GEORGIA STATE FINANCING AND INVESTMENT COMMISSION (GSFIC)

Policies and Procedures
Commission

Policy Title/Number
Refunding of General Obligation Bonds and Guaranteed Revenue Bonds
CO-01-01-004

Effective Date: January 13, 2006 **Revises Previous Effective Date:** October 27, 1998

References: Article VII, Section IV, Paragraph V, Constitution of the State of Georgia
O.C.G.A. 50-17-25-(1)(B)

1. **Introduction**

The Georgia State Financing and Investment Commission (GSFIC), with the assistance of its financial advisor and investment bankers, regularly evaluates the feasibility of refunding outstanding debt with new bonds. Reasons for refunding bonds include the opportunity to achieve interest rate savings, the need to extinguish old debt and thus remove or change outdated or unwanted covenants, the ability to make a favorable change in the debt service schedule, and the potential to garner other economic benefits.

2. **Applicability**
State Authorities (Issuing guaranteed revenue debt), and The Georgia State Financing and Investment Commission Financing and Investment Division

3. **Policy Statement**

Constitutional Limitations/Requirements

The Constitution of the State of Georgia provides certain limitations as to how Georgia can structure refunding bond issues. These limitations are:

- Term may not extend beyond that of the original debt which is being refunded.
- The principal amount of refunding bonds may exceed the principal amount of the bonds being refunded <u>only</u> to the extent necessary to pay the redemption premium on the debt being refunded.
- The total interest costs of the refunding bonds may not exceed that of the debt being refunded.
- Debt service on the refunding debt may not exceed debt service on the debt being refunded for the fiscal year in which the refunding occurs.
- Debt service on the refunding debt in any fiscal year may never exceed the amount originally appropriated by the General Assembly as the highest annual debt service requirements on the debt being refunded.

- For partial refundings, the previous conditions must be adhered to for the portion of the original bonds being refunded, along with the outstanding portion of the original bonds that will not be refunded.

4. Definitions

There are two categories of refunding bond issues as defined here:

Current Refundings - when bonds being refunded are called or mature within 90 days of the refunding bond issue. There are no U.S. Treasury limitations on current refundings.

Advance Refundings - when bonds being refunded are called or mature more than 90 days after the issuance of the refunding bond issue. Federal tax laws and regulations limit an issuer to one advance refunding with tax-exempt bonds. GSFIC considers this constraint into its decision on whether or not to refund outstanding bonds at prevailing market conditions.

5. Procedure

The Commission should consider the following guidelines when considering refunding bond issues:

1. Refunding bonds shall be structured in a manner that takes advantage of the current economic and budget conditions of the State. Prior to seeking approval of the Commission, GSFIC staff will prepare various scenarios that include at a minimum, the different savings structures that reflect savings taken: (1) upfront, (2) annually, or (3) realized in the later maturities of the refunding bonds. The Commission will vote on which structure best fits the State at that point in time.
2. 3% of the refunding amount of bonds is set as the minimum required level of present value savings for any current refunding issues of State of Georgia general obligation bonds.
3. 5% of the refunding amount of bonds is targeted as the desired level of present value savings, with a 4% minimum required level, for any advance refunding issues of State of Georgia general obligation bonds.
4. The refunding may not produce dissavings in any fiscal year
5. The average life of the refunding bonds cannot exceed the average life of the bonds being refunded.
6. Candidate refunded bonds shall be selected through an optimization model to maximize savings and minimize partial maturities.
7. Exceptions to the policy must be approved by the Commission.

6. Attachments

None

7. Record Retention

Not Applicable