Debt Issuance Process and Considerations

Presented By: David Medanich

First Southwest Company

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Collin County Credit Ratings

- Moody's - Aaa
  - 48 Aaa Counties Nationwide
  - 4 Aaa Counties in Texas
- Standard and Poor's – AAA
  - 62 AAA Counties Nationwide
  - 6 AAA Counties in Texas

Only 4 of the 254 counties in Texas are rated Aaa/AAA.

Only 48 of the 1,050 actively rated counties in the Country are rated Aaa/AAA.

Ratings

	Moody's Investors Service	Fitch/ Standard & Poor's
Highest	**Aaa**	**AAA**
	Aa1	AA+
	Aa2	AA
	Aa3	AA-
	A1	A+
Investment Grade	A2	A
	A3	A-
	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB-

NON-INVESTEMENT GRADE

Lowest

Rating vs. Interest Rate Has Inverse Correlation	
Rating Assigned	Interest Rate
The higher the rating, the lower the interest rate.	

Rating Factors

- Common rating factors for analyzing general obligation (property tax supported) credits
  - Economy – Diversified Tax Base
  - Financial Performance and Flexibility
  - Debt Burden
  - Management

Source: Standard & Poor's Public Finance Criteria

Outstanding Debt as of July 15, 2009

Current

- $335,130,000 General Obligation Debt outstanding
- $71,819,163,811 Current Assessed Value ("AV") as of 2008
- Debt/AV Ratio = 0.51%
- Debt Tax Rate $0.05824/$100

Roles of Advisory and Financing Team

- **Financial Advisor** (First Southwest Company "FSC")
  - Liaison between the County and the bond market, serving as the County's advocate and extension of staff
  - Develop financing plans and monitor the County's debt portfolio
  - Coordinate other service providers
  - Our objective is to net the County the most advantageous financing
  - Other Services offered by FSC
    - Evaluate: Post Employment Benefit ("OPEB") liabilities, Public Private Partnerships ("PPP"), feasibility of TIRZ, PIDs and other special districts
    - Continuing disclosure reporting
    - Arbitrage Rebate calculations

Roles of Advisory and Financing Team (cont.)

- **Bond Counsel** (Vinson & Elkins LLP)
  - Prepares all legal documents related to bond elections, including legal opinion that County is authorized to issue bonds and that interest on bonds is exempt from federal income taxation; prepares and submits transcript of proceedings for approval by Attorney General
- **Underwriter**
  - Securities dealer that purchases the bonds for resale to investors
- **Paying Agent/Registrar**
  - Financial institution that tracks ownership of the bonds and coordinates the process of bond payments to the bondholder
- **Credit Rating Agencies** (Moody's, Standard & Poor's, Fitch)
  - Organizations representing the bond market that evaluate the credit quality of a debt instrument and assign credit ratings

Authorized Debt Instruments

- **General Obligation Bonds**
  - Require a bond election for authorization, bonds may be authorized and issued for **any public purpose**. Public purpose is defined as public project or use specifically for the benefit of the county issuing debt
    - **Unlimited Tax Road Bonds**
      - Issued for road improvements. Can be up to 30 years in term (County has historically sold 20 year Bonds) and cannot exceed 25% (currently 0.3%) of County total appraised value (County has $210,580,000 in remaining authorization)
    - **Limited Tax Bonds**
      - Issued for County facilities or park improvements. Tax rate cannot exceed $0.80 per $100 assessed value. Can be up to 40 years in term (County has historically sold 20 year Bonds) (County has $88,800,000 in remaining authorization)

Authorized Debt Instruments, Cont.

- **Certificates of Obligation ("CO's")**

  - Require no voter authorization and can be issued for the same purposes as General Obligation Bonds with junior lien revenue pledge (ex. Parks, Solid Waste, Convention Center). Notice of intention to issue, must be published at least 30 days prior to sale in a local news paper. A petition process initiated by 5% of the registered voters can force an election.

  - COs which are secured solely by an ad valorem tax can be issued for only limited purposes (ex. Jails, County Owned Buildings, or Bridges).

  - COs are subject to a tax rate limitation of $.80 per $100 valuation. COs can be repaid by taxes or available revenues.

Authorized Debt Instruments, Cont.

Contractual Obligations

- Used solely for the acquisition of personal property. Designed to replace lease/purchase financing as a more cost-effective alternative, although each transaction should be independently evaluated as to its cost effectiveness. No voter authorization is required.
- Payable from ad valorem taxes

Tax Notes

- Require no voter authorization or notice of intent to sell. Tax Notes may be issued to fund: 1) construction of public work, purchase of equipment, machinery, materials, supplies, buildings and land and/or 2) pay a contractual obligation incurred or to be incurred for professional services. **Tax Notes have a maximum maturity of seven years.**

Collin County Toll Road Authority

- The County, or a Local Government Corporation ("LGC") acting on behalf of the County, may sell revenue bonds or combination tax and revenue bonds for a toll road project
- Revenue bonds (paid solely from toll revenues) do not require an election
  - Requires feasibility study
- Tax backed bonds require an election whether sold by County or LGC
- Requires Attorney General approval

2009 Financing Plan

- **New Money Proceeds**
  - $28,400,000 from Limited Tax Bonds and $15,835,000 from Unlimited Tax Road Bonds broken out as follows:

Road Construction Improvements	$15,835,000
Courthouse phase 2	$15,200,000
Juvenile Justice Alt. Ed. Facility	$ 9,800,000
Juvenile Detention Expansion	$ 1,000,000
Parks and Open Space	$ 2,400,000
Total	$44,235,000

- **Potential Refinancing of Existing Debt**
  - Currently, refinancing $12,570,000 of debt results in over $630,000 of savings or approximately $70,000 per year
- **Timing**
  - Mid to late August is targeted time frame for bond sales

Build America Bonds "BABs"

- Authorized in the American Recovery and Reinvestment Act of 2009
- Must be issued by 12/31/2010
- County would issue bonds at a taxable interest rate, the Federal Government would rebate 35% of the interest cost **(payment is a subsidy, not a government guarantee)**
- Allows investors who do not benefit from tax-exempt income to participate in BAB sales: Pension funds, foreign investors, 401-K's (which is much bigger market than tax-exempt market)
- Could potentially benefit from a lower "all-in" borrowing cost depending on the term of the bonds
- <u>Considerations of issuing BABs should be carefully evaluated</u>

BAB rate comparison (as of 7/15/09)

COLLIN COUNTY

Build America Bond vs. Tax-Exempt Bond Interest Rate Comparison

Rates as of July 15, 2009

	Taxable	35% Subsidy	Net BAB Rate	Tax-Exempt	BAB Benefit (Cost)
1 Year	1.77%	(0.62%)	1.15%	0.70%	(0.45%)
5 Year	3.71%	(1.30%)	2.41%	2.17%	(0.24%)
10 Year	5.04%	(1.76%)	3.28%	3.36%	0.08%
15 Year	5.38%	(1.88%)	3.50%	4.03%	0.53%
20 Year	6.09%	(2.13%)	3.96%	4.49%	0.53%

Note: Assumes 10 year par call on both types of bonds

Considerations of Issuing BABs

- **Political Risk**
  - Future administration could renege on the 35% payment or change the amount of the subsidy (would be political pressure against any change).
- **Administrative Risk**
  - Checks mailed in first year of program may arrive after payment dates
  - Issuer is required to semi-annually file forms in order to receive each rebate
- **Offset Risk**
  - Treasury has said BAB rebate payments can be used to offset other payments that they claim the issuer owes them (rebate liabilities)
- **Audit Risk**
  - Treasury has stated that certain additional audit procedures may be imposed on BABs participants such as verifying their existence, validity and spending of Bond proceeds

Considerations of Issuing BABs (cont.)

- Higher Takedowns (Underwriter's Compensation)
  - Taxable bonds have historically had takedowns ($7.50-$8.75 per $1,000 Bonds) that exceed takedowns on traditional tax-exempt bonds ($1.25 - $5.00 per $1,000 Bond)
- Question exists on ability to advance refund BABs
- Can be structured with a mix of tax-exempt bonds and BABs and will be monitored up to the time of pricing
- Use of BABs should require a specific level of savings (i.e. at least 0.40% to 0.50%) over the tax-exempt market to compensate for risks
- Estimated savings approximately $41,000 per year or $825,000 over the life of the Bonds. Total Government Subsidy $6,500,000. Annual Tax Rate impact is 6 one thousandth of a cent.

Type of Bond Sales

- **Competitive Bid**
  - Bonds sold on a date and time certain
  - Once announced, time, date, size and structure cannot be changed easily
  - Underwriter's discount is imputed in the interest rate
  - Cost is likely higher during volatile markets
- **Negotiated**
  - Pre-selected syndicates negotiate rates with financial advisor input
  - Pricing occurs 1-3 days prior to sale date
  - Size and structure can be finalized at pricing (better suited for refundings)
  - BABs and Advance Refunding Bonds would need to be sold on a negotiated basis