



BEST PRACTICE

Debt Service Payment Settlement Procedures (2003 and 2007) (DEBT AND TIM)

Background. Issuers of government debt have a fiduciary responsibility to manage their funds in a manner that assures timely and accurate payment of debt service principal and interest. That responsibility also includes full use of funds for the benefit of the government until payment due date.

Debt payments were made by check for many years. However, electronic fund transfers now allow governments to ensure timely payment on payment due dates in order to retain use of their funds until that date. Use of electronic fund transfers standardizes payment streams, reduces credit and liquidity risk, provides a complete audit trail, improves efficiency, and reduces loss of the use of funds.

Issuers must establish a plan for the allocation and investment of debt service funds to assure availability of funds. Issuers must also ensure timely payment of funds for payments and negotiating terms with counter-parties that serve both government and bondholders' needs in accordance with bond documents.

Recommendation. To ensure that debt principal and interest payments are made on a timely and cost effective basis, the Government Finance Officers Association (GFOA) makes the following recommendations to state and local governments.

1. Governments should establish procedures that ensure that all parties responsible for making debt service payments fulfill their fiduciary and operational responsibilities. The negotiation of contract terms should serve the government, the trustee/fiscal agent/paying agent, and the bondholders and include:
 - a. requirement for timely payment of all funds on the due date;
 - b. full utilization of funds by the government until the due date;
 - c. requirement for use of electronic fund transfer throughout the payment process; and
 - d. requirement that all parties execute transactions in the most cost efficient and effective manner.
2. Issuers should ensure that appropriate contractual terms and internal procedures are in place. Issuers should negotiate terms allowing for full investment of funds by the government until the payment due date by utilizing electronic fund transfer.
3. Issuers should require that trustees/fiscal agents/paying agents invoice the government for debt service payments a minimum of 30 days prior to the due date.
4. Issuers should use electronic fund transfer to assure transfer to the trustee/fiscal agent/paying agent on the payment date. If payment must be made by check, issuers should ensure paying the check no more than five (5) days prior to the payment date through a guaranteed delivery service.
5. Issuers should ensure that all parties to the transaction (internal and external) are kept informed of the procedures established.

References

- Report of the Same-Day Funds Payment Task to the U.S. Working Committee, Clearance and Settlement Project, Group of Thirty, August 1993.

Approved by the GFOA's Executive Board on March 2, 2007.