

General Obligation Bond Workshop



STATE of GEORGIA

Agenda

- I. Eligible Uses of GO Bond Proceeds**
 - A. IRS Regulations
 - B. State Law
- II. Spend-down Requirements for GO Bond Proceeds**
 - A. IRS Regulations
 - B. State Law
 - C. Annual Report
 - D. Compliance Exchange
- III. Project Funding**
 - A. Declaration of Intent to Reimburse
 - B. Commitment Letter
 - C. Funding Agreements
 - D. Project Close- Out
 - E. Record Keeping
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- V. eBonds**
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 - B. Plans for future use with eBonds
- VI. Question and Answer**

Eligible Uses of GO Bond Proceeds

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Federal Law: U.S. Code Title 26

- Tax-exempt financing permitted for the furtherance of governmental purposes
- IRS regulations stipulate
 - Limitations on private use
 - Limitations on working capital
 - Useful life of assets financed
 - Reimbursement of expenditures
 - Spend-down requirements
 - Interest earning restrictions
 - Build America Bonds (BABs) versus traditional tax-exempt bonds



Federal Law: IRS Rules and State compliance

State of Georgia Agency Board resolutions:

- the Projects must proceed with due diligence and be completed in a timely manner and the proceeds must be used for governmental purposes
- the final plans for the Projects are sufficiently complete
- the original proceeds of the bonds herein requested and anticipated investment proceeds (net of interest on the bonds during the estimated period of construction) will not exceed by more than five percent (5%) the amount necessary for financing the Projects
- the Board further determines that no proceeds of the bonds will be used for reimbursement of any Project expenditures which were made before the anticipated delivery date of the bonds, except in situations where prior to such expenditure the Board obtains a Declaration of Intent from the Georgia State Financing and Investment Commission

State Law

Eligible uses of General Obligation Bonds

All state agencies and pre-1960 authorities: to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, structures, equipment, or facilities of the state

Note: These expenditures must also be consistent with general law for your agency or authority

DOE and Regents: To provide educational facilities for county and independent school systems and to provide public library facilities

GEFA: To make loans to counties, municipal corporations, political subdivisions, local authorities, and other local government entities for water or sewerage facilities or systems or for regional or multijurisdictional solid waste recycling or solid waste facilities or systems

Operating expenses are NOT eligible uses of bond proceeds



GSFIC Responsibilities

SAO Policy: http://sao.georgia.gov/vgn/images/portal/cit_1210/44/28/156958065AM_GSFIC.pdf

- It is the responsibility of GSFIC to determine if payments made for construction projects are reimbursable from general obligation bond proceeds
- The authorization of the bonds in the Appropriations Act controls the use of bond proceeds
- Legislative and gubernatorial intent will also be considered
- Examples of capital expenditures
 - Acquisition of land
 - Construction of new buildings, renovation of existing buildings
 - Equipment with a **useful life** commensurate with the term of the bonds
 - Fixed or loose equipment directly associated with new construction or renovation projects
 - Professional services as design, engineering, commissioning
 - Initial landscaping
 - Parking lots
- **Useful life** refers to how long an asset is expected to meet service demands
 - Expected useful life of the asset being financed should match or exceed the term of the associated debt
 - Items that qualify as capital assets under the SAO/GASB capital asset policies may be reimbursable from bond proceeds-agencies should look to the statutory authorization for the project for guidance as to qualification for reimbursement



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GSFIC Responsibilities

- Examples of operating expenditures NOT eligible for reimbursement
 - Personal services
 - Lease payments
 - Maintenance agreements for copiers or computers
 - Depletable/disposable items
 - Moving costs
 - Decorative items
 - Repair and maintenance items
 - Office supplies
 - Fuel oil
 - Termite inspections
 - Drug tests for employees
 - Annual fire inspections



Public vs. Private Use

- Agency board resolutions certify that the projects financed with GO Bonds will not be used for any non-governmental purpose, or any purpose that would give rise to “private business use”, as defined by the Tax Code
- Public Use
 - Facility that is constructed/improved for a governmental purpose
 - Examples: Academic buildings for Board of Regents or Technical College System of Georgia; public roads; K-12 classroom buildings; public libraries; state adult or juvenile detention facilities
- Private Use
 - Space within a public use facility that is to be used by a private citizen or company for the operation of a business enterprise, even if that enterprise serves the visiting public agency clients or customers, or state employees
 - GSFIC must be notified and approval granted, in advance, for all instances
 - Examples: food services located in a bond funded facility operated by a vendor, prison facility operated by a private vendor, land leased to a private entity

Spend-down Requirements for GO Bond Proceeds



Federal Law: IRS Rules

- We issue the State's general obligation bonds under "the three-year spend down rule"
- The state certifies that it has a "reasonable expectation" that projects funded with GO Bonds will be completed within 3 years
 - 5% spent or obligated within six months of issuance,
 - 85% spent within three years of issuance; and
 - 100% spent within five years

State Law: GSFIC Expenditure Policy (Monitoring Procedures)

Critical Milestones

- Approximately two months prior to a critical milestone, the Financing and Investment Division will notify agencies of the status of projects that are at risk of not meeting the spend-down requirements

Quarterly Tracking for Inactive Projects

- Each quarter the Construction Division will inquire of agencies the status of projects which have had no activity during that quarter

Annual Reporting

- After fiscal year end, the Financing and Investment Division will prepare a summary report for the Commission



Remedies for Bond Proceeds not meeting Spend-Down Requirements

<u>Proceeds</u>	<u>Action</u>
Under 5 years old	Evaluate Redirection or Compliance Exchange or Retire Debt
At 5 years	Retire Debt

Compliance Exchange

- Dollar for dollar exchange of non-compliant bond funds with compliant bond funds
- Can only occur between projects in the same Agency

Example:

Before Compliance Exchange

	<u>G123 Budget</u>	<u>Expenditure</u>	<u>Balance</u>
2005A	\$50,000	0	\$50,000
	<u>G146 Budget</u>	<u>Expenditure</u>	<u>Balance</u>
2009A	\$150,000	0	\$150,000

- 2005A- 5 year milestone is 8/31/2010
- Delay with project G123. No spending until after 8/31/2010
- Invoice for G146 for \$50,000 arrives
- Move \$50,000 from G123 in 2005A funds to G146
- Replace \$50,000 in G123 with 2009A funds from G146
- Invoice paid in G146 with 2005A funds

After Compliance Exchange

	<u>G123 Budget</u>	<u>Expenditure</u>	<u>Balance</u>
2005A	\$ 0	0	\$ 0
2009A	<u>\$50,000</u>	<u>0</u>	<u>\$50,000</u>
	\$50,000	0	\$50,000
	<u>G146 Budget</u>	<u>Expenditure</u>	<u>Balance</u>
2005A	\$ 50,000	50,000	\$ 0
2009A	<u>\$100,000</u>	<u>0</u>	<u>\$100,000</u>
	\$150,000	\$50,000	\$100,000

Project Funding

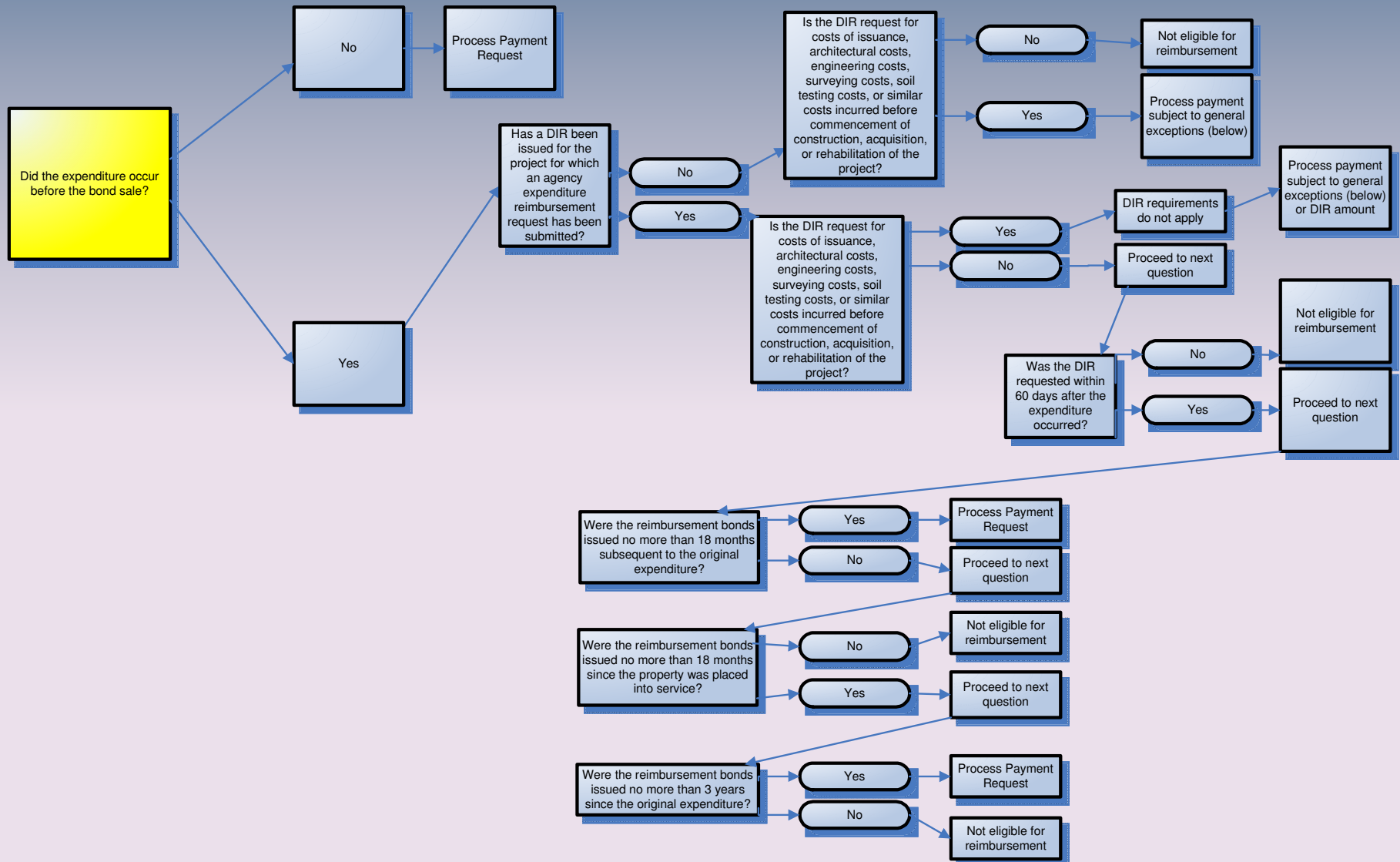
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Declaration of Official Intent to Reimburse

- Declaration of Official Intent to Reimburse is the issuer's (the State) intent to reimburse eligible expenditures of the state, its departments, agencies, authorities, etc. from the proceeds of future obligations
- Reimbursement Allocation is to be made not later than 18 months after the later of:
 - The date the original expenditure is paid; or
 - The date the project is placed in service or abandoned; but in no event more than 3 years after the original expenditure is paid
- Declaration of Official Intent to Reimburse is to be made **NO LATER THAN 60** days after the expenditure occurred

Declaration of Official Intent – Decision Chart



Declaration of Official Intent to Reimburse

- **The Process**

- The agency submits a request for Declaration of Official Intent to Reimburse in letter format to the GSFIC office highlighting the “*not to exceed*” amount, the description of the project (s) and the fiscal year of the subsequent bond issue
- Once received, GSFIC will respond with a response letter acknowledging receipt of the agency’s request along with an official Notice of Declaration of Intent to Reimburse



Commitment Letter

- Once bonds are sold a **Request for Commitment Letter** is sent to Agency Head with:
 - Bond Series
 - Sale date
 - Amount sold
 - Project number (if known) and Purpose
- Agency needs to:
 - Verify information reported is correct
 - Determine commitment type and delivery method
 - Commitment Type - Reimbursable or GSFIC Managed
 - Delivery Method - Design-Bid-Build (DBB), Construction Manager at Risk (CM), Design-Build (DB)
 - Sign Request for Commitment Letter and return to GSFIC
- **Commitment Letter** issued with:
 - Project number & name
 - Amount of Bonds & series
 - Expiration Date of Commitment – 5 Years
 - Policy and Procedure Information
 - If GSFIC Managed, the name of GSFIC Project Manager
- Agency Head accepts by signing and returning acceptance to GSFIC
- Funds are now available for use
- This process does not apply for GDOT or Georgia Ports Projects

Funding Agreement

- Funding Agreements are only needed for projects supplemented with non-bond funds that are **NOT** held by GSFIC e.g. treasury accounts, loans, grants, etc.
- If agency cash is transferred to GSFIC sufficient to cover projected needs, a Funding Agreement is not needed
- If Cash is not transferred to GSFIC, but held in Treasury Account, loan, grant, etc. a Funding Agreement is needed
 - GSFIC's Legal Department must assist with the agreement

Project Closeout

- **For GSFIC Managed Projects, the Agency will receive:**
 - An Insurance Coverage letter notifying them of acceptance of project and construction costs for insurance purposes
 - An asset transfer letter for purposes of recording asset on their ledger
- **If a project is completed and has remaining bond funds available for use, the bond funds may be:**
 - Redirected to a new or existing project; redirection requests must be approved by OPB & GSFIC Construction Division
 - Used to retire debt
- **If a project is completed and has remaining cash funds available for use, the cash will be:**
 - Returned to sender

Record Keeping

IRS Regulations: Section 1.6001-1(e)

- Georgia Secretary of State maintains *Georgia Retention Schedule for State Government Records*
<http://www.sos.ga.gov/archives>
- **IRS Requirements:**
 - Records should be kept for three years after the final redemption date of the bonds
 - Invoices and contracts should both be retained. If not both, then invoices are preferred, since they actually document expenditure of bond proceeds
- **Special requirements for Build America Bonds (2009 GH Series) regarding asset tracking and retention of expenditure records until November 1, 2033 (four years beyond final redemption date)**



Accounting Treatment

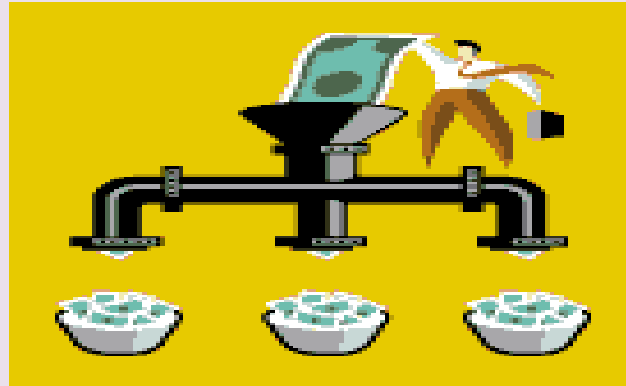
- GASB Statement No. 54
 - Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund
 - Capital projects funds use the same flow of current financial resources measurement focus and modified accrual basis of accounting used by other governmental fund types

Redirection of Unspent GO Bond Proceeds

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Redirection of Bond Proceeds

- May be requested at any time
- OPB and GSFIC must approve
- Redirection must be consistent with legislative authorization contained in the appropriations bill
- Legislative intent and original Governor's intent (where applicable) are also factors
- Can only redirect within the same budget unit (agency)
- Form at www.gsfic.ga.gov



eBonds

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eBonds – What is it?

- Web-based application
 - No software to install
 - Runs in web browser
- Integrates all data associated with capital projects funded by bonds and cash supplements
 - Legislative Authorizations from Appropriations Acts
 - Bond Sale information
 - Debt Service projections and history
 - Project Information including budget, expenditures, balance, and spend down compliance
- Currently available sub-systems and processes
 - User Security is in operation
 - Debt Service is in the final stages of parallel testing
 - Bond Sale has been paralleled through the last three bond sales
- Near-term sub-systems and processes
 - Project data is being loaded for all active and closed projects with outstanding bonds
 - Designing logic to determine compliance with Spend-Down requirements

Key Agency eBonds Modules

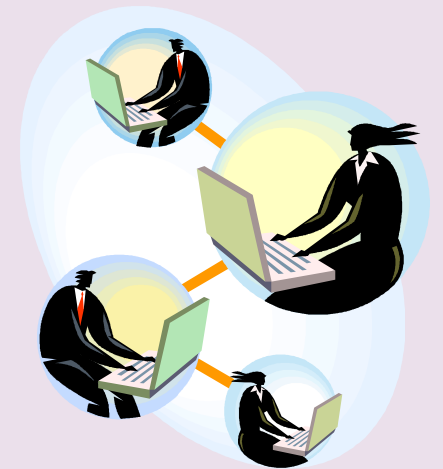
- Bond Sale
 - Agency request for Bond Sale
 - Agency submission of requests and certification statements
 - Upload supporting documents
 - Reports and on-line status check
 - Automatic e-mail notification throughout process
- Spend Down Monitoring
 - Automatic e-mails notification for non compliant projects with upcoming milestone targets
 - Produced quarterly
 - 2 months prior to milestone date
 - Agencies provide updates on projects that are not compliant with IRS spend down rules
 - eBonds prepares data for annual report to be provided to Commission members
- Support Tools
 - Detailed “How to Guides” for standard business processes
 - Most data can be exported to Excel for special reporting / analytical needs

eBonds Bond Sale Process

- GSFIC sets up planned Bond Sale in eBonds
- eBonds notifies agency users of planned Bond Sale
- Agency users access eBonds for list of all unsold, authorized projects
- Agency users enter into eBonds requested data for amounts and priorities
- Agency users submit requests and certification statements using eBonds
- Agency users upload supporting documents directly to eBonds
- GSFIC approves projects in eBonds
- eBonds notifies agency users of approved items via e-mail
- eBonds creates project balances and awaits disbursement /redirection

eBonds – First Steps

- System and User Security Concerns
- Agency Agreement Form
- User Request for Access Form
- Identify the general role the user will play (View or Update)
- Identify the agency (or agencies) the user can access
- Identify the role the user will play for each agency (View, Update or Approve)
- eBonds sends temporary password to new users when added via e-mail
- At initial log-in new user must select a new permanent password



Question & Answer



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