



State of North Carolina

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Guidelines on Debt Issuance (Revised)

In an effort to assist applicants in receiving timely approval of financing requests by the Local Government Commission (LGC), the staff has prepared these guidelines and suggestions. These are intended to indicate steps applicants may take to expedite approval and to point out pitfalls that may delay or complicate the approval process and are to be avoided. The items are divided into two broad categories, Fiscal Management and Debt Management and the Project, and are generally related to the statutory findings required of the LGC.

A. Fiscal Management

- 1) Adequate and timely responses to issues raised in a unit letter sent by the Fiscal Management Section must have been received. All concerns regarding the financial management of the unit must be resolved, such as a low General Fund balance (Below 8%), a low tax collection rate (Below 90%), receipt of a qualified audit opinion, habitual violations of "The Local Government Budget and Fiscal Control Act", inadequate internal controls, weakness in an enterprise fund or an enterprise fund that is not self-supporting, and similar concerns.
- 2) A budget for the unit must be adopted prior to the beginning of its fiscal year.
- 3) Current audited financial statements must be available on a timely basis. For units of local government, this would mean that the audited financial statements have been received by October 31. For units with a calendar year or fiscal year not ending on June 30, audited financial statements should be received within four months of year-end. Financing applications for LGC approvals after October 31 will require the audited financial statements of the immediately preceding fiscal year, and the audited statements should be submitted at least two weeks prior to the LGC meeting date to allow adequate time for staff review.
- 4) If a Power Agency unit is involved, it must comply with the policy approved by the governing body of the unit regarding transfers from the electric system to the General Fund.

B. Debt Management and the Project

- 1) Make a point to discuss the unit's capital improvement plans with the LGC staff as they are being developed. Follow-up visits are encouraged when major changes occur.
- 2) The staff of the LGC should be contacted very early in the planning stage regarding the proposed debt issuance. This early contact is necessary to make sure the process gets off to

a good start. Having to “back up and restart” can significantly delay the process. This is especially important if an innovative financing is contemplated which may require consideration of unusual covenants, special justification of necessity or cost, private activity usage, special interlocal agreements, unusual amortization schedules, and other innovations.

- 3) The unit should have a reasonable debt burden. A heavy debt burden may be evidenced by a ratio of General Fund Debt Service to General Fund Expenditures exceeding 15%, or Debt per Capita or Debt to Appraised Property Value exceeding that of similar units. (See Local Government Commission “Analysis of Debt”)
- 4) The request to borrow must be for capital expenditures, not operating expenses.
- 5) The project must be “ready”. Construction bids, required major permits and Phase I Environmental Studies should be received before the approval or, at the latest, before the sale of the debt. Other required sources of funding must be committed.
- 6) Any threat or existence of litigation related to the project or the financing must be satisfactorily resolved. Litigation could affect either the marketability of the debt or the borrower’s ability to repay the debt.
- 7) Community support for the project is important, especially for non-voted debt. Lack of community support may be evidenced by comments at meetings of the governing body or public hearings, correspondence, newspaper articles, etc.
- 8) The repayment plan presented must be complete and consistent regarding the maturity of debt, life of assets financed, terms of related agreements, etc. In addition, the repayment plan must be consistent with the financial projections provided by the issuer. Amortization of principal should be level for all general fund projects. Use level principal and interest payments for an enterprise fund may be appropriate.
- 9) Financial projections should be presented that demonstrate feasibility and are clearly reasonable in comparison to prior financial performance. Appraisals, feasibility studies and comfort letters (if required) must be prepared by parties that are both independent to the transaction and possessing adequate expertise.
- 10) There should be no outstanding concerns or unresolved matters relating to a prior bond issue, such as incomplete or late filing of rebate reports, failure to meet continuing disclosure obligations, violations of covenants in other obligations, or other matters of concern. Such unresolved matters may prevent or delay the issuance of future debt.
- 11) Documentation must be provided showing that covenants in outstanding obligations will be satisfied if the proposed debt is issued, i.e. additional debt tests, restrictive covenants regarding additional debt, etc.
- 12) The ability to secure an investment grade rating should be documented. Enhancements including letters of credit, bond insurance, a parent guarantee, etc. should be considered.
- 13) A complete application must be filed four weeks prior to the LGC meeting date (first

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Tuesday of every month) including documentation of all required resolutions being adopted by the governing body. This provides adequate time for staff review of the application and for compiling any additional information that may be necessary.

- 14) Bond or loan documents must be in substantially final form before presentation at the LGC meeting.
- 15) If a refunding is contemplated, the present value of the savings should exceed 3% of the refunded bonds. Generally, the term of the original debt should not be extended when bonds are refunded.
- 16) The sale date should be requested as early as practical. This provides some flexibility in selection of a date that should not compete with another previously scheduled sale or a bond market holiday. This assures that the most favorable interest rate is obtained for each issuer of debt.