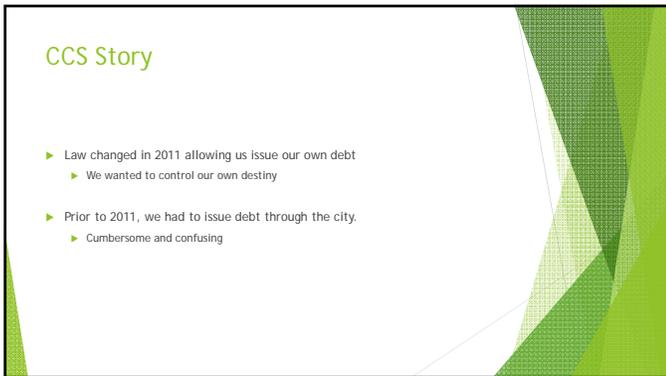


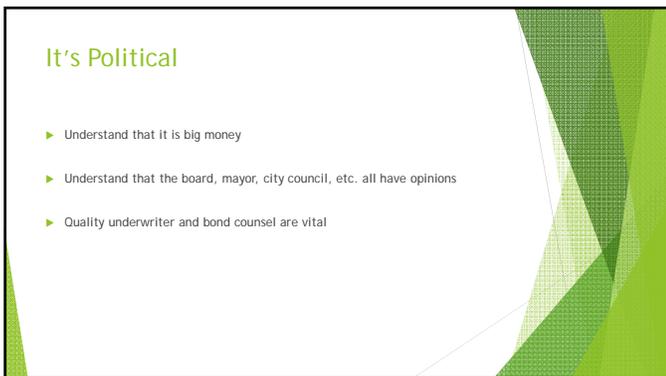
Practical Issues Related to Debt Issuance

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CCS Story

- ▶ Law changed in 2011 allowing us issue our own debt
 - ▶ We wanted to control our own destiny
- ▶ Prior to 2011, we had to issue debt through the city.
 - ▶ Cumbersome and confusing



It's Political

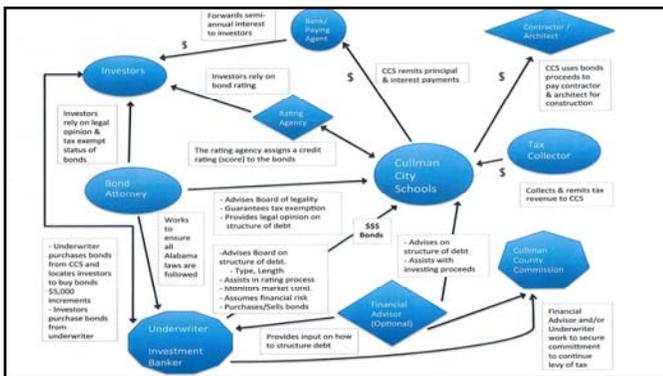
- ▶ Understand that it is big money
- ▶ Understand that the board, mayor, city council, etc. all have opinions
- ▶ Quality underwriter and bond counsel are vital

Know Your Stuff

- ▶ Need to Educate yourself before getting too far along in the process
- ▶ Things to know:
 - ▶ Private Placement with bank vs. Public Sale
 - ▶ What terms will you seek (variable or fixed rate, length, step-up payments)
 - ▶ Revenue Projections
 - ▶ Which taxes can be pledged
 - ▶ What is your current debt and when does it retire

Educate your Superintendent/Board

- ▶ Explain the process to them
- ▶ Make sure they understand the roles and responsibilities of those involved
 - ▶ I prepared a flowchart and brief description when discussing with the Board
- ▶ As CSFO, you know what your system can afford
 - ▶ Just like with a mortgage, you don't necessarily need to borrow the maximum amount allowed
 - ▶ Hold your ground



Issuer's Roles

- ▶ Cullman City Schools
- ▶ CCS is the "issuer" of the bonds, and is the one responsible for appointing a bond attorney, underwriter (investment banker), paying agent (bank) and financial advisor (optional). CCS is also responsible for using the bond proceeds to pay invoices related to construction. CCS is required to make semi-annual principal and interest payments to the paying agent in accordance with the amortization schedule found in the bond documents.

Underwriter (Investment Banker)

- ▶ Underwriter (Investment Banker)
- ▶ The underwriter serves a key role in the issuance of bonds. The underwriter wears several hats during the process and works with several parties from start to finish. The underwriter serves as an advisor to the board when determining the type of debt, the amount of debt and the length of the debt. The underwriter also works closely with the bond attorney to ensure that all legal requirements are fulfilled. If a financial advisor is involved in the transaction, then the underwriter works with the FA when determining how to structure the transaction. The underwriter will also help coordinate the rating process.
- ▶ A well connected/established underwriter is a necessity when selling bonds. In our scenario, the underwriter will actually purchase the bonds from CCS and then turn around and sell them to investors. The underwriter incurs the expense associated with having a sales force to market and sell the bonds. Therefore, the underwriter accepts a great deal of financial risk. Because of this, the underwriter keeps a constant watch of the market conditions to determine the optimal time to issue the bonds.

Bond Counsel / Financial Advisor

- ▶ Bond Attorney
A bond attorney is a requirement when issuing tax exempt, public debt. The attorney issues a legal opinion on the transaction, verifying that it meets all applicable laws and meets the tax exemption test. Investors rely on the legal opinion issued by the bond attorney when purchasing the debt. The bond attorney works closely with the board and the underwriter during the bond process.
- ▶ Financial Advisor (Optional)
A Financial Advisor is not required, however, this individual can help provide advice to the issuer and underwriter when structuring the debt. The FA can also assist the issuer with investing the bond proceeds. The FA could help iron out any local revenue issues, such as working with the County Commission to secure a commitment to continue levying the sales tax for the duration of the bonds.

Investors

► An investor is simply a person or entity that purchases a portion of the bonds and holds them as an investment. The bonds may be purchased by an individual for a personal portfolio, or they could be purchased by an investment company to be held as part of a mutual fund or investment portfolio. The investor purchases the bonds in increments of \$5,000 and receives semi-annual interest payments based on the stated percentage yield of the bonds. At maturity, the principal amount invested in the bonds is returned to the investor

Rating Agency

► In order to issue bonds, CCS must have a credit rating from one of two credit rating agencies. The two companies that we would use to provide a credit rating are Standard & Poor's and Moody's. The rating is similar to a "credit score" that an individual would receive when acquiring a loan. The better the credit rating CCS receives, the stronger our financial position, which translates into a lower interest rate when we issue bonds. Investors rely on a good credit rating when purchasing bonds. The underwriter will assist us during the rating process to ensure that we receive the highest possible rating.

Bank / Paying Agent

► Once the bonds are initially sold, the proceeds must be placed into a separate account. These funds are subsequently used to pay construction invoices and other related costs. Also, CCS will be required to make semi-annual principal and interest payments to the Paying Agent for the life of the bonds. The Paying Agent forwards the interest to the investors as income and retains the principal until maturity.

Other Parties

► Cullman County Commission

In order for CCS to pledge the newly enacted sales tax as the dedicated funding for the bonds, the County Commission must adopt a resolution to continue levying the tax for the duration of the bonds.

► Tax Collector

The tax collector is responsible for collecting the sales tax from the various businesses and remitting those funds to CCS.

► Contractor / Architect

The proceeds received from the bond issue are used to pay the contractor and architect for the invoices related to the construction projects.

Rating Call

► Be prepared

- Updated financials, Audit Report, trends, economic forecasts

► Include others:

- Board member
- Economic Development/Chamber of Commerce
- City Council/County Commission

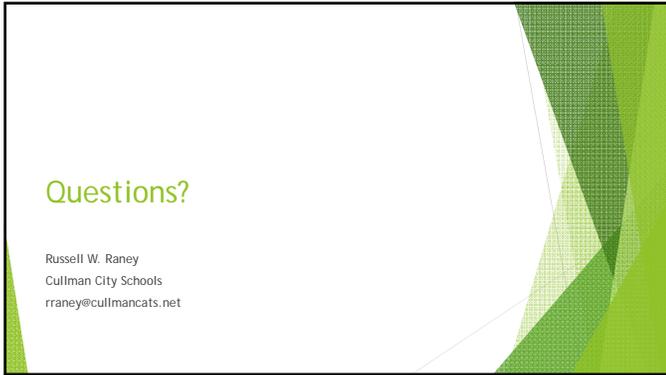
- We ended up with the same rating as the city

Post Issuance

► Continuing Disclosures

► Investing the funds

► Spend down requirements



Questions?

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