

Texas Association of County Auditors

On the Road Area Training



Current Issues in Public Finance and Debt Issuance January 24, 2018

**Presented by
Duane L. Westerman
SAMCO Capital Markets, Inc.**



Debt Issuance

Basic County Information

- Maximum tax rate for a county under Article VIII, Section 9 of the Texas Constitution is \$0.80 per \$100 valuation for operations and debt service
- The Attorney General will permit the use of \$0.40 out of the \$0.80 for the payment of debt service assuming 90% collections, which can be increased if supported by average collection over a three-year period)



Debt Issuance

Types of Debt Issuance

- **Limited Tax General Obligation Bonds**
 - Requires an election and voter approval
 - Must show it can be paid from proceeds of \$0.40 tax at 90% collections
 - Requires several court meetings and a longer timeline
 - May or November general election date
 - Can be used for:
 - Courthouse
 - Jail Facilities
 - Road & Bridge work
 - Justice Center
 - Other legal public purposes



Debt Issuance – Types of Debt

- **Certificates of Obligation**

- Must show it can be paid from proceeds of \$0.40 tax at 90% collections
- Requires at least 2 court meetings, shorter timeframe than voted bonds
- No election required, however
- Does require a Notice of Intention be published once a week for two consecutive weeks
 - Citizens could present a valid petition with signatures of 5% of qualified voters from the last election
 - A successful valid petition could force the county to call an election for the debt



Debt Issuance – Types of Debt

- **Certificates of Obligation – continued**
 - Can issue “CO’s” for cash if used to
 - Acquire or construct a building
 - Acquire, construct, and equip a jail
 - Construct and repair roads and bridges
 - If need cash for purpose not otherwise eligible for cash, you may pledge at least \$1,000 from an operations’ stream of revenue (such as parking, solid waste disposal fees, law library fees etc.) – then you have combination tax and revenue “CO’s”



Debt Issuance – Types of Debt

- **Tax Notes**
 - Must show it can be paid from proceeds of \$0.40 tax at 90% collections
 - Requires at least 1 court meeting, shortest time frame for debt issuance
 - No election required
 - Maximum maturity length limited to 7 years from issuance
 - Can be used for any legal purpose
 - Must be recommended by County Auditor



Debt Issuance – Types of Debt

- **Unlimited Tax Road Bonds**
 - Source of repayment is an unlimited I & S tax
 - Must be approved at an election by a majority of voters
 - Must be used for road and bridge purposes
 - Debt must not exceed 25% of real estate portion of Taxable Assessed Valuation



Debt Issuance – Types of Debt

- **Contractual Obligations**

- Must show it can be paid from proceeds of \$0.40 tax at 90% collections
- Requires at least 1 court meeting, shortest time frame for debt issuance
- No election required
- Must be used for personal property type items only (including “removable” fixtures)
- Maximum maturity length limited to 25 years from issuance (but federal tax law could require a shorter final maturity)



Debt Issuance – Types of Debt

- **Commercial Paper**
 - Short term/interim financing alternative
 - Usually used as interim financing during construction phase of a project or projects and later taken out with refunding bonds
 - Requires underlying legal debt authority(voted general obligation bonds, CO's or tax notes), applicable restrictions/conditions to which will apply



Debt Issuance – Types of Debt

- **Lease Purchase Financing**
 - Source of payment is the operations tax
 - Often is more expensive for costs of issuance and interest expense
 - No election required
 - Can be used for real or personal property
 - May have to create a Public Facility Corporation (or similar) for real property issues
 - If used for real estate it is more complicated and costly



Debt Issuance – Time Frame

- Time Frame – Certificates of Obligation
 - Generally requires at least 60 days from NOI to receiving funds
 - 30 day minimum notice period
 - 2 newspaper publications and postings required
 - 30 days between sale of CO's and receiving funds



Debt Issuance – Time Frame

- Time Frame – General Obligation Bonds
 - May or November election dates
 - Timeframe for calling election differs for each date
 - 30 day contest period after canvassing returns
 - Could have proceeds from bond sale within 60-75 days after election



Debt Issuance – Professionals

Professionals Involved

- Bond Counsel
- Financial Advisor
- Paying Agent/Registrar
- Rating Agency(ies)
- Escrow Agent (for refundings or other special issuances)
 - May need Bidding Agent also
- Verification Agent (for advance refunding issuances)
- Underwriter (if utilizing a negotiated sale)
- Underwriter’s Counsel (if utilizing a negotiated sale)



Debt Issuance – Terms

- Arbitrage – according to Merriam-Webster
 - The practice of buying something (such as foreign money, gold, etc.) in one place and selling it almost immediately in another place where it is worth more
- Arbitrage - In the municipal bond world
 - Issuing bonds at one interest rate and investing the proceeds at another interest rate
 - Can be “positive” (generally illegal) “negative” (legally compliant, but a significant financial concern/factor)
- Rebate



Debt Issuance – Terms

- Pricing
 - Coupons
 - Yields
 - Premium
 - Discount
 - Cuts/Bumps
- Refundings
 - Advance/Current
 - Escrow



Debt Issuance – Pricing Example

Pricing Summary

Maturity	Type of Bond	Coupon	Yield	Maturity Value	Price	YTM	Call Date	Call Price	Dollar Price
06/15/2019	Serial Coupon	2.000%	1.470%	25,000.00	100.764%	-	-	-	25,191.00
06/15/2020	Serial Coupon	2.000%	1.580%	25,000.00	101.010%	-	-	-	25,252.50
06/15/2021	Serial Coupon	3.000%	1.650%	975,000.00	104.526%	-	-	-	1,019,128.50
06/15/2022	Serial Coupon	3.000%	1.750%	1,010,000.00	105.344%	-	-	-	1,063,974.40
06/15/2023	Serial Coupon	3.000%	1.880%	1,040,000.00	105.789%	-	-	-	1,100,205.60
06/15/2024	Serial Coupon	4.000%	1.990%	1,065,000.00	112.134%	-	-	-	1,194,227.10
06/15/2025	Serial Coupon	4.000%	2.060%	1,110,000.00	113.357%	-	-	-	1,258,262.70
06/15/2026	Serial Coupon	4.000%	2.150%	1,155,000.00	114.245%	-	-	-	1,319,529.75
06/15/2027	Serial Coupon	4.000%	2.320%	1,200,000.00	112.842%	c 2.470%	06/15/2026	100.000%	1,354,104.00
06/15/2028	Serial Coupon	4.000%	2.500%	1,250,000.00	111.378%	c 2.742%	06/15/2026	100.000%	1,392,225.00
06/15/2029	Serial Coupon	4.000%	2.600%	1,295,000.00	110.574%	c 2.909%	06/15/2026	100.000%	1,431,933.30
06/15/2030	Serial Coupon	4.000%	2.730%	1,970,000.00	109.538%	c 3.073%	06/15/2026	100.000%	2,157,898.60
06/15/2031	Serial Coupon	4.000%	2.820%	2,050,000.00	108.828%	c 3.188%	06/15/2026	100.000%	2,230,974.00
06/15/2032	Serial Coupon	4.000%	2.890%	2,130,000.00	108.280%	c 3.277%	06/15/2026	100.000%	2,306,364.00
06/15/2033	Serial Coupon	3.000%	3.140%	2,215,000.00	98.294%	-	-	-	2,177,212.10
06/15/2034	Serial Coupon	3.000%	3.180%	2,285,000.00	97.705%	-	-	-	2,232,559.25
06/15/2035	Serial Coupon	4.000%	3.070%	2,350,000.00	106.884%	c 3.471%	06/15/2026	100.000%	2,511,774.00
06/15/2036	Serial Coupon	4.000%	3.100%	2,445,000.00	106.654%	c 3.507%	06/15/2026	100.000%	2,607,690.30
06/15/2037	Serial Coupon	4.000%	3.130%	2,545,000.00	106.424%	c 3.540%	06/15/2026	100.000%	2,708,490.80
Total	-	-	-	\$28,140,000.00	-	-	-	-	\$30,116,996.90

Bid Information

Par Amount of Bonds	\$28,140,000.00
Reoffering Premium or (Discount)	1,976,996.90
Gross Production	\$30,116,996.90
Total Underwriter's Discount (0.490%)	\$(137,747.75)
Bid (106.536067%)	29,979,249.15
Accrued Interest from 12/15/2017 to 12/28/2017	37,893.19
Total Purchase Price	\$30,017,142.34
Net Interest Cost (NIC)	3.2696536%
True Interest Cost (TIC)	3.1387350%



Debt Issuance – Summary

Summary

- Proper fiscal management includes the management of debt
- It can be used wisely for capital projects large and small
- It can be used for equipment and short term financing
- Sometimes you can use debt to buy materials or equipment in bulk and save on the purchase price – even with the added interest cost
- Do not become over reliant on debt – manage your debt
 - Maintain adequate fund balances – have a fund balance policy
 - Develop a 5 year plan and continually update
 - Use the experience of your financial advisor and bond counsel to help your planning and to know your options
 - Keep in mind the rating agencies and bond insurance companies

Don't forget about arbitrage and rebate!



Current Topics

New Tax Law

- As the new tax law is put into effect we will continue to learn more details and interpretations of the impact of the legislation
- A significant impact on counties and debt issuance is that it is no longer allowable to issue a tax-exempt advance refunding
 - A refunding (refinancing) is considered an advance refunding if refunding proceeds from new issue are delivered 90 days or more in advance of the original/refunded issue's call date
 - If the refunding is done within 90 days, or after the call date, it is considered a current refunding
 - Current refundings can still be done as tax-exempt
 - An advance refunding can still be accomplished, but it must be issued as a taxable debt
 - Taxable debt is generally issued at higher taxable rates than most counties would be able to do at tax-exempt rates



Call us:

**Duane L. Westerman
Senior Managing Director
SAMCO Capital Markets, Inc.**

1020 N. E. Loop 410, Ste. 640

San Antonio, Texas 78209

Tollfree 877-340-1371

San Antonio 210-832-9760

Fax 210-832-9794

Email: dwesterman@samcocapital.com

**Other offices in:
Austin, Dallas, & Houston**