ROMANIA

INTRODUCTION TO BORROWING

A GUIDE FOR LOCAL OFFICIALS

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TABLE OF CONTENTS

PURPOSE OF THIS GUIDE

What is the purpose of this guide?

This guide presents concepts and techniques to assist local elected officials and their staff in making sound financial management decisions when they borrow to finance local investment projects.

The guide looks at three key issues:

8 When should a local or judet council borrow to finance capital investments?

8 How does a local or judet council prepare to borrow?

8 What are the key steps in the borrowing process?

Who should read this guide?

This is a guide for local elected officials and local technical and financial staff who are considering whether to borrow to finance capital investments. They should read this guide before making a decision to borrow.

What should the reader hope to obtain from this guide?

This guide provides an overview of the most important concepts, analytical techniques and procedures related the prudent and effective of loans to finance priority local investments in infrastructure. After completing the guide, the reader should have general understanding of the benefits and risks associated with borrowing. The reader also should have a general grasp of the issues that arise in the process of borrowing and of the techniques that are useful in addressing them.

What are the limitations of the guide?

This guide focuses on borrowing as a way of financing local investments. There are other possible options closely related to borrowing, such as bond or private equity financing, that are not discussed in this guide. A local government interested in exploring such options will find that many of the concepts, analytical techniques and procedures described in this document are useful and relevant. However, the reader should seek additional guidance specific to the type of financing involved.

Also, this guide is not a how-to manual. The reader should seek other self-study guides and training courses that provide the in-depth knowledge and skills necessary to apply the concepts and techniques described in this guide to address specific problems that arise in the borrowing process.

Why is this guide necessary?

As part of the process of decentralization in Romania that began in 1990, local and judet councils have become increasingly responsible for addressing the needs of the local communities in the country. The reforms to the system of local finances enacted in 1998 reinforced the trend toward greater autonomy. These reforms gave local authorities greater control over their own taxes and fees, as well as direct access to a share of the national wage tax. The reforms also gave the local and judet councils full authority to decide how to spend and invest these resources. These changes have increased the importance of making sound financial decisions at the local level.

Local officials face difficult challenges in the management of their finances. The demands for new expenditures have grown. These include capital investments to improve, expand or create new infrastructure to provide better services and to meet new environmental standards. At the same time, the difficult national fiscal and economic situation has limited the growth of resources available to meet local service and investment needs. Faced with competing demands for scarce resources, local and judet councils are turning progressively to borrowing as a way of financing priority investment projects. Financing provided on commercial terms is becoming an important complement to more traditional funding from State and local budgets.

Learning how to borrow prudently and successfully presents new challenges that require understanding of new concepts and analytical techniques. Local and judet councils must select the best projects and develop appropriate investment priorities. They must project what they can realistically afford in future years. They must compare the cost and risk of alternative strategies to finance capital improvements.

PART I

UNDERSTANDING BORROWING

What is borrowing?

This guide discusses the concepts, analytical techniques and process involved in ***borrowing*** by local or judet councils to finance local investments.

Key Concepts:

- Borrowing
- Local borrower
- Lender
- Loan
- Interest

For purposes of this guide,

8 ***Borrowing*** is the entire process that a ***local borrower*** follows to obtain a ***loan*** from a ***lender*** to finance local investments

8 The ***local borrower*** is either the local or judet council or a local *regia* or company responsible for providing basic infrastructure services. In either case, the guide looks only at those aspects of the process of borrowing that affect the local or judet council itself.

8 The ***lender*** is any institution authorized to make loans to local or judet councils. It can be either private or public, domestic or international

8 In its simplest form, a ***loan*** is a contract between a lender and a borrower. The lender agrees to provide money to the borrower. In exchange, the borrower agrees to repay that money over a period of time in the future.

8 Usually, the lender will charge the borrower for the use of the money until it is repaid. This amount that the lender charges the borrower is called the ***interest*** on the loan. The most common practice is to calculate the amount of the charge or interest as a percent of the money provided by the lender.

What are the most important characteristics of borrowing?

8 *It has a cost* — You pay the lender interest for the use of the money you borrow

8 *It is a relatively scarce resource* — As you will see later in this guide, the amount of money you can borrow is limited both by your ability to repay a loan and the willingness and ability of lenders to make loans to you

8 *It has a long-term impact on your budget* — The repayment of the money you borrow plus the interest will become a claim on your future revenues, limiting your ability to budget the use of those revenues for other purposes

A note of caution Given the characteristics of borrowing, you need to consider carefully whether and how much to borrow. This is a decision each local and judet council must make for itself. No one else will look after your finances and your interests.

How should the proposed expenditures affect your decision whether to borrow?

8 *You borrow to finance investments*. You do not borrow to pay for current expenditures. For example, you borrow to pay for a new water treatment plant or new buses. You do not borrow to pay for the staff of your local or judet council.

8 *You borrow to finance investments that provide tangible benefits that are important to your community*. For example, you borrow to pay for the expansion of the water system serving your community. You do not borrow to pay for land that has no immediate use.

8 *You borrow when the useful life of the investment exceeds the term of the loan*, that is, when you will still receive benefits from the investment after you have finished repaying the loan. For example, you can agree to repay a loan over five years to pay for a new heating plant that will operate for fifteen years. You do not agree to repay a loan over ten years to pay for equipment that you will have to replace after five years.

How should the interests of the community affect your decision whether to borrow?

Often, the decision about borrowing will arise in the context of a specific project that is of current concern or importance to your local or judet council. Because borrowed money is costly and scarce, you may not be able to borrow to finance other projects. Therefore, you first need to take into account all the needs of your community.

Before borrowing to pay for a specific project you should:

- *Rank all other pending investments* according to their importance to your community, ideally in consultation with local citizens and businesses

- *Determine that you will be able to finance those projects* that are important to your community

- *Determine that the project design provides the least costly option* available to address an outstanding need or problem in your community

> There is a process called ***capital investment planning*** that can help you answer these questions. It is discussed later in this guide.

What are the key financial issues to consider in deciding whether to borrow?

Remember that borrowed money is costly and has a long-term impact on your budget. Before deciding to go ahead with a loan you should:

- Explore the use of less expensive means of financing your investments

- Determine, as part of this, which of the proposed projects can generate future revenues to repay all or part of the loan

- Analyze your ability to repay borrowed money in future years from your own budget

- Know and understand all the terms of the loan and their potential impact on your budget

> ***Project financial analysis*** and ***debt carrying capacity analysis*** are two techniques that can help you answer these questions. They are discussed later in this guide.

Does current legislation in Romania limit my ability to borrow?

The Law on Local Public Finances provides broad authority and discretion to local and judet councils to decide whether and when to borrow. The only limitations to that are that:

- The amount of interest and principle you pay on all outstanding loans of your local or judet council must be 20 percent or less of your current revenues
- In order to borrow in the international markets you must obtain prior approval from a special commission created by the Law on Local Public Finances

- Approval of a loan requires a two-thirds vote by the municipal or judet council

PART II

PREPARING TO BORROW

What should I know before I take any steps to seek a loan for specific local projects?

8 The debt carrying capacity of our local or judet council

8 What specific project(s) the local or judet council will want to finance over the next several years and in what order of priority

Key Concepts

- Annual debt service
- Recurring or current revenues
- Debt service ratio
- Debt carrying capacity

What is the annual debt service?

A typical loan contract will require that you make periodic payments of principal and interest until you have repaid the full amount you borrowed. Since you budget on a yearly basis, you will be most interested in the sum of all the payments you must make each year. This is the ***annual debt service***. How much you pay each year will depend on the terms included in the loan contract. Among the most important terms are the time you have to repay the loan and the interest rate.

Figure 1: The following example illustrates the concept of ***annual debt service***.

Amount of the loan in lei – 100,000,000 Years to pay – 3 Interest rate – 50%

	Year 1	Year 2	Year 3	Total
Annual debt service	71,052,632	71,052,632	71,052,632	213,157,895
Of which you will pay in:				
Principal	21,052,632	31,578,947	47,368,421	100,000,000

Interest	50,000,000	39,473,684	23,684,211113,157,895

Note that the annual debt service remains the same in each of the three years. This is typically the case. Note also that the amount you pay in principal goes up each year. The reverse is true for interest payments because each year you are paying interest only on the portion of the loan that you still owe. Finally, note that the total interest payments after three years are greater than the amount you borrowed. This will not always be true. Generally, the higher the interest rate and longer the time to repay the loan, the more you will pay in interest. As you can see, borrowing can be costly.

What is debt carrying capacity and how do you calculate it?

When you sign a loan contract you agree to make annual debt service payments over several years. You will need to make sure that you have the funds each year to make these payments. The safest and most prudent approach is to rely only on those funds that you know will be available. In Romania today (in 1999) these include the funds you obtain from local taxes, shared wage taxes and the equalization grants provided from the State budget. These are your ***recurring or current revenues***.

The ***debt service ratio*** is simply the annual debt service divided by total recurring revenues, as shown in the following formula:

debt service ratio = annual debt service ÷ total recurring revenues

You can express the result as a percentage.

Figure 2: The following example illustrates the concept of ***debt service ratio***.

	Example 1	Example 2	Example 3
Local taxes	213,157,895	118,421,053	56,842,105
Shared wage taxes	497,368,421	284,210,526	0
Equalization grants	0	71,052,632	227,368,421
Total recurring revenues	710,526,316	473,684,211	284,210,526

Annual debt service	71,052,632	71,052,632	71,052,632
Debt service ratio	10%	15%	25%

In its simplest expression, your ***debt carrying capacity*** is determined by how much you can set aside from your recurring revenues each year over the next several years in order to make annual debt service payments. That is, the maximum debt service ratio you feel you can afford will determine your debt carrying capacity.

Remember that the Law on Local Public Finance limits your debt service ratio to 20%

Even if you conclude that you can afford a debt service ratio of 20 percent or more, you are not allowed by law to exceed this amount. In Example 3, as shown in Figure 2 above, the local or judet council would be in violation of the law.

Note that the debt carrying capacity is defined by how much you can pay annually. It is not defined as the maximum amount you can borrow. The reason for this is that usually you will not know in advance on what terms you can obtain financing. As you know from the example in Figure 1, the years you have to repay the loan and the interest rate are some of the factors that determine what part of the annual debt service is for payment of principal and what part for interest. As you enter into specific loans, the terms of those loans will determine your annual debt service. As long as the debt service as a percent of recurring revenues is within the limits you have set for yourself in conformance with existing legislation, you can continue to seek additional financing for your projects through borrowing. It is only when the total debt service on all your outstanding loans reaches the limit that you will know for sure the actual amount you were able to borrow.

What factors affect my debt carrying capacity?

The key factors are:

8 Your willingness and ability to limit funding for services for your community so that you can pay for investments and for credit to finance those investments

Remember that you should plan to pay the annual debt service from your recurring revenues. These are the same revenues that pay for the services that you provide to your community, such as maintenance of streets, schools and parks. These also are the revenues you use to pay your own administrative costs, such as the salaries of your employees.

8 Your willingness and ability to accept risk

There is no simple mathematical formula that will calculate your debt carrying capacity. There are quantitative methods that can help you in the process. However, eventually you will have to make difficult choices that depend largely on your judgement. These choices always will be present when you make a decision about a loan. It is important to make sure you are aware of the choices and agree with the decisions before proceeding with any loan.

Does my debt carrying capacity determine how much we can afford to invest in our community?

Not necessarily. The debt carrying capacity tells you how much your local or judet council can borrow to pay for investments while relying exclusively on its own revenues. Often, it will be the case that one or more of the projects you have in mind will generate their own revenues once they have been completed. This is the case, for example, of a water system. Once it has been completed, the consumers will pay a fee for the water they consume. The income from these fees paid by the consumers also can be used to pay the debt service on a loan. This loan would provide additional funding to pay for investments. In this case, the borrower would be the *regia* or company that will implement the project.

A note of caution: If the local or judet council is not the borrower, it might seem that this does not affect your debt carrying capacity. However, the lender or an investor may ask the local or judet council to guarantee the loan provided to the company or regia that will implement the project and be the actual borrower. This guarantee will reduce your debt carrying capacity in one of several ways. Lenders will take the guarantee into account when they decide how much they think you can afford to borrow to finance other investments. Also, if the borrower fails to pay and your guarantee becomes effective, this will count against the 20% limit established by law.

The ability of a specific investment project to generate its own revenues to pay for debt service on a loan is determined by an analysis of the ***financial feasibility*** of the project. This type of analysis should be completed as part of the process of preparing the capital investment plan, as described later in this guide.

How do I decide what specific project(s) I will want to finance over the next several years and in what order of priority?

Capital investment planning is a tool that can help local governments in Romania ensure that decisions on facilities and infrastructure projects and funding are made wisely and are well planned. A Capital Investment Plan (CIP) is a multi-year plan that is produced by a local government that identifies capital projects to be funded during this period. The CIP identifies each proposed project, the year in which it will start and end, the amount (in Lei) expected to be expended on the project and the proposed method of financing the project.

What are the advantages of preparing a CIP?

The advantages that a local government can gain from developing a CIP include the following:

8 *Provides a comprehensive view of your needs and possibilities*: A basic function of the CIP is to help you look at all your investment needs and financing options together.

8 *Helps you prioritize your needs.* A key concern in developing the CIP is to prioritize current and future needs to fit within the financial constraints of the local government. Capital investment planning considers not only what a community needs but, equally important, what it can afford. Developing a CIP is very different than developing a "wish list" of projects that cannot be fully implemented. The CIP puts you in control of all your investment decisions.

How do I explore the options available to finance priority projects?

There are various sources of financing to consider:

- The revenues of the local and judet council that remain after paying for local operating expenses
- Borrowing backed by the revenues of the local or judet council itself
- Fees paid by the local consumers of services provided by the local or judet council directly or through a local *regia*, such as those for water, heating or public transport
- Borrowing backed by the fees paid for services
- Special programs of the Government of Romania or of foreign donors

In the case of special programs of the Government or of foreign donors the amount of financing that might be available and the projects that are eligible will be determined by the rules and procedures of the programs. For all the other sources listed above, it is entirely up to the local government to determine the level of financing and to select the projects. There are two types of analysis involved in making this determination. They are:

- ***Debt carrying capacity analysis*** to determine how much the local or judet council can and should finance from its revenues or from debt backed by those revenues, as described in the prior section of this guide

- ***Project financial analysis*** to determine how much can and should be financed from fees generated by the project once completed or from debt backed by those revenues, as further described below

In the case of funds provided from the revenues of the local of judet council itself, any project that is of local interest can be financed. This often is referred to as ***general obligation financing***. Funding provided the fees paid for specific services will be limited to financing projects related exclusively to that service. This often is referred to as ***project financing***.

How does project financial analysis work?

In preparing a project financial analysis you need to consider the following elements, among others:

8 Make sure you have complete estimates of the cost of the project and of the subsequent costs for operation and maintenance of the completed project. If there is more than one technical option (e.g. rehabilitation versus replacement) consider the impact of each option on the financial feasibility of the project. Also, try to determine if the size of the project is consistent with the expected demand or need. A project that is over dimensioned might not be feasible, but if it is redesigned to focus more narrowly on the need or demand it might be feasible.

8 Consider very carefully how much you can really charge for the service that the project will provide once it has been completed. Be careful not to assume that you will be able to charge whatever level fee is necessary to ensure that the project is self-financing. Look at increases in other local taxes and fees that will have an impact on the households and businesses in your community. Take into account that not everyone will pay on time or at all. Consider also that some consumers react to price increases by reducing their consumption (such as of water), thereby reducing the overall increase of revenues initially anticipated. Also, there may be laws or regulations that limit your authority to set the fee for specific services.

8 Look for possible savings in the current operating and maintenance costs of the *regia* or other local company that manage local services. You may be able to free up part of their current revenues to finance at least part of the cost of the project.

What happens if there are insufficient resources to finance all the projects?

It is very likely that the possible avenues of financing fall far short of the total cost of the projects presented for consideration in the CIP. In order to figure out which projects you will actually want to fund within the limits of available sources you need to compare the projects one with another using a set of criteria that measure their impact on the community in areas such as, economic development, health and the environment. The objective is to list the projects in order of priority, starting with those that have the highest priority.

Once you have listed your projects in order of priority, you can assign funding to them to the extent of the resources available to you. In this manner, the highest priority projects, that is, those that address the most important community needs are funded first.

PART III

THE BORROWING PROCESS

What are the key steps in the borrowing process?

There is no standard process you must follow to secure financing for your priority investments. However, you will complete certain basic steps each time.

- Establishing contact with one or more interested lenders or investors.
- Applying for the financing – meeting the requirements of the lenders or investors
- Receiving one or more offers of financing
- Evaluating the offer(s)
- Selecting an offer and agreeing to the terms of the financing
- Executing the contract(s) required to formalize the financing

A note of caution. Always remain aware of where you are in the financing process—what steps have been completed and what steps are still pending.

These steps will not occur always in the order shown above. The time required to complete the process will vary from case to case. The time and attention you devote to each step also will vary. The steps may occur formally or informally, explicitly or implicitly. The fact is that at one point of another you will complete each step in the process.

Establishing contact. You will come into contact with lenders or investors in many different ways. You may have been in discussions already with one or more firms that sell equipment you need for a local project or that are interested in bidding on the construction contract for the project. Very soon the discussion will come to the issue of how to pay for the investment. These firms may offer to help you find financing in order to secure the business with you. You probably also stay in contact informally with one or more commercial banks, probably through their branch in your community. The topic of a loan to finance your investments may come up in those discussions. You may receive unsolicited offers of financing or of assistance in securing financing from a private domestic or international firm or from a foreign donor.

You also can take the initiative to try to interest more than one lender or investor in your providing the financing you need. Your goal should be to generate choice, to be able to consider more than one offer of financing. You can make this a formal process in which you request an expression of interest in providing financing or actual offers of financing. You also can call on potential lenders or investors informally. In either case, you should prepare very carefully so that you can provide useful, relevant information and present a positive image. Otherwise, you may give the impression that you are not adequately informed or prepared. Lenders or investors will consider this as a negative factor when weighing the risks involved in providing financing to your local or judet council.

Consider preparing a short written presentation that describes your community, its advantages and its needs, the projects you have in mind and how they relate to those needs, your finances and why you believe you are a good risk for an investor or lender. Make the document attractive. Show that you have a rational plan to use the funds you will raise through the financing. It is potentially very valuable to show that your community is aware of the plan and supports it. Show that you have a sophisticated understanding of your finances. Be positive but do not try to hide your problems. Not everything needs to be perfect. A lender or investor knows that you face certain problems. He will want to know that you are aware of these problems and that you have a plan to address them.

Applying for the financing – meeting the requirements of the lenders or investors. Each lender or investor will have a unique process that you must follow to complete a their formal requirements when applying for financing. This will involve their own forms and information requirements. Many lenders or investors may not have prior experience in Romania with local or judet councils. Their process and forms may have to be adapted on an *ad hoc* basis to what the local or judet council is asked to prepare.

In general, there is certain core information that usually is required. You will have to present detailed information on the finances of the local or judet council, including actual results for recent years, the current year budget and probably some form of projection covering the years of the repayment of the proposed financing. The problem you may confront is that the financial statements you prepare at this time under instructions of the Ministry of Finance may not present the financial information in the way the lender or investor wants to see it. Either they will ask you to prepare a special financial report or they will arrange to have some person or firm prepare it for them. In either case, they will expect full access to all the relevant financial information available for your local or judet council.

You may also be asked to present other information covering areas such as the organization and staff of your local or judet council, the legal basis for your authority to finance the proposed investment, the description of the project or projects you will be financing and proof of that you have obtained any necessary permits .

Remember. Your local or judet council is solely responsible for knowing and protecting its own interests. No outside party, public or private, will have those same interests in mind. As described in the prior section, you should have:

! Your own estimate of your debt carrying capacity. This is not just a matter of how much you feel you can afford to pay annually for debt service. It also is a question of what other needs you have in your community and what part of your revenues you feel you can set aside for debt service payments.

! Your own capital investment plan covering at least two to three years. This includes the list of projects you want to finance ranked in priority order based on the benefits they bring to your community. It also includes a plan of how you want to finance those investments.

Receiving and evaluating one or more offers of financing. Make sure to obtain in writing from the lender or investor all the terms and conditions of the proposed loan or investment, including the period of time during which the offer will remain valid. Make sure you have information on what contracts or other legal documents you will have to sign. Obtain complete written drafts of all documents well in advance so you have time to evaluate them.

Ask the lender or investor to explain any terms or conditions in their offer that you do not understand. Consider obtaining advice from experts outside your local or county council if you are not sure you understand or can evaluate the offer.

Terms and conditions that you should be careful with:

- Fixed versus variable rates: Will the interest rate be fixed for the life of the loan or will it vary? If it will vary, how often will it change, how will the new interest rate be determined, will it be negotiable?

- Loans in *lei* versus loans in a foreign currency: In what currency will you have to repay the loan? It is extremely difficult to evaluate the cost and risks involved in a foreign currency loan.

- Other fees: What fees, if any, do you have to pay in addition to the interest on the loan? To whom and at what point? Fees can add significantly to the total cost of a loan.

- Disbursements: When will you receive the funds? What conditions, if any, must you meet before obtaining a disbursement? Are there any penalties if you do not follow an agreed upon disbursement schedule?
- Payment of interest other fees and principal: When do you begin to owe interest on the funds? When are the other fees due? When do you have to begin repaying the principal? This becomes especially important if you will be financing the construction of a project over more than one year. It is especially important if you will be relying on revenues generated by the completed project to repay the loan.

- Structure of principal payments: How is principal payment scheduled? Increasing principal payments (as in Figure 1)? Same amount of principal payment for each scheduled loan payment? A "balloon payment" of the full amount of the principal at the end of the loan period?

A note of caution. Comparison of offers can be complicated. If you succeeded in obtaining more than one offer of financing, the terms and conditions may differ from one offer to another. All the items listed above—fixed vs. variable rates, loans in different currencies, fees, schedule and conditions of disbursement, and so on—have a direct impact on the total cost to you of a particular offer of financing. If you are not sure how to evaluate such costs, obtain expert advice of your own.

If you are the guarantor and the borrower is a local regia or company, be sure to understand the extent of your liability. What is the trigger for the guarantee? That is, at what point do you become responsible for repaying the loan? What remedies do you have? What can you do to protect yourself from poor financial management by the original borrower? Will you have a clear right to obtain timely information on the financial condition of the borrower over the life of the loan? Can you take action before you are forced to assume responsibility for repaying the loan? At least some of these issues will be between you and the borrower.

If you are the guarantor, make sure to sign a formal agreement or contract with the borrower that protects your financial interests. Make sure the lender is aware of this agreement and agrees to it as part of the terms and conditions of the loan.

Selecting an offer and agreeing to the terms of the financing. Terms usually are negotiable. Do not be afraid to ask for alternatives to particular terms you do not like or do not understand.

Explore with the lender what guarantees you could offer that might improve the terms and conditions of the loan or investment. For example, in Romania today you can offer to guarantee the loan by pledging part of your revenues. In exchange for new or additional guarantees you should receive an offer of improved terms and conditions from the lender or investor.

Finally, obtain in writing from the lender all the final terms and conditions you have agreed to in the negotiations.

Executing the contract(s) required to formalize the financing. A loan agreement may involve several legal documents. Read all the documents very carefully. Verify that the draft agreements are consistent with the terms and conditions that you negotiated. Many of these will raise legal issues that you may not be familiar with, as they may involve laws other than those you work with in dealing with local government issues. If there are parts of the legal documents you do not understand, do not be afraid to ask for explanations and clarifications. As with the financial aspects of the loan, you may want to obtain expert outside advice, in this case from private lawyers familiar with financial transactions.

Remember. Your local or judet council is solely responsible for knowing and protecting its own interests. No outside party, public or private, will have those same interests in mind.

PART IV

POST BORROWING

What happens after you sign the loan while the project is under construction?

Whether you are the borrower or a guarantor, monitor very carefully the progress in time and cost of the project you are financing with the loan. If there are strict conditions regarding the schedule of disbursements there may be penalties to pay for a delay in drawing down the funds. Once the borrower begins to pay interest on the funds, construction delays will be very costly. The revenues from the completed project may be required to repay the loan or investment. Delays, or worse yet, a failure to complete the project can have serious consequences. If final costs exceed the original estimates, do you have access to other funds to complete the project?

What are the most important concerns after the project has been completed?

Monitor the debt service schedule on all your loan portfolio carefully. For the current year, be aware of the dates when payments are due. Monitor the rest of your budget very carefully.

8 Look for expenditures that are higher than expected or for revenues that are lower than expected.

8 Will you have sufficient cash on hand?

8 What will you do if your revenues from taxes or other sources are delayed or are less than you anticipated?

8 Look forward to anticipate potential problems. If you have a variable interest loan, how likely is it that interest payments may increase? If you are paying in a foreign currency, how likely is that it may become more expensive for you to buy that currency?

8 Have a contingency plan. Determine in advance what other expenditures you can defer if necessary. Consider getting a line of credit with the State Treasury or with a local bank.

8 At least once a year, probably when you are preparing the budget for the next year, look three or four years into the future. Consider the same questions as above. Plan what you can do today to minimize future risk and to prepare contingencies for unanticipated problems.

If you are the guarantor, be sure to monitor the performance of the borrower.

8 Are they in compliance with all the terms and conditions of the various contracts and agreements?

8 Obtain complete and timely information from the borrower so that you can anticipate their ability to meet their future obligations to the lender or investor.

8 If there appear to be problems, ask the borrower to take corrective actions in time to avoid triggering your guarantee.