



# 2014 Local Government Debt Overview

*Presented by Vance Holloman*

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North Carolina Department of State Treasurer  
State and Local Government

*Learn. Invest. Grow. Prosper.*

# Establishment of the LGC

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- Economic History - Roaring Twenties
- The Crash in 1929
- Over 400 NC local governments and public authorities defaulted
- The Response - GS Chapter 159
  - Local Government Finance Act
    - Local Government Commission
    - Budgets and Fiscal Control
    - Approval of Long-term Debt



# Five Categories of Financings

## General Obligation

- New issue
- 2/3 issue
- Refunding
- Restructuring

## Revenue

- Private Place
- Public
- Refunding
- Turnpike Approp.
- Power Agencies
- NCMCC
- GARVEEs
- HFA
- NCCFFA
- IRB
- Turnpike Toll
- Special Assess.

## Special Obligation

Public  
Private Place.  
Refunding

## Installment Purchase

- Installment Purchase
- Certificates of Participation
- Limited Obligation
- Refunding
- Guaranteed Energy Savings Contracts

## Other Financings

- State Revolving Loans
- Project Development Financing
- Qual. Zone Academy Bonds
- Qual. School Const. Bonds



# Staff Recommendations for LGC Approval Are Based on Findings Required by Statutes

## Findings (statutorily defined)

Necessary and expedient

Adequate and not excessive

Assessment of debt management procedures

Bonds can be marketed at reasonable rates

Tax increase is not excessive (G.O., S.O., and I.P. only)

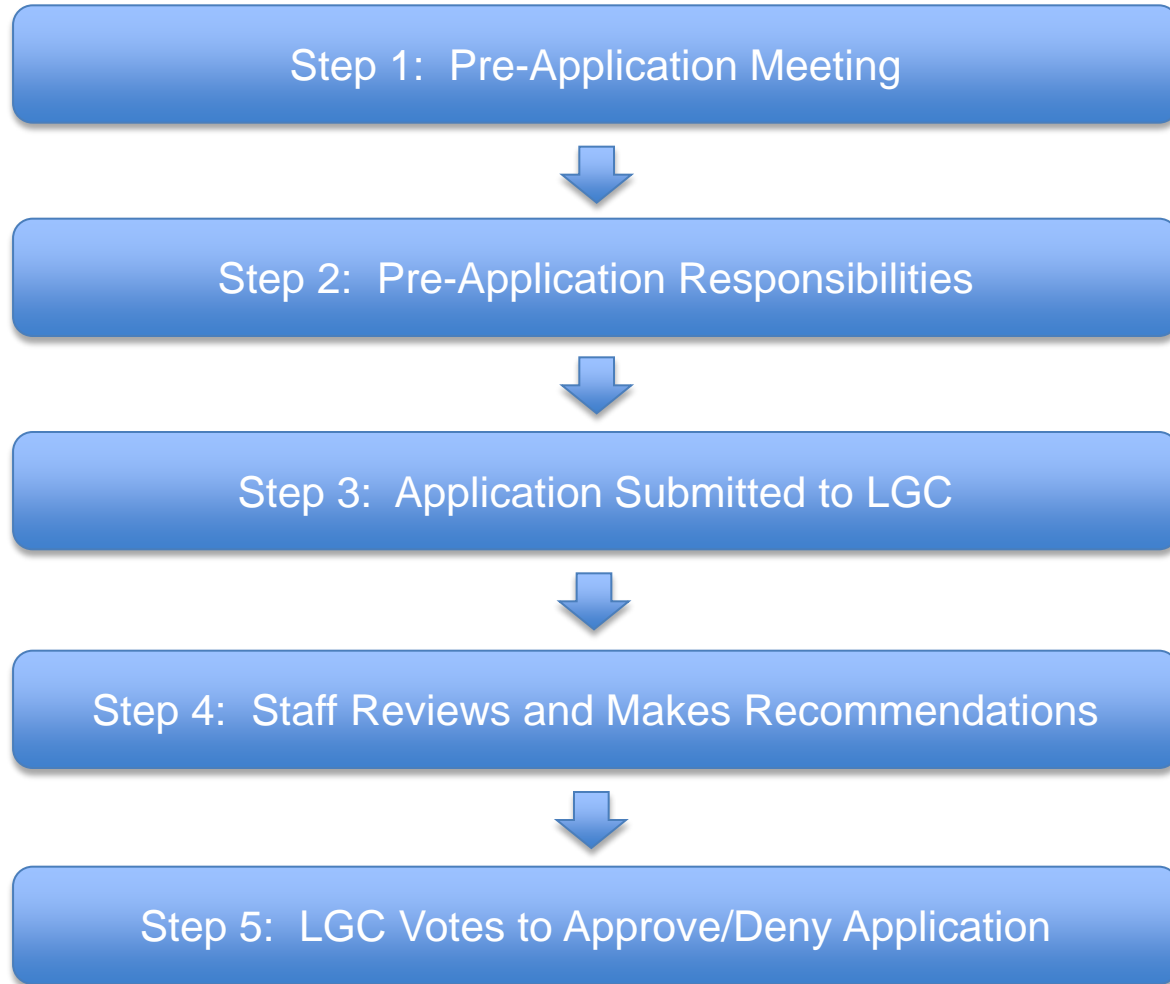
Feasibility (Revenue, S.O., and I.P. only)

Preferable to a G.O. bond (S.O. and I.P. only)



# Five Steps of Debt Issuance

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# Debt Issuance Guidelines

## General Guidelines

Unit meets with LGC staff prior to submitting an application to discuss project and finances.

If issuer has formal capital planning process, borrowing has been included in that plan.

Certified bid tabs to substantiate at least 70% of the amount to be borrowed

All major permits required for the project have been obtained.

Borrowings for capital needs and not operations.

Threat of or existence of litigation concerning the project or its financing have been resolved.

Demonstration of community support for the project and its financing mechanism.



# Debt Issuance Guidelines

## Financing Structure Guidelines

Length of borrowing does not exceed asset life – financing term usually  $\leq 20$  years.

Level principal payments required for borrowings to be paid back by General Fund revenues.

Level payments ( principle and interest) allowed for enterprise fund borrowings.

Capitalized interest and deferred principal may be allowed until project up and running.

Private bank placements for most loans less than \$10 million and 10-15 year term.

If debt is publicly sold, the issuer must have an investment grade rating.

For refundings, 3% interest cost savings of amount refunded; no extension of term.



# Other Factors

- Net debt ratio < 8% of total assessed value of unit's tax base
- Debt service as percent of expenditures ( normally < 15% - standard ratings agencies criteria )
- Ratings by independent ratings agencies
- Outstanding debt
- Tax rates & tax collection record
- Value of property subject to tax
- Compliance with Budget & Fiscal Control Act
- If applicable, sufficiency of proposed revenues
- "The Commission may inquire into, and give consideration to, any other matters that it may believe to have a bearing on whether the issue should be approved."





# FY2011-2013 Financings

Type of Bonds	12-13 #	12-13 \$\$ (Millions)	11-12 #	11-12 \$\$ (Millions)	10-11 #	10-11 \$\$ (Millions)
Bonds & Notes Sold for Local Government Units	234	\$2,400.0	233	\$ 3,032.5	224	\$ 2,373.3
Installment Lease Contracts Sold for Local Units	173	\$ 1,546.4	132	\$ 1,197.2	158	\$ 925.8
<b>Grand Total Issued</b>	<b>407</b>	<b>\$3,946.4</b>	<b>365</b>	<b>\$ 4,229.7</b>	<b>382</b>	<b>\$ 3,299.1</b>



# Outstanding Balances – Cities, Counties, Districts & Authorities

Type of Bonds	12-13 \$\$ (Millions)	11-12 \$\$ (Millions)	10-11 \$\$ (Millions)	09-10 \$\$ (Millions)
General Obligation -Other	\$ 8,941.6	\$ 9,113.3	\$ 9,294.8	\$ 9,219.1
Enterprise G.O.	\$ 1,082.5	\$ 1,172.4	\$ 1,206.3	\$ 1,271.9
<u>General Obligation Total</u>	<u>\$ 10,024.1</u>	<u>\$10,285.7</u>	<u>\$10,501.1</u>	<u>\$10,491.0</u>
Installment Purchase - Other	\$ 6,238.1	\$ 6,332.9	\$ 6,442.1	\$ 6,165.4
Enterprise I.P.	\$ 1,841.7	\$ 1,628.6	\$ 1,669.4	\$ 1,882.6
<u>Installment Purchase Total</u>	<u>\$ 8,079.8</u>	<u>\$ 7,961.5</u>	<u>\$ 8,111.5</u>	<u>\$ 8,048.0</u>
Revenue, S.O., Revolve. Loans	\$10,312.0	\$10,317.8	\$10,129.4	\$10,351.9
<b>Grand Total Outstanding</b>	<b>\$28,415.9</b>	<b>\$ 28,565.0</b>	<b>\$ 28,742.0</b>	<b>\$ 28,890.9</b>

Source: NC Department of State Treasurer, Analysis of Debt & Annual Reports, 2010-13



# Public Finance Issuance Costs

- Various issuance costs
- Several variables effect the issuance costs
  - Public vs. Private Placement
  - \$\$ Amount – liability of financing team members
  - Type of Financing – complexity results in more costs
  - Length of obligation or maturity
  - Credit quality of issuer
- LGC monitors issuance costs
  - FY 2012 average for public sales – 1.36%
  - Range - 0.16% - 3.52%



Issuance costs are usually capitalized and part of the financing. The IRS limits tax-exempt financing of issuance costs to 2% of the total financing amount.



# Types of Issuance Costs

- Legal Fees
  - Bond Counsel (\$7,500 – \$102,600)
  - Underwriter or Bank Counsel (\$1,900 - \$81,640)
  - Borrower or Unit Attorney (\$1,500 - \$35,000)
  - Disclosure Counsel
  - Trustee Counsel
- Financial Advisor (\$ 500 - \$80,839)
- Ratings Agencies (\$11,300 - \$38,250)
- Trustees/Paying Agents (\$2,500 - \$4,000 per year)
- Feasibility Consultants (\$750 - \$66,456)
- Publishing and Printing Cost (\$153 - \$7,104)
- Government Regulatory Fees – LGC, NCCFFA, NCMCC, NCHFA
- Registration Fees – CUSIP, MSRB
- Underwriter's fees (discount, Mgt. fees, structuring fees) (\$1,900 - \$1,237,465)
- Guarantee fees/Bond Insurance
- Marketing/Advertising fees



# Public vs. Private Placement

- Publicly sold debt is regulated under the SEC
  - Requires an offering document (“Official Statement”) that provides disclosure information to the investing public
  - Preparation of the document requires additional costs
- Publicly sold debt requires a rating from one or more of the national rating agencies – fees involved
- Publicly sold debt requires a registration number (“CUSIP”) – fee required
- Underwriting fee in public sales
- Public sale increases liability of legal counsel involved in the transaction which adds to costs
- Larger financing size increases liability for legal parties involved



# Statistical Reports on Enterprise Operations

- Annual reports for Municipal Electric Funds and Municipal Water and Sewer Operations
  - [www.nctreasurer.com](http://www.nctreasurer.com) – State & Local Govt. Division, Fiscal Mgt.
  - Memo #2014-01 – Water and Sewer Operations
  - Memo #2014-02 – Electric Operations
- Transfer policies adopted by members of MPAs in 1995.
- Staff review of annual audited financials includes compliance with transfer policy



# Statistical Reports on Enterprise Operations

- W&S Fund Transfers In/(Out)– FY2012
  - With Electric – average (1.2%) of W&S operating revenues
  - Without Electric - average (0.7%) of W&S operating revenues
  - All – average (0.8%) of W&S operating revenues
- Electric Fund Transfers to the General Fund
  - Eastern MPA – 10 year average – 4.07% of GF Revenues
  - MPA #1 – 10 year average – 2.06% of GF Revenues
  - Others – 10 year average – 7.3% of GF Revenues



# Questions and Comments







**Thank you!**

*Together, we can build and maintain a fiscally strong and prosperous North Carolina.*

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