Building with Bonds

Debt Process at a Glance

- Define the project needs (how much and when is it needed?)
- Voter approves debt and levy
- City council/administration selects team (approx. 45-60 days from this stage to close on bond)
- Structure the debt
- Obtain credit rating
- Draft documents – board resolutions, official statements
- Sell the bond (distribute official statement, underwriters market bond)
- Close (sign bond purchase agreement, finalize offering document)

Select The Team

Underwriters: sell/place the bonds with investors

Bond counsel: provides legal advice as well as opinions on the legality and taxability of bonds

Trustee: manages the flow of funds

Financial advisor: independent third party that advises the borrower regarding the terms and structure of the deal

Additional Team Members

- Issuer
- Issuer’s Counsel
- Financial Advisory
- Bond Counsel
- Underwriter
- Underwriter’s Counsel
- Trustee
- Rating Agencies

Structure the Debt

Determine maturity of the bonds – when the investor is repaid the principal on their investment

Determine the most cost-effective interest rate, income tax status, and terms of repayment

Type of bonds:

- Municipal Bonds (when issued for a public purpose project) are exempt from federal and state income taxes
- General Obligation Bonds are secured by the full faith and cred of the City. The City can establish a tax levy or appropriation in order to pay the debt service on the obliation
- Revenue bonds are payable from specific sources of revenue (other than property taxes) and are backed by the full faith and credit of theCity

Credit Rating

A credit rating agency evaluates the “credit worthiness” of the City and the ability of the City to repay the debt.

Three independent companies publish credit ratings upon request for municipal debt. They are:

- Moody’s (City’s current rating, Aa1, Very Srong)
- Standard and Poor’s (City’s rating, AAA, Highest)
- Fitch Ratings (no rating)

Next Steps:

- Board Resolutions
- Official Statements drafted
- Sale of the Bonds (Insurance companies, mutual funds, commercial banks, individual investors)
- Close the Deal
  - Sign bond purchase agreement
  - Obtain legal opinions
  - Finalize offering document
- Borrowed funds are sent to City via wire transfer
- Release bonds to investors