

SUTTER BUTTE FLOOD CONTROL AGENCY

Debt Financing Overview
(Bond 101)

December 19, 2012



OVERVIEW

- Bond Basics
 - Overview of municipal debt, types of debt, features for its sale, financing team, etc.
- Review of SBFCA Finance Plan & actions to date
- SBFCA's strategy
- Required Board actions
- Timeline / Next Steps



TYPES OF DEBT OF LOCAL AGENCIES: WHAT IS DEBT?

- California Constitutional Debt Limitation restricts true “indebtedness”
- California courts have created a number of “exceptions” allowing issuance of debt-like securities

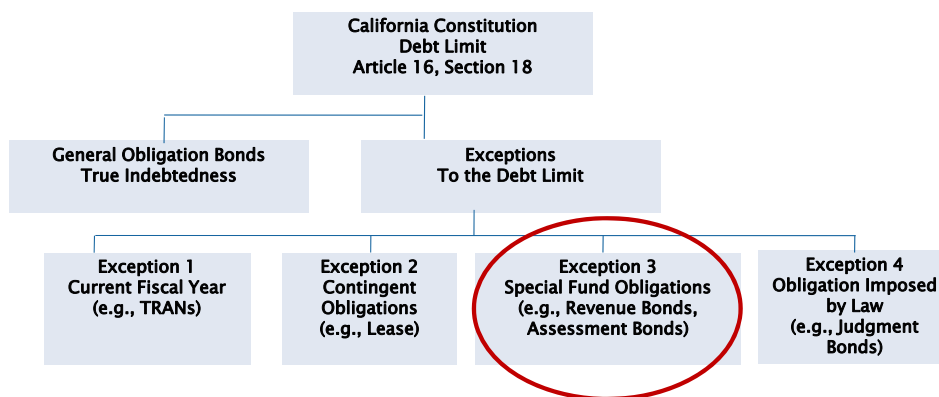
ARTICLE 16 PUBLIC FINANCE SEC. 18. No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year, without the assent of two-thirds of the qualified electors thereof, voting at an election to be held for that purpose...; nor unless before or at the time of incurring such indebtedness provision shall be made for the collection of an annual tax sufficient to pay the interest on such indebtedness as it falls due, and also provision to constitute a sinking fund for the payment of the principal thereof...

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DEBT AND ITS EXCEPTIONS



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DIFFERENT TYPES OF LONG-TERM FINANCING

	< Higher Rated		Types of Financing			Lower Rated>
Bond Type	General Obligation	Enterprise Revenue (e.g., Utility System)	Limited Tax or Assessment (area wide)	Lease Revenue (or Certificates of Participation)	Redevelopment (Tax Allocation)	Land Secured (New Development)
Source of Repayment	Property taxes	Utility fees	Special taxes or assessment revenue	General Fund	Incremental property taxes	13/15 Act Assessment or CFD Special Tax
Revenue Pledge	"Full faith and credit" of issuer. Secured by supplemental property tax levy.	Net revenues of the utility. Pledge to raise rates in order to maintain debt service coverage ("rate covenant").	Limited obligation special taxes or assessment revenue	Lease payments for use of an asset (usually leased-back from issuer-created third party). Paid from annual general fund appropriations.	Secured by tax increment, the share of the 1% property tax attributable to growth in assessed values after formation of the project area.	Limited obligation: Assessment or Special Tax on property. Backed by land value through foreclosures.
Vote Requirements	2/3rds voter approval. Schools may be 55%.	Typically no public vote required.	Varies; 50% vote for special benefit assessments	Typically no public vote required.	No public vote required.	Assessment District: 50% CFD: 2/3 vote if more than 12 registered voters

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SHORT-TERM VS. LONG-TERM DEBT

- **Short-Term Debt**
 - Used for operating cash flow; interim capital needs
 - Less than 5 years to maturity
 - 1 year most typical
 - Tax and Revenue Anticipation Notes (TRANS)
 - Bond Anticipation Notes (BANs)
 - Bonds authorized when BANs authorized
 - Revenue Anticipation Notes (RANs)
 - Commercial Paper (CP)
- **Long-Term Debt**
 - Permanent financing
 - 20-30+ years to maturity
 - Fixed rate or variable rate
 - Principal paid annually
 - Interest usually paid semiannually
 - Typically not callable for 10 years

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METHOD OF SALE

- **Public Offering**
 - Competitive Sale: Issuer (*SBFCA*) to Underwriter(s) (*Investment Bank*) via *sealed bid* then sold to Investors
 - Negotiated Sale: Issuer (*SBFCA*) to Underwriter(s) (*Investment Bank*) via *purchase contract* then sold to Investors
- **Private Placement**
 - Direct Placement: Issuer (*SBFCA*) to Investor (Used for Line of Credit)



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METHOD OF SALE COMPARISON (PUBLIC OFFERINGS)

	Competitive Sale	Negotiated Sale
Mechanic	Prepare Bond issue for market Set time for bids Award to underwriter with lowest true interest cost Award Sale	Select underwriter(s) Prepare Bond issue for market Set interest rates/yields on comparable sales and level of investor interest Execute Purchase Contract
When most appropriate	Well known issuer Conventional issue structure Good credit quality Strong market with high demand	Unknown issuer Complicated, rare and/or weak credits Lower quality as generally perceived by market Weak market with low demand, high supply or high volatility
Advantages	Meets public policy goal of competition and transparency Can produce bids that are "through" the market	Underwriter can pre-sell to investors Can lower execution risk
Disadvantages	Limits to fine tune structure to address investor demand More challenging to get your message out to investors	More difficult to demonstrate fair pricing Rarely able to outperform the market



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PRIVATE PLACEMENT VS. PUBLIC OFFERING

- Different dynamics for Short-Medium Term Debt vs. Long-Term Debt
- A common form is bank lease-purchase financing
- Can result in lower overall cost of borrowing
- Terms can be more flexible (i.e., line of credit - draw when needed)
- In many cases, can get a commitment/funding faster than a public offering
- Process tends to differ from a public offering

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THE FINANCING TEAM & RELEVANT PARTIES

- **Financing Team**
 - Issuer - SBFCA
 - Financial advisor - KNN Public Finance
 - Bond & Disclosure counsel - Jones Hall
 - Underwriter(s) - TBD
- **Relevant Parties**
 - Project consultants
 - Rating agencies
 - Trustee or Fiscal Agent
 - IRS/SEC
 - Investor(s), Direct Purchaser
 - Property Owners / Taxpayers

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ROLE OF THE ISSUER

- Develop policy; make decisions; assemble internal team
- Assemble and oversee external financing team
- Coordinate interrelated activities
 - Project cash flow needs, schedule, coordinate Board Actions
- Review overall plan at each financing stage
- Review documents; approval by Board as to form
- Review disclosure document (official statement) for accuracy and completeness; approval by Board of “near final” version
- Represent the issuer before the rating agencies
- Participate in sale process; provide sign-off within Board parameters
- Administer the issue until maturity



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ROLE OF FINANCIAL ADVISOR

- Protect the issuer’s interest during the entire issuance process (*Fiduciary Duty*)
- Evaluate financing options with issuer and develops a plan of finance
- Assist with all activities in bringing a note or bond issue to market and through closing
- Conduct competitive sale or negotiate the bond pricing
- Educate and Recommend to Board specific terms and structure of debt contemplated
- Assist in staff training and development of debt policies



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ROLE OF UNDERWRITER(S)

- The broker–dealer firm or syndicate who purchases bonds from issuer and reoffers to the investing public
- Purchases bonds via competitive bid or negotiated sale
- In a negotiated sale, may participate in the activities leading up to the sale
- Unlike a financial advisor, does not have a fiduciary responsibility to the issuer
- Typically selected through a competitive selection process



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ROLE OF BOND & DISCLOSURE COUNSEL

- **Bond Counsel**
 - Provides legal opinion as to validity of bonds and exemption of interest from federal and state income taxes
 - Without opinion from a recognized bond counsel, bonds are not marketable
 - Provides input on legal aspects of the financing structure
 - Drafts most legal documents, reviews official statement, may assist in the approval process of the documents, coordinates closing
- **Disclosure Counsel**
 - Provides the issuer advice on disclosure matters
 - Prepares official statement on behalf of issuer
 - Provides opinion as to sufficiency of disclosure



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THE LIFE CYCLE OF A BOND ISSUE (NEGOTIATED SALE)

Plan of Finance

- Determine capital needs/source of repayment
- Select financing team/consultants

Prepare for Issue

- Timing considerations
- Prepare disclosure/financing documents
- Determine sale type
- Develop the terms of the bonds
- Legislative approval

Marketing

- Rating(s)
- Credit enhancement
- Circulate Preliminary OS; pre-sale activity
- Pre-price, take orders; final terms, purchase contract

Administration

- Close
- Invest bond proceeds
- Manage expenditures for project and debt service
- Compliance with ongoing requirements

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BOND ISSUANCE COSTS

- Issuance* and underwriting costs tend to range from 1-3%
- Costs are paid from proceeds (borrowed as part of loan)
- Issuing in multiple series: need to evaluate costs vs. negative interest carry
- Other costs may be included if they reduce overall borrowing cost (i.e.; Bond Insurance Premium)
- Other items funded from bond proceeds (i.e., reserve fund)

* Bond/disclosure counsel, financial advisor, rating(s), trustee, printing, misc.

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SBFCA FINANCE PLAN

- Purpose
 - Demonstrate sufficiency of expected local funding sources (assessments and financing proceeds) given current estimates of overall project cost and phasing and expected State funding
 - Mitigate State funding risks to the extent possible
 - Serves as guidelines for the issuance of long-term debt
- Project and State funding assumptions
 - Segments 1-6: \$290 million cost, State = \$225 million, Local = \$65 million
 - Phased construction starting 2013
 - Segment 7: \$58 million



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OVERALL FINANCE PLAN (CONT.)

- Assumptions for debt structure
 - Initial short-term financing: Provide cash flow financing, repaid from future bonds, security is assessment revenues, additional debt subject to test (*already in place*)
 - Long-term debt: *Each* series comprised of 30-year, current interest bonds with overall level debt service. 10-Year “no-call” period, first lien on revenues, reserve fund, 110% coverage and additional bonds test.
- Overall strategy:
 - Maximize Bond Proceeds & Pay-as-you-go revenue, issue no more debt than needed, continuously refine assumptions as more detailed information becomes available
 - Issue bonds in multiple series
 - Minimize interest cost and issuance costs while addressing market risk
 - Minimize impacts of any State funding delays



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PREVIOUS FINANCING ACTIONS

- July 2010: Formed Assessment District and retained Financial Advisor
 - KNN Public Finance – Debt Advisor
 - Seth Wurzel Consulting – Budget Manager
- December 2011: Board bond financing overview presentation and authorization to recruit Bond & Disclosure Counsel
- February 2012: EIP Design Funding Agreement w/ DWR effective
- February 2012: Adopted 5-Year Budget & selected Jones Hall as Bond & Disclosure Counsel
- March 2012: Approved term sheet for short-term line of credit financing
- April 2012: Approved Loan Agreement for \$25 million Line of Credit with Rabobank, NA
- April – June 2012: Received \$3.49 million of design funding from DWR
- November 2012: Received Financing Update and approval to proceed with Underwriter Selection for future Bond Issue



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REVIEW OF BOND BASICS – SBFCA

- SBFCA plans to issue its first series of long term debt
 - Approximately \$20–30 million in proceeds (dependent on timing and other factors)
- The bonds are expected to:
 - Be secured by assessment revenues net of administrative expenses
 - Be Current Interest Bonds, whereby interest is paid semiannually
 - Have a 30-year term for each series
 - Have a typical 10-year call provision
 - Have a rate covenant to levy assessments equal to at least 110% of debt service coverage (but no more than the maximum assessment)
 - Have a 110% Additional Bonds Test (*bonds will not be issued with parity debt service that would result in less than 110% debt coverage*)
- SBFCA plans to competitively select an Underwriter for a Negotiated Sale



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SBFCA FINANCING

- Does not include
 - The issuance of Capital Appreciation Bonds
 - Assumptions for increasing revenue overtime
 - No-call periods greater than 10-Years
- Board approval of all issuances is required

Cost of Borrowing

- SBFCA's current in place short term financing
 - Interest Rate is interest only based on amount drawn down at 150 points over 1 Month LIBOR: Currently less than 1.75%
- Current market average rate for SBFCA 30-Year Assessment Revenue Bonds rate is below 4.50%



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SBFCA BOND ISSUE COMPARISON

	YCCD 2011 Bonds	SBFCA 1 st Bond Sale
Date	7/12/11	May-June 2013
Bond Type	General Obligation	Assessment Revenue
Rate	Aa2	"A" Category Expected
Bond Principal	\$34.935 Million	\$20-30 Million
Final Maturity	39 Years	30 Years
Current Interest Bonds	\$30.305 Million (2012-47)	All CIB's
Capital Appreciation Bonds	\$4.6 Million (2038,2048-50)	No CAB's
Call Option	CIB's: 10 Yrs at par CAB's: Not Callable	10 Yrs @ par No CAB's
Debt Service Structure	Escalating \$2MM-\$17MM	Overall Level
Final Reoffering Yield	CIB's 30 Yrs: 5.375% CIB's 36 Yrs: 5.52% CAB's 39 Yrs: 7.25%	No greater than 4.75 in 30 yrs n/a n/a

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1ST ISSUANCE FINANCE PLAN STRATEGIES

- Bond size will be based on construction bids
- Consider project cash flow to next point of State construction funding
- Evaluate options for reserve fund to maximize proceeds and/or reduce the ultimate amount of debt
 - Reserve requirement applies to all bond series
- Evaluate the cost-effectiveness of bond insurance and surety in-lieu of reserve
 - Decision is made on a series by series basis



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REQUIRED BOARD APPROVALS

- Board approval of bond sale would occur Spring/Summer 2013 dependent on project approvals (Env. Review / Permits)
 - Actual sale occurs a couple of weeks following Board approval
- Board approves method of sale (negotiated vs. competitive) and form of sale documents (purchase contract or notice of sale)
- Board approves not-to-exceed principal amount
 - Principal amount is finalized at time of sale
- Board approves basic debt structure
 - Current interest bonds
 - Not to exceed amortization period (i.e., 30 years)
 - Not to exceed true interest cost
 - Form of indenture, preliminary official statement and related documents
 - Call provision, etc.
- Staff authorized to take actions to complete the sale and issuance of the specific series



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1ST FINANCING TIMELINE

Date	Financing Milestone	Project Milestone
December 2012	Circulate RFPs for Underwriter(s)	
December 2012 – February 2013	Form selection committee; Receive/evaluate proposals; conduct interviews	
February 2013	Committee selection recommendation	
February 2013	Working group meetings, bond document drafting commences	
March 2013	Board considers Underwriter(s) selection recommendation. Construction funding agreement approved (expected).	
April 2013	Board presentation on bond sale approval*	
May-June 2013		Approve and Certify EIR Secured Construction Funding Agreement w/ DWR
May-June 2013	Board approves first bond sale	Award Project Area C Construction (Schedule A)
May-June 2013	Receive ratings/bond sale	
Spring 2013		Land Acquisition Commence Preconstruction Work
Summer 2013		Commence Construction

* Meeting prior to approval of bond sale.



NEXT STEPS

- **Underwriter recruitment process**
 - Develop list of pre-qualified Underwriters through consultation with member agency & SBFCA staff for distribution of RFP's
 - Distribute RFP's to pre-qualified list
 - Recruit member agency staff committee to evaluate proposals and conduct interviews (if necessary)
 - Report to Board at March meeting with recommendation
- **Continue with Bond sale preparations for Board approval following EIR certification**
- **Bond sale to occur following receipt of construction bids**
- **Goal is to be flexible to match cash flow needs and timing of project implementation**



QUESTIONS?

