

Aitkin County Board of Commissioners
Request for County Board Action/Agenda Item Cover Sheet



To: Chairperson, Aitkin County Board of Commissioners Date: 1-22-14

Via: Patrick Wussow, County Administrator

From: Patrick Wussow, County Administrator

Title of Item:

Bonding Presentation

Requested Meeting Date: 1-28-14 Estimated Presentation Time: _____

Presenter: Paul Steinman, Springsted Incorporated

Type of Action Requested (check all that apply)

- For info only, no action requested
- For discussion with possible action
- Let/Award Bid or Quote (attach copy of basic bid/quote specs or summary of complex specs, each bid/quote received & bid/quote comparison)
- Approve/adopt proposal by motion
- Authorize filling vacant staff position
- Request to schedule public hearing or sale
- Request by member of the public to be heard
- Item should be addressed in closed session under MN Statute _____
- Approve under Consent Agenda
- Adopt Ordinance Revision
- Approve/adopt proposal by resolution (attach draft resolution)
- Other (please list) _____

Fiscal Impact (check all that apply)

- Is this item in the current approved budget? Yes _____ No _____ (attach explanation)
- What type of expenditure is this? Operating Capital Other (attach explanation)
- Revenue line account # that funds this item is: _____
- Expenditure line account # for this item is: _____

Staffing Impact (Any yes answer requires a review by Human Resources Manager before going to the board)

- Duties of a department employee(s) may be materially affected. Yes No
- Applicable job description(s) may require revision. Yes No
- Item may impact a bargaining unit agreement or county work policy. Yes No
- Item may change the department's authorized staffing level. Yes No



Supporting Attachment(s)

- Memorandum Summary of Item
- Copy of applicable county policy and/or ordinance (excerpts acceptable)
- Copy of applicable state/federal statute/regulation (excerpts acceptable)
- Copy of applicable contract and/or agreement
- Original bid spec or quote request (excluding complex construction projects)
- Bids/quotes received (excluding complex construction projects, provide comparison worksheet)
- Bid/quote comparison worksheet
- Draft County Board resolution
- Plat approval check-list and supporting documents
- Copy of previous minutes related to this issue
- Other supporting document(s) (please list) _____

Provide (1) copy of supporting documentation NO LATER THAN Wednesday at Noon to make the Board's agenda for the following Tuesday. (If your packet contains colored copies, please provide (4) paper copies of supporting documentation as we do not have a color printer or copier.) Items WILL NOT be placed on the Board agenda unless complete documentation is provided for the Board packets.

AITKIN COUNTY ADMINISTRATION

Aitkin County Courthouse
217 Second Street N.W. Room 130
Aitkin, MN 56431
218-927-7276
Fax: 218-927-7374

TO: Aitkin County Board of Commissioners

FROM: Patrick Wussow, Aitkin County Administrator

RE: Bond Presentation

DATE: January 22, 2014

During Tuesday's County Board meeting Paul Steinman, VP Springsted Incorporated will give a Power Point presentation, provide handouts and answer questions.

Please contact me if you have any questions.

PRESENTATION ON

Bond Essentials for Minnesota Local Governments

January 28, 2014

PRESENTER: Paul Steinman
Vice President

Financing Methods and Techniques

- Pay-As-You-Go (cash)
 - Pay project costs from cash
 - Cash accumulated or current revenues
 - *Examples:*
 - o Computers
 - o Vehicles
 - o Minor improvements/maintenance
 - Generally smaller costs
 - Shorter useful lives
- Pay-As-You-Use (Debt)
 - Issue debt using proceeds to fund project costs
 - Debt is repaid over time by the users of the project
 - *Examples:*
 - o Structures
 - o Land
 - o Major improvements
 - Generally larger costs
 - Longer useful lives

Authority to Issue

- Federal law
 - Tax-exemption
 - Bank qualification (\$10 million)
 - Refundings (1 advance)
 - Compliance
 - Primary and Continuing Disclosure
 - Arbitrage
- State statutes/charter
 - Debt limit
 - Voter approval
 - Method of sale
 - Pledges: tax levies and other revenue sources
 - Interest rates
 - Term
 - Prepayment option
 - Refundings

Types of Debt by Structure

- Tax-exempt or taxable
 - Taxable: 10% private use AND 10% private pay't
 - American Recovery & Reinvestment Act (ARRA)
- Governmental purpose or private activity (IDB)
- Fixed rate or variable rate
- Current interest or capital appreciation bond

Types of Debt by Security

- General obligation bonds or notes
- General obligation revenue bonds
- Revenue bonds
- Annual appropriation obligations

GO Bonds or Notes

- Pledge the full faith and credit and unlimited power to pay debt service
 - Source of payment
 - Property taxes, no secondary payment source
 - Purpose
 - Projects that benefit the whole community
 - State law or charter
 - Debt limit? Yes
 - Voter approval required? Yes, some exceptions

GO Bonds or Notes

- Pledge the full faith and credit and unlimited power to pay debt service
 - Risk or cost
 - Highest security – lowest cost
 - Credit rating impact
 - Full impact

GO Revenue Bonds

- Pledge specified revenues and the issuer's full faith and credit (specific statutory power)
 - Source of payment
 - Specified revenues and property taxes or property tax backstop
 - Purpose
 - Benefitting specific area or group
 - State law or charter
 - Debt limit? No
 - Voter approval required? Most often not

GO Revenue Bonds

- Pledge specified revenues and the issuer's full faith and credit (specific statutory power)
 - Risk or cost
 - Same as general obligations
 - Credit rating impact
 - Usually a full impact on the credit rating

Revenue Bonds

- Pledge the revenues of a specified funding source to pay debt service
 - Source of payment
 - Specified revenues
 - Purpose
 - Projects that benefit specific users
 - State law or charter
 - Debt Limit? No
 - Voter Approval Required? Depends

Revenue Bonds

- Pledge the revenues of a specified funding source to pay debt service
 - Risk or cost
 - Higher than general obligations because of limited revenue stream. The degree of risk depends on the individual financing package. Investors require coverage.
 - Coverage: Ratio of Annual Pledged Revenues to Debt Service
 - Credit rating impact
 - Credit rating depends on the security of the financing package. The credit rating for a revenue bond is independent of an issuer's general obligation rating.

Annual (Moral) Appropriation Lease Revenue Obligations

- Contingent commitment, if primary revenues insufficient
 - Source of payment
 - Primary revenue source
 - Annual appropriation back stop
 - State law or charter
 - Debt limit? Only a portion over a certain dollar amount
 - Voter approval? No

Annual (Moral) Appropriation Lease Revenue Obligations

- Contingent commitment, if primary revenues insufficient
 - Risk or cost
 - Higher than general obligation, depending on essentiality of project/use
 - Credit rating impact
 - The credit rating for annual appropriation debt will generally be below an issuer's general obligation rating, depending on "essentiality."

Primary Parties to a Bond Transaction

- Buyer and seller: adversarial
- Your side of the table
 - You, the issuer
 - Your attorney, bond counsel, specialist and recognized
 - Tax opinion and process opinion
 - Your advisor
 - Independent, no business in bond buying and selling
 - Underwriter/advisor (fed reg – must resign as your advisor)
 - GFOA Best Practice (enclosed)
 - Your engineer and/or architect

Primary Parties to a Bond Transaction

- Other side of the table
 - The underwriter
 - The underwriter's counsel, if needed
 - The buyers

Primary Parties to a Bond Transaction

- In the middle
 - Rating agencies and bond insurers
 - Paying agent/register –
Depository Trust Corporation (DTC)
 - Trustee

Method of Sale

- When does the underwriter enter the process?
 - Competitive sale: at time interest rates are determined
 - Negotiated sale: early on in process, helps shape transaction
- Which one is better?
 - Depends on situation

Method of Sale

- Competitive sale unless one or more of these:
 - First time issuer or unusual issue
 - Extremely large (\$100 mil) or extremely small (\$500K)
 - Unusual issue structure (variable rate)
 - Limited credit quality
 - High, **really high**, level of market volatility
- GFOA Best Practice on method of sale

The Ratings

	Moody's	S & P	Fitch
Highest	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-
Lowest (Investment Grade)			

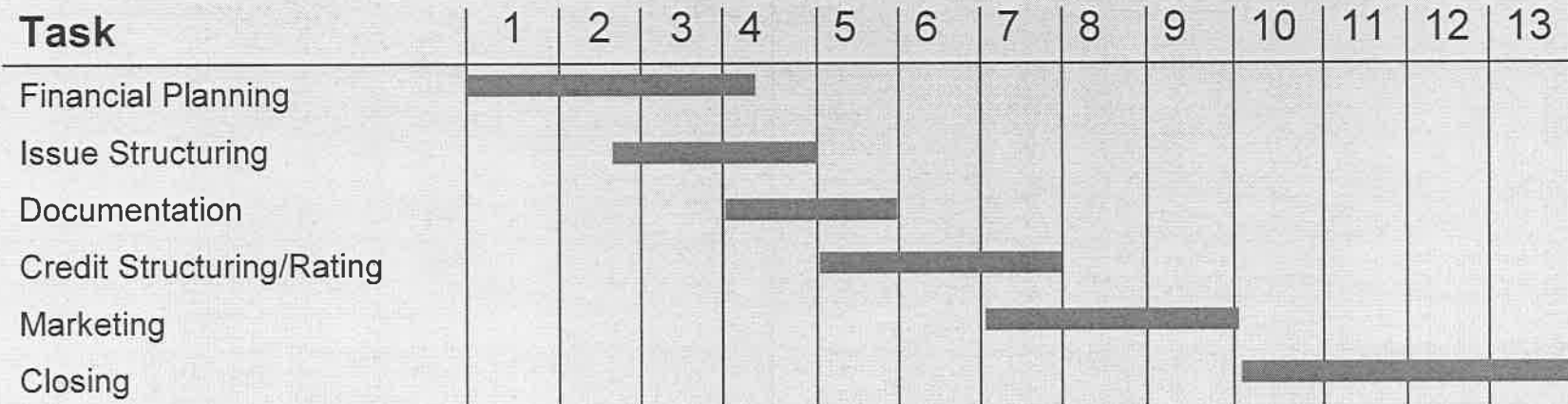
Credit Rating

- An art, not a science!
- Factors affecting credit
 - Debt management
 - Management and governance factors
 - Financial performance
 - Socio-economic factors or position
 - Legal requirements (more revenue bonds)
- Different agencies have different perspectives

Credit Rating

- Strategy
 - Analysis
 - Know your strengths and weaknesses
 - Know your relative strengths and weaknesses
 - Have a plan
 - How are you going to position your story?
 - Communications
 - Ongoing: management category
 - Phone? Visit them? They visit you?

Financing Timetable



Management and Compliance

- Management
 - Bond payment mechanics
 - Refunding outstanding bonds (savings, cash flow, terms)
 - Prepaying debt
 - Reporting to management and governing body
- Federal and industry compliance
 - Arbitrage/rebate: (investment proceeds above T/E limit)
 - Continuing disclosure

Resources and Information

- Resources
 - www.naipfa.com
 - www.gfoa.org
 - www.msrb.org
 - emma.msrb.org
 - www.fitchratings.com
 - www.moody.com
 - www.standardandpoors.com
- Springsted Incorporated
 - Advisors to the Public Sector
 - 1.800.236.3033
 - www.springsted.com