



**G-17 Disclosures**  
**Underwriters to Issuers**  
**CDIAC – Municipal Market Disclosure:**  
**Current Topics and Practices**  
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# MSRB Rule G-17 Disclosures

Underwriters required to provide certain disclosures to municipal issuers for each transaction:

- Role of the Underwriter
- Compensation structure
- Conflicts of interest
- Financial Characteristics and risk of proposed financing structure



# Disclosure - Underwriter's Role

All disclosures County received to date are standardized:

1. Required to deal fairly at all times with both municipal issuers and investors
2. Primary role to purchase bonds in an arms-length transactions and underwriter has financial and other interest that differ from the issuer
3. Underwriter does not have fiduciary duty to issuer, unlike a municipal advisor
4. Underwriter duty to purchase bonds at fair and reasonable price, balanced with duty to sell to investors at fair and reasonable price

Issuer Take Away:

- Listen to underwriter, rely on municipality internal team, with financial advisor as trusted source
- While I may like my underwriter, not my “friend”



# Disclosure - Underwriter Compensation

All disclosures County received to date are standardized:

1. Compensation set forth in bond purchase agreement, to be negotiated
2. Underwriting fee or discount contingent on closing of transaction, customarily based on size of transaction
3. Conflict of interest – may have incentive to recommend unnecessary or larger than necessary transaction

*Issuer Take Away:*

- Work with financial advisor to analyze and validate recommended size and structure
- If non-taxable, Bond Counsel very helpful in providing input as to meeting non-taxability requirements



# Disclosure - Additional Underwriter Conflicts

Disclosures received standardized, with slight variation:

1. Distribution Agreements:

*““Underwriter” has entered into a separate agreement with “bank or investment service” to distribute certain new issue municipal securities underwritten or allocated to us which could include the bonds. Under that agreement, we could share a portion of fee or commission paid to us as underwriter.”*

2. Purchase, sell, hold investments:

*“In the ordinary course of their various business activities, “Underwriter” and its owners and employees may purchase, see or hold a broad array of investments and may actively trade securities and financial instruments for their own account and for accounts of customers. Such investments and trading activities may involve or relate to assets, securities and/ or instruments of the Agency and/ or persons and entities with relationships with the Agency. “Underwriter also may communicate independent investment recommendations or express independent research views in respect of such assets, securities or instruments....”*

3. Relationships:

*““Underwriter” maintains relationships with financial advisory firms, investment banks, and law firms, some of which may have relationships with the Agency.”*



# Disclosure - Additional Underwriter Conflicts

## Issuer Take Away:

- Secondary Market - The business of a bond issue goes on after a transaction closes
- Connections - Underwriters have professional relationships with other entities and other individuals that might have a relationship with a municipality



# Disclosure - Financial Characteristics and Risks

Disclosures received generic, but not standardized:

Pension Obligation Bonds: *Bonds related to funding strategies involving pension obligations may warrant additional analysis as to the risks and benefits thereof by the County and its advisors. While this fixed rate bond transaction would generally not be considered a “complex municipal securities financing” the County should evaluate the other implications of POB financing with its advisors.*

Issuer Take Away:

- Ask underwriter to explain other implications to ensure known risks are considered
- Consult with financial advisor and Counsel about any other risks not thought of



# Disclosure - Financial Characteristics and Risks

Disclosures received generic, but not standardized:

Land Secured: *Community Facilities District Special Tax Bonds are debt securities to which special taxes on certain property are levied to pay principal and interest. The District is limited levying the tax up to a specified maximum amount and only on property within the Community facilities District.*

*In the event of delinquencies of the special taxes by a property owner, the District may be required to commence foreclosure proceedings against that property in order to generate sufficient funds to pay debt service on the bonds.*

Issuer Take Away:

- Ask more questions about delinquency impacts
- Ask more questions regarding document structure, so as not to trigger foreclosure process if not necessary





# Disclosure - Financial Characteristics and Risks

## Disclosures received generic, but not standardized:

Tax Allocation Bonds(Refunding post dissolution): *The Dissolution Act imposes some important obligations on the Successor Agency which are important to ensure pledged tax revenues are available to pay principal and interest on the bonds, including the submission of a Recognized Obligation Payment schedule (ROPS). Therefore, in the event the Successor agency fails to submit a ROPS as required, the availability of pledged revenue to the Successor Agency, could be adversely affected for such period. This could lead to issuer default.*

*It is anticipated that the Successor Agency will covenant in the Indenture to take all actions required under the Dissolution Act to include scheduled debt service on the bonds, as well as amounts required to under the Indenture to replenish the reserve, in ROPS submitted in accordance with the Dissolution act. Failure to comply with this covenant may also result in a draw on the Reserve account and ultimately a default on the bonds.*

## Issuer Take Away:

- Successor Agency staff is a critical part of the financing team
- Gain confidence that debt service ROPS obligation is always approved by DOF



# Receipt of G-17 Disclosure

## Checklist:

- ✓ Review with Internal Counsel
- ✓ Ask financial advisor to review and provide feedback
- ✓ Ask Underwriter questions, clarify any confusing language
- ✓ Sign or acknowledge receipt of G-17 letter if policy allows
- ✓ Continue asking questions and clarify issues for any risk identified

Questions???