

Debt Service Management 102

WASBO Accounting Conference

March 20, 2014

1:15 – 2:15 PM



Presenters

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Agenda

- **Review from Debt 101**
 - Fund 39 vs. Fund 38 debt
 - Debt terminology
 - Bond Ratings
- **QZABs**
- **Levy Management Strategies**
 - Looking at Mill Rate
 - Impact of debt on school tax levy
- **Post Issuance Compliance**
 - Continuing Disclosure
 - Reporting Policies and Procedures

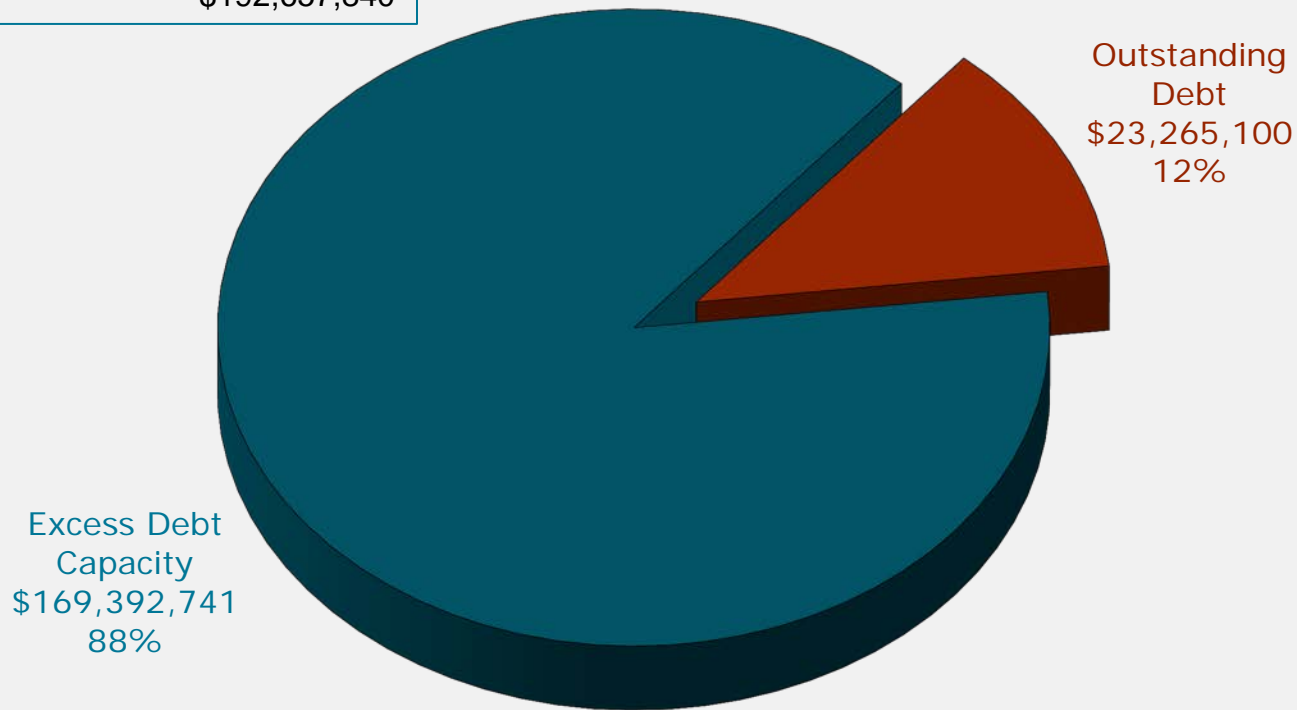
Review from Debt 101



School District's Debt Limit

A School District's Total Debt Limit is based on 10% of the School District's Equalized Valuation.

Equalized Value	\$1,926,578,400
10%	\$192,657,840



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
- If petitioned, must go to referendum

▪ Fund 39

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

Energy Efficiency Projects

- Unlimited borrowing capacity
 - Subject to Fund 38 Authority (Petition Process vs. \$1 Million exemption)
- Debt payments can be levied outside the Revenue Limit
- Revenue limit authority increased to make debt payments without referendum approval
- Debt and/or levy for an energy efficiency project
 - Line 10C of revenue limit worksheet
- Energy savings required
- Performance contract required
- Annual resolution for levy

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
Total	\$3,110,000.00	-	\$398,275.42	\$3,508,275.42	-

Note: Numbers represented above are for demonstration purposes only.

Multiple Debt Schedules May Exist

Fund 38					Fund 38				FUND 38 TOTAL DEBT SERVICE				
Issue: 2					Issue: 3								
Amount: \$656,000					Amount: \$600,000								
Type: Taxable G.O. Refunding Bonds (CR)					Type: G.O. Refunding Bonds (CR)								
Dated: July 16, 2010					Dated: July 16, 2010								
Callable: Noncallable					Callable: Noncallable								
PAYMENT PERIOD	PRINCIPAL	RATE	INTEREST	TOTAL	PRINCIPAL	RATE	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	FISCAL YEAR TOTAL	CALENDAR YEAR TOTAL
	(4/1)		(4/1)		(4/1)		(4/1)					Jan-June Only	
July-Dec 2012							\$21,225	\$21,225	\$115,000	\$33,442	\$148,442	\$148,442	\$0
Jan-June 2013	\$115,000	2.300%	\$12,217	\$127,217									\$148,442
July-Dec 2013							\$21,225	\$21,225	\$118,000	\$30,797	\$148,797	\$148,797	\$148,797
Jan-June 2014	\$118,000	2.650%	\$9,572	\$127,572									\$148,797
July-Dec 2014							\$21,225	\$21,225	\$121,000	\$27,670	\$148,670	\$148,670	\$148,670
Jan-June 2015	\$121,000	3.250%	\$6,445	\$127,445									\$148,670
July-Dec 2015							\$21,225	\$21,225	\$125,000	\$23,738	\$148,738	\$148,738	\$148,738
Jan-June 2016	\$67,000	3.750%	\$2,513	\$69,513	\$58,000	3.000%	\$21,225	\$79,225	\$129,000	\$19,485	\$148,485	\$148,485	\$148,485
July-Dec 2016							\$19,485	\$19,485	\$133,000	\$15,228	\$148,228	\$148,228	\$148,228
Jan-June 2017					\$129,000	3.300%	\$19,485	\$148,485	\$138,000	\$10,573	\$148,573	\$148,573	\$148,573
July-Dec 2017							\$15,228	\$15,228	\$142,000	\$5,467	\$147,467	\$147,467	\$147,467
Jan-June 2018					\$133,000	3.500%	\$15,228	\$148,228					\$147,467
July-Dec 2018							\$10,573	\$10,573					\$147,467
Jan-June 2019					\$138,000	3.700%	\$10,573	\$148,573					\$147,467
July-Dec 2019							\$5,467	\$5,467					\$147,467
Jan-June 2020					\$142,000	3.850%	\$5,467	\$147,467					\$147,467
July-Dec 2020													\$147,467
TOTAL	\$421,000		\$30,747	\$451,747	\$600,000		\$135,653	\$735,653	\$1,021,000	\$166,400	\$1,187,400	\$1,187,400	\$1,187,400

Callable Maturities	Paying Agent: District Notes: Refunded 11/28/08 State Trust Fund Loan United Bank Loan	Paying Agent: District Notes: Refunded 11/16/09 Bank Note United Bank Loan
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Note: Numbers represented above are for demonstration purposes only.



Bond Ratings

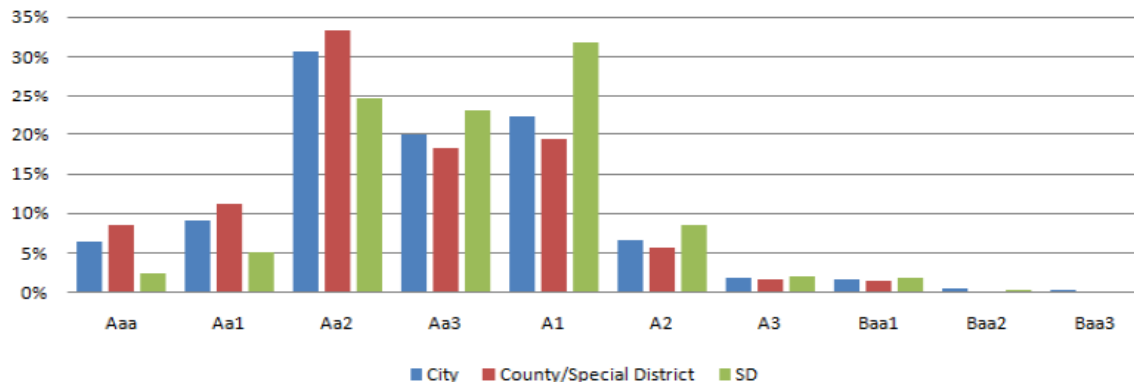
Moody's	No. of Districts Rated	Standard & Poor's	No. of Districts Rated
Aaa	6	AAA	0
Aa1	10	AA+	1
Aa2	60	AA	32
Aa3	62	AA-	51
A1	57	A+	70
A2	4	A	5
A3	1	A-	0
Total	200	Total	159

The better the credit, the lower the interest cost.

Moody's Investors Service Ratings

- GO is the most commonly used security by local governments in the US
- We rate approximately 8,300 local government GO credits
- Strong sector due to the potency of the ad valorem taxing power, amortizing debt structures, and overall stable institutional frameworks
- Current ratings range from Aaa to Caa3
 - Sector median is Aa3
 - Only 2% rated Baa1 or below

Current Local Governments Ratings Distribution



New Moody's Rating Methodology

- Released January 15, 2014
- Last methodology change was in 2009
- 18 Wisconsin Credits under review
- Why the change?
 - Inability to convert economic strength into revenues
 - Pensions growing source of credit pressure
 - Participants demand for scorecard
- Scorecard
 - Used as a starting point
 - Notching factors
 - Final rating determined by a rating committee

Factor Weights

Rationale for Changes:

Factor 1 Economy/Tax Base	Factor 2 Finances	Factor 3 Management	Factor 4 Debt/Pensions
30%	30%	20%	20%
Was 40%	Unchanged	Unchanged	Was 10%

Change in Weightings:

- Factor 1 weighting lowered to reduce the influence of tax base size
- Factor 4 weighting increased to include a specific quantitative measure for pensions

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 School Building Bonds
 Dated: June 19, 2007

Callable: '18-'27 Callable 3/1/17 or on any date thereafter @ Par

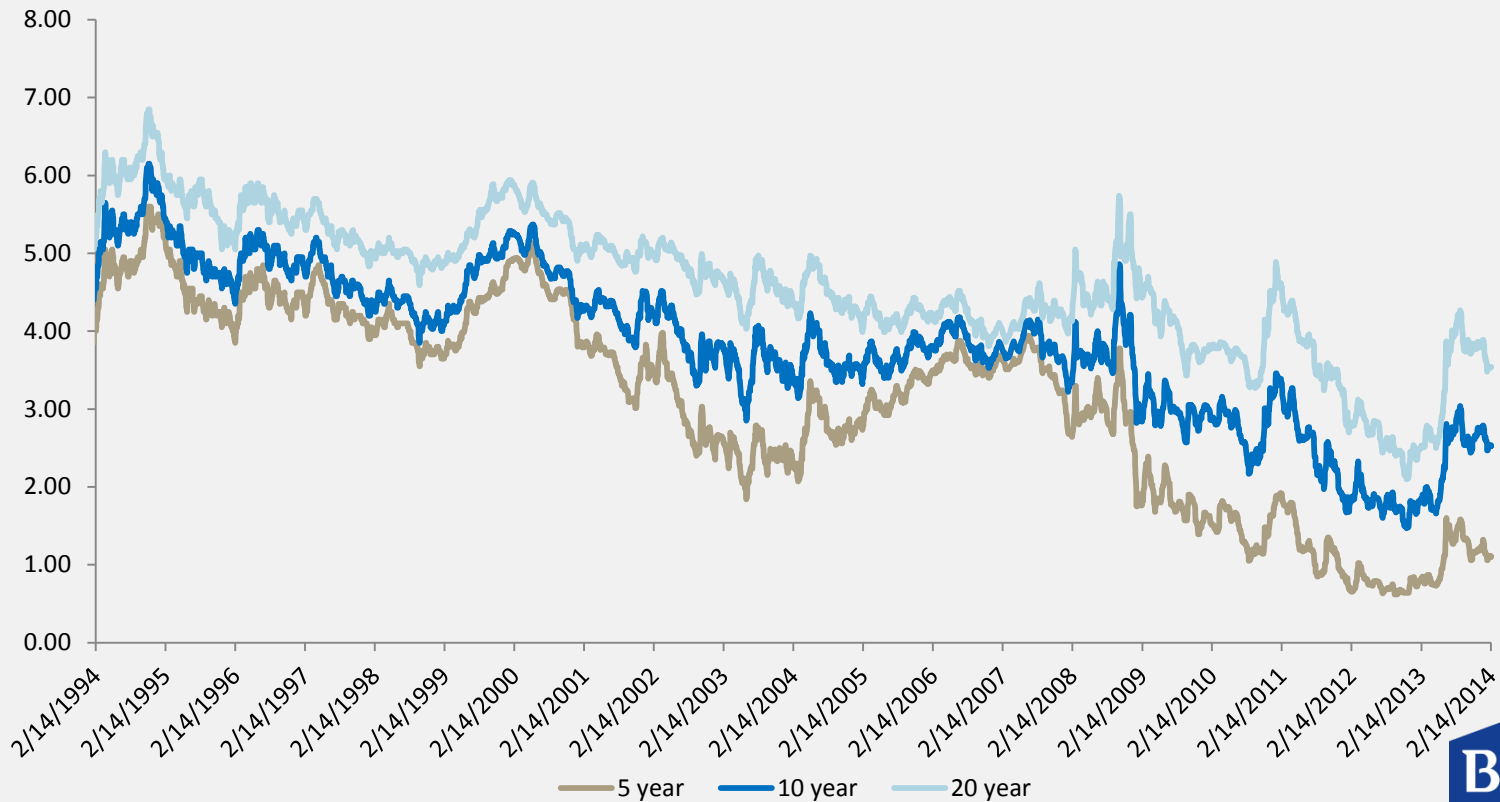
Year	PRINCIPAL (3/1)	RATE	INTEREST (3/1 & 9/1)	TOTAL
2014	\$595,000	4.375%	\$119,052	\$714,052
2014			\$106,036	\$106,036
2015	\$620,000	4.375%	\$106,036	\$726,036
2015			\$92,474	\$92,474
2016	\$645,000	4.375%	\$92,474	\$737,474
2016			\$78,364	\$78,364
2017	\$675,000	4.375%	\$78,364	\$753,364
2017			\$63,599	\$63,599
2018	\$705,000	4.100%	\$63,599	\$768,599
2018			\$49,146	\$49,146
2019	\$740,000	4.125%	\$49,146	\$789,146
2019			\$33,884	\$33,884
2020	\$775,000	4.250%	\$33,884	\$808,884
2020			\$17,415	\$17,415
2021	\$810,000	4.300%	\$17,415	\$827,415
	<u>\$5,565,000</u>		<u>\$1,000,888</u>	<u>\$6,565,888</u>

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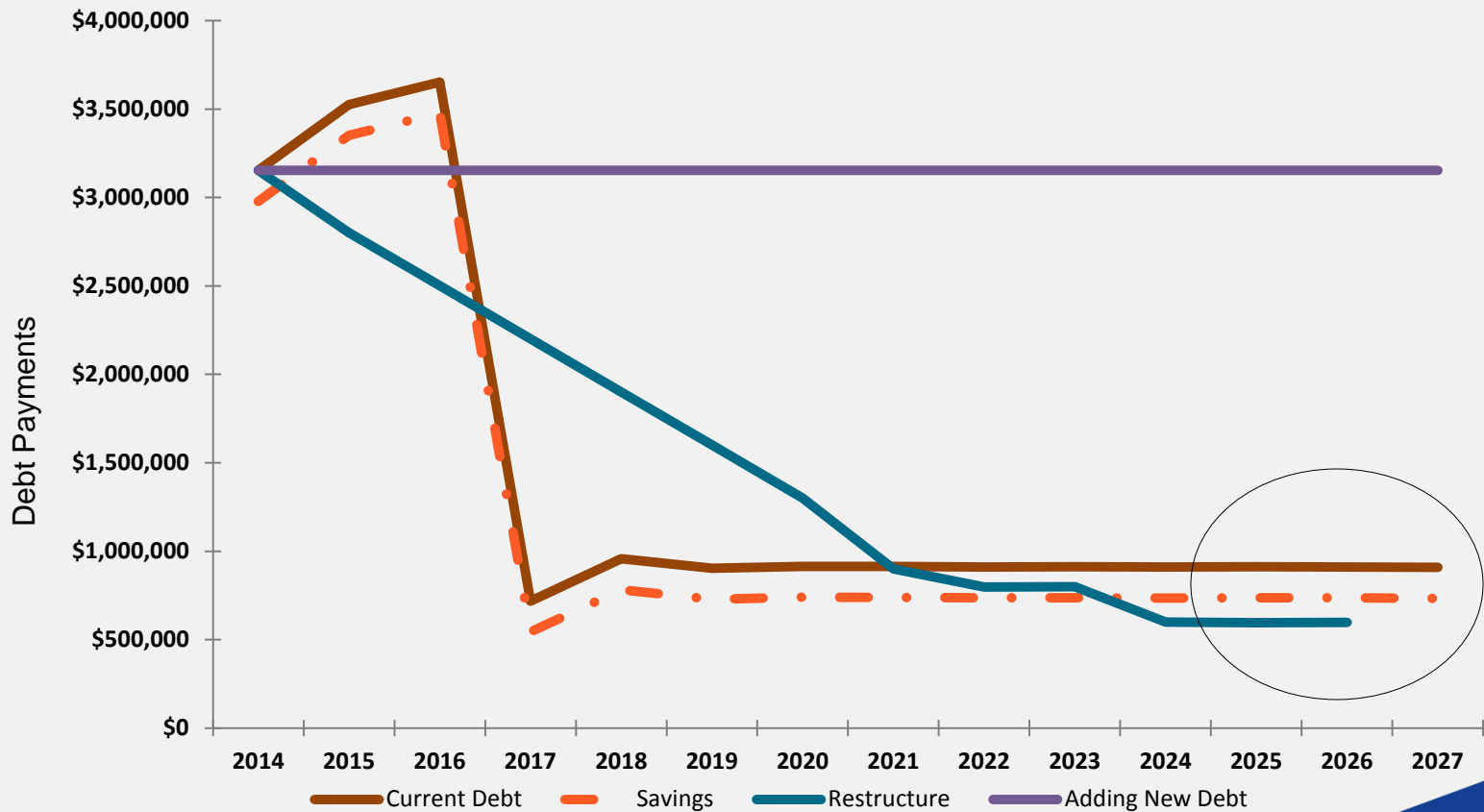


Historical Interest Rates

AAA MMD Index

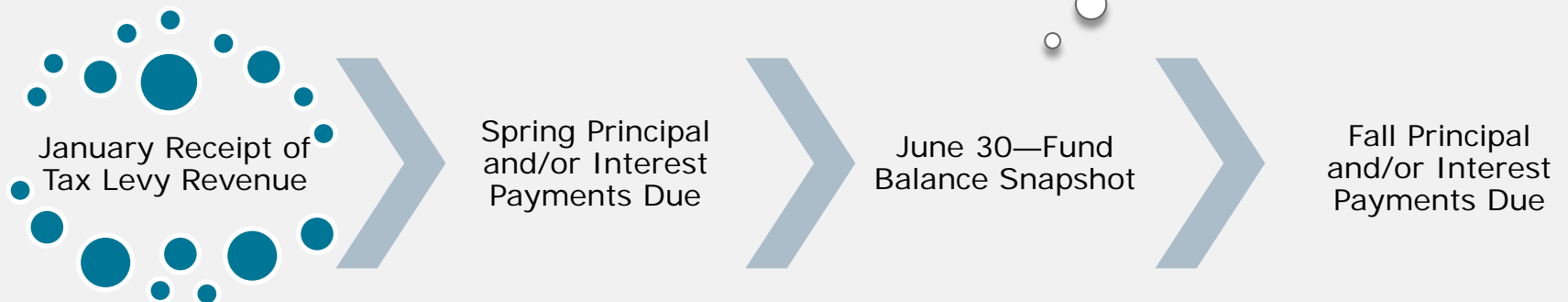


Debt Restructuring Options



For illustrative purposes only and should not be considered a recommendation; would not be suitable for all situations.

Levying for Debt



Debt Reporting

- Questions about reporting debt schedules can be directed to

Gene Fornecker

DPI School Financial Services Auditor

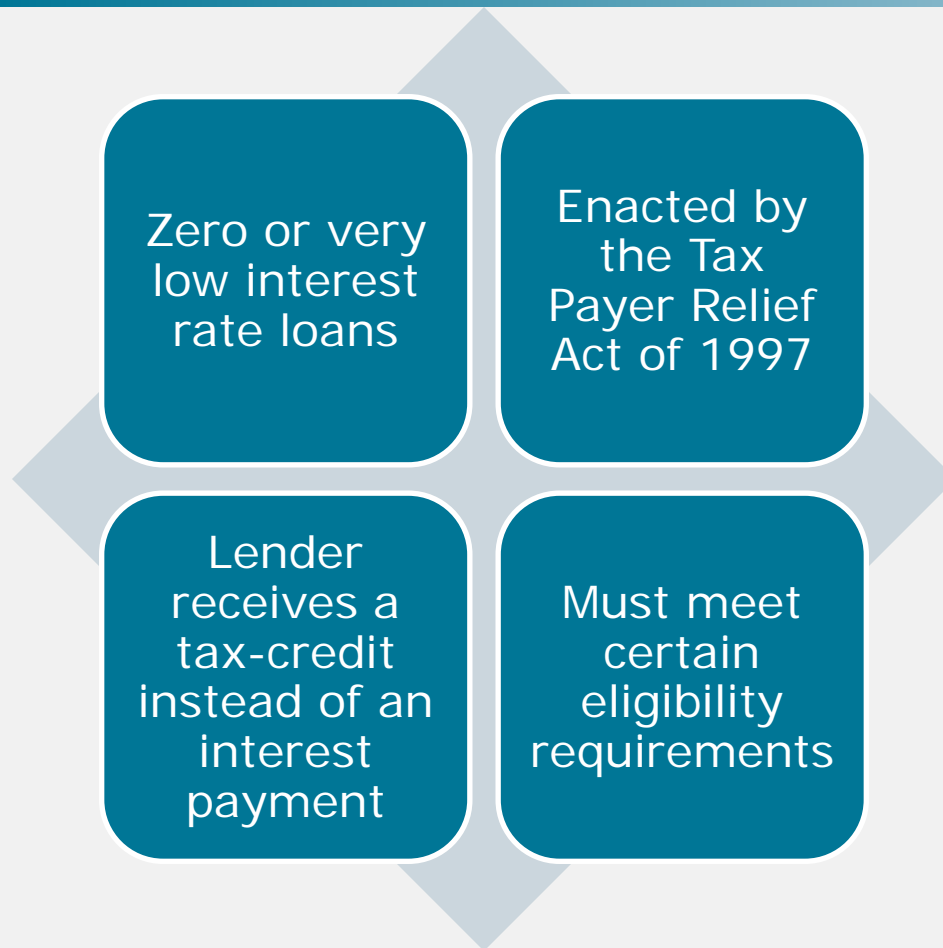
608-267-7882

Eugene.Fornecker@dpi.wi.gov

QZAB – Qualified Zone Academy Bonds



QZABs – What are they?



Estimated Interest Cost Savings

Estimated QZAB Borrowing Amount	Amortization / Estimated Interest Rate			
	5 Year 3.25%	10 Year 3.50%	15 Year 3.75%	20 Year 4.00%
\$500,000	\$41,600	\$92,225	\$154,688	\$227,400
\$1,000,000	\$83,200	\$184,450	\$309,375	\$454,800
\$1,500,000	\$124,800	\$276,675	\$464,063	\$682,200
\$2,000,000	\$166,400	\$368,900	\$618,750	\$909,600
\$2,500,000	\$208,000	\$461,125	\$773,438	\$1,137,000

Note: As of March 2014, the maximum maturity for Qualified Tax Credit Bonds is 19 years.



QZABs – What are they?

- The State of Wisconsin allocation \$5,794,000 Per year for the past 2 years
- Allocations must be used within 2 years following the year in which they were given
- Term, Tax Credit Rate found on Federal Website:
 - ✓ <https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDate.htm>

Eligible Projects

QZABs are used for:

- Renovation projects
- Equipment, computers, furniture etc.
- Heating & cooling
- Course materials
- Professional development

QZABs are **NOT** used for:

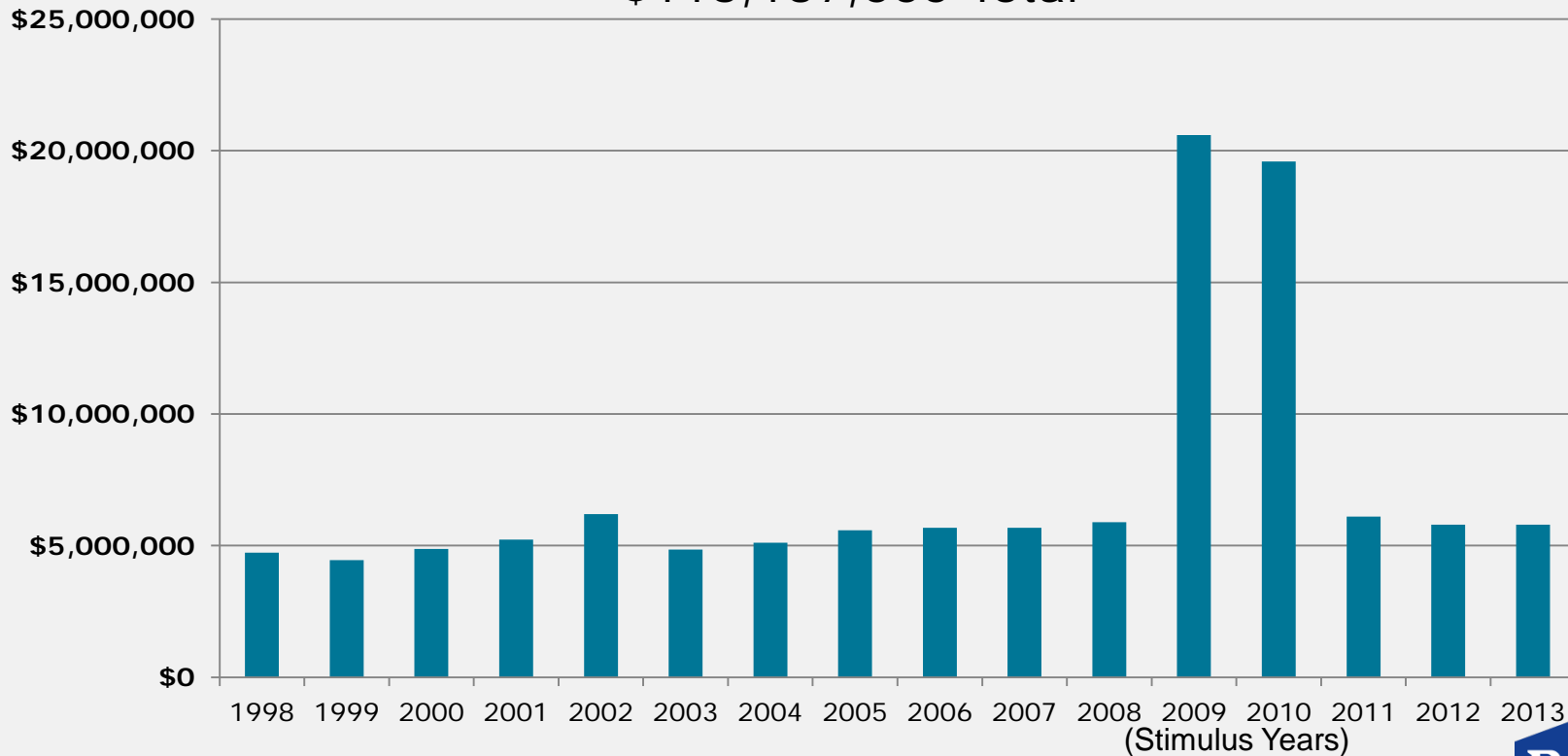
- New construction
- Stadium/Sports related projects

QZAB Requirements

- Must be located in an empowerment zone or an enterprise community or,
- Must have at least 35 percent or more of students eligible for free or reduced lunch under the National School Lunch Act and,
- Must secure a 10% Private equity contribution
 - ✓Contribution can be in cash, in-kind or a mix of both
 - ✓Contribution can come from multiple sources

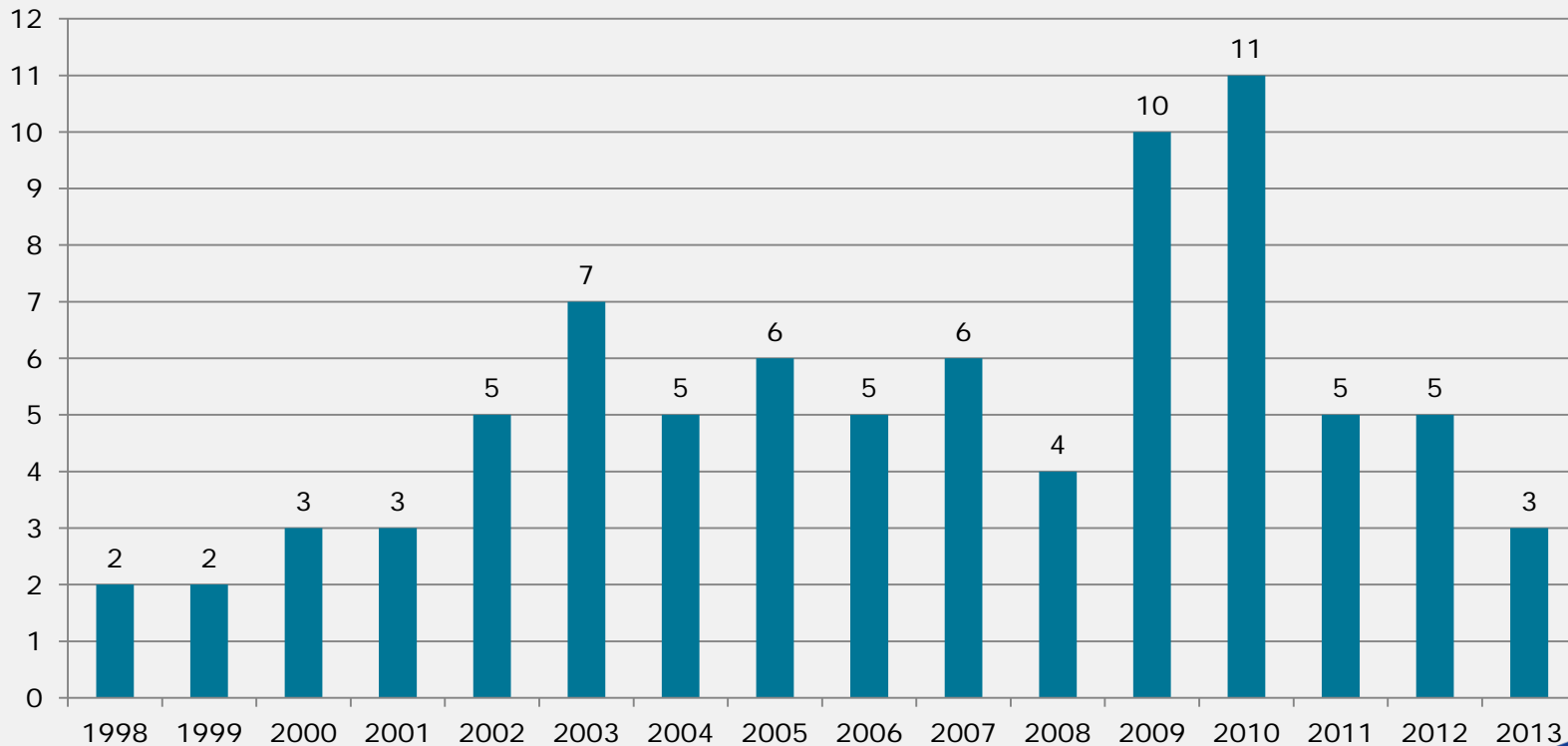
Wisconsin's Allocation

Amount allocated to Wisconsin since 1998
\$116,137,000 Total



Past Recipients

Number of School Districts by Year



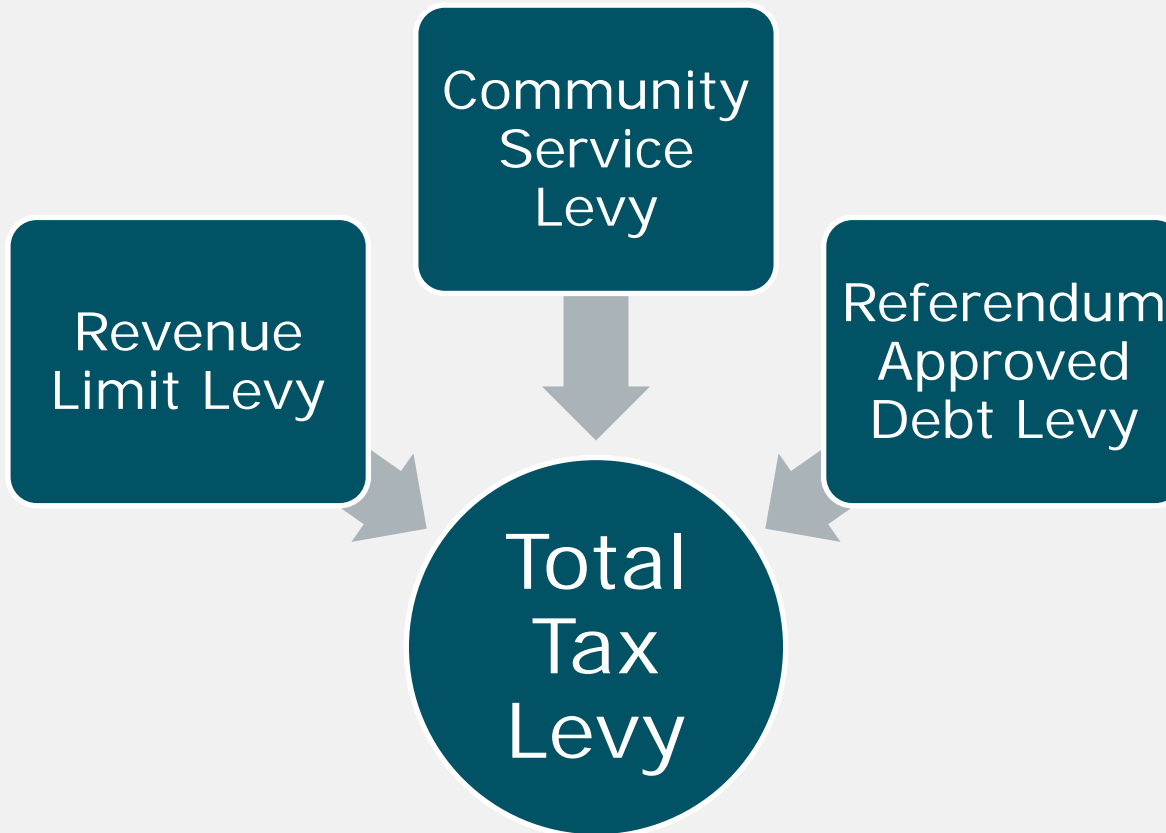
QZAB 2014 Allocation

- At this point the Senate has decided to postpone indefinitely the vote of Senate Bill S.1859, the Tax Extender Bill that includes QZAB.

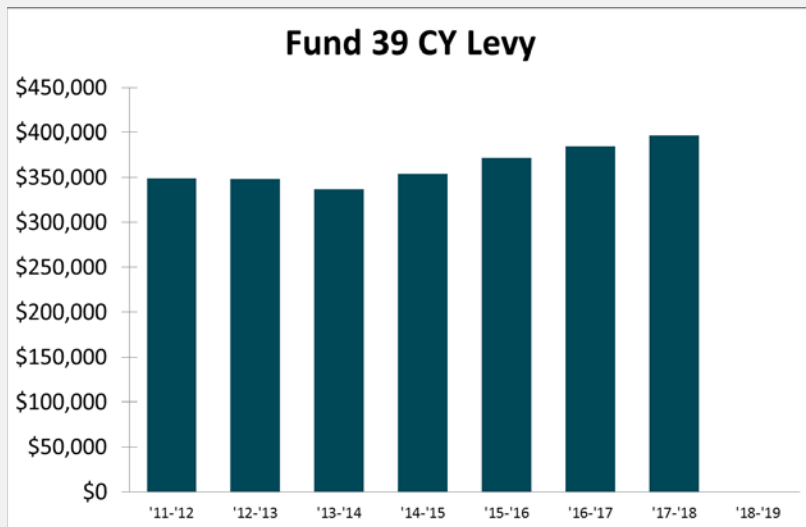
Levy Management Strategies



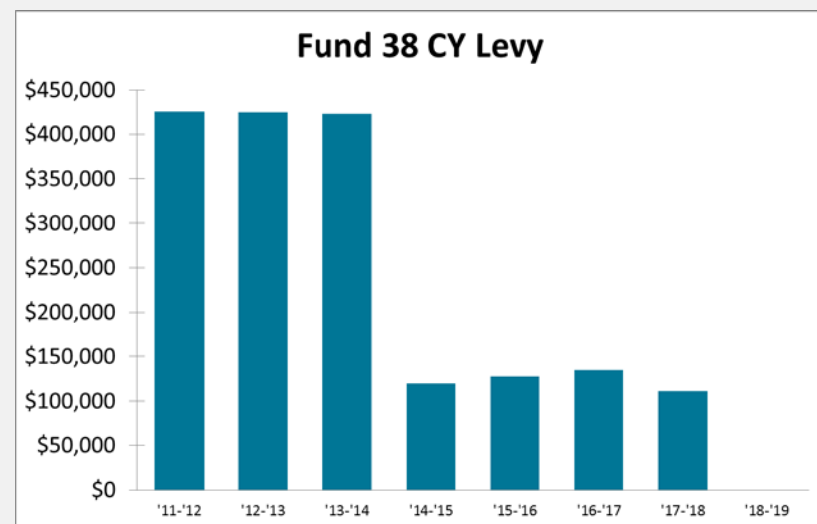
Composition of School Tax Levy



Future Planning for Debt



Referendum **is** required to replace or add to Fund 39 debt



Referendum **is not** required to replace or add to Fund 38 debt

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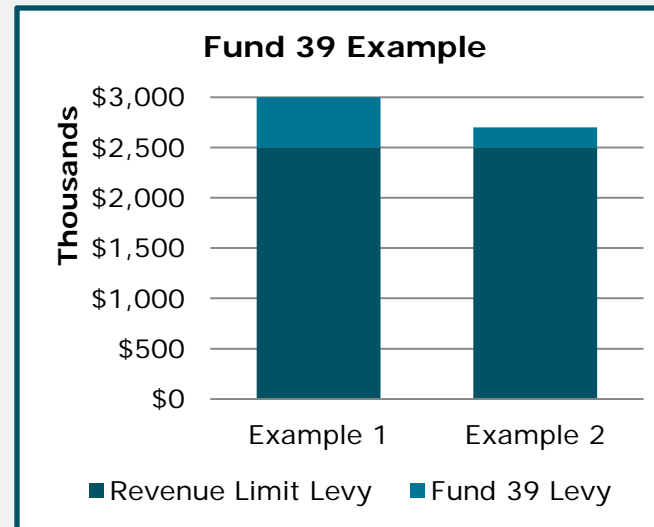
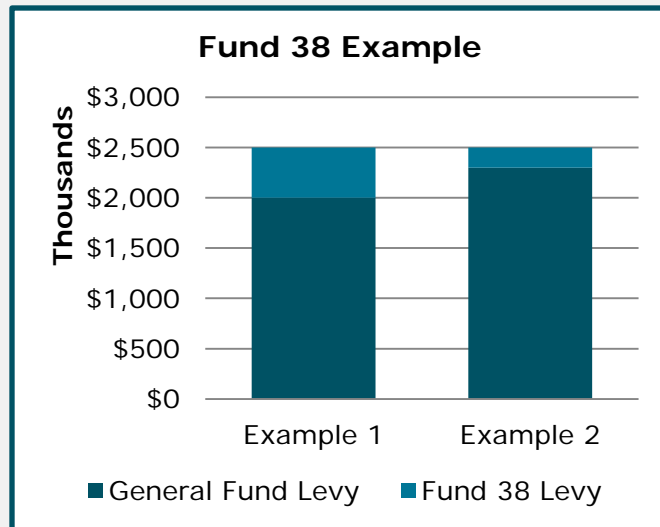


Fund 38 and Fund 39 Levy Impact

Increases/ Decreases in Fund 38 and Fund 39 Debt affect the levy differently

Decrease/Increase in Fund 38 levy \neq increase/decrease in total school levy

Decrease/Increase in Fund 39 levy typically results in an increase/decrease in total school levy—other levies will affect the net impact



Levy Management Strategies

If the **total school** Levy/Mill Rate is Projected to go **Down**

- Levy additional funds to Fund 39
 - Prepay Debt
 - Defease Debt
- Use energy efficiency exemption
- Referendum to issue new debt
- Referendum to Exceed Revenue Limit

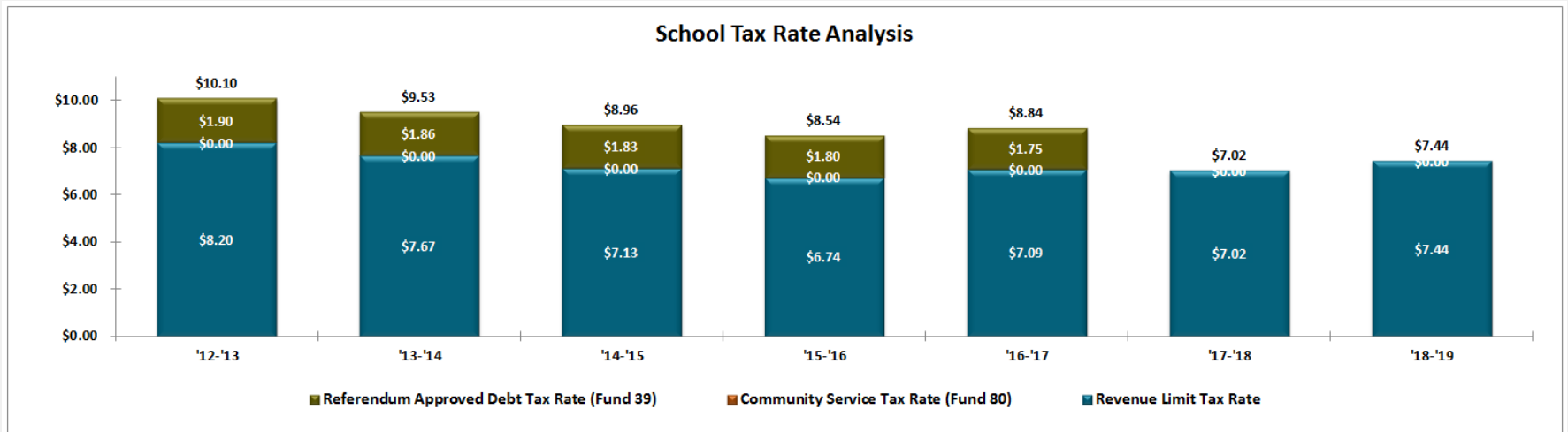
If the **total school** Levy/Mill Rate is Projected to go **Up**

- Refinance Debt
- Restructure Debt
- Under levy Revenue Limit
- Under levy Fund 39 or Fund 80

Consider multiple year impact.

Levy Management Strategies

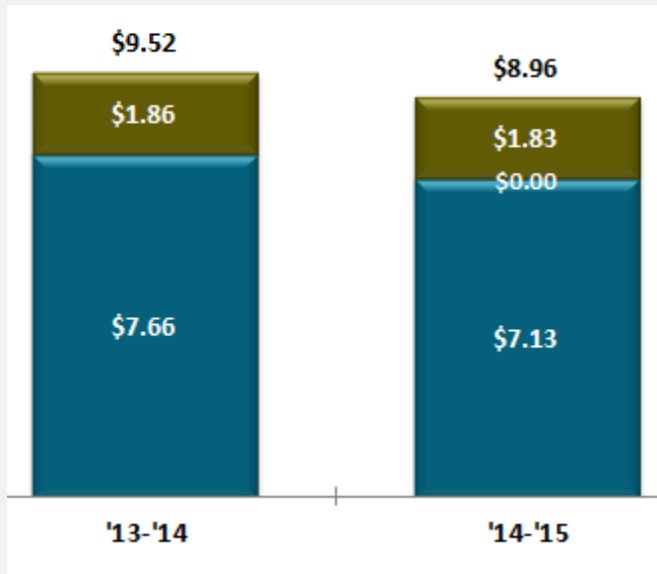
Looking at Mill Rate



- In 2014-15 the total mill rate is projected to decrease
- Also note that the district has F39 debt retiring in 2017-18

Sample Strategies-Increasing the Mill Rate

- Strategy 1: Energy Efficiency Exemption



Base Scenario

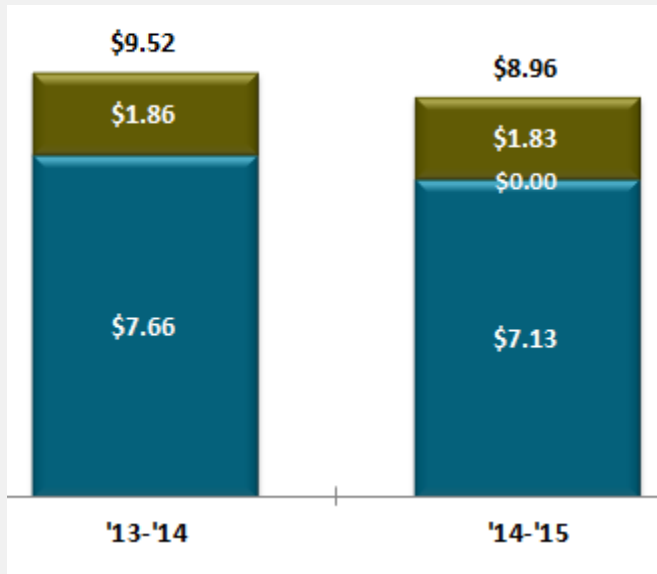


Sample use of EE Exemption

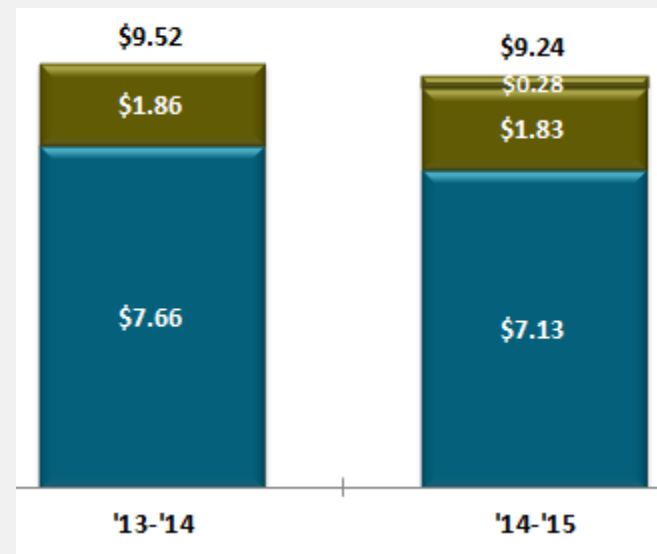


Sample Strategies-Increasing the Mill Rate

- Strategy 2: Overlevy Fund 39



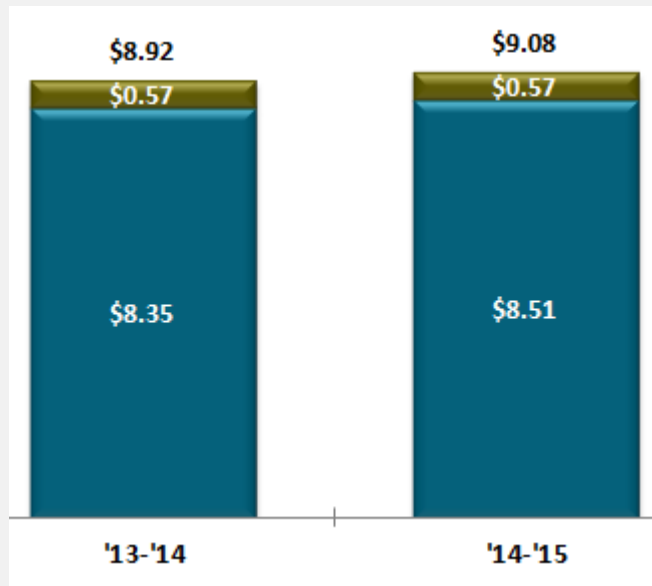
Base Scenario



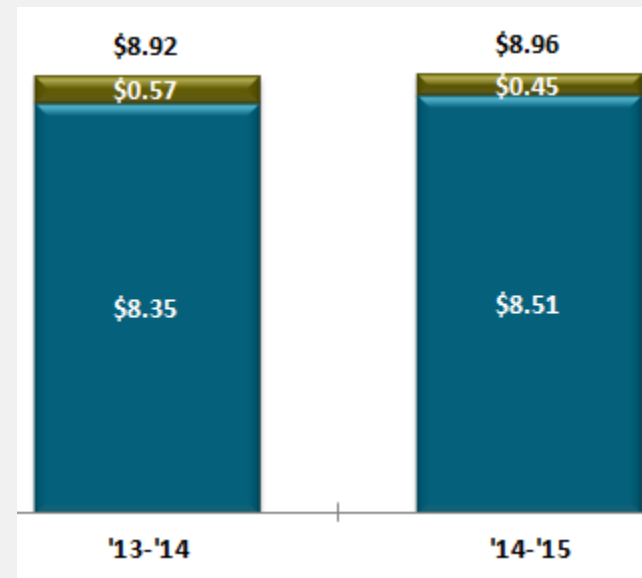
Sample overlevy in Fund 39

Sample Strategies-Decreasing the Mill Rate

- Strategy: Underlevy Fund 39*



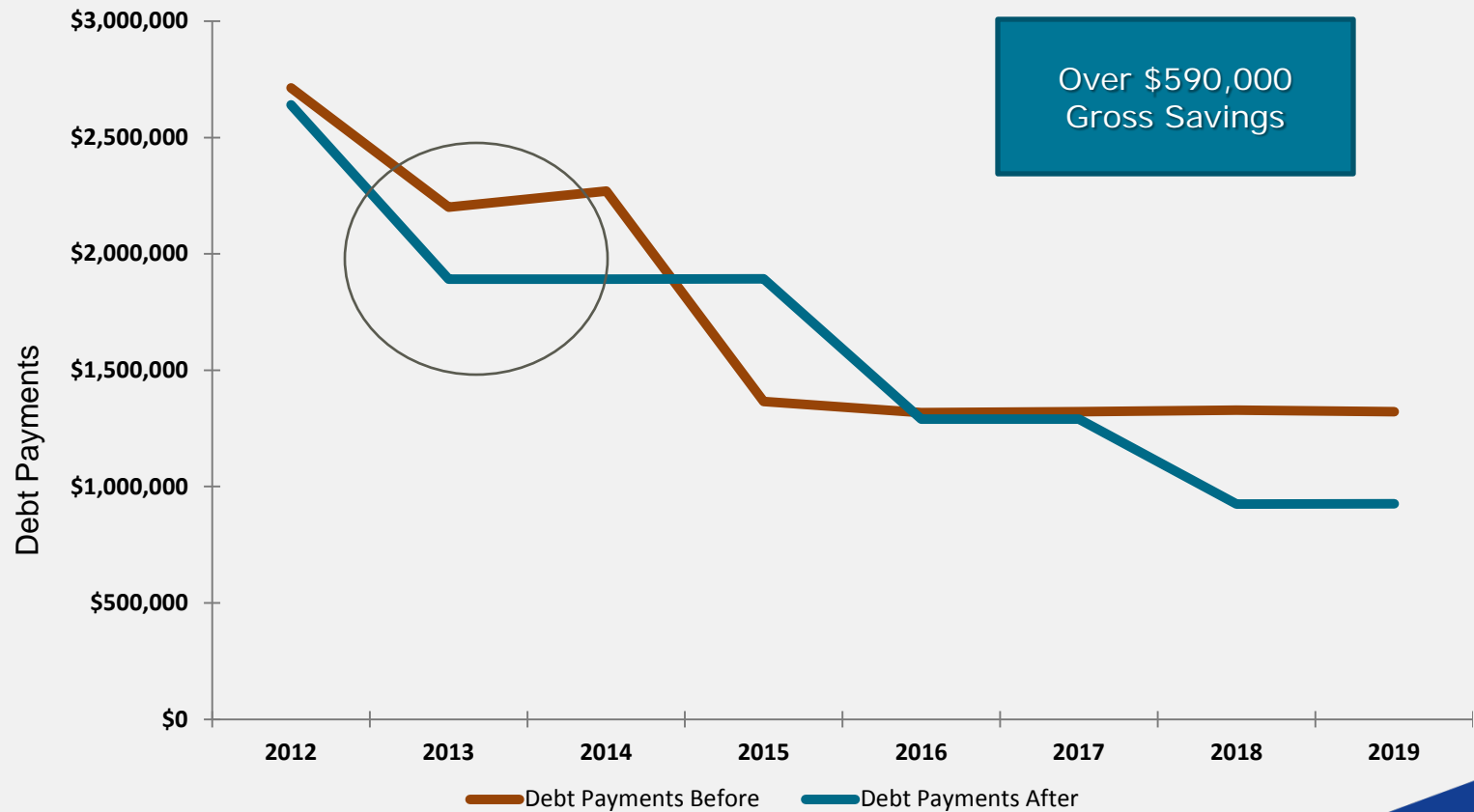
Base Scenario



Sample underlevy in Fund 39*

*The district must maintain a balance sufficient to pay their scheduled payments; be sure to analyze the long-term impact of this underlevy decision

Debt Restructuring



For illustrative purposes only and should not be considered a recommendation; would not be suitable for all situations.

Post Issuance Compliance



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

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

Continuing Disclosure Compliance

Annual obligation to update lenders to your district's financial position

Due **March 27th** each year

Requirements vary by district **and** by borrowing (issue)

- Most common: audited financial statements, budget and operating data

Requirements outlined in your borrowing documents

One-time events may trigger a special disclosure (Material Event Filing)

If you have debt (either Fund 38 or 39) and you're unsure if you have disclosure obligations contact your financial consultant

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

Sequestration Cuts

Affecting Stimulus Bond Issuers

- The Budget Control Act of 2011 (the "BCA") requires cuts each year for the next ten years to federal programs necessary to reduce spending to levels.
- The Budget Act of 2013, as amended by U.S. Senate, extends the reduction of subsidy payments for an additional three years through fiscal year 2024.
- The reductions to the subsidy payments in fiscal year 2014, will be 7.2%. Each Federal fiscal year, this amount may change.

Questions?

