

Southern Municipal Advisors, Inc.

IS YOUR HOUSE IN ORDER?
THE IMPORTANCE OF FINANCIAL PLANNING AND A CREDIT RATING

PRESENTATION TO THE MUNICIPAL CLERKS AND TREASURERS INSTITUTE
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Considerations Before you Need to Issue Debt and Access the Markets

- ~ Stability and Historical Financial Performance -- audit or comprehensive annual financial report ("CAFR")
- ~ Approach to the Annual Budget Process -- one year or multi-year forecasting
- ~ Capital Improvement Program -- plan for one year or five- to ten-year capital improvement Program ("CIP")
- ~ Financial Policies, including Unassigned Fund Balance Policy -- informal, formal or not at all
- ~ Communication with Elected Officials -- limited versus open dialogue
- ~ Existing Debt Profile -- GO Debt, Revenue Bonds, Installment Purchase, Lease Purchase
- ~ Bond Rating -- "I have one" or "Why do I need one?"
- ~ Market Access -- limited reliance on one or two sources or multiple choices to access market
- ~ Members of Your Financial Team -- administration only or independent financial advisor and other necessary consultants

Stability and Historical Financial Performance -- Audit or Comprehensive Annual Financial Report ("CAFR")

- ~ Lenders, institutional and retail investors, and rating agencies require greater statistical information
- ~ Projecting overall financial performance during periods of economic stress
- ~ Infrequent, moderately frequent or frequent need to access capital markets

Approach to the Annual Budget Process -- One Year or Multi-Year Forecasting

- ~ Lenders, institutional and retail investors, and rating agencies preference for multi-year forecasting
- ~ Historical and current financial status is not sufficient for rating consideration and new debt issuance
- ~ Multi-year forecasting:
 - ~ Assists in determining future financial stability
 - ~ Provides ability to project future financial shortfalls or surpluses
 - ~ Allows one to test "what if scenarios" for various economic scenarios

Capital Improvement Program -- Plan for One Year or Five to Ten-Year Capital Improvement Program ("CIP")

- ~ Lenders, institutional and retail investors, and rating agencies require long-term capital planning
- ~ Capital improvement needs are directly related to operational planning, as operational costs must be considered prior to making final capital decisions
- ~ Provides elected officials with information that is imperative when considering current capital expenditures

Financial Policies, Including Unassigned Fund Balance Policy -- Informal, Formal or Not at All

- ~ Financial policies are now the standard
- ~ Historical fund balance levels reviewed to determine if Financial Policies, including Fund Balance Policy, have been adhered to
- ~ Multi-year forecasting provides good indicator as to future adherence to Financial Policies, including Fund Balance Policy
- ~ Financial Policies assist in managing cash flow requirements during lean cash-flow months

Communication with Elected Officials – Limited versus Open Dialogue

- ~ Pros and cons of limited versus open dialogue
- ~ Dialogue impacts overall credit strength
- ~ Critical component for rating agencies when determining overall strength of management



Existing Debt Profile – GO Debt, Revenue Bonds, Installment Purchase, Lease Purchase

- ~ Current debt portfolio optimal use of available debt instruments
- ~ Knowing when to choose pay-as-you-go versus short- or long-term debt



Bond Rating – “I Have One” or “Why Do I Need One?”

- ~ Bond rating provides the broadest access to the capital markets
- ~ Recognition and marketability
- ~ Affects to banks, SRF and the public markets
- ~ Directly impacts borrowing costs; the higher the credit rating, the higher the demand, the lower the overall borrowing costs



Market Access – Limited Reliance on One or Two Sources or Multiple Choices to Access Market

- ~ Funding sources: banks, SRF, public markets including institutional and retail investors
- ~ Reliance on a single source no longer practical
- ~ Need to mitigate increased risks by funding sources
- ~ Credit fears, uncertainty regarding quantitative easing, continued outflows from municipal bond funds



Members of Your Financial Team Include – Administration Only or Independent Financial Advisor and Other Necessary Consultants

- ~ Day-to-day access to global financial markets
- ~ Changing regulatory environment
- ~ Difficulty of navigating rating environment
- ~ Relationship of an independent financial advisor to the three rating agencies is paramount to the entire rating process
- ~ Independent financial advisor “quarterbacks” the rating process, providing the expertise and knowledge to emphasize “positives” and, mitigate the “negatives”
- ~ Role of bond counsel, independent auditor, rate consultant, public relations firm



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