

Essential Roles and Responsibilities for a Successful Debt Issuance

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Municipal Advisor

MA Develops and Executes Plan of Finance with Fiduciary Duty




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Participants in the Transaction

Professionals Involved in a Negotiated Municipal Bond Financing Transaction




Participation depends upon type, size, and location of a transaction.



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Issuer and Their Counsels

- Issuer – Body with the authority to issue bonds
 - City/County/State and their agencies borrowing money through the issuance of securities
 - In certain structures, can serve as the conduit between the borrower and investors
- Bond Counsel – Every bond issue must be reviewed by a legal counsel
 - The legal opinion is authorization of the debt and covers two main issues:
 - Ensures the bonds are legal, valid, and binding obligations of the issuer
 - Verifies the tax status of the debt (if interest is exempt from federal, state, or local taxes)
- Other Counsel – May include special tax counsel, disclosure counsel and issuer's counsel
 - Special counsel may be necessary for specific issues that are more complex and diverse than standard offerings. Also, may be used to ensure consistency for regular issuers.



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Issuer Responsibilities

- Determine transaction specifics
 - How much to borrow
 - Timeline for spending bond funds and expected use of proceeds
- Method of repayment
 - Source of funds to be used to repay borrowers
 - Flow of funds for paying debt service
- Appoint transaction team & execute
 - Counsel (e.g., Municipal Advisor, Underwriter) (if negotiated)
 - Negotiate and review document terms, price bonds and close issuance
- Post-issuance requirements
 - Annual information to EMMA
 - Specific event disclosure
 - Tax compliance

Choosing Legal Counsel

- Experience
 - Prior transactions for issuer
 - Transactions with comparable issuers
 - Relevant expertise for more complex transactions
- Listed in The Bond Buyer Municipal Marketplace Directory (the "Red Book")
- Conflicts

Municipal Advisor

-  The Issuer may engage a Municipal Advisor (MA) to assist it in issuance of securities
-  The MA has an explicit fiduciary duty to the issuer
-  MA must be registered with the SEC and MSRB and meet licensing standards
-  A single firm CANNOT act as both an MA and an Underwriter on the same transaction

Municipal Advisor

- Advises the issuer throughout the bond issue process
 - Planning the transaction
 - Debt structuring (e.g., amortization, call option analysis)
 - Assist in evaluation and preparation of documents relating to the marketing and issuance of bonds
 - Help navigate ratings process
 - Price negotiation

Choosing A Municipal Advisor

- Selection
 - Request for Qualification (RFQ)
 - Quantity
 - Independent Registered Municipal Advisor (IRMA)
- Considerations
 - Experience
 - Resources and Quantitative Capabilities
 - References

Underwriter

- Securities dealer who helps issuers bring bonds to market by purchasing the bonds and reselling them to investors.
 - Due Diligence on disclosure
 - Assists in development of financing plan
 - Provides pricing guidance
 - Markets bonds
- Underwriter assumes a financial risk and expects to make a profit on the transaction
- Does not owe a fiduciary duty to issuer

Senior Underwriter – Negotiated Offering

- Works with political subdivision and municipal advisor to design the plan of finance
- Develops the pricing structure
- Assists in determining timing to sell securities based on market conditions
- Assists in the development of the securities documents
- Assists in preparing any rating agency strategy and presentation
- Providing quantitative analysis of financing structure
- Manages the pricing process
- Executes pre-sale marketing
- Solicits price views from co-managing underwriters on the transaction
- Proposes borrowing rates for pricing day based on market conditions and investor demand
- Prepares distribution analysis
- Works with the political subdivision to determine how orders are filled from the pricing order period
- Executes the purchase agreement with the political subdivision







Underwriter – Competitive Offering

- Submits bid in a competitive sale following evaluation of pricing of comparable issues, discussions with potential investors, accessing supply of securities in the market or securities scheduled to come to market, weighing possible competition from other firms









Choosing Underwriters


- Different Approaches
 - Regularly work with one or more underwriters
 - Pool of qualified underwriters via RFQ
 - Multiple pools based on credit or role
 - RFP on a deal-by-deal basis
- Underwriters are often hired in groups, or syndicates
 - Senior/Co-Senior Manager
 - Co-Manager(s)






Choosing Underwriters - Considerations

- Experience
- Staffing plan
 - Resources
- Size of salesforce and distribution capabilities
- Underwriting capacity (and demonstrated willingness to underwrite unsold balances)
 - Other factors depending on issuer priorities
- Retail distribution
- Foot print
- Ownership status







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Paying Agent/Trustee/ Escrow/Verification Agents

- Paying Agent
 - Party that is responsible for paying debt service on bonds
- Trustee
 - Financial institution with trust powers given fiduciary powers by a bond issuer to enforce the terms of a bond indenture
 - Ensures bond principal and interest payments are made and protects the interests of the bondholders in the event of default
 - Holds moneys in construction, reserve, or other funds that serve as security for payment of debt service
- Roles Specific to Refunding Bonds
 - Escrow Agent — Serves as custodian of the funds and holds bond proceeds to pay debt service on refunded bonds
 - Verification Agent — Verifies cash flow sufficiency to the call date of the escrowed securities






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Rating Agencies and Credit Enhancement

- Rating Agencies (Moody's, S & P, Fitch, and Kroll) rate bond issuers to determine creditworthiness and proximity to default
- Ratings play a critical role in the minds of market participants and are perceived as a guide of an issuer's creditworthiness
- Credit ratings play a significant role in broadening the investor base for an issuer

Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
S&P/Fitch	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-

- Credit Enhancement — Supports an issuer's credit in exchange for a fee or a premium, in the form of enhancement such as bond insurance or a letter of credit
- Ohio Market Access Program







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Rating Agencies Approach

- Agency Selection Considerations
 - Optimal Marketing, number of ratings, market acceptance of rating agency
- Agency's credit methodology
 - General Obligation Bonds, Special Tax Revenue, Utility Revenue
- Presentation
 - Formal Meeting & Presentation or Call, Participants, Prepared Materials
- Pricing
 - Fee schedule, Frequent Issuer Discounts







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Investors

- * Purchasers of bonds
- * Receive principal and interest payments from paying agent through maturity of bonds
- * Receive ongoing disclosures
- * Considerations before investing
 - * Bond credit
 - * Yield
 - * Final maturity/cash flows
 - * Call options or other features
 - * Tax status
 - * Other



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Questions?

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