

GUIDE

Bond Refunding Strategy Guide:

Step-by-Step Tips
for Optimizing
Debt Portfolios

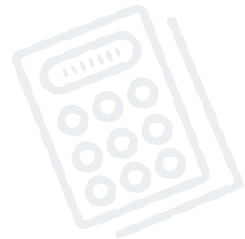


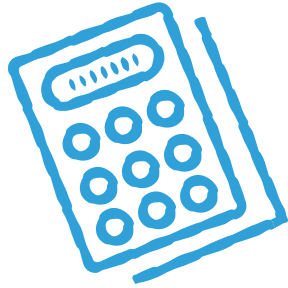
What You'll Learn in This Guide

Refinancing bonds is a critical tool for municipal issuers aiming to improve their financial standing. This guide provides an overview of key bond refunding strategies.

With step-by-step tips, you'll learn how to:

- Identify the right refunding strategy for your organization's needs.
- Optimize your debt portfolio to reduce costs and free up resources.
- Navigate today's financial challenges with actionable insights tailored for municipal finance professionals.





Why Bond Refunding Matters

Municipal finance is increasingly complex, with issuers facing rising interest rate uncertainty, stricter regulatory frameworks, and greater public scrutiny. Strategic bond refunding can help address these challenges by:

Reducing Costs

Take advantage of lower interest rates or favorable market conditions to decrease future cash outlays, enabling better use of taxpayer dollars.

Restructuring Debt

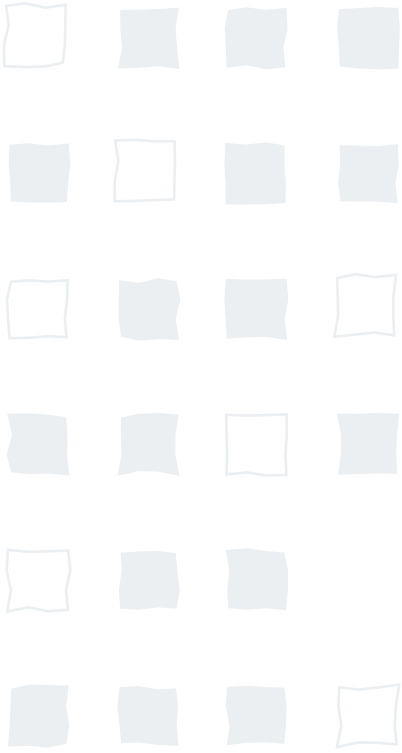
Tailor your debt portfolio to fit current operational needs, such as extending maturities or removing restrictive covenants.

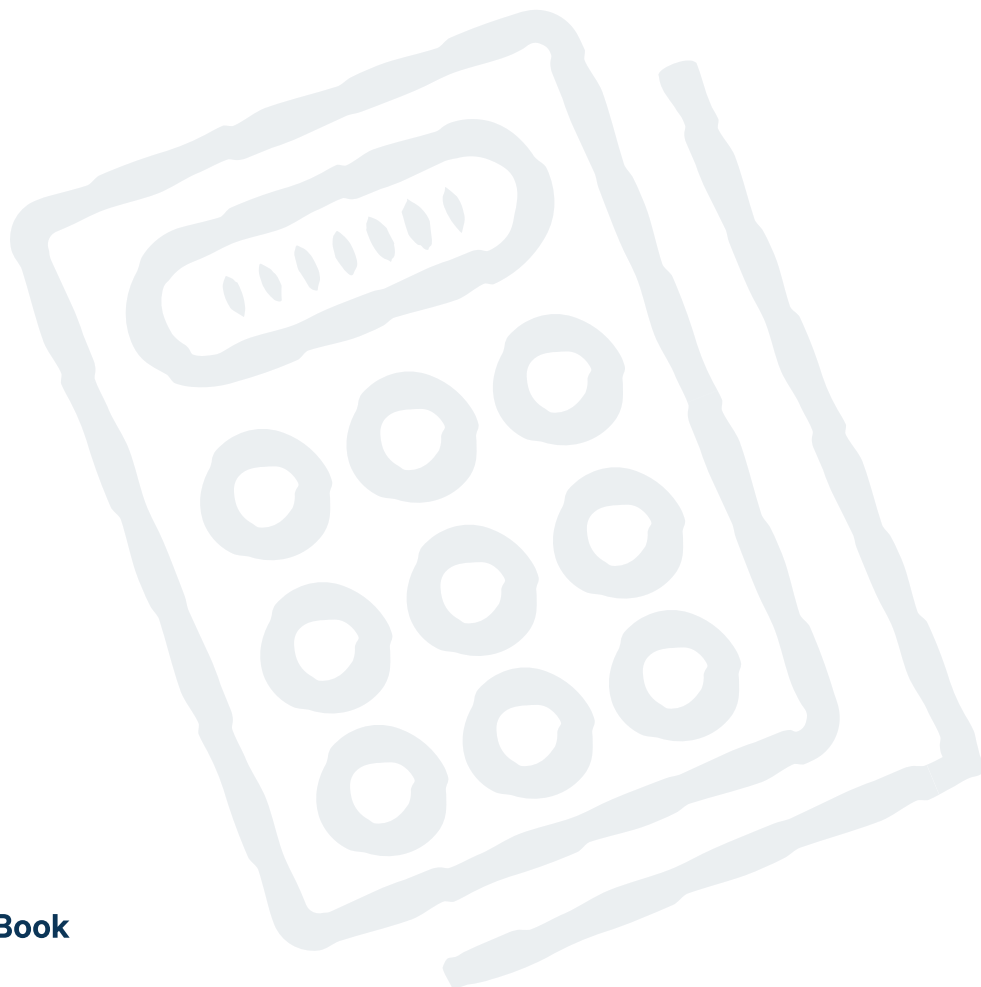
Improving Financial Flexibility

Free up budgetary capacity to fund new projects or adapt to unexpected financial pressures.



Overview of Bond Refunding Strategies

- **Tender Offers**
 - **Current Refundings**
 - **Taxable Advance Refundings**
 - **Escrowed-to-Maturity Refundings**
 - **Hybrid Stages**
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Tender Offers

Definition

A tender offer involves buying back outstanding bonds prior to their call date by offering current bondholders the chance to sell through the open market.

Key Characteristics

- Flexibility to refinance under current tax laws, even when traditional tax-exempt refunding is restricted.
- Potential to reduce future debt service costs and generate savings.
- Opportunity to modify or remove restrictive covenants that no longer serve the issuer's needs.



Current Refundings

Definition

A refunding strategy where bonds are redeemed within 90 days of their call date, allowing for a seamless transition between refunded and refunding bonds.

Key Characteristics

- Quick execution with minimal tax implications.
- Effective for capturing immediate savings when market conditions are favorable.



Taxable Advance Refundings

Definition

Issuers refinance bonds more than 90 days before their call date using taxable refunding bonds, often as a workaround for restrictions on tax-exempt advance refunding.

Key Characteristics

- While taxable bonds often carry higher interest rates, they may still yield long-term benefits depending on market conditions.
- Useful when immediate refinancing is needed despite limitations on tax-exempt refunding options.



Escrowed-to-Maturity Refundings

Definition

This strategy involves setting up an escrow account to hold funds that will pay off refunded bonds at their maturity date.

Key Characteristics

- Ideal for managing cash flow when refunding bonds cannot be called or defeased immediately.
- Provides flexibility to ensure timely debt service payments while managing portfolio obligations.



Hybrid Strategies

Definition

A customized approach that combines elements of multiple strategies, such as tender offers and current refundings, to maximize flexibility and financial impact.

Key Characteristics

- Allows issuers to address complex financial objectives, such as restructuring debt while simultaneously achieving savings.
- Tailored solutions that adapt to both short-term and long-term needs.

Step-by-Step Tips for Optimizing Debt Portfolios

On the following pages you'll find actionable steps to guide you through the debt portfolio optimization process, from initial evaluation to execution and post-transaction assessment.

1 Evaluate Your Debt Portfolio

Gather Data on Outstanding Bonds

- Compile detailed information on all existing debt, including maturities, interest rates, call dates, and covenant provisions.
- Use debt management software, like DebtBook, to centralize this data for easy analysis.

Prioritize Bonds for Potential Refunding

- Identify bonds that were issued in less favorable market conditions when compared to current conditions.
- Look for bonds with restrictive covenants that may hinder your financial flexibility.
- Consider the remaining maturity and call provisions to assess refunding feasibility.



2 Define Your Objectives

Determine Your Primary Goals

- **Reducing Debt Service:** Aim to lower interest costs and annual debt payments.
- **Modifying Covenants:** Seek to update or remove covenants that are no longer suitable.
- **Extending Maturities:** Align debt maturities with long-term financial plans or project lifecycles.

Identify Short- and Long-Term Targets

- Set quantifiable goals, such as a specific percentage of savings or debt service reduction.
- Establish timelines for achieving these objectives to keep the process on track.

3 Assess Market Conditions

Monitor Interest Rate Trends

- Keep an eye on current interest rates, yield curves, and credit spreads.
- Understand how market volatility might impact refunding opportunities

Consider Tax Implications

- Evaluate how different refunding strategies affect tax liabilities.
- Stay informed about legislation that may impact tax-exempt or taxable refunding options.

4 Choose the Right Refunding Strategy

Match Objectives with Refunding Methods

- **Tender Offer:** Ideal for modifying covenants or when traditional refunding is restricted.
- **Current Refunding:** Suitable for bonds within 90 days of the call date seeking immediate savings.
- **Taxable Advance Refunding:** Consider when tax-exempt options are limited but market conditions are favorable.

Consult Financial Advisors

- Engage with municipal advisors or investment bankers who specialize in public finance.
- Obtain tailored recommendations based on your organization's unique financial situation.

5 Engage Key Stakeholders

Collaborate with Your Team

- Involve internal departments such as finance, legal, and treasury early in the process.
- Assign clear roles and responsibilities to team members.

Work with External Partners

- Coordinate with underwriters, bond counsel, and rating agencies.
- Ensure all parties understand the refunding strategy and desired outcomes.

6 Execute the Strategy

Prepare Necessary Documentation

- Draft and distribute preliminary official statements, tender offer invitations, and other required legal documents.
- Ensure compliance with all regulatory requirements and disclosure obligations.

Conduct Efficient Transaction Execution

- **Pricing:** Work with underwriters to price the new bonds favorably.
- **Bondholder Engagement:** Communicate effectively with existing bondholders, especially in tender offers.
- **Closing:** Manage the settlement process to ensure funds are properly allocated.

7 Track Outcomes and Adjust

Measure Success

- Compare actual savings or financial improvements against projections.
- Analyze whether the refunding achieved the set short- and long-term objectives.

Learn and Adapt

- Document lessons learned during the process.
- Use insights gained to refine future debt management and refunding strategies.

The steps, tools, and best practices outlined in this guide provide a roadmap to help you navigate the complexities of bond refunding with confidence.

The next step is yours—whether it's evaluating your portfolio, exploring market opportunities, or engaging stakeholders, now is the time to act and make meaningful progress toward your financial goals.

Discover Powerful Tools:

Explore how DebtBook's Debt Management solution can help you manage your debt portfolio more efficiently, centralize data, and simplify refunding analysis.

[Try a demo today](#)



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