

How to Use This Manual

Government officials and finance officers rely on a variety of experts to conduct the many transactions involved in issuing municipal debt. It is becoming more and more apparent that finance officers need to take an active role in ensuring the soundness of the debt issuance process, as well as managing debt proceeds and repayment.

Debt has a significant impact on the well-being of the community. If the principles of debt financing are misapplied, the results can be costly, and future residents may have to pay higher tax bills for these mistakes.

Access to the capital markets requires dealing with several types of specialists, each with a role in the debt issuance sequence. The burden is on the issuer to structure the process and to make it a successful bond sale. Regardless of the expertise brought to the issuance table, the government entity remains responsible for:

- Managing the experts assisting in the debt issuance process
- Determining if borrowing money is the most appropriate way to satisfy a capital need
- Selecting and designing the method of financing
- Meeting disclosure standards
- Setting the criteria for selecting the winning bid
- Managing the proceeds legally
- Repaying the borrowed funds under the terms specified in the agreement

Throughout the process, the issuer is the central party. The issuer can engage the services of various experts but assumes the responsibility for managing the issuance team. A long-term plan for capital improvement should precede the initiation of debt. This includes a review of the government unit's capacity to incur debt and the process that will be required to authorize it. A common error in capital budgeting is to take an overly narrow view of an entity's constituency.

Comprehensive planning calls for a systematic review of community needs. In addition, public officials must choose between several alternatives to be funded with debt proceeds. The finance officer can aid in the selection of projects to be funded by performing a cost-benefit analysis.

Because taxpayers end up paying for the publicly borrowed money, debt capacity measures use the economic base as a gauge for assessing the ability to repay borrowed money. Common measures for evaluating relative government debt burdens depend on a comprehensive statement of outstanding debt.

Many different debt instruments can be used. Finance officers need to understand the impact that each form will have on meeting the needs of the government unit. Considerations include the length of the loan, the repayment structure, the type of security that will be pledged for the debt, the structure of the debt instrument, credit enhancements, call provisions, and the size of the bond.

Another consideration that is becoming more important is the issuer's responsibility for making adequate disclosures. Requirements for disclosure previously lacked uniformity. Today, greater federal involvement in municipal securities has created numerous requirements that must be met by issuers. Disclosure is the responsibility of the issuer. Yet the finance officer needs to know how to meet basic disclosure requirements to ensure that hired experts are performing this obligation diligently. Government officials also need to know how to protect the issuer from being responsible for disclosures that should be made by other participating parties.

A critical consideration in the issuance of debt is selling the bonds. The finance officer needs to make basic decisions about the nature of the sale and ensure that all supporting documents are properly prepared. The best method of sale varies based on the market and the needs of the issuer.

Finally, the finance officer has responsibility for managing the revenue stream that will amortize the debt and ensuring that funds are available to make payments.

This manual is organized into seven chapters. The first chapter introduces you to the basic concepts of debt financing. Participants are identified, and their roles are described. Chapter 2 looks at the procedures for planning the issuance of debt, including the capital improvement plan and cost-benefit analyses. The process of assessing debt capacity and authorizing debt is addressed in Chapter 3. This includes the preparation of a debt statement, coordinating debt with related government units, and obtaining approval from the appropriate government body. Chapter 4 describes the types of debt instruments and helps you determine the features that meet the needs of your government unit. Disclosures, generally the responsibility of the government unit issuing the debt, are discussed in Chapter 5. This chapter also provides guidance on protecting the government unit from liability for any disclosures that are the responsibility of other parties.

Chapter 6 provides an overview of the marketing and selling of debt. Guidance is provided for the finance officer or other government official overseeing this process. Chapter 6A identifies methods for use in making competitive selections of bond market professionals. The development and implementation of debt monitoring and reporting mechanisms is one of the primary responsibilities of the finance officer and is discussed in Chapter 7. This chapter also provides guidance on debt administration policies, expending debt proceeds, legal limits on earning interest on the proceeds of tax-exempt debt, known as arbitrage, and dealing with severe fiscal situations.

The Glossary section contains municipal bond terminology, including the specific definitions used by the Municipal Securities Rulemaking Board.

The Appendixes section reproduces useful information on federal regulations affecting municipal debt.

A user guide is available on the accompanying CD to explain how to view and download the manual on CD.