



Debt Accounting II

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Debt Accounting II

- Why issue debt?
- What purpose may we issued debt?
- Should the purchase of assets rely solely on debt financing?



Debt Accounting II

- Primary Types of Bonds
 - General Obligation
 - Revenue
 - Mortgage Revenue
 - Special Assessment
 - Refunding
 - Leasing

Debt Accounting II

- General obligation bonds
 - Long-term debt expected to be repaid from the funds general operating resources
 - Full faith and credit of municipality is pledged
 - Generally better interest rate than revenue or special assessment debt
 - Issued to finance government improvements and purchases
 - Generally do not require issuer to create debt service reserve or services of a trustee
 - Lower issuance costs compared to revenue bonds

Debt Accounting II

- Revenue bonds
 - Long-term debt expected to be repaid from specific earnings of a fund
 - Full faith and credit of municipality is pledged
 - Issued to finance projects that have revenue base
 - Generally do not require issuer to create debt service reserve or services of a trustee

Debt Accounting II

- Mortgage revenue bonds
 - Bonds secured by a mortgage against specified properties of a government, usually utilities
 - Full faith and credit is NOT pledged
 - Voter approval not usually necessary
 - Issued to finance projects that have a revenue base
 - Generally require the use of a trustee and the establishment of maintenance and improvement and reserve funds

Debt Accounting II

- o Special assessment bonds
 - Bonds payable from the proceeds of special assessments
 - Special assessment is a levy made against certain properties to defray all or part of the cost of a specific capital improvement that will benefit those properties
 - If property owner fails to make payment, then the government is ultimately responsible

Debt Accounting II

- o Refunding bonds
 - Bonds that are issued to retire bonds already outstanding
 - Be cautious in evaluating cost vs. benefit

Debt Accounting II

- o Leasing
 - A lease is an agreement that conveys the right to use property, plant, or equipment, usually for a stated period of time
 - Appropriate to obtain assets that are too expensive to fund with current resources
 - Advantageous for assets that will be used only a short time or which are subject to rapid technological obsolescence
 - Exception to the rule for townships- "townships do not have the authority to acquire road work equipment by means of a lease with option to purchase" per audit bulletin 2000-10.
 - No need for voter approval
 - Often higher interest rate



Debt Accounting II

- o Help is available...
 - Most governments use a bond counsel or a local financial institution that will ensure compliance with laws concerning debt issuance
 - Although help is available, responsibility to be in compliance cannot be delegated



Debt Accounting II

- o Not always necessary to have a “tax levy” or “bond issue” on the ballot to issue debt

- o ORC Section 133.04 limits a government's capacity to create debt



Debt Accounting II

- o Limits on Debt
 - Non-voted debt shall never exceed 5½ percent of the total assessed valuation
 - Total debt shall never exceed 10½ of the total assessed valuation
 - Certain obligations are excluded from these limitations specified in ORC 133.05



Debt Accounting II

- o Legislative requirements for bond issue
 - Declare the necessity and purpose of the issue
 - State the date of the authorized election
 - State amount, approximate date, estimated interest rate, maximum number of years
 - Declare the necessity of levying a tax outside the tax limitation



Debt Accounting II

- o The taxing authority shall certify a copy of the legislation to the County Auditor

- o County Auditor to advise not later than 75 days before election the estimated annual property tax



Debt Accounting II

- o File with the Board of Elections not later than 75 days before election:
 - Copies of the legislation
 - Estimated average annual property tax

Debt Accounting II

- o What is the role of bond counsel?
 - To certify the issuer has the legal authority to issue bonds and tax exempt status
 - Their opinion provides comfort to investors
 - Assist in compliance with State statute
 - Assist in drafting bond documents

Debt Accounting II

- o How to select a firm?
 - Refer to the “red book” – The Bond Buyer’s Municipal Marketplace
 - This will provide a list of firms that specialize in municipal bond sale

Debt Accounting II

- o What is the official statement?
 - Discloses pertinent information regarding the debt offering of a governmental entity
 - Similar to corporate world prospectus
 - Contains complete information about bonds including but not limited to:
 - A description of the security pledged
 - The government's financial condition
 - Inherent risk in owning bonds
 - Legal issues relevant to the issue



Debt Accounting II

- o Recording debt activity
 - Record at gross amount
 - Record proceeds with corresponding expenditures
 - All debt activity must be properly budgeted and appropriated
 - Inform County Auditor of bond issue



Debt Accounting II

- o Use of debt service fund
 - Initial bond issue proceeds posted capital projects or enterprise fund
 - General obligation bonds are always paid from a debt service fund unless enterprise related debt
 - Debt issued from an enterprise fund should be paid from enterprise fund
 - Lease should be paid from the fund using the asset
