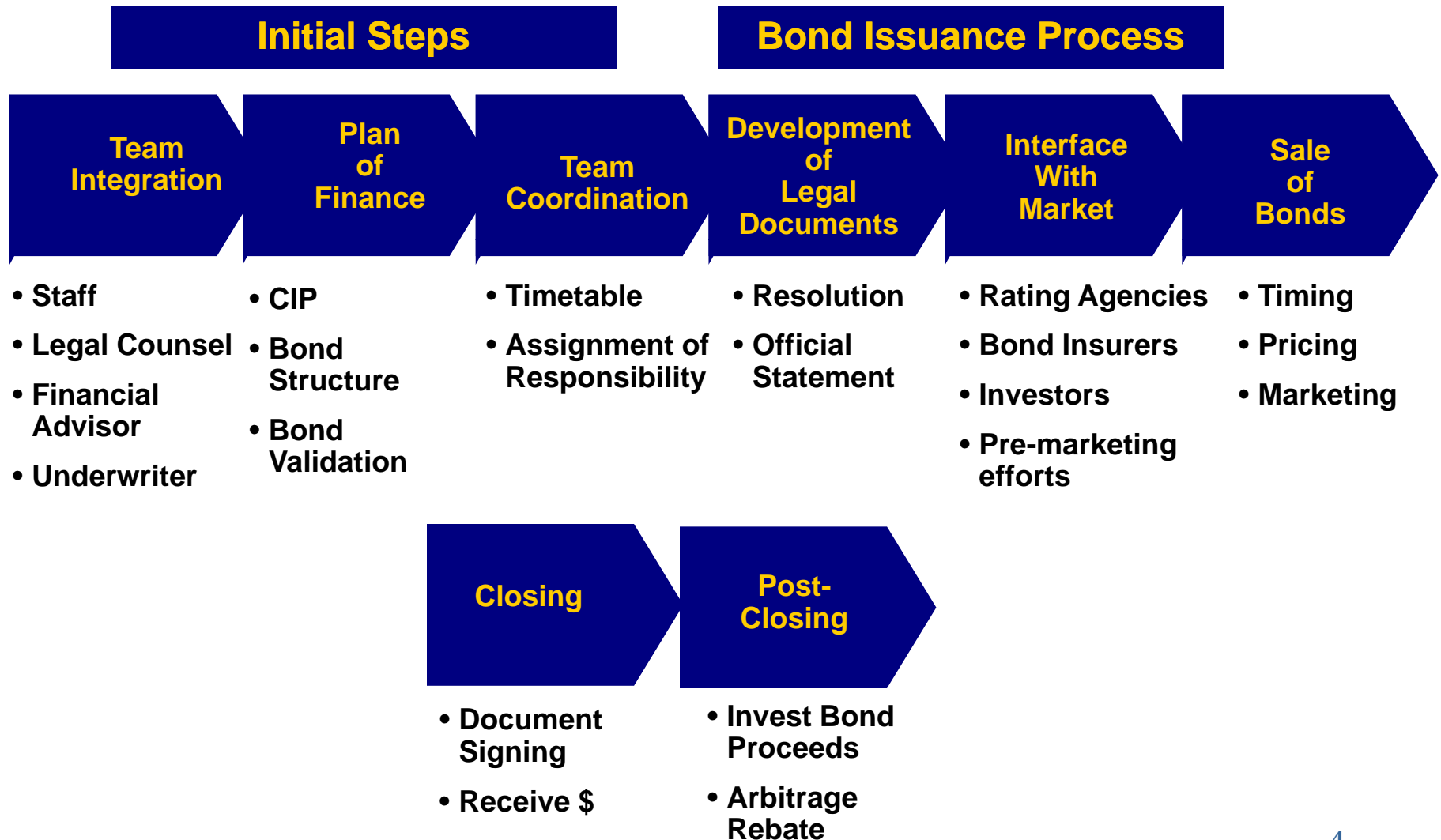


Overview of Bond Process

- What is a bond?
 - Similar to home mortgage
 - Debt repaid from pledged security or revenues
 - 1 - 30 year maturity
 - Many states issue primarily **General Obligation Bonds** (secured by property taxes)
 - In Florida, **General Obligation Bonds** must be approved voter referendum
 - Florida governments issue mostly revenue bonds (secured by specific tax or enterprise fund revenue)



Overview of Bond Process





Finance Team

- **Principal Players**
 - Staff
 - Bond Counsel
 - Financial Advisor
 - Underwriter
 - Disclosure Counsel/Underwriter's Counsel
 - Rating Agencies
 - Consulting Engineer/Rate Consultant
 - Counterparty (if derivatives are used)



Finance Team

- **Staff**
 - Finance
 - Attorney
 - Administration
 - Operating Department Director
- **Role of Staff**
 - Protect Government's Interests
 - Liaison with Board Members



Finance Team

- **Bond Counsel**
 - Responsible for preparation of legal documents
 - Opines on validity of bonds
 - Opines on tax exemption
 - Helps develop structure of debt



Finance Team

- **Financial Advisor**
 - Helps develop structure of debt
 - Operating needs
 - Long-term capital needs
 - Recommendation on economic feasibility of refunding
 - Helps with selection of finance team
 - Document review
 - Coordinates ratings and bond insurance
 - Advises on fairness of pricing, terms and bond ratings



Finance Team

- **Underwriter**
 - **Purchases bonds from Issuer for resale to investors**
 - **Helps develop structure of financing**
 - **Monitors outstanding debt for refunding opportunities**
 - **Document review**
 - **Assists with ratings and bond insurance**





Finance Team

- **Disclosure Counsel/Underwriter's Counsel**
 - **Difference between Disclosure Counsel and Underwriter's Counsel**
 - **Assists with preparation of POS and OS**
 - **Provides knowledge of disclosure requirements (including continuing disclosure)**
 - **Assist with material event filing**



Finance Team

- **Rating Agencies**
 - **Objective and expert evaluation of credit**
 - **Insured Ratings – Based on rating of bond insurer**
 - **Underlying Ratings – Based on rating of issuer and source of repayment of bonds**
 - **Provide feedback on bond structure**
 - **Improve efficiency of market**
 - **Additional source of information for investors on suitability of investment**
 - **Investment grade ratings enhance sale of bonds**



Finance Team

- **Consulting Engineer/Rate Consultant**
 - Necessary for certain construction projects
 - Provides information on construction cost and rate implications
 - Enhances credibility of project
 - Helps develop structure of debt





Finance Team

- **Paying Agent/Escrow Agent**
 - **Invoices Issuer when debt payments due**
 - **Makes payment to DTC**
 - **Holds refunding escrow on behalf of bondholders**
 - **Sends redemption notice to bondholders for refunding**



Finance Team

- **Other Players**
 - **Credit Enhancers (including Bond Insurers)**
 - **Verification Agent (refunding)**
 - **POS and OS Printer and/or Electronic Publisher**
 - **Accountants and Auditors**



Finance Plan

- **Topics**
 - **Debt Management Plan**
 - **Capital Improvement Plan**
 - **Pledged Revenue**
 - **Debt Structure**
 - **Method of Sale**



Finance Plan

- **Debt Management Plan**
 - **Recommended practice by GFOA and rating agencies**
 - **Parameters for issuing debt and refundings**
 - **Should have derivatives/swap component**
 - **Protects credit quality**
 - **Provides basis for making decisions**
 - **Demonstrates a commitment to long-term financial planning**



Finance Plan

- **Capital Improvement Plan**
 - **Planning tool**
 - Improves effectiveness of multi-year budgeting
 - Reduces uncertainties about capital needs
 - Focuses all parties on priority needs
 - Provides blueprint for development





Finance Plan

- **Debt Analysis**
 - Review outstanding debt
 - Identify any refunding candidates
 - Develop understanding of debt service pattern and cash-flow of pledged revenues
 - Ensure contemplated debt structure works well with existing and future debt structures



Finance Plan

- **Debt Structure**
 - **Term of the Debt (1-30 years)**
 - **Match life of the asset**
 - **Match duration of the pledged revenues**
 - **Type of Debt**
 - **Fixed Rate**
 - **Variable Rate**
 - **Synthetic Fixed or Variable Rate**
 - **Tax-Exempt**
 - **Taxable**



Finance Plan

The Bond Buyer 20 Year General Obligation Bond Index (January 8, 1970 – Present)



(1) Reflects market conditions as of 6/6/2006



Refundings

- **Refinancing outstanding debt, typically for debt service savings**
- **GFOA recommends at least 3-5% savings**
- **Feasibility/benefit should be considered on a case by case basis**
 - **Size**
 - **Operational/capital needs**
 - **New money needs**
 - **Document changes**



Bond Ratings

- **What is a Bond Rating?**
 - Measure of risk to bondholders
 - Reflects issuer's ability & willingness to repay debt on time and in full
 - Denotes credit quality by rating level
 - Independent opinion (subjective process)
 - Forward looking projection
 - Each credit is unique



Bond Ratings

- **Value of a Bond Rating**
 - Lower insurance premium
 - Lower interest rate
 - More efficient secondary market trading
 - Increased investor demand
 - Some institutional investors can only purchase certain rated securities
 - Allow participation in pool programs
 - Negotiate premiums with banks for bank loans



Bond Ratings

- **How is Management Evaluated?**
 - **Organization/Decision-Making (political will)**
 - **Expertise & continuity**
 - **Run municipality more like business than politically**
 - **Achieve budgetary targets**
 - **Institutionalize prudent strategies and policies**
 - **Long-term planning**
 - **Recognize and respond to problems and constraints**
 - **Effective monitoring of situations**
 - **Make mid-year corrections**
 - **Community support**



Bond Documents

- **Bond Resolution or Indenture**
- **Official Statement**
- **Bond Purchase Agreement**
- **Continuing Disclosure Certificate**
- **Swap Documents**
- **Other Documents**



Bond Documents

- **Bond Resolution or Indenture**
 - **Contract with bondholders**
 - **Prepared by Bond Counsel**
 - **Resolutions more common in Florida**
 - **Generally a master resolution for a particular revenue source**
 - **Typical provisions**
 - **Award or supplemental resolution**



Bond Documents

- **Official Statement**
 - Prepared by **Disclosure Counsel or Underwriter's Counsel**
 - Not a sales document
 - **Disclosure standard**
 - No untrue statement
 - No material omission
 - **County is responsible for disclosure**
 - **Certificates and Opinions**



Bond Documents

- **Bond Purchase Agreement**
 - **Contract between Issuer and Underwriter for negotiated sales**
 - **Prepared by Underwriter's Counsel**
 - **Executed after Pre-marketing period**
 - **Includes**
 - **Transaction terms**
 - **Responsibilities**
 - **Document requirements**
 - **“Outs”**



Bond Documents

- **Continuing Disclosure Certificate**
 - Annual financial information
 - Material event notices
 - Nationally Recognized Municipal Securities Information Repository (NRMSIR)
 - Central Post Office
 - Not required for private placements and variable rate debt



Bond Documents

- **Other Documents**
 - **Closing Documents**
 - **Escrow Deposit Agreement**
 - **Insurance Agreements**
 - **Reserve Sureties**
 - **Swap Documents**
 - **Investment Agreements**



Pricing and Sale

- **Topics**
 - **Bond insurance**
 - **Underlying ratings**
 - **Call features**
 - **Bond sale process**



Pricing and Sale

- **Bond Insurance**
 - **Four major “AAA” rated insurers**
 - **Ambac Assurance Corporation (AMBAC)**
 - **Financial Guaranty Insurance Corporation (FGIC)**
 - **Financial Security Assurance (FSA)**
 - **Municipal Bond Insurance Association (MBIA)**
 - **New “AAA” rated insurers**
 - **CIFG**
 - **XL Capital Assurance Inc.**



Pricing and Sale

- **Underlying Ratings**
 - Investment grade ratings affect pricing (lower yields)
 - Create more demand for and interest in bonds
 - Greater universe of potential bond buyers
 - Assist in attracting more bidders at competitive sale
 - Rating upgrades signal positive trend to underwriters and investors



Pricing and Sale

- **Call Features**
 - **Optional redemption**
 - Issuer's right to prepay after a stated date at specified price
 - **Call Date** – typically 10 years from date of issuance
 - **Call Premium** – typically 100 to 102 percent
 - **Current standard** is 10 years at 100 percent



Pricing and Sale

- **Bond Sale Process**
 - Finance Team prepares all legal documents
 - Establish target sale date
 - Monitor market for favorable conditions
 - Day prior to sale have pricing call
 - Underwriter and financial advisor
 - Establish pricing structure (“scale”)
 - Market bonds





Post-Closing

- **Topics**
 - **Managing Rating and Rating Agency Relationship**
 - **Maintenance of funds and accounts**
 - **Other resolution requirements**
 - **Arbitrage**
 - **Investment of proceeds**



Post-Closing

- **Managing Rating and Rating Agency Relationship**
 - Know what rating is and its meaning
 - Understand factors and concerns that drive rating
 - Keep analyst posted on important policy changes, budget events and local economic development
 - Have others speak on your behalf (underwriter, financial advisor)
 - Inform analyst of negative as well as positive events
 - Maintain communication
 - Communicate the value of rating to constituents



Post-Closing

- **Maintenance of Funds and Accounts**
 - **Construction Fund**
 - **Revenue Fund**
 - **Debt Service Fund**
 - **Principal Account**
 - **Interest Account**
 - **Amortization Account**
 - **Debt Service Reserve Account**
 - **Rebate Fund**
 - **Other accounts for enterprise activities**



Post-Closing

- **Other Resolution Requirements**
 - **Rate covenant**
 - **No impairment**
 - **Additional bonds (parity) test**
 - **Permitted investments**
 - **Restriction on asset sales**
 - **Insurance or inspection requirements**
 - **Audited financial statements**
 - **Continuing disclosure**



Post-Closing

- **Arbitrage**
 - **Bonds issued tax-exempt**
 - **If bond proceeds invested taxable, interest earnings may exceed interest expense on bonds**
 - **Creates positive interest gain (arbitrage)**
 - **Interest in excess of bond yield must be rebated to IRS**



Post-Closing

- **Investments**
 - **Tax-exempt vs. taxable returns**
 - **Resolution restrictions**
 - **Investment policies**
 - **Legal restrictions and arbitrage**
 - **Types of investments**
 - **Purchasing investments**