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Work Plan No. 637

Municipal Finance Workshop

Final Report

March 31, 2005

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Data Page

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Property taxes	Non-property taxes
User charges and fees	Borrowing
Intergovernmental revenues	Fiscal capacity
Operating budgets	Capital planning and budgeting
Public retirement systems	Enterprises
Cash management	Debt administration
The essential functions of government	Objectives of local finance
Constraints on local financing decisions	Recent trends
Cost-benefit analysis	Description of municipal securities
Yield and price relationship	Types of municipal bonds
Characteristics of municipal bonds	The financing process
The financing documents	The primary market
Underwriting	Negotiated underwriting
Competitive underwriting	Orders and procedures (flow of funds analysis)
	Exchange versus OTC market
The secondary market	Spread analysis
Key participants	Goals
Rating changes	Stakeholders
Assess Community	Results and outcomes
Budget process	Mission
Strategic in nature	Conditions of the community
Apathy	Limited resources
Trends and issues	Surveys
Public Hearings	Strategic Planning
Special interest groups	Capital Assets
SWOT analysis	Management systems
Organizational systems	Policies, plans, and programs
Municipal services	Performance measures
Financial policies	Efficiency measures
Effectiveness measures	Budget calendar
Benchmarks	Budget
Budget Procedures	Monitor, measure, and evaluate
Multi-year projections	Stakeholder satisfaction
Program performance	

Budget adjustments

State and Local Government Finance
Fiscal Management Section
Fund Balance
Fund Balance available for appropriation
General Statutes
Budget officer
Capital project
Accounting system
Local Government Bond Act
Certificates of Participation

New Hanover County
Indenture of Trust
Official Statement
Arbitrage
Rating agencies

State Treasurer's office

Debt Management Section
Local Government Commission
Appropriated fund balance
Dillon's Rule
Budget ordinance
Budget and Fiscal Control Act
Finance officer
Annual independent audit
Full faith and credit
New Hanover County Financing
Corporation
Installment Financing Contract
Deed of Trust and Security Agreement
Underwriter
Bond Insurance

Abstract

The purpose of this workshop was to introduce municipal workers to the basics of municipal finance. Three basic concepts were presented: (1) an overview of municipal finance, (2) municipal budgeting best practices, and (3) basic financial concepts in taking a bond to market.

An overview of municipal finance. The overview of municipal finance included a discussion of sources of revenue (property taxes, non-property taxes, user fees, and fiscal capacity), objectives of municipal governments, selected administration issues, and capital improvement plans (long-term budgets). The strategy of this section was to introduce general terminology that could be used more specifically in the section on municipal budgeting best practices.

Municipal budgeting best practices. Municipal budgeting best practices included a discussion of four principles: (1) establishing broad goals, (2) developing approaches to achieve those goals, (3) developing a budget, and (4) evaluating and adjusting the budget as needed. The strategy of this session was to give the participants specific examples of how each of these principles could be achieved.

To provide a practical application of these principles, the structure of the State Treasurer's office in North Carolina was explained. After reviewing the organization structure and the various responsibilities of the Treasurer's office, the general statutes of the State were reviewed as they related to accounting and budgeting for local governments.

Basic financial concepts in taking a bond to market. This session included a discussion of the public bond market as an important source of funding long-term capital budgets. A distinction was made between bank loans and bonds. Bank loans are based on relatively straight-forward terminology and methods of analysis, and do not trade in the secondary market. Bonds, on the other hand, have somewhat more complex terminology and methods of analysis, and can trade in the secondary market. Although bank loans usually have shorter maturities than bonds, both are debt instruments and, to a degree, compete with each other for borrowers in the open market. In a well-developed capital market, borrowers can choose between bank loans and bonds according to need and unique characteristics of each instrument.

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- Dr. Ronald Copley	
- Mr. Andrew Atkinson	
- The JSC and ASE Presentations	

EXECUTIVE SUMMARY

After a brief introduction by Dr. Saket and Dr. Barnhart, the workshop began with Dr. Ron Copley presenting an overview of the municipal finance market. The overview included a discussion of a municipality's various sources of revenue, how a municipality spends its money, and a municipality's capacity for raising funds in the future. The matching principal in which the life of the assets being financed is matched with the maturity of the supporting debt instrument was stressed.

Central to the discussion of revenue is the property tax and Dr. Copley explained multiple techniques for assessing the value of both real and personal property. Specific collection techniques, accounting methods, and general administration of property taxes were not specifically discussed but may represent topics for future workshops. In addition to the property tax, Dr. Copley discussed non-property taxes such as the sales tax, personal income tax, and user charges as important sources of funds for diversifying a municipality's revenue base. Advantages and disadvantages of each source were discussed.

Following Dr. Copley's overview of the municipal finance market, Andy Atkinson presented municipal budgeting best practices and the structure of North Carolina's municipal finance market. The municipal budgeting best practices were developed by the Governmental Accounting Standards Board of the United States and Canada in order to provide for consistent preparation of budgets that enables local governments to be compared. The best practices have been applied throughout North Carolina governmental units. The State Treasurers office provides additional oversight to the governmental units in North Carolina as mandated by the general statutes of the State. The structure of the Treasurer's office and the applicable general statutes were explored during the workshop.

The workshop continued with Dr. Copley presenting basic financial concepts in taking a bond issue to market and how to price the issue in both the primary and secondary markets. Basic financial concepts included a description of various measures of yield, different types of municipal bonds, and operations of both the primary and secondary markets. Important to that discussion was how a municipality interacts with the investment banker in bringing the bond to market and what happens after that in the secondary market. In the next session, Dr. Copley discussed the pricing of a bond issue, which was the most technical part of the workshop. The analysis involved basic concepts in understanding interest rates, yield curves, and credit analysis for both general obligation and revenue bonds

The final two sessions were presented by Mr. Atkinson detailing an actual issuance of certificates of participation by New Hanover County, North Carolina and a presentation to the rating agencies in New York City. By exploring this case study many of the principles presented during this workshop were brought to life.

Appendix I: Municipal Finance Workshop's Program

Monday, March 14, 2005

9:00-9:25 WELCOMING REMARKS

H.E. Dr. Bassam Saket, Executive Chairman of the Jordan Securities Commission (JSC)

Dr. Jim Barnhart, Director, Economic Opportunities Office, USAID/Jordan

9:25 – 9:30 INTRODUCTION OF PRESENTORS

9:30 – 10:30 SESSION 1

Overview of Municipal Finance

Speaker
Dr. Ron Copley

Revenue Raising

- Property taxes
- Nonproperty Taxes
- User Charges and Fees
- Borrowing
- Intergovernmental Revenues
- Fiscal Capacity

Spending

- Operating Budgets (Andy will cover)
- Capital Planning and Budgeting

Administration

- Public Retirement Systems
- Enterprises
- Cash Management
- Debt Administration

Financing Local Government

- The Essential Functions of Government
- Objectives of Local Finance
- Constraints on Local Financing Decisions
- Recent Trends in the Sources of Local Revenues

Capital Planning and Budgeting

- Capital Improvement Program
- Characteristics of Capital Expenditures

- Project Identification
- Cost-Benefit Analysis
- Funding Source Identification
- Project Scheduling

Property Taxes

- Trends in Local Property-Tax Finance
- Determining the Local Tax Base
- Shifting and Incidence of Property Tax

Nonproperty Taxes

- Local Sales Tax
- Local Personal Income Tax

User Charges and Fees

- Trends in User Charges
- Understanding User Charges
- Implementing Guidelines

Local Fiscal Capacity

- The Local Economy
- The Tax and Revenue Base
- Constraints

10:30 – 10:45 BREAK

10:45 – 12:15 SESSION 2

Overview of the Municipal Finance, continued

Speaker
Dr. Ron Copley

12:15 – 12:30 BREAK

12:30 – 2:00 SESSION 3

Municipal Budgeting Best Practices

Speaker
Andy Atkinson

Establish Broad Goals

- Assess Community Needs, Priorities, Challenges and Opportunities
- Identify Opportunities and Challenges for Government Services, Capital Assets, and Management
- Develop and Disseminate Broad Goals

Develop Approaches

- Adopt Financial Policies
- Develop Programmatic, Operating, and Capital Policies and Plans
- Develop Programs and Services that are Consistent with Policies and Plans
- Develop Management Strategies

Develop Budget

- Develop a Process for Preparing and Adopting a Budget
- Develop and Evaluate Financial Options
- Make Choices Necessary to Adopt a Budget

Evaluate Performance

- Monitor, Measure, and Evaluate Performance
- Make Adjustments as Needed

2:00 - 3:00 LUNCH BREAK

3:00 -4:30 SESSION 4

Municipal Budgeting Best Practices, continued

Speaker
Andy Atkinson

Tuesday, March 15, 2005

9:00 – 10:30 SESSION 5

Structure of North Carolina Municipal Finance

Speaker
Andy Atkinson

The State Treasurer's Office

- Organization
- Local Government Commission (LGC)
- Relationship between State and Municipalities
- Applicable General Statutes (G.S.)

State Constitution

- "Dillon's Rule"

10:30 – 10:45 BREAK

10:45 – 12:15 SESSION 6

Structure of North Carolina Municipal Finance, continued

Speaker
Andy Atkinson

12:15 – 12:30 BREAK

12:30 - 2:00 SESSION 7

Basic Financial Concepts in Taking a Bond Issue to Market

Speaker
Dr. Ron Copley

Description of Municipal Securities

- Yield and Price
- Types of Municipal Bonds
- Characteristics of Municipal Bonds
- Security
- The Financing Process
- The Financing Documents

The Primary Market

- Underwriting
- Negotiated Underwriting
- Competitive Underwriting
- Orders and Procedures (Flow of Funds Analysis)

The Secondary Market

- Exchange versus OTC Market
- Key Participants
- Spread Analysis
- Rating Changes

2:00-3:00 LUNCH BREAK

3:00 – 4:30 SESSION 8

**Basic Financial Concepts in Taking a Bond Issue to Market,
continued**

Wednesday, March 16, 2005

9:00 – 10:30 SESSION 9

Presentation by Jordan Capital Market Entities

“Importance of the Bond Market in Jordan,”

Speaker
Nader Azar
Deputy CEO of the ASE.

“Status of Bond Market in Jordan.”

Speaker
Abdel-Raouf Rababah
Director of Disclosure Department at the JSC.

10:30 – 10:45 BREAK

10:45 – 12:15 SESSION 10

Pricing a Bond Issue

Speaker
Dr. Ron Copley

Understanding Interest Rates

- Real Rate
- Inflation Premium
- Risk Premium
- Yield Curve Analysis

Credit Analysis

- Guidelines in Credit Analysis
- Rating Agencies
- General Obligation Bonds
- Revenue Bonds

12:15 – 12:30 BREAK

12:30 – 2:00 SESSION 11

Case Analysis of New Hanover County Issuing a Bond (Certificate of Participation)

Speaker
Andy Atkinson

Steps in Taking a Bond Issue to Market

- Comparison of COPs to General Obligation Bonds (GO) and Revenue Bonds
- Who are the participants in the transaction? What are their roles?
- Preliminary meeting with the LGC

- Establishment of Financing Calendar
- Documents required for the financing
- Actions required by the governing board of the County
- Use of bond insurance
- Official Statement (OS)
- Approval of application by the LGC
- Sale of COPs
- Pre-closing and Closing

2:00 – 3:00 LUNCH BREAK

3:00 - 4:30 SESSION 12

Case Study—New Hanover County’s presentation to the Rating Agencies

Speaker
Andy Atkinson

Presentation to Rating Agencies

- Who attended? What were their roles?
- What agencies were visited?
- A review of the information presented to the rating agencies
- Results of the visit, what ratings did New Hanover County receive?

4:30 – 4:45 DISTRIBUTION OF CERTIFICATES

Appendix II:

Municipal Finance Workshop's Presentations



Introduction

Ron Copley's Sessions

Monday, March 14, 2005

SESSION 1 & 2, Overview of Municipal Finance

Overview of Municipal Finance

Tuesday, March 15, 2005

SESSION 7 & 8, Basic Financial Concepts in Taking a Bond Issue to Market

Description of Municipal Securities

The Primary Market

The Secondary Market

Wednesday, March 16, 2005

SESSION 9, Pricing a Bond Issue

Understanding Interest Rates

Credit Analysis



Introduction

“Personally, I’m always ready to learn, although I do not always like being taught.”

Sir Winston Churchill





Introduction

This Guy Paid the Price for Falling Asleep
During a Prior Workshop



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Overview of Municipal Finance

REVENUE RAISING



- Property taxes--the largest source of local revenue.
- Nonproperty taxes--sales tax and personal income tax.
- User charges and fees--payments for provided services.
- Long-term loans or bonds--used to finance large-scale capital projects.
- Intergovernmental revenues--revenues received from another governmental source
- Fiscal capacity--a government's ability to finance its own needs.



Overview of Municipal Finance

SPENDING--part of budgeting

- Operating budget (covered by Andy)
- Capital planning
 - capital improvement plan (CIP)--
multiyear plan financing long-term
assets.
 - capital budget--capital spending
element of operating budget.

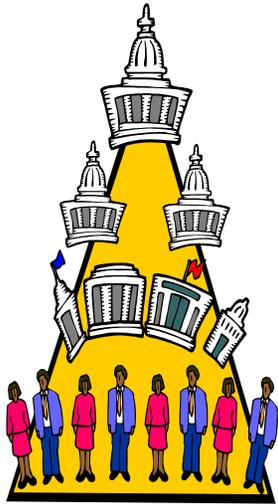




Overview of Municipal Finance

ADMINISTRATION

- Public retirement systems--almost 10,000 plans providing over \$27 billion benefits to over 3.7 million retirees.
- Enterprises--self-supporting projects covered by user fees.
- Cash management--concerned with management of cash from time of receipt through time of expenditure.
- Debt administration--long-term securities sold to investors for financing long-term assets.

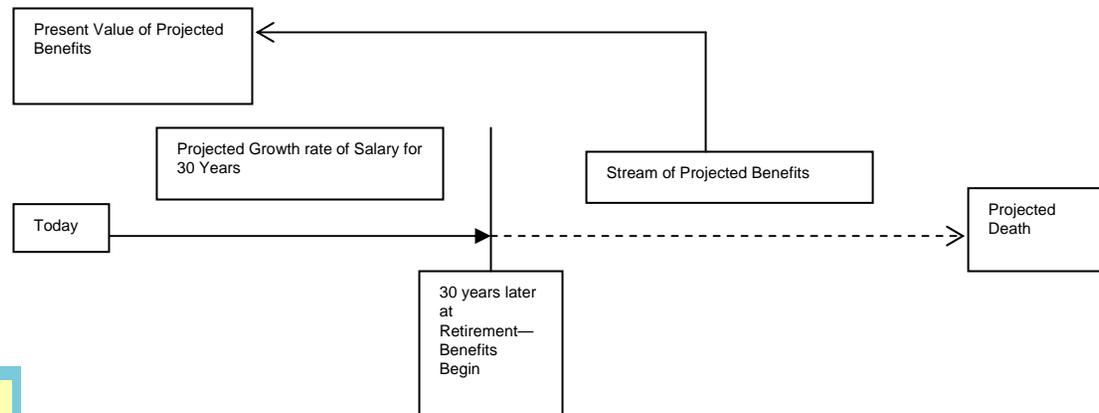




Overview of Municipal Finance

ADMINISTRATION, continued

Graph of Actuarial Method for a 35 year-old employee retiring at age 65--defined benefit pension plan





Overview of Municipal Finance

FINANCING LOCAL GOVERNMENT

“The legitimate object of government is to do for a community of people whatever they need to have done, but cannot do *at all*, or can not so *well do*, for themselves- in their separate and individual capacities. In all that the people can individually do as well for themselves, government ought not to interfere.”

Abraham Lincoln



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Overview of Municipal Finance

FINANCING LOCAL GOVERNMENT-

-The Essential Functions of Government:

- Allocation--government does for the general welfare what the private sector will not do.
- Distribution--government affects the distribution of wealth.
- Stabilization--local governments historically account for approximately 45 percent of all government expenditures.
- Some other considerations--local governments are “children” of the state.





Overview of Municipal Finance

FINANCING LOCAL GOVERNMENT-

-Sources of Revenues:

- Borrowing from the public shifts costs to the future.
- Taxation--who actually pays?
- Sale of services--costs paid by purchasers.
- Sale of assets--replacement costs rest on future residents.
- Transfers from other governments--shifts costs to other taxpayers.





Overview of Municipal Finance

FINANCING LOCAL GOVERNMENT-

- Objectives of Local Finance:

- Accountability--elected representatives owe this to the residents of their jurisdiction.
- Fairness--equal treatment of all citizens.
- Efficiency--activities carried out with as few resources as possible.





Overview of Municipal Finance

FINANCING LOCAL GOVERNMENT-

- Constraints on Local Financing Decisions:

- State law--for example, federal wage and hour laws.
- Federal mandates--conditions of grant programs.
- Intergovernmental competition--no locality's tax rates can get too far out of line with those of neighboring jurisdictions without risk of emigration of residents and firms.





Overview of Municipal Finance

FINANCING LOCAL GOVERNMENT-

-Recent Trends in The Sources of Local Revenues from 1978-1988:



- Local governments became more reliant on revenues from their own sources and less on intergovernmental revenue.
- Although still the most important by far, property taxes have declined and the general sales and user taxes have increased in importance.
- Miscellaneous revenues, including interest earnings and proceeds from land sales, accounted for nearly twice the proportion of local revenues over the period.



Overview of Municipal Finance

FINANCING LOCAL GOVERNMENT-

-Types of intergovernmental payments:

- The categorical grant--extensive restrictions on the uses of those funds.
- General fiscal assistance--“revenue sharing” for the purpose of improving the overall ability of the recipient to finance its public-service responsibilities.
- Reimbursement of costs--paid by one government for the services rendered by another government.
- The block grant--fewer restrictions than categorical grants, and used for programs such as elementary and secondary education or social services.





Overview of Municipal Finance

If One Look Could Kill...



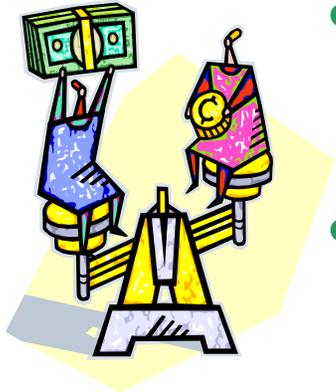
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Overview of Municipal Finance

CAPITAL PLANNING AND

BUDGETING--Capital Improvement Program (CIP) is a multiyear plan that forecasts spending for all anticipated long-term capital projects:



- The CIP is a plan for new structures, streets, parks, facilities, and equipment, and the on-going maintenance of these projects.
- An effective CIP has an administrative process to identify the location, scale, timing of needed capital projects and a fiscal plan to provide for funding of those projects.





Overview of Municipal Finance

CAPITAL PLANNING AND BUDGETING, continued

- The CIP should be a logical extension of a jurisdiction's comprehensive land-use plan that:
 - Describes each capital project proposed for development over the planning period by listing the year it will begin.
 - The cost to be incurred by year.
 - Proposed method of financing.
- Capital Budget- represents the first year of the capital improvement plan.





Overview of Municipal Finance

CAPITAL PLANNING AND BUDGETING, continued

Purpose of a capital project is to facilitate the success of an operating objective. Characteristics of capital projects:

- Essential public purpose.
- Long useful life.
- Infrequent and expensive.
- Related to other government functions.
- Local government's responsibility to provide.





Overview of Municipal Finance

CAPITAL PLANNING AND BUDGETING, continued

Project evaluation requires a systematic method of analyzing each project relative to:

- Budgetary impact.
- General welfare of community.
- Risk and uncertainty.
- Environmental effects.
- Cost-Benefit Analysis may complement above factors, if costs and benefits can be measured.





Overview of Municipal Finance

CAPITAL PLANNING AND BUDGETING, continued

Financial analysis process:

- Overall feasibility of project.
- Impact of the costs on the municipality (credit rating of bonds important).
- Effect of future maintenance and operational expenses on the operating budget.



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Overview of Municipal Finance

CAPITAL PLANNING AND BUDGETING, continued

Funding sources include:

- Pay-as-you-go financing where costs are paid from current income, like taxes, fees, and interest earnings..
- Grants from other governments.
- Debt financing involving external funds from issuing debt in the capital market.
- Public/private ventures including privatization.
- Prudent financial management that calls for a combination of sources.





Overview of Municipal Finance

CAPITAL PLANNING AND BUDGETING, continued

Project scheduling requires a sequential listing of projects that can be reasonably be financed, designed, constructed and implemented:

- Some projects will be interrelated causing the sequence of developments to take precedent over finances.
- Urgency and feasibility will likely dictate the initial field of candidates for the capital budget.
- Replacement of existing facilities/equipment is important.

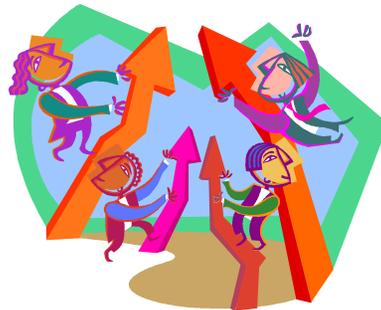




Overview of Municipal Finance

CAPITAL PLANNING AND BUDGETING, continued

Conclusion: The Capital Improvement Program (CIP) presents a framework for decision making regarding what to build, where and when to build or buy it, and how much to spend on it.





Overview of Municipal Finance

Before You Complain About Your Job...



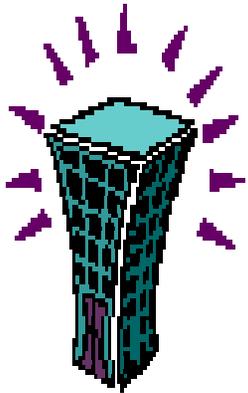
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Overview of Municipal Finance

PROPERTY TAXES

- Property taxation has been a major source of government revenue at the state or local level in the U.S. for over 200 years.
- In 1957, local property taxation represented 86.7 percent of local taxes, and by 1977, the figure had dropped to 80.5 percent.



Overview of Municipal Finance

PROPERTY TAXES, continued

Considerations of using property taxation include:

- Public attitude toward the tax historically has been adverse.
- Property tax relief measures that narrow the base, limit the rates, levy amounts and/or substitute other revenue sources have occurred since the 1970s.
- Several surveys over the years have shown that citizens perceive the property tax as less fair than the federal income tax.





Overview of Municipal Finance

PROPERTY TAXES, continued

Reasons why property tax is unpopular:

- Property tax is a tax on unrealized capital gains.
- The property-tax base must be estimated by the taxing governments.
- The property-tax bill can rise even when the taxpayer's cash position does not improve because it is a tax on accumulated capital value.
- Property-tax rates tend to increase more than income and sales tax rates for budgetary reasons.
- Property-tax bills generally are paid in a small number of large payments.



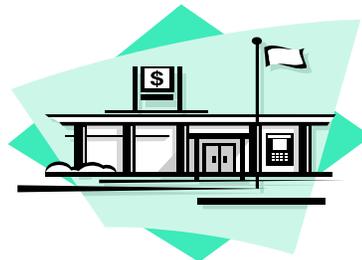


Overview of Municipal Finance

PROPERTY TAXES, continued

The role of property taxation in local government finance:

- The property tax is almost wholly a local tax.
- Local governments have diversified their tax structures into nonproperty taxes such as those on consumption (sales taxes) and on income.



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Overview of Municipal Finance

PROPERTY TAXES, continued

Trends 1957-1988:



- Property taxes still main source of revenue, but as a percentage of all taxes is declining.
- User fees have become increasingly important.
- Higher interest rates in the 1970s and early 1980s increased the importance of interest earnings.
- While local revenue systems now are rather diversified, the property tax still accounts for three-fourths of all local taxes.





Overview of Municipal Finance

PROPERTY TAXES, continued

Determining the property tax base:

- Personal property:
 - Tangible personal property- Includes business inventories, machinery, jewelry, livestock, pets, household furnishings.
 - Intangible personal property- Includes corporate stocks and bonds, bank deposits, and mortgages.
- Real property consisting of two separate elements- land (residential, commercial, agricultural, and vacant) and improvements (buildings, structures, and other capital improvements).





Overview of Municipal Finance

PROPERTY TAXES, continued

Valuation approaches to real property tax base:

- Cost approach--current cost of reproducing a structure minus depreciation from deterioration. Add to this estimate an estimate for the value of the land based on comparable sales.
- Income approach--based on a capitalization of net income. For example, a \$100,000 net income capitalized at 10% would give an estimated value of \$1 million.
- Market data approach--value indicated by recent sales of comparable properties in the marketplace.





Overview of Municipal Finance

PROPERTY TAXES, continued

Revenue stability--the responsiveness of property-tax growth to economic growth depends upon:

- Responsiveness of market value to economic growth, and
- Ability of the local assessing jurisdiction to capture changing market values through the assessment process.





Overview of Municipal Finance

PROPERTY TAXES, continued

Problem with property tax--reliance totally on the property tax as a source of revenue will continually create a fiscal gap as the economy grows since the demand for services increases faster than property tax revenue. Diversifying the tax base into non-property revenues can help alleviate this problem.



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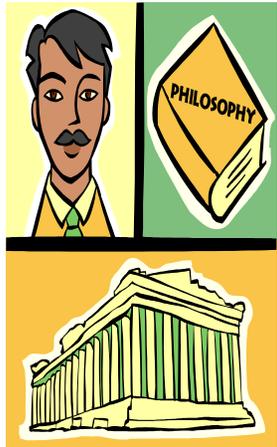


Overview of Municipal Finance

PROPERTY TAXES, continued

Rationale for property taxation--this tax is consistent with two taxation philosophies:

- Ability to pay--taxpayers with higher property values have a greater ability to pay the tax than those with lower property values.
- Benefits to tax payer--the use of tax revenue to finance police, fire, streets, etc, enhances property values.





Overview of Municipal Finance

PROPERTY TAXES, continued

Who pays the property tax?

- Land--general agreement that the owner pays.
- Improvements--for rental property, the tenant may pay in the form of higher rent.
- Personal property--individual pays.



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Overview of Municipal Finance

PROPERTY TAXES, continued

Reasons why growth of property tax revenue is declining:

- Increased importance of nonproperty taxes.
- Increased state role in raising state-local revenues.
- Slower growth in public spending.





Overview of Municipal Finance

NONPROPERTY TAXES

Nonproperty tax revenues play a particularly important role as a revenue source for municipalities.





Overview of Municipal Finance

NONPROPERTY TAXES, continued

Basic characteristics of the local sales tax:

- The local sales tax is the largest single local nonproperty tax.
- The range of rates among state and local governments is large, with the average state rate in the 4.5 to 5 percent range.
- 5,488 municipalities in 24 states use this tax.





Overview of Municipal Finance

NONPROPERTY TAXES, continued

Yield and Stability:

- The sales tax seems to be most heavily used by the smaller cities and counties.
- The sales tax, like the income tax, is relatively responsive to growth and fluctuations in income.



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Overview of Municipal Finance

NONPROPERTY TAXES, continued

The Local Personal Income Tax:

- The local income tax is primarily a supplementary revenue source for large cities.
- Local income taxes, like local general sales taxes, are often used to reduce dependence on the property tax and to collect revenue from those who work in the central city but live in the suburbs.
- Personal income taxes rank third in local tax-revenue sources, behind property and sales taxes.





Overview of Municipal Finance

NONPROPERTY TAXES, continued

Basic Characteristics of the local income tax:

- Payroll tax--wage tax or the earned-income tax.
- Piggyback tax--local income-tax liability is linked directly to federal or state income taxes.
- Broad-based tax--New York City's local income tax is a broad-based, graduated income tax with locally set exemptions and deductions.

Note: In general, income taxes are less costly to administer than property taxes, and about the same as sales taxes.





Overview of Municipal Finance

NONPROPERTY TAXES, continued

Other Local Nonproperty Taxes:

- Selective sales taxes are imposed on a specific or limited number of goods or services, such as:
 - Motor-vehicle licenses
 - Real-property transfer taxes
- Corporate-income/business-license taxes.





Overview of Municipal Finance

How do you know if a cat robber has been in your house?



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Overview of Municipal Finance

Your cat is missing.





Overview of Municipal Finance

USER CHARGES AND FEES

As the property tax has declined in importance as a source of revenue to local governments due to effects of taxpayer revolts beginning in the 1970's, user charges and fees have become more important.





Overview of Municipal Finance

USER CHARGES AND FEES, continued

Defining User Charges and Fees--there is a lack of agreement about what should be included under the rubric “user charges and fees”

Some of the different definitions include:

- Market-like transactions in the public sector.
- Beneficiary charges defined as payments made by consumers in “direct exchange for government services received.”
- “Prices charged for voluntarily purchased, publicly provided services.”





Overview of Municipal Finance

USER CHARGES AND FEES, continued

Definitions :

- Utility charges for sewer, water, and publicly provided electricity.
- User charges and fees for public swimming pools, trash collection, health services, etc.
- Special assessments for local assessments for sidewalks, street paving and lighting, etc.
- License and permit fees for automobile inspection fees, building permits and inspection charges, and professional licenses.





Overview of Municipal Finance

USER CHARGES AND FEES, continued

Local governments have been increasing their reliance on user charges since the late 1950s as a percentage of all local taxes:

1957 – 40%

1977 – 45%

1983 – 64%



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Overview of Municipal Finance

USER CHARGES AND FEES, continued

Understanding user charges and fees

- Private versus public goods:
 - Private goods--individuals consume and enjoy all the benefits of the good.
 - Public good--individuals consume shares of the good but benefits are shared with others.
- User charges are more closely aligned with private goods.





Overview of Municipal Finance

USER CHARGES AND FEES, continued

Advantages of User Charges:

- Demand signals--user charges can provide clear demand signals.
- Reduction of waste--user charges can reduce the possibility of oversupply or waste of publicly provided goods and services.
- Revenue--an additional source of revenue for local governments.
- Equity (fairness)--user charges and fees provide a dramatic improvement of fairness in the public provision of goods and services.





Overview of Municipal Finance

USER CHARGES AND FEES, continued

Limitations of User Charges:

- If activity has substantial external benefits (those that are not realized by its principal recipients), then that activity provides benefits to more than just the immediate consumer.
- Fairness may be adversely affected if services are intentionally subsidizing low-income or disadvantaged recipients.
- User charges may be limited by state laws.
- User charges and fees may be costly to administer.



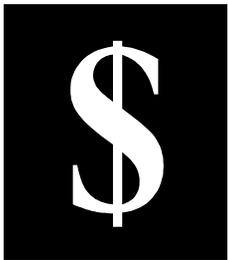


Overview of Municipal Finance

USER CHARGES AND FEES, continued

Pricing Considerations:

- Not all costs lend themselves to easy linkage with a specific good or service.
- If there are some external benefits connected with the provision of the service, user charges should not be set at a level that covers full costs; there should be some subsidy provided from general tax revenues.





Overview of Municipal Finance

USER CHARGES AND FEES, continued

Implementing user charges requires a systematic analysis:

- Proper identification of programs.
- Setting charges high enough to cover the costs.
- Cost data must be collected in as much detail as possible.
- Attention must be paid to what prices competitors charge for similar services
- Consideration must be given to the possible fairness effects of the pricing decision.
- Sensitivity to the political environment.





Overview of Municipal Finance

LOCAL FISCAL CAPACITY

- Defined as the ability of a jurisdiction to generate revenues from its own sources.
- A key difference between the fiscal capacity of states and localities is scope:
 - the state has at its disposal all the revenue bases within its boundaries.
 - a locality has only those that have been granted to it by the state.
- Analysis requires an understanding of the economic and sociological framework of the municipality.





Overview of Municipal Finance

LOCAL FISCAL CAPACITY, continued

The Local Economy--its income base:

- The employment base--diversity is the key.
- Unemployment rates--watch for changes that forecast future growth.
- Other measures
 - level of retail sales
 - amount of trucking, freight, or waterborne cargo
 - value added by manufacturing
 - number of bank accounts and amount of bank deposits



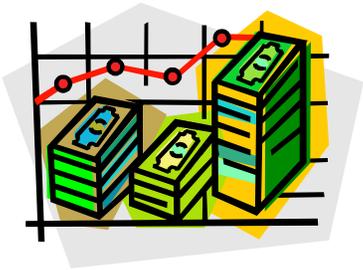


Overview of Municipal Finance

LOCAL FISCAL CAPACITY, continued

The Local Economy--its income base:

- Population trends--watch for changes.
- Resident socioeconomic and housing characteristics.
 - Median value of owner-occupied housing--a possible proxy for income.
 - Age of the population, education and skill levels.



Note: The lack of timely data is a problem for measuring fiscal capacity.

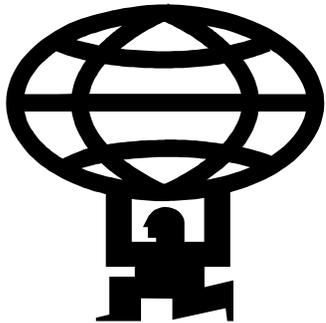


Overview of Municipal Finance

LOCAL FISCAL CAPACITY, continued

The tax and revenue base can be classified into 4 broad categories:

- 1. The property-tax base--two basic assessment methods:
 - assessed value--legal value assigned by a local assessor
 - full valuation--the most comprehensive typically done through statistical studies.



Note: Diversity in the kinds of property and the distribution of the housing stock between new and old housing provides a foundation for this analysis.



Overview of Municipal Finance

LOCAL FISCAL CAPACITY, continued

- 2. Sales-tax and excise-tax base--an excise tax can be levied on the manufacture, sale, or consumption of a particular commodity or service.
- 3. Income-tax base--less than one-third of the states allow localities to employ this tax.
- 4. User charge and fee bases--payments for the use of specific goods and services have increased substantially in recent years.





Overview of Municipal Finance

LOCAL FISCAL CAPACITY, continued

Constraints on fiscal capacity:

- Legal--states limit taxing and borrowing and may require public hearings or voter approval.
- Competitive constraints--from policies in neighboring communities (i.e., tax rates).
- Administrative constraints--for example, a small village may provide water but be unable to charge a user fee because it lacks resources to conduct a rate study to determine appropriate charges.





Sessions 3 & 4

Municipal Budgeting Best Practices
March 14, 2005



Definition of the Budgeting Process

The **budget process** consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.



The Process

- Incorporates a long-term process.
- Establishes linkages to broad organizational goals.
- Focuses budget decisions on results and outcomes.
- Involves and promotes effective communications with stakeholders.
- Provide incentives to government management and employees.



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The Process

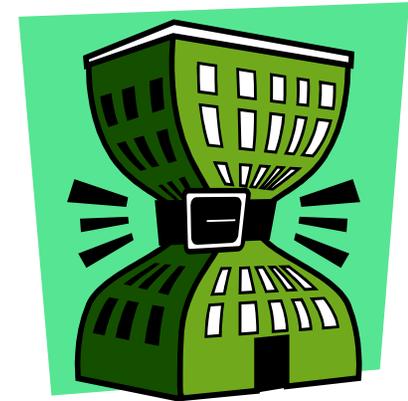


These key characteristics make it clear that the budget process is not simply and exercise in balancing revenues and expenditures one time a year, but is strategic in nature.



The Process

A good budget process goes beyond the traditional concept of line item expenditure control, providing incentives and flexibility to managers that can lead to improved program efficiency and effectiveness.





The Mission of the Budget Process



The **mission** of the budget process is to help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process.



Communication and Involvement

Apathy is a serious illness of government. It is in the best interest of the government to have involved **stakeholders**.





Definition of stakeholders

A stakeholder is *anyone* affected by or has a stake in government. The budget process should accomplish the following:

- Involve stakeholders.
- Identify stakeholder issues and concerns.
- Obtain stakeholder support for the overall budgeting process.
- Achieve stakeholder acceptance of decisions related to goals, services, and resource utilization.
- Report to stakeholders on services and resource utilization, and service generally to enhance the stakeholders' view of government.



The Four Principals of the Budget Process

1. Establish Broad Goals to Guide Government Decision Making.
2. Develop Approaches to Achieve Goals.
3. Develop a Budget Consistent with Approaches to Achieve Goals
4. Evaluate Performance and Make Adjustments.



Principle I- Establish Broad Goals to Guide Government Decision Making

A government should have broad goals that provide overall direction for the government and serve as a basis for decision making.



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Element 1 – Assess Community Needs, Priorities, Challenges and Opportunities

Practice:

A government should develop an understanding of the condition of the community, and trends and issues that may affect it in the future. This process requires an examination and assessment of stakeholder issues, concerns, needs, and desires. Also, factors that affect the community, stakeholders, and the government should be identified. These include the state of the economy, the composition of the population, technology, legal or regulatory issues, intergovernmental issues, and physical or environmental issues



Element 1 – Assess Community Needs, Priorities, Challenges and Opportunities

Rationale:

The limited resources of a government should be directed in a manner consistent with the concerns, needs, and priorities of stakeholders; hence, a government must be aware of those concerns, needs, and priorities.



Element 1 – Assess Community Needs, Priorities, Challenges and Opportunities

Outputs:

This practice provides for a series of mechanisms to promote stakeholder participation in discussing and communicating values and issues that are of concern to them. Among the mechanisms that might be considered are public hearings, surveys, meetings of leading citizens and citizen interest groups, government strategic planning processes, meetings with government employees, and workshops involving government administrative staff and/or the legislative body.



Element 1 – Assess Community Needs, Priorities, Challenges and Opportunities

Examples:

- *Community Conversations*: Engages staff and residents to discuss what is going on in their community. Listening is the key word for these gatherings.
- *Enhanced Web sites*: Go to www.nhcgov.com for a great example.
- *Surveys*: Use SWOT (**s**trengths, **w**eaknesses, **o**pportunities, **t**hreats) analysis



Element 1 – Assess Community Needs, Priorities, Challenges and Opportunities

Practice:

A government should regularly collect and evaluate information about trends in community condition, the external factors affecting it, opportunities that may be available, and problems and issues that need to be addressed.

Rationale:

A government must have an understanding of the issues and trends affecting a community in order to establish the most appropriate goals.



Element 1 – Assess Community Needs, Priorities, Challenges and Opportunities

In evaluating community condition, a government may want to consider local, regional, national, and global factors affecting the community, including:

- Economic and financial factors,
- Demographic trends,
- Legal or regulatory issues,
- Social and cultural trends,
- Physical (e.g., community development) or environmental factors,
- Intergovernmental issues, and
- Technological change.

The frequency and extensiveness of the evaluation should be consistent with how frequently the information changes and the relative importance of the information being gathered.



Element 1 – Assess Community Needs, Priorities, Challenges and Opportunities

Quick People Facts	New Hanover County	North Carolina
Population, 2003 estimate	168,088	8,407,248
Population, percent change, April 1, 2000 to July 1, 2003	4.8%	4.5%
Population, 2000	160307	8,049,313
Population, percent change, 1990 to 2000	33.3%	21.4%
Persons under 5 years old, percent, 2000	5.7%	6.7%
Persons under 18 years old, percent, 2000	21.0%	24.4%
Persons 65 years old and over, percent, 2000	12.8%	12.0%



Element #2 Identify Opportunities and Challenges for Government Services, Capital Assets, and Management

A government should undertake an assessment of its own operations, including the services it currently provides, the assets it owns, its management structure, and the opportunities and challenges that may affect them. A government should review existing services and assess how well services address community needs and changes that may be necessary to respond to opportunities and challenges. There should also be a corresponding review of existing capital assets.



Element #2 Identify Opportunities and Challenges for Government Services, Capital Assets, and Management

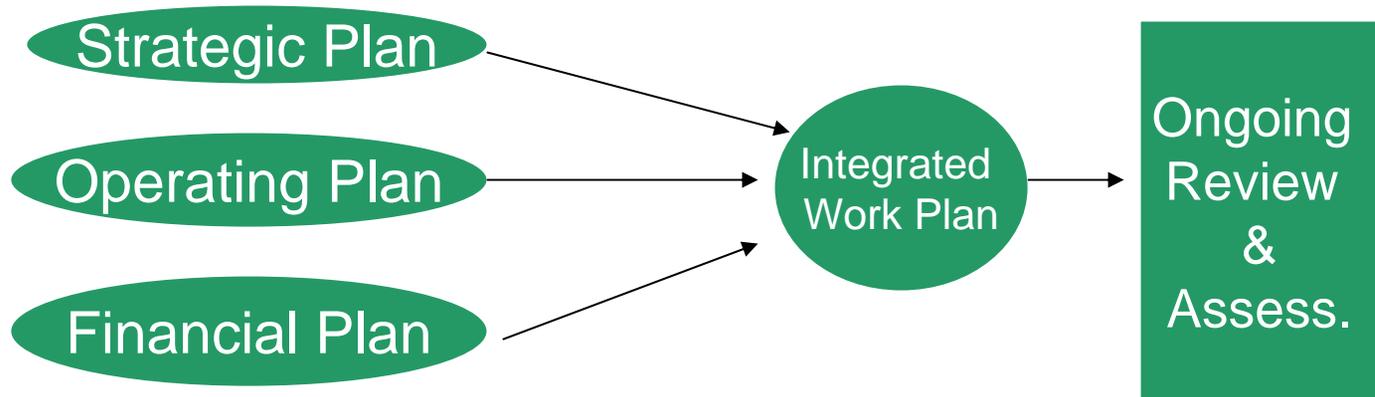
Rationale:

Changes in community conditions or other factors may result in a program or service no longer addressing the needs it was intended to serve. Also, changes in the operating environment may affect the cost or effectiveness of service delivery in the future. These changes must be understood before an assessment can be made of whether existing programs should be continued or whether adjustments should be made.



Element #2 Identify Opportunities and Challenges for Government Services, Capital Assets, and Management

Example: A **C**omprehensive
Organizational **R**evision and **E**valuation
(CORE)





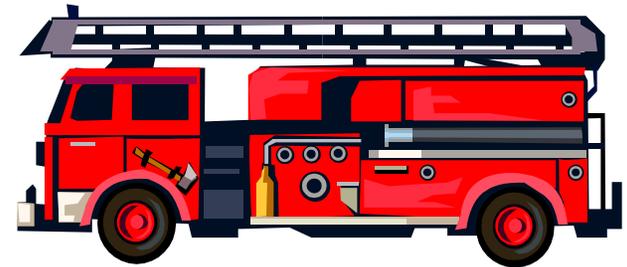
Element #2 Identify Opportunities and Challenges for Government Services, Capital Assets, and Management

Practice:

A government should identify and conduct an assessment of its capital assets, including the condition of the assets and factors that could affect the need for or ability to maintain the assets in the future.

Rationale:

The capital assets of a government and their condition are critical to the quality of services provided, and hence are important in determining whether the needs and priorities of stakeholders can be met. :





Element #2 Identify Opportunities and Challenges for Government Services, Capital Assets, and Management

Practice:

A government should identify and analyze its organization and management systems, including system strengths and weaknesses and factors that could affect these systems in the future.

Rationale:

The support systems established to manage a government are integral to the achievement of goals.



Element #3 Development and Disseminate Broad Goals

A government should identify and disseminate broad goals. Broad goals should be related to the needs, challenges, and opportunities confronting the government and take into account the services operated by the government, its capital infrastructure, and its management systems. A government should also provide for dissemination and review of goals to ensure stakeholder understanding of the direction in which the government is moving.



Element #3 Development and Disseminate Broad Goals

Practice:

A government should identify broad goals based on its assessment of the community it serves and its operating environment.

Rationale:

Broad goals define the priorities and preferred future state of the community or area served. They provide a basis for making resource allocation decisions during the budget process and serve as a focal point for assessing and coordinating various long-range or strategic plans.



Element #3 Development and Disseminate Broad Goals

Examples:

Goal: Municipal Services, Capital Improvements, and Finances

Utilize a **comprehensive and long-range planning approach** to the delivery of municipal services and funding of capital improvements—one that balances the need to prioritize services, maintain service levels, fund capital improvements, and ensure a quality workforce.

Goal: Provide a safe community for all citizens of this municipality.



Principle II – Develop Approaches

A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.



Element #4 – Develop Financial Policies

A government should develop a comprehensive set of financial policies. Financial policies should be consistent with broad government goals and should be the outcome of sound analysis. Policies also should be consistent with each other and relationships between policies should be identified. Financial policies should be an integral part of the development of service, capital, and financial plans and the budget. All other adopted budgetary practices of a government should be consistent with these policies.



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Element #4 – Develop Financial Policies



Types of Polices:

- Fees and Charges
- Debt Issuance and Management
- Use of Fund Balance
- Debt Level and Capacity
- Use of one time revenues



Element 5 – Develop Programmatic, Operating and Capital Policies and Plans

A government should develop policies and plans to guide service provision and capital asset acquisition, maintenance, replacement, and retirement. These policies and plans give direction to the government regarding the level of services and types of capital assets to be provided, and the manner in which the services and capital assets will be provided.



Element 5 – Develop Programmatic, Operating and Capital Policies and Plans

Practice:

A government should develop and adopt policies and plans to guide the design of specific programs and services.

Rationale:

Service and program policies and plans translate broad goals into strategies for achieving goals. These policies and plans provide the basis for designing specific programs and services.



Element 5 – Develop Programmatic, Operating and Capital Policies and Plans

Collaborative Objectives

Advancing Collaborative Objectives - For the last three fiscal years, the City has identified strategic objectives to be accomplished through multi-departmental collaboration and collaboration with the Santa Monica-Malibu Unified School District, Santa Monica College and other community organizations. The adopted FY 1999-00 budget provides funding to continue pursuit of multi-agency collaborative objectives.

The four key service areas, including specific objectives, include:

CHILDREN, TEENS, AND FAMILIES

Goal: Develop a comprehensive approach to service for children, teens, and families by strengthening collaboration among City departments, schools, businesses and community networks.

Work Objective (1): Develop policies and programs that enhance the well-being of children, teens, and families in Santa Monica

Work Objective (2): Improve opportunities and expand resources to help older youth and young adults (ages 14-25) acquire the skills, knowledge, and experiences for employment, career options, and community involvement.

COMMUNITY LIVABILITY

Goal: Implement physical improvements to enhance the quality of life in Santa Monica.

ENVIRONMENT

Goal: Advance selected goals of the Sustainable City Program.

COMMUNITY OUTREACH & CUSTOMER SERVICE

Goal: Implement a comprehensive program of community outreach and customer service incorporating the best current public practices, infused with innovative strategies from the private sector, to build citizen participation in civic life and decision-making and to ensure positive experiences for the public when connecting with their city government.



Element 5 – Develop Programmatic, Operating and Capital Policies and Plans

Practice:

A government should adopt policies and plans for capital asset acquisition, maintenance, replacement, and retirement.

Rationale:

Policies and plans for acquisition, maintenance, replacement, and retirement of capital assets help ensure that needed capital assets or improvements receive appropriate consideration in the budget process and that older capital assets are considered for retirement or replacement. These policies and plans are necessary to plan for large expenditures and to minimize deferred maintenance.



Element 6 – Develop Programs & Services That are Consistent with Policies & Plans

A government should develop and evaluate programs, services, and capital assets. Because there may be times when a government's policies and plans are best achieved by having other entities besides the government provide services or capital infrastructure, an analysis of service delivery and capital acquisition alternatives is an integral part of the program evaluation process. Performance measures should be developed to determine whether program and service goals are being met.



Element 6 – Develop Programs & Services That are Consistent with Policies & Plans

Practice:

A government should develop programs and services that are consistent with policies and plans and should evaluate alternative delivery mechanisms.

Rationale:

Programs and services are the means by which a government addresses priorities established through its policies and plans. An evaluation of delivery alternatives for services and programs helps ensure that the best approach is selected for delivering a service.



Element 6 – Develop Programs & Services That are Consistent with Policies & Plans

countywide competitive analysis policy

A. Purpose

The purpose of this policy is to provide County-wide direction for Competitive Analysis Processes. This policy will help to ensure County operations function at a level that is consistent with the County's Strategic Goals. These goals include quality service, productivity and economy. The Competitive Analysis Policy provides the ground rules by which the County will call for quotations, bids or proposals from public and private industry to determine the most effective manner of providing County services at a reasonable cost. The policy covers moving services outside of the County as well as bringing services back inside of the County. This policy shall govern Competitive

Analysis Projects and shall prevail in such projects over any conflicting provisions in the Maricopa County Procurement Code or any other County policies to the extent not in violation of state law.





Element 6 – Develop Programs & Services That are Consistent with Policies & Plans

Practice:

A government should develop and utilize **performance measures** for functions, programs, and/or activities.

Rationale:

Performance measures are used for assessing how efficiently and effectively functions, programs, and activities are provided and for determining whether program goals are being met.



Element 6 – Develop Programs & Services That are Consistent with Policies & Plans

Performance measures help determine the quality and cost efficiency of government services. They identify the results achieved and the benefits delivered to citizens, and they indicate how well government resources are being used.



Performance Measures

MISSION

All departments, divisions, and programs exist to accomplish a purpose

INPUTS/OUTPUTS

Inputs: The resources used .
Common results are expenditures
And employees.
Outputs: The work that is
Produced.

PERFORMANCE MEASURES

Link mission to inputs (resources used)
And outputs (work accomplished)

Effectiveness
Measures

Efficiency
Measures



Performance Measures

Benefits of Performance Measurement

In general, governments that measure performance do so because it:

- Strengthens accountability
- Enhances decision-making
- Improves customer service
- Enables governments to determine effective resource use
- Supports strategic planning and goal-setting



Element 6 – Develop Programs & Services That are Consistent with Policies & Plans

Practice:

Performance benchmarks should be developed to aid in assessing how well a function, program, and/or activity is provided and how well it meets needs.

Rationale:

Performance benchmarks are comparative standards of performance and provide a frame of reference for evaluating program and service quality and cost-effectiveness. They are used as a basis against which to compare performance measures of functions, programs, and activities.



Element 7 – Develop Management Strategies

A government should develop appropriate management strategies to enhance its ability to successfully execute the budget and to achieve long- range goals. Management strategies are necessary to facilitate achievement of both programmatic and financial goals, and to promote budgetary compliance. The choice of budget type and manner of presentation affects the information available to management and other decision makers, issues that will be raised, and level of control.



Element 7 – Develop Management Strategies

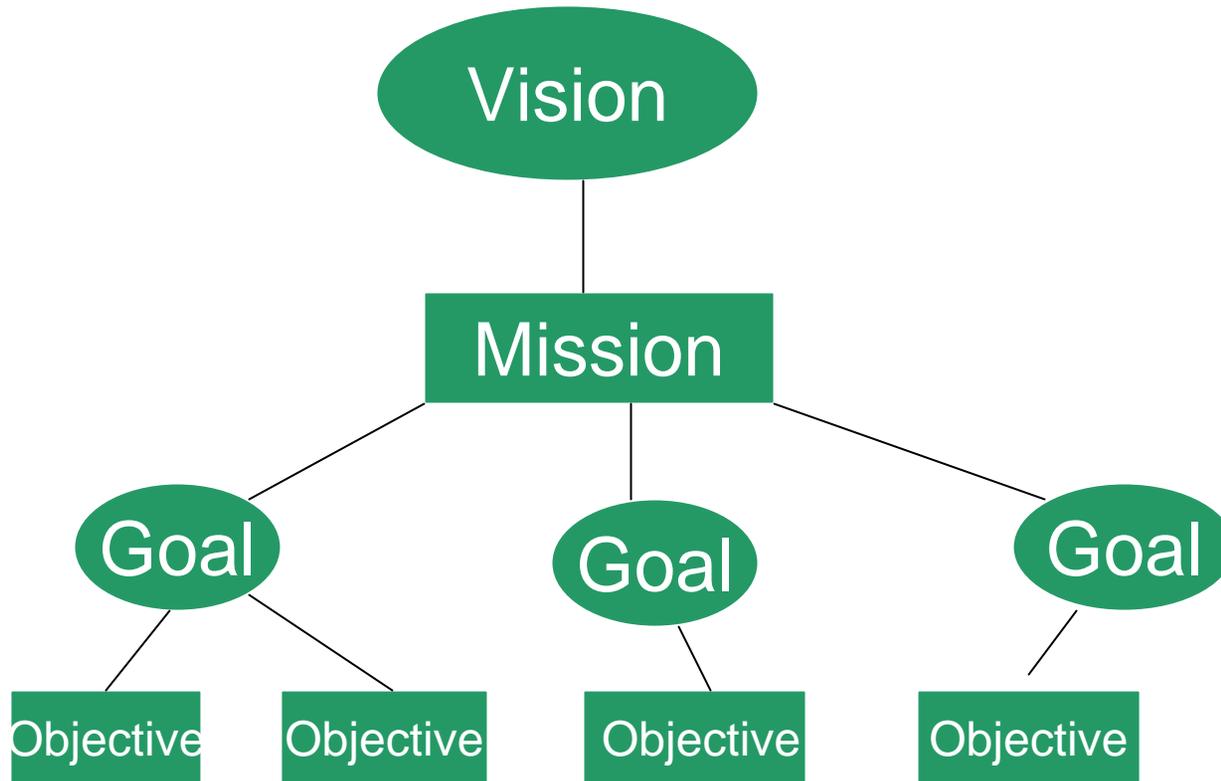
Practice:

A government should develop an organizational structure and management strategies to facilitate attainment of program and financial goals.

Rationale:

Goals are more likely to be achieved if organizational and management strategies are developed to support and encourage organizational and individual performance directed toward goal attainment.

Strategic Planning





Element 7 – Develop Management Strategies

Practice:

A government should have mechanisms in place to ensure compliance with the adopted budget.

Rationale:

Appropriate management processes and systems allow a government to detect and correct significant deviation if it occurs.



Element 7 – Develop Management Strategies

Practice:

A government should choose the type of budget, the manner in which it will be presented, and time period covered by the budget that best fit its needs.

Rationale:

The type of budget, the time period covered, and the manner of presenting materials in the budget documents can have a significant practical impact on a government's approach to planning, control, and overall management of its programs, services, and finances, and on the quality of information provided to stakeholders.



Principle III – Develop a Budget with Approaches to Achieve Goals

A financial plan and budget that moves toward achievement of goals, within the constraints of available resources, should be prepared and adopted.



Element 8 – Develop a Process for Preparing and Adopting a Budget

Practice:

A government should publish a comprehensive budget calendar that specifies when budget tasks are to be completed and that identifies timelines for those tasks.

Rationale:

Stakeholders need to be aware of when key budget tasks, events, and decisions will occur so they have an opportunity to plan and to participate in the process. The preparation of a calendar helps ensure that all aspects of the budget process have been considered and that adequate time has been provided.



BUDGET CALENDAR FOR FISCAL YEAR 2003-2004

2002

December - February

Meet with Small Groups of Department Heads to Develop and Refine Performance Measures

December 2 Capital Improvement and Capital Project (CIP) Information to Departments

December 6 Budget Manual Distributed to Departments

December 19 Capital Improvement and Capital Project (CIP) Requests to BUDGET

Organization Charts Returned to BUDGET

2003

January 7 County Manager Meeting with Department Heads on FY 03-04 Budget

January 9 Planning Session with Board of County Commissioners on FY 03-04 Budget

January 14 Expenditure and Revenue Printouts (Through 12/31/02) to Departments By Request Only (Information Available on LGFS ESUM and RSUM Screens)

Fee Chart for Departments to Recommend Adjustments and/or Enhancements



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BUDGET CALENDAR FOR FISCAL YEAR 2003-2004 (Continued)

January 15 Temporary Salary and Overtime/On-Call Salary Requests to BUDGET

February 13 Departmental Line Item Expenditure Requests to BUDGET
(ALL REQUESTS IN EXCEPT SCHOOLS)

Departmental Revenue Projections to BUDGET

Fee Charts with Adjustments and/or Enhancements to BUDGET

February 28 Fire Services Line Item Expenditure Requests and Revenue Projections to BUDGET

March 19 Distribute **Revised** Budget Requests and Printouts to Departments and Board of County Commissioners

March 28 FY 03-04 Departmental Accomplishments and Goals, Objectives, and Performance Measures Due to BUDGET

May 19 County Manager Presents Recommended Budget at Board of County Commissioners' Meeting

June 2 Public Hearing on Budget

June 12 County Commissioners Budget Work Session

June 16 Adopt FY 03-04 Budget



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Element 8 – Develop a Process for Preparing and Adopting a Budget

Practice:

A government should prepare general policy guidelines and budget preparation instructions for each budget cycle.

Rationale:

Budget guidelines and instructions help ensure that the budget is prepared in a manner consistent with government policies and the desires of management and the legislative body. Instructions are necessary so that all participants know what is expected, thereby minimizing misunderstanding and extra work.



Budget Procedures

Listed below are the procedures followed by New Hanover County in establishing and maintaining its budget.

- In the fall, multi-year projections were reviewed to compare the estimated growth between expenditures and revenues.
- In January, staff presented some of the anticipated challenges for FY 03-04 during a budget session with the County Commissioners. Emphasis was placed on the implementation of the additional one-half cent sales tax needed to replace local government reimbursements (which were eliminated by the State in FY 02-03). The County Commissioners refined the programmatic and budget goals for FY 03-04.
- At the beginning of the FY 03-04 budget process, department heads were instructed to request no new positions, hold operating budgets at the current level or less, and request only essential capital outlay.
- In February, the Commissioners adopted a resolution to levy an additional one-half percent (1/2%) local options sales tax effective July 1, 2003. They established a goal of reducing the ad valorem property tax by 2 cents.
- For the fiscal year commencing July 1, the County Manager submitted a recommended budget with a constant tax rate to the Board of County Commissioners. The recommended budget was filed for public inspection with the Office of the Clerk to the Board and New Hanover County's Main Library.



Budget Procedures - continued

The Board of County Commissioners is required to adopt the annual budget ordinance: a) no earlier than ten days after receiving the budget, b) prior to July 1, and c) after a public hearing. The budget was adopted on June 16, 2003 with a 1 cent decrease in the ad valorem tax rate. A complete budget calendar can be found in the Overview section of this document.

- The following procedures are used to amend the budget:

! When the overall departmental budget remains unchanged, department heads are authorized to transfer budgeted line items between appropriation units within their departments.

! The County Manager is authorized to make transfers between appropriation units within a budget function, and to make transfers up to \$2,500 between budget functions, as they appear in the budget ordinance. These changes must subsequently be reported to the Board of County Commissioners. The County budget functions are: General Government, Human Services, Public Safety, Economic and Physical Development, Cultural and Recreational, Education, Transfers, Debt Service, and Other.

! The Board of County Commissioners must approve all other budget transfers before they become valid.



Element 8 – Develop a Process for Preparing and Adopting a Budget

Practice:

A government should develop mechanisms and assign responsibilities to provide for overall coordination of the preparation and review of the budget.

Rationale:

The complete budget process involves many levels, departments, and individuals in a government, as well as a number of distinct processes and disparate groups of stakeholders. Coordination is needed to ensure that processes move forward as planned, to prevent confusion and misinformation, and to ensure appropriate stakeholders are involved.



Element 8 – Develop a Process for Preparing and Adopting a Budget

Practice:

A government should develop and implement a set of procedures that facilitate the review, discussion, modification, and adoption of a proposed budget.

Rationale:

Appropriate procedures are needed to resolve conflicts, to promote acceptance of the proposed budget by stakeholders, and to assist in timely adoption of the budget.



Element 8 – Develop a Process for Preparing and Adopting a Budget

Practice:

A government should provide opportunities in the budget process for obtaining stakeholder input.

Rationale:

By definition, stakeholders are affected by a government's resource allocation plans and service and program decisions. Stakeholders should have clearly defined opportunities to provide input. This helps ensure that stakeholder priorities are identified and enhances stakeholder support for the approved budget.



Stakeholder input ideas

- Public Hearings
- Citizens Efficiency Review Committee
- Neighborhood meetings
- TV and video presentations
- Interviews with media
- Web site with opportunity to receive email comments



Element 9 – Develop and Evaluate Financial Options

A government should develop, update, and review long-range financial plans and projections. The information obtained from these plans and projections is used in determining the resource and expenditure options available for the budget period and the implications of those options. This element does not address decisions on a specific set of programs and services to be funded through the budget.



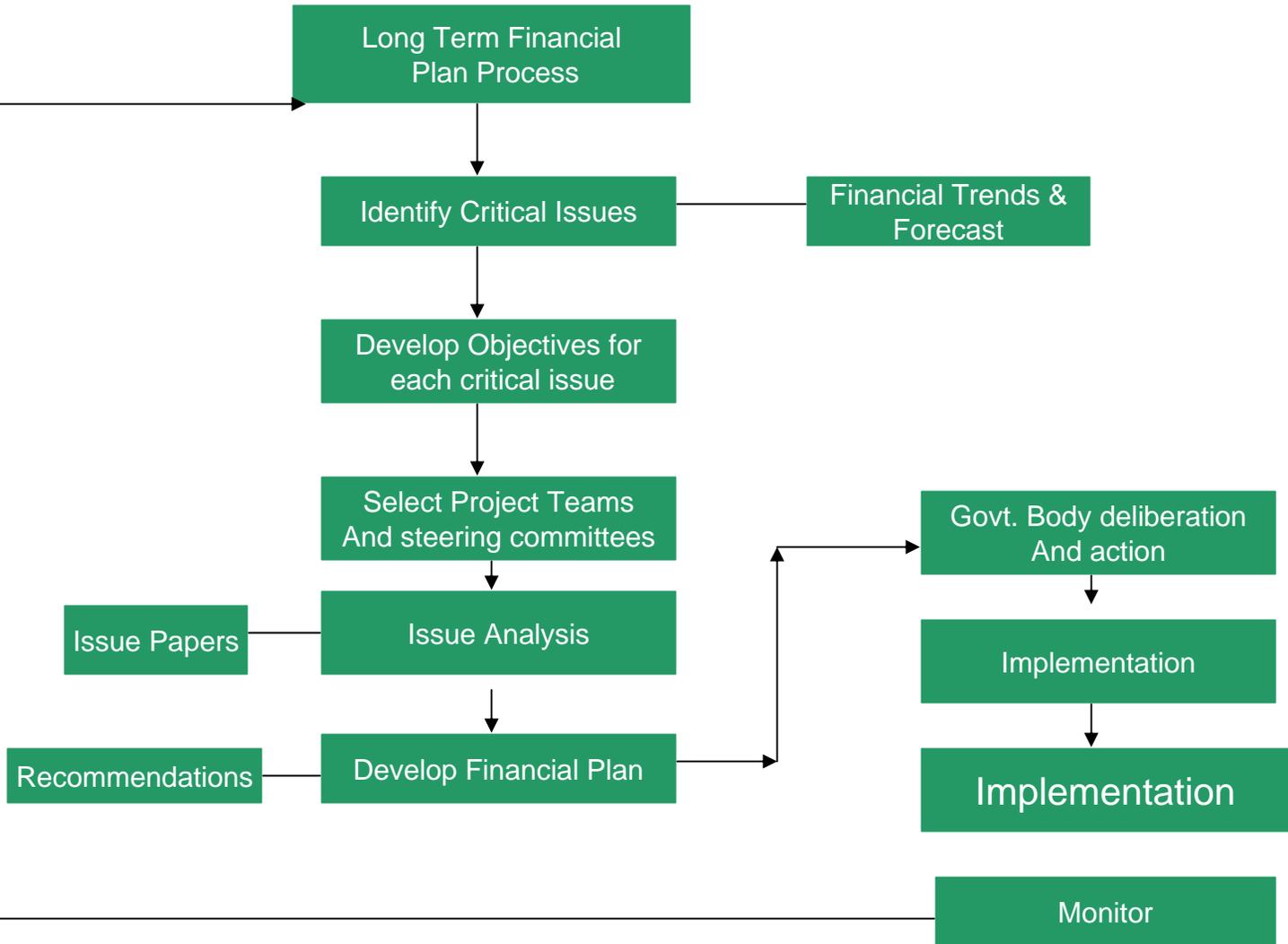
Element 9 – Develop and Evaluate Financial Options

Practice:

A government should have a financial planning process that assesses the long-term financial implications of current and proposed policies, programs, and assumptions and that develops appropriate strategies to achieve its goals.

Rationale:

Financial planning expands a government's awareness of options, potential problems, and opportunities. The long-term revenue, expenditure, and service implications of continuing or ending existing programs or adding new programs, services, and debt can be identified. The financial planning process helps shape decisions and permits necessary and corrective action to be taken before problems become more severe.





Element 9 – Develop and Evaluate Financial Options

Practice:

A government should prepare multi-year projections of revenues and other resources.

Rationale:

Projection of revenues and other resources is critical in order to understand the level of funding available for services and capital acquisition. Projections for future budget periods help determine the likelihood that services can be sustained and highlight future financial issues to be addressed. Preparing revenue projections also enhances a government's understanding of revenue sensitivity to changes in assumptions and to controllable factors such as changes to tax rates or fees.



Element 9 – Develop and Evaluate Financial Options

Practice:

Governments should prepare multi-year projections of expenditures for each fund and for existing and proposed new programs.

Rationale:

Governments should prepare multi-year projections of expenditures for each fund and for existing and proposed new programs



Element 9 – Develop and Evaluate Financial Options

Practice:

A government should develop a capital improvement plan that identifies its priorities and time frame for undertaking capital projects and provides a financing plan for those projects.

Rationale:

The cost of desired capital projects will usually substantially exceed available funds in most governments. Development of a capital improvement plan provides a framework for prioritizing projects and identifying funding needs and sources.



Element 10 – Make Choices Necessary to Adopt a Budget

A government should prepare and adopt a budget. The proposed and adopted budget should be a comprehensive operating and financial plan. The budget document should communicate key fiscal and policy decisions, issues, and tradeoffs. In order to facilitate stakeholder understanding of the choices that have been made, it is essential that materials be prepared in format that is clear and comprehensible.



Element 10 – Make Choices Necessary to Adopt a Budget

- Prepare and Present a Recommended Budget
 - Describe Key Policies, Plans and Goals
 - Identify key Issues
 - Provide a Financial Overview
 - Provide a Guide to Operations
 - Explain the Budgetary Basis of Accounting
 - Prepare a Budget Summary
 - Present the Budget in a Clear, Easy-to-use Format.
- Adopt the Budget



Principle IV – Evaluate Performance and Make Adjustments

Program and financial performance should be continually evaluated, and adjustments made, to encourage progress toward achieving goals.



Principle IV – Evaluate Performance and Make Adjustments

Element 11 – Monitor, Measure, and Evaluate Performance

Element 12 – Make Adjustments as Needed



Element 11 – Monitor, Measure, and Evaluate Performance

- Monitor, measure, and evaluate
 - Program performance
 - Stakeholder satisfaction
 - Budget performance
 - Financial condition
 - External factors
 - Capital program implementation



Element 11 – Monitor, Measure, and Evaluate Performance

Practice:

A government should evaluate its **financial performance** relative to the adopted budget.

Rationale:

Regular monitoring of budgetary performance provides an early warning of potential problems and gives decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. It is also an essential input in demonstrating accountability.



Element 11 – Monitor, Measure, and Evaluate Performance

Practice:

Governments should monitor and evaluate **external factors** that may affect budget and financial performance and achievement of goals.

Rationale:

Factors outside the government's control, such as the national or regional economy, demographic changes, statutory changes, legislation, mandates, and weather, may affect achievement of stated goals. Monitoring these factors helps governments to evaluate and respond to the effect of these external influences on goals, programs, and financial plans.



Element 12 – Make Adjustments as Needed

- Adjust the Budget
- Adjust policies, plans, programs and management strategies
- Adjust broad goals if appropriate





Element 12 – Make Adjustments as Needed

Legal Budget adopted at high level:

- General Government
- Human Services
- Public Safety
- Economic and Physical development
- Culture and recreation
- Education



Element 12 – Make Adjustments as Needed

Internal controls set within the Department by appropriation units:

General Government

- County Manager's Office
 - Salaries and Wages
 - Operating expenses
 - Capital outlay

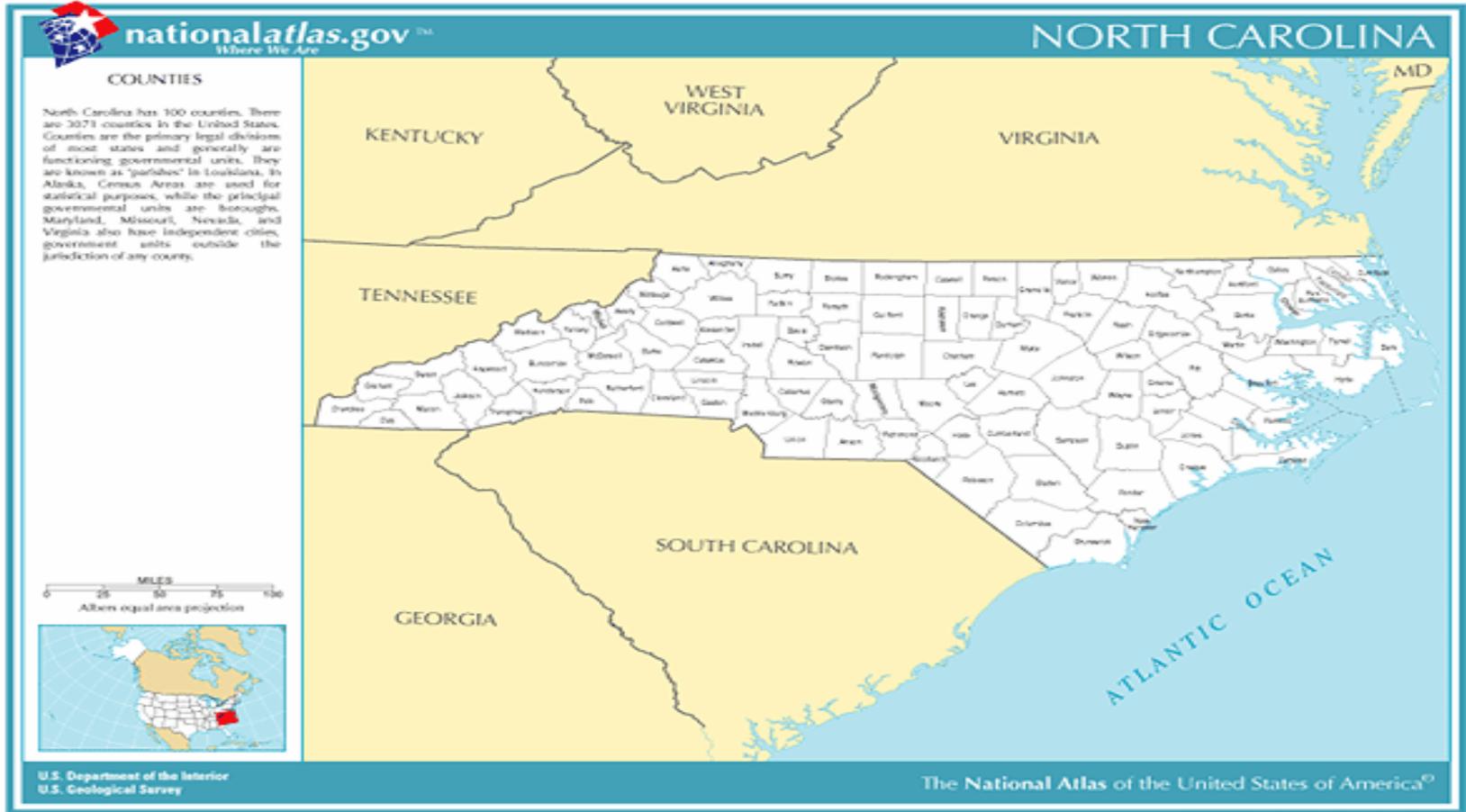


Sessions 5 & 6

Structure of North Carolina Municipal Finance

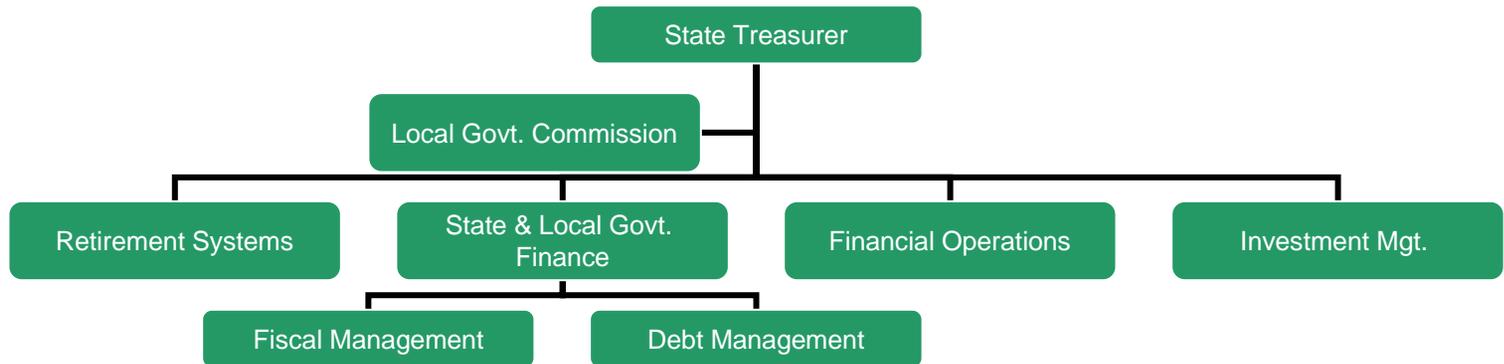


Structure of North Carolina Municipal Bonds





Organization of the State Treasurer's Office





Retirement System



- \$61+ billion in 9 pension plans for public employees such as teachers, municipal employees, and university employees



State and Local Government Finance

- **The Debt Management Section** counsels and assists local governments in determining the feasibility of a project, the size of the financing, and the most expedient form of financing. Upon approval by the Local Government Commission, the Division handles the sale and delivery of the debt and monitors its repayment. Additionally, all State debt is issued and monitored by this Division.
- **The Fiscal Management Section** monitors and analyzes the fiscal and accounting practices of local governments. Results are compiled and presented for use by local governments as a basis of comparison in determining the effectiveness of their financial management. This section also provides technical assistance to local governments and certified public accountants.



Local Government Commission (LGC)

HISTORY:

- Established 1931 by NC General Assembly to address problems in local government finance caused by the depression
- In 1933 – 152 cities and towns and 200 special districts were in default



Local Government Commission (LGC)

PURPOSE:

- Local governments must receive approval from LGC before it can borrow money.
- LGC reviews each request to determine if the unit can afford the new indebtedness.
- Once borrowing is approved, responsible for selling debt on the unit's behalf.
- LGC staff regulates annual financial reporting of the local governments.



Local Government Commission (LGC)

MAKE UP OF COMMISSION:

- Nine members, the State Treasurer, the Sec. of State, the State Auditor, the Sec. of Revenue, and five others appointed by the Governor (3), one recommended by Senate, one recommended by House of Representatives.
- Secretary to the Commission is head of the Division of State and Local Government Finance.



Local Government Commission (LGC)

ORGANIZATION:

- Staff are those employees in the State and Local Government Finance Division.
- Operate as *advisors* to local officials rather than as a regulatory agency.
- However, regulatory authority is there if and when needed.
 - Approve issuance of almost all debt.
 - Oversee fiscal management of local govts.
 - Oversee annual audit process.



Local Government Commission (LGC)

ORGANIZATION (continued):

- **Most important regulatory power:** *the ability to take action in the event of an actual or likely default on debt service payments.*
- *Authorized to order a governing board to raise taxes or other revenues in adequate amounts to make debt service payments.*



Local Government Commission (LGC)

DEBT MANAGEMENT SECTION:

- Issues and monitors all debt for not only local governments but the State as well.
- After approval of the bond issue, the Section determines the cash needs, plans for repayment of debt (maturity schedules), and schedules bond sales at the appropriate time.
- Works with issuing unit to prepare necessary documents for the sale of bonds.
- Handles the actual sale and delivery of bonds, and monitors the debt service payments.



Local Government Commission (LGC)

FISCAL MANAGEMENT SECTION:

- Insures that debt service and other payments are made in a timely manner.
- Insure adequate financial reporting.
 - Improve quality of annual audits process.
 - Improve the quality of reporting in local govt. financial statements.
- Provides training and technical assistance to local govts. and independent auditors.



Local Government Commission (LGC)

FISCAL MANAGEMENT SECTION (continued):

- Monitor local government financial condition for such items as low levels of available reserves, tax collection rates and statutory violations.
- Prepares statistical reports comparing numerous areas of local governments.
- Prepares policy manual for use by local governments.



Local Government Commission (LGC)

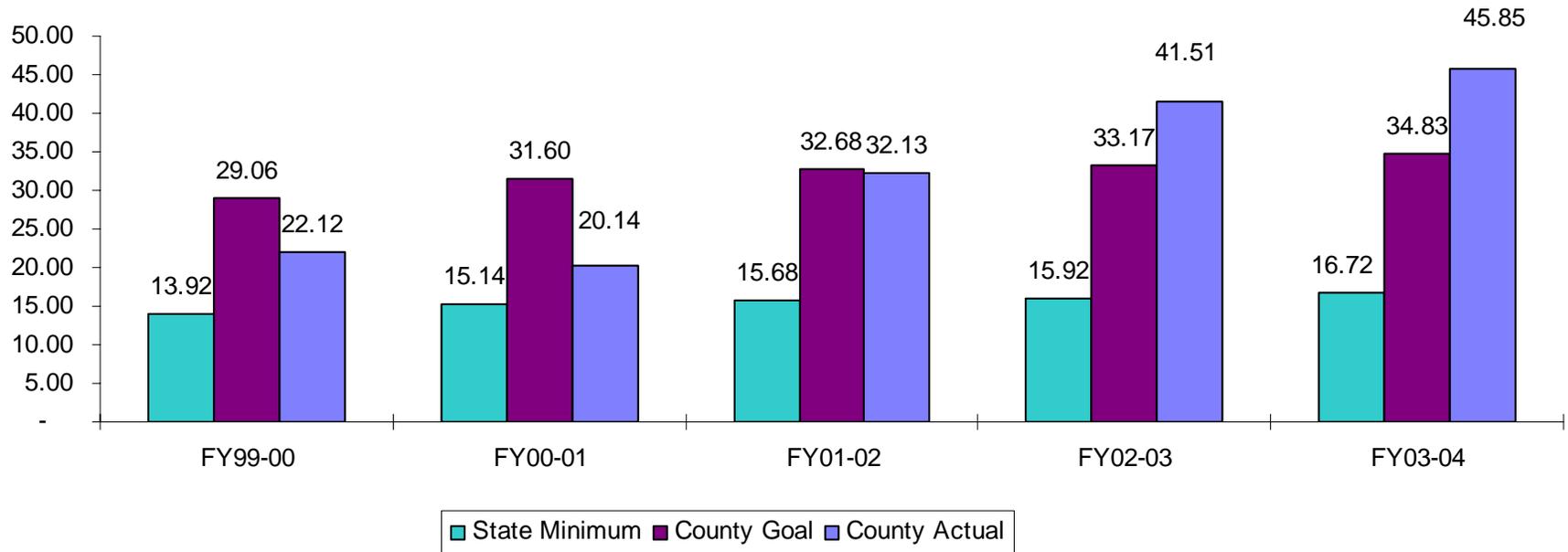
FUND BALANCE GUIDELINES:

- GS 159-13 (16) “Appropriated fund balance in a fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget year. “
- Staff monitors local government audits to ensure no violations are occurring with budgeting fund balance.
- The minimum level of fund balance available for appropriation that should be on hand to enable the unit to meet current obligations and cash flow difficulties is 8% of prior years expenditures.



Local Government Commission (LGC)

Comparison of Undesignated Fund Balance
(In Millions)



Average Available Fund Balances of North Carolina Counties and Cities
June 30, 2003



Type of Unit by Size	Number of Units	Average 2002-2003 Average Available Fund Balance	Average 2002-2003 Expenditures	Average Balance As a Percentage of Average 2002-2003 Expenditures	1
<i>Counties*</i>					
All	98	13,425,725	76,314,676	17.59	
100,000 or more	23	33,053,265	210,657,508	15.69	
50,000 to 99,999	27	11,168,327	57,688,864	19.36	
25,000 to 49,999	24	7,213,250	31,080,430	23.21	
Under 25,000*	24	3,368,046	13,757,746	24.48	
<i>Cities - nonelectric*</i>					
All	456	1,754,357	4,829,425	36.33	
50,000 or more	10	30,623,820	131,016,240	23.37	
10,000 to 49,999*	28	4,795,028	13,665,329	35.09	
2,500 to 9,999*	109	1,858,369	3,087,808	60.18	
1,000 to 2,499*	105	829,734	1,083,643	76.57	
500 to 999*	87	452,931	380,499	119.04	
Under 500*	117	259,815	221,959	117.06	
<i>Cities - electric</i>					
All	70	3,497,299	10,016,076	34.92	
50,000 or more	6	13,338,539	53,730,358	24.82	
10,000 to 49,999	21	5,867,126	13,596,718	43.15	
2,500 to 9,999	20	1,492,763	3,792,636	39.36	
1,000 to 2,499	10	761,065	1,174,154	64.82	
500 to 999	7	475,509	693,266	68.59	
Under 500	6	129,259	127,493	101.38	

* This report excludes data from units that have not submitted audited financial statements for



Relationship between the State and the Municipalities

STATE CONSTITUTION:

Article VI Section 1. General Assembly to provide for local government.

The General Assembly shall provide for the organization and government and the fixing of boundaries of counties, cities and towns, and other governmental subdivisions, and, **except as otherwise prohibited by this Constitution, may give such powers and duties to counties, cities and towns, and other governmental subdivisions as it may deem advisable.**



Dillon's Rule

- Local Governments are creatures of the state legislature.
- North Carolina is not a “home rule” state; its local governments exist by legislative benevolence, not by constitutional mandate.
- As creatures of the state, local governments may act only if they have legislative authorization to do so.
- Judge John F. Dillon established in 1874 the principle followed that basically states, “if the legislature has not specifically granted a power to the municipality, it does not have the power”.



Dillon's Rule

Under the rule, a local government has only certain powers: (1) those granted to it by the legislature in express words; (2) those necessarily or fairly implied in or incident to the powers expressly granted; and (3) those essential to accomplishment of the unit's declared objects and purposes.”





Differences in service delivery

County functions

- Public Health
- Social Services
- Jails and Courts
- Museums
- Libraries
- Emergency mgt.
- Elections
- Aging services
- Veterans services

City Functions

- Fire prevention
- Trash collection
- Police
- Streets
- Traffic
- Parks and recreation
- Water and sewer



General Statutes (GS) 153A

<http://www.ncga.state.nc.us/>

§ 159.3 Local Government Commission

§ 159.7 The Local Government Budget and Fiscal Control Act.

§ 159-26 Accounting system.

§ 159-35. Secretary of Local Government Commission to notify units of debt service obligations.

§ 159-36. Failure of local government to levy debt service taxes or provide for payment of debt.

§ 159-43 Local Government Bond Act.

§ 159-80 Revenue Bonds

§ 159-120 Issuance and Sale of Bonds



Annual Balanced Budget Ordinance

§ 159-8 (a) Each local government and public authority shall operate under an annual balanced budget ordinance adopted and administered in accordance with this Article. A budget ordinance is balanced when the sum of estimated net revenues and appropriated fund balances is equal to appropriations.

(b) The budget ordinance shall cover a fiscal year beginning July 1 and ending June 30.



Budget Officer

§ 159-9 Each local government and public authority shall appoint a budget officer to serve at the will of the governing board. In counties or cities having the manager form of government, the county or city manager shall be the budget officer.



Budget Process

§ 159-10 through 159-13 define the process for adopting a budget in North Carolina.

159-10: Budget requests

159-11: Preparation and submission of budget and budget message.

159-12: Filing and publication of the budget; budget hearings.

159-13: The budget ordinance; form, adoption, limitations, tax levy, filing.



G.S. 159-10 Budget Requests

Before April 30 of each fiscal year (or an earlier date fixed by the budget officer), each department head shall transmit to the budget officer the budget request and revenue estimates for his department for the budget year. Finance officer shall transmit to budget officer a statement of amounts expended for last full fiscal year and estimates for current fiscal year.



G.S. 159-11 Preparation and Submission of Budget and Budget Message

- (a) Budget officer shall prepare a budget for consideration by the governing board.
- (b) The Budget, together with the budget message, shall be submitted to the governing board not later than June 1.



G.S. 159-12 Filing and publication of the budget; budget hearings

- (a) On the same day the budget is presented to the governing board, the budget officer shall file a copy of it in the office of the clerk to the board . . . available for public inspection. Make a copy available to the news media in the county. Public statement that budget has been submitted and give time and notice of the budget public hearing.
- (b) Before adopting the budget ordinance, the board shall hold a public hearing.



G.S. 159-13 The Budget Ordinance

- (a) Budget must be adopted by July 1.
- (b) The following directions and limitations shall bind the governing board in adopting the budget ordinance:
 - (1) The full amount estimated by the finance officer to be required for debt service during the budget year shall be appropriated.



G.S. 159-13 The Budget Ordinance

13) No appropriation of the proceeds of a bond issue may be made from the capital project fund account established to account for the proceeds of the bond issue except (i) for the purpose for which the bonds were issued, (ii) to the appropriate debt service fund, or (iii) to an account within a capital reserve fund consistent with the purposes for which the bonds were issued. The total of other appropriations made to another fund from such a capital project fund account may not exceed the amount of revenues other than bond proceeds available to the account.



G.S. 159-13 The Budget Ordinance

(b) (19) No appropriation of the proceeds of a debt instrument may be made from the capital project fund account established to account for such proceeds except for the purpose for which such debt was issued.

(c) The budget ordinance shall levy taxes on property at rates that will produce the necessary revenue to balance the budget.



G.S. 159-13 The Budget Ordinance

§ 159-13.2. Project ordinances.

(a) Definitions. –

(1) In this section "capital project" means a project financed in whole or in part by the proceeds of bonds or notes or debt instruments or a project involving the construction or acquisition of a capital asset.



New Hanover County Capital Project

See example on overhead.



G.S. 159-15 Amendments to the Budget Ordinance

Budget may be amended. Except no amendment may increase to reduce the property tax levy.

Transfer money between funds or appropriation units are allowed.



159-25. Duties of finance officer

(5) He shall maintain all records concerning the bonded debt and other obligations of the local government or public authority, determine the amount of money that will be required for debt service or the payment of other obligations during each fiscal year, and maintain all sinking funds.



§ 159-26. Accounting system

- - (a) **System Required.** – Each local government or public authority shall establish and maintain an accounting system designed to show in detail its assets, liabilities, equities, revenues, and expenditures. The system shall also be designed to show appropriations and estimated revenues as established in the budget ordinance and each project ordinance as originally adopted and subsequently amended.



Overview of Governmental Accounting

Separate Funds: Each fund includes a set of accounts to record revenues, expenditures, assets, liabilities, and fund balances of the activities of that fund.

Types of Funds:

- Governmental
 - General fund
 - Special Revenue fund
 - Capital Project fund
 - Debt service fund



Overview of Governmental Accounting (continued)

Types of funds (continued)

- Proprietary funds
- Fiduciary funds



Debt Service Fund

This fund records the payment of interest and principal on long-term general obligation debt as well as the accumulation of resources to pay off the debt.



G.S.159-34. Annual independent audit; rules and regulations.

(a) Each unit of local government and public authority shall have its accounts audited as soon as possible after the close of each fiscal year by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts.



G.S. 159-35. Secretary of Local Government Commission to notify units of debt service obligations

- .
 - (a) The secretary shall mail to each local government and public authority not later than May 1 of each year a statement of its debt service obligations for the coming fiscal year, including sums to be paid into sinking funds.
 - (b) The secretary shall mail to each local government and public authority not later than 30 days prior to the due date of each installment of principal or interest on outstanding debt, a statement of the amount of principal and interest so payable, the due date, the place to which the payments should be sent, and a summary of the legal penalties for failing to meet debt service obligations.



G.S.159-36. Failure of local government to levy debt service taxes or provide for payment of debt.

(a) If any local government or public authority fails or refuses to levy taxes or allocate other revenues in an amount sufficient to meet all installments of principal and interest falling due on its debt during the budget year, or to adequately maintain its sinking funds, the Commission shall enter an order directing and commanding the governing board of the local government or public authority to enact a budget ordinance levying the necessary taxes or raising the necessary revenue by whatever means are legally available. If the governing board shall fail or refuse to comply with the Commission's order within 10 days, the order shall have the same legal force and effect as if the actions therein commanded had been taken by the governing board, and the appropriate officers and employees of the local government or public authority shall proceed to collect the tax levy or implement the plan for raising the revenue to the same extent as if such action had been authorized and directed by the governing board. Any officer, employee, or member of the governing board of any local government or public authority who willfully fails or refuses to implement an order of the Local Government Commission issued pursuant to this section forfeits his office or position.



G.S. 159-43 Local Government Bond Act.

b) It is the intent of the General Assembly by enactment of this Article to prescribe a uniform system of limitations upon and procedures for the exercise by all units of local government in North Carolina of the power to borrow money secured by a pledge of the taxing power. To this end, all provisions of special, local, or private acts in effect as of July 1, 1973, authorizing the issuance of bonds or notes secured by a pledge of the taxing power or prescribing procedures there for are repealed. No special, local, or private act enacted or taking effect after July 1, 1973, may be construed to modify, amend, or repeal any portion of this Article unless it expressly so provides by specific reference to the appropriate section of this Article. (1971, c. 780, s. 1; 1973, c. 494, s. 2.)



G.S. 159-46. Faith and credit pledged

The faith and credit of the issuing unit are hereby pledged for the payment of the principal of and interest on all bonds issued under this Article and debt instruments secured by a pledge of its faith and credit in accordance with the limitations and procedures prescribed in Chapter 159G of the General Statutes according to their terms, and the power and obligation of the issuing unit to levy taxes and raise other revenues for the prompt payment of installments of principal and interest or for the maintenance of sinking funds shall be unrestricted as to rate or amount, notwithstanding any other provisions of law whether general, special, local, or private.





G.S.159-48. For what purposes bonds may be issued.

Long list of items that qualify for the issuance of bonds. To name a few:

- Airports, including runways etc.
- Space for public gatherings.
- Beach renourishment projects
- Facilities for fire fighting and prevention
- Hospitals
- Administration buildings
- Jails



General Guidelines for Debt Issuance by LGC

Steps to avoid delays in bond issuance:

- Adequate and timely responses to issues raised in a unit letter.
- Budget adopted as required by general statutes.
- Current audited financial statements available on a timely basis.



General Guidelines for Debt Issuance by LGC

- Communicate with LGC on a timely basis.
- Have a reasonable debt burden. Heavy burden defined as ratio of general fund debt service to general fund expenditures exceeding 15%.



Example of Debt Burden issue

Figures from New Hanover County Comprehensive Annual Financial Report for year ended June 30, 2004

General Fund debt service	\$13,158,064
General Fund total Expenditures	135,654,749
Percentage of	9.7%



General Guidelines for Debt Issuance by LGC

- Request to borrow must be for capital expenditures, not operating expenses.
- Before approval must have:
 - Construction bids, required major permits & environmental studies, other funding sources must be committed.



General Guidelines for Debt Issuance by LGC

- Any threat or existence of litigation related to the project must be satisfactorily resolved.
- Is there community support for the project?
- Amortization of principal on general fund projects should be level.
- Financial projections should demonstrate feasibility.
- No unresolved matters on prior bond issues.



General Guidelines for Debt Issuance by LGC

- Should be able to secure an investment grade rating.
- Complete application must be filed with all required resolutions from governing board.
- Documents should be in substantially final form when presented to LGC for review.
- Flexible sale date, requested early.



Bond Reporter

CALENDAR OF SCHEDULED COMPETITIVE SALES

December 14, 2004

TOWN OF RIVER BEND \$ 3,000,000

Refunding, G.O. Bonds

December 15, 2004

STATE OF NORTH CAROLINA \$ 828,395,000

Public Improvement & Refunding, G.O. Bonds

January 5, 2005

COUNTY OF BUNCOMBE \$ 18,340,000

Refunding, G.O. Bonds



Basic Financial Concepts

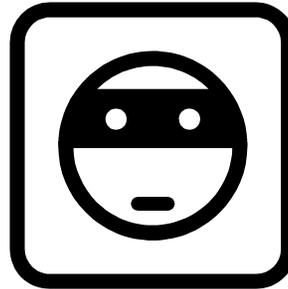
What do you call someone who steals rubber bands.





Basic Financial Concepts

A rubber bandit.





Basic Financial Concepts

YIELD MEASURES

Nominal yield (coupon yield)—the stated interest rate computed by dividing the amount of annual income by the bond's par value.

A coupon of \$100 on a \$1,000 par bond has a nominal yield of 10%.

Note: Investors use nominal yield to determine a bond's cash flow.





Basic Financial Concepts

YIELD MEASURES

Current yield—annual return on amount paid for a bond.

Example:

Par value of bond = \$1,000

Price of bond = \$1,000

Coupon rate = 6%

Current yield = 6%



Example:

Par value of bond = \$1,000

Price of bond = \$900 (\$100 discount)

Coupon rate = 6%

Current yield = 6.67% (= \$60/\$900)



Basic Financial Concepts

YIELD MEASURES

<u>Current Price</u>	<u>Coupon</u>	<u>Current yield</u>
90 (discount)	\$60	6.67%
100 (par)	\$60	6.00%
110 (premium)	\$60	5.45%

Note:

- *Investors compare a bond's current yield to yields of alternative investments of similar risk.*
- *Nominal yield equals current yield only when bond is selling at par.*

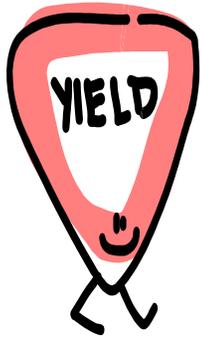


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Basic Financial Concepts

YIELD TO MATURITY (YTM)



- Investor receives **total return** for holding bond to maturity.
- **YTM** includes **current yield** plus **capital gain** (if bond purchased at discount) or minus **capital loss** (if bond purchased at premium).

*The following graph represents **accounting** valuation of a bond, not market valuation.*



Basic Financial Concepts





Basic Financial Concepts

YIELD TO CALL (YTC) is similar to the YTM except for using the call price and call date in place of par value and maturity date.

- Example: The bond in the previous example is callable in 15 years at 105. The semiannual yield to call is calculated on a calculator by entering: $30 = N$, $950.57 = PV$, $50 = PMT$, $1050 = FV$, $CPT = \%i$.
- **yield to call** = $5.407 \times 2 = 10.814\%$ (annual)
- Note: Although $YTC > YTM$, an investor would not like the bond to be called since investor would have to reinvest proceeds at a lower rate.





Basic Financial Concepts

YIELD MEASURES (actual, not promised like YTM):

Holding Period Return (total):

Return (actual) = Yield +/- Gain (Loss)

$$= (\text{coupon}/\text{purchase price}) +/- [(\text{sale price} - \text{purchase price})/\text{purchase price}]$$

Example:

t=0

Purchase Price: \$900

Coupon Rate: 6%

t=1

Sell Price: \$1,000

$$\begin{aligned} \text{Holding Period Return} &= (60/900) + [(1,000-900)/900] \\ &= \mathbf{17.78\%} \end{aligned}$$





Basic Financial Concepts

YIELD (AND PRICING) DIFFERENCES WITHIN AN ASSIGNED CREDIT RATING:



- Bond buyers use Standard & Poor's and Moody's as a starting point for pricing an issue.
- The final price depends on adjustments investors make to reflect their own analysis and perception of marketability.

Note: Trading terminology is that a certain bond is "priced to yield x%."



Basic Financial Concepts

REASONS FOR CHANGE IN SPREAD BETWEEN MUNICIPAL BONDS AND US TREASURIES:



- The outlook for the economy and its anticipated impact on issuers (i.e., flight to quality during recessions).
- Federal budget financing needs.
- Municipal market supply-and-demand factors.

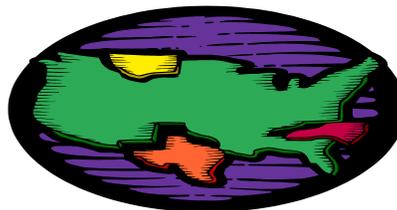
Note: Spreads between municipals of different quality ratings change for the same reasons.



Basic Financial Concepts

DIFFERENCES BETWEEN IN-STATE BONDS AND OUT-OF-STATE BONDS:

- Some states exempt interest on in-state bonds but not out-of-state bonds.
- Investor attitudes toward investing in out-of-state bonds affects liquidity of bonds.





Basic Financial Concepts

DIFFERENCES BETWEEN YIELDS OF MUNICIPALS WITH SAME QUALITY RATINGS BUT DIFFERENT MATURITIES:

- As investors lengthen their maturity, they require a greater yield (positive yield curve)
- Liquidity of bonds in a certain maturity structure may differ from the liquidity of bonds in a different maturity structure.





Basic Financial Concepts

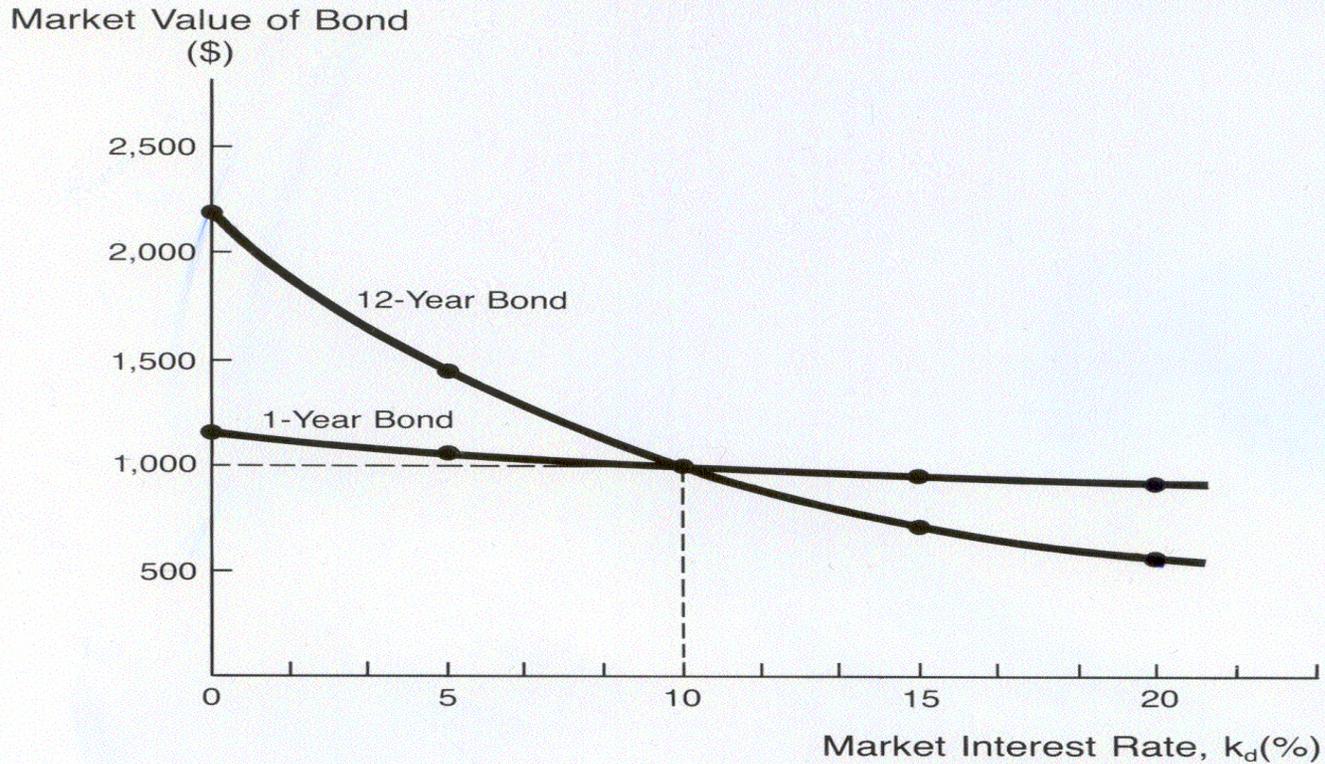
VOLATILITY OF LONG BOND PRICES VS SHORT BOND PRICES

<u>Current Market Rates</u>	<u>Current Market Value</u>	
	<u>1-yr 10% bond</u>	<u>12-yr, 10% bond</u>
0%	\$1,100	\$2,200
5%	\$1,048	\$1,443
10%	\$1,000	\$1,000
15%	\$ 957	\$ 729
20%	\$ 917	\$ 556



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Basic Financial Concepts





Basic Financial Concepts

CALL PROVISION—issuer may **retire** issue prior to maturity in order to refinance at a lower interest rate:

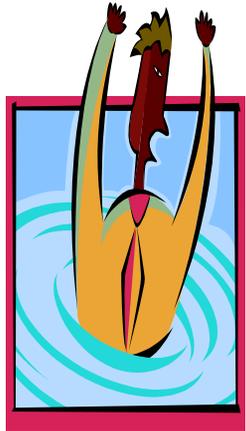


- For **issuer**, call is a **benefit**.
- For **investor**, a call is a **disadvantage** due to reinvesting at lower rate.
- Callable bonds carry a **higher yield** and call price above par.
- **Deferred** call period—protects investor until deferred period ends. For example, 3 years.



Basic Financial Concepts

SINKING FUND PROVISION—issuer sets aside money before maturity to periodically redeem bonds:



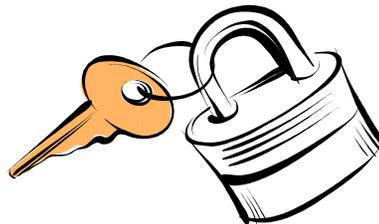
- **Benefits** investor and, thus, lowers coupon rate on issue.
- Provides **price support** to issue during rising interest rates.
- **Redemption** price could be below current market price of bond.



Basic Financial Concepts

PUT PROVISION

- Gives **investor option** of selling bond back to issuer for full price plus accrued interest.
- Works to **disadvantage of issuer** but allows a lower coupon rate at time of issuance.

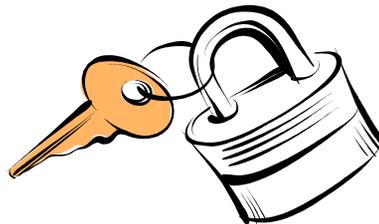




Basic Financial Concepts

PLEGGED SECURITY--unlike corporations that pledge tangible assets, municipalities do it differently:

- GOs--promises to pay are secured by taxing power of the issuer
- Revenue bonds--promises to pay are secured by future revenues from the project.
- Moral obligation bonds--also secured by revenues from the project but the issuer promises to repay investors if revenues from project are insufficient.





Basic Financial Concepts

BASIC FLYING RULES

Try to stay in the middle of the air. Do not go near the edges of it. The edges of the air can be recognized by the appearance of ground, buildings, sea, trees and interstellar space. It is much more difficult to fly there.





Basic Financial Concepts

COUPON RATE depends on:

- **Quality rating**—lower rating means higher coupon due to **higher** default risk.
- **Term to maturity**—longer maturities mean higher coupon rate due to higher reinvestment risk.
- Borrowers attempt to reduce coupon rate by attaching various **financing features**.





Basic Financial Concepts

MARKETABILITY VS LIQUIDITY

- Marketable--**large** trading volume and number of dealers that allow easy transactions.
- Liquidity—measure of price **stability**.
- **Short-term** bonds are more liquid than long-term bonds.
- **Higher quality** bonds are more liquid than lower quality.
- **T-bills** most liquid and marketable





Basic Financial Concepts

FINANCING FEATURES



- **Call feature**—allows issuer option to **redeem** before maturity and **reissue** bonds at a new coupon level
- **Sinking fund**—requires issuer to **set aside** bonds each year so that by the end of the issue's stated life very few bonds remain outstanding. Selection could be done by computer drawings of serial numbers.
- **Purchase fund**—allows issuer to buy bonds in the **open market** to satisfy sinking funds.



Basic Financial Concepts

FINANCING FEATURES, continued:



- **Put feature**—allows investor to **put bond back** to borrower at specific times, at par.
- **Extended option**—allows issuer to **reset** coupon rate and to extend maturity.
- **Bullets or straight issues**—issues with **no redemption** features. Generally, bonds that mature in more than 10 years are callable.



Basic Financial Concepts

ZERO-COUPON BONDS:

- Issues sold at a **discount** from par but redeemed at par.
- Original issue zeros—issuer amortizes discount over years to maturity at a constant yield and takes a **deduction** as if interest were actually paid. Investor pays tax on the interest as if actually received.
- Strips—coupons stripped from principal, creating **two separate** products for sale. Stripping performed by investment bank and has no effect on issuing company.





Basic Financial Concepts

THE PRIMARY MARKET—Where a state or local government can market new municipal issues by offering them publicly to the investing community or placing them privately with a small group of investors.



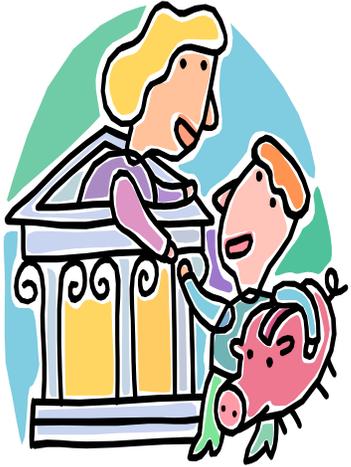


Basic Financial Concepts

INVESTMENT BANKING PROCESS

(steps in primary market)

- Investment banker and issuer agree on **fee**.
- Investment banker **designs** issue.
- Issuer files **recent financials** with regulator.
- Issue enters **syndication** period.
- Investment banker either **buys** issue from the issuer and **sells** to investors via syndication (investment banker at risk), or sells to investors on a **best efforts** basis (issuer at risk).



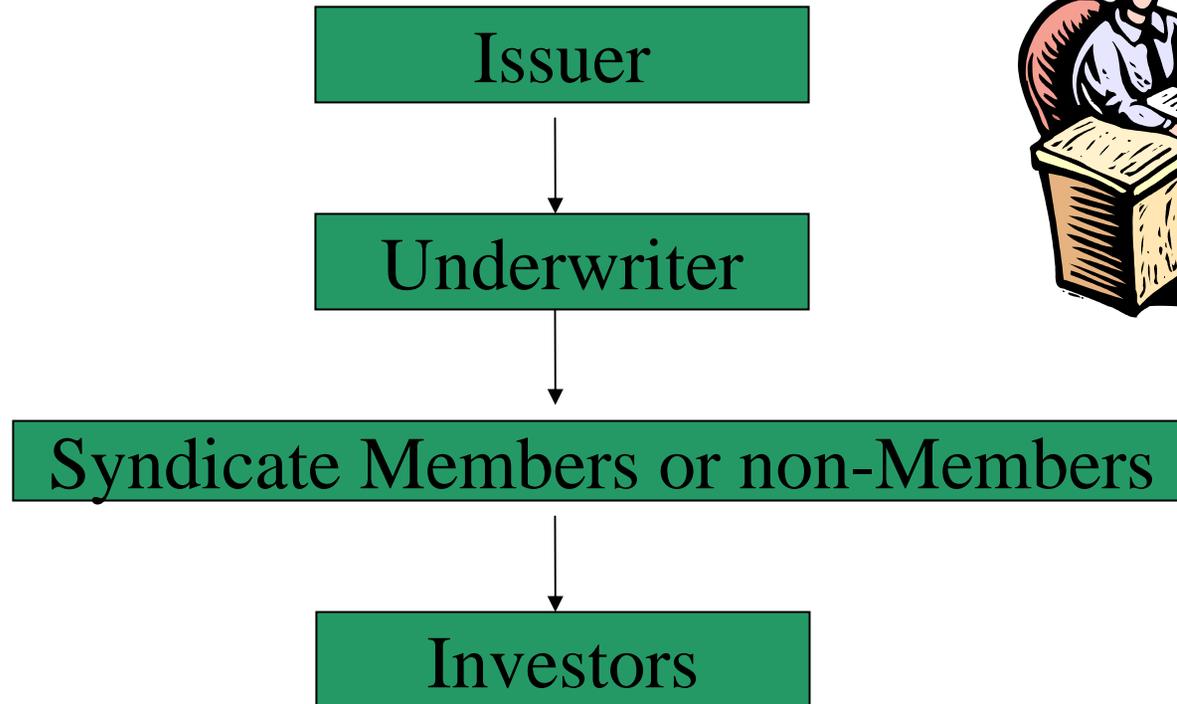
Basic Financial Concepts

SYNDICATE FORMATION is either:

- Eastern account (most popular) whereby all members share responsibility of selling new issue.
- Western account whereby each member is responsible only for their individual allotted portion.



Basic Financial Concepts

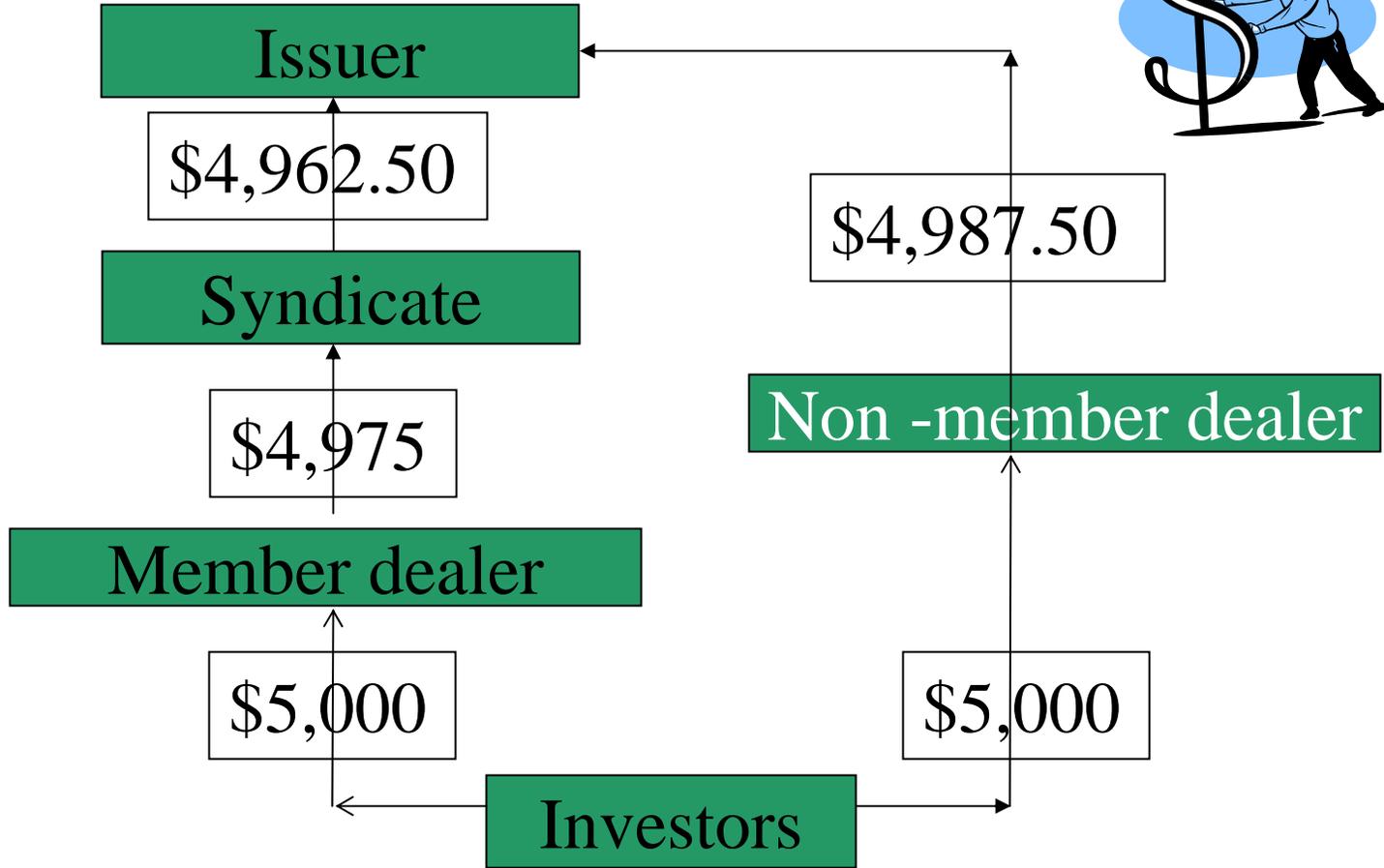


Route of Bond Issue from Issuer to Investors

Basic Financial Concepts



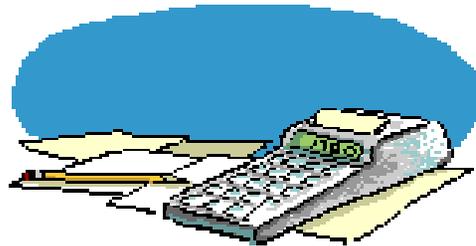
Flow of funds





Basic Financial Concepts

	Syndicate <u>Member</u>	Syndicate <u>Non-member</u>
Paid by investor	\$ 5,000.00	\$ 5,000.00
Less: dealer's takedown	<u>\$ 25.00</u>	<u>\$ 12.50</u>
Paid to the syndicate	\$ 4,975.00	\$ 4,987.50
Less: syndicate concession	<u>\$ 12.50</u>	<u>\$ -</u>
Paid to issuer	\$ 4,962.50	\$ 4,987.50
The Spread		
Paid by investor	\$ 5,000.00	\$ 5,000.00
Received by issuer	<u>\$ 4,962.50</u>	<u>\$ 4,987.50</u>
Spread	\$ 37.50	\$ 12.50
Spread (%)	0.75%	0.25%





Basic Financial Concepts

THE SECONDARY MARKET

- After a primary issue, a secondary market exists for trading among dealers and investors.
- Similar to the stock market, prices (and yields) in the secondary market affect prices (and yields) of new issues.





Basic Financial Concepts

SECONDARY MARKET, continued

- Over-the-counter (via telephone)—**market makers.**
- Poor marketability—affects pricing of **subsequent** issues.
- **Listing** on an Exchange



- **Exchange quotes are recent retail transactions.**
- Yellow sheets **provide most valuations and trades.**



Basic Financial Concepts

Don't gamble--take all your savings and buy some good stock and hold it till it goes up, then sell it. If it don't go up, don't buy it.

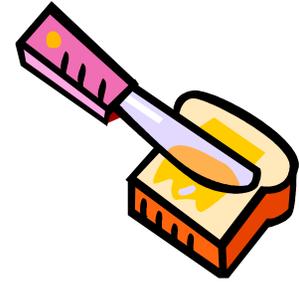
Will Rogers





Basic Financial Concepts

SPREAD ANALYSIS



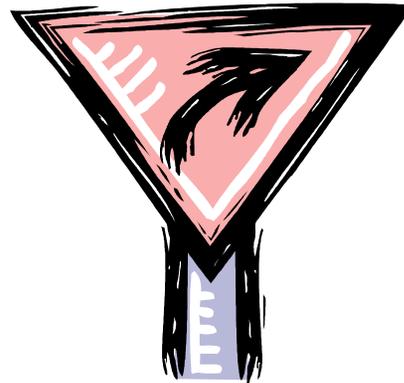
- Used for pricing **all** bonds.
- Requires construction of a Treasury **spot** rate curve usually from the yield curve of coupon-paying bonds.
- Any point on the Treasury spot rate curve represents a **risk free rate** at that maturity.
- A corporate bond can be priced by observing the appropriate spot rate and adding a **spread** to account for default risk.



Basic Financial Concepts

YIELD CURVE: A graphical representation of YTM for coupon-paying bonds by varying maturities.

Spot Rate Curve: A graphical representation of YTM for zero-coupon bonds by varying maturities.





Basic Financial Concepts





Basic Financial Concepts

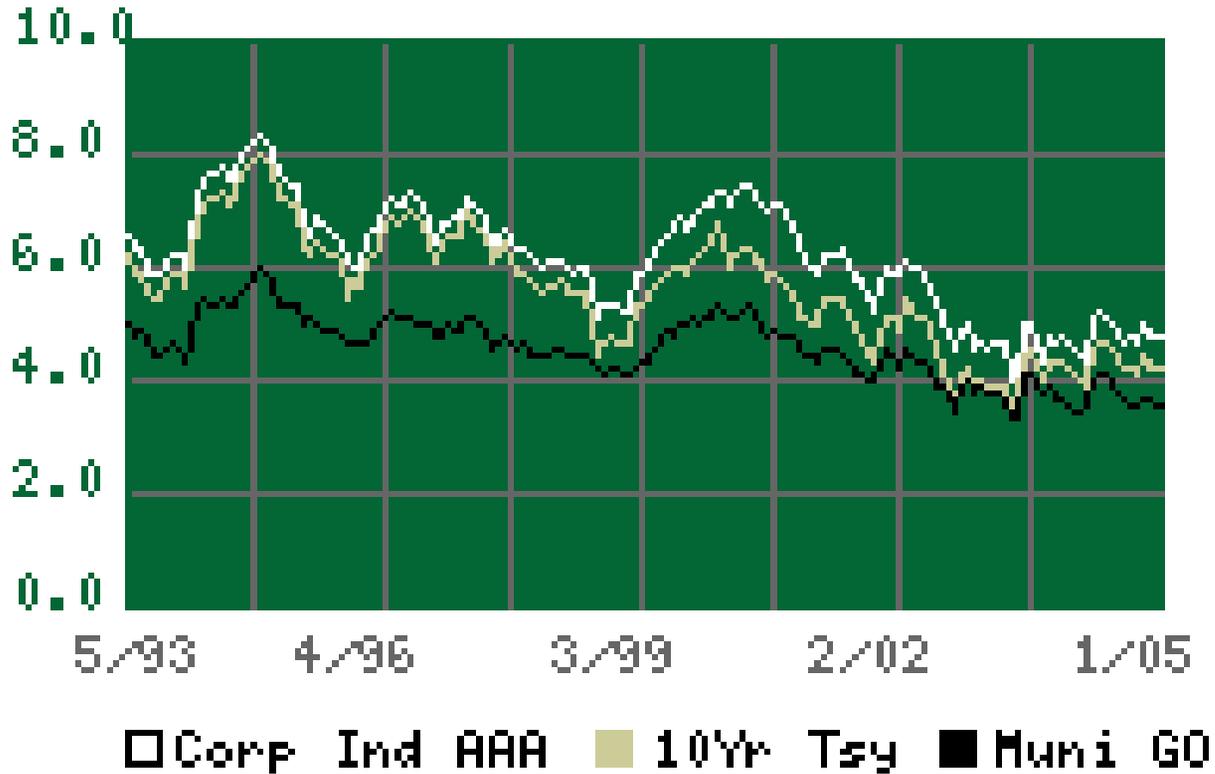
SPREAD ANALYSIS

- Issue bears **specific coupon** priced at par.
- Issue priced at a **spread** over comparable Treasury maturities—most popular.
- Issue offered at a **slight** discount or premium depending on market conditions.

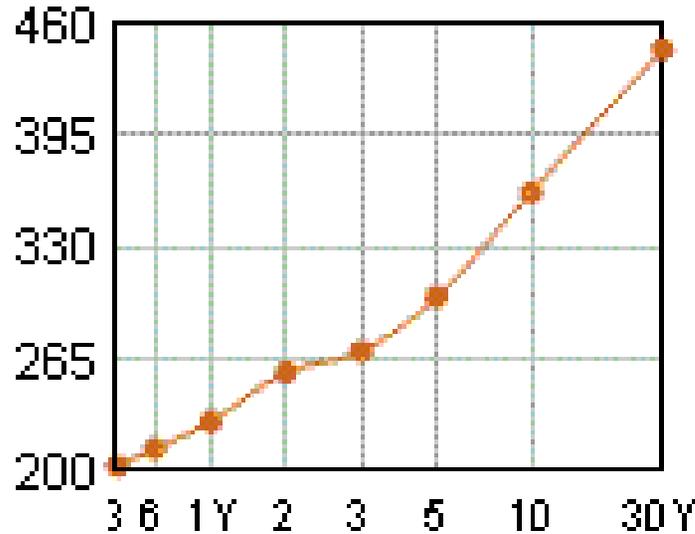




Basic Financial Concepts



Basic Financial Concepts



—■— Spread To Treasury
as of 06:00 Feb 21, 2005

The above chart shows the relative credit risk of municipal bonds, taking into account the tax-exempt treatment of municipal securities.

Source: Bond Market Association. COM

Basic Financial Concepts

CREDIT RATINGS:

- **Opinion** of the creditworthiness of an **issuer**, or
- Creditworthiness of a **specific issue**.
- **Timeliness** of payment and **protection** to creditor in case of default.

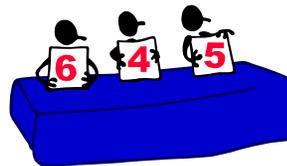




Basic Financial Concepts

Ratings:

Bond Rating		Grade	Risk
Moody's	S&P/ Fitch		
Aaa	AAA	Investment	Highest Quality
Aa	AA	Investment	High Quality
A	A	Investment	Strong
Baa	BBB	Investment	Medium Grade
Ba, B	BB, B	Junk	Speculative
Caa/Ca/C	CCC/CC/C	Junk	Highly Speculative
C	D	Junk	In default



أهمية سوق السندات في الأردن

نادر عازر

نائب المدير التنفيذي لبورصة عمان

ورشة عمل تمويل البلديات من خلال السندات

عمان - المملكة الاردنية الهاشمية

آذار - 2005

سوق رأس المال الاردني

✓ بدأ إنشاء الشركات المساهمة العامة والتداول بأسهمها والتعامل بها منذ أوائل الثلاثينيات.

✓ تأسس سوق عمان المالي في عام 1976 ليقوم بمهام الرقابة على سوق الأوراق المالية (SEC) ، وكذلك القيام بدور البورصة التقليدية.

✓ صدور قانون للأوراق المالية عام 1997 وقانون الأوراق المالية لعام 2002.

التطورات التشريعية والمؤسسية لسوق رأس المال

هيئة الأوراق المالية

- بدأت اعمالها في شهر أيلول 1997.
- ترتبط برئيس الوزراء.
- ذات استقلال مالي واداري.

وتهدف الى تنظيم ومراقبة:

- أ) اصدار الأوراق المالية والتعامل بها.
- ب) الجهات الخاضعة لرقابة الهيئة.
- ج) الافصاح.

بورصة عمان

- باشرت اعمالها كمؤسسة مستقلة في 11 آذار 1999.
- ذات شخصية اعتبارية واستقلال مالي وداري.
- لا تهدف الى الربح.
- تتألف عضوية البورصة من الوسطاء الماليين.
- تدار من قبل القطاع الاهلي.

مركز ايداع الاوراق المالية

✓ باشر اعماله اعتباراً من شهر أيار 1999.

✓ شخصية اعتبارية ذات استقلال مالي واداري .

✓ لا يهدف الى الربح.

ويهدف الى:

✓ تسجيل ونقل ملكية الاوراق المالية المتداولة في البورصة
وتسوية أثمان الاوراق المالية بين الوسطاء.

✓ الحفظ الامين لملكية الاوراق المالية المدرجة في
البورصة.

أهمية البورصة ودورها في زيادة النشاط الاستثماري

- ✓ خلق وإيجاد بيئة مناسبة للاستثمار.
- ✓ توجيه المدخرات نحو الاستثمار في الأوراق المالية لخدمة الاقتصاد الوطني.
- ✓ زيادة كفاءة الاستثمار .
- ✓ استقطاب الاستثمارات المحلية والأجنبية.
- ✓ توفير مصادر تمويل للشركات.
- ✓ زيادة النمو الاقتصادي.

الاستثمار

الاستثمار المباشر: ويكون هذا الاستثمار في الأصول الحقيقية، كالاستثمار في المباني والمشروعات وفي المكائن والأراضي، ويعتبر هذا النوع من الاستثمار هو الأساس في زيادة الدخل القومي.

الاستثمار غير المباشر او الاستثمار المالي: ويكون في الأوراق المالية من اسهم وسندات وغيرها.

السندات

السندات هي اداة دين طويلة الأجل تعطي لحاملها الحق في الحصول على تدفق نقدي مستقبلي على فترات دورية او في تاريخ الاستحقاق وتتميز بـ:

- ✓ وجود تاريخ استحقاق لها (سنة، 10 سنوات)
- ✓ تحقيق ارباح رأسمالية (ارتفاع او انخفاض سعر السند)
- ✓ توفر عائد دوري ثابت
- ✓ تساعد في استقرار المحافظ الاستثمارية
- ✓ مخاطر الاستثمار فيها اقل من الاسهم

تصدر السندات بقيم اسمية متنوعة

يتم تداولها في بورصة عمان

السندات

المتغيرات المحددة لقيمة السندات:

✓ التدفقات النقدية المتمثلة في القيمة الاسمية في تاريخ الاستحقاق

✓ التدفقات النقدية الدورية (سعر الكوبون)

✓ معدل العائد المطلوب ومخاطر الاستثمار

✓ اجل الاستحقاق

✓ خصائص الجهة المصدرة (حكومة، بنوك، شركات،

(.....

السندات

اهم انواع المخاطر التي تتعرض لها السندات :

- ✓ مخاطر سعر الفائدة (مخاطر السعر، مخاطر اعادة الاستثمار)
- ✓ مخاطر التضخم ترفع سعر الفائدة
- ✓ مخاطر التوقف عن السداد
- ✓ مخاطر السيولة (سيولة السند)
- ✓ مخاطر تاريخ الاستحقاق (عدم التأكد)
- ✓ مخاطر الاستدعاء

السندات

بالنسبة للمصدر، تعتبر السندات مصدر مهم للتمويل وتمتاز بـ:

- ✓ ميزة ضريبية
- ✓ تخفيض المخاطر عن طريق التنويع في مصادر التمويل
- ✓ تكلفتها اقل من مصادر التمويل الأخرى
- ✓ تجنب توسيع قاعدة المساهمين

سوق السندات في الأردن

✓ قام البنك المركزي بإصدار سندات التعمير لحاملها ثم تغييرها إلى سندات التنمية عام 1973.

✓ بدأ إصدار سندات الخزينة في عام 1986 لمساعدة الخزينة وتمويل مشاريع التنمية.

✓ بدأ إصدار إسناد القرض للمؤسسات العامة والشركات المساهمة العامة عام 1979

التشريعات التي تحكم السندات

- ✓ قانون الدين العام لسنة 2001
- ✓ تعليمات الاصدار الصادرة عن هيئة الاوراق المالية بموجب قانون الاوراق المالية لسنة 2002
- ✓ قانون الشركات لسنة 1997 وتعديلاته
- ✓ تعليمات الادراج الصادرة عن بورصة عمان لسنة 2004

قانون الدين العام لسنة 2001

✓ يتولى البنك المركزي الأردني إصدار السندات الحكومية وتنظيم سجل خاص بهذه السندات يقيد فيه اسم مالك السند وأي تغيير يطرأ على ملكية السند.

✓ يجوز للحكومة أن تكفل السندات الصادرة عن المؤسسات العامة والبلديات.

قانون الدين العام لسنة 2001

- ✓ يجوز للحكومة إصدار سندات بعملة غير الدينار الأردني
- ✓ حدد قانون الدين العام الحد الأعلى لعمر السند بثلاثين سنة ويمثل السند التزاما مطلقا وغير مشروط على الحكومة
- ✓ لا يجوز ان يزيد الدين العام الداخلي عن 60% من الناتج المحلي الإجمالي بالأسعار الجارية
- ✓ يتم تداول السندات الحكومية والمكفولة من قبل الحكومة في بورصة عمان.

اغراض اصدار السندات الحكومية

- ✓ تمويل عجز الموازنة العامة.
- ✓ دعم ميزان المدفوعات.
- ✓ تمويل المشاريع ذات الأولوية الوطنية المدرجة في الموازنة العامة.
- ✓ توفير التمويل اللازم المدرج في الموازنة العامة.
- ✓ إعادة هيكلة المديونية الداخلية والخارجية.

انواع السندات الحكومية

✓ سندات التنمية

✓ سندات الخزينة

✓ سندات المؤسسات العامة المكفولة من الحكومة

إسناد القرض

✓ نظم قانون الشركات الأردني وقانون الأوراق المالية والتعليمات الصادرة بمقتضاه عملية إصدار إسناد القرض حيث سُمح للشركات المساهمة العامة والخاصة بإصدار مثل هذه السندات.

✓ حددت تعليمات إصدار الأوراق المالية وتسجيلها الصادرة عن هيئة الأوراق المالية المعلومات الواجب تضمينها في نشرة إصدار إسناد القرض

إسناد القرض

- ✓ نظمت تعليمات إدراج الأوراق المالية الصادرة عن بورصة عمان إدراج هذه الإسناد في البورصة
- ✓ يتم تداول هذه الإسناد في البورصة من خلال سوق خاص بها
- ✓ سمح قانون الأوراق المالية بإصدار إسناد قرض بعملات غير أردنية وكذلك سمحت تعليمات الإدراج في البورصة بإدراج هذه الإسناد، حيث أدرجت بورصة عمان أول اسناد قرض صادرة بالدولار الأمريكي بتاريخ 2004/4/21.

رسوم التسجيل والادراج للسندات

رسوم تسجيل وادراج السندات :

- تستوفي هيئة الأوراق المالية ما نسبته 0.02% من القيمة الاسمية لأسناد القرض بحد أقصى 3000 دينار أردني كرسوم تسجيل.
- تستوفي بورصة عمان ما نسبته 0.01% من القيمة الاسمية لأسناد القرض المدرجة بحد أقصى 1000 دينار أردني، وما قيمته 500 دينار (250 دينار لكل من الهيئة والبورصة) لباقي أنواع السندات كرسوم ادراج.

عمولات تداول السندات

- تستوفي بورصة عمان ما نسبته 0.01% من القيمة السوقية للسندات المتداولة لجميع أنواع السندات.

- يستوفي مركز الايداع ما نسبته 0.01% من القيمة السوقية للسندات المتداولة، لجميع أنواع السندات

الخطوات الممكنة اتباعها لتطوير سوق السندات

✓ زيادة الوعي لدى المستثمرين نحو الاستثمار في السندات

✓ زيادة الوعي لدى الشركات نحو فوائد السندات كمصدر مهم لتمويل الشركات

✓ تعديل التشريعات التي تحكم السندات بما يساهم في تنشيط سوق السندات

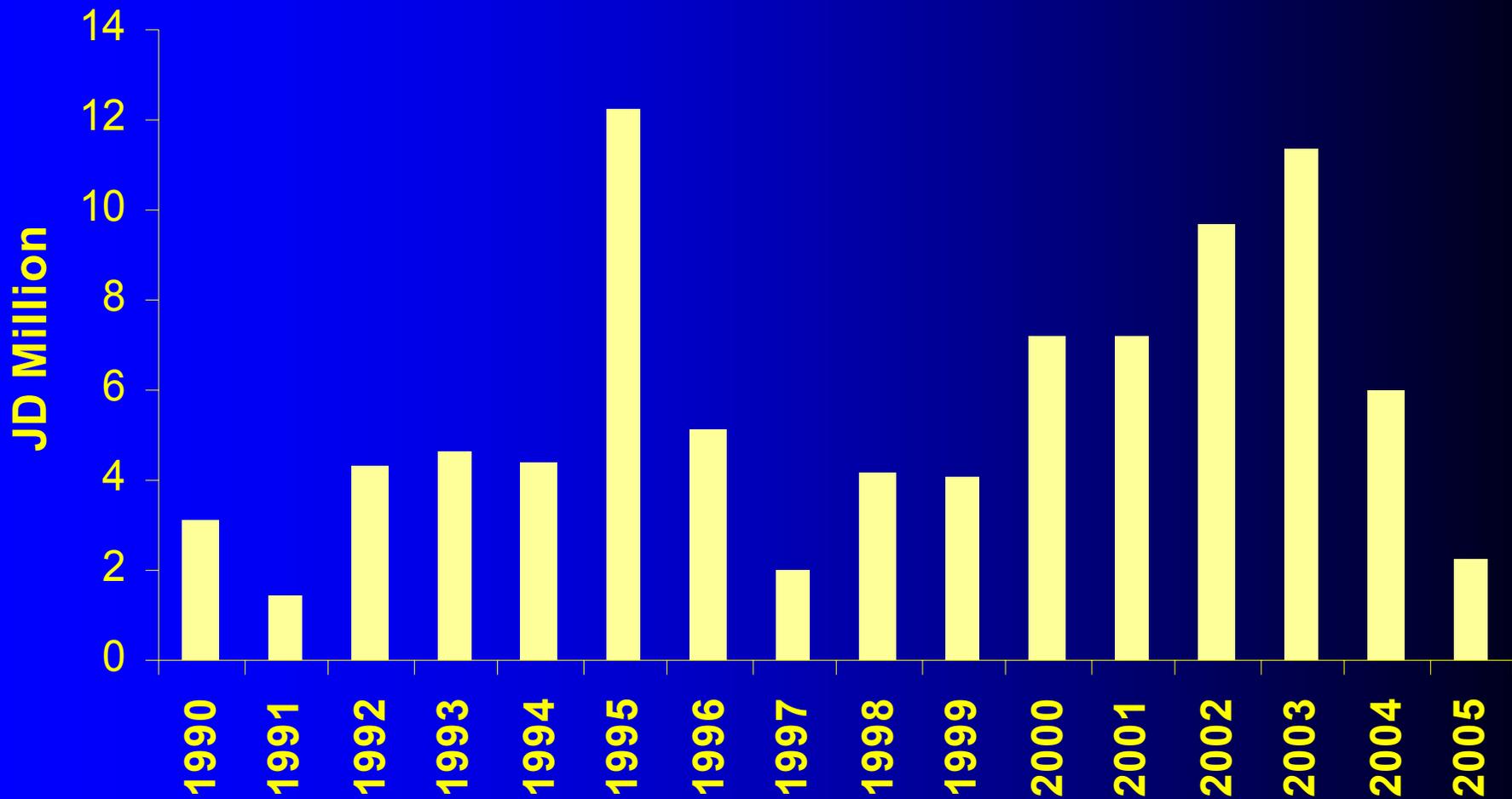
الخطوات الممكن اتباعها لتطوير سوق السندات

✓ استحداث وكالات محلية متخصصة لتقييم الملاءة المالية للجهات المصدرة

✓ السماح برهن الضمانات لصالح حملة السندات عند إصدار الشركات لسندات قابلة لتداول بين الجمهور

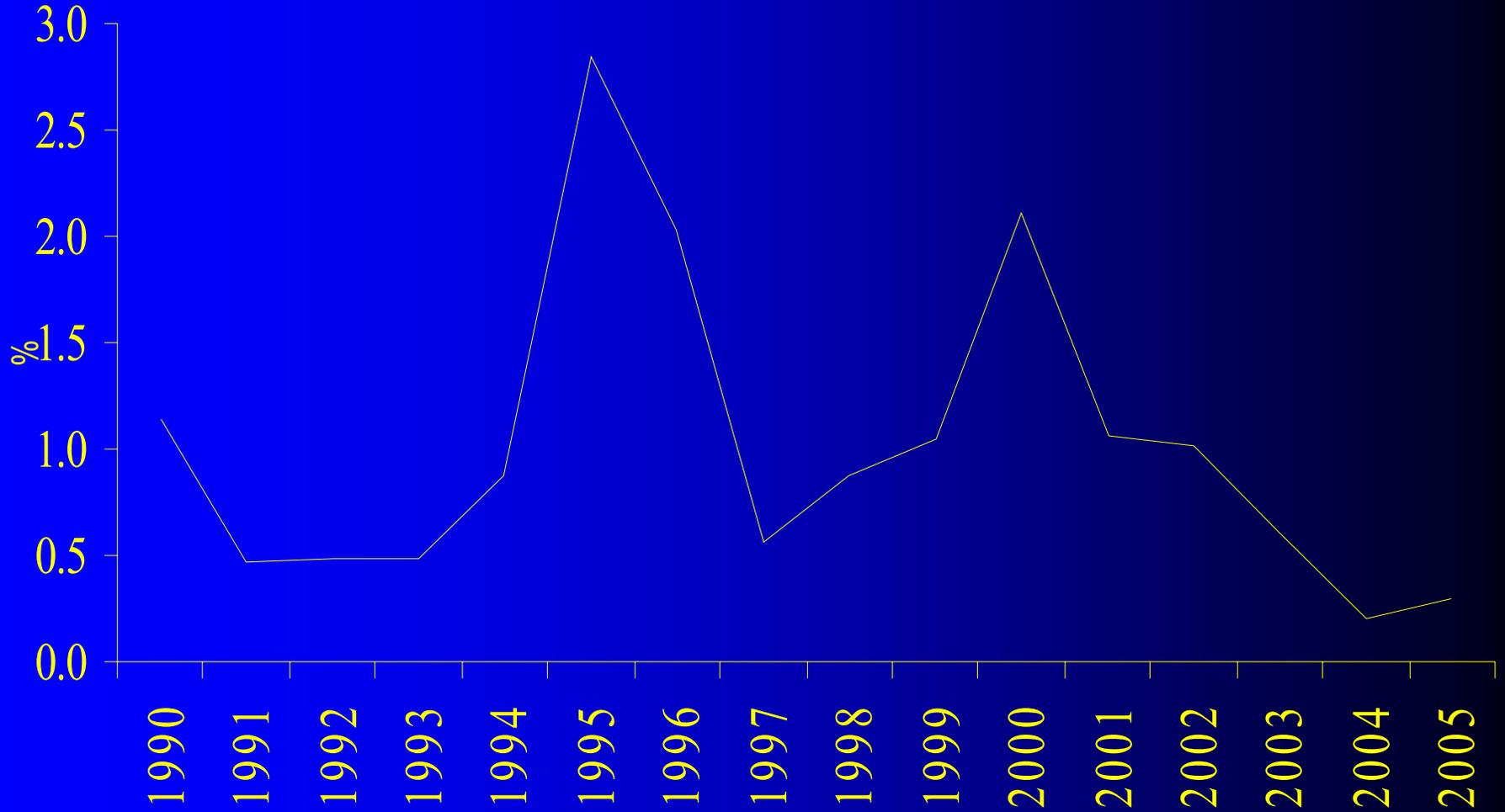
✓ السماح للمؤسسات بإصدار سندات بضمان اصول عقارية

احجام تداول السندات في البورصة



لغاية شهر شباط 2005

نسبة حجم تداول السندات الى حجم السوق الكلي

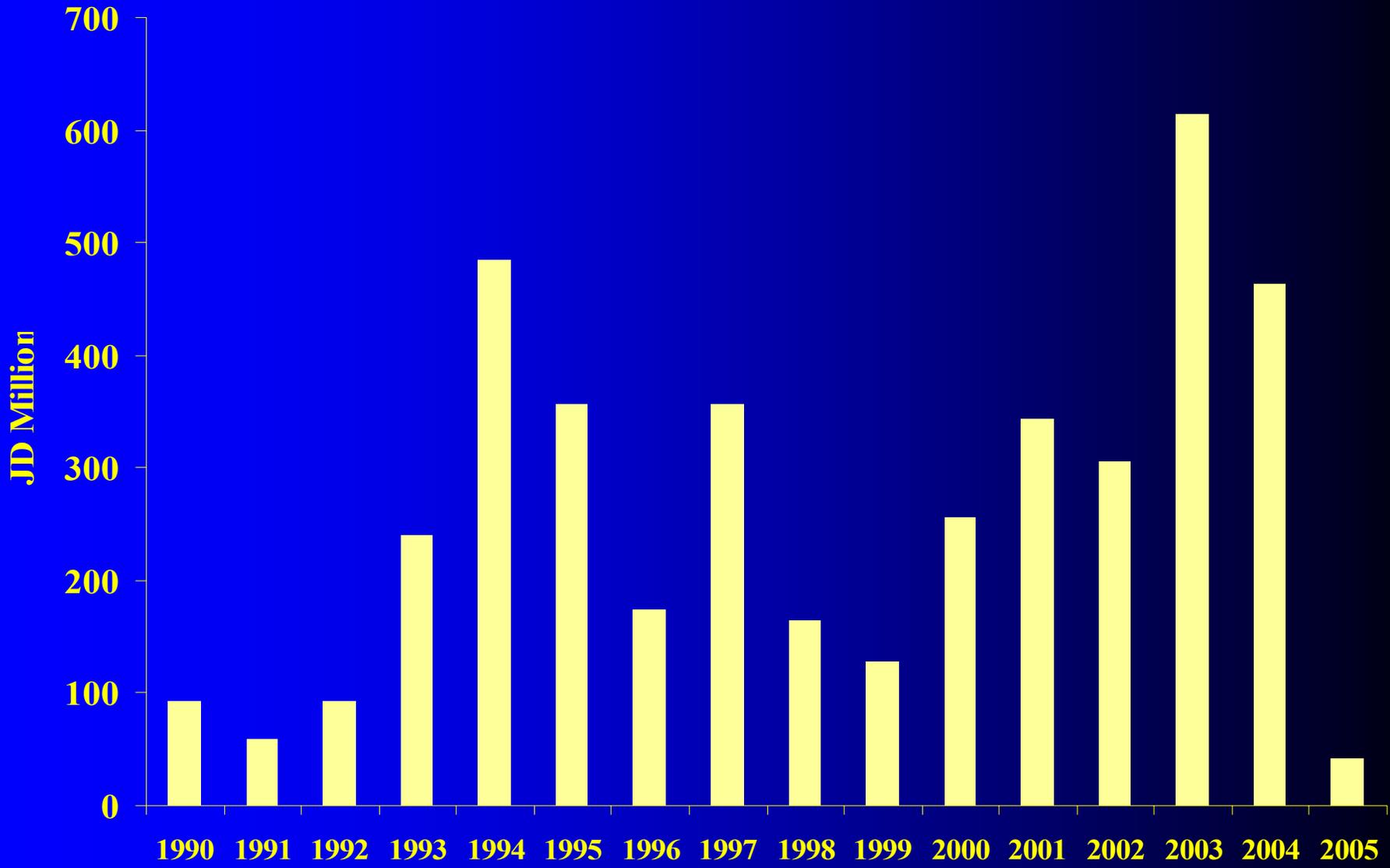


لغاية شهر شباط 2005

القيمة السوقية للسندات مقسمة حسب نوعها، شباط 2005

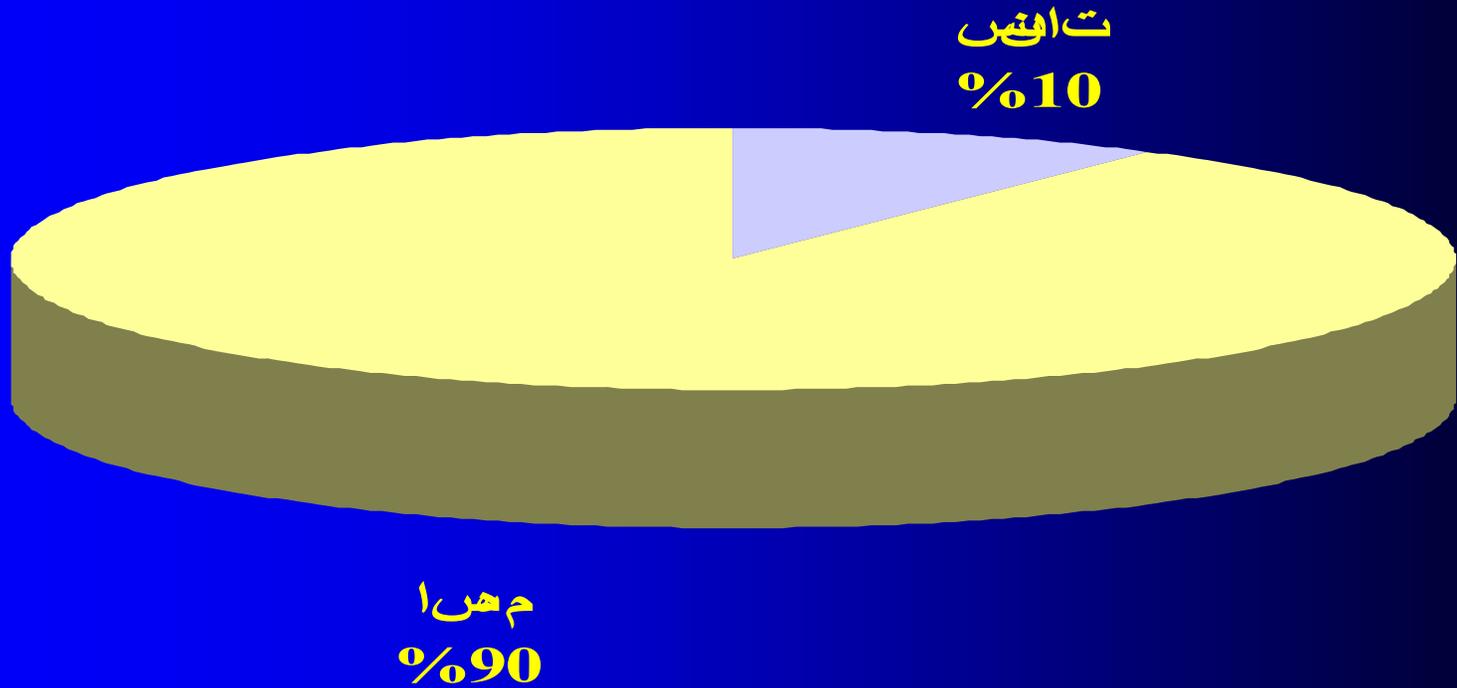


قيمة الاصدارات الاولى للسندات



لغاية شهر شباط 2005

القيمة السوقية لبورصة عمان، شباط 2005



قيم إصدارات السندات (مليون دينار)

سنة	إجمالي الترخيص	تحت الترخيص	مبلغ الترخيص	القيمة
1990	82	28	48	6
1991	38	38	-	-
1992	38	6	32	-
1993	11	8	-	3
1994	24	15.5	-	8
1995	34	26	8	-
1996	19	19	-	-
1997	29	-	29	-
1998	117	43	20	54
1999	75	-	40	35
2000	149	-	80	69
2001	284	-	200	84
2002	270	-	100	170
2003	557	-	500	57
2004	463	-	300	163
2005	42	-	-	42



واقع سوق السندات في الأردن

إعداد عبد الرؤوف ربابعة

مدير دائرة الإصدار والإفصاح

هيئة الأوراق المالية

السوق المالي

✦ السوق هي الآلية التي يتم من خلالها تبادل السلع والخدمات والتي توفر إمكانية التقاء الطلب بالعرض مما يسمح بتحديد السعر المناسب ومن ثم إتمام عملية التبادل

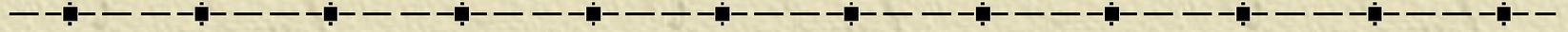
✦ السوق المالي هو الآلية التي يتم من خلالها انتقال الأموال من وحدات الفائض الى وحدات العجز أي أنه السوق الذي يمكن من خلاله توفير الاحتياجات التمويلية لطالبيها

سوق رأس المال

✦ يتم عادة التمييز بين العمليات التمويلية من حيث أنها:
عمليات تمويلية تهدف الى تلبية احتياجات قصيرة الأجل
عمليات تمويلية تهدف الى تلبية احتياجات متوسطة
وطويلة الأجل

✦ سوق رأس المال هو السوق الذي يتم من خلاله توفير
الاحتياجات التمويلية متوسطة وطويلة الأجل

أهمية سوق رأس المال



- ✦ توفير التمويل لمشاريع القطاعين العام والخاص
- ✦ توفير الفرص الاستثمارية لتوظيف الفوائض المالية
- ✦ تشجيع الادخار

السوق الاولي والسوق الثانوي

السوق الاولي

السوق الذي يتم من خلاله اصدار الورقة المالية وبيعها لأول مرة وبحيث تعود حصيلة البيع لحساب المصدر

السوق الثانوي

السوق الذي يتم من خلاله تداول الاوراق المالية التي سبق اصدارها من خلال السوق الاولي

أساليب التمويل

بشكل عام قد يأخذ التمويل أحد الشكلين التاليين:

✦ تمويل بالمشاركة وأداته الأساسية السهم حيث يعتبر حامل السهم مشاركا في ملكية الجهة المصدرة لهذا السهم

✦ تمويل بالدين وأداته الأساسية السند حيث يعتبر حامل السند مقرضا للجهة المصدرة لهذا السند

لماذا يجب العمل على تنشيط سوق السندات؟

✦ توفير الاحتياجات التمويلية للشركات
والمؤسسات

✦ توفير الاحتياجات التمويلية لمشاريع
التنمية الاقتصادية

✦ تعميق سوق رأس المال

✦ إعطاء مرونة أكبر في إدارة الديون

مزايا الاستثمار بالسندات

- ✦ توفر عائد دوري ثابت لحاملها
- ✦ تنطوي على قدر قليل من المخاطرة (بشكل عام) بالمقارنة مع الأدوات المالية الأخرى
- ✦ قد تكون خالية نهائيا من المخاطر في حالة الأذونات الصادرة عن الحكومة لآجال قصيرة

مزايا الاستثمار بالسندات

تابع

- ✦ تتمتع بسيولة تمكن حاملها من بيعها في أي وقت يشاء
- ✦ يمكن رهنها للحصول على القروض المصرفية
- ✦ تتيح المجال لمدراء المحافظ الاستثمارية لتنويع محافظهم بصورة مثالية

مزايا السندات بالنسبة للجهة المقترضة

- ✦ تمثل اقتراضا بكلفة قليلة بالمقارنة مع الاقتراض المباشر من البنوك ومؤسسات التمويل
- ✦ توفر قروضا ذات آجال طويلة قد تصل إلى اكثر من 30 عاما
- ✦ توفر قروضا ذات أحجام كبيرة
- ✦ تسمح بتشكيل الهيكل التمويلي المناسب لمصدرها
- ✦ تسمح بإدارة افضل للدين من قبل المصدر حيث يمكنه زيادتها أو تخفيضها حسب احتياجاته المتغيرة

مزايا السندات بالنسبة إلى الاقتصاد عموماً

✦ تمكن من توزيع أفضل للموارد المالية من خلال توفير أداة جديدة لاستثمار المدخرات

✦ توفر الأموال للمشاريع الإنتاجية بكلفة تمكنها من تحقيق نتائج أفضل الأمر الذي ينعكس إيجابياً على النمو الاقتصادي

✦ تشجع المجتمع على الادخار من خلال توفير الأدوات الاستثمارية المناسبة لقطاع واسع من المجتمع الذين قد لا تناسبهم الأدوات المالية الأخرى

مزايا السندات بالنسبة إلى الاقتصاد عموماً

تابع

- ✦ توفر مصدر تمويل هام للحكومات
- ✦ تساعد الحكومات على تنفيذ سياساتها المالية والنقدية بشكل افضل
- ✦ تساعد في امتصاص السيولة الفائضة والتي قد تؤدي إلى التضخم في الاقتصاد حيث أن الأموال المعدة للاستثمار والتي لا تجد المنافذ الاستثمارية الملائمة ستتراكم على شكل ودائع مصرفية قد تفوق قدرة البنوك على تصريف هذه الفوائض

العوامل المؤثرة في سوق السندات

✦ نشاط السوق الثانوي

✦ السياسات الحكومية

✦ التشريعات

✦ مستوى التطور المهني في مجال الاستثمار

✦ العامل الثقافي والاجتماعي

تاريخ سوق السندات في الأردن

السندات الحكومية

✦ بدأت الحكومة بإصدار السندات لأول مرة في عام 1971 حيث تم إصدار سندات التعمير لحاملها

✦ بدأ إصدار سندات التنمية الأردنية لأول مرة عام 1973

المؤسسات العامة

✦ بدأت بإصدار سندات مؤسسة المواصلات السلكية عام 1975

الشركات المساهمة العامة

✦ قامت شركة الإسمنت الأردنية بإصدار إسناد قرض لمدة 10 سنوات بقيمة 5 مليون دينار في العام 1979

أنواع السندات المتعامل بها في الأردن



❖ سندات التنمية الأردنية

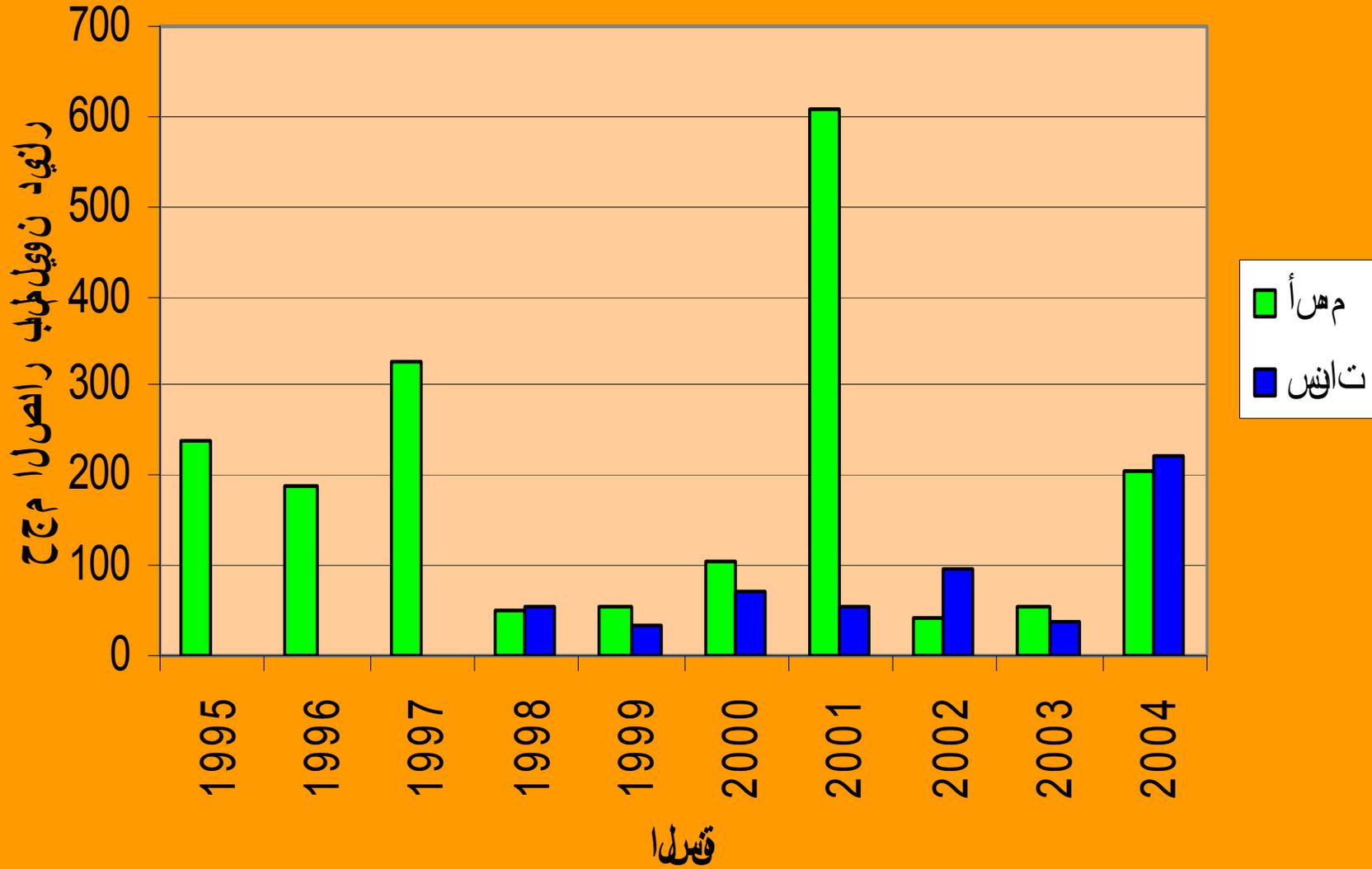
❖ سندات الخزينة

❖ أذونات الخزينة

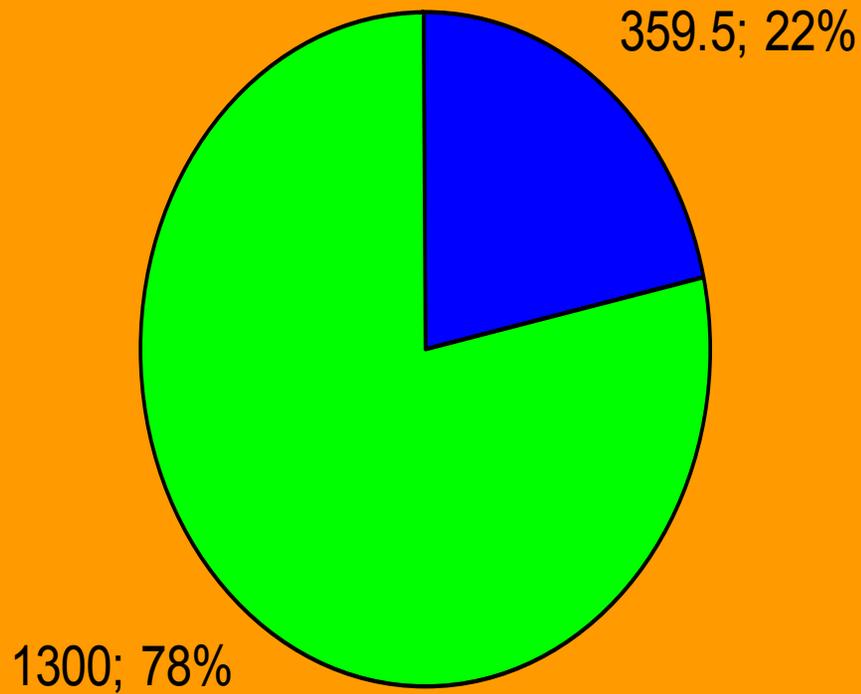
❖ سندات الشركات

❖ سندات المؤسسات العامة

حجم الاصدارات الاولية من الاسهم والسندات



حجم الاصدارات القائمة من الاسهم والسندات في نهاية عام 2004



تاسفرا
مهالا

التشريعات التي تحكم سوق السندات في الأردن

قانون الدين العام

✦ ينظم عملية الاقتراض الحكومي

✦ يحدد أدوات الدين العام

✦ اسند للبنك المركزي مهمة إصدار هذه الأدوات نيابة عن الحكومة

✦ يحدد حالات الاقتراض المسموح بها

✦ يحدد سقف الاقتراض

التشريعات التي تحكم سوق السندات في الأردن

قانون الشركات

- ✦ ينظم اصدار سندات الشركات
- ✦ تصدر بقرار من مجلس الادارة
- ✦ السماح للشركات المساهمة الخاصة باصدار السندات
- ✦ اصدار السندات بدون رهونات

التشريعات التي تحكم سوق السندات في الأردن

قانون الأوراق المالية

✦ ينظم عملية إصدار الأوراق المالية

✦ يركز على مفهوم الإفصاح

✦ رسوم إصدار منخفضة

تعليمات إصدار الأوراق المالية

✦ تحديد المعلومات التي تمكن المستثمر من تسعير السند

✦ تلزم المصدرين بتحديد الالتزامات تجاه المستثمرين

التشريعات التي تحكم سوق السندات في الأردن

قانون سندات المقارضة

يحصل مالك السند على الارباح بدلا من الفوائد
يسمح لوزارة الاوقاف والمؤسسات العامة والبلديات باصدارها
يربط السندات بمشروع محدد مستقل عن المشاريع الاخرى

قانون ضريبة الدخل

التشجيع الضريبي

العوامل المساعدة في تطوير سوق السندات

دور البنوك

✦ إصدار السندات لصالح العملاء

✦ التداول بالسندات

✦ توريق الديون

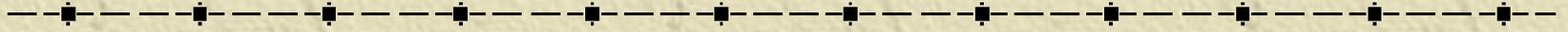
شركات الخدمات المالية

✦ ادارة الاصدارات الاولية

✦ تسويق السندات

✦ ادارة المحافظ الاستثمارية

العوامل المساعدة في تطوير سوق السندات



الاجراءات الحكومية

✦ تمويل العجز

✦ استخدام عمليات السوق المفتوح بدلا من شهادات الايداع

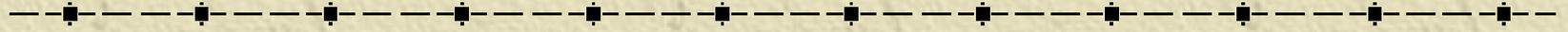
✦ اصدار سندات ذات آجال متنوعة (منحنى السعر التأشيري)

التصنيف الائتماني

✦ التسعير الصحيح

✦ تحسين مستوى الاداء للمصدرين

العوامل المساعدة في تطوير سوق السندات



سندات البلديات

✦ تنوع أدوات السوق

✦ إضافة العمق للسوق

الإدارة المالية في الشركات والمؤسسات

✦ أهمية تكوين الهيكل الرأسمالي المناسب

✦ المساعدة في التخطيط المالي

العوامل المساعدة في تطوير سوق السندات



صناعة السوق

✦ تنشيط السوق الثانوي

الثقافة الاستثمارية

✦ أهمية التنوع في الاستثمار

✦ طرق تقييم وتسعير السندات

العامل الديني

✦ توفير البدائل

✦ تفعيل وتطوير سندات المقارضة



Pricing a Bond Issue

“Mankind has a perfect record in aviation; we never left one up there!”

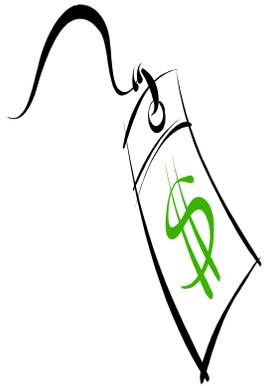
unknown aviator





Pricing a Bond Issue

PRICE = present value of all promised interest payments and maturity value



- The discount rate reflects the degree of risk.
- In the secondary market, the greater the risk, the higher the discount rate and the lower the price of the bond, and vice versa.



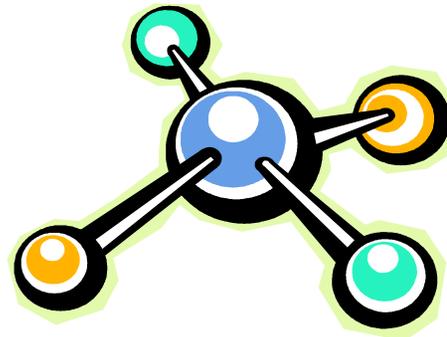
Pricing a Bond Issue

EXAMPLE

What is the value of a 20 year, 10%, **semiannual** pay bond priced to yield 10.6% ? (coupon rate of newly issued bonds in **open market** is 10.6%).

Converting annual coupons and periods to semiannual gives $(10.6 / 2 = 5.3)$, and $(2 \times 20 = 40)$. On a Texas Instruments BA-35 calculator, you would enter: $40 = N$, $5.3 = \%i$, $50 = PMT$, $1000 = FV$, $CPT = PV$.

Value = \$950.57

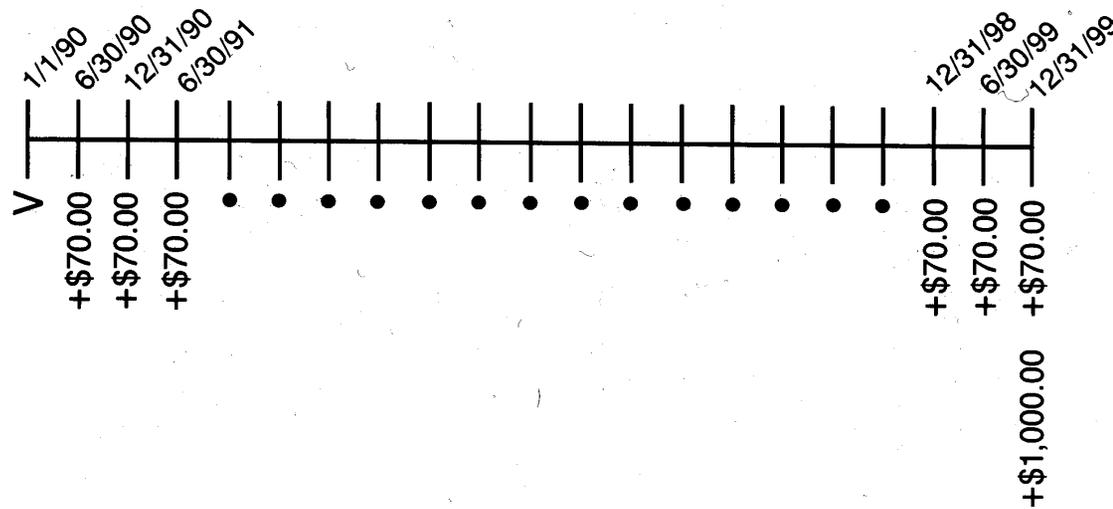


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Pricing a Bond Issue

On Jan 1, 1900, Jordan Municipality issued a 10-year bond, 14 percent coupon, payable semiannually. The required return, k_d , at the time of issue was 14 percent.





Pricing a Bond Issue

In prior example:

- If $k_d = 14\%$ (coupon rate), price = \$1,000 (par)
- If $k_d = 18\%$ (>coupon rate), price = \$817 (discount of \$183)
- If $k_d = 10\%$ (<coupon rate) price = \$1,249 (premium of \$249)

Thus:

- If $k_d =$ coupon rate, market price = par
- If $k_d >$ coupon rate, market price < par
- If $k_d <$ coupon rate, market price > par





Pricing a Bond Issue

PRICING BETWEEN INTEREST PERIODS

Example:

- On March 1, 2003, XYZ sells \$1,000 bond with a 7% coupon (semi-annual). What is the interest **accrued** on the bond?
- **Coupon.** Divide coupon rate in half to get 3.5% ($7\% / 2$). Semi-annual coupon payment now is \$35 ($\1000×0.035).
- **Time Period = Days Counted** (use 30/360 day-count)
 - March 1-30 = 30 days
 - April 1-30 = 30 days
 - May 1-30 = 30 days
 - June 1-30 = 30 days
- **Total Days = 120 days**





Pricing a Bond Issue

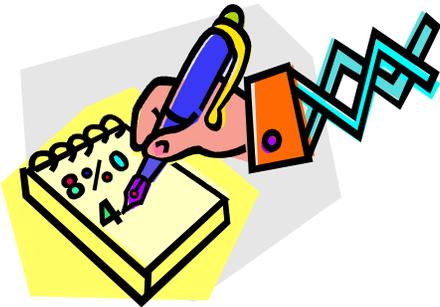
The seller, therefore, has **accumulated** 60 days worth of interest (180-120) calculated as:

Accrued Interest (AI) =

Coupon * (days between settlement and last coupon payment / total days in period)

Therefore, AI = 35 * (60 / 180)

= \$11.67

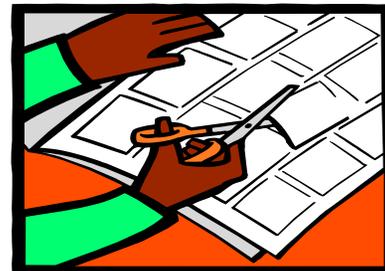




Pricing a Bond Issue

SETTING COUPON RATE

The **coupon rate** on newly issued bonds is determined by observing the YTM of bonds of **similar risk and characteristics** trading in the open market. The quality rating of the bond plays an important role in finding comparable bonds.





Pricing a Bond Issue

TOTAL RETURN = income from reinvested coupons + capital gains or losses

Risk free rate and the risk premium—the following equation originally developed by **Fisher** shows the factors that drive interest rates:

$$i = R_f + \text{risk premium}$$

where

$$R_f = \text{real rate} + \text{an inflation premium}$$





Pricing a Bond Issue

RISK PREMIUM is comprised of two factors:



**Risk premium = Business risk +
Financial risk**

Business risk = macro
undiversifiable)

Financial risk = micro (diversifiable)



Pricing a Bond Issue

THE REAL RATE

- Reflects **productivity** of the economy
- Must at least equal the rate of increase in the **population**.

INFLATION PREMIUM

- Driven by **monetary** policy
- Usually the most important factor driving **short-term** rates.





Pricing a Bond Issue

Blue water truism:

“There are more planes in the ocean than submarines in the sky.”

From an old carrier sailor





Pricing a Bond Issue

YIELD CURVE ANALYSIS

The **yield curve** shows the relationship between yields for different maturities. **Three** theories generally explain the shape of the yield curve.



- **The Pure Expectations Theory** says that the long rate is the geometric average of the short rates. For example, if the 2-year rate (long rate) is 12 percent and the one-year spot rate (short rate) is 10 percent, then the one-year forward rate one year from now will equal approximately 14 percent.

$$- (1 + .12)^2 = [(1 + .10) (1 + \text{forward rate})] - 1$$

Pricing a Bond Issue

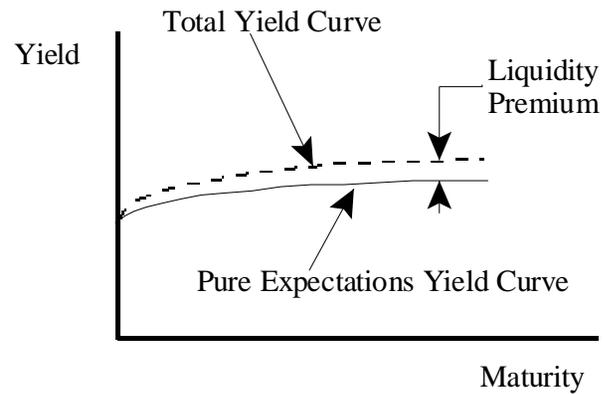
LIQUIDITY PREMIUM HYPOTHESIS

- Says that investors in **longer-term bonds** have less liquidity than shorter-term investors and, thus, must be compensated for the **higher risk**.
- The liquidity premium is an **increasing** function of maturity, although at a decreasing rate.
- The liquidity premium hypothesis is sometimes combined with the expectations theory to create a **premium** over the yield curve indicated by the pure expectations theory (see next slide):





Pricing a Bond Issue

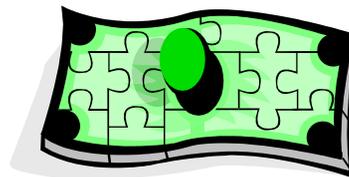




Pricing a Bond Issue

MARKET SEGMENTATION THEORY

- Investors are **not indifferent** to maturity.
- Investors can reduce risk by **matching** the maturity schedule of their assets and liabilities. Investors have a preferred habitat of yields (**i.e., banks versus pension funds**).
- Because of the difference in maturity preference, markets are **segmented**. The amount of segmentation depends on the strength of preference assumed.





Pricing a Bond Issue

MARKET SEGMENTATION,
continued--the yield curve is
determined by supply and demand for
loanable funds within each segment:

- short
- intermediate
- long



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As the test pilot climbs out of the experimental aircraft, having torn off the wings and tail in the crash landing, the crash truck arrives, the rescuer sees a bloodied pilot and asks, "What happened?" The pilot's reply, "I don't know, I just got here myself!"

Ray Crandell, Lockheed Test Pilot



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Pricing a Bond Issue

CREDIT ANALYSIS INCLUDES REVIEW OF:

- legal documents
- politics/management of issuer
- underwriter
- general credit indicators
- red flags





Pricing a Bond Issue

CREDIT ANALYSIS

Legal documents--include the ultimate security provisions because the investor may have to go to court to enforce his/her security rights.





Pricing a Bond Issue

CREDIT ANALYSIS

Legal documents, continued

- For General Obligation bonds, bond counsel reviews and discloses limits on municipality's taxing powers such as those on real estate and personal property, corporate and individual income taxes, and sales taxes





Pricing a Bond Issue

CREDIT ANALYSIS

Legal documents, continued

- For revenue bonds, bond counsel evaluates:
 - limits place on basic security
 - flow of funds structure
 - user-charge covenants
 - priority-of-revenue claims
 - additional-bonds test
 - other relevant covenants



Pricing a Bond Issue

INDENTURE--Major terms of indenture are described in the official statement and highlighted on the cover of that statement:

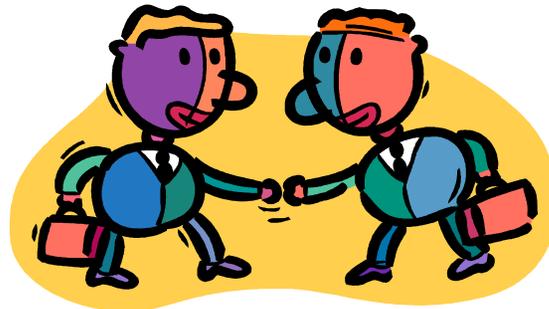
- Total amount of issue
- Name of issuing authority
- Issue and maturity date
- Purpose, use and security
- Serial bond scale--summary of maturity dates, principal amounts, interest rates, and prices.



Pricing a Bond Issue

INDENTURE, continued

- Term bond breakdown--Shows single maturity date and single rate of interest.
- Zero coupon bond accrue interest to maturity rather than paid every six months.
- Interest payment dates
- Underwriting group
- Legal opinion and settlement date
- Offering date





Pricing a Bond Issue

CREDIT ANALYSIS, POLITICS/MANAGEMENT

- GOs:
 - management's commitment to fiscally responsible operations.
 - political relationships between executives and legislators.
- Revenue Bonds: analysis of technical abilities of staff to manage project.



Pricing a Bond Issue

CREDIT ANALYSIS, UNDERWRITER

Issue may come to market via a negotiated sale between issuer and one underwriter, or a competitive bid involving multiple underwriters. The underwriter is important :

- To provide investor an unbiased assessment of the risk involved
- To show a solid firm reputation for thoroughness and integrity





Pricing a Bond Issue

CREDIT ANALYSIS, GENERAL INDICATORS

- GOs:
 - issuer's debt burden
 - issuer's budget soundness
 - issuer's tax burden
 - overall economy





Pricing a Bond Issue

CREDIT ANALYSIS, GENERAL INDICATORS



- Revenue Bonds: support for capital projects such as airports, highways, and water and sewer facilities.

An analysis of the financial feasibility of the project such as a new airport, and the ability of the project to generate revenues sufficient to operate the project, pay interest on the debt, and repay principal in a timely manner.



Pricing a Bond Issue

JUDGING MUNICIPAL DEBT--while credit rating is important, it is only one piece of information. Further analysis is often warranted by investors to include:

- Ability of a municipality to repay obligations shown by comparison between two factors:
 - Level and timing of interest payments and maturity of existing debts.
 - Level of future tax or project revenue plus ability to increase revenues, if needed.





Pricing a Bond Issue

JUDGING MUNICIPAL DEBT, continued

Analysis can be performed by comparing the overall debt to the current market value of real estate.

- Generally, ratio should not exceed 10% (total debt should not be greater than 10% of current market value of taxable real property)
- Because taxing power is limited, overly heavy tax burden in future could lead to default.





Pricing a Bond Issue

JUDGING MUNICIPAL DEBT, continued

Per capita debt ratio shows amount of muni debt per person

- Ratio shows changing status of municipality's taxing power and debt management--whether debt is growing, stable, or diminishing.



EXAMPLE TO COMPUTE PER CAPITA DEBT RATIO

Population: 58,000

Total debt: \$62.8 million

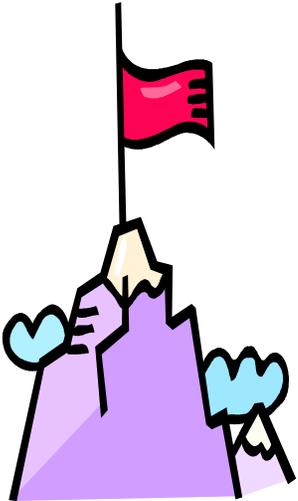
Dividing population into total debt yields a per capita debt of \$1,082.76 (every resident owes this amount). Watching this ratio over time gives a good indication of a municipality's debt burden.



Pricing a Bond Issue

CREDIT ANALYSIS, RED FLAGS

- GOs:
 - declining property values
 - increasing tax burdens
 - increasing property tax rate
 - decline in new building construction
 - general fund deficit increases
 - increase in unfunded pension liabilities
 - general obligation debt increases
 - declining economy





Pricing a Bond Issue

CREDIT ANALYSIS, RED FLAGS

- Revenue bonds:
 - decreasing coverage of debt service
 - dependence on unpredictable federal or state appropriations
 - lateness in providing annual audited financials
 - unanticipated cost overruns
 - frequent or significant rate increases
 - deferring capital plant maintenance and improvements
 - excessive management turnovers
 - shrinking customer base
 - new and unanticipated competition





Pricing a Bond Issue

INTEREST RATE RISK

- Price risk
- Coupon reinvestment risk

Price Risk—chance that interest rates will differ from expectations because **future** interest rates are **unknown**.

Reinvestment Risk—interest rates at the time investors receive coupon payments must be **reinvested** at unknown rates.





Pricing a Bond Issue

DURATION--A MEASURE OF RISK

- The percentage change in the price of a bond for a given change in interest rates.
- Length of time it takes to recoup original investment.
- Point in time at which interest rate risk cancels reinvestment rate risk.
- Investor achieves the same return, no matter what happens to interest rates (immunized).





Pricing a Bond Issue

DURATION

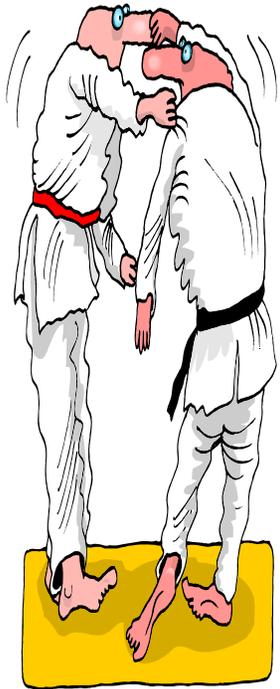
- Duration of a coupon bond is **less than** its maturity.
- The **larger** the coupon, the **shorter** the duration.
- Sinking funds and call features **reduce** duration.





Pricing a Bond Issue

THE MATCHING PRINCIPLE (IMMUNIZATION)



- **Higher** rates lead to a drop in price but more interest on interest
- **Lower** rates lead to a rise in price but a drop in interest on interest.
- Immunization eliminates these two **opposing** effects and is achieved by setting the duration of the bond equal to the investment horizon.
- Immunization is a **passive** strategy.



Pricing a Bond Issue

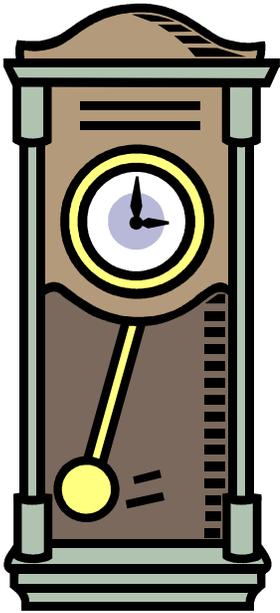


Income Source	Rate	Years Held					
		1	3	5	6.79	9	10
Coupon Income	5%	\$90	\$270	\$450	\$611	\$810	\$900
Capital gain or loss		287	234	175	100	39	0
Interest on Interest		1	17	54	105	191	241
		\$378	\$521	\$679	\$816	\$1,040	\$1,141
Total Return		37.00%	15.00%	11.00%	9.00%	8.50%	8.20%
Coupon Income	9%	\$90	\$270	\$450	\$611	\$810	\$900
Capital gain or loss		0	0	0	0	0	0
Interest on Interest		2	32	103	205	387	495
		\$92	\$302	\$553	\$816	\$1,197	\$1,395
Total Return		9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
Coupon Income	11%	\$90	\$270	\$450	\$611	\$810	\$900
Capital gain or loss		-112	-95	-75	-56	-18	0
Interest on Interest		2	40	129	261	502	647
		\$20	\$215	\$504	\$816	\$1,294	\$1,547
Total Return		2.00%	6.70%	8.50%	9.00%	9.70%	9.80%



Pricing a Bond Issue

DURATION FACTS



- Duration of a zero-coupon bond **equals** its maturity.
- Duration of a coupon bond is always **less than** its maturity.
- Duration tends to **increase** with maturity, but at a declining rate.
- Events that accelerate receipt of cash flows such as higher coupon payments or sinking fund provisions **reduce** duration.



Pricing a Bond Issue

WHEN ISSUING A BOND (Active Strategy):



- If you **expect** a **decline** in rates, issue a short-term bond.
- If you **expect** a **rise** in rates, then issue a long-term bond.

When Investing (Active Strategy): Keep duration short if you **expect** interest rates to rise, and long if you **expect** rates to decline.

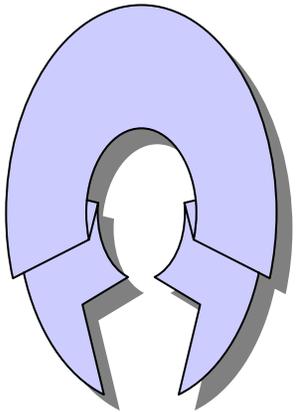


Pricing a Bond Issue

IMPORTANCE OF CONVEXITY

- **Price - yield** relationship is convex.
- Duration is **slope** of the curve at a specific yield.
- Convexity is a measure of **curvature** of price – yield relationship.
- For **small changes** in interest rate, convexity is not important, but for larger changes convexity can become significant.
- Convexity is used to **correct** for error induced from using duration

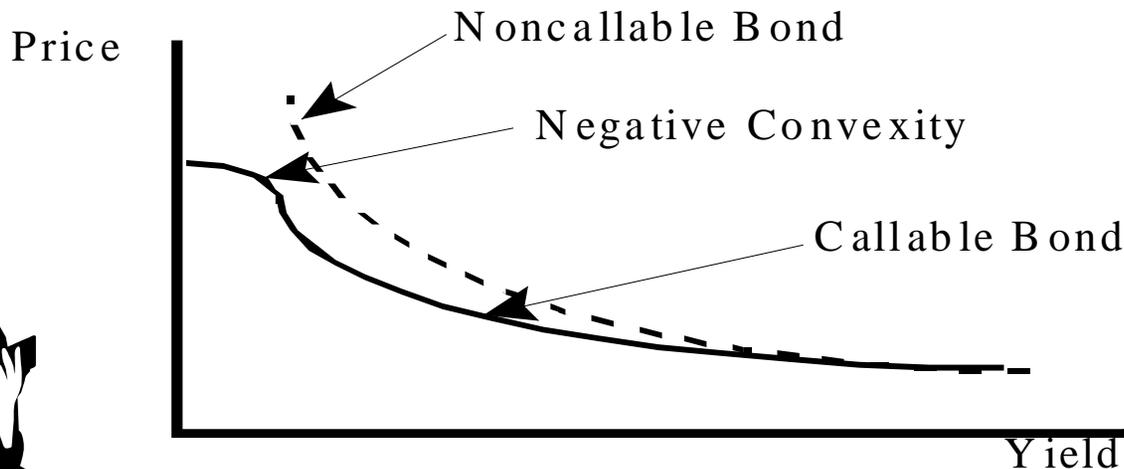
Price Change in Bond = Price Change Due to Duration + Price Change Due to Convexity.





Pricing a Bond Issue

CALLABLE BONDS: the call price becomes an upper bound on the price of the bond, so that the price-yield relationship is distorted as shown below:





Pricing a Bond Issue

BULLET VERSUS BARBELL:

- **Bullet portfolio:** one duration (one bond).
- **Barbell portfolio:** two different durations (two bonds) with duration equal to weighted average.
- **Advantage of barbell:** If bullet and barbell have the same duration, the barbell will have highest convexity.
- **Advantage of bullet:** greater yield.





Pricing a Bond Issue

FACTORS DETERMINING MARKET VALUE



- Supply and demand
 - Offering yields above the average for comparable quality will increase demand
 - If demand can't be met, market value driven up
- Ratings
 - Low ratings need higher coupons to attract investors
 - High ratings bring high market values
- Prevailing interest rates drive coupon rate on new issues



Pricing a Bond Issue

Example

Three Bonds Used in Analysis						
			Price Plus			
		Maturity	Accrued			
Bond	Coupon	(Years)	Interest	Yield	Duration	Convexity
A	8.50%	5	100	8.50%	4.01	19.82
B	9.50%	20	100	9.50%	8.88	124.17
C	9.25%	10	100	9.25%	6.45	55.45

Bullet: Bond C

Barbell: Bonds A and C





Pricing a Bond Issue

Barbell = 50% of bond A + 50% of bond B

Duration of barbell = $.5 \times 4.01 + .5 \times 8.88 = 6.45$ (same as bullet)

Average yield of barbell = $.5 \times 8.5 + .5 \times 9.5 = 9.0$

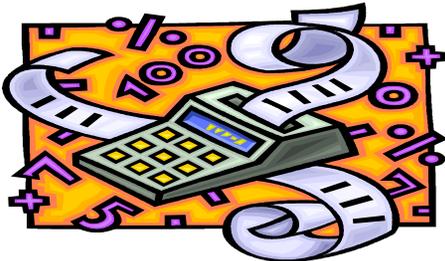
Convexity of barbell = $.5 \times 19.82 + .5 \times 124.17 = 71.995$

Yield giveup = Yield on bullet – Yield of barbell

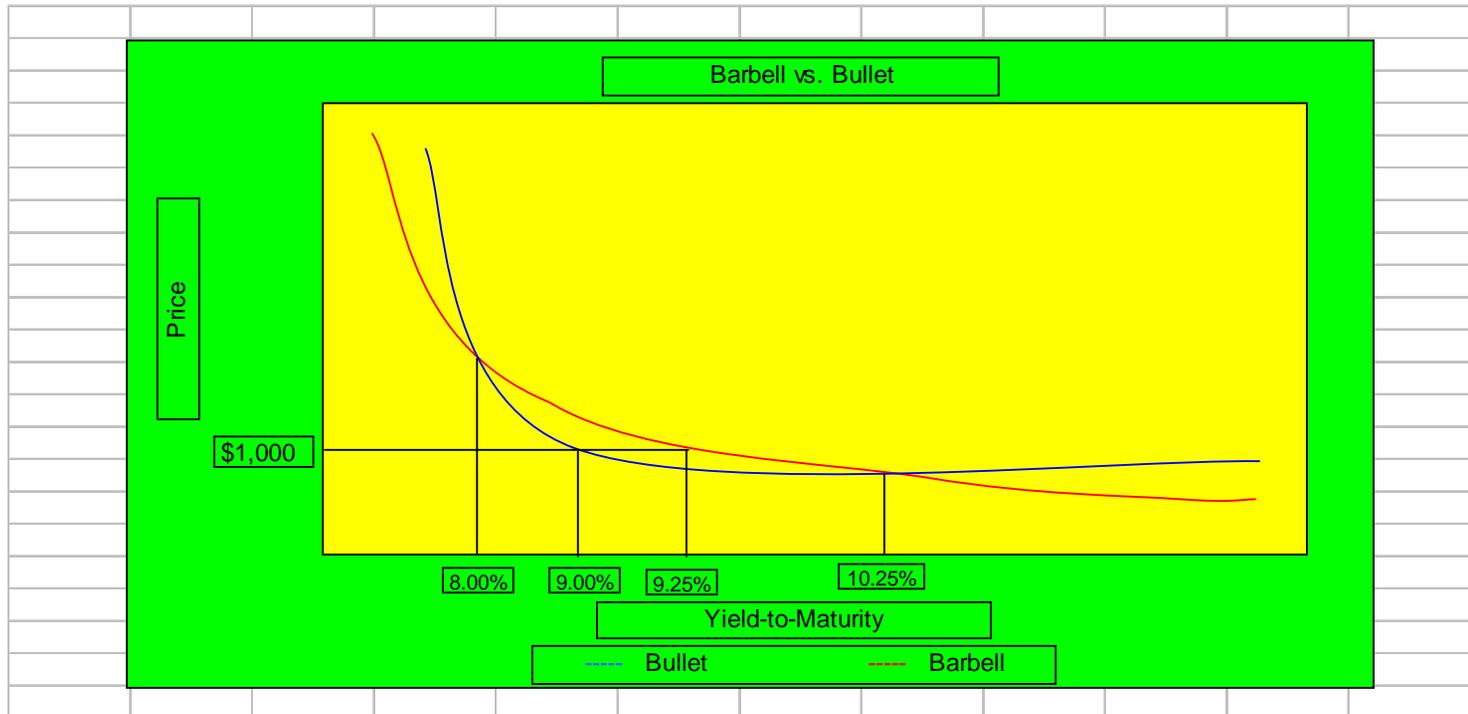
= $9.25 - 9.0 = .25$ (25 basis points)

Pickup = Convexity of barbell – Convexity of bullet

= $71.995 - 55.45 = 16.545$



Pricing a Bond Issue





Pricing a Bond Issue

OPTIONS:

- Buy bullet (Bond C)
- Buy barbell (Bond A and Bond B)

Best strategy depends on future interest rates:

- **Volatile** interest rates: **Barbell** best if future interest rates greater than 10.25% or less than 8.00%.
- **Stable** interest rates: **Bullet** strategy best if interest rates remain within 8.00% - 10.25% band.
- Decision factor: Investment results for each strategy will differ depending on future interest rate volatility.





ANY QUESTIONS?



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Session 11

Case Analysis of New Hanover County
Issuing a Certificate of Participation Bond
(COP)

March 16, 2005



Initial Organization Meeting



Staff and Board of Commissioners:

- Use other than tax supported basis for issuing debt.
- Authorize staff to put team together and begin the process.

Date of meeting Dec. 11, 2002



The Financing Team (and others)





Identifying the Team

Special Counsel: LeBoeuf, Lamb, Greene & MacRae, LLP, NYC

Counsel to Corporation: Newsom, Graham, Hedrick & Kennon, Raleigh, NC

Senior manager/underwriter: BB&T Capital Markets, Charlotte, NC

Underwriter: Banc of America Securities, LLC, Charlotte, NC

Underwriters' Counsel: Parker Poe, Charlotte, NC

The Trustee: First Citizens Bank & Trust, Raleigh, NC

Trustee Counsel: Ward & Smith, PA, New Bern, NC

LGC: Department of the State Treasurer, Raleigh, NC



The Legality of Certificates of Participation

GS 160A-20 Security Interests

(b) Improvements. – A unit of local government may finance or refinance the construction or repair of fixtures or improvements on real property by contracts that create in some or all of the fixtures or improvements, or in all or some portion of the property on which the fixtures or improvements are located, or in both, a security interest to secure repayment of moneys advanced or made available for the construction or repair.



Special Provisions applicable to Certificates of Participation

- Does not in any way pledge the **full faith and credit** of the County.
- The taxing power of the County is not pledged directly or indirectly.
- Non-appropriation clause: Board has the right to not appropriate funds to pay the debt service on the issue.
 - One Board cannot encumber future boards without a vote of the people.
 - In effect COPs are a series of one year contracts.



The Issue

Projects:	Amount of Borrowing
Airport Improvements	\$3,800,000
Discharge of Office Annex Loan	3,850,000
Discharge of Fire Station Loan	1,316,901
Addition to Office Annex	2,776,099
Water and Sewer	<u>27,966,000</u>
Total	\$39,709,000



The Projects

Airport Improvements \$3.8M:

Main terminal renovations. Inter-local agreement between County and Airport in order to lower debt service payments for the Airport. Airport to repay the County over 10 year period.

No pledge of security on Airport as part of the loan package.



The Project

Water and Sewer \$27.9M:

Construct gravity collector sewer systems and other improvements to three residential areas of County. Approximately 3,300 residences effected.



The Project

Discharge of outstanding debt on two projects \$5.2M & addition to Annex \$2.8M:

Fire Station and Administrative Annex acquisition and construction/renovations. Fire Station located in southern part of the County. Annex building for relocation of various County departments.

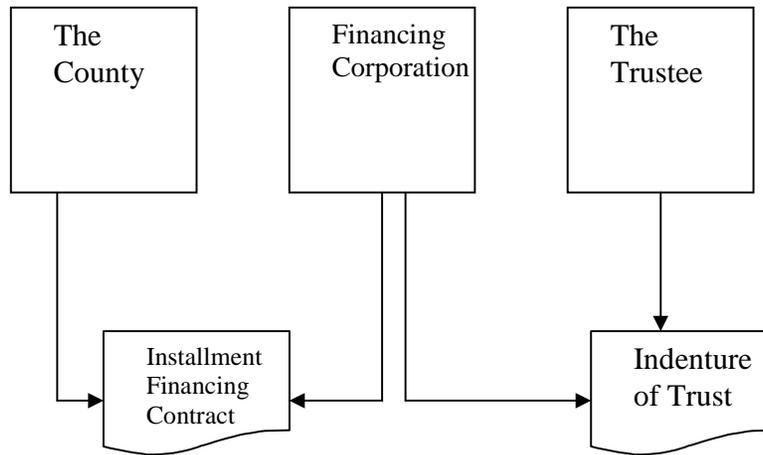


The Documents

- Installment Financing Contract
- Indenture of Trust
- Deed of Trust and Security Agreement
- Assignment of Deed of Trust
- Official Statement (offering document)
- Contract to Purchase
- Arbitrage and Use of Proceeds



New Hanover County Financing Corporation





New Hanover County Financing Corporation

New Hanover County Financing Corporation is specifically organized and shall be operated exclusively for the purpose of promoting the general welfare of the citizens of New Hanover County, NC by assisting the County in carrying out its governmental functions through the acquisition, construction and operation, sale or lease of real estate and improvements, facilities and equipment for the use and benefit of the general public.



New Hanover County Financing Corporation

New Hanover County Financing Corporation:
Authorized and empowered as follows:

- a) To plan, finance, construct, acquire, sell and convey real estate, improvements to real estate, furnishings and equipment;
- b) To solicit, receive, maintain and administer any funds or property, real or personal, tangible or intangible; and
- c) To process and exercise such general and additional powers as are conferred by the laws of the State of NC etc. etc.



New Hanover County Financing Corporation

New Hanover County Financing Corporation Board of Directors:

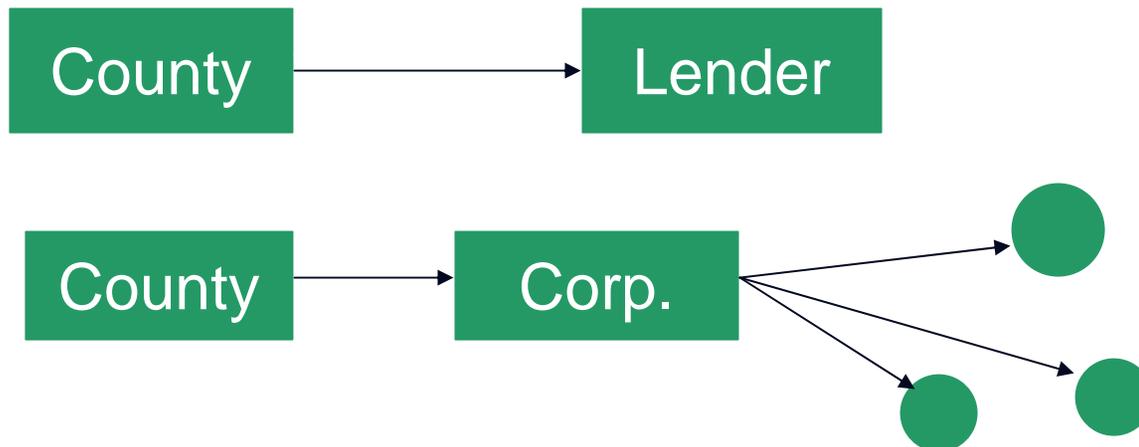
- President Allen O'Neal (County Manager)
- Treasurer Bruce Shell (Finance Director)
- Secretary Robert Greer (Chairman of Bd.)





Why is Corporation Needed?

Legal entity that allows for the issuance of multiple certificates as opposed to a strictly one on one relationship.





Installment Financing Contract

Contract between the County and the Corporation whereby the County establishes the duties and responsibilities for each party in the issuance of the Certificates of Participation.



Indenture of Trust

The Trustee: Through an **INDENTURE OF TRUST** with the Corporation the obligations of the parties are detailed.

Examples:

- Where and when payments are to be made to the Trustee.
- Permitted investments Trustee may use to invest held funds.
- Remedies available in the case of default.



Deed of Trust and Security Agreement

Agreement is between the Corporation and the County whereby the facilities that the Certificates of Participation are being used to improve are pledged as collateral for repayment of the debt.



Assignment of Deed of Trust

Since the Trustee is acting for the benefit of the certificate holders, they must have the ability to foreclose on the pledged properties in the event of a default by the County.

By having the assignment of the deed of trust the Trustee has the required power.



Official Statement

Purpose: To provide certain information in connection with the execution, sale and delivery of the Certificates of Participation, Series 2003 . . .



Official Statement contents

- Defines the parties, the security, tax treatment and other disclosures
- Information on the certificates, book-entry form-only, prepayment provisions
- Information on the projects
- Estimated Sources and Uses of Funds
- Security and sources of payment
- Insurance
- General fund revenue summary
- Installment payment schedule
- Certain risks of certificate owners
- All about the County, demographics, financial etc.
- Legal matters
- Underwriting
- Ratings
- Appendices with Financial information, summary of principal documents
- Form of opinion of special counsel



Contract to Purchase

- Underwriters agree to purchase the COPs at a certain price.
- Agrees to make a bona fide public offering of all the certificates at the initial offering price or yield as per the Official Statement.



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Arbitrage and Use of Proceeds

Certification from the Finance Director:

- Proceeds will not be used in a manner that would cause the Certificates to be an arbitrage bond under IRS rules.
- No more than 10% of the Facilities will be used in any “private business use.”
- No more than 5% of the proceeds will be used in any private business that is unrelated to any governmental use.
- County expects at least 75% of the proceeds will be used for construction expenses.
- Spending requirements will be made as required, all proceeds spent within two years.



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Board Action at Feb. 03, 2003 Meeting

Resolution setting a ***Public Hearing*** and Authorizing the ***Filing of an Application*** with the Local Government Commission for Approval of such Installment Financing and Refinancing



Public Hearing Held February 17, 2003

Public hearing held during a regularly scheduled Board of County Commissioners' meeting.

- Finance Director gives overview of the financing.
- Chairman then opens the floor for comments.
- After comments (if any) Chairman calls for a vote to adopt the resolution for issuance of the Certificates of Participation
- Make findings as to why Certificates of Participation were used as opposed to Bonds.



Board Decision

- a) Such contract is necessary or expedient to the County,
- b) Such proposed Contract, under current circumstances, is preferable to a bond issue of the County for the same purpose,
- c) The sums estimated to fall due under such Contract are adequate and not excessive for its proposed purpose,
- d) The County's debt management procedures and policies are good and its debt will continue to be managed in strict compliance with the law,
- e) Any increase in taxes necessary to meet sums estimated to fall due under the Contract will not be excessive and
- f) The County is not in default regarding any of its debt service obligations.





Bond Insurance (February 21, 2003)

Senior Manager and Underwriter compares the expected rates County may receive at its stand alone rating (Aa3/AA-) with a AAA/Aaa rating. Total cost of each issue, plus cost of insurance for achieving a AAA/Aaa rating, is compared. Each are then present valued. If there is a savings to the County at the higher rate, insurance is purchased.

For this issue the County saved money by purchasing bond insurance from Ambac Assurance Corporation.



Other Steps

February 26, 2003: Corporation board met and approved the Installment Financing Agreement.

March 04, 2003: Approval by the LGC

March 12, 2003: Pricing of the COPs

March 13, 2003: Award date

March 20, 2003: Board approves all documents

March 25/27, 2003: Pre-closing and Closing



Sources and Uses of Funds

Sources:			
<i>Bond Proceeds:</i>			
Par Amount			39,510,000.00
Accrued Interest			45,466.47
Net Premium			792,688.45
Total sources			40,348,154.92
Uses:			
<i>Project fund deposits:</i>			
Airport			3,800,000.00
Discharge of Office Annex Loan			3,850,000.00
Discharge of Fire Station Loan			1,316,901.00
Addition to Adm. Annex			2,776,099.00
Water and Sewer			27,966,000.00
			39,709,000.00
<i>Other Fund Deposits:</i>			
Accrued interest			45,466.47
<i>Delivery Date Expenses:</i>			
Cost of Issuance			162,000.00
Underwriter's Discount			268,668.00
Bond Insurance			161,239.18
			591,907.18
Additional proceeds			1,781.27
Total Uses			40,348,154.92





Bond Summary Statistics

Dated Date				15-Mar-03
Delivery Date				26-Mar-03
Last Maturity				1-Mar-28
Arbitrage Yield				4.061214%
True Interest Cost (TIC)				4.187497%
Net Interest Cost (NIC)				4.251184%
All-in TIC				4.234485%
Average Coupon				4.364357%
Average Life (years)				11.689
Duration of Issue (years)				8.810
Par Amount				39,510,000.00
Bond Proceeds				40,348,154.92
Total Interest				20,208,214.95
Net Interest				19,684,194.50
Total Debt Service				59,718,214.95
Maximum Annual Debt Service				3,345,093.76
Average Annual Debt Service				2,393,558.71



Timeline for issuance (107 days)

December 11, 2002: Initial Meeting

February 3, 2003: Call for Public Hearing and authorize filing of application with LGC

February 17, 2003: Hold Public Hearing, make statement of findings

February 26, 2003: Corporation board met and approved the Installment Financing Agreement.

March 04, 2003: Approval by the Local Government Commission.

March 12, 2003: Pricing of the COPs

March 13, 2003: Award date

March 20, 2003: Board approves all documents

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Session 12

Case Study - New Hanover County's
Presentation to the Rating Agencies



Introduction

Ted Davis, Jr.

Chairman of the Board of County Commissioners

Robert G. Greer

Vice-Chairman of the Board of County Commissioners

Allen O'Neal

County Manager

Bruce T. Shell CPA

Finance Director

Wanda M. Copley Esq.

County Attorney

David G. Fischer

Managing Director, BB&T Capital Markets



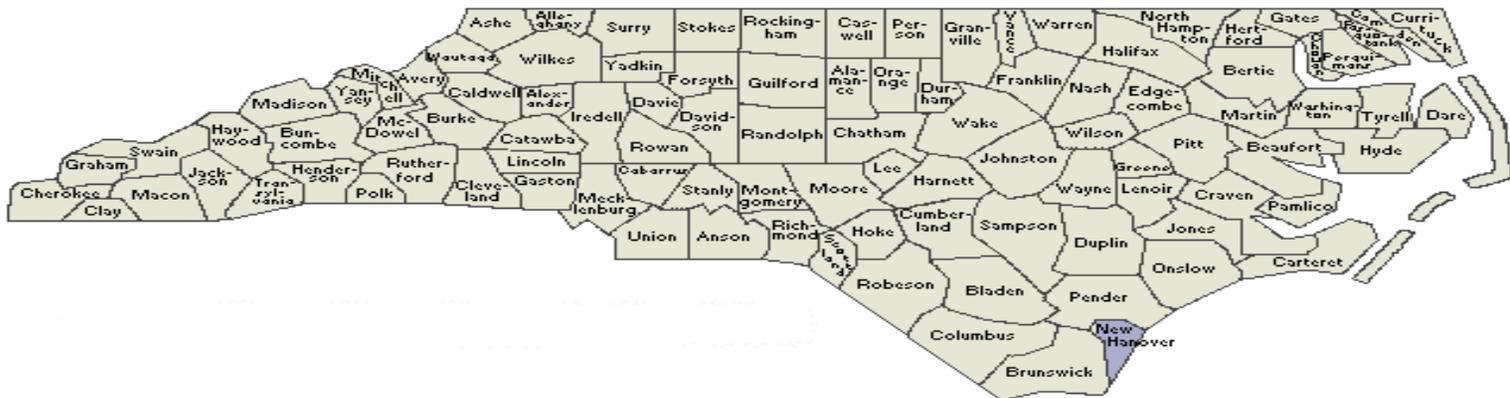
Executive Summary

- Long-term stable growth
- Excellent transportation infrastructure available for commerce
- Major regional trade, educational, and medical center for southeastern North Carolina
- Excellent quality of life
- Year-round tourism continues to play a vital role in the County's economy
- Strong financial position
- Stable management



Overview of the County

- County is located on the coast in the southeastern corner of North Carolina and is connected to the Piedmont region of the State by Interstate I 40, which begins in the County and traverses the entire country, running from the east coast to the west coast.
- The County seat is Wilmington. Is one of the ten largest cities in the State. The Wilmington MSA is one of the fastest growing Metropolitan Statistical Areas in North Carolina.





Economic & Demographic Profile

- ***Travel, Tourism, & Film***

More than just a “summer phenomenon”

The film industry continues to play a significant role in the County’s economic base.

- ***Transportation***

Interstate 40- Originates in Wilmington, connects the County to North-South and East-West traffic. U.S. Highways 17, 117, 74, 76 and 421 serve the County.

North Carolina State Port- The Wilmington Port is one of two deep-water harbors in the State. The Port provides a major commerce resource for the County.

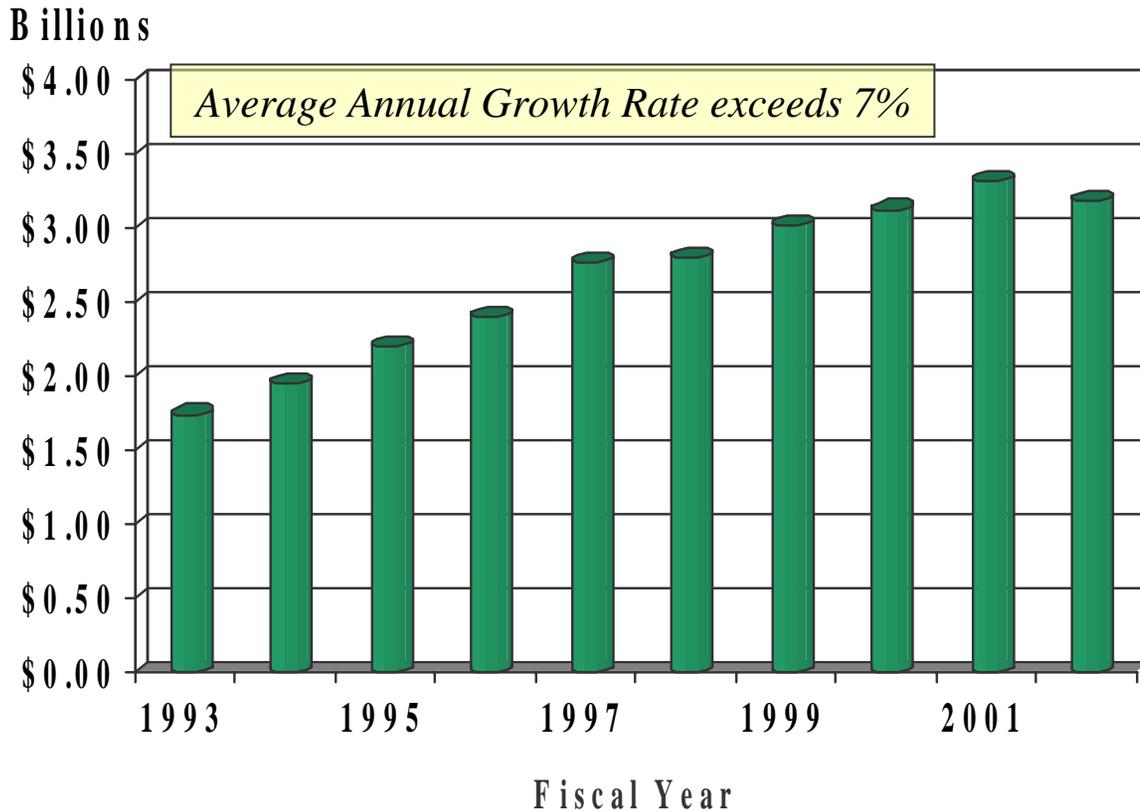
Wilmington International Airport- Provides regular jet and commuter flight service.

The CSX Rail Transport Group- Serves the County and approximately 55 trucking companies providing transportation to all parts of the U.S.



Economic & Demographic Profile

Consistent Growth in Retail Sales



Year	Retail Sales
1993	\$1,742,000,000
1994	\$1,950,000,000
1995	\$2,196,000,000
1996	\$2,401,000,000
1997	\$2,763,000,000
1998	\$2,795,000,000
1999	\$3,014,000,000
2000	\$3,120,000,000
2001	\$3,313,000,000
2002	\$3,183,000,000

Source:CAFR New Hanover County



Economic & Demographic Profile

Premier Regional Health Care System

- New Hanover is a leader in modern health care facilities. It is home to the 10th largest hospital system in the State based on total beds. The 628-bed ***New Hanover Health Network*** and its affiliated psychiatric center serves patients from a seven-county region.
- The Network is one of nine hospitals in North Carolina operating a Level III neonatal intensive care unit is the State-designated regional trauma center providing Level II trauma services for southeastern North Carolina.
- The Network, a regional referral center, provides a variety of services, including:

Ambulatory Surgery

Birth Center

Cancer Treatment Center

Community Wellness

Open Heart Surgery

Rehabilitation



Economic & Demographic Profile

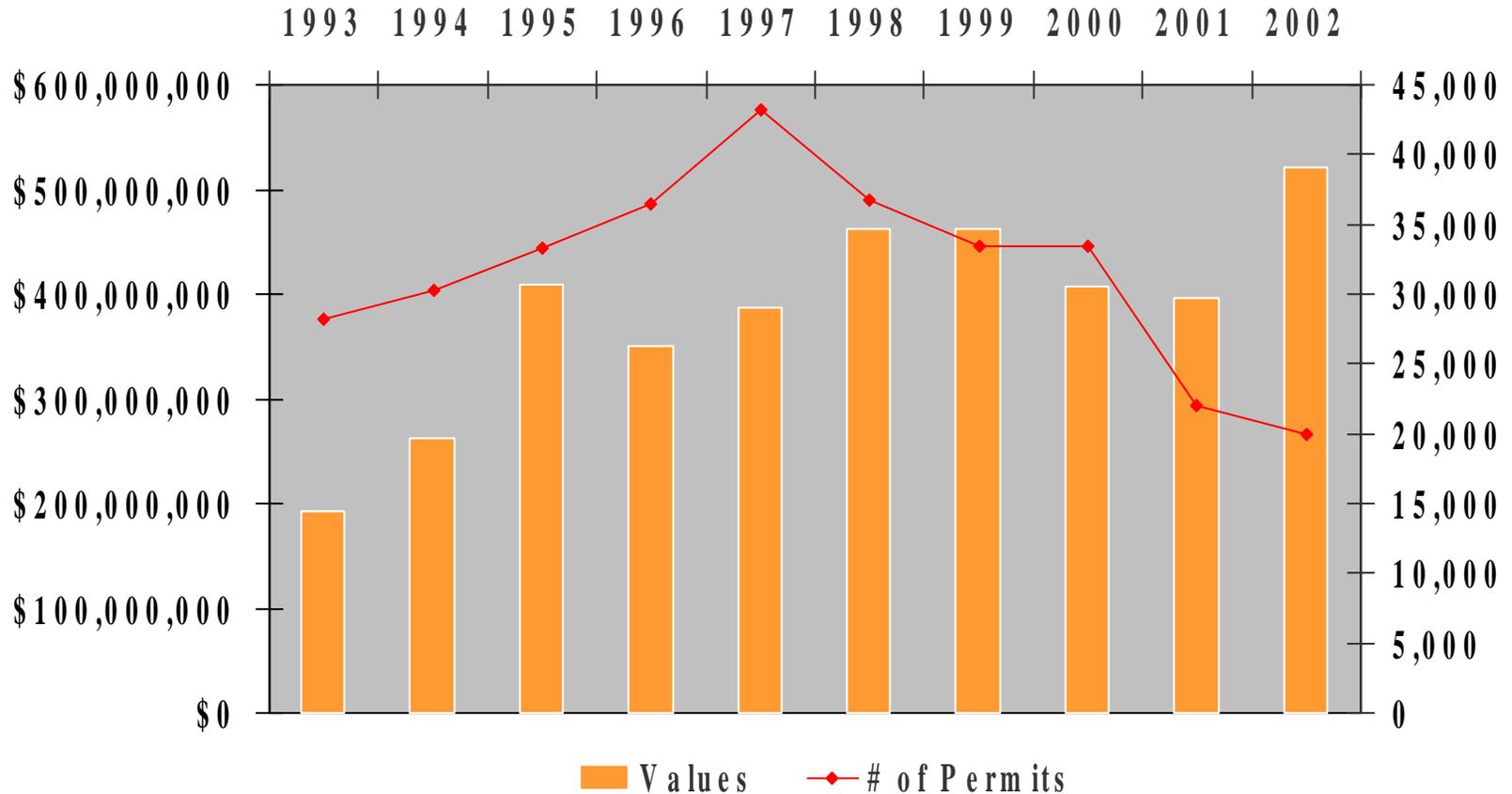
Education

- ***University of North Carolina at Wilmington***, is currently the 7th largest and one of the fastest growing institutions in the 16-campus University of North Carolina System. With over 10,700 students, UNCW is recognized nationally for its marine biology program and internationally for its technological initiatives in global learning. New programs in creative writing and film studies are attracting national attention.
- With over 6,000 students, ***Cape Fear Community College*** is among the largest community colleges out of 59 located throughout North Carolina. The College has added 20 programs since 1997; 71 different programs are offered with classes taught at three campuses by 167 full-time instructors. CFCC concentrates on customized training programs for skilled and semi-skilled workers to support the County's growing economic base.



Economic & Demographic Profile

Strong Historical Construction Activity

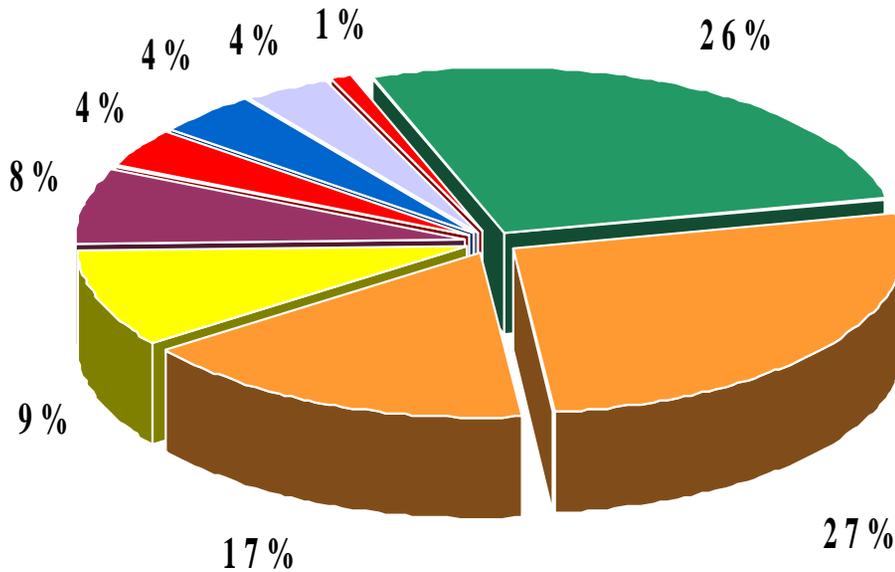


Source: Inspection Department/ New Hanover County



Economic & Demographic Profile

Stable and Diverse Employment



Source: NC ESC (2002)

- Services (25,670) (27%)
- Retail Trade (25,320) (27%)
- Government (15,900) (17%)
- Manufacturing (8,860) (9%)
- Construction (7,120) (8%)
- Wholesale Trade (3,656) (4%)
- Transportation, Comm. & Utilities (4,080) (4%)
- Finance, Ins. & RE (3,350) (4%)
- Agriculture, Forestry & Fishing (769) (1%)



Economic & Demographic Profile

Major Employers

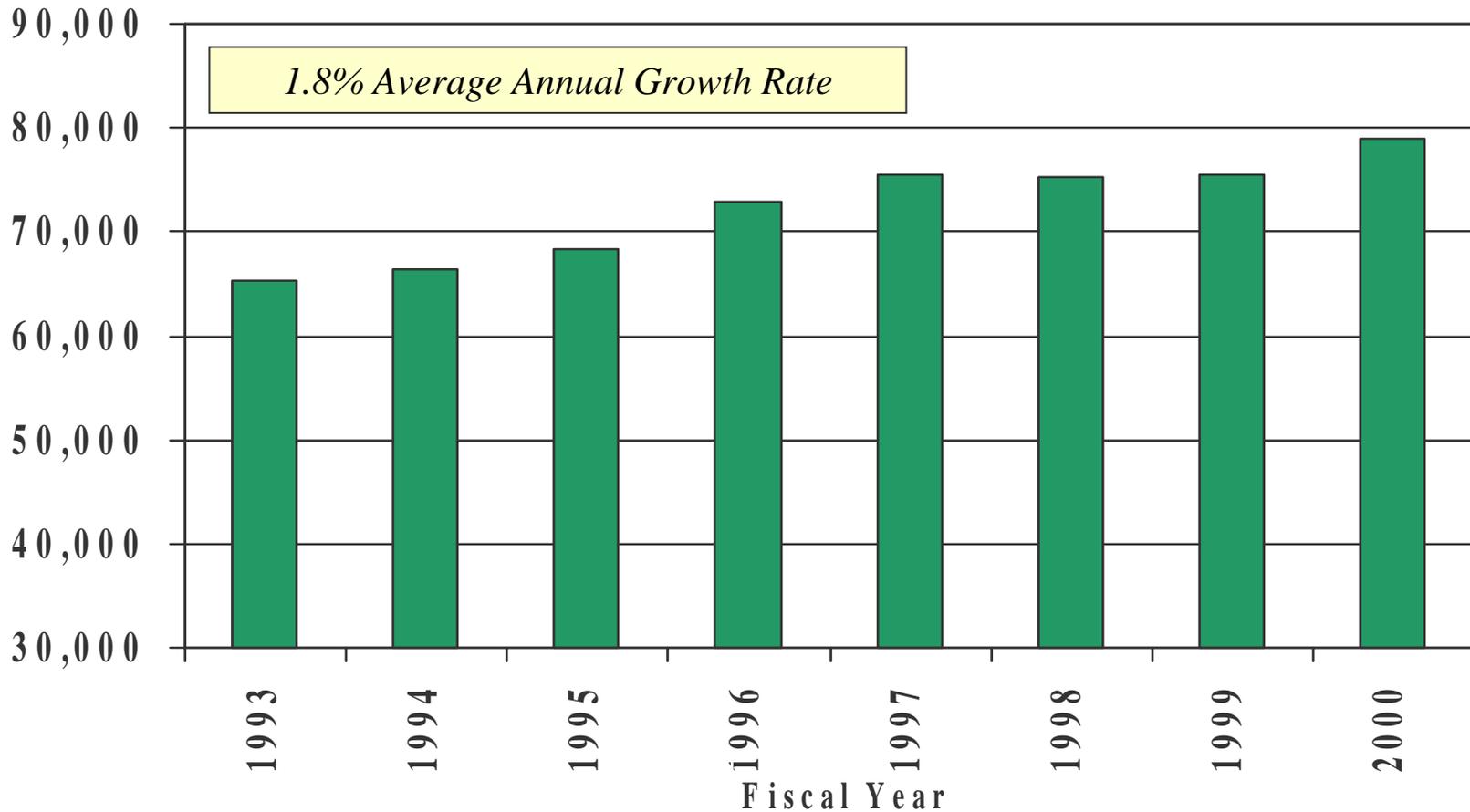
Company/Institution	Product/Service	# of Employees
New Hanover Health Network	Health Care	4,500
New Hanover County Board of Education	Public Education	3,300
General Electric Company	Jet Engine Components/Nuclear Fuel Production	1,900
The University of North Carolina at Wilmington	Higher Education	1,550
New Hanover County	County Government	1,400
City of Wilmington	Municipal Government	1,100
Corning, Inc.	Optical Wave Guides	700
Wal-Mart & Sam's Club	Retail Sales	650
Pharmaceutical Product Development	Pharmaceuticals	650
Applied Analytical Industries	Pharmaceutical Testing and Development	480
L&L Building Products	Home Building Products	450
Cape Fear Community College	Higher Education	340
International Paper	Paper Products	275
Kosa	Chemicals	300

Source: New Hanover County Planning Department



Economic & Demographic Profile

Consistent Growth in Total Employment

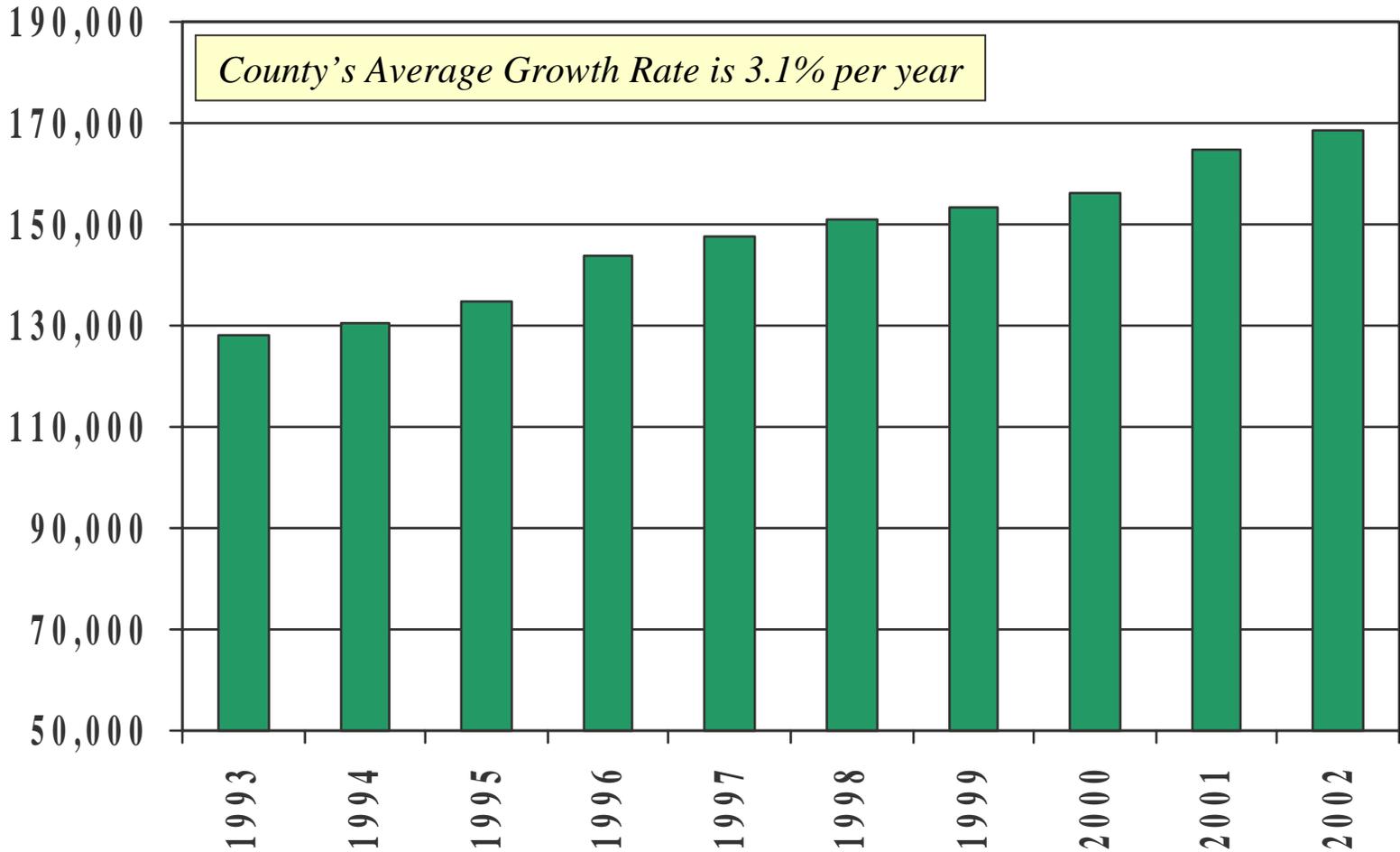


Source: NC Employment Security Commission



Economic & Demographic Profile

Consistent Growth in County Population



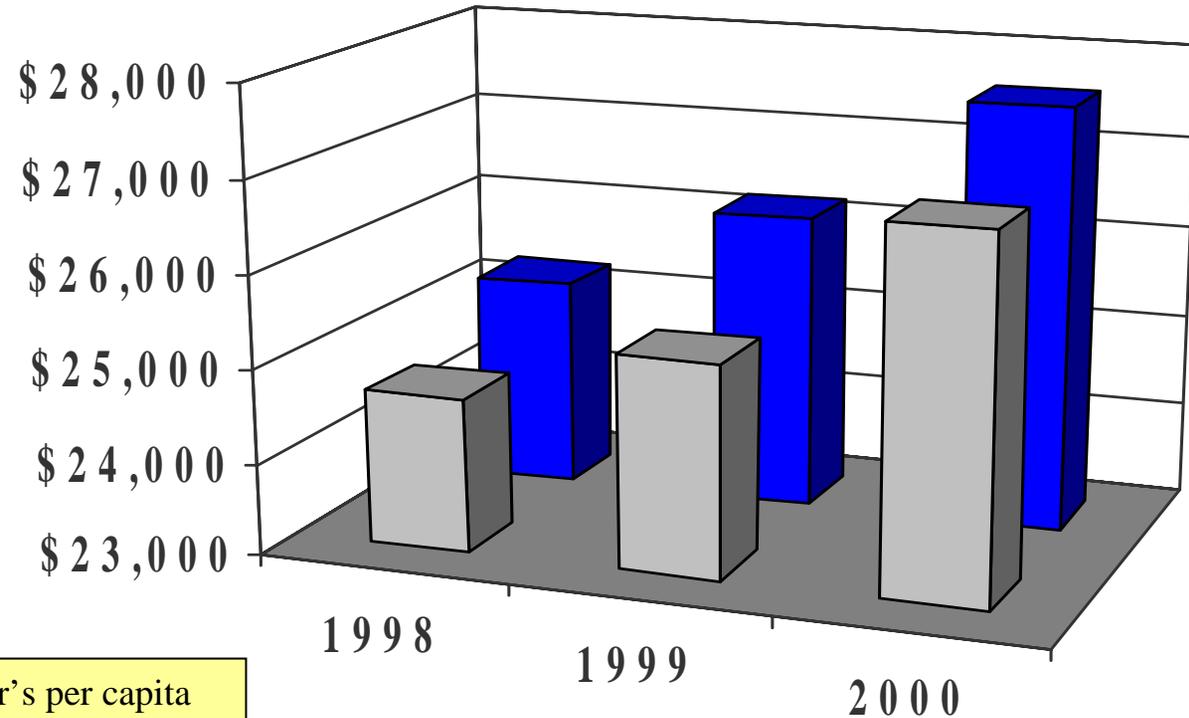
Source: NC Office of Budget and Management - CAFR





Economic & Demographic Profile

High Per Capita Income



For Fiscal 2002, New Hanover's per capita income is 105% of the NC averages

NC

New Hanover



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Financial Management

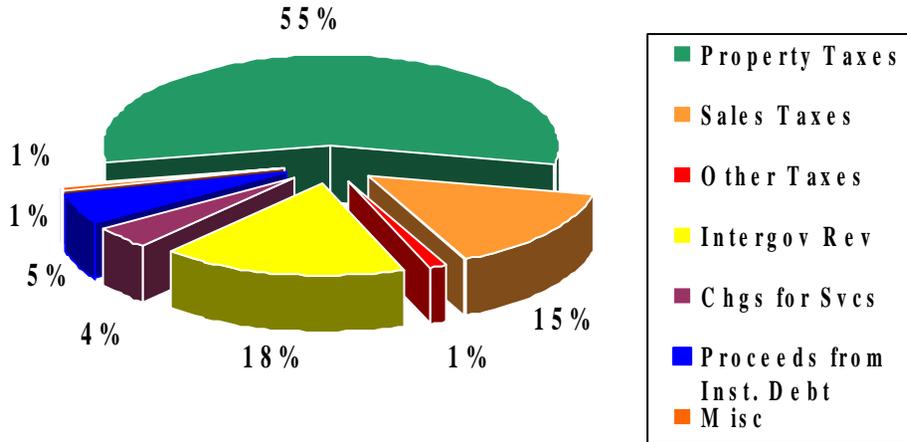
- Strong financial management resulting in positive operations and strong reserves
- Good mixture of General Fund Revenues with strong growth
- Positive assessed valuation growth with diversified tax base and no taxpayer concentration
- Moderate debt service as a percentage of General Fund Expenditures
- Moderate direct debt as a % of Assessed Value and per capita
- Rapid debt amortization



Financial Management

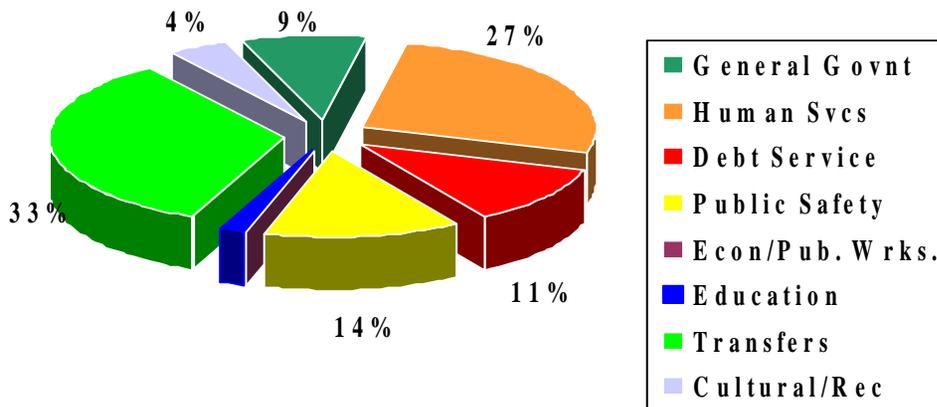
General Fund Revenues and Expenditures

General Fund Revenues FY 2002 (\$000's)



Property Taxes	\$113,272	55.11%
Sales Taxes	30,017	14.60%
Other Taxes	2,241	1.09%
Intergov Rev	35,839	17.44%
Chgs for Svcs	8,104	3.94%
Proceeds from Installment Debt	10,650	5.18%
Misc	1,350	0.66%
Transfers	4,074	1.98%
	\$205,547	100.00%

General Fund Expenditures FY 2002 (\$000's)



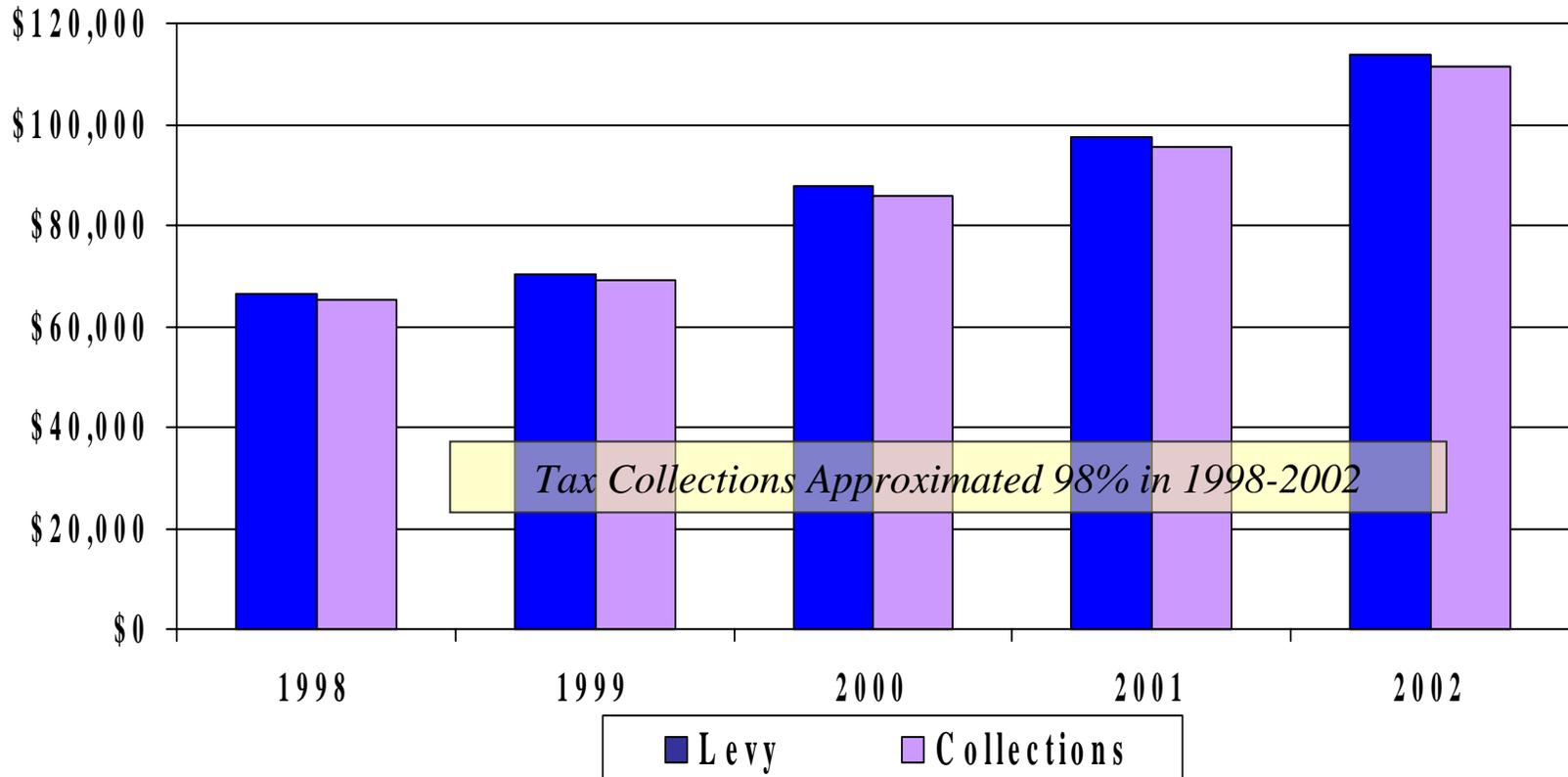
General Govnt	\$17,066	8.71%
Human Svcs	52,194	26.63%
Debt Service	22,046	11.25%
Public Safety	26,609	13.57%
Econ/Pub. Wrks.	417	0.21%
Education	3,172	1.62%
Transfers	66,361	33.85%
Cultural/Rec	8,168	4.17%
	\$196,033	100.00%

Source: New Hanover County CAFR



Financial Management

Tax Levy Vs. Tax Collections

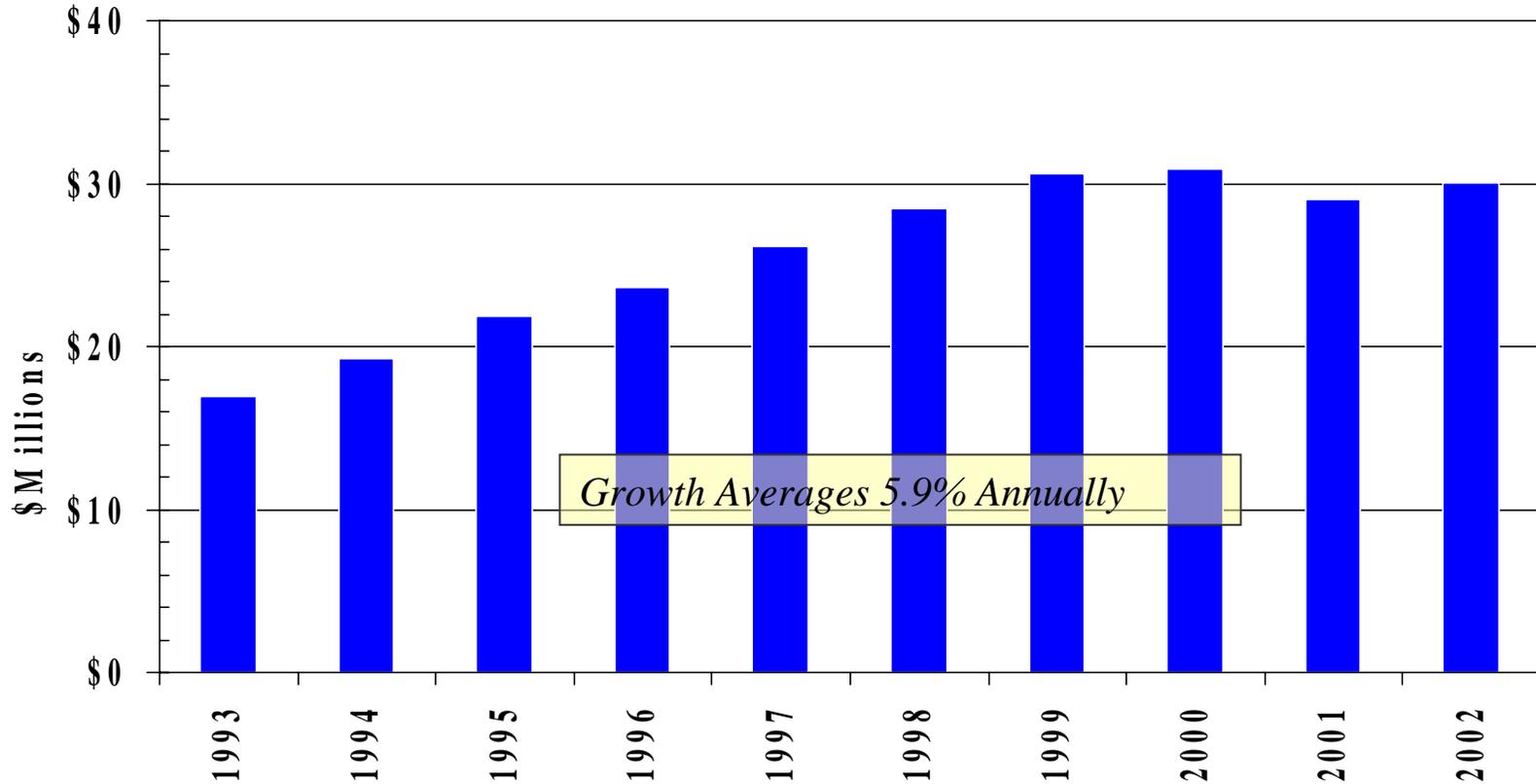


Source: CAFR; includes special districts



Financial Management

Growth in Sales Tax Revenue

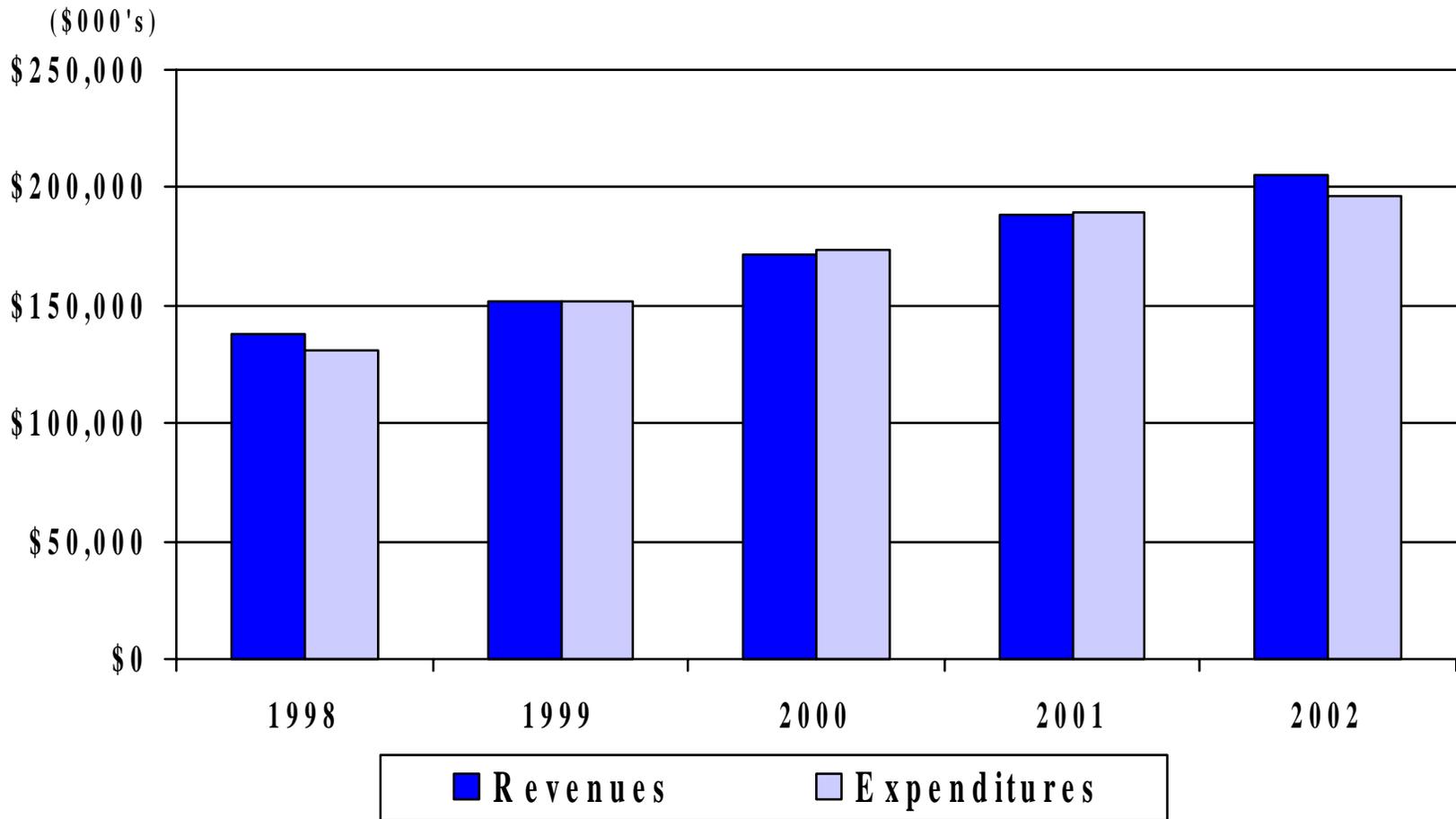


Source: CAFR



Financial Management

General Fund Revenues vs. General Fund Expenditures



Source: CAFR; incs. Other Financing Sources (Uses)



Financial Management

Diverse Taxpayers

Corning, Inc.	Fiber Optics	\$317,170,973	1.90%
Carolina Power & Light Company	Utility	220,759,130	1.30
BellSouth Telecommunications	Utility	106,490,176	0.60
General Electric Company	Manufacturer	104,964,248	0.60
Global Nuclear Fuel Americas	Manufacturer	79,588,622	0.50
United Dominion Realty of North Carolina, LLC	Real Estate	59,328,527	0.40
Independence Mall	Real Estate	47,669,019	0.30
Arteva Specialties	Chemical Manufacturer	46,709,977	0.30
Takeda Chemical Products	Chemical Manufacturer	35,660,482	0.20
Landfall Associates	Real Estate	31,239,622	0.20
		\$1,049,580,776	6.30%

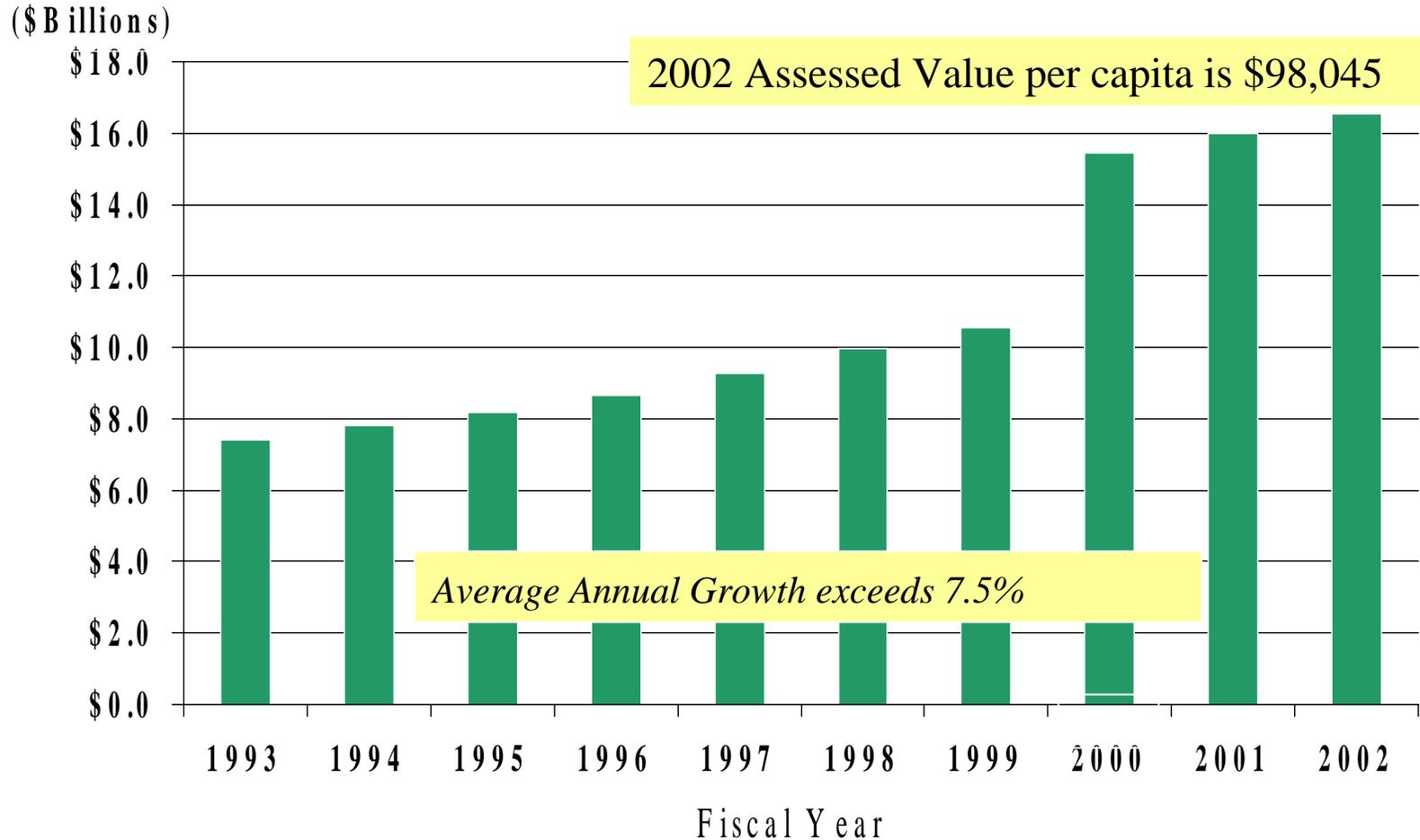
Source: New Hanover County CAFR





Financial Management

Strong Growth in Assessed Valuation



Source: New Hanover County CAFR

Revaluation last occurred in 1999 and is currently planned for calendar year 2007.



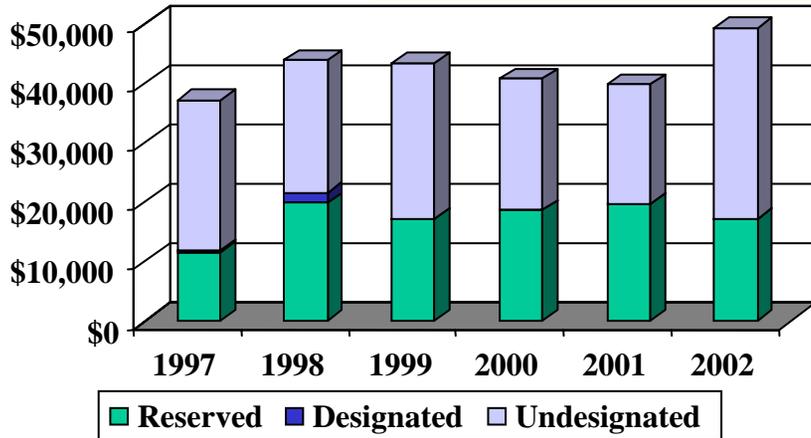


Financial Management

Strong General Fund Balances (000's)

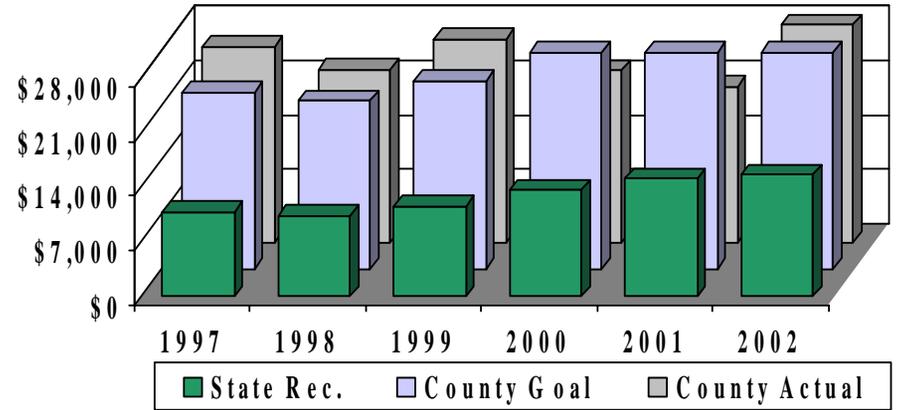
General Fund Balance

Strong Fund Balance at 29.2%



Comparison of Undesignated General Fund Balance

Undesignated Fund Balance at 16.4%



Fiscal Year	Reserved	Designated	Undesignated
1997	\$11,724	\$156	\$25,184
1998	\$19,887	\$1,734	\$22,185
1999	\$17,135	\$0	\$26,244
2000	\$18,611	\$0	\$22,116
2001	\$19,665	\$0	\$20,141
2002	\$17,183	\$0	\$32,133

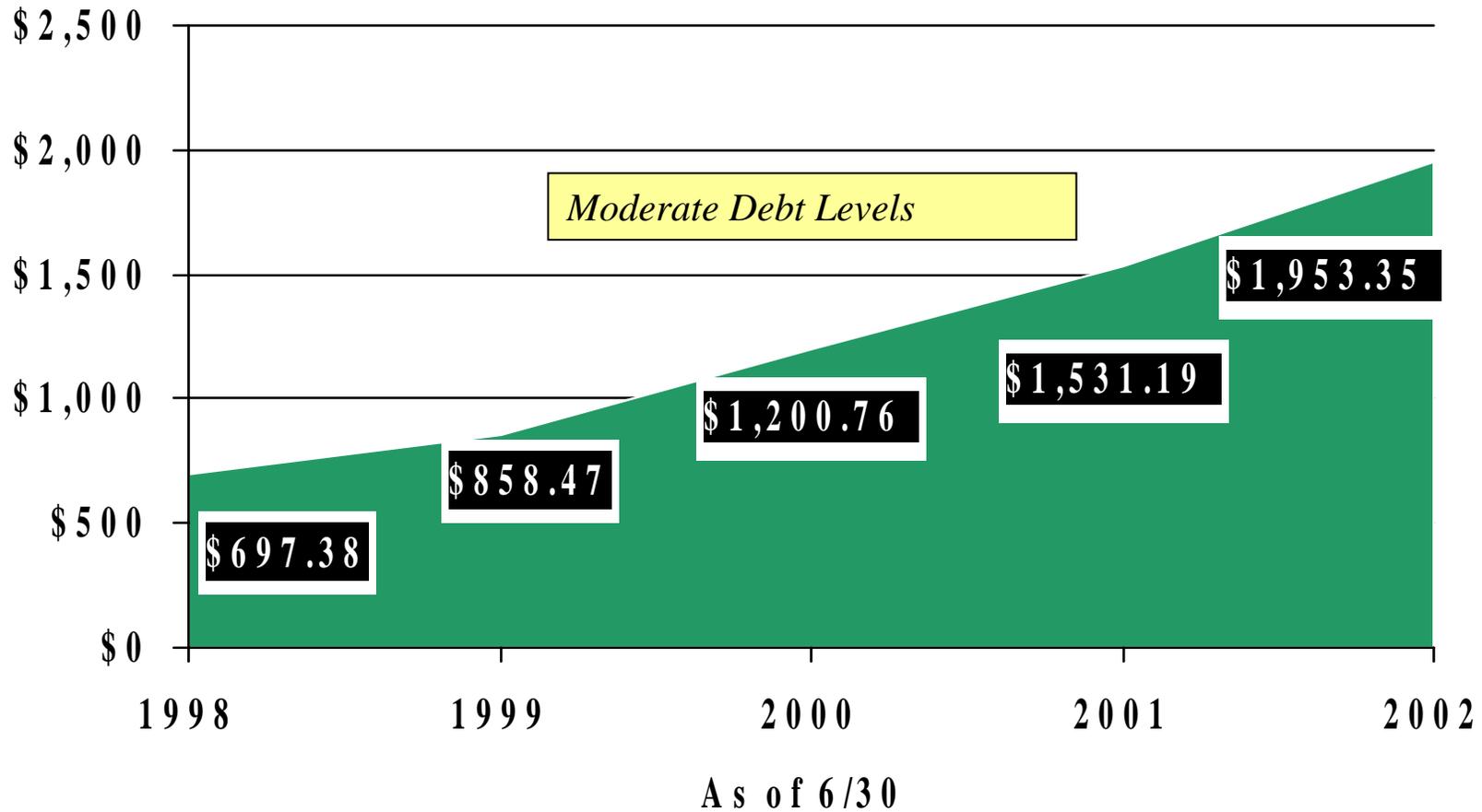
Fiscal Year	County Actual	County Goal	State Recommended
1997	\$25,184	\$22,847	\$10,964
1998	\$22,185	\$21,849	\$10,486
1999	\$26,244	\$25,355	\$12,168
2000	\$22,116	\$29,011	\$13,922
2001	\$20,141	\$31,542	\$15,137
2002	\$32,133	\$32,679	\$15,683

Note: Calculated as a % of expenditures (including transfers out)-
State Requirement 8% and County Goal at 16.67%



Financial Management

*Direct Tax Supported Debt per Capita**



Includes GO and Certificates of Participation

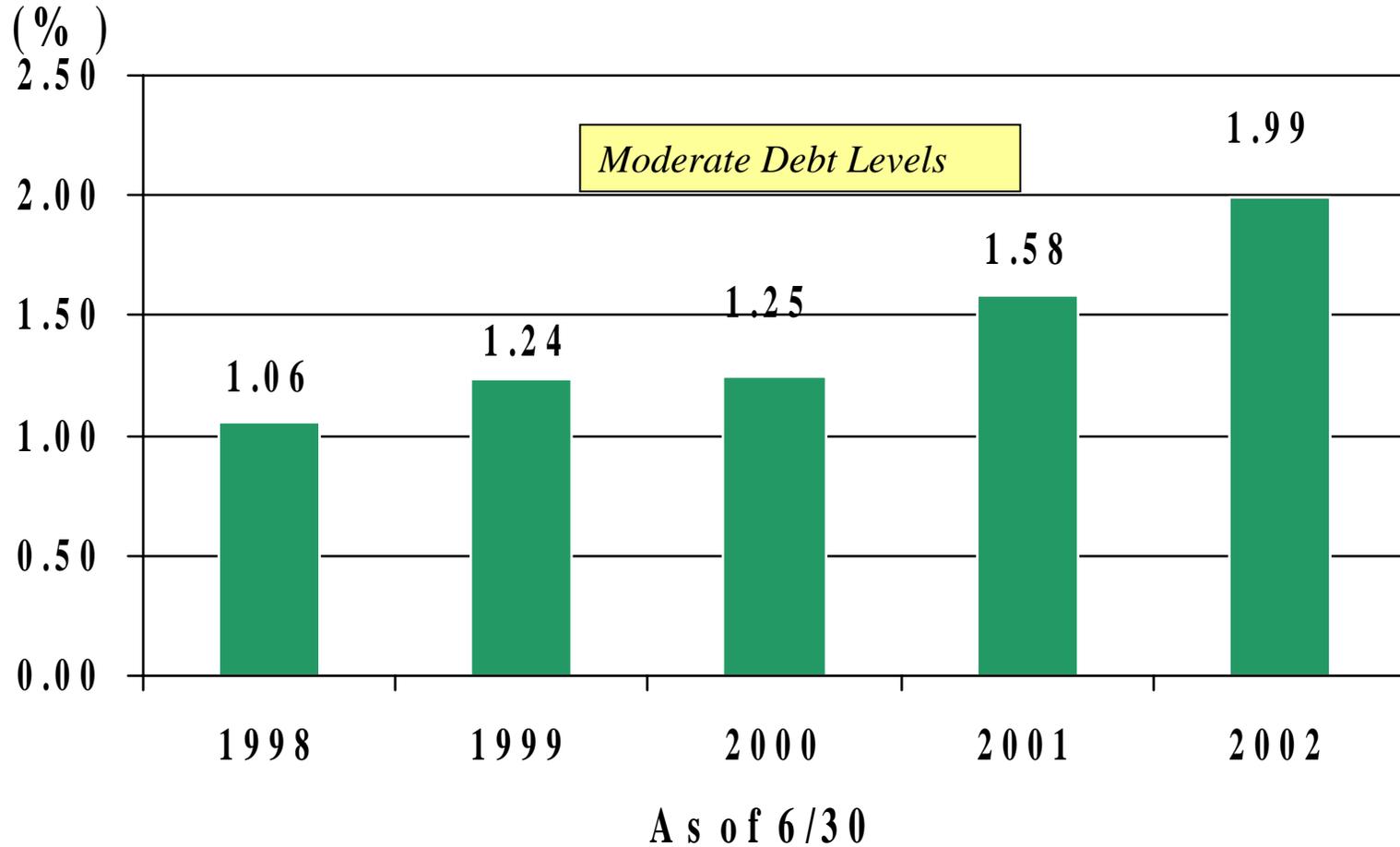
Source: New Hanover County CAFR





Financial Management

Direct Tax Supported Debt per Assessed value



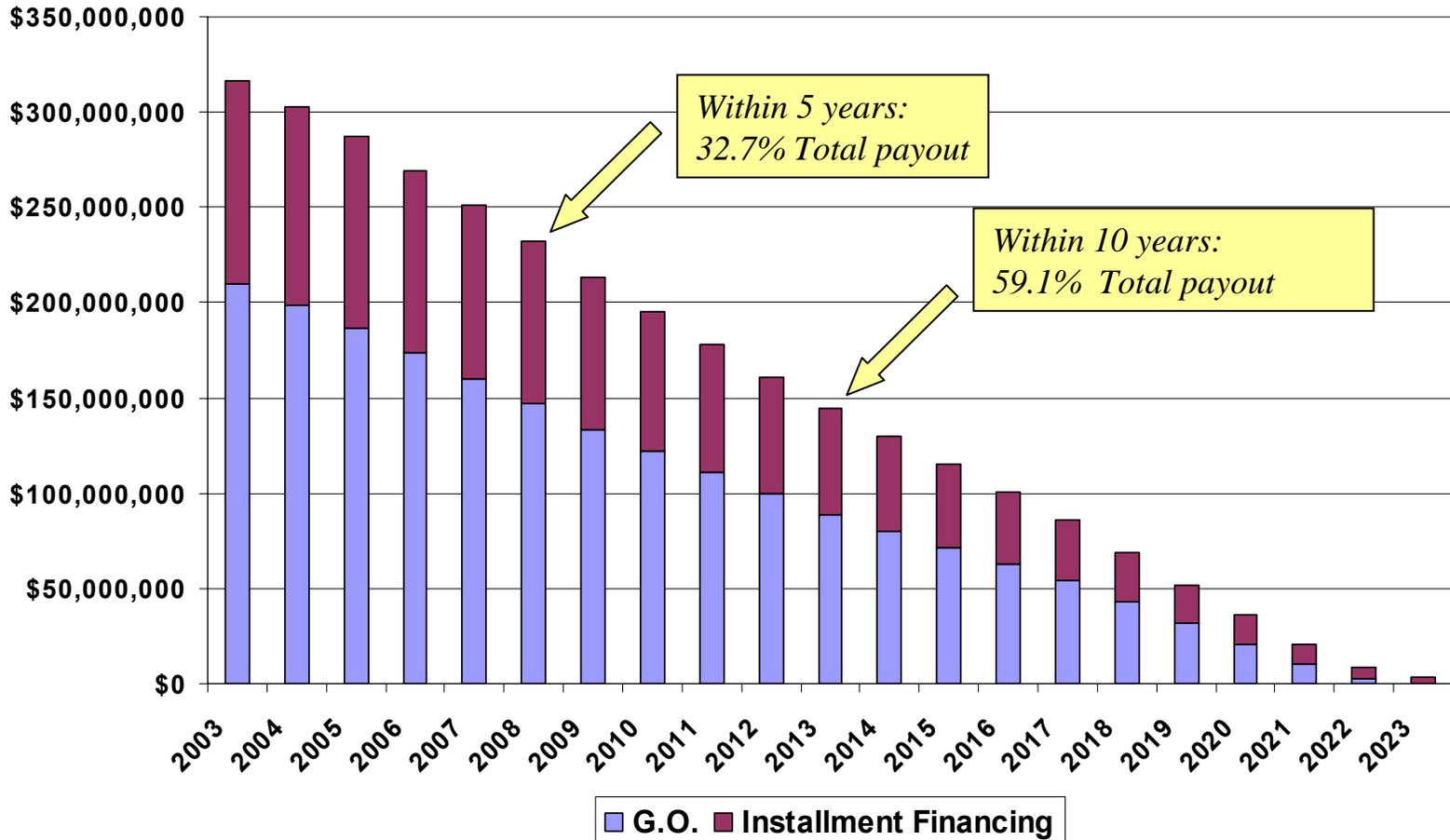
Source: New Hanover County CAFR





Financial Management

Payout of Aggregate Outstanding Principal as of 6/30/02

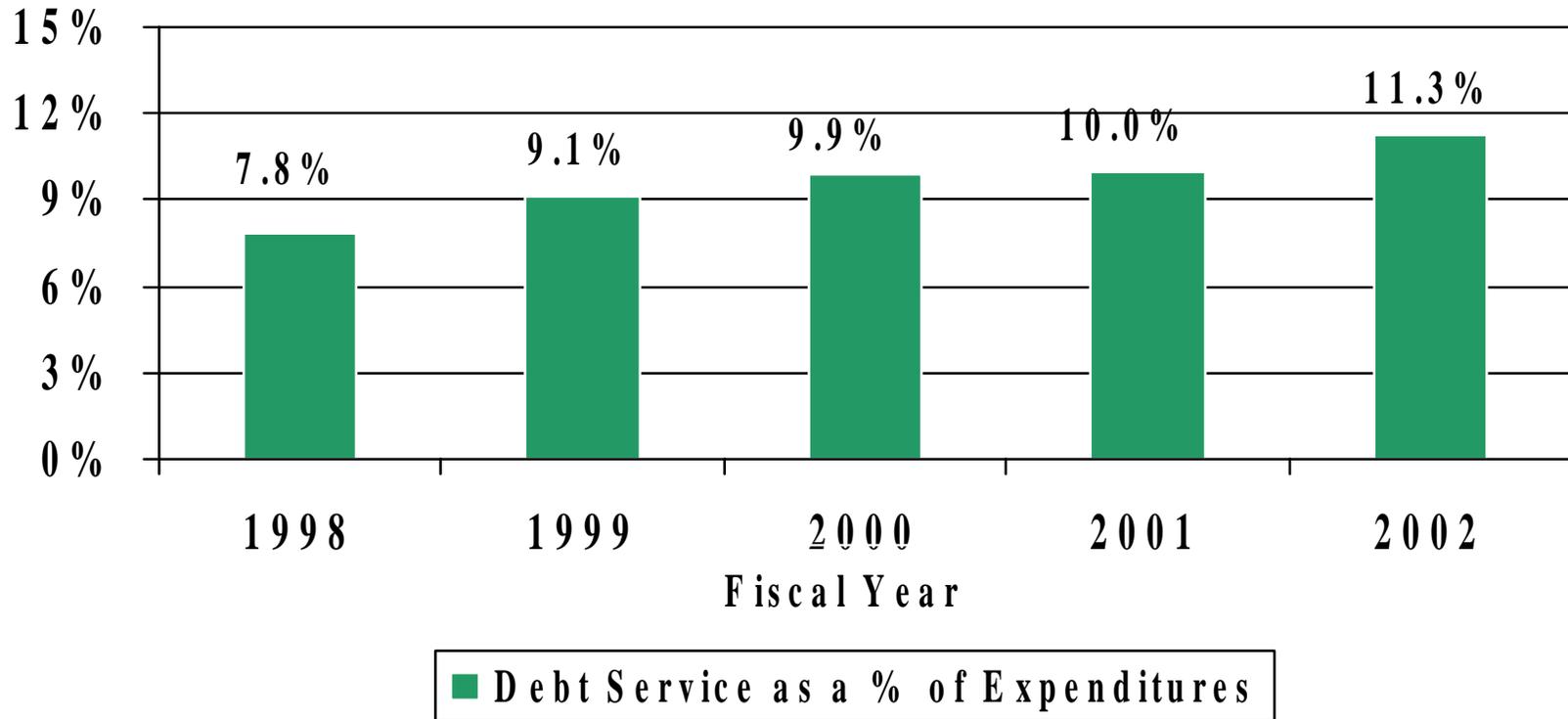


Source: Bloomberg



Financial Management

Debt Service Expenditures as % of General Fund Expenditures



Source: New Hanover County CAFR





Financial Management

Proposed Issue

Purpose:	Provide funds for the construction of Water & Sewer collectors, the Federal Point Fire Station and Administrative Annex improvements and installment discharge, and Airport Improvements. See next page for greater details.
Size:	\$40,365,000
Security:	Deed of trust constituting a first lien on the Mortgaged Properties and security interest in the collector systems
First Interest Payment:	September 1, 2003
First Principal Payment	March 1, 2004
Structure:	Decreasing stepped equal principal payments with 2028 final maturity
Average Life:	Approximately 11.73 years



Financial Management

The Water and Sewer Projects:

Kings Grant. Approximately \$10,500,000 of the proceeds of the 2003 Certificates will be used to construct a gravity collector system that will provide sewer services to approximately 1,700 single-family homes in the central part of the County and will eliminate the use of septic tanks in this area of the County. Construction of the project began in January 2003 and will be completed in July 2005.

Middle Sound. Approximately \$15,594,000 of the proceeds of the 2003 Certificates will be used to construct gravity collection mains and pump station force mains, as well as a collector system, that will provide sewer services to approximately 1,300 homes in the north eastern part of the County. Construction of the project will begin in February, 2003 and will be completed by May 2005.

Brookfield Brierwood. Approximately \$1,872,000 of the proceeds of the 2003 Certificates will be used to construct improvements to the portion of the water and sewer system, serving approximately 300 homes located in the central part of the County. Construction of the project will begin in March, 2003 and will be completed by June 2005.



Financial Management

Discharge of Installment Financing Contracts:

Federal Point Fire Station. The County completed the construction of a fire station at 9815 River Road in the southern part of the County, north of Snow's Cut. The station serves the fire need of citizens in that part of the County. Approximately \$1,316,901 of the proceeds of the 2003 Certificates will be used to reimburse the County expenditures related to the Federal Point Fire Station.

Administrative Annex. The County purchased a 50,000 square foot building located at 230 Market Place Drive in a mall known as "Wilmington Marketplace" in the central part of the County to provide administrative services to the citizens. The complex houses the Inspections, Engineering, Planning, Parks, Water and Sewer Finance, and Fire Services. At this location, the County provides the public with a one-stop shopping opportunity for construction related issues. Approximately \$3,850,000 of the proceeds of the 2003 Certificates will be used to reimburse the County expenditures related to the Administrative Annex.



Financial Management

Addition to Administrative Annex

The County will use approximately \$2,777,000 of the proceeds of the 2003 Certificates to reimburse itself for a purchase a building addition to the Administrative Annex of approximately 46,700 square feet in the Wilmington Marketplace. The County will use this space to expand its service area to include the Tax Department, Elections, and Environmental Health.

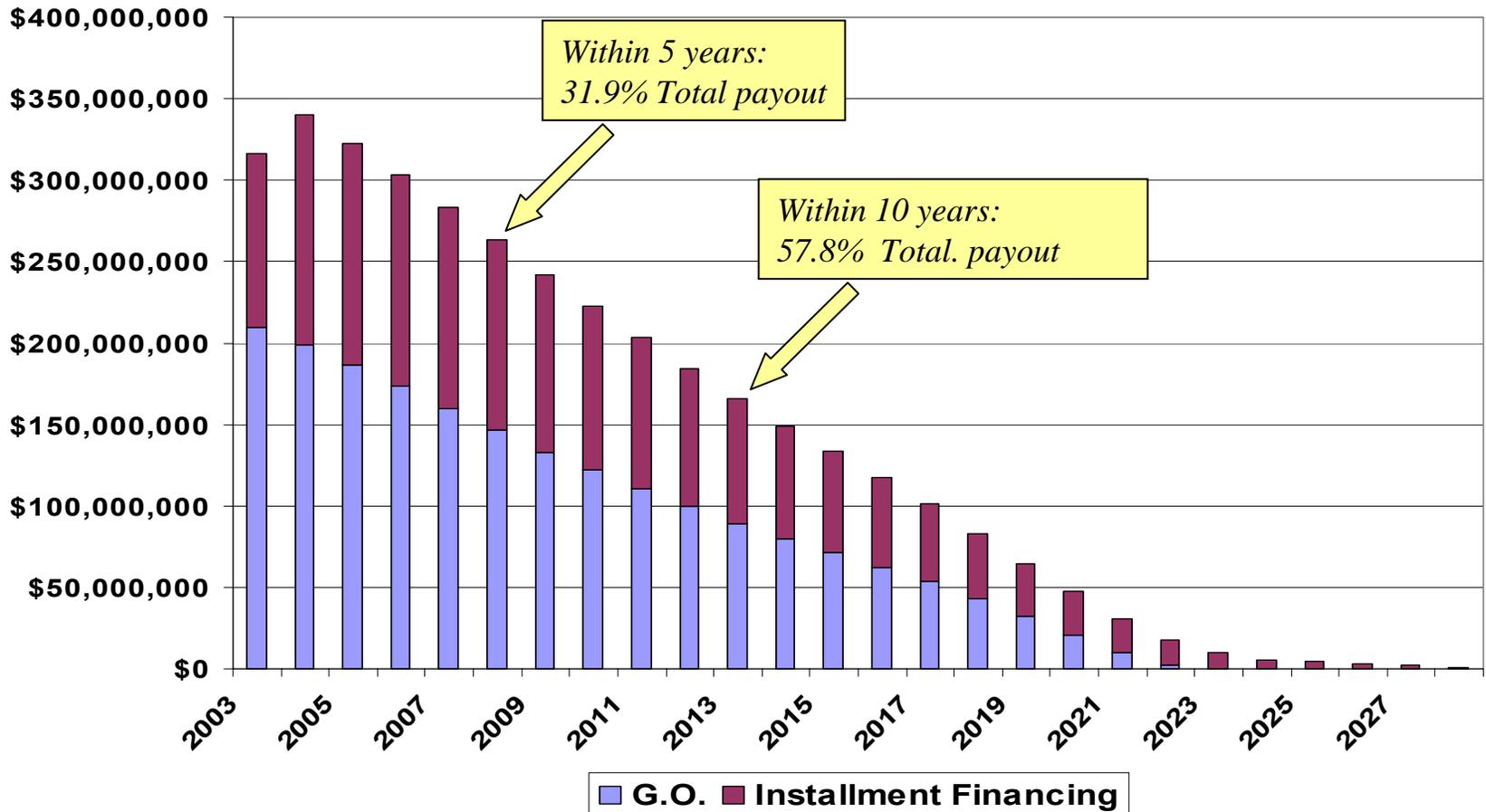
Airport Improvements:

Main Terminal Renovation. Approximately \$3,800,000 of the proceeds of the 2003 Certificates will be used, together with \$2,100,000 in other available funds, to design and construct the third phase of the renovation of the passenger terminal building at the Wilmington International Airport. The project area for this phase is between the rotunda to the concourse and the three curbside entrances on the public level (approximately 34,500 square feet of space). During the renovation, the interior finishes will be replaced to match the renovations completed in the main hold room and concourse in the second phase. Other systems in the project area will be scrutinized during the design development stage for capacity and functionality.



Financial Management

Principal Outstanding after issuance of proposed COPs (Fiscal Year)



Source: Bloomberg/BB&T Capital Markets





Summary of Key Credit Factors

- **Diverse, stable economy with strong growth prospects**
- **Excellent financial management and performance with strong balances**
- **Strong financial management in preparation for future borrowing plans**
- **Moderate debt levels and rapid amortization**



Financial Management

Financing Schedule

Debt Rating: Requested by February 21, 2003

POS Mailing: March 4, 2003

Pricing: March 12, 2003

Closing: March 27, 2003



What did the Rating Agencies Report Say?

Selected Medians	Moody's	S & P's	NHC
Gen. Fund Bal % of Rev.	29.4		28.9
Gen. Fund Bal % of Exp.		25.3	29.0
Undes. Fund Bal % of Rev.	20.9	20.3	21.0
Assessed Value (\$000,000)	\$9,685		\$17,320
Assessed Value Per Capita	\$59,872	\$60,874	\$101,029
Debt Burden	2.05	2.1	2.52
Per Capita Income	\$21,224		\$28,969
Top 10 Taxp.% of Assessed Value		6.5	5.8



What did the Rating Agencies Report Say?

- The Rating Reflects:
 - Growing tax base and economic diversity.
 - Retail center and health care center for SE NC.
 - Has the state's largest deep water port which provides good access to commercial transportation.
 - UNCW – one of fastest growing universities in state.
 - Unemployment was below State average.
 - Wealth indices remain above state averages.



What did the Rating Agencies Report Say?

- Satisfactory financial performance despite state budget cuts.
 - Practices conservative budgeting practices and maintains ample reserves.
 - Quick response to budget cuts from the state to limit impact on the County budget.
 - Implementing newly authorized 1/2 cent sales tax to offset future state cuts.
 - Debt burden is manageable.



Rating Issued

- **Moody's Investor Services** **Aa2**
- **Standard & Poor's** **AA-**
- **Units in NC with Aaa/AAA:**
 - Charlotte/Mecklenburg County
 - Raleigh/Wake County
 - Greensboro/Guilford County
 - Durham/Durham County
 - Winston Salem/Forsyth County



Credit Presentation

Questions?