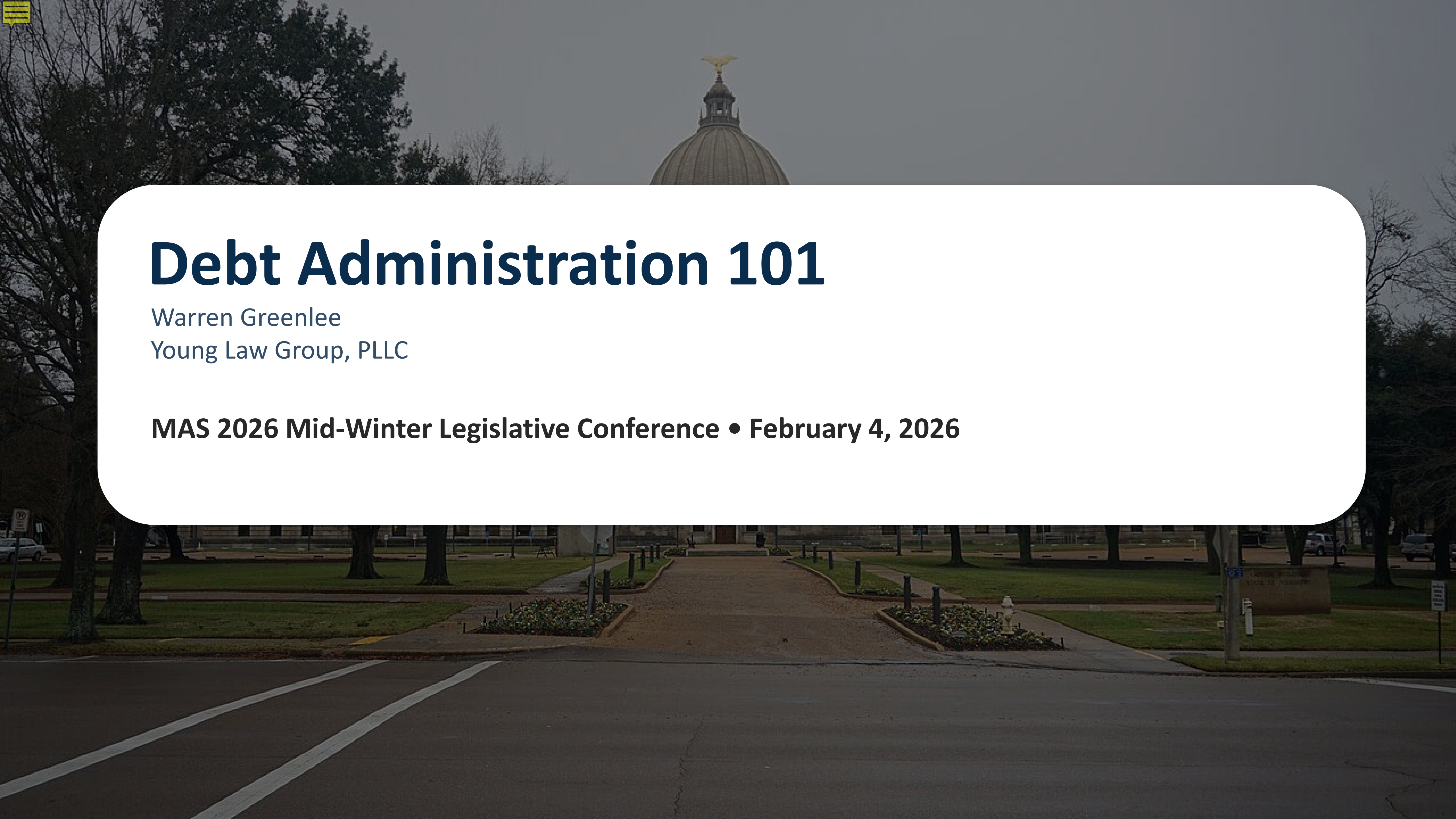

Debt Administration 101

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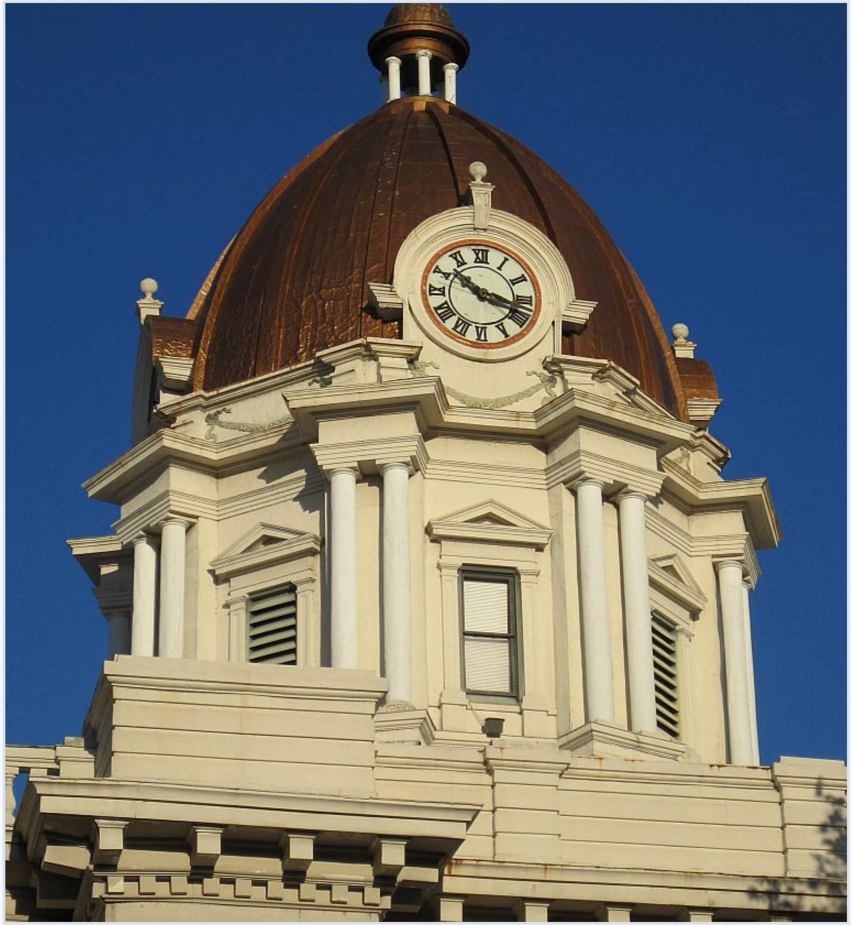
Agenda

- Debt basics (what counts as a “bond” and why it matters)
- Bond purposes + affordability (match repayment source to project life)
- Issuance process overview: authorize → assemble team → structure → underwrite/market → close
- Administration/servicing: debt service, records, proceeds tracking
- Post-issuance compliance: SEC/MSRB rules + IRS rules
- Supervisor checklist

Debt Administration



From the decision to borrow through final payoff:

- Approving a clear purpose, financing mechanism, repayment plan, and financing team (before closing)
- Understanding underwriting/marketing at a high level (how the bonds get sold)
- Paying debt service on time (budgeting + cash flow)
- Tracking how proceeds are spent (eligible uses)
- Meeting continuing disclosure and covenant requirements
- Maintaining records for auditors, investors, and the IRS

Supervisor mindset: you may not have to do the actual paperwork — but you must insist that a system exists and is followed.

Debt is a tool — not a goal.

Use it when it matches the life of an asset and the repayment source is realistic.

Common purposes for county bond financing (examples): roads/bridges, public buildings (courthouse/jail), equipment and vehicles, drainage/flood control, and other long-lived capital improvements.

Operating budget

- One-year window
- Recurring services

Capital plan

- Multi-year needs
- Facilities, roads, equipment
- Project prioritization

Debt program

- Spreads cost over time
- Requires discipline + compliance
- Creates long-term obligation

Mississippi framework

“Bonds” – generally refers to every form of borrowing/financing (i.e., bonds, notes, COPs, lease-purchase)

Even if your county uses bank loans or lease-purchase, the “bond mindset” helps: clear purpose, public process, dedicated repayment plan, and documented compliance.

Typical building blocks

- Board resolution stating purpose + amount
- Public notice and (often) an election process
- Limits on using proceeds outside the stated purpose
- A dedicated “bond & interest” (debt service) funding mechanism
- Rules for short-term borrowing in anticipation of taxes or grants

Resources for state law

- Mississippi Code of 1972 (state law)
- *County Government in Mississippi* (overview of borrowing options)
- Bond counsel + municipal advisor (your primary guides)

Practical reminder:
Always confirm the specific statutory authority for your transaction with counsel.

Common county debt types

1 General Obligation (GO) bonds

Backed by the county's taxing power (subject to law). Often used for large public facilities.

Lowest interest rate

2 Revenue / Special obligation

Repaid from a specific revenue source (fees, special taxes, dedicated revenues).

Match payer to benefit

3 Notes / short-term borrowing

Short-term capital needs (5yrs or less). Cash-flow tools (e.g., tax anticipation note, shortfall, note).

4 Capital Lease-Purchase (COPs)

Certain public buildings and related facilities.

Annual budget discipline

5 Bank loans

Direct borrowing from a bank; terms can be flexible but may include covenants and bank reporting.

6 Mississippi Development Bank

Debt issued through MDB. Provides more flexibility. Can help with credit for smaller counties.

Who does what?

Key roles you'll typically see

- Bond counsel (legal authority + tax matters)
- Municipal advisor (structuring + pricing advice)
- Underwriter / placement agent (markets and sells the bonds)
- Underwriter's counsel
- Paying agent / trustee (payment processing)
- Rating agency; bond insurance

Small deals, big consequences

- Not every financing involves a full “bond issue” team
- Vendor-provided documents may be written to protect the vendor/lender
- Procurement and tax rules still apply—even to “just equipment”
- Problems often surface later: audit findings, repayment disputes, or tax questions

Practical control: if the county is borrowing (in any form), run it through a consistent checklist—
legal authority, procurement, tax status, repayment terms, and documentation.

Pitfall #1: Lease-purchase procurement (state bid compliance)

Mississippi law requires competition for lease-purchase FINANCING—not just the equipment price.

- For lease-purchase financing (Miss. Code §31-7-13(e)), obtain at least two (2) written competitive bids for the financing terms
- Don't assume the vendor's "finance quote" satisfies procurement requirements
- Document the financing bids in the board minutes / procurement file
- If the vendor provides legal documents, have them reviewed (county attorney + bond counsel if needed)

Tip: Treat lease-purchase like two procurements: (1) the asset, and (2) the financing.

Pitfall #2: Bank-qualified (BQ) designation — don’t “bust the limit”

- BQ can lower interest rates when a bank purchases/holds your tax-exempt debt
- General rule (IRC §265(b)(3)): issuer must reasonably anticipate issuing no more than $10,000,000 of tax-exempt obligations in the calendar year
- BQ is a designation—usually made by the issuer in the authorizing documents
- Easy mistake: a small tax-exempt lease-purchase (with vendor documents) counts toward the annual limit
- Best practice: keep an “annual tax-exempt issuance tracker” (all departments + subordinate entities)

If you are not sure whether something is tax-exempt or BQ: stop and ask bond counsel/MA.

The debt lifecycle

Think in phases:

Plan
Capital plan
+ affordability

Authorize
Board action
+ public process

Issue/Close
Structure + docs
Underwrite/market
+ price
Close + proceeds
received

Spend
Eligible costs
+ tracking

Monitor
Covenants
+ disclosure
+ IRS

Pay
Debt service
+ reconciliations

Refinance/Retire
Refunding
+ final records

Administration focus: spend tracking + compliance + timely debt service = credit strength + fewer audit headaches.

Project + Financing timeline

Timing varies—coordinate with A/E, counsel, and procurement requirements

State law imposes personal liability on supervisors for entering into any contact that exceeds the budget.

Takeaway: Time the bond sale and closing so that proceeds are available before signing the construction contract unless you otherwise have funds to cover the project.

Minimum contents (keep in one place — digital + backed up):

- Debt schedule (all issues, maturities, rates, call dates, paying agent info)
- Bond/loan documents + board resolutions + authorizing materials
- Closing transcript (what counsel delivers at closing)
- Continuing Disclosure Agreement (CDA) and EMMA filing credentials/process
- IRS tax documents (tax certificate, Form 8038, compliance procedures)
- Project spend tracking: invoices, requisitions, draw requests, change orders
- Investment statements for bond funds + arbitrage/rebate calculations (if applicable)
- Annual filings: CAFR/audit, debt service fund reconciliations, covenant tests

Quick compliance check: ask staff to show where the “debt file” lives and who owns each recurring task.

Build a compliance calendar

Make “the right thing” the default

A simple calendar reduces missed deadlines (and market penalties).

Monthly

- Reconcile debt service fund
- Update debt schedule
- Track project spend vs budget

Semiannual

- Confirm payment dates & amounts
- Verify paying agent/lender notices

Annual

- Audited Financial Statements completed
- Annual EMMA filing (if required by CDA)
- Policy review + affordability check

Event-driven

- Rating change
- Bond call/defeasance
- Material covenant changes
- Payment delinquency (avoid!)

Continuing Disclosure (EMMA)

What the market expects after issuance

Rule-of-thumb:

If your bonds are publicly offered, you likely signed a Continuing Disclosure Agreement (CDA). The CDA typically requires annual financial info + notices of certain events to be filed on EMMA.

Two buckets of disclosures

- Annual/periodic: audits, budget, economic/operating data (per your CDA)
- Event notices: occurrence of certain listed events
  - Rating changes
  - Payment delinquencies
  - Bond calls (redemptions)
  - Incurrence of material financial obligation (private placement)
    - Bank loan, equipment lease-purchase, etc.
  - Default, acceleration, modification, etc. of financial obligation

Supervisor-level governance

- Know who is assigned to file (name + backup)
- Know the due date in the CDA for annual filings
- Ensure written procedures exist and are followed
- Ask for proof: EMMA confirmation receipts

Missed filings are visible to investors and can increase borrowing costs on future issuances.

IRS post-issuance compliance (tax-exempt debt)

Why it matters long after closing

If interest is tax-exempt, the IRS expects ongoing compliance.

Bond counsel gives a tax opinion at issuance — but it expressly relies on the county following IRS rules for the life of the bonds (and beyond for records).

Use of proceeds

- Spend on eligible project costs
- Track reimbursements and draws
- Avoid “diversion” of proceeds

Use of facilities (private use)

- Leases/management contracts can trigger limits
- Track contracts affecting bond-financed assets

Investment & arbitrage

- Investing proceeds may create rebate liability
- Hire arbitrage rebate analyst/consultant early to avoid unexpected rebate bill

Record retention

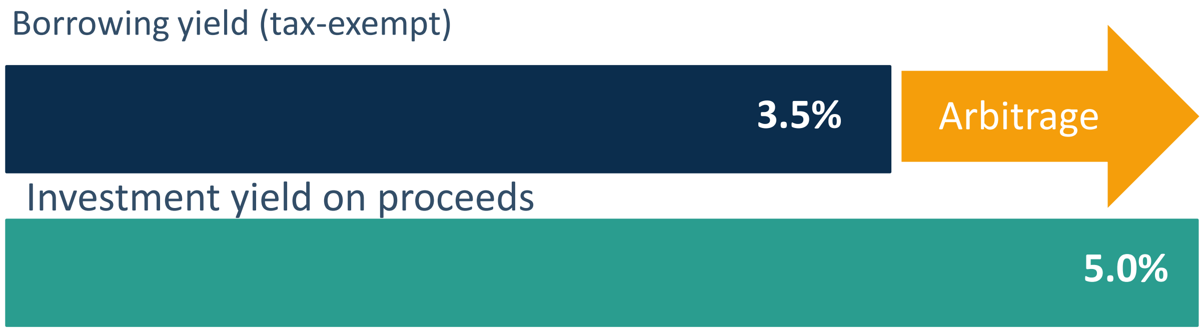
- Life of bonds (including refunding bonds) + at least 3 years
- Store closing docs, spend records, allocations, bank statements, investment earnings, etc.

Arbitrage in plain language

Why investing bond funds can create a rebate bill

Basic idea:

If you borrow at a tax-exempt rate and invest proceeds at a higher yield, federal rules may require you to pay “excess earnings” to the IRS.



Practical guidance:

- Ask at closing: Is arbitrage rebate a concern, and if so, who monitors it?
- Retain a Rebate Analyst, if needed, and **set aside a sufficient amount to pay rebate if necessary**.

Good administration is boring — and that’s a compliment.

Track like a grant

- Separate fund/account for proceeds
- Do not commingle with other sources
- Approved project budget and scope
- Invoice + approval workflow
- Reimbursement log (date, amount, purpose)
- Spend all of the proceeds, plus investment earnings
- Spend/obligate within required time periods
- Final allocation of costs to the project

Watch-outs

- Spending on items outside the stated purpose
- Unspent proceeds
- Using bond funds for operating costs (unless allowed)
- Changing use of a facility without asking counsel (private use)
- Losing documentation when staff turnover happens

Internal controls

Simple habits that protect public money

Controls are especially important because debt payments are predictable — and predictable payments can be targeted for fraud.

Segregate duties

Different people: prepare → approve → release payment.

Two-factor verification

Confirm paying agent/lender instructions using known telephone numbers (not email-only).

Dual approvals

Require two approvals for wires/ACH and changes to bank info.

Reconcile promptly

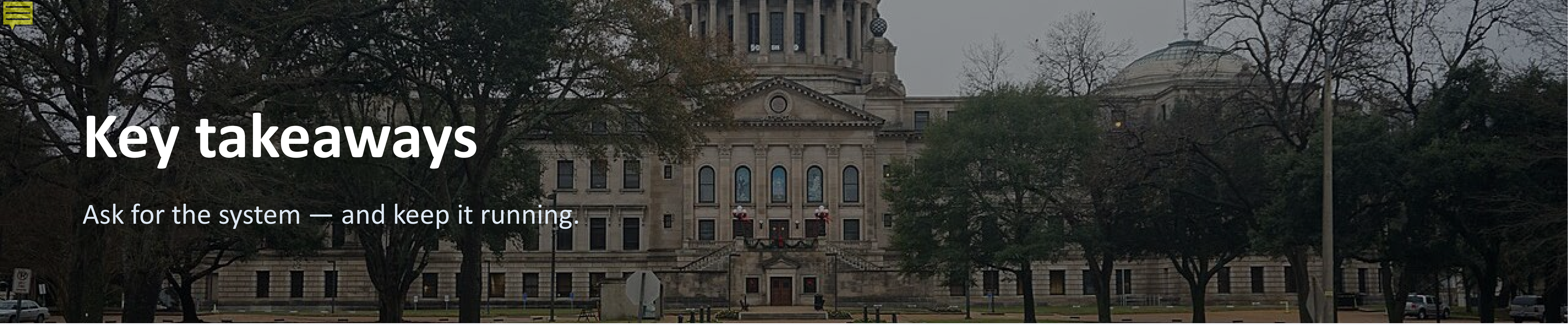
Match bank statements to the debt schedule after each payment.

Document changes

Keep a log of amendments, calls, refundings, and covenant updates.

Staff continuity plan

Turnover-proof: shared drive + written procedures + backup owner.



Key takeaways

Ask for the system — and keep it running.

- Maintain a debt file, a payment calendar, and a compliance calendar that will survive staff turnover over 20-30+ years.
- File annual and event disclosures on time (EMMA).
- Treat tax-exempt compliance as an ongoing responsibility.
- Use a debt policy + internal controls to prevent avoidable mistakes.
- Strive for timely Audits (not more than 12 months after fiscal year end)

Questions?