

Reserve Funds And Average Annual Debt Service

Overview

A Reserve Fund is long term savings set aside for the life of the bonds. In amount, it approximates one year of debt service (but see calculation for Average Annual Debt Service).

A Reserve Fund will be funded either in full at time of closing or funded over time. If funding occurs over time, then sixty months is the most common duration provided to fully fund the Reserve Fund.

Guidance for the calculation of minimum funding requirements (if not fully funded at closing) will always be provided by the bond covenants. If the Reserve Fund is not fully funded upon closing, the most commonly prescribed calculation involves the Average Annual Debt Service (AADS).

AADS is simply the total of any remaining unpaid principal and interest, divided by the remaining number of years.

Once determined, the amount of AADS is divided by 60, producing the minimum monthly amount to deposit into the Reserve Fund account.

Caution:

- The AADS calculation may change slightly each year (depending on the amortization schedule), and this may require an annual “true up” calculation of the Reserve Fund Requirement.
- Withdrawals from the Reserve Fund should be avoided if possible other than for final payment of debt service. Before withdrawing Reserve Funds, contact your Financial Advisor, bond counsel, and or Financial Compliance promptly.
- Premature disbursement of Reserve Funds may be indicative of financial hardship and may require public disclosure (Continuing Disclosure) of the disbursement.

Guidance

Consult with your Financial Advisor for guidance on how to calculate your Reserve Fund. You may also contact Financial Compliance for further assistance.

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Calculation of Average Annual Debt Service	
Year of Maturity (payoff)	2041
Current Year	<u>2021</u>
Remaining number of years	<u><u>20</u></u>
Remaining Principal Payments	\$20,000,000
Remaining Interest Payments	<u>\$2,500,000</u>
Total remaining debt service	<u><u>\$22,500,000</u></u>
<u>Total remaining debt service</u> =	<u>\$1,125,000</u>
Remaining number of years	
Average Annual Debt Service (AADS) =	<u><u>\$1,125,000</u></u>

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Calculation of Reserve Fund

Assumption: closing and funding requirements begin on January 1, 2021 of the fiscal year. (Reserve Fund requirements will begin based on guidance from the bond covenants.)

Average Annual Debt Service (AADS) =	\$1,125,000
Months allowed to fund the Reserve Fund	60
Minimum monthly deposit to Reserve Fund	\$18,750

Therefore, funding for the first five years would look like this:

	Monthly Deposit	Cumulative Reserve Fund Balance at month end	Month # out of 60
January, Year 2021	\$18,750	\$18,750	1
February	\$18,750	\$37,500	2
March	\$18,750	\$56,250	3
April	\$18,750	\$75,000	4
May	\$18,750	\$93,750	5
June	\$18,750	\$112,500	6
July	\$18,750	\$131,250	7
August	\$18,750	\$150,000	8
September	\$18,750	\$168,750	9
October	\$18,750	\$187,500	10
November	\$18,750	\$206,250	11
December, Year 2021	\$18,750	\$225,000	12
December, Year 2022		\$450,000	24
December, Year 2023		\$675,000	36
December, Year 2024		\$900,000	48
December, Year 2025 (maxed at out AADS)		\$1,125,000	60