

# Utilizing Both Sides of the Balance Sheet

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# Topics Addressed

- Financing Avenues
- Types of Debt
- Non-Debt Options
- Credit Assessment

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# Public Financing Avenues

# Two Main Routes for Financing Available

## Public Bond Offering

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- An entity sells its bonds to an underwriter who resells the bonds to Retail or Institutional Investors on an established securities market.
- Investors will often base investment decisions on the Public Debt Rating, among other credit factors.

## Private Placement

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- An entity places its bonds or notes directly with a Bank or other Financial Institution.
- The Purchasers of this type of debt are required to complete their own independent credit analysis.
- Ongoing credit surveillance is required, just like any other Commercial Loan.

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## Types of Debt

# Main Types of Private Placement Debt

## General Obligation Bonds

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- Limited Tax or Unlimited Tax
- Voted or Non-Voted
- Generally, the full faith and credit and taxing power of the subdivision is pledged to pay debt service

## Revenue Bonds

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- Backed by a specific revenue stream only, such as revenues from a water and sewer enterprise fund, income tax levy, sales tax, etc.
- Banks tend to view these as less secure than a general obligation bond

## Anticipation Notes

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- Typically used for short-term financing for projects until tax revenue is collected or a long-term Bond is issued
- Maturities around six months – one year

## Special Assessment Bonds / Notes

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- Tax Increment Financing, typically for areas within a municipality that are being re-developed

**Work with Counsel or Municipal Advisor to determine which type of debt best suits your needs**

# Overview of Direct Debt Limits by Political Subdivision

## Counties

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- Aggregate principal for unvoted GO debt may not exceed 1% of assessed valuation

## School Districts

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- May not incur indebtedness greater than 1/10 of 1% without a vote of its electors
- Total voted and unvoted debt may not exceed 9% of its assessed valuation, however permission from the state is needed to exceed 4% of the assessed valuation

## Cities

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- Unvoted net indebtedness must not exceed 5.5% of its tax valuation
- Total net indebtedness must not exceed 10.5% of its tax valuation

## Townships

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- Limited Home Rule Townships may issue unvoted, general obligation limited tax debt up to 5.5% of its tax valuation
- These Townships may not incur voted & unvoted debt in excess of 10.5% of their tax valuation

**Partner with Counsel to ensure your entity stays within ORC debt limitations**



## Indirect Debt Limit

Also known as the Ten-Mill Limit, this prohibits the taxation of property greater than 1% of valuation (ten mills) without a vote of the electorate. This applies to overlapping subdivisions.



Total Millage of the Issuer and any overlapping subdivisions pledged to debt service may not exceed ten mills in the aggregate.



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## Non-Debt Options

# Two Main Non-Debt Options

## Lease Purchase Agreements

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- Typically partner with local bank **on specific lease purchase financing documents**
- Used to acquire necessary equipment, vehicles, and software
- Lease payments are subject to annual appropriation, therefore are not considered in debt calculations
- Source of repayment is still required

## Certificates of Participation (COPS)

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- Common for larger lease-purchase financings
- Rent payments are securitized as Certificates of Participation for investors
- Similar to a bond, but less secure due to payments being subject to appropriation
- **Requires more in-depth documentation**, including a ground lease, lease agreement, lease assignment agreement, and trust indenture

# Examples of Leased Property

The assets that a municipality may need to finance are varied; examples include:

- Agricultural equipment
- Manufacturing and mining machinery
- Vessels and containers
- Trucks and transportation equipment
- Construction and off-road equipment
- Business, retail and office equipment
- IT equipment and software
- Renewable energy & energy efficiency equipment



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# Credit Assessment

# Purchasing Debt from a Bank's Perspective: The Credit Assessment Process

## 1. The Request

- Pledge, Term, Source of Repayment
- Repayment Analysis – Debt Service Coverage Ratio

## 2. Underlying Economics of the Issuer's Service Area

- Characteristics and Nature of the Local Economy
- Composition: Urban, Suburban, Agricultural, Rural
- Diverse or Concentrated Economy
- Population Attributes
- Tax Base

## 3. Financial Performance / Financial Statements

- Operating Statement Trends: Revenues, Expenses, Fund Balances
- Balance Sheet Trends: Liquidity, Fixed Asset Trends, Leverage: Funded Debt and Other Obligations, Other Reserves, Tax Base

## Purchasing Debt from a Bank's Perspective: The Credit Assessment Process

	District 1	District 2	District 3
<b>Revenue</b>			
Local Revenues	17,032,310	30,631,296	33,103,323
State Revenues	7,833,548	16,502,870	72,942,614
Other Revenues	10,241,777	12,335,621	28,728,681
<b>Total Revenue</b>	<b>35,107,635</b>	<b>59,469,787</b>	<b>134,774,618</b>
<b>Expenditures</b>			
Instruction	21,424,906	35,548,866	81,291,397
Support Services	11,914,512	35,890,724	53,795,883
Capital Outlay	-	959	2,429,054
Debt Service	12,627	-	-
Other	933,241	441,720	646,737
<b>Total Expenditures</b>	<b>34,285,286</b>	<b>71,882,269</b>	<b>138,163,071</b>
<b>Excess of Revenues/Expenditures</b>	<b>822,349</b>	<b>(12,412,482)</b>	<b>(3,388,453)</b>
Other Sources (Uses)	(400,000)	(1,581,583)	356,932
<b>Net Change in Fund Balance</b>	<b>422,349</b>	<b>(13,994,065)</b>	<b>(3,031,521)</b>
<b>Fund Balance Beginning</b>	<b>8,208,796</b>	<b>(37,683,487)</b>	<b>29,113,425</b>
<b>Fund Balance Ending</b>	<b>8,631,145</b>	<b>(51,677,552)</b>	<b>26,081,904</b>
<b>Fund Balance as % of Expenditures</b>	<b>25.2%</b>	<b>-71.9%</b>	<b>18.9%</b>

# Purchasing Debt from a Bank's Perspective: The Credit Assessment Process

## 4. Management Assessment

- Frequent turnover of management
- Cases of institutional fraud

## 5. Material Litigation

- Pending litigation outstanding
- Mention of material litigation in Financial Audit

## 6. Review of Current Events

 **Credit Decision**

# Questions?



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# Thank you.