Memo

To: HSV Board of Directors
From: Mike Medica, Board Vice President
Date: December 20, 2016
Re: Motion – Approve Debt Usage and Management Policy

Motion
I move to approve the proposed revision and expansion of Chapter 1, Article 8, (currently, entitled “Issuance of bonds”). The revised document will be Chapter 1, Article 8, entitled “Debt Usage and Management”.

Background:

This policy was discussed during the December 16 board meeting and submitted for member comment. Board and member comments were reviewed and incorporated in this final version.
CHAPTER 1, ARTICLE 8
DEBT USAGE AND MANAGEMENT

This policy serves as the Hot Springs Village Property Owners’ Association (HSVPOA) guiding philosophy for analyzing and using debt to ensure adequate funding from which to fulfil its obligations to current and future property owners. As such, it should be periodically reviewed and updated to reflect current market options, best practices, business needs, and regional or national benchmarks.

I. AUTHORITY
As directed in the Declaration and Bylaws, the HSVPOA Board of Directors retains authority to approve debt usage.

The following guidelines shall be used by management to bring forward recommendations, and likewise by the Board, for scrutinizing the debt arrangements.

II. PURPOSES FOR WHICH DEBT MAY BE USED
a. Short term debt such as credit cards, lines of credit, or vehicle and equipment leasing programs may be considered to smooth operational cash flow.
   i. Leasing programs may only be considered for equipment and vehicles required for routine operations when traditional bank financing options are less favorable.
      Safety, reliability, and total cost of ownership will guide such decisions.
   ii. Credit card balances must be paid in full each month or their usage suspended.

b. Long term debt should be considered when constructing or improving fixed assets and not to support operating expenses.

III. DEBT LIMITS & COLLATERAL
a. When analyzing HSVPOA’s long term debt capacity, the viability ratio shall be calculated. The viability ratio equals (–) expendable net assets divided (/) by total long term debt. Expendable net assets equals (–) total assets minus (-) total liabilities minus (-) net property, plant, and equipment plus (+) long term debt. This ratio is used to determine whether sufficient assets exist to cover debt and should not fall below 1.1X.

b. When considering whether HSVPOA can afford to pay debt service from current operational cash, the debt service coverage ratio (DSCR) shall be calculated. The DSCR equals (–) 3 year average net operating income before depreciation divided by (/) total current debt service for one year. This calculation is meant to represent current results, using established or known data. It should be carefully studied and scrutinized to ensure the best course of action is taken before choosing a long term debt arrangement. When significant shifts in net income or additional debt service is readily known, both a current result and a projected calculation should be considered. HSV will strive for a DSCR of 1.25 or higher, but will not fall below 1.1.

c. Both revenues and assets may be used for collateral, as follows:
   i. Assessments, water, and sanitation fees may be pledged. The total pledged amount shall not exceed 25% of the current year’s budgeted or projected revenues, whichever is less. When calculating available assessment revenue, it shall be net of the allowance for doubtful accounts.
   ii. Although revenues are the preferred collateral, assets may be used as collateral when required by the institution or more favorable terms are granted, as a result.

IV. DEBT STRUCTURING
a. HSVPOA recognizes there are many financing and funding sources available, each with specific benefits, risks, and costs. Bonds, notes, mortgages, and other customarily used
financial instruments may be considered, with the most appropriate instrument chosen for
the project goals. Cost and benefits have various meanings in debt. Therefore, the goals
of a particular debt arrangement shall be clearly understood; i.e. 1) to fund construction
while minimizing monthly debt service, 2) to fund construction while expediting
repayment, 3) to refund bonds in order to take advantage of favorable net present value
savings; 4) other business needs
b. Bonds may be issued under public or private offerings.
c. Refinancing or refunding without additional debt issuance may be considered for
economic or legal reasons. In the case of economic reasons, the associated fees should be
less than the interest saved, without extending the maturity date, unless sufficient
evidence supports economic benefits received by extending maturity.
d. When refinancing or refunding includes additional debt issuance for new projects, or
when new standalone debt is considered, the overall project goals shall drive the meaning
for and decisions surrounding cost and benefits.
e. The repayment of principle shall be setup such that interest expense is minimized.
f. The repayment period shall be as short as economically feasible and, at a minimum,
correlate to the asset’s useful life.
g. Payoff terms shall be scrutinized to determine cost and benefit of either allowing or not
allowing principle to be repaid early.
h. Impacts to the organization’s credit rating must be considered for the purpose of
maintaining or improving HSVPOA’s credit rating and, when prudent, using credit
enhancements.

V. SERVICE PROVIDER SELECTION
a. Either competitive sourcing or direct negotiation with known local or regional industry
leaders may be used to identify the appropriate debt solution. Depending upon the
instrument chosen, various service providers may comprise associated fees, such as
attorneys, underwriters, trustees, investors, CPAs, financial advisors, and other
professionals or experts.
b. Professionals chosen by direct negotiation and internal research shall be subject to
competitive sourcing every 3-5 years to ensure the organization continues receiving the
highest level of service, most qualified professionals, and competitive pricing.

VI. COMMUNICATION AND COMPLIANCE
a. Debt recommendations will be made in a public forum with the appropriate external
professional presenting and answering questions. Afterwards, summary information to
include provider credentials, total fees, interest rates, and repayment terms will be posted
on the HSVPOA website. Full details will be provided confidentially to the Board prior
to the meeting and may be reviewed afterwards by members in good standing in
accordance with the Declaration and Bylaws.
b. Although the Declaration grants the Board ultimate authority for debt approval, keeping
property owners apprised on matters impacting the organization’s overall net worth is
important. Therefore, a member comment period between recommendation and Board
approval will occur, with the length between the two determined by market conditions
and urgency of need.
c. A local or regional legal firm possessing industry leading experience in the debt
instrument under consideration shall be engaged to develop related documents and guide
the organization on related laws governing its issuance and future management.
d. Arbitrage and other financial analysis or audit requirements will be performed by the
audit firm engaged at the time of such requirement, as prescribed by Article 6 of the
General Administration policies.
Sources Used or Cited

City of Texarkana Bond Refunding Underwriting Proposal & Resolution. (2015, June 1). Retrieved December 2015, from City of Texarkana Board Reports

and


ARTICLE 8
ISSUANCE OF BONDS
(Currently approved policy)

A uniform policy on the issuance of Bonds

POLICY
Revenue bonds may be issued by the Hot Springs Village Property Owners’ Association (HSVPOA) under the following circumstances:

1. Bonds secured by revenue only:
   A majority vote by the Board of Directors is required.

2. Bonds that require collateral other than revenue only:
   A. If collateral is not POA common property a majority vote of the Board of Directors is required.
   B. If collateral is POA common property an election of the property owners is required with a 51% approval of those voting. Refer to the Declaration Article VIII, Section 3, item (i).

3. Tax exempt bonds.

Presently tax exempt bonds are available to the POA only on qualifying sewer projects.

4. In the course of issuing bonds, a request for proposal (RFP) for an underwriting agent should be sent to at least three different contractors for bids and suggestion on the financing vehicles best suited for the project.

5. Refunding of existing bond issues should be considered when the current interest rates are lower than the existing bond issue rate and an analysis of present values offers at least a net savings of $100,000.

* If a new bond issue is under consideration than an analysis of refunding the current bonds with the new issue should be considered.

** In major project funding, the financing requirements should include a study for the option of using bonds.

BOD 7/18/07