

# Special Districts Association of Oregon



*2021 Annual Conference – A Digital Event*  
*Basic Budgeting and Financing Concepts – February 4, 2021 – 11 AM*

# Basic Budgeting and Financing Concepts

Moderators:

**Troy DeYoung**  
Risk Management Consultant  
SDAO – Risk Management  
503.375.8896  
[tdeyoung@sdao.com](mailto:tdeyoung@sdao.com)

Presenters:

**David Ulbricht**  
SDAO Advisory Services  
Director of Advisory Services  
503.472.9965 - direct  
503.701.7774 - mobile  
[dulbricht@sdao.com](mailto:dulbricht@sdao.com)

**Robert G. Moody, Jr., CPA**  
Partner  
Merina & Co.  
503.723.0300  
[rmoody@merina.com](mailto:rmoody@merina.com)

Special Districts Association of Oregon Advisory Services LLC (“SDAOAS”) is a registered municipal advisor with the Securities and Exchange Commission pursuant to Section 15B(a)(2) of the Securities Exchange Act of 1934 (the “Act”) and the Municipal Securities Rulemaking Board. SDAOAS is providing the information contained herein and/or accompanying materials (the “Materials”) for discussion or general informational purposes only for a possible issuance of municipal securities the District may be considering.

## Forms of Financings

### General Obligation Bonds

- ✓ Voter approval required.
- ✓ Only for capital costs.
- ✓ New taxes authorized.

### Full Faith and Credit Obligations

- ✓ Voter approval not required.
- ✓ Can be used for capital items where GO authority is unavailable or too limited.
- ✓ Based upon an unconditional promise to repay debt. Repaid from existing resources; no new taxes authorized.
- ✓ Repayment term limited to useful life of assets being financed.
- ✓ Legal limit or debt capacity depends of your entity's enabling statute.
- ✓ Capacity limited by available revenues within the annual operating budget to make the financing payments.
- ✓ As a general rule, annual financing payments should be no more than 5-10% of general fund revenues.

## Forms of Financings

### Revenue Bonds

- ✓ Voter approval may be required.
- ✓ Required notice periods of the intent to issue revenue bonds.
- ✓ Can be used for capital items where GO authority is unavailable or too limited.
- ✓ Covenants may be restrictive and onerous (Debt Service Reserve Fund, Debt Service Coverage Covenant).
- ✓ Repayment sources tend to be limited to a specific enterprise or utility fund.
- ✓ Property tax revenues may be pledged as security for repayment.
- ✓ Repayment term limited to useful life of assets being financed.
- ✓ Legal limit or debt capacity depends of your entity's enabling statute.

## Use of General Obligation Bond Proceeds – State Constitutional Limits

G.O. Proceeds must used as follows:

For “capital costs” with a useful life of 1 year or more

“Capital Costs” means:

- ✓ Land and other assets
- ✓ Acquisition
- ✓ Construction
- ✓ Improvement
- ✓ Remodeling
- ✓ Furnishing and equipping
- ✓ Maintenance or repair
- ✓ Public Safety equipment and vehicles

## Use of Borrowed Proceeds – State Constitutional Limits

- Eligible projects for general obligation bonds are those where the “weighted average life” of the bonds does not exceed the “weighted average life” of the assets.**

**Issuing debt for 30-years for computers – Not Likely**

- “Routine” maintenance or supplies are not eligible for financing.**
- Technology, furnishings and large scale maintenance projects may qualify.**
- Eligible projects for full faith and credit financings are real or personal property the district finds is needed. “weighted average life” test applies here too.**

## Federal Limits

- Interest payments on certain financings may be exempt from federal income taxation, however, the federal government has limits on how the proceeds from the financing may be spent or used.**

**Public projects are OK**

**Projects that benefit a private party including not for profit groups and the federal government are NOT OK**

**Leasing space to private parties generally NOT OK**

- Arbitrage/Rebate Issues**
- Reimbursement Resolution**

## Basic Background on General Obligation Bonds

**Question:** *When can a District ask voters to approve a General Obligation Bond?*

**Answer:** There are four election dates every calendar year.

- March
- May
- September
- November

*Note: November and May elections of every year are NOT subject to the Double Majority Provisions; March and September are.*



## Basic Background on General Obligation Bonds

**Question:** Which election provides the best outcome?

**Answer:** Depends on a variety of factors:

- Political Climate
- Competing Measure Elections
- Economic Factors

**Other Considerations:**

May	November
Easy budgeting of debt service payments for the following fiscal year.	Election occurs after completion of the budget, debt service cannot be paid until the following fiscal year, potentially leading to higher costs for the issue.
May allow districts to hit the summer construction season immediately if they have shovel-ready projects.	Election occurs right after property tax bills arrive.
	Typically have higher turnout, particularly in presidential years. But there may be many other things on the ballot competing for attention.

**What Works Best:** Important to select the election date that works best for YOUR entity and funding requirements and YOUR community's support and environment.

## Election Calendar

Election Date	County Filing Date <sup>(1)</sup>	County Filing/Voters' Pamphlet Deadline <sup>(1)</sup>	Ballots Mailed	1 <sup>st</sup> Fiscal Year Taxes Levied
May 18, 2021	February 27th	March 18th	April 3—May 4	FY 2021-22
September 21, 2021 <sup>(2)</sup>	July 3 <sup>rd</sup>	July 22 <sup>nd</sup>	Sept. 3 – 7	FY 2022-23
November 2, 2021	August 14 <sup>th</sup>	September 2 <sup>nd</sup>	Oct. 15 - 19	FY 2022-23
March 8, 2022 <sup>(2)</sup>	December 18 <sup>th</sup>	January 6 <sup>th</sup>	Feb. 18 – 22	FY2022-23
May 17, 2022	February 26 <sup>th</sup>	March 17 <sup>th</sup>	April 29 – May 3	FY 2022-23

Note: Dates associated with future elections are preliminary and are subject to change.

√ Check with your County Clerk or Elections office to verify filing deadlines.

√ All elections are vote by mail.

(1) SEL Form 805 includes Ballot Title. Must be filed 80-days prior to election to allow for challenge process. Final filing is 61-days prior to election (SEL Form 803) which includes explanatory statement if a voters' pamphlet is published.

(2) Election Date is subject to double majority voting requirements.

## Basic Background on General Obligation Bonds

**Question:** *Who writes the Ballot Title?*

**Answer:** Bond Counsel can assist in preparing and reviewing the Ballot Title. Communications staff, Citizens Advisory Group, Advisors are also sometimes involved.

**Question:** *Are there specific requirements for the Ballot Title and Explanatory Statements?*

**Answer:** Yes. The Ballot Title is the official summary of a ballot measure that appears on the ballot. The Ballot Title contains a Caption (10 Words); the Questions (20 Words) and a Summary (175 Words). Specific to the Ballot Title is that it generally contains:

- A not-to-exceed amount
- A not-to-exceed maturity or amortization period
- A list of projects to funded with bond proceeds.

A Ballot Title may (but is not obligated to) provide an estimate of the projected tax levy to repay the bond but it cannot guarantee a \$ per thousand levy rate.

## Basic Background on General Obligation Bonds

### ***The Explanatory Statement:***

- Appears in the voter's pamphlet, if one is prepared by the County Clerk's or Elections' Office.
- Is impartial, understandable, factual and simple statement explaining the measure.
- Limited to 500 words.

### ***Recommended Guidance:***

Have your bond counsel assist with preparing the Ballot Title and, at a minimum, review the Explanatory Statement. Both the Title and Explanatory Statement should contain:

- Required legal language
- Be impartial (advocacy vs. informative)
- Does not exceed word limits (ORS 250.035)
- Contain "a reasonably detailed, simple and understandable description of the use of proceeds" under ORS 250.037.

## Basic Background on General Obligation Bonds

### **Sample Ballot Title:**

#### NOTICE OF BOND ELECTION

#### HUBBARD RURAL FIRE PROTECTION DISTRICT MARION COUNTY, OREGON

NOTICE IS HEREBY GIVEN on [date given to County Clerk not resolution adoption date] \_\_\_\_\_, 2015, that a measure election will be held in Marion County, Oregon on May 19, 2015. The following shall be the ballot title of the measure to be submitted to the district's voters on this date:

**CAPTION: (10 Words)** HUBBARD RURAL FIRE PROTECTION DISTRICT GENERAL OBLIGATION BOND

**QUESTION: (20 Words)** Shall the District issue general obligation bonds not to exceed \$780,000? *If the bonds are approved, they will be payable from taxes on property or property ownership that are not subject to the limits of sections 11 and 11b, Article XI of the Oregon Constitution (not included in Word Count).*

**SUMMARY: (175 Words)** If approved, this measure would provide funds for capital costs, including:

The purchase of a Water Tender;  
Refurbish existing fire engine to make safety improvements and improve reliability;  
Replace Self-Contained Breathing Apparatus to meet current safety standards;  
Purchase a Quick Response unit to make best use of available staffing;  
Purchase firefighting equipment; and pay bond issuance costs.

The Bonds would mature not later than eleven (11) years from the date of issuance. The measure is estimated to cost taxpayers an average of \$0.33 per thousand of assessed value each year. For the owner of a home or property owner, the estimated annual average cost would be \$33 per \$100,000 of taxable assessed value.

The estimated tax cost for this measure is an **ESTIMATE ONLY**, based on the best information available from the county assessor at the time of the estimate.

\_\_\_\_\_  
Signature of authorized District Election Authority

\_\_\_\_\_  
Date signed

\_\_\_\_\_  
Printed name of authorized District Election Authority

\_\_\_\_\_  
Title

## Basic Background on General Obligation Bonds

**Question:** *How is the tax rate calculated and does it change over the life of the Bond?*

**Answer:** Ad valorem tax rates for the repayment of the Bond can and will fluctuate over the life of the Bond depending on the actual taxable assessed value, each fiscal year, as determined by the County Assessor and the Oregon Department of Revenue.

Remember, once a voter-approved General Obligation Bond is issued, you are required, by law, to levy an amount sufficient, without regard as to rate or amount and after taking into account discounts, delinquencies and non-collected taxes, to make the debt service payments on the Bond.

But, how is the tax rate calculated? It's the dollar amount necessary to make the annual debt service payments on the Bonds divided by the taxable assessed valuation of all properties within the boundaries of the Issuer multiplied by 1,000 to determine the \$/1,000.

## Calculating the Bond Levy Rate

Each year, the local government, during the budget cycle, submits the debt service amount (the LB-50) to the assessor, grossed up for anticipated delinquencies and discounts:

Debt Service	\$ 90,000
Assumed delinquencies/discounts	+ \$ 10,000
Submitted to Assessor	= <u>\$100,000</u>

Assessor divides debt service by the taxable assessed value to produce levy rate:

Debt Service	<u>\$100,000</u>
AV of District	\$100,000,000
Equals	\$0.001 (x 1,000) = \$1.00/1,000

For a property with a taxable assessed of \$100,000 (\$100/1,000), the cost would be \$100/year. Note that the Taxable Assessed Value is NOT the same as the Real Market Value of a property.

*Note: A local government cannot guarantee a given rate, it may only provide projections. The actual levy rate paid may and will vary based upon changes in taxable assessed value that may be higher or lower than projected in any given year.*

# Scenario 1

- November 20xx election
- General Obligation Bond issue in following January – 20x1
- First interest payment due December 20x1
- Principal and interest due June 20x2

How budget?

Supplemental budget required?

Budget committee reconvened?



## Scenario 2 -

- May 20xx election
- GO Bonds issued in July 20xx (new fiscal year)
- First interest payment in December 20xx; principal payment in June 20x1 with related interest

Should budget assuming bond issue passes?

Amend the budget if it fails?

## Scenario 2 – Entry to Record

Budget in Capital Projects Fund 20XX:

Sources:		
Proceeds of borrowing		\$2,660,000
Uses:		
Issue costs (M&S)	\$121,570	
Capital outlay	\$2,538,430	

# Scenario 2 – Entry to Record

Budget in Debt Service Fund 20XX:

Sources:		
Property Taxes		\$185,000
Uses:		
Principal (June 20X1)	\$115,000	
Interest (Dec 20XX/June 20X1)	\$42,544	
Ending Fund Balance:		27,456

## Scenario 2 – Entry to Record

In Capital Projects Fund 20XX:

Dr. cash	\$2,538,421	
Dr. issuance costs (expense)	\$121,579	
Cr. Proceeds of borrowing		\$2,660,000

## Scenario 2 – Entry to Record

In Debt Service Fund:

Dr. principal	\$115,000	
Dr. interest	\$42,544	
Cr. cash		\$157,544

## Scenario 3 -

- Existing bond is refunded in current fiscal year (20xx-x1)

Supplemental budget required?

What is the process?

Reconvene the budget committee?

# Scenario 3 – Entry to Record

In Debt Service Fund:

Dr. cash	\$5,168,986	
Dr. issuance costs (expense)	\$151,014	
Cr. Proceeds of borrowing		\$5,320,000
Dr. Debt service - principal	\$5,162,972	
Cr. Cash		\$5,162,972

## Scenario 4 -

- FF&C obligation or other borrowing during the fiscal year (20xx-x1) after budget already adopted

What are the requirements?

Process?

Involve budget committee?



## Scenario 4 – Entry to Record

Record proceeds in capital projects fund:

Dr. cash	\$2,444,200	
Dr. issuance costs (expense)	\$55,800	
Cr. Proceeds of borrowing		\$2,500,000

## Scenario 5 –

- How budget for GO bond and related carryover of unspent proceeds?

# Scenario 5 – Entry to Record

Budget in capital projects fund:

Sources:		
Other financing sources		\$30,000,000
Uses:		
Bond issuance costs	\$160,000	
Capital outlay	\$29,840,000	

# Debt service funds

- No loans made from debt service funds – restricted funds

For more information about  
our services available to our  
member districts, visit:

[www.sdao.com](http://www.sdao.com)

**Special Districts  
Association of Oregon**  
1.800.285.5461  
[sdao@sdao.com](mailto:sdao@sdao.com)

