Municipal Development District Debt Options

October 11, 2023

Presented by Summer Fleming, MDD Investment Officer

Revenue bonds

- No election required
- Often carry a higher cost of borrowing due to weaker security of the bonds (sales tax revenue versus ad valorem taxes)
- Stricter bond covenants that can make revenue bonds more difficult to issue
- Debt Service Reserve Fund must be created and funded over the course of 60 months in an amount equal to the average annual debt service of the revenue bonds
- Lead time for issuing Revenue Bonds is roughly 60 days, but depends upon complexity of financing arrangement

Relevant parties to debt issuance

Relevant Party	Responsibility
Board of Directors	Officials responsible for setting policy and making decisions in consultation with City Staff and advisors to meet the needs and expectations of the citizens of the City
City Staff	City Manager and Director of Finance responsible for managing the operations of the District and executing the will of the Board
Financial Advisor	• Works for the Board and maintains a fiduciary duty to the District and no other party • Creates a plan of finance and serves throughout the year on an as needed consultative basis • Coordinate the issuance of municipal debt
Bond Counsel	• Special attorney who works for the District and coordinates all legal documents pertaining to the debt issuance process • Oversees the approval process of Attorney General of the State of Texas approval of debt issuances

Relevant parties to debt issuance

Relevant Party	Responsibility
Underwriter/ Purchaser	Investment bank who purchases the District's debt and sells debt to investors either through a public offering or private placement
Paying Agent/ Registrar	Firm who receives the District's semi-annual debt payment and is responsible for distributing the payment to individual bond holders
Rating Agency	S&P/Moody's/Fitch – Independent rating agency who determines the underlying credit worthiness of the District to create a comparison of the credit worthiness of the District's debt against all other similar credits in the U.S. to be relied upon by bond investors
Bond Insurer	3rd party firm who provides an insurance policy based upon a one-time premium, paid at closing and wrapped into the financing, to ensure the timely payments of principal and interest on the Bonds in the event the District is unable to make its bond payments. The District's bond interest rate trade at the insurer's underlying credit rating "AA" instead of the District's credit rating (assuming the District receives a credit rating of "AA-" or lower. *The need for insurance is determined at pricing based on a breakeven analysis compared to selling without bond insurance.*

Questions?