

# Debt Service Management

WASBO Fall Conference

October 4, 2013

11:15 AM – 12:15 PM



# Presenters

Lisa M. Voisin, Director

- 414-765-3801
- lvoisin@rwbaird.com

Michel D. Clark, Director

- 414-765-7326
- mdclark@rwbaird.com



# Agenda

## Key Debt Issue Concepts

- School District Debt Limit
- School District Debt Funds
- Types of Debt
- Who's Who in Debt Issuance
- Bond Ratings and Bond Insurance
- Current Market Interest Rates
- Debt Issuance Process

## Reporting to the DPI

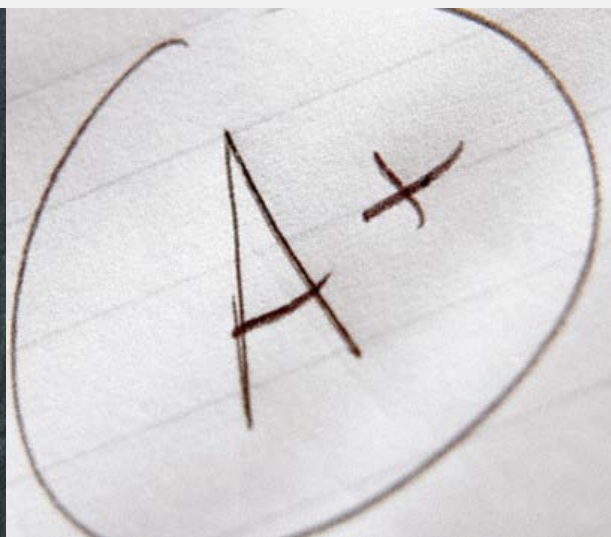
- Data Download to Website
- Revenue Limit Worksheet

## Accounting Entries for Debt

## Post Issuance Compliance

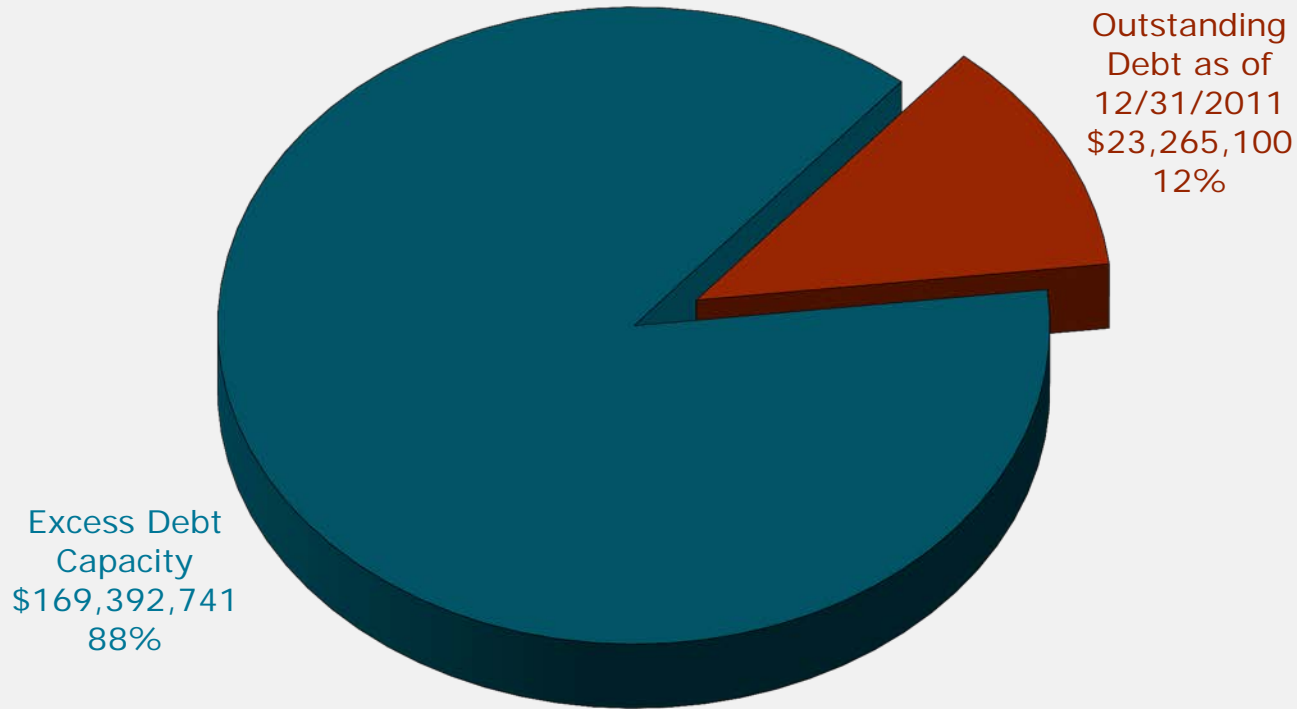
- Continuing Disclosure
- Reporting Policies and Procedures

# Key Debt Issue Concepts



# School District's Debt Limit

Total Debt Capacity is based on 10% of the School District's 2011 Equalized Valuation (TID-In) of \$1,926,578,410 or \$192,657,841



**Note:** Numbers represented above are for demonstration purposes only.

# School District Debt Funds

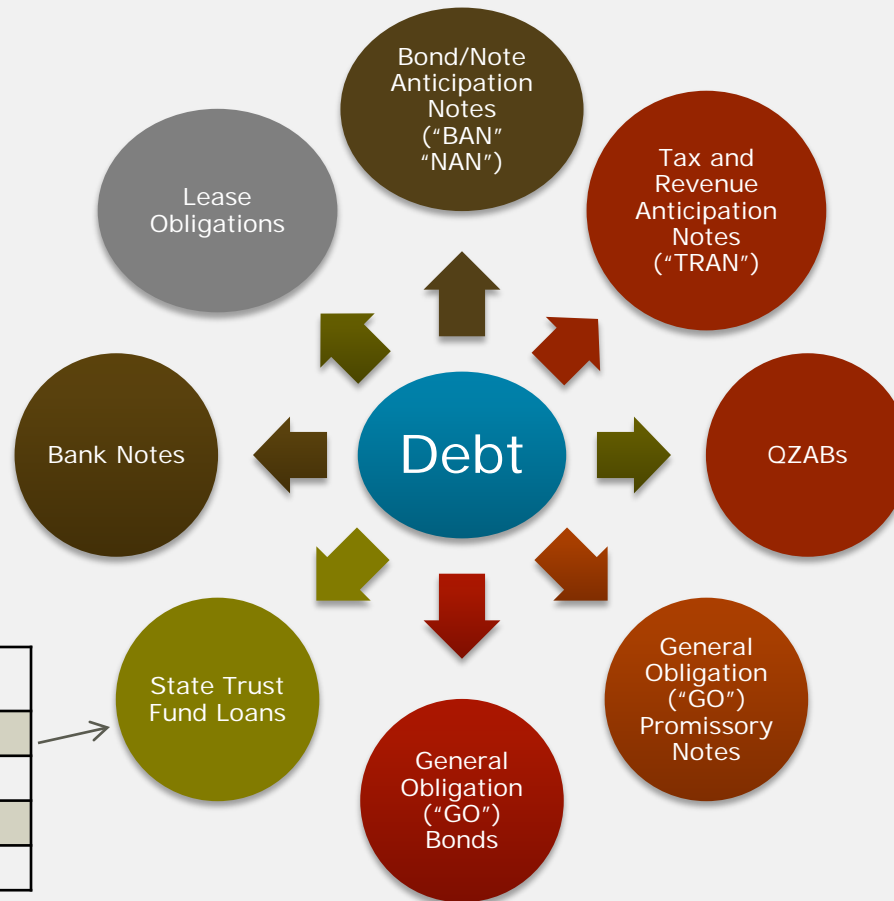
## Fund 38

- Debt issued without referendum approval
- Debt payments made with revenue limit dollars
- A district can have debt outstanding up to **\$1 Million** without referendum
- Amounts in excess of \$1 Million subject to adoption of resolution and a 30-day petition period

## Fund 39

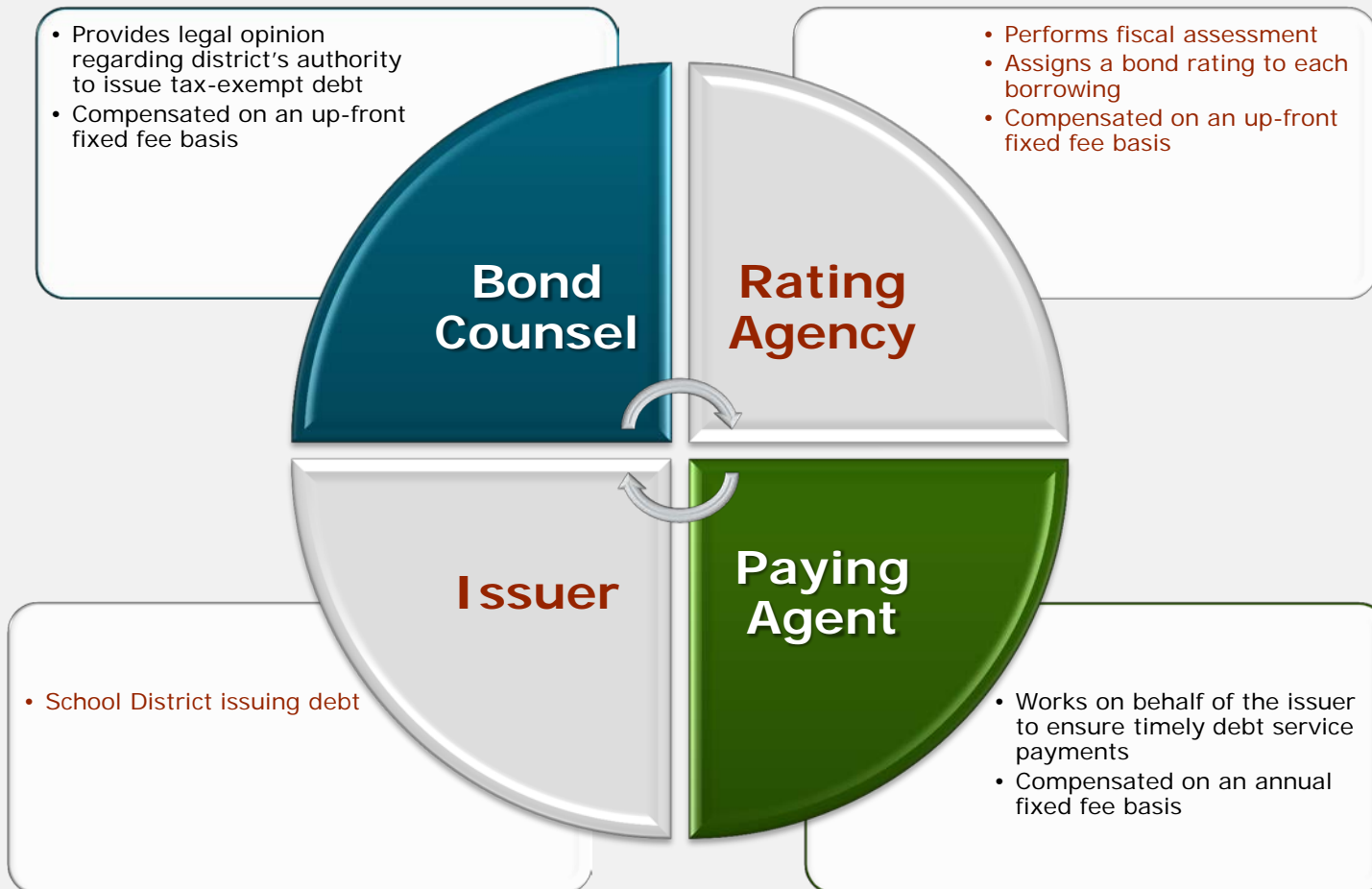
- Debt approved through referendum process
- Debt Payments made with tax levy outside revenue limit

# Basic Types of Debt



Term	Interest Rates (9/17/13)
1 to 2 years	2.50% (was 2.00%)
3 to 5 years	3.50% (was 3.00%)
6 to 10 years	3.75% (was 3.25%)
11 to 20 years	4.50% (was 4.25%)

# Who's Who





# Who's Who

## Financial Advisor ("Independent" and "Dealer")

- Firms that work with Bond Issuers to develop the plan of finance. (Note: The best financing plan does not always involve a Bond Issue.)
- **Role:** Assists the Bond Issuer with the implementation of the finance plan. The Financial Advisor helps determine the structure and terms for a Bond Issue while preparing the Bond Issuer to access the bond market.

## Bond Underwriter

- Firms that buy Bond Issues from Bond Issuers with the intent to resell them to Bondholders.
- **Role:** Purchasing and selling a Bond Issue to potential Bondholders who are bidding to purchase portions of the Bond Issue. As Underwriter, firms often employ Public Finance professionals, who understand the bond market and other public funding sources, to work directly with Bond Issuers providing services to those offered by Financial Advisors.

# Bond Insurance and Bond Ratings

## Bond Insurance

- Used less in the market due to credit concerns of Insurance Companies
- Currently there are two companies that are recognized by investors

## Bond Credit Rating Services

Moody's	No. of Districts Rated	Standard & Poor's	No. of Districts Rated
Aaa	6	AAA	0
Aa1	11	AA+	1
Aa2	63	AA	32
Aa3	68	AA-	52
A1	58	A+	69
A2	2	A	5
A3	0	A-	0

The better the credit, the lower the interest cost.

# Credit Enhancement Factors



# "Callable Debt"

- Call date = Prepayment Date
- Call date is determined on the day you sell bonds
- Know the Call dates of *all* your debt issues
- Opportunity to refinance

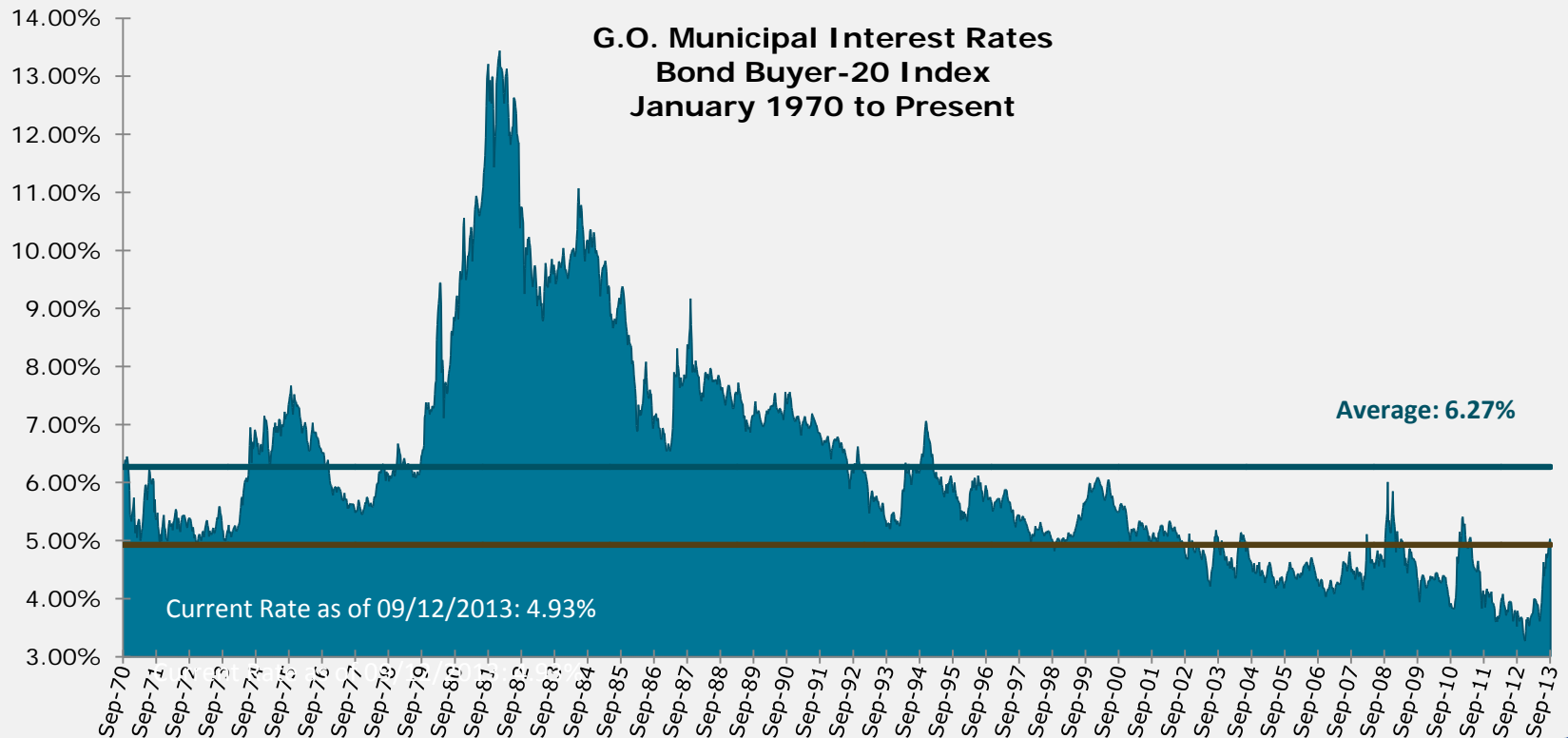
Type: General Obligation Bonds  
Dated: April 1, 2005

**Callable: April 1, 2015**

YEAR	PRINCIPAL (4/1)	RATE	INTEREST (4/1 & 10/1)	TOTAL
2012	\$770,000	2.000%	\$311,213	\$1,081,213
2012			\$91,969	\$91,969
2013	\$800,000	2.250%	\$91,969	\$891,969
2013			\$82,969	\$82,969
2014	\$835,000	3.000%	\$82,969	\$917,969
2014			\$70,444	\$70,444
2015	\$865,000	3.250%	\$70,444	\$935,444
2015			\$56,388	\$56,388
2016	<b>\$900,000</b>	3.500%	\$56,388	\$956,388
2016			\$40,638	\$40,638
2017	<b>\$935,000</b>	4.000%	\$40,638	\$975,638
2017			\$21,938	\$21,938
2018	<b>\$975,000</b>	4.500%	\$21,938	\$996,938
2018				
2019		5.000%		
2019				
2020		5.000%		
2020				
2021		5.000%		
	<b>\$6,080,000</b>		<b>\$1,039,900</b>	<b>\$7,119,900</b>

**Note:** Numbers represented above are for demonstration purposes only.

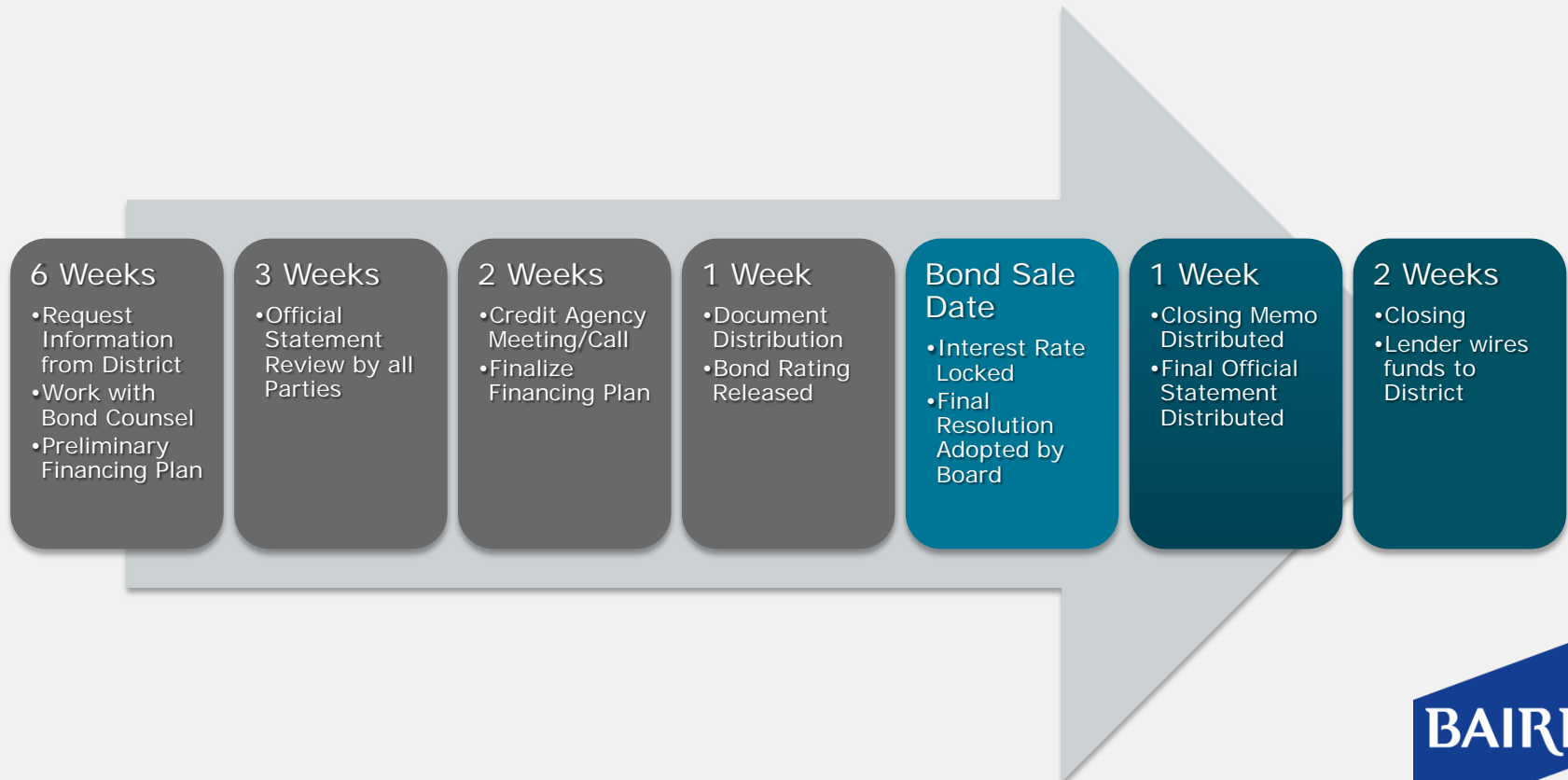
# Historical Tax-Exempt Borrowing Rates



**BAIRD**

# Process of Issuing Debt

- Timeline is Specific to *type* of debt issue



# What happens on “Bond Sale” Date?

District's bonds are bid out to lenders across the country

One underwriter will buy the bonds



Bonds will be distributed to:

Banks	Insurance Companies	Individuals	Trust Funds	Mutual Funds	Other Investors
-------	------------------------	-------------	----------------	-----------------	--------------------



Formal Award is granted once the board adopts the resolution at the board meeting

# Reporting to the DPI





# Debt Reporting

- “Within 10 days after adopting or revising a schedule for the payment of debt service, the school board shall submit the schedule to the department.”

Wis. Stats. 120.15(2)(a)



# Debt Reporting

- Districts report their debt schedules to DPI using the Financial Reporting Portal on the Department's website

<http://dpi.wi.gov/sfs/safrlinks.html>

- The Debt Schedule reporting link is on the "Financial Data Home" page



# Debt Reporting

## Financial Data Home

Financial data, such as **revenues, expenses, account balances, or taxes**, are collected in the following categories. Please see [Status & Deadlines](#) for exact due dates. All reports are Internet-based, unless noted otherwise.

- [Aid Certification](#) (PI-1505-AC)
- [Annual Report](#) (PI-1505)
- [Special Education Annual](#) (PI-1505-SE)
  
- [Budget Report](#) (PI-1504)
- [Special Education Budget](#) (PI-1504-SE)
- [Tax Levies](#) (PI-401)
  
- [Debt Schedules](#) (PI-1505-Debt)
- [Referenda](#) (PI-1572) and Energy Efficiency Resolution Reporting

# Debt Reporting

[Financial Data Home](#) | [Referenda](#)

## Long-Term Debt Issues

Each district must enter all long-term debt amortization (repayment) schedules for all district indebtedness. Please update the information below anytime new debt has been issued or existing debt has been amended. Below are the long-term debt issues on record at DPI for this district.

**All Debt** | [Bonds](#) | [Land Contracts](#) | [Notes](#) | [State Trust Fund](#) | [BANs](#) | [NANs](#)

Click on the **Issue Date** to edit or delete it. Click on column headings to sort. Click on the category above to limit display to just that category of long-term debt.

<a href="#">Name</a>	<a href="#">▲ Debt Type</a>	<a href="#">Fund</a>	<a href="#">Function</a>	<a href="#">Issue Date</a>	<a href="#">Maturity Date</a>	<a href="#">Original Amount</a>
	Bond Issue	39	281	<a href="#">3/1/1998</a>	9/1/2012	1,340,000.00
WRS REFINANCING	Bond Issue	38	281	<a href="#">8/1/2003</a>	3/1/2017	460,000.00
9,950,000 GO SCHOOL BUILDING BONDS	Bond Issue	39	281	<a href="#">3/4/2008</a>	9/1/2028	9,950,000.00
PHASE II 2008	State Trust Fund Loan	39	281	<a href="#">8/26/2009</a>	3/15/2024	1,050,000.00

Add New Issue

BAIRD

# Debt Reporting

- Refinance an existing bond or note
  - Add new Debt Issue
  - Enter a “Refinanced Payment Adjustment” to old Debt Issue
    - Enter as a **NEGATIVE** number on the debt schedule
    - This will zero out remaining scheduled payments of the old issue

# Debt Reporting

[Financial Data Home](#) > [Long-Term Debt Issues](#)

## Add Debt Issue

<b>Debt Type:</b>	<b>Fund:</b>
<input type="radio"/> Bond Issue	<input type="text" value="Fund 38: Non-Referendum Debt Service Fund"/>
<input type="radio"/> Land Contract	
<input type="radio"/> Note	<b>Function:</b>
<input type="radio"/> State Trust Fund Loan	<input type="radio"/> 281 000 - Long-Term <b>Capital</b> Debt
<input type="radio"/> Bond Anticipation Note	<input type="radio"/> 283 000 - Long-Term Operational Debt
<input type="radio"/> Note Anticipation Note	<input type="radio"/> 285 000 - Post-Employment Benefit Debt
	<input type="radio"/> 289 000 - Other Long-Term General Obligation Debt (use for WRS payoff debt)
<b>Debt Name:</b>	<input type="text"/>
<b>Issue Date:</b> (mm/dd/yyyy)	<input type="text"/>
<b>Maturity Date:</b> (mm/dd/yyyy)	<input type="text"/>
<b>Original Amount:</b>	<input type="text"/>
<b>Comments/Description:</b>	<input type="text"/>
<b>DPI Debt ID:</b>	

Save Changes

Cancel Update

# Debt Reporting

Period	Last Principal Balance	Principal Payments Scheduled	Interest Payments Scheduled	Refinanced Principal Adjustment	Refinanced Interest Adjustment	New Principal Balance
2008 Jan - Jun	3,855,000.00	0.00	49,997.50	+0.00	+0.00	3,855,000.00
2008 Jul - Dec	3,855,000.00	570,000.00	49,997.50	+0.00	+0.00	3,285,000.00
2009 Jan - Jun	3,285,000.00	0.00	43,585.00	+0.00	+0.00	3,285,000.00
2009 Jul - Dec	3,285,000.00	600,000.00	43,585.00	+0.00	+0.00	2,685,000.00
2010 Jan - Jun	2,685,000.00	0.00	36,835.00	+0.00	+0.00	2,685,000.00
2010 Jul - Dec	2,685,000.00	625,000.00	36,835.00	-2,060,000.00	+0.00	0.00

**Note:** Numbers represented above are for demonstration purposes only.

# Debt Reporting

- Be sure to keep your debt schedules up to date any time you issue new long-term debt or refinance existing debt
  - Does not apply for short-term/cash flow borrowing
- Budget and Annual Reports (PI-1504 & Pi-1505) submitted by districts are checked against the Debt Schedules on file



# Levy

REMEMBER TO USE OCT 15 CERT WHEN SETTING THE LEVY.		
<b>13. Allowable Limited Revenue:</b> (Line 11 - Line 12) (10, 38, 41 Levies + Src 691. Src 691 is DOR Computer Aid.)		<b>2,778,217</b>
<b>14. Total Limited Revenue To Be Used (A+B+C)</b>	<b>Not &gt; line 13</b>	<b>2,778,217</b>
<b>Entries Required Below:</b> Amnts Needed by Purpose and Fund:		
A. Gen Operations: Fnd 10 including Src 211 & Src 691	2,702,761	(Proposed Fund 10)
B. Non-Referendum Debt (inside limit) Fnd 38 Src 210	75,456	(to Budget Rpt)
C. Capital Exp, Annual Meeting Approved: Fnd 41 Src 210	0	(to Budget Rpt)
<b>15. Total Revenue from Other Levies</b>	<b>(A+B+C+D):</b>	<b>458,869</b>
A. Referendum Apprvd Debt (Non Fund 38 Debt-Src 210)	453,869	
B. Community Services (Fnd 80 Src 210)	5,000	(to Budget Rpt)
C. Prior Year Levy Chargeback (Src 212)	0	(to Budget Rpt)
D. Other Levy Revenue - Milwaukee & Kenosha Only	0	(to Budget Rpt)
<b>16. Total Estimated Low Revenue Ceiling Aid (Ln 16B x Ln 6) Source 629</b>		<b>0</b>
A. Addl. Low Revenue Ceiling per Member Levied (max \$100)	0.00	
B. Low Revenue Ceiling Aid per Member (Ln 16A x 40%, max \$40)	0.00	
<b>17. Total Levy + Src 691, "Proposed Levy" (Ln 14 + Ln 15 - Ln 16)</b>		<b>3,237,086</b>
<b>18. Est Src 691 (Comp Aid) Based on Ln 17 &amp; Values Entered</b> (to Budget Rpt)		<b>6,805</b>
<b>19. Fnd 10 Src 211 (Ln 14A-Ln 16-Ln 18), 2011-12 Budget</b>		<b>2,695,956</b>
<i>Line 19 (not 14A) is the Fund 10 Levy certified by the Board.</i>		
<b>20. Total Fall, 2011 All Fund Tax Levy (14B + 14C + 15 + 19)</b>		<b>3,230,281</b>
Line 20 is the total levy to be apportioned in the PI-401.	Levy Rate =	0.00724971
<b>21. Fund 30 Src 210 (38 + Non-38) (Ln 14B + Ln 15A)</b>		<b>529,325</b>

# Debt Reporting

- Questions about reporting debt schedules can be directed to

Gene Fornecker

DPI School Financial Services Auditor

608-267-7882

[Eugene.Fornecker@dpi.wi.gov](mailto:Eugene.Fornecker@dpi.wi.gov)



# Accounting Entries for Debt



# When Issuing Debt

- Type of issuance (i.e. refinancing, new money issue, etc.) will dictate entries needing to be made
- Questions about journal entries can be directed to

Gene Fornecker

DPI School Financial Services Auditor

608-267-7882

[Eugene.Fornecker@dpi.wi.gov](mailto:Eugene.Fornecker@dpi.wi.gov)



# Sample Debt Schedule

## \$3,110,000 - Final Pricing

General Obligation Refunding Bonds (CR)

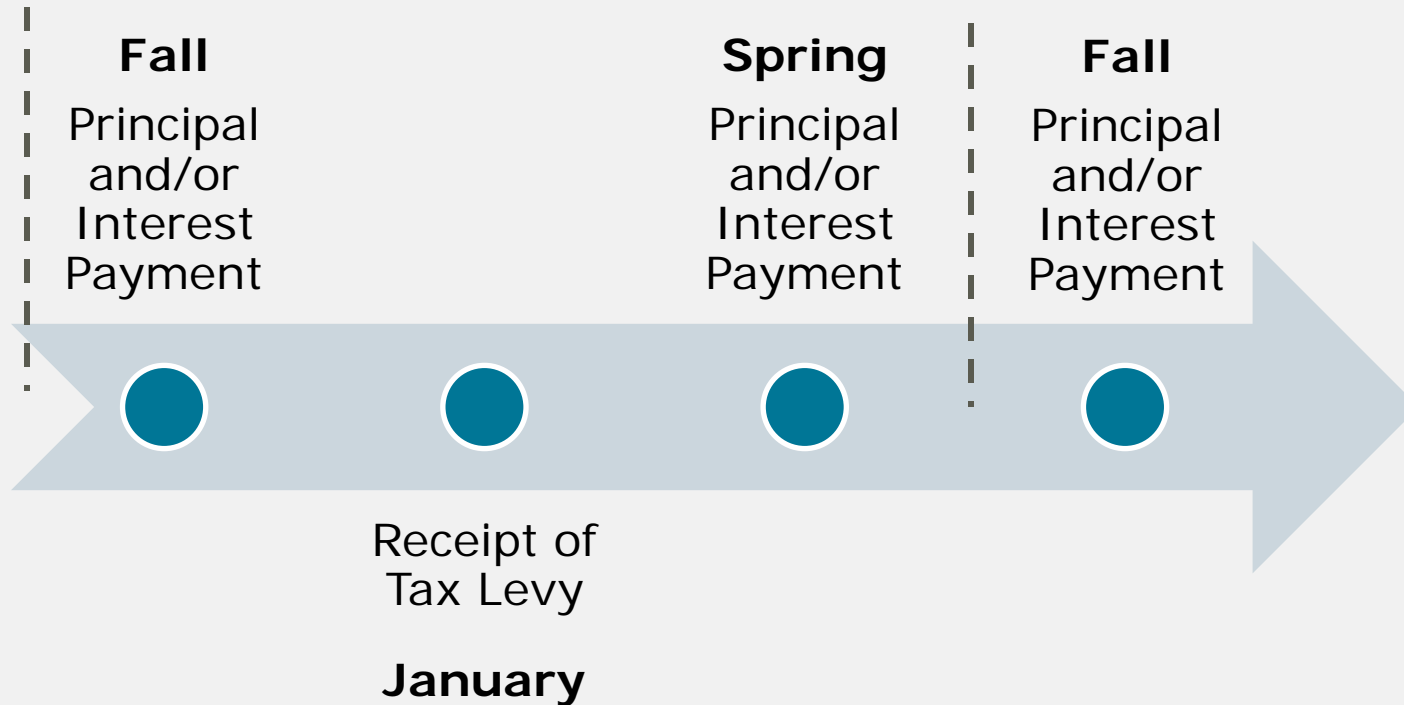
Dated/Settle: February 15, 2011 ; Noncallable

## Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Total
02/15/2011	-	-	-	-	-
10/01/2011	-	-	50,237.92	50,237.92	50,237.92
04/01/2012	410,000.00	2.000%	40,012.50	450,012.50	-
10/01/2012	-	-	35,912.50	35,912.50	485,925.00
04/01/2013	400,000.00	2.000%	35,912.50	435,912.50	-
10/01/2013	-	-	31,912.50	31,912.50	467,825.00
04/01/2014	400,000.00	2.000%	31,912.50	431,912.50	-
10/01/2014	-	-	27,912.50	27,912.50	459,825.00
04/01/2015	430,000.00	2.500%	27,912.50	457,912.50	-
10/01/2015	-	-	22,537.50	22,537.50	480,450.00
04/01/2016	340,000.00	3.000%	22,537.50	362,537.50	-
10/01/2016	-	-	17,437.50	17,437.50	379,975.00
04/01/2017	365,000.00	3.000%	17,437.50	382,437.50	-
10/01/2017	-	-	11,962.50	11,962.50	394,400.00
04/01/2018	375,000.00	3.000%	11,962.50	386,962.50	-
10/01/2018	-	-	6,337.50	6,337.50	393,300.00
04/01/2019	390,000.00	3.250%	6,337.50	396,337.50	-
10/01/2019	-	-	-	-	396,337.50
<b>Total</b>	<b>\$3,110,000.00</b>	<b>-</b>	<b>\$398,275.42</b>	<b>\$3,508,275.42</b>	<b>-</b>

**Note:** Numbers represented above are for demonstration purposes only.

# Revenue / Expenditure Budgets



# Budgeting Revenue

**REMEMBER TO USE OCT 15 CERT WHEN SETTING THE LEVY.**

<b>13. Allowable Limited Revenue:</b> (Line 11 - Line 12) (10, 38, 41 Levies + Src 691. Src 691 is DOR Computer Aid.)	<b>2,778,217</b>
<b>14. Total Limited Revenue To Be Used (A+B+C)</b>	<b>Not &gt; line 13 2,778,217</b>
<b>Entries Required Below:</b> Amnts Needed by Purpose and Fund:	
A. Gen Operations: Fnd 10 including Src 211 & Src 691	2,702,761 (Proposed Fund 10)
B. Non-Referendum Debt (inside limit) Fnd 38 Src 210	75,456 (to Budget Rpt)
C. Capital Exp, Annual Meeting Approved: Fnd 41 Src 210	0 (to Budget Rpt)
<b>15. Total Revenue from Other Levies</b>	<b>(A+B+C+D): 458,869</b>
A. Referendum Apprvd Debt (Non Fund 38 Debt-Src 210)	453,869
B. Community Services (Fnd 80 Src 210)	5,000 (to Budget Rpt)
C. Prior Year Levy Chargeback (Src 212)	0 (to Budget Rpt)
D. Other Levy Revenue - Milwaukee & Kenosha Only	0 (to Budget Rpt)
<b>16. Total Estimated Low Revenue Ceiling Aid (Ln 16B x Ln 6) Source 629</b>	<b>0</b>
A. Addl. Low Revenue Ceiling per Member Levied (max \$100)	0.00
B. Low Revenue Ceiling Aid per Member (Ln 16A x 40%, max \$40)	0.00
<b>17. Total Levy + Src 691, "Proposed Levy" (Ln 14 + Ln 15 - Ln 16)</b>	<b>3,237,086</b>
<b>18. Est Src 691 (Comp Aid) Based on Ln 17 &amp; Values Entered</b> (to Budget Rpt)	<b>6,805</b>
<b>19. Fnd 10 Src 211 (Ln 14A-Ln 16-Ln 18), 2011-12 Budget</b>	<b>2,695,956</b>
<i>Line 19 (not 14A) is the Fund 10 Levy certified by the Board.</i>	
<b>20. Total Fall, 2011 All Fund Tax Levy (14B + 14C + 15 + 19)</b>	<b>3,230,281</b>
Line 20 is the total levy to be apportioned in the PI-401. Levy Rate =	0.00724971
<b>21. Fund 30 Src 210 (38 + Non-38) (Ln 14B + Ln 15A)</b>	<b>529,325</b>

## Fund 38:

38 R 800 211 500000 000

Total Principal and interest for  
**next calendar year**  
(i.e. 2011-12 school year  
reflects 2012 CY levy)

## Fund 39:

39 R 800 211 500000 000

Total Principal and interest for  
**next calendar year**  
(i.e. 2011-12 school year  
reflects 2012 CY levy)

**BAIRD**

# Budgeting Revenues

## EXCEPTION!

- Fund 38 levy for the repayment of debt service is *always on a calendar year.*
- Efficiency Exemption on line 10C of the revenue limit worksheet is *always on a fiscal year.*
  - All monies levied for the purpose of this exemption must be spent within (by June 30<sup>th</sup> of) the fiscal year the exemption was granted, therefore the fiscal year debt payment would be the amount of the exemption.



# Budgeting Expenditures

- Expenditures reflect fiscal year principal and interest payments

Start Date	Principal	Interest	10/01/2012	10/01/2013	
10/01/2012	-	-	35,912.50	35,912.50	485,925.00
04/01/2013	400,000.00	2.000%	35,912.50	435,912.50	-

- Sample Above:
  - Principal payment: \$400,000
  - Interest payments: \$71,825

# Budgeting Expenditures

## OBJECT

### 600 DEBT RETIREMENT

#### 670 Principal

- 673 Long-Term Note Principal
- 674 State Trust Fund Loan Principal
- 675 Long-Term Bond Principal
- 676 TEACH Loan Principal
- 677 Land Contract Principal
- 678 Capital Lease Principal

#### 680 Interest

- 682 Temporary Note Interest
- 683 Long-Term Note Interest
- 684 State Trust Fund Loan Interest
- 685 Long-Term Bond Interest
- 686 TEACH Loan Interest
- 687 Land Contract Interest
- 688 Capital Lease Interest

#### 690 Other Debt Retirement

- 691 Paying Agent Fees
- 692 Coupon Charges

## FUNCTION

### 280 000 DEBT SERVICES

- 281 000 Long-Term Capital Debt
- 282 000 Refinancing
- 283 000 Long-Term Operational Debt
- 285 000 Post Employment Benefit Debt
- 289 000 Other Long-Term Debt

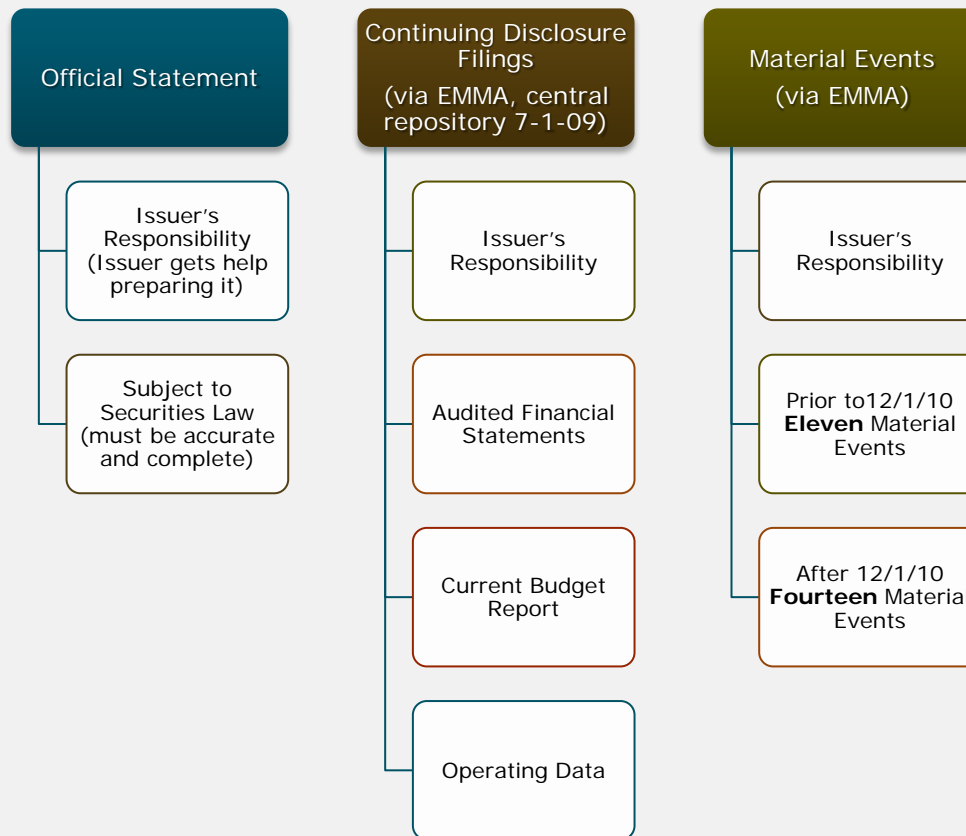
## Sample Entries

- Principal
  - 39 E 800 675 281000 000
- Interest
  - 39 E 800 685 281000 000

# Post Issuance Compliance



# SEC Trending Towards More & Faster Disclosure



# Post-Issuance Compliance Responsibilities

## State Law

- Proceeds spent only for purposes authorized

## Securities Law

- Issuer files continuing disclosure reports and material event notices

## Tax Law

- Proceed expenditure requirements
- Investment earnings on unspent proceeds
- Restrictions on use of bond-financed property

# Why Is This Important?

- Legally required
- Failure to comply can be costly
  - Loss of tax exempt status
  - Loss of debt service subsidies for stimulus program issues
  - Potential arbitrage earnings rebate/penalty
- May make future borrowings more costly
- Need for more transparency

# What Should I Be Doing to Ensure Compliance?

- **Create** set of procedures
  - What
  - Who
  - When
- Careful **review of bond documents** during financing
- **Retain** all bond documents for life of debt plus 3 years
- **Review the transcript** of proceedings/post compliance checklist at regular intervals
- Know who to **call** for help and call before there is a problem