An Elected Official's Guide to

DEBT ISSUANCE

Second edition

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Library of Congress Control Number: 2005925699

ISBN 0-89125-278-9

Printed in the United States of America.

First printing, May 2005
Second printing, January 2007
Third printing, May 2008

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Foreword

(updated foreword to come later)

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OVERVIEW OF THE TAX-EXEMPT BOND MARKET

Why do governments issue debt?

State and local governments issue debt for a variety of reasons. The issuance of long-term bonds has historically provided a major source of funding for capital needs. Due to the high cost of acquiring or replacing capital assets, governments are generally not able to accumulate enough cash from current receipts to pay for the necessary improvements. Borrowing money permits governments to acquire assets as needed rather than wait until a sufficient amount of cash has been built up. The issuance of bonds also spreads the costs of a capital asset to those who benefit from it, both now and in the future.

In addition, governments sometimes borrow on a short-term basis to meet operating expenses in anticipation of receiving future moneys. Among the commonly issued short-term instruments are tax anticipation notes, revenue anticipation notes, tax and revenue anticipation notes, and grant anticipation notes. Issuance of short-term notes permits governments to smooth out cash flows, thereby enabling them to provide essential services before receipt of major tax or revenue inflows.

Short-term financing is sometimes used to meet interim financing needs of construction projects if the full cost of the project is not yet known. Governments can borrow on a short-term basis as needed and refinance with long-term debt once the project is completed. Short-term financing also is used if the issuer believes that market conditions are such that delaying issuance of long-term bonds is a more advantageous approach. For example, if long-term interest rates are falling, the issuer might prefer to do a short-term borrowing now and refinance with long-term bonds when interest rates are more favorable. Bond anticipation notes, commercial paper, and bank lines of credit are commonly used for this purpose. These instruments provide funding for a project until permanent financing can be arranged.

What are the unique characteristics of bonds issued by state and local governments?

A fundamental characteristic of most state and local government securities is their tax-exempt status. Interest income is, in general, exempt from federal income tax and may also be exempt from state and local income taxes. As a result, tax-exempt bonds carry the lowest rates of interest in the securities market.

Additionally, state and local government securities are exempt from the registration requirements imposed on corporate issuers. When most corporate issuers sell bonds, they must file offering documents with the Securities and Exchange Commission (SEC) before the sale. Corporate issuers must provide updated information on their companies periodically using standardized reporting formats. State and local government securities are not subject to these SEC requirements. However, SEC rules have placed greater responsibilities on governmental issuers for primary and secondary market disclosure, as will be described later in this publication.

For what purposes can bonds that are exempt from federal taxation be issued?

Federally tax-exempt bonds are usually issued for governmental purpose capital projects that benefit the general public. Examples include schools, roads and fire stations.

Subject to some limitations and restrictions, tax-exempt obligations may also be used for "working capital" purposes. Examples include borrowings in anticipation of receiving property taxes or other revenues. Some obligations for programs that make grants or reimbursements to other entities may also qualify for federal tax-exemption.

In addition, certain "private activity" bonds may be issued on a tax-exempt basis. The Internal Revenue Code defines private activity bonds as those for which (1) more than 10 percent of the proceeds will be used by a private entity or will finance facilities to be used by a private entity, and (2) payment of the principal of, or interest on, more than 10 percent of the bonds will be paid from or secured by private sources.

Bonds for construction or improvement of many kinds of docks and wharves, airports, water and sewage facilities, facilities for the local furnishing of electric energy or gas, mass commuting systems, and solid waste disposal facilities may be issued as tax-exempt private activity bonds under the federal tax code definition. However, the federal tax code generally requires that 95 percent or more of the net proceeds of these bonds be used to finance the facility and the facility is available on a regular basis for general public use. These bonds are known as "exempt facility bonds." Other types of private activity bonds that are eligible for tax exemption include qualified 501(c)(3) bonds. These securities are issued for projects of Section 501(c)(3) non-profit organizations such as educational or health care facilities.

Federal tax laws governing the types of projects for which tax-exempt bonds may be issued are complex. While issuers should stay abreast of changes in federal regulations, it is essential to consult with bond counsel when planning a bond sale to determine whether projects qualify for tax-exempt financing. Failure to comply with federal requirements could result in loss of an issue's tax-exempt status, which can be very costly to issuers. The Internal Revenue Service (IRS) generally seeks to have issuers pay very substantial settlements. Additionally, bond owners can sue for damages and issuers also can be sued for securities fraud because their bonds have lost tax-exempt status.

PREPARING THE CAPITAL IMPROVEMENT PLAN

Why is a capital improvement plan essential to a long-term debt program?

Before undertaking a long-term debt program, governments must have a clear understanding of the types of projects they intend to finance and when expenditures for projects will be made. Development of a capital improvement plan is an essential first step in preparing to issue debt. The plan should be formally submitted to and adopted by a jurisdiction's elected officials.

A capital improvement plan identifies projects to be funded, funding sources, and project expenditures over the planning horizon. The capital improvement plan is a management tool that assists managers in:

- Establishing priorities in order to balance capital needs with all available funding;

- Matching projects with appropriate funding alternatives;

- Ensuring that debt-financed projects do not exceed legally or statutorily permitted levels of debt issuance; and

- Planning for debt issuance to meet expenditure requirements.

In addition to serving as a planning, financing, and management tool, a well-prepared capital improvement plan is viewed as a positive factor by the credit rating agencies in evaluating the credit quality of a jurisdiction. A capital improvement plan is one way a jurisdiction can demonstrate its commitment to systematically replacing or improving its capital infrastructure. It also provides evidence that a community has evaluated its long-term financial resources, and has developed a plan to meet both operating and capital needs.

Should capital programs rely solely on debt financing?

While bond financing can be an important component of a government's capital funding plan, community leaders should evaluate all potential capital funding resources for the planning period. A systematic review of all funding alternatives will help a jurisdiction to maximize resources available for its capital program. These include intergovernmental grants from federal, state, or other sources; state revolving funds or loan pools; current receipts and fund balance available from prior years; private-sector contributions through impact fees, service contracts, or public/private partnerships; and leasing. Funding alternatives that are appropriate for some activities but not for others can be targeted early, thereby ensuring that these options are not closed off before they are given full consideration.

When reviewing various funding alternatives, governments need to be realistic in their assessment of whether certain funds or financing methods will be available or are feasible. For example, some financing methods may involve a higher degree of risk than the community is willing to take. Other financing methods will be new for a jurisdiction or be so complex that a significant commitment of staff time and effort will be required to understand them. Additional time will be needed to gain consensus among interested parties on the use of these methods. Finance officials may decide that such alternatives, while allowing the jurisdiction to maximize its capital resources, involve transaction costs that are too high or are politically unacceptable relative to the benefits.

What factors should be examined when deciding on the mix of pay-as-you-go and bond-financed projects?

For most jurisdictions, an important consideration is whether to pay for capital improvements from current revenues or fund balances (pay-as-you-go) or to issue bonds. Borrowing is appropriate to finance projects with high capital costs and long useful lives. Issuing bonds provides an equitable method of financing these types of projects. Taxpayers of several generations will both benefit and pay for these projects, and no one group of taxpayers will be unfairly burdened. The maturity of the debt should not, however, exceed the useful life of the project being financed.

Some pay-as-you-go financing should be a part of every jurisdiction's capital finance program. Repair and replacement projects with short useful lives are not appropriate for long-term debt financing and should be considered for a jurisdiction's pay-as-you-go program. A carefully planned use of current revenues or fund balance for a pay-as-you-go program is regarded as a positive factor in credit analysis.

DEVELOPING A DEBT POLICY

What is a debt policy?

Once a jurisdiction decides to issue debt, it should develop a formal debt policy to establish parameters and to provide general direction in the planning and implementation of a debt program. The Government Finance Officers Association (GFOA) recommends that all state and local governments adopt comprehensive written debt management policies and that these policies be reviewed at least annually and revised as necessary. Debt policies should be formally submitted to and adopted by a jurisdiction's elected officials.

A debt policy will encompass several elements. Among the more common considerations are:

- Purposes for which debt will be issued;
- Types of debt that may be issued;
- Limitations on indebtedness;
- Debt maturity schedule or other structural features;
- Method of sale;
- Method of selecting consultants and professionals;
- Refunding policies; and
- Disclosure practices.

In setting policy goals in each of these areas, governments should undertake a comprehensive review of factors affecting their financial position. For example, establishing a policy on acceptable levels of debt will require an understanding of the legal limitations on debt issuance, service levels and other factors affecting long-term operating expenses, debt commitments of other government entities relying on the same tax base, and demographic and economic trends affecting the community.

Why develop a debt policy?

A debt policy offers several advantages. First, a debt policy can help community leaders integrate the issuance of debt with other long-term planning, financial, and management objectives. A debt policy also is useful once bonds are issued to evaluate the impact of each issue on the jurisdiction's overall financial position. Finally, a debt policy provides guidance to community leaders on acceptable levels of indebtedness. While debt policies are beneficial in establishing a framework for debt issuance, they should be sufficiently flexible to permit governments to take advantage of market opportunities or to respond to changing conditions without jeopardizing essential public services.

A carefully crafted and consistently applied debt policy provides evidence to the rating agencies of a community's commitment to prudent borrowing practices. As such, it is regarded positively in evaluating a jurisdiction's creditworthiness.

CHOOSING A DEBT INSTRUMENT

What are general obligation bonds?

General obligation bonds are typically issued to finance government improvements benefiting the community as a whole. These obligations are secured by the full faith and credit and taxing authority of the issuer. The issuer pledges to levy the necessary taxes on all assessable property within its jurisdiction to provide timely repayment of the debt. Due to the strength of this security pledge, general obligation bonds are readily accepted in the municipal marketplace and usually have lower interest rates than comparably rated revenue bonds. General obligation bonds have a further advantage in that they do not require the issuer to create a debt service reserve fund or to use the services of a trustee, both of which may be necessary when issuing revenue bonds. Consequently, general obligation bonds can be issued at a lower cost relative to revenue bonds.

General obligation bonds have certain limitations. Many states have constitutional or statutory limitations on the amount of general obligation debt local jurisdictions may incur. Further, voter approval may be required in order to authorize the issuance of general obligation bonds. This requirement can limit the jurisdiction's ability to finance needed improvements or to enter the market quickly to take advantage of favorable market conditions. Debt limitations have, in some cases, necessitated the issuance of "limited tax" general obligation bonds. For this type of security, an issuer might pledge to levy property taxes up to a specified tax rate to support debt service payments or to secure the bonds with its available general fund revenues.

What are revenue bonds?

Revenue bonds are issued to finance facilities that have a definable user or revenue base. These debt instruments are secured only by a specific source of funds, either from the operations of the project being financed or from a dedicated revenue stream, rather than the general taxing powers of a jurisdiction; hence, revenue bonds are considered less secure than general obligation bonds. Voter approval is usually not necessary to issue revenue bonds. Nevertheless, revenue bond issuers are customarily required to set reasonable rates and charges, thereby limiting the amount of debt service that can be supported by the facility. To provide greater bondholder protection, some jurisdictions choose to issue "double-barreled" bonds, which are secured both by a dedicated revenue stream as well as by the general taxing powers of the jurisdiction.

Since revenue bonds are secured only by the revenues that are pledged to pay the bonds, revenue bond documents (bond resolutions, trust indentures, and similar documents) typically require issuers to make many more promises about the operation of the facilities that produce the revenues. General obligation bond documents typically do not include these promises. The revenue bond promises (or "bond covenants") usually include rate covenants, the additional bonds test, and operation and maintenance requirements that must be met by the issuer.

Issuers also may be required to maintain a debt service reserve fund to be used for debt service payments should shortfalls in planned revenues from the facility's operations occur. In addition, market conditions may compel issuers to enhance the credit of the bonds by purchasing bond insurance. Issuers often pay for these items with bond proceeds, which increases the size of the bond issue.

What other financing instruments are available for capital improvements?

Governments may take advantage of other types of financial instruments. Some of these instruments have become more prevalent as a result of difficulty in getting voter approval for general obligation bond issues. These include the following:

Special Assessment or Special Improvement District Bonds. These bonds are issued to finance improvements that benefit a specific area. Because the benefit is largely enjoyed by a limited segment of the community, a special assessment to pay debt service is levied only on properties or households benefiting from the project. The limited revenue pledge for special assessment bonds increases their perceived risk, resulting in higher interest costs. To mitigate this risk, some governments provide additional security by pledging their full faith and credit to the payment of the bonds.

Tax Increment Financing (TIF) Bonds. TIF bonds have been used by jurisdictions to promote revitalization of a given geographic area. Debt service on TIF bonds is paid from property tax collections generated from the increase in assessed property value in the TIF district. TIF bonds can be risky. During periods of economic downturn, the economic growth needed to repay the obligation may not forthcoming or projects financed with the TIF bonds may cease to produce tax revenues.

Leasing. Governments sometimes find it advantageous to lease equipment or facilities rather than purchase them outright. Leasing is appropriate for procuring assets that are too expensive to fund with current receipts in any one year, but with useful lives too short to finance with long-term debt. Leasing is also advantageous for assets that will be needed for only a short period of time, or which are subject to rapid technological obsolescence. Governments can ordinarily lease assets without securing voter approval, but often pay higher annual costs relative to issuing tax-exempt bonds.

Certificates of Participation (COPs). Lease-purchase agreements can be structured such that securities can be issued and marketed to investors in a manner similar to tax-exempt debt. These securities are known as certificates of participation. In a COP transaction, a government agency enters into an agreement with another party (the "lessor") to lease an asset over a specified period of time at a predetermined annual cost. Lease payments are sufficient to pay for principal and interest on the leased asset. The lessor then identifies a group of investors who are willing to provide funding for the asset in return for a share of the lease payments made by the government agency. The interest portion of the lease payment is tax-exempt income to investors.

In some states, a significant credit risk relates to the annual appropriation requirement for these instruments. In order to avoid the legal or statutory limitations associated with issuing debt, lease payments may be subject to an annual appropriation of revenues, creating the risk that the municipality may fail to appropriate funds to make lease payments. This outcome is more likely to occur in cases where voters are unhappy with the project being financed, or in difficult economic times. Consequently, certificates of participation carry a lower credit rating than the issuer's general obligation bonds, resulting in higher interest rates. COPs typically work best for facilities that are considered essential to governmental operations.

What are variable rate instruments?

Some governments issue variable rate debt to finance capital improvements. Variable rate bonds can be structured with maturities as long as an issuer's fixed rate debt (e.g., 20 to 30 years), but the interest rate may be adjusted daily, weekly, or at some other interval. A chief advantage of variable rate debt is historically lower interest costs. However, the issuer must accept the risk that short-term rates may rise above the fixed rate it could have received at the time bonds were issued. Also, there is less certainty in budgeting debt service payments.

Some amount of variable rate debt can be appropriate as part of an asset/liability management strategy. Variable rate debt provides a hedge against changes in interest rates in an issuer's investment portfolio – declining interest rates in the debt portfolio can offset declining rates in the investment portfolio.

Commonly issued long-term variable rate instruments include the following:

- *Variable Rate Demand Obligations (VRDOs).* These instruments have long-term maturities but have a coupon interest rate that is reset periodically. A VRDO includes a demand or "put" feature that permits the investor to require the issuer to repay the debt at the time rates are reset or at other specified intervals. Because of this obligation to repay principal and interest on any interest reset date, issuers of VRDOs will typically purchase a liquidity facility, such as a letter of credit, which can be drawn upon to repay investors until the securities can be remarketed to new investors. Liquidity facilities are not usually available for the full term of the VRDO and will need to be renewed. An issuer faces the risk that the liquidity facility will not be renewed, particularly if its credit quality is low or has declined. Issuers with low or unstable credit ratings may find that VRDOs are not an appropriate financing instrument.

- *Auction Rate Securities*. These instruments are variable rate securities for which the interest rate is reset periodically using a Dutch auction process. In a Dutch auction, interested investors submit to an auction agent the interest rate they require to either continue to hold the securities or to purchase them. The lowest interest rate necessary to sell the entire amount of securities becomes the interest rate at which all securities are sold.

What are derivative products?

There has been increasing use of derivative products by state and local government issuers, although these instruments continue to be predominately used by larger or more frequent issuers. Derivative products are financial instruments whose own value is based upon (derived from) the value of other assets or interest rate levels.

Interest rate swaps have become one of the more commonly used derivative products in the municipal market. A fixed-to-floating interest rate swap permits an issuer of fixed-rate debt to exchange its fixed interest rate payments for floating rate payments over the term of the swap contract. The issuer enters into an agreement with a counterparty to make floating rate payments based on a "notional" amount (usually equal to the principal amount of the bonds) and an interest rate index. The counterparty, in turn, pays the issuer a fixed rate. The fixed-rate payment to the issuer would then be used to make debt service payments on the fixed-rate debt. An issuer can also enter into a floating-to-fixed rate swap.

Although derivative products may make good financial sense for some governmental issuers, there are specific risks associated with their use. It is important that those risks are understood and studied carefully before an issuer engages in a bond transaction that involves the use of derivative products. Among those risks are basis risk, counterparty risk, term mismatch between the life of the issued bonds and the length of the swap agreement, and some degree of budgetary uncertainty. The GFOA recommends that state and local officials be cautious in the use of derivative instruments and use them only when they have developed a sufficient understanding of the products, the internal staffing and expertise to properly manage and evaluate these products, either on their own or in combination with a swap or financial advisor, and a comprehensive derivative policy.

SELECTING THE FINANCING TEAM

Who are the key participants in a debt financing?

Governments employ outside financial specialists to assist them in developing a bond issuance strategy, preparing bond documents, and marketing bonds to investors. The key players in any bond transaction will usually include a financial advisor, bond counsel, and underwriter. Other firms, such as those providing paying agent/registrar, trustee, auditing, printing, or escrow verification services, are retained as necessary.

What general qualifications should the issuer look for in selecting the finance team?

When selecting a financing team, the issuer must feel confident that participants have the necessary expertise to represent its interests and to successfully complete its bond sale. In general, the issuer should look for finance professionals with an understanding of the jurisdiction's needs, experience with similar types of securities, knowledge of beneficial approaches taken by other issuers, an understanding of innovative debt financing methods which can reduce costs or provide greater flexibility, and an ability to complete the transaction in a timely manner without undue burden on the issuer. A competitive request for proposals (RFP) process is essential in order to compare the qualifications of firms providing particular services and to select the firm that best meets the issuer's needs.

Compensation to the finance team is always a concern to government officials; fees paid to these individuals reduce the amount of bond proceeds available to fund capital improvements. While issuers should strive to keep bond issuance costs to a minimum, price should not be the overriding factor in choosing finance professionals. Having a knowledgeable team that understands the objectives of the issuer, is able to identify creative solutions to meet these goals, and achieves savings on long-term borrowing costs is an equally important consideration that should be carefully weighed in the selection process.

What is the role of the financial advisor?

The financial advisor's role in the debt issuance process varies, depending on whether bonds are issued through a competitive or negotiated method of sale. In a competitive sale, the financial advisor works with the issuer to determine the structure and timing of the issue, to prepare bond documents and rating agency presentations, to evaluate and select the best bid, and to close the transaction. In a negotiated sale, the managing underwriter may provide many of these services. In this case, the financial advisor's vital role is to ensure the issuer's goals and interests are represented and protected when structuring the transaction and establishing the borrowing rates/yields on the bonds.

An issuer often retains the financial advisor before development of the capital improvement plan. The financial advisor can assist a jurisdiction in identifying capital financing alternatives, planning its debt program, and determining the appropriate method of sale.

Financial advisory services are offered through underwriting firms, commercial banks, and independent firms that have no affiliation with an underwriting institution. While there are advantages and disadvantages for each, the ability of the financial advisor to provide an objective and informed review of all aspects of the transaction is an essential qualification. In order to minimize conflicts of interest and promote objectivity, governmental issuers should avoid selecting a firm to serve both as financial advisor and as underwriter of a bond issue. Some issuers have policies that prohibit firms from serving as underwriter for a period of time after having been the financial advisor for a bond transaction.

How is the financial advisor compensated?

The financial advisor may be compensated on an hourly or fixed-fee basis, or as a percentage of the amount of bonds sold. This amount is usually expressed as a certain number of dollars per $1,000 bond (e.g., $1.00 per bond on a $50 million bond sale would result in a $50,000 fee).

Issuers should exercise caution when paying the financial advisor based on the amount of bonds issued for two reasons. First, payment on a per bond basis may not adequately reflect the amount of work undertaken by the financial advisor on behalf of the issuer. Second, this method provides an incentive to advocate the issuance of bonds whether or not this financing method is most advantageous for the issuer. Payment on an hourly or fixed-fee basis removes this potential conflict of interest.

What is the role of bond counsel?

The primary role of bond counsel is to certify that the issuer has the legal authority to issue the bonds and that the securities qualify for federal and (if applicable) state and local income tax exemption. The opinion of bond counsel provides comfort to investors in purchasing an issuer's securities, since it reduces the risk that bond contracts will be unenforceable or interest income included in the computation of federal income taxes.

Bond counsel advises an issuer on whether a proposed borrowing is legally permitted and works with the issuer in order to assure compliance with all constitutional, statutory, and procedural requirements. The bond counsel will also assist in drafting bond documents, including the official statement, ordinances or resolutions authorizing the issuance and sale of a bond offering, the tax certificate, and other necessary documents.

When selecting a firm to serve as bond counsel, an issuer should be primarily interested in the strength of the firm's reputation in the area of municipal bonds. The degree of confidence of both issuers and investors in the opinion of bond counsel will be directly related to the firm's experience. *The Bond Buyer's Municipal Marketplace* (often referred to as the "Red Book") is a directory of firms specializing in municipal bond sales, and is a good source for identifying firms with national reputations in municipal finance. While the Red Book provides a useful starting point, it is important to independently check the reputation and qualifications of firms when selecting bond counsel by talking with financial advisors, underwriters, or other issuers.

How is the bond counsel compensated?

The bond counsel is compensated on a fixed-fee or hourly basis, or as a percentage of bonds sold. When negotiating these fees, issuers should consider the complexity of the issue, the degree of risk involved in the transaction, and the amount of work required to complete the transaction. As discussed earlier, it is often more difficult to adequately reflect these considerations when paying bond counsel on a per bond basis, since the amount of bonds issued is not always a good measure of the difficulty of the transaction.

What is the role of the underwriter?

The primary function of the underwriter in a bond transaction is to purchase securities from a government issuer and resell them to investors.

In a competitive sale, underwriting firms bid against one another for an issuer's bonds. Underwriters determine their bid by reviewing the pricing of comparable issues, talking to potential investors, identifying other issues that are likely to be in the market at the same time, and assessing the level of competition among various underwriting firms for the bonds. Issuers may accept bids using various approaches, including personal delivery, submission by facsimile, or electronic bidding via the Internet or other bidding system.

In a negotiated sale, underwriters know in advance that they will purchase the bonds. They are able to discuss the issue in advance with potential investors and to develop a structure that both meets their needs and is cost-effective for the issuer. The underwriter will assist in determining an appropriate time to sell bonds based on market conditions. The final purchase price is determined through negotiation between the underwriter and the issuer, culminating in the signing of the bond purchase agreement.

What is a bond syndicate?

A bond issue may be too large for one underwriting firm to handle exclusively. In addition, certain firms have particular strengths in selling bonds to specific types of investors or in meeting policy objectives of the issuer. As a result, a team known as a syndicate may be formed either by the underwriting firms themselves or by the issuer to purchase bonds and redistribute them to final investors.

Bond syndicates may consist of different tiers, including senior managing underwriters and co-managers. Larger firms have the capacity to handle the affairs of the syndicate. The firm designated to perform these functions (i.e., to "run the books" of the account) is known as the "book-running" senior managing underwriter.

Co-managers are selected based on their ability to market bonds to particular investor groups, such as large institutions (commercial banks, property and casualty insurance companies, and other corporate investors), or individuals and bond mutual funds designed for these investors. In negotiated sales, they may also be selected to meet certain policy objectives of the issuer, including ensuring that regional firms and investors have access to bonds, or meeting Disadvantaged Business Enterprise goals. Issuers often work with the senior managing underwriter to allocate bonds to particular firms in the syndicate in order to achieve such policy goals.

How are the underwriters compensated?

Underwriters receive a “gross spread” (also known as “underwriter’s discount”) for providing underwriting services to issuers. The gross spread is a percentage of the amount of bonds sold, and is expressed as certain number of dollars per $1,000 bond. The gross spread has four components:

Takedown. Compensation to the underwriters for selling the bonds, sometimes referred to as the sales commission.

Management Fee. The fee paid to the underwriters for financial advice, document preparation, and managing the activities of the bond syndicate.

Underwriting Risk. Compensation to members of the underwriting syndicate for the risk involved in committing to buy and place the issuer’s securities. Over time, underwriting risk has been an increasingly rare component of the gross spread.

Expenses. Costs incurred by the bond syndicate in the sale process (e.g., travel). Underwriter’s counsel is a significant expense often included in this category.

Compensation to the underwriters varies by method of sale. The gross spread will be reflected in the underwriter’s bid when a competitive method of sale is used. In selecting the firm providing the most aggressive bid, issuers can be confident that they have paid a fair price for underwriting services given market conditions on the sale date.

In a negotiated sale, the issuer negotiates an amount with the underwriter for each of the four gross spread components. The issuer has more control over some of these components than others. The management fee and underwriting risk are fees that the issuer will usually have greater flexibility in negotiating. The takedown, which is the largest component of the gross spread, is determined to a great extent by market conditions, the investors to which the securities are being marketed, and the type and maturity of the securities. Nevertheless, there may be some opportunity to negotiate this amount as well. If an RFP process is used to select the underwriter, including a question asking for an indication of each of the gross spread components for the type of securities, amount, and expected credit rating of the planned issue can be useful as a starting point when negotiating with the underwriter.

To the extent possible, the issuer must feel comfortable that the amounts paid to the underwriter reflect the level of effort and resulting interest rate obtained on the transaction. Ultimately, the goal is to compensate the underwriters sufficiently to provide an incentive for them to work aggressively on behalf of the issuer. At the same time, the level of compensation should reflect an understanding of what an underwriter can realistically achieve given market conditions.

What other types of services may be required in issuing bonds?

A bond sale may require the services of other professionals including the following:

Paying Agent/Registrar. Receives funds from the issuer and makes payments to bondholders; also maintains records of bond ownership.

Trustee. Acts as fiduciary agent for the benefit of the bondholders in enforcing the terms of the trust indenture.

Underwriter's Counsel. Advises the underwriter on federal and state securities law and provides an opinion that bond documents are true, do not omit material facts, and do not provide misleading information.

Rating Analyst. Evaluates credit quality of bonds or notes and assigns a rating to the issue.

Escrow Verification Agent. In a refunding transaction, verifies the cash flow sufficiency of the escrow securities to pay principal and interest on the refunded bonds until the call date.

Securities Depository. Maintains a record of ownership for bonds issued without physical certificates of ownership, known as "book entry" securities.

Printer. Prints, and sometimes distributes, official statements.

PREPARING THE BOND DOCUMENTS

What is the official statement?

The official statement (OS) discloses pertinent information regarding the debt offering of a governmental entity. It is the municipal capital market's version of an "offering circular" or "prospectus" in the corporate capital market. The Municipal Securities Rulemaking Board (MSRB) requires that underwriters make a copy of the official statement available to each purchaser of a new bond issue.

The official statement should contain complete information about the bonds being offered including, but not limited to, the purpose of the offering, a description of the security pledged for repayment of the bonds, the governmental issuer and its financial condition, the structure of the offering, the risks inherent in owning the bonds, and the legal issues relevant to the issue, especially the tax status of interest income earned by investors.

In a competitive sale of bonds, a preliminary version of the official statement (POS) and the official notice of the bond sale are distributed to prospective bidders for the bonds. The POS contains all information about the issue except for information that can only be known when the bonds are sold. The POS is sometimes referred to as the "red herring" because of a notice printed in red ink on the cover stating that the POS does not constitute an offer to sell or a solicitation of an offer to buy securities. In a negotiated sale, the POS is distributed to and used by the underwriter to obtain indications of investor interest prior to establishment of interest rates or offering prices. Once the sale is final, the issuer or its financial advisor prepare a final official statement, which incorporates coupon interest rates, reoffering yields or prices, and other information that was not known before the sale.

What is the bond resolution?

The bond resolution is adopted by the issuer's governing body to authorize the issuance and sale of municipal securities. The bond resolution describes the nature of the bond offering, the terms and conditions of the sale, and the obligations of the issuer to the bondholders. Among the provisions included in the document are the:

- Dollar value of the bonds that may be issued;
- Security supporting the payment of the bonds;
- Form of the bonds;
- Approval of the preliminary official statement and official statement; and
- Approval of the terms of the bond sale.

When a trust indenture is used by the issuer, the bond resolution also approves the trust indenture and may provide for the appointment of a trustee who is to act on behalf of the bondholders.

What is the trust indenture?

The trust indenture is a legal contract between the issuer and a trustee establishing the responsibilities of the issuer and the rights of the bondholders. Trust indentures are usually used when funds need to be held by a third party (such as in a bond reserve fund) or when bond owners want a third party to monitor the performance of an issuer. The trust indenture defines the security, flow of funds, bond covenants, and other provisions for the protection of the investors. The trustee enforces the terms of the trust indenture for the benefit of the investors.

What is a feasibility study?

A feasibility study is a report that is prepared to assess the need for a capital project or program, its economic viability, and the ability of the revenues generated by the project or program to repay debt. Feasibility studies are often conducted in preparation for the sale of sewer, water, or other revenue bonds. The feasibility study examines economic and demographic trends, reviews historic and projected demands for the service, assesses rates or user fees that can be supported, develops a cash flow for the facility, and evaluates the ability of pledged revenues to cover debt service. This report can also include an assessment of the overall condition of a revenue-generating facility or system, the management of the facility or system, the adequacy of operations and maintenance expenditures, and whether capital replacement is being undertaken as needed.

What is the notice of sale?

The notice of sale is an advertisement prepared by the issuer or its bond counsel to invite municipal underwriters to submit bids for a new debt issue. This document is used when an issuer intends to sell bonds through a competitive bidding process. The notice of sale provides pertinent information about the bond issue, bidding requirements, and the date and time of the sale.

The notice of sale must be posted prior to the bond marketing date in accordance with state or local statutes. It is usually distributed to all municipal bond dealers that the issuer or its financial advisor identifies as prospective bidders for the bonds. Additionally, the notice of sale is often published in *The Bond Buyer*, the municipal market's trade journal. Smaller issuers may instead choose to publish the notice of sale in a local newspaper or business journal.

What is the bond purchase agreement?

The bond purchase agreement outlines the terms, prices, and conditions under which the underwriters agree to purchase the bonds from the issuer. Among the conditions of closing might be a description of any legal opinions to be rendered on the date of closing and any restrictions or indemnity provisions pertaining to the liability of the issuer. The agreement, which is used in a negotiated sale, is normally signed within 24 hours of agreement between the issuer and underwriter on terms for the sale of a bond issue.

What is the continuing disclosure agreement?

SEC Rule 15c2-12 prohibits broker-dealers from underwriting municipal bonds of $1 million or more unless the issuer has entered into a written agreement to provide ongoing disclosure to the secondary market.

The continuing disclosure agreement (sometimes referred to as the "undertaking") is a document signed by a governmental issuer at the bond closing, whereby the issuer (subject to certain exceptions) agrees to provide annual operating and financial information by a specified date, timely dissemination of the occurrence of certain material events, and notice of any failure to provide the required annual disclosure by the required date.

What is the tax certificate?

The tax certificate provides information about a bond issue that supports bond counsel's opinion that interest on a bond issue is exempt from federal income taxation. It also identifies the IRS arbitrage restrictions that will apply to the bonds. The tax certificate usually includes information about when the issuer must compute its rebate liability, a statement about an issuer's expectations regarding spend-down of bond proceeds, and the spending targets for the issue in order to qualify to an exception to arbitrage rebate. This document is signed by the issuer at the bond closing.

SELECTING THE METHOD OF SALE

What is a competitive bond sale?

In a competitive bond sale, the issuer solicits bids from underwriting firms to purchase its bonds, and sells the bonds to the firm or bond syndicate offering the lowest true interest cost bid. Two techniques are employed for calculating the interest cost of bids.

The preferred method of determining effective interest cost is by calculating a bond issue's true interest cost (TIC). The TIC is defined as the rate, compounded semi-annually, which is necessary to discount principal and interest payments on their payment dates back to the purchase price of a bond issue. The TIC takes into account the time value of money by giving greater weight to earlier debt payments.

Some issuers use the net interest cost (NIC) method of calculating bids. The NIC is the average interest rate on a bond issue. The NIC method allows for quick calculations; however, it suffers from one important disadvantage. The NIC does not consider the time value of money.

With a competitive bond sale, the issuer takes responsibility for preparing bond documents, structuring the issue, obtaining a rating, evaluating the use of bond insurance, and completing all other necessary tasks for the issuance of the bonds prior to soliciting bids. A financial advisor and bond counsel are typically engaged to assist in these tasks.

What are the advantages of a competitive sale?

The competitive process affords the issuer some assurance that bonds are sold at the lowest interest cost given market conditions on that particular day. Competition provides an incentive for underwriters to submit the most aggressive bid at which they expect to be able to successfully market bonds to investors. The competitive process results in an outcome that is defensible for public officials and can minimize concerns regarding whether the best price was obtained for the bonds.

A competitive sale also promotes the appearance of an open, fair process. Taxpayers have greater assurance that bonds have been awarded at the lowest possible cost and not for the benefit of underwriting firms engaged in political activities to support elected officials.

Are there disadvantages of a competitive sale?

One disadvantage of a competitive bond sale is the issuer's loss of flexibility to respond to changes in market conditions. Since the notice of sale must be posted well in advance of the actual sale date, the issuer may not be able to accelerate the sale process if market conditions suddenly change to make an earlier sale date advantageous. The issuer also may be unable to respond to investor demand once the notice of sale is published. In some states, this disadvantage has been mitigated by more flexible competitive bidding laws. For example, some state laws allow issuers to change the timing and terms of the sale by giving only limited notice, such as within 24 hours of when the bonds are to be sold competitively. The growing popularity of Internet or other electronic competitive bidding platforms has made it easier for issuers to make changes to the notice of sale and to communicate these changes to potential bidders.

Another disadvantage often mentioned by investment bankers is that competitive bids may include a risk premium that results in the bid being less favorable to the issuer. The risk premium can be explained by several factors, but it generally comes down to how the bidders deal with uncertainty. When an investment bank prepares to competitively bid on some bonds, it gauges expected investor demand by contacting its sales force. A typical sales person is unlikely to spend a large amount of time evaluating investor interest in bonds that he or she might have to sell in the days ahead. Investment banks protect themselves from the potential costs of buying bonds with limited information by adding a bit of a safety margin (a risk premium) to their bid. An issuer of bonds should be aware of this risk premium argument but not overweight its significance. During non-volatile markets an issuer who solicits competitive bids from a sufficiently large number of legitimate underwriters should suffer very little, if any, from the risk premium disadvantage that investment banks may talk about.

One final disadvantage is that the issuer has less control in determining which underwriting firm is selected and how bonds are distributed among investors. This could be a concern if the issuer is interested in targeting particular types of businesses or investors as a matter of public policy (e.g., to meet Disadvantaged Business Enterprise or local preference goals). Some issuers have been successful in using the notice of sale to specify policy-related requirements to be met by bidders in a competitive sale.

What is a negotiated bond sale?

In a negotiated sale, an underwriting firm is selected early in the bond issuance process before the issuer has full knowledge of the terms of the sale. Once selected, the underwriter will assist the issuer in all tasks necessary to prepare for the bond sale, including developing a structure that meets investor needs, preparing bond documents, undertaking pre-marketing activities to build investor interest in the bonds, and selling the bonds to investors. The issuer negotiates a purchase price for the bonds with the underwriter at the time the bonds are sold.

What are the advantages of a negotiated method of sale?

An advantage often cited for negotiated sales is the heightened attention given to the issue by the underwriter. Because the underwriter knows in advance that it will obtain the bonds, the firm has a greater incentive to engage in extensive pre-sale marketing to assess demand for and to promote the issuer's securities. Based on these efforts, a structure can be developed that both meets the needs of investors and is cost-effective for the issuer. The extra effort provided by investors can be particularly helpful in cases where an issuer is selling bonds that are not readily accepted or have security or structural features not commonly found in the municipal marketplace.

A second advantage is added flexibility. The structure or timing of the sale can be adjusted as necessary to respond to changing market conditions. This may be particularly important if the financing involves an innovative financing technique or a complicated refunding where savings are sensitive to current interest rates.

In practice, issuers may find the flexibility afforded by a negotiated sale to enter the market at an optimal time to be somewhat limited. First, the interest rate environment is uncertain. While interest rates may have increased on the sale date, there is no guarantee that they won't be higher the following week. Further, issuers are generally faced with the need to complete the bond sale in a timely manner in order to fund capital projects. These two factors often override considerations to delay a bond sale if rates are unfavorable on the sale date.

A final advantage a negotiated sale is that it provides the issuer with greater control over the composition of the bond syndicate and the allocation of bonds to syndicate members.

Are there disadvantages of a negotiated sale?

An important disadvantage of a negotiated sale is that municipal issuers often do not have adequate information to negotiate effectively. Coupon interest rates, takedowns, and other gross spread components are typically proposed by the underwriter based on market conditions, their perceptions of investor interest for each maturity, and the difficulty in placing the bonds. The issuer is asked for approval to market the bonds at the proposed interest rate scale and purchase price. This places the burden on the issuer to determine whether the proposed pricing is fair and at levels competitive with the market. Without a good understanding of market conditions and how its bonds sell in the marketplace, the issuer will have no assurance that the interest rates proposed for the bonds are favorable. Additionally, because of the variability of gross spread by issue, it is often difficult for an issuer to assess whether the amount paid for gross spread is reasonable.

Another disadvantage of negotiated sales is that they may result in charges of favoritism toward particular firms that are chosen to underwrite the bond issue. While the MSRB has cracked down on underwriting firms making political contributions to officials whose bonds they underwrite, concerns have been raised that, in some jurisdictions, underwriting work is being directed toward firms that make contributions to bond referendum campaigns or other projects favored by elected officials. These perceived conflicts of interest are not present with competitive sales.

What steps can an issuer take to ensure bonds are priced fairly in a negotiated sale?

An issuer must be an active participant in all aspects of the sale process, from selecting the underwriter to pricing and selling the bonds in order to obtain the best price for its bonds in a negotiated sale. Smaller or infrequent issuers that do not have the time or resources to spend on these activities should engage a financial advisor who is independent of the underwriter to assist in the process. The independent financial advisor must be knowledgeable about the bond pricing process and the market conditions present at the time of pricing. Most importantly, the financial advisor must be a strong advocate who is capable of representing the interests of the issuer when potential disagreements with the underwriter arise regarding investor demand for the bonds.

Issuers must remember that underwriters sell bonds to another set of their clients – investors. It is easier to sell bonds to investors if the investment yield is higher. Unfortunately, higher investment yields for investors mean higher borrowing costs for issuers. Issuers must understand that underwriters are working simultaneously with two different clients when underwriting a bond issue – the issuer and investors. When it comes to pricing bonds, the incentives for those two are at direct opposition.

A crucial step for the issuer and its financial advisor is to independently gauge how a planned bond issue should price by actively monitoring the municipal market both before the sale and during the sale process. Obtaining access to municipal market data and developing an understanding of how to use this information is essential. The issuer and its financial advisor will need to be able to identify recent comparable issues in the market and how they have priced. Additionally, various municipal market indexes are available to provide a benchmark in pricing the bonds. The financial advisor should be able to provide and evaluate this information if the issuer does not have the resources to do this on its own.

An RFP process to select the senior underwriter also can be useful in the bond pricing process by asking prospective underwriters to provide information regarding how the firm proposes to structure and market the bonds, their expectations about how the proposed bonds would be priced, and the amounts for each of the gross spread components. This information can be used later to assist in negotiating the final pricing of the bonds and the amount of gross spread.

Like all activities of government, the outcome of the bond sale needs to be defensible and hold up under public scrutiny. If an issuer lacks the expertise to effectively negotiate a fair pricing of its bonds, or does not retain a qualified independent financial advisor with the expertise to negotiate a fair pricing on its behalf, the pricing results may be called into question by taxpayers and the general public.

What is a private placement?

A private placement is the sale of bonds by an issuer directly to investors without a public offering. Underwriting firms may be actively involved in placing the bonds on behalf of the issuer. Among the reasons that issuers might choose a private placement are:

- Results in a faster sale process;
- The issue is not rated; or
- Limited disclosure is available or a unique feature or problem must be disclosed.

Private placements of municipal securities are rare, currently representing only about 1 percent of the total volume of bonds issued.

What factors should be considered in choosing the method of sale?

Issuers must decide which method of sale will result in the lowest cost for their debt and achieve other important policy objectives. This decision should be based on various characteristics of the issuer, the market, and the type of security that is contemplated. It is important to note that a bond issue is not likely to meet all of the conditions that clearly make one method of sale more appropriate relative to the other. The issuer must determine which factors will be most important in marketing its bonds effectively and choose accordingly. The GFOA recommends that the competitive method of sale be chosen when conditions favoring this method of sale are present. This method of sale ensures the underwriter has earned the job through a competitive process based upon an objective, mathematical calculation.

Among the factors that an issuer should consider are the following:

Complexity of the Issue. The more familiar investors are with the debt instrument, structure of the offering, and security for the bonds, the less need there will be for a special marketing effort to sell the bonds. Governmental issuers of bonds that are commonly issued and widely understood (such as general obligation bonds; bonds secured by a strong, historically performing revenue source; or insured bonds) will find a competitive sale to be a very effective sale method. Bond offerings with complex security provisions or innovative structural features require a greater sales effort, and hence, a negotiated sale may be more beneficial.

Credit Quality of the Issuer. Investors generally prefer bonds involving less risk, and therefore seek out high-quality issues. For issuers of bonds in the "A" category or better, or for issuers of insured bonds, a competitive method of sale will be very effective, all other conditions being equal.

Investor Familiarity with the Issuer. In the process of deciding which municipal securities to purchase, investors are more likely to consider securities with which they are familiar. Frequent issuers have an established credit history, and little additional effort is needed to enhance investors' understanding of their securities. Therefore, frequent issuers are more likely to be able to successfully sell their bonds in a competitive manner. Governmental entities that are not frequent issuers may benefit from extra marketing efforts associated with a negotiated sale.

Market Conditions. A negotiated method of sale may make sense when financial markets are extremely volatile. In periods of abrupt changes in interest rates, it is to the advantage of the issuer to be able to enter the market when rates are at a low point. A negotiated sale can provide the necessary flexibility to respond to changing market conditions. The ability to assess market conditions is especially critical when undertaking a refunding, in which the cost effectiveness of the transaction is dependent on interest rates both in the municipal market and the U.S. Treasury market, although many issuers successfully complete refundings using a competitive sale in more stable interest rate environments.

Issue Size. The municipal market's response to a jurisdiction's bonds is directly related to the size of the offering: the larger the issue, the more difficulty the municipal market may have in absorbing the bonds. Governments issuing particularly large amounts of bonds may want to consider a negotiated sale.

SIZING AND STRUCTURING THE ISSUE

What is involved in sizing a bond issue?

An early step in the bond sale process is determining the amount of bonds to be issued – that is, "sizing" the issue. Sizing the bond issue takes into account the cost of the project that is being undertaken, the costs associated with the issuance of the bonds, and interest earnings on invested proceeds. The bond proceeds and investment income must be sufficient to meet all the necessary uses of the funds.

In addition to the construction costs of the project, bond proceeds are generally used for a number of issuance-related expenses. Depending upon the particular project being financed and the security supporting the payment of the bonds, bond proceeds may be used to pay interest on the securities for a period of time (known as "capitalized interest") or to fund a debt service reserve fund. Funds for these purposes are most likely to be needed when the security supporting the bonds is the revenue flowing from the project being financed and not a jurisdiction's taxes.

Other costs paid from bond proceeds include fees owed to legal and finance professionals. The issuer may also determine that, in order to improve marketability, bonds should be sold at a premium or discount, or with credit enhancement. These provisions can also affect the size of the bond issue.

What is the purpose of an original issue premium or discount?

To more effectively market their bonds, achieve interest cost savings, or meet other financing objectives, issuers sometimes agree to structure bonds in such a way that the amount of bond proceeds received is either more or less than the face value (or "par") amount of the bonds.

In recent years, it has been common for bonds to be sold with an original issue premium. When bonds are sold with an original issue premium, the issuer receives a higher amount of proceeds than the principal it repays. The amount received is generally expressed as a percentage of the par amount of the bonds. For example, if the par amount of the bonds is $100 million and the original issue premium results in the bonds being sold at 101 percent of par, the issuer receives $101 million of proceeds, even though it is obligated to repay $100 million. In exchange for receiving more proceeds, the issuer will pay coupon interest rates on the bonds that are higher than the market rate for comparable maturities. Issuers that need a fixed amount of proceeds will reduce the par amount of the bond issue to compensate for the premium received.

The reverse occurs when bonds are sold at an original issue discount (OID). In this case, the issuer receives fewer proceeds than the par amount, but pays coupon interest rates on the bonds that are lower than the market rate. Issuers with statutory limitations on debt issuance and substantial capital needs may want to limit the use of OID, since they will be giving up bond proceeds that could otherwise be applied to capital projects.

What is the purpose of credit enhancement?

Credit enhancement provides added comfort to investors that principal and interest payments will be made on time and in full. Bonds sold with credit enhancement carry the rating of the credit provider. Credit enhancement usually takes the form of either bond insurance or a letter of credit.

Bond insurance is purchased for the term of the bonds and the premium is based on the amount of debt service expected to be paid over the life of the issue. In recent years, bond insurance generally has been less costly for tax-exempt issuers than letters of credit.

A letter of credit is typically purchased for a term that is shorter than the life of the bonds; hence, it may have to be renewed periodically at the discretion of the letter of credit bank.

What factors should be considered in determining the final maturity of the debt?

The final maturity of a debt issue is determined by the type of project being financed, the financial circumstances of the issue, and legal constraints on the term of the debt. There are, however, some basic guidelines to follow.

Long-term debt should not be issued to fund operating deficits. Short-term (usually less than one year) notes and commercial paper may be used to address cash flow shortfalls between operating expenses and revenue collection.

Long-term debt is appropriate for financing capital projects that will provide benefits over a long period of time. Many issuers structure their debt so that the final maturity approximately corresponds to the useful life of the project being finance. For example, a water treatment plant with an expected service life of 30 years would be financed by a bond issue with a 30-year final maturity; the purchase of a fire truck with a 10-year expected service life would be financed by a bond issue with a 10-year final maturity. Equity considerations should be balanced with credit concerns, which could encourage issuers to retire debt more rapidly.

How can the maturity schedule be designed?

Most governmental issuers of tax-exempt debt sell their bonds as serial bonds, term bonds, or a combination of the two. A serial bond's structure is one in which a specific principal amount of bonds is retired each year throughout the life of the bonds. A term bond's structure is one in which a large part or all of a bond issue comes due in a single maturity. This larger maturity often is attractive to specific investors. Both serial and term bonds pay interest periodically at the coupon interest rate associated with each maturity.

Some issuers have structured their bond issues using deferred interest bonds or capital appreciation bonds (CABs). CABs are bonds that do not pay interest periodically. Instead, interest accrues until the final maturity of the bonds and is paid on one lump sum.

How can debt service payments on fixed-rate bonds be structured?

The two most frequently used debt service structures in the tax-exempt market are a level principal maturity schedule and a level total debt service schedule. A level principal schedule retires principal evenly over the life of the bonds, so that total debt service (principal plus interest) decreases over time. With a level total debt service schedule approach, early payments primarily cover interest costs, and principal repayment increases over the life of the bonds.

Of course, there are variations to these two approaches. Some issuers have designed the debt service payment schedule such that, when debt service for newly issued bonds is added to existing debt service for outstanding bonds, the combined debt service will take on a specific shape. In the case of construction projects for which the source of debt repayment is revenue from the project, principal payments often will be deferred until construction is completed and the facility is producing revenue. Issuers should use caution in designing structures that delay principal payments. Structures that extend the average life of the debt may create credit concerns on the part of the rating agencies and investors.

What is a redemption provision?

Issuers often structure their bond offerings so that they have the right to redeem, or "call" outstanding securities prior to their final maturity. Issuers can structure their long-term bonds to include either mandatory or optional redemption provisions.

A mandatory redemption provision requires that issuers call outstanding bonds according to a schedule that is defined in the official statement. Term bonds are frequently subject to mandatory redemption. In this case, the issuer makes annual payments in the years just before the stated maturity of the term bonds. These annual payments, when added to the final maturity principal payment, are sufficient to fully retire the term bonds.

Issuers may also include an optional redemption provision that gives them the right to call bonds at their discretion earlier than the stated maturity. The call premium (if offered) is the price above the par value of the bonds that the issuer must pay to exercise this option. The ability to call bonds away from investors is of particular value to the issuer when interest rates have declined significantly below the coupon interest rates on previously issued, outstanding bonds. The ability to call bonds provides the basis for much of the debt service savings benefit associated with refinancing (refunding) debt obligations.

ATTRACTING INVESTORS

Who are the investors in tax-exempt bonds?

The municipal bond market attracts investors that benefit from tax exemption, including *institutional investors* such as commercial banks and property and casualty insurance companies, and *retail investors* made up of individuals. A third group of institutional investors consists of managed bond funds and unit investment trusts. These buyers are, in effect retail proxies that purchase bonds on behalf of individuals.

Individuals are the most important group of investors at present, purchasing bonds either directly or through bond funds. Managed mutual funds and unit investment trusts, which buy bonds and then sell shares to individual investors, are significant holders of municipal securities.

Commercial banks and property and casualty insurance companies were once important purchasers of tax-exempt bonds, and continue to buy tax-exempt bonds under the right circumstances. However, investments by these institutions were made less attractive by the passage of the Tax Reform Act of 1986. For example, except in limited circumstances, banks may no longer deduct from their taxes certain costs related to purchasing or holding municipal bonds. The only exception to this regulation is the case of bank-qualified bonds. These securities are sold by small issuers that do not expect to issue more than $10 million in any calendar year. Currently, approximately 20 percent of municipal bonds are owned by commercial banks and property and casualty insurance companies.

The amount of securities an issuer plans to sell is an important factor in determining which investor groups will be most important in marketing the bonds. Small issuers might place many of their bonds with a commercial bank because the bonds can be issued as bank-qualified obligations, resulting in lower borrowing costs. Larger issuers will be interested in marketing bonds to a broad array of investor groups in order to obtain the most favorable pricing on their bonds. The underwriter or financial advisor will assist the issuer in structuring a bond issue that appeals to different investor groups. The maturity schedule, use of credit enhancement, call features, and original issue discount or premium are structural features that can be tailored to different investor appetites.

What risks do investors face in purchasing state and local government bonds?

In order to effectively market bonds to investors, issuers must understand the risks faced by investors purchasing tax-exempt bonds. Issuers may want to take steps to alleviate some of these risks in order to achieve a better price on a bond issue. Three of the more significant of these risks are *market risk*, *credit risk*, and *call risk*.

Market risk, often termed interest rate risk, is the risk that market interest rate levels may change in such a manner that the expected rate of return on an investment will be adversely affected. For example, suppose investors purchase tax-exempt bonds today that have a 20-year maturity and a 6 percent coupon interest rate. If market interest rates were to increase to 7 percent one year from now and these investors wanted to sell the bonds, they would realize a lower selling price than if market interest rates were still at the 6 percent level. This illustrates the basic law of bond prices. The price (value) of a bond is inversely related to a change in the direction of interest rates. If interest rate levels increase, bond prices decrease. If interest rate levels decrease, bond prices increase.

Credit risk is the risk that the credit quality of a tax-exempt issuer may fall. Investors receive lower coupon interest rates for investing in the bonds of higher credit issuers. The credit quality of any particular issuer is not necessarily constant over the life of any specific bond issue. Cautious investors may buy the bonds of a Aaa/AAA credit issuer today. However, if five years later that issuer has fallen to a Aa2/AA credit and the investors want to sell their holdings, the price they will receive for the bonds will be adversely affected by the credit reduction.

As discussed in the previous section, call provisions allow for the issuer to redeem outstanding securities before their final maturity. Once again, assume investors purchase 20-year bonds with a 6 percent coupon interest rate. If the bonds have a normal call feature and market interest rates have fallen to 5 percent ten years later, the issuer is likely to redeem the bonds. Investors who had planned on receiving 6 percent for 20 years would be adversely affected by the fall in interest rates and the calling away of the bonds. If investors wanted to keep those funds in the tax-exempt market, they would be forced to buy securities that pay the current market yield of 5 percent.

What steps can issuers take to reduce these risks?

Some of the risks facing investors of state and local government bonds can be mitigated by certain actions taken by the issuer. For example, call risk can be reduced if an issuer does not provide for optional redemption of its bonds. Because investors expect to be compensated for call risk with slightly higher coupon interest rates, the elimination of the optional call provisions could result in some interest rate savings to the issuer. However, eliminating the call feature takes away the ability of the issuer to achieve savings from lower interest rates in future years by refunding bonds or to restructure debt if necessary. Issuers should carefully consider whether giving up the call option is worth this loss of flexibility.

Bond insurance is an important option to mitigate credit risk. When an issuer buys bond insurance, the insurer guarantees the payment of principal and interest. Hence, the ultimate security of an insured bond is the insurer, not the issuer. The major bond insurers all carry a Aaa/AAA/AAA credit rating from the three major rating agencies; thus, an insured issue is assigned the triple-A rating of the insurer, not the issuer's underlying rating. The cost-effectiveness of bond insurance is determined by comparing the present value of estimated debt service for bonds based on an issuer's own rating and the present value of estimated debt service on the issue if it were rated triple-A. If the differential exceeds the cost of the bond insurance premium, then bond insurance is cost-effective.

Additionally, there are a number of security provisions that may be written into bond documents that are likely to increase the credit quality of an issuer from the perspective of an investor. Three of the more common provisions are the following:

Debt Service Reserve Fund. This fund is created at the time of issuance, and is tapped only if normal revenues dedicated to paying debt service are not sufficient. The fund usually amounts to maximum annual principal and interest payment for the bonds. A debt service reserve fund is usually not created for general obligation issues.

Coverage Test. Coverage is the ratio of pledged revenues available to pay debt service compared to the actual debt service requirement. Higher coverage ratios provide higher margins of safety for the payment of debt service. The coverage test requirement, if present, is defined in the bond documents.

Additional Bonds Test. This test controls the ability of the issuer to issue new bonds backed by the same pledge of revenues that already support previously issued, outstanding bonds. Additional bonds can only be issued if certain financial requirements are met. The additional bonds test, if present, is defined in the bond documents.

When contemplating any of these actions, issuers must recognize the inherent tradeoff between a lower interest rate on a bond issue and the cost to obtain this rate, including higher upfront costs and reduced flexibility. Striking an appropriate balance for each bond issue and for the entire debt program is one of the primary tasks of an issuer, its financial advisor, bond counsel, and the underwriters.

Are there other actions that the issuer can take to attract investors?

All issuers will benefit from the production of easy-to-read, accurate, and complete disclosure documents. Investor groups have expressed concern about the quality of and accessibility to information about municipal issuers. Increasingly, investors have less time and patience for issuers that do not provide adequate information about themselves and their bond issues both at the time of issuance and thereafter. Providing investors with the information they desire is likely to benefit the issuer in terms of increased investor demand and lower interest cost.

Issuers will benefit from a “plain English” approach in preparing their disclosure documents. Key principles as outlined by the SEC include:

- Short sentences;
- Definite, concrete, everyday language;
- Active voice;
- Tabular presentation or bullet lists for complex material, whenever possible;
- No legal jargon or highly technical business terms; and
- No multiple negatives.

Large-volume issuers will find value in developing an investor relations program to keep investors fully informed of the issuer’s financing plans, financial outlook, and other current developments. When selling bonds, pre-sale presentations may be especially beneficial when an issuer has a complicated transaction to explain or when it is issuing bonds after overcoming financial difficulties or unfavorable press. Providing supplementary information to investors beyond the continuing disclosure requirements can also be a positive factor in an investor relations program. A useful starting point in establishing an investor relations program is to identify an individual who will serve as the central point of contact. Investors will know who is responsible for addressing their questions and the issuer will have greater assurance that information presented to the market is consistent, complete, and accurate.

An issuer's Web site can be a useful means to communicate with the investor community. When including information on a general government Web site, issuers need to exercise caution in identifying information that "speaks to the market." Information solely intended for investors should be segregated from other information and clearly identified as being intended for investors. The Web site should be kept current in order to avoid presenting information that is misleading or inaccurate. The GFOA has adopted a recommended practice outlining steps an issuer should consider in designing, deploying, and monitoring the part of their Web site used for disclosure. Before developing a Web site for conveying information to investors, governments also may want to consult with their bond counsel to ensure compliance with federal securities laws.

UNDERSTANDING CREDIT ANALYSIS

What is the purpose of credit ratings and how are they obtained?

Credit ratings are a source of great concern for state and local officials, since they affect the degree of investor receptivity for a jurisdiction's bonds, and hence, the cost of borrowing. A credit rating provides an easily understandable measure of the degree of risk of an issuer's securities. Investors use these ratings as a substitute for or to enhance their own research when making a decision on purchasing bonds.

Three major rating agencies provide ratings on municipal bonds: Moody's Investors Service, Standard & Poor's, and Fitch Ratings. Long-term bonds of the highest quality are rated "AAA" by Standard & Poor's and Fitch, and "Aaa" by Moody's. Issues rated below "BBB-" by Standard & Poor's and Fitch, and "Baa3" by Moody's, are considered below investment grade. A below-investment-grade rating designation may make an issuer's securities ineligible investments for some institutions. A separate set of rating symbols is used to evaluate short-term notes.

An issuer will usually request a rating prior to the sale of securities from one or more of the three rating agencies. Application for a rating is made a few weeks before the planned sale date. The issuer will submit several types of information, including drafts of bond documents, audited financial reports, and operating and capital budgets. Issuers often decide to make both a written and oral presentation to the rating agencies to help the credit analyst make a more informed evaluation. Ratings are assigned once the analyst has made a recommendation, and ratings committees have acted upon that recommendation.

What factors are considered in reviewing the credit quality of municipal securities?

In assigning a credit rating, a fundamental concern of the credit analyst is the willingness and ability of the issuer to repay the debt on time and in full. An important part of the rating process will therefore entail a review of the security pledge for the bonds. The revenue source for debt repayment, flow of funds, legal limitations on the pledged revenues, bondholder rights in the event of nonpayment, required reserves and bond covenants will be carefully examined. The rating agencies will then focus on different types of information, depending on whether the bonds are issued as general obligation, revenue, or short-term securities.

General Obligation Bonds. The credit analyst will focus on four primary factors:

Debt Burden. An assessment of the community's ability to support existing and planned debt obligations, using as indicators key financial ratios.

Management. A review of the organization and powers of the government's administration and the services for which it is directly responsible.

Financial Performance. An analysis of revenue and expenditure trends and the adequacy, dependability, and scope of revenues.

Economic Base. An evaluation of the economic outlook for the jurisdiction, focusing on income, population, employment, diversity and composition of employers, and real estate values.

Revenue Bonds. Revenue bond credit analysis includes a review of the same four areas described for general obligation bond analysis. In addition, certain unique characteristics of revenue bonds will be examined. An important consideration is whether or not the service provided by the issuer is and will continue to be demanded by the public, since user fees are often pledged to repay the debt. Review of a feasibility study can be an important component of assessing future demand.

Revenue bonds are secured by various legal and financial agreements incorporated into the bond resolution or trust indenture; hence, the credit analyst will carefully review these documents. The rate covenants are of particular interest. These covenants constitute a pledge by the issuer to keep user fees and charges at a level that will cover debt service payments, provide adequate insurance, permit reasonable operation and maintenance of the facility, and ensure adequate reserve funds for capital projects.

Short-term Debt. Credit analysis of short-term debt considers many of the same factors that are used in analysis of long-term debt, although the emphasis may be different. The amount and timing of revenue receipts are particularly important for short-term debt. Issuance patterns will also be examined. Heavy or growing reliance on short-term debt will be viewed with concern by the rating agencies.

What can an issuer do to enhance its credit rating?

Local officials have limited control over certain factors that enter into a rating decision. However, there are a number of actions that governments can take to help enhance their credit rating.

The security for the bonds is often one area over which an issuer has direct control. Assigning a first lien of pledged revenues to the bondholders, strengthening coverage covenants, or establishing a prudent level of reserves provide added assurance to investors that the issuer will be able to meet debt obligations in a timely manner.

Instituting sound management practices and policies also reflects positively on the issuer in the rating process. As a result, developing and adhering to long-term financial and capital improvement plans, keeping expense growth in line with revenues, and maintaining an adequate level of operating reserves are important factors. Preparation of annual financial reports in accordance with generally accepted accounting principles (GAAP) and receipt of the GFOA's Certificate of Achievement for Excellence in Financial Reporting are further evidence of good management.

Issuers should develop and maintain good relations with the rating agencies. Annual audited financial statements or other important financial documents should be sent routinely. It is important for finance officials to keep the rating agencies informed of any changes that could affect credit quality. In period of economic stress, finance officials should keep the rating agencies apprised of actions that will be taken to address financial problems.

PROVIDING ADEQUATE DISCLOSURE

What are the disclosure requirements for the issuer?

In the aftermath of a default by the Washington Public Power Supply System ("WPPSS") on $2.25 billion of debt, the SEC issued Rule 15c2-12 in 1989 to promote more timely dissemination of information needed by investors to decide whether or not to purchase a jurisdiction's bonds.

Rule 15c2-12 stipulates that before underwriters may enter into an agreement to purchase bonds from an issuer, they must obtain and review a copy of the issuer's official statement deemed to be final by the issuer. The only material information that may be excluded from the document is that which will be known only when bonds are sold (e.g., interest rates, maturities, ratings). In order to comply with Rule 15c2-12, underwriters will carefully review the official statement to assure themselves of its accuracy and that all items of a material nature, both positive and negative, are disclosed. Rule 15c2-12 also requires issuers to make the final official statement available to the underwriter in a timely manner.

Rule 15c2-12 also prohibits underwriters from purchasing securities of $1.0 million or more unless the issuer has entered into a written agreement to provide annual financial information and material events disclosure to the market. There are different continuing disclosure requirements for small issuers with $10 million or less of outstanding securities.

While the SEC currently has little regulatory authority over tax-exempt issuers, it does have authority over underwriters. Underwriters violating Rule 15c2-12 are subject to SEC penalties, including suspension or revocation of their broker-dealer licenses.

Municipal securities are exempt from registration and reporting requirements of the federal securities laws; however, they are subject to the SEC's antifraud rules in much the same manner as corporate bond issuers. When preparing disclosure documents, state and local government issuers must adhere to the antifraud rules by ensuring that their official statements or disclosure documents do not make false or misleading statements or omit any material facts that would cause such statements to be misleading.

What should be disclosed in an official statement?

The official statement should contain information that will help prospective investors to make an informed decision on whether to invest in the bonds. The official statement will typically include the following sections:

- Cover page describing key features of the securities;
- Introductory section;
- Description of the securities being offered, including authorization and purpose, redemption provisions, book-entry-only provisions, plan of finance, and sources and uses of funds;
- Security for the bonds, including key features of bond ordinance or trust indenture;
- Credit enhancement;
- Description of the issuer, including financial information;
- Tax exemption;
- Legal matters; and
- Ratings.

In addition, the SEC requires that the official statement include (1) a description of any continuing disclosure undertaking of the issuer, and (2) disclosure of any failure of the issuer in the last five years to comply with its continuing disclosure obligations.

Appendices of an official statement often included audited financial statements, the legal opinion and continuing disclosure agreement, and the bond insurance specimen if bond insurance is purchased.

What are the continuing disclosure responsibilities of governmental issuers?

Subject to certain exceptions described below, governmental issuers must provide to the market:

- Annual financial and operating information;
- Notice of the occurrence of certain material events; and
- Notice of any failure of the issuer to provide the annual financial and operating information.

While Rule 15c2-12 does not establish a standardized format for the presentation of continuing disclosure information, the Rule does specify that the annual financial and operating data must be of the same type provided in the official statement. If an issuer prepares an audited financial statement, this document must be submitted.

Small issuers with no more than $10 million of outstanding bonds (including the proposed new issue) enter into a *limited undertaking* in which they are exempt from the requirement to provide annual financial information, but must specify the type of financial information and operating data that will be made available upon request. Additionally, small issuers agree to provide the material events notification.

What is a material event?

Eleven material events have been identified that must be disclosed whenever they occur. These include:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the security;
- Modifications to rights of security holders;
- Bond calls;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the securities; and
- Rating changes.

Where should the continuing disclosure information be sent?

Issuers or their dissemination agents must send annual financial and operating information to all nationally recognized municipal securities information repositories (NRMSIRs) and to a state information depository (SID) if one exists in an issuer's state, or to the electronic post office described in the next paragraph. A current list of NRMSIRs can be found on the SEC Web site at . Unless an issuer uses the electronic post office, material event notices must be provided to all NRMSIRs or to the MSRB's Continuing Disclosure Information System, and to any applicable SID.

In September 2004, an Internet-based electronic post office was established to facilitate disclosure practices. Instead of mailing hard copies to the NRMSIRs and SIDs, issuers or their dissemination agents may file electronically via the Internet using www.DisclosureUSA.org as a single filing location. Filing with **DisclosureUSA** meets the continuing disclosure requirements of SEC Rule 15c2-12, as indicated through an SEC letter of interpretation.

DECIDING TO REFUND OUTSTANDING BONDS

What is a refunding?

A refunding is a bond financing procedure in which an issuer refinances all or certain maturities of an outstanding bond issue by issuing new bonds. The proceeds of the new bond issue either are used to immediately retire the outstanding obligations or are used to purchase a portfolio of securities whose cash flows are used to pay off the remaining debt service of the old refunded bonds until they are called or mature.

There are two types of refundings. A current refunding is a refunding in which the prior, refunded bonds are called or mature within 90 days of the issuance of the refunding bonds. An advance refunding is a refunding in which bonds are called after 90 days of the issuance of the refunding bonds. The prior, refunded bonds are left outstanding until the first call date that permits the issuer to realize present value savings from the refunding or to maturity. The first call date or maturity date may be years in the future. Tax reform in the 1980s limited advance refunding activity by prohibiting advance refundings of private activity bonds and by generally limiting governmental bonds to one advance refunding.

When should an issuer consider a refunding?

An issuer may consider undertaking a refunding for three primary reasons:

- To reduce interest costs;
- To restructure debt service; and
- To eliminate old bond covenants that may have become restrictive.

Most refundings are performed to take advantage of current interest rates that are lower than those rates on outstanding bonds. Such refundings are often called high-to-low refundings for interest rate savings.

Issuers must exercise care in evaluating refunding opportunities. Even though current interest rates may be lower than those on an issuer's outstanding bonds, it is possible that a refunding would generate little or no present value savings due to the associated costs. Many bonds carry a premium that must be paid to call the bonds before they reach maturity. Also, there are legal, financial advisory, and other costs associated with the issuance of the new, refunding bonds. Only if the present value of all refunding costs is less than the present value of the interest savings should the issuer consider proceeding with the refunding.

Additionally, tax-exempt governmental bonds issued after 1985 are only able to be advance refunded one time. Even though an issuer may achieve present value savings today from undertaking an advance refunding, interest rates may decline further in the future to provide higher savings levels. To take into account these opportunity costs, many issuers impose specific targets for minimum present value savings as a percentage of the bonds being refunded that must be met before undertaking the refunding. Targets most often are in the 3 to 5 percent range. Alternatively, some issuers use an opportunity cost analysis approach, which evaluates the likelihood that savings may be greater at some future date relative to current savings.

COMPLYING WITH ARBITRAGE REGULATIONS

What is the purpose of the federal arbitrage restrictions?

In its application to the tax-exempt market, arbitrage is the difference between the yield on an issuer's tax-exempt bonds and the investment income earned on the proceeds. Arbitrage profits are earned when lower-yielding tax-exempt bond proceeds are invested in higher-yielding taxable securities.

Most state and local governmental entities enjoy the benefit of issuing tax-exempt debt obligations. To issuers, tax-exempt obligations provide significant interest rate savings over conventional debt that generates taxable income for investors. To the federal government, the issuance of tax-exempt debt represents a loss of tax revenue because investors do not pay federal income taxes on the interest earned on these securities. Arbitrage restrictions were put in place by the federal government for two primary reasons: (1) to ensure that the proceeds of tax-exempt financings are not solely being used to make investment in higher-yielding taxable securities, and (2) to ensure that bond proceeds are spent in an expeditious manner.

In general, the arbitrage restrictions imposed by the federal government prohibit an issuer from retaining arbitrage profits when investing bond proceeds at a yield that exceeds the yield on the bonds. Any excess arbitrage must be rebated to the U.S. Treasury. Certain narrowly defined exceptions to these regulations allow a tax-exempt issuer to retain these earnings if conditions relating to use and expenditure of the proceeds, or amount of issuance are met.

What are the exceptions?

Tax-exempt issuers may be exempt from the rebate requirement. As of the date of this publication, the exceptions allowed include the following:

- A small-issuer exception for governmental units with taxing authority that expect to issue $5 million or less ($10 million or less for school districts) of tax-exempt debt each calendar year;

- A six-month exception in cases where (1) all bond proceeds are expended for governmental purposes within six months of the issuance date, or (2) proceeds of tax and revenue anticipation notes complying with specific rules are expended within six months;

- An 18-month exception for bonds issued for governmental purpose capital projects where the proceeds will be spent over an 18-month period in a specified manner; and

- A two-year exception if at least 75 percent of the proceeds will be used to finance governmental purpose construction projects and where the construction proceeds will be spent over a two-year period in a specified manner.

The regulations pertaining to arbitrage are complicated. Issuers are encouraged to consult with advisors to assist in the application of arbitrage regulations to their particular financings. There are strict penalties for noncompliance with the arbitrage rebate rules, including taxability of interest going back to the issuance date of the bonds.

What are the general requirements for calculating rebate?

Rebatable arbitrage must be determined and reported at least every five years. Despite this five-year requirement, an issuer may compute the amount on a more frequent basis because:

- All bond proceeds may be expended in a shorter time period;

- The rebate amount represents a liability which must be reported in accordance with governmental accounting standards; or

- Annual computations provide security to bondholders that the issuer is complying with the federal regulations.

In addition to the installment computation date required every five years, a final computation is made on the date on which the last maturity of the issue is retired. The final installment payment must be made within 60 days after all the bonds have been retired.

The computation of rebatable arbitrage utilizes a future value method. Once the net investment cashflows associated with the issue are determined, they are future valued at the bond yield to calculate the amount of any rebate due.

Appendix A GLOSSARY

This glossary provides supplementary definitions that may be useful to an issuer of tax-exempt debt. Terms defined in the main body of the text are not included here.

Accrued Interest. The dollar amount of interest that has accumulated on a security from the most recent interest payment date (or in some instances, the dated date) up to but not including the settlement date.

Average Life. Total bond years divided by the total number of bonds (in $1,000 increments).

Basis Point. 1/100 of 1 percent (e.g., an increase in rates from 8.25 percent to 8.50 percent would be a 25 basis point increase).

Bond Year. The product of the total number of bonds (in $1,000 increments) and the number of years from the dated date to the maturity date.

Commercial Paper. Short-term debt instruments that mature within 270 days.

Conduit Financing. The issuance of securities by a government agency to finance a project of a third party, such as a non-profit organization or other private entity. In a conduit financing, the issuer does not secure the bonds with any of its own revenues or other resources.

Coupon Rate. The annual rate of interest payable on a bond, expressed as a percentage of the principal amount.

CUSIP Number. An identification number assigned to each maturity of an bond issue intended to help facilitate the identification and clearance of securities.

Dated Date. The date from which interest begins to accrue on an issue, even though the issue may be delivered on some later date.

Defeasance. Termination of the rights and interests of the bondholder under terms of the bond documents.

Delivery Date. The date on which securities are delivered in exchange for proceeds. The delivery date is considered the date of issuance for new securities.

Due Diligence. The process of investigating the issuer of municipal securities (often undertaken by underwriter's counsel) to ensure that all material facts related to the sale are fully disclosed.

Future Value. A measure of the time value of money – i.e., the amount an investor would receive in the future by investing today at a given interest rate.

Legal Opinion. A written opinion provided by an issuer's bond counsel concluding that the issuer has the authority to issue the bonds; that all procedural requirements have been met and are in compliance with applicable laws; that the municipal securities are legal, valid and enforceable obligations; and that, in the case of tax-exempt bonds, interest on the bonds is excluded from gross income of the bondholders for federal income tax purposes and, where applicable, from state and local taxation.

Net Interest Cost (NIC). A method of computing interest expense of a bond issue, defined as: (Total Debt Service Payments + Discount (- Premium))/Bond Years.

Par Value. 100 percent of a security's face value.

Present Value. A measure of the time value of money – i.e., the amount of money an investor would exchange today for a future stream of principal and interest payments.

Primary Market. The market for new issues of municipal securities.

Secondary Market. The market in which securities are traded after the initial offering.

True Interest Cost (TIC). The rate that, when used to discount total debt service payments, results in the bond purchase price.

Yield to Call. The rate of return earned by the investor from the time of purchase to the call date, assuming the bonds were redeemed on the earliest call date at the call price.

Yield to Maturity. The rate of return earned by the investor from the time of purchase of the security to its maturity.

Appendix B
BIBLIOGRAPHY

The GFOA offers several publications describing in more detail concepts discussed in this Elected Official's Guide. Additionally, the GFOA has adopted many recommended practices on topics included in this publication. The following is a list of publications and selected GFOA recommended practices in the area of debt management.

GFOA Publications on Debt Management

A Guide for Preparing a Debt Policy, Patricia Tigue, 1998

A Guide for Selecting Financial Advisors and Underwriters: Writing RFPs and Evaluating Proposals, Patricia Tigue, 1997

An Elected Officials Guide to Rating Agency Presentations, Rowan Miranda and Jennifer Ritter Douglas, 2000

Benchmarking and Measuring Debt Capacity, Rowan Miranda and Ronald Picur, 2000

Competitive v. Negotiated: How to Choose the Method of Sale for Tax-Exempt Bonds, GFOA, 1994

Debt Issuance and Management: A Guide for Smaller Governments, James Joseph, 1994

Making Good Disclosure: The Roles and Responsibilities of State and Local Officials Under Federal Securities Laws, Robert Dean Pope, 2001

Pricing Bonds in a Negotiated Sale: How to Manage the Process, J.B. Kurish, 1993

Purchasing Credit Enhancement: How to Decide if Bond Insurance Makes Sense, Patricia Tigue, 1994

Structuring and Sizing the Bond Issue, Patricia Tigue, 1995

Tax Exempt Financing: A Primer, GFOA, 2000

Selected GFOA Recommended Practices

(visit www.gfoa.org to download)

- Selecting and Managing the Method of Sale of State and Local Government Bonds (1994)
- Analyzing an Advance Refunding (1995)
- Payment of the Expense Component of Underwriters' Discount (1996)
- Preparing RFPs to Select Financial Advisors and Underwriters (1997)
- Using Variable Rate Debt Instruments (1997)
- Selecting Bond Counsel (1998)