

# LGUGC and the

# MUNICIPAL BOND

JGT-06.27.03

# Flotation Option

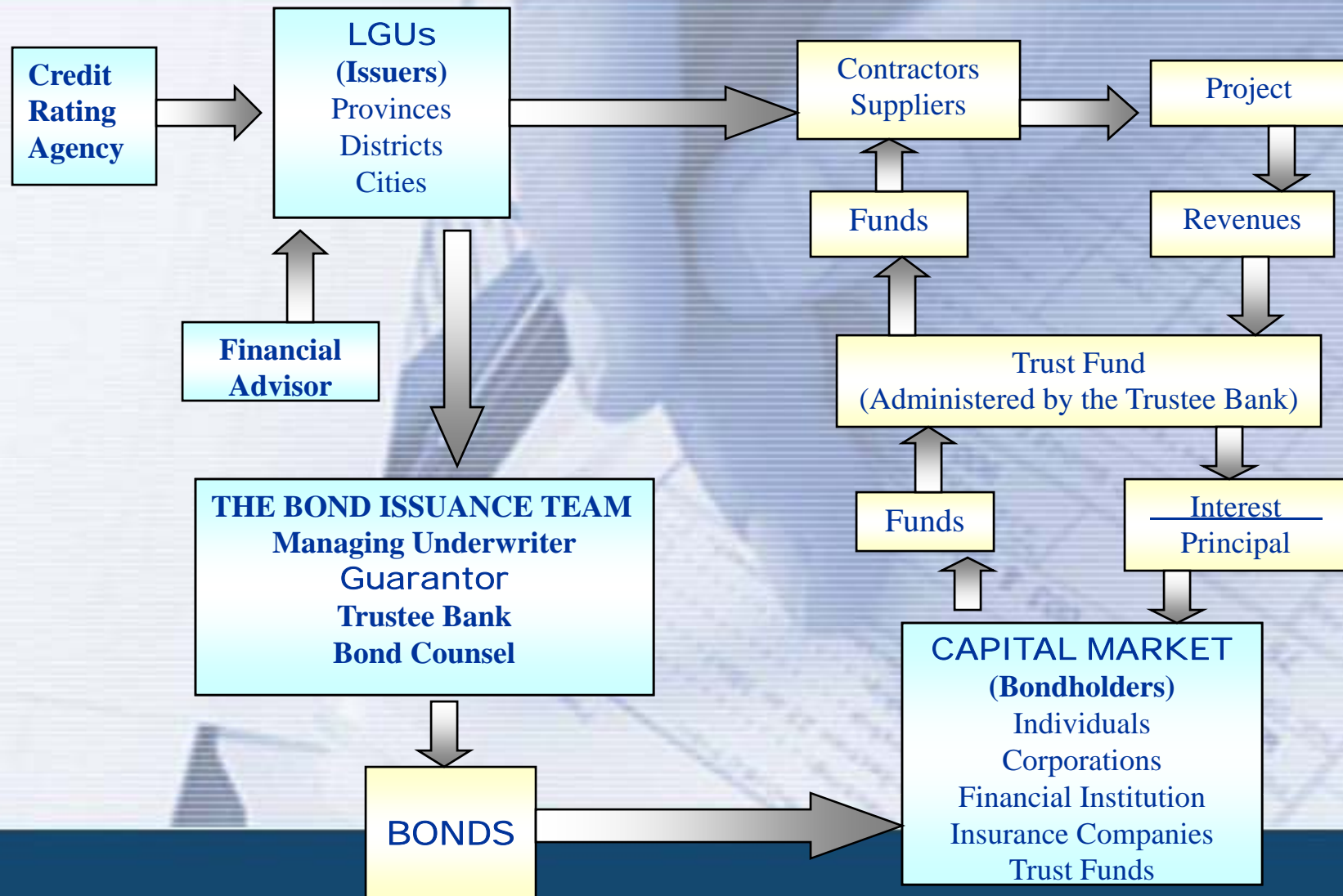
# The LGUGC Credit Guarantee System



# Municipal Bond Issuance Process Timetable

Timetable in Months	1st	2nd	3rd	4th	5th	6th
1. Project Development, Feasibility Study Preparation, and Hiring a Financial Advisor	The bond issuance process shall not include this period but will commence after the completion of this activity.					
2. Sanggunian Ordinance Approving the Project						
3. Selection and Appointment of a Bond Issuance team						
4. Designing the Features of the Municipal Bond						
5. Sanggunian Ordinance Approving Final Bond Terms						
<b>6. Securing the Guarantee for the Municipal Bonds</b>						
7. Sanggunian Panlalawigan Approval of the Municipal Bond Issuance by a Component City or Municipality						
8. Bangko Sentral ng Pilipinas (BSP) Approval						
9. Preparation of the OS, Primer and Bond Docs.						
10. Municipal Bond Offering and Issuance						
11. Debt Servicing and Payment of the Principal	This period shall cover the date of issue up to the maturity date.					

# Bond Flotation Process Flow



# GUARANTEE GUIDELINES

- PROPONENT** : LGUGC investor BAP member bank or its subsidiary and other accredited FI's
- BORROWER** : Any of the 500 pre-screened LGUs provided they eventually pass LGUGC's internal credit rating
- PROJECT** : Infrastructure projects undertaken directly by LGUs
- INSTRUMENT** : Negotiable and non-negotiable Promissory Notes and long term debt instruments

# GUARANTEE GUIDELINES

- PURPOSE** : Finance revenue generating projects of LGUs and other social infrastructure projects
- COLLATERAL** : Project cash flows / project assets financed/assignment of IRA
- CREDIT RATING** : A minimum acceptable rating to be determined by LGUGC (currently “Ba”)

# ELIGIBLE REVENUE-GENERATING PROJECTS

- **Power plants and distribution systems**
- **Public markets**
- **Slaughterhouses**
- **Hospitals and health care centers**
- **Water supply, sewerage and sanitation**
- **Schools and day care centers**
- **Telephone and communication systems**
- **Toll roads, bridges, ports, airports and public transportation facilities**
- **Government housing development**
- **Development of industrial estates**
- **Tourism promotion and development projects**
- **Others**

# GUARANTEE FEATURES

## GUARANTEE COVER

- LGU bonds are guaranteed at 100% of principal and interest subject to cap
- Guarantee extends from issue date up to maturity date or date of final redemption
- Maybe subject of a co-insurance

## GUARANTEE FEE

- Guarantee Fee shall be based on the credit rating as a percentage (%) of bond float
- Paid front-end for the term of bond or during construction phase and yearly thereafter



# GUARANTEE FEATURES

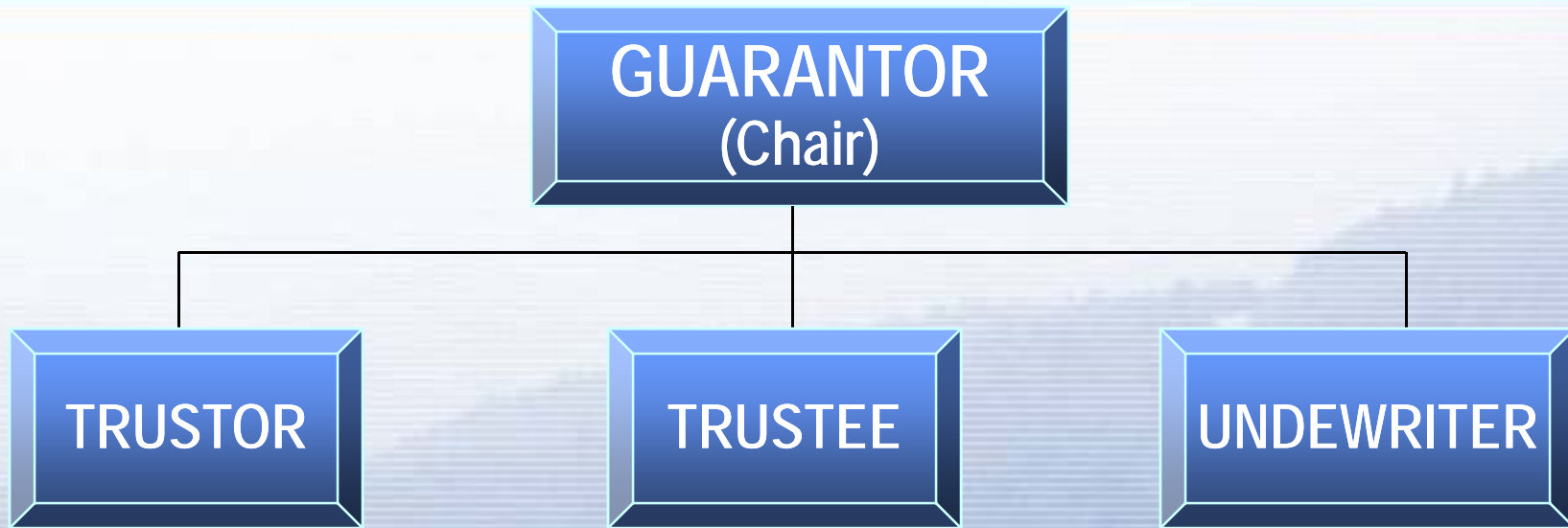
## MAJOR EVENTS OF DEFAULT

- Failure to meet scheduled amortizations of Principal and/or Interest
- Failure to meet sinking fund requirements
- Failure to meet provisions of Trust Indenture

## OTHER PROVISIONS

- Creation of a Project Monitoring Board for each guaranteed account

# PROJECT MONITORING BOARD



- **Monitors project status and its compliance/adherence to construction schedule (via independent Works Engineer, if required)**
- **Monitors financial status – trust fund, sinking fund, LGU budget and project revenues**
- **Facilitates early detection of possible default and immediate implementation of corresponding remedies to avoid a default situation**

# LGC Implementing Rules and Regulations

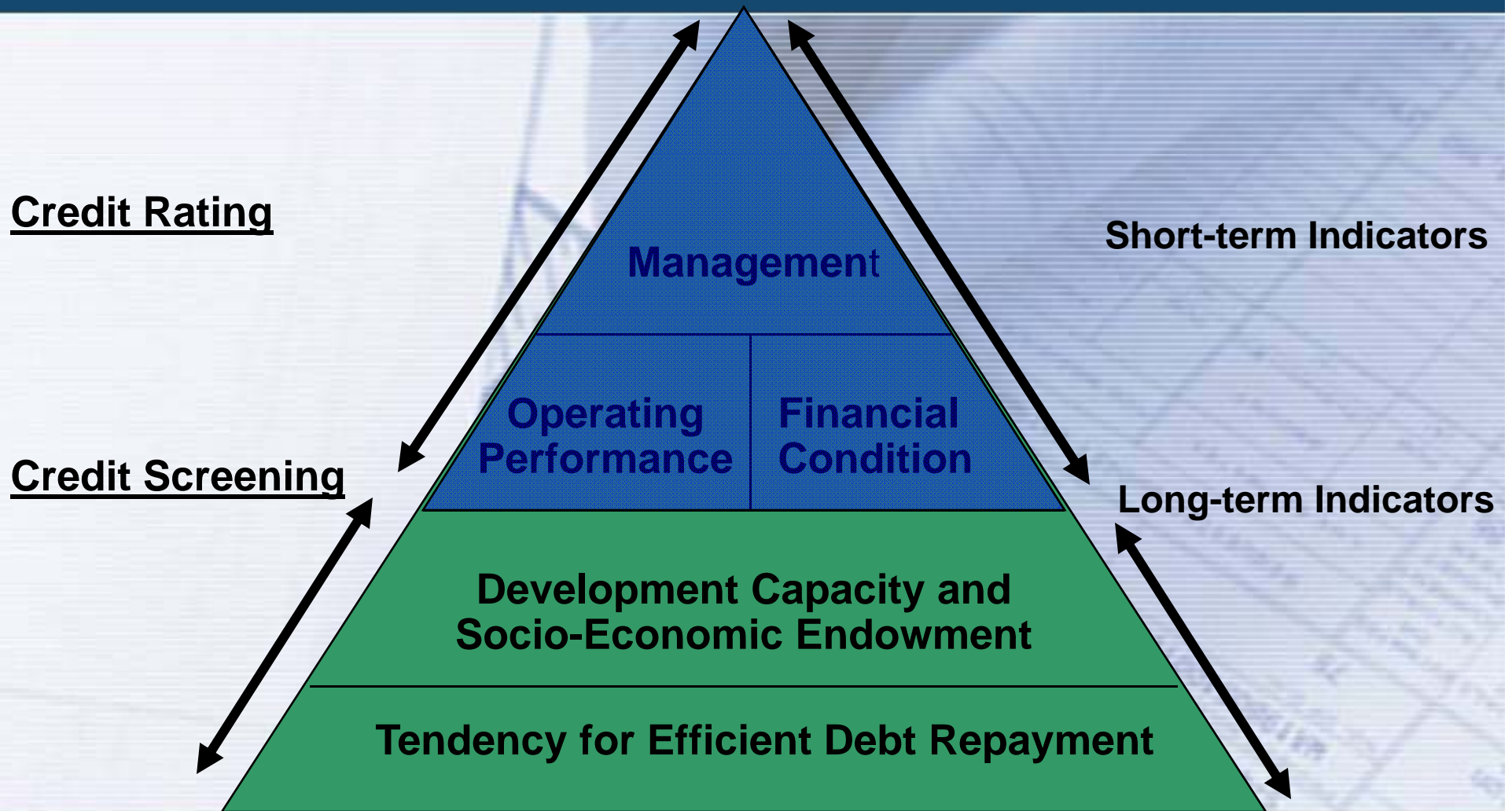
**ARTICLE 401:** “... LGUs shall **appropriate** in their respective annual budgets such amounts as are sufficient to pay the loans and other indebtedness incurred or redeem or retire bonds...”  
“...**failure to provide** the appropriations herein required shall **render** their annual **budgets inoperative.**”

“ Any LGU... may **authorize the National Government to deduct or withhold a portion of its IRA share for the payment of its contractual obligation.**” “...the **resolution** of the sanggunian shall clearly state the name of the creditor, the nature of the indebtedness, the amount to be withheld, and a period of time that such withholding of IRA shares shall be made.”

# Objectives of Credit Rating of LGUs

1. To independently assess the capacity of LGUs to meet their obligations.
2. To enable banks to draw up credit facilities suited to the credit risks of LGUs.

# Summary of LGU Credit Screening and Rating Concept



# CREDIT RATINGS

**Aaa** - *highest credit standing*

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**A** - *good credit standing*

**Ba** - *average credit standing*

**B** - *below-average credit standing*

**C** - *poor credit standing*

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