

SESSION FIVE

CDIAC

**CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION**

TAKING LEADERSHIP IN THE BOND MARKET: THE ISSUER'S ROLE

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MassDirect Notes

- In 2014, Massachusetts launched its MassDirect Notes (MDN) program
- The MDN program was created to be a dedicated way for retail investors to get regular, predictable access to new-issue bonds
- Bonds were sold on a near-continuous basis as part of a rolling offering
- Modeled on the corporate medium term note programs of large, blue chip companies like Caterpillar and Duke Energy
- Bonds were sold through an open-architecture electronic trading platform called TMC Bonds

MDN Program Details

- As part of the MDN program, bonds were offered for sale every day for the last two weeks of every month
- Bonds re-priced daily: yields adjusted based on changes to MMD, but spreads to MMD were maintained
- All of the bonds were state G.O.'s, fixed-rate securities, with maturities ranging from two to ten years
- The entire program was rated in advance by the rating agencies
- Bonds were assigned the state's regular CUSIPs, standard denominations, same ratings
- The program was sized at \$250 million and ran from March 2014 to July 2014

Why Did We Develop This Program?

The MDN program was based on three goals to provide long-term benefits to taxpayers:

- I. To expand the investor base, particularly for retail investors, giving them dedicated access to the primary market
- II. To position the state to “get paid” for more transparency
- III. To price bonds daily through smaller bond sales, which would effectively plumb the market for true investor demand

I. Expanding the Investor Base for Retail

- The MDN program was more than just a typical retail order period on steroids
- It was a dedicated, daily, convenient program for retail investors
- The open-architecture nature of the electronic trading platform made it possible for any retail advisor anywhere in the country to place an order for a Mass. G.O.
- Open architecture MDN program vs. traditional underwriting:

Level 1: National Broker-Dealers

Level 2: Regional Broker-Dealers

Level 3: Independent & Other

II. “Getting Paid” for Transparency

- The ability to offer bonds in a rolling offering program was possible because of the state’s enhanced disclosure program
- The state updated its information statement on a bi-monthly basis, whether it was selling bonds or not
- And it developed a dedicated investor website that was used to make voluntary filings on a regular basis
- Also, the use of an electronic trading platform provided investors with significantly more pre- and post-price transparency than a traditional financing
- Bonds were also sold and allotted on a first come, first serve basis
- Same day order confirmation for investors

III. Finding the Right Level of Demand

- Even for frequent issuers, it's incredibly hard to know where bonds should price on a given day
- The typical process of pricing bonds on a single day – typically in a large transaction – makes it unlikely that supply and demand equal each other out
- The MDN program priced bonds every day, taking a dollar-cost averaging approach to pricing
- This reduced market risk, but more importantly, it removed the relative value buyer from the pricing
- No bonds were underwritten – no supply was forced upon the market
- The daily pricing of small amounts of bonds plumbed the market for the true investor demand for Mass. G.O.'s, which led to a **normalizing of pricing spreads**

Pricing Spread Analysis

- Prior to the launch of the program, MA looked at how short-dated MA G.O.'s had priced in the primary in previous transactions
- Analysis covered bond sales from 2008-2014
- Focused on spreads to MMD for new issue bonds with maturities of 2 years to 10 years
 - So no BABs, no taxable, no variable rate bonds included in the analysis

Pricing Spread Analysis Results

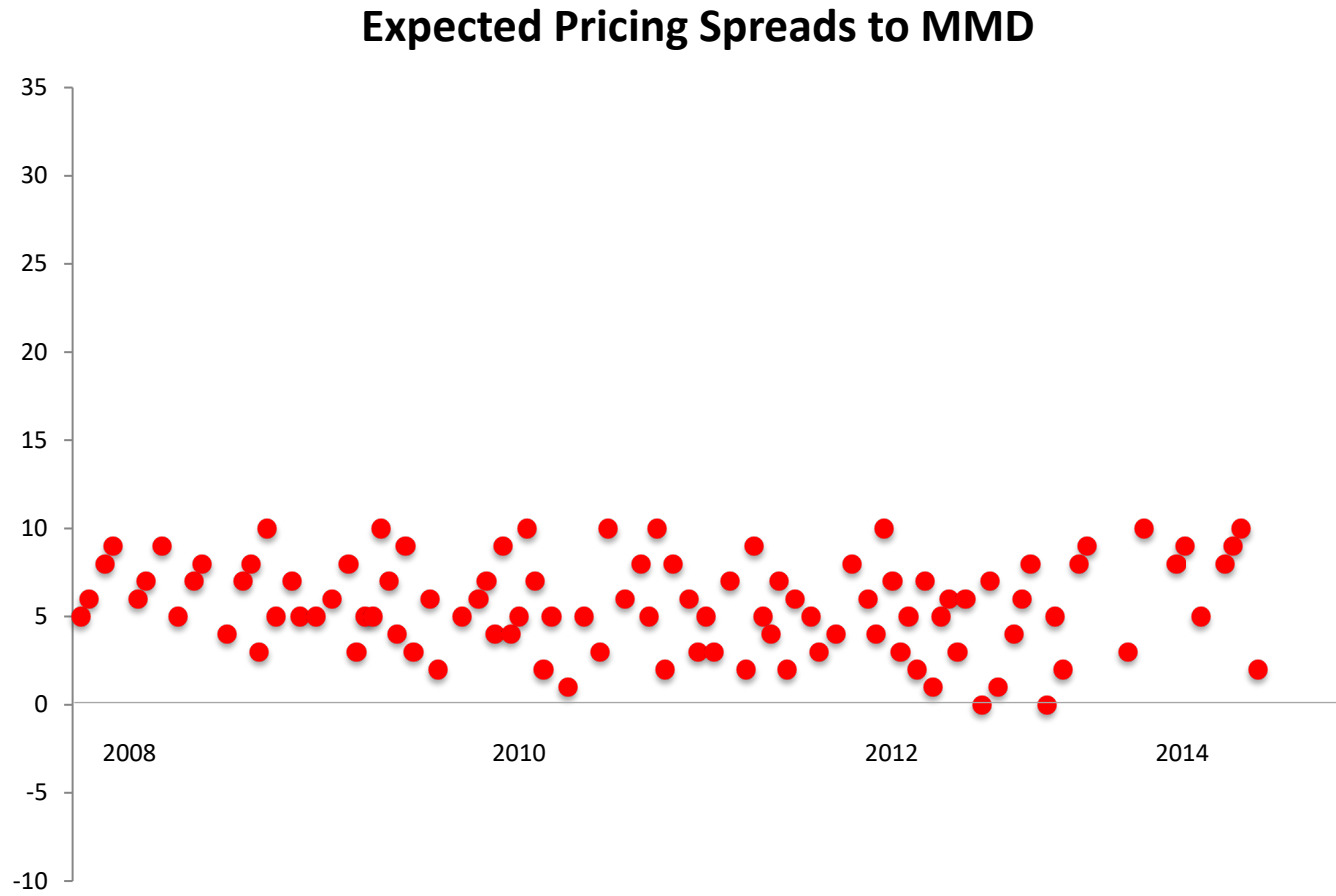
- The wide range of spreads to MMD for short-dated, highly rated bonds was a big surprise and counter intuitive

MA G.O.'s Historical Spread Analysis

Maturity	MAX Spread	MIN Spread	AVG Spread	Hi/Low Range
1	15	-2	2	17
2	23	6	13	17
3	23	9	15	14
4	23	-5	14	28
5	25	-5	15	30
6	29	0	18	29
7	30	0	20	30
8	30	17	24	13
9	30	18	24	12
10	32	12	22	20

- Wider spreads tended to be associated with larger deals, with larger maturities, in negotiated financings
- However, not enough data points to be definitive

Pricing Spreads: Expected



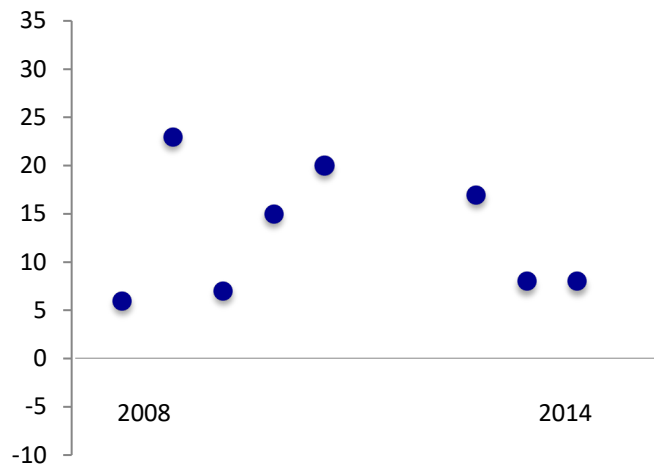
Pricing Spreads: Actual

Historical Pricing Spreads to MMD

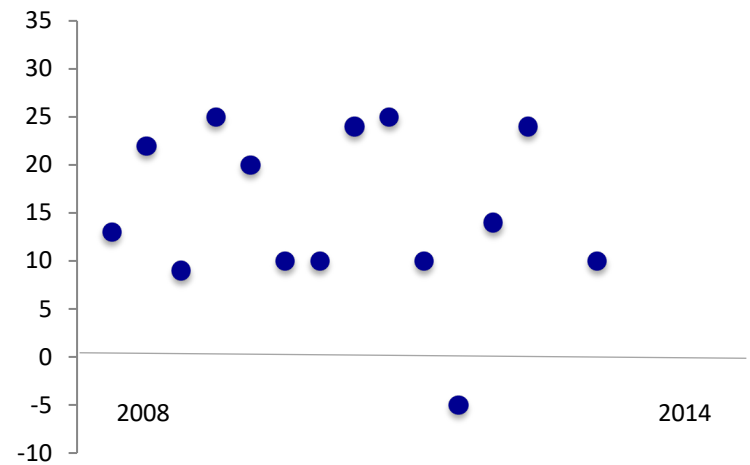


Pricing Spreads for Select Maturities

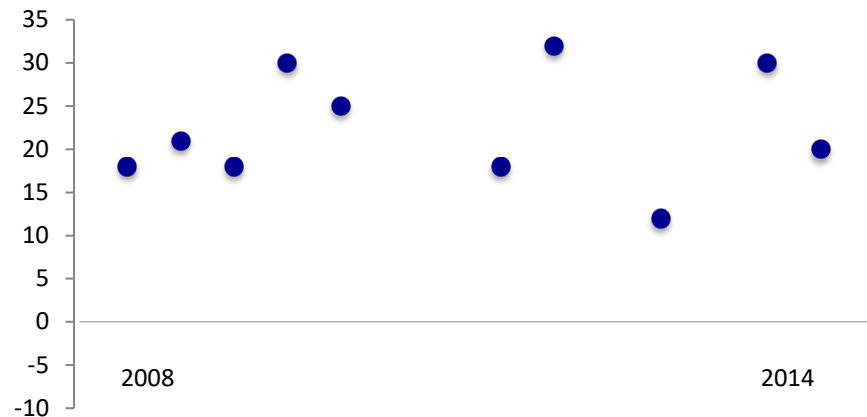
2 Yr Bonds



5 Yr Bonds



10 Yr Bonds



Results

- The initial MDN period in 2014 included 9 weeks of sales, with the program selling out of bonds ahead of schedule
- For the program, \$250 mm in bonds sold to retail, or \$6 million in bonds per day
- 1,080 individual orders from 44 different firms
- Average order size under \$250,000
- The small daily bond sales provided the state with real-time feedback on investor demand
- Over the course of the MDN program, the state used this real-time investor feedback to determine normal pricing spreads

Key Take-Aways

Electronic Trading Platforms can be used effectively by municipal issuers for new-issue financings, like they are in other markets

They promote a far more transparent, issuer and investor friendly process

They can lead to significantly better pricing results for issuers

Questions & Contact Information

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THE COMMUNITY INVESTMENT MARKETPLACE



NUMBER

34651

Brisbane's Peer!

BRIDGE THE BAY!

DO NOT HESITATE! BUILD THE SPAN ACROSS THE GATE!



"WILLIAM CHALLENGER"

If The Golden Gate Bridge were Highway, the Taxpayer would be in this position:

He would not be consulted as to its building.

He would have to absorb its whole cost in direct taxes.

He would get no direct return.

BUT, Since The Golden Gate Bridge is A Public Toll Bridge, the taxpayer is in this position:

He is consulted as to its building.

He is taxed only for the preliminary work, the total of his taxes, and this will be refunded.

All the remaining costs is absorbed by bonds redeemed from tolls.

There will be no tax after the bonds are voted and sold.

There will be a surplus earned of over five million Dollars in forty years, which will be distributed among the counties and may be applied for the reduction of general taxation.

Which is a better proposition for a taxpayer?

He accepts the highway without taxpayer and recognizes that the toll of the road to the entire community is a sufficient return.

Then, how can he fail to welcome a bridge now it is built without taxation and extra money which

Volume 1

VOTE EARLY AND LATE!

ELECTION: TUESDAY, NOV. 4, 1929

REVIVE BUSINESS, RE-GENERATE!

Number

A \$35,000,000
BRIDGE

Vote Yourself a Job!

\$20,000,000
L-A-B-O-R

Build Your Own Bridge! OWN Your OWN Bridge!
WORK FOR YOURSELF!

Times Are Fierce!

Vote in PROSPERITY

BE YOUR OWN BOSS



100

000

Millennials Will Live In Cities Unlike Anything We've Ever Seen Before



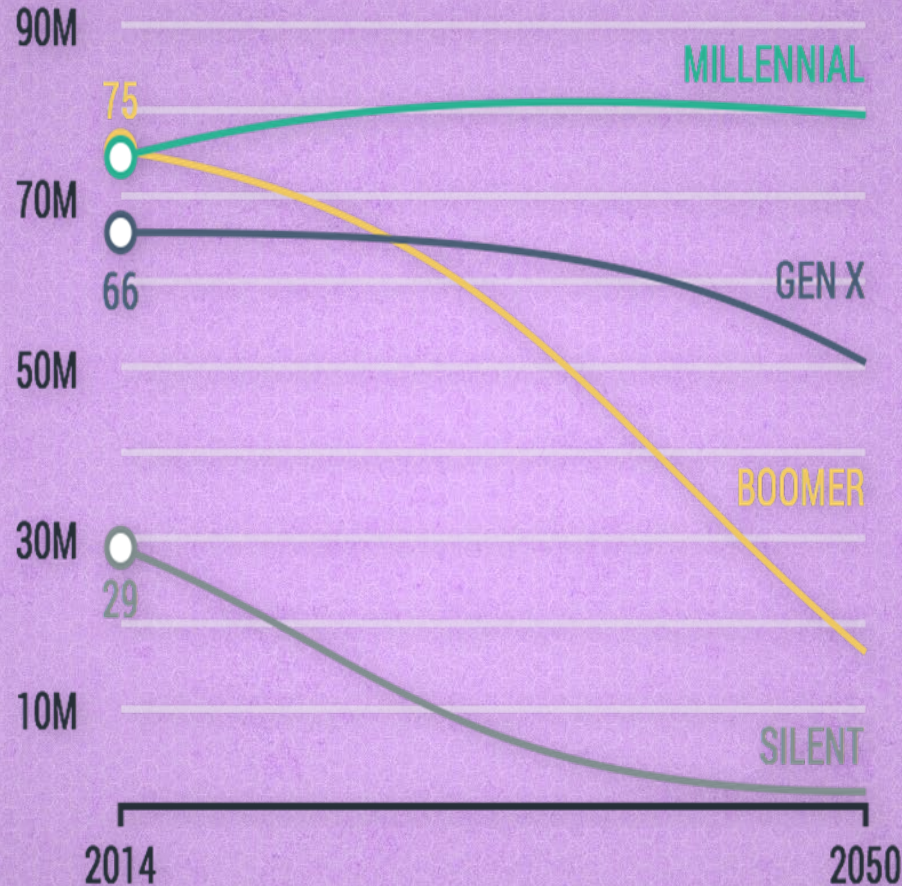
Alissa Walker

Filed to: URBANISM 7/16/15 1:45pm

61,158 🔥 11 ★ ⌵



MILLENNIALS: THE LARGEST GENERATION

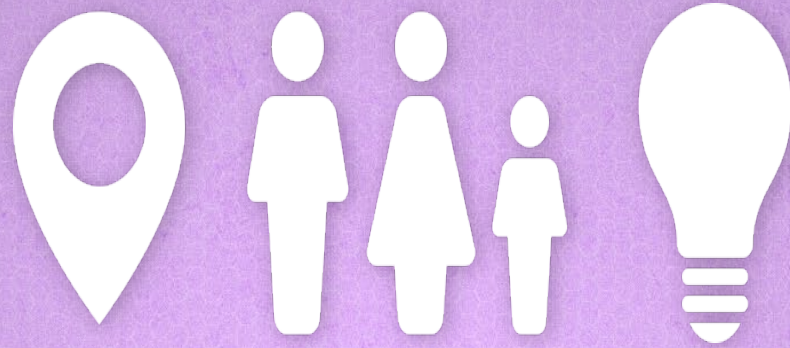


PROJECTED POPULATION BY GENERATION
PEW RESEARCH CENTER - CENSUS 2014

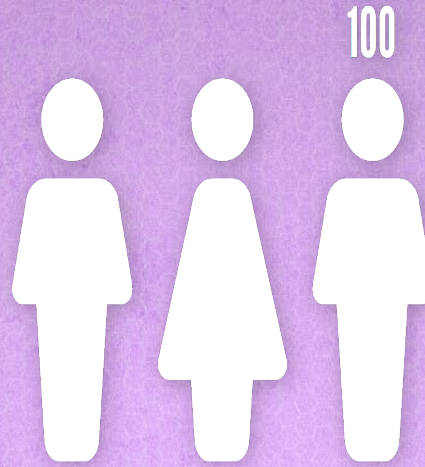
NOT ALL MILLENNIALS LIVE IN THEIR PARENTS' BASEMENT



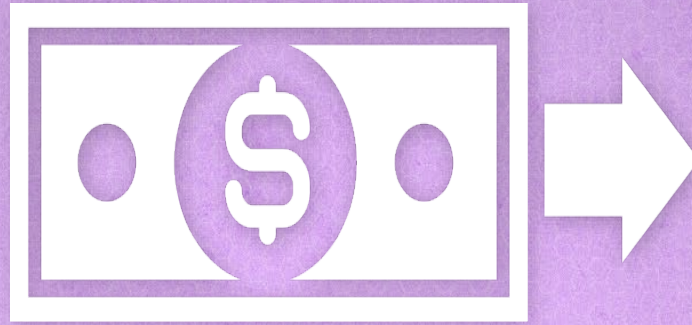
SHAPED BY TECHNOLOGY
“IN ALGORITHMS WE TRUST”



VALUE COMMUNITY, FAMILY & CREATIVITY IN THE WORKPLACE



1 IN 3 MILLENNIALS
WILL LIVE TO BE 100

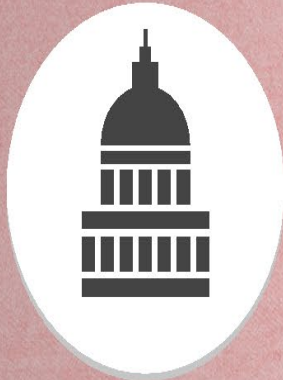


LARGEST WEALTH TRANSFER IN HISTORY

PROBLEM

TOO HARD FOR MILLENNIALS
TO INVEST IN CITIES

PROBLEM TOO EXCLUSIVE



THE WALL STREET JOURNAL. MARKETS

CREDIT MARKETS

Muni Bond Costs Hit Investors in Wallet

Investors Pay Twice as Much for Municipal Debt as for Corporate Bonds

By MATT WIRZ

March 10, 2014 7:44 p.m. ET

Big Money

Mom-and-pop investors traded about \$915 billion in municipal bonds from 2009-13. But they are paying more to brokers for those investments than do purchasers of other types of U.S. securities.

Average broker profit on
\$1,000 trade in 2013*

\$20

15

10



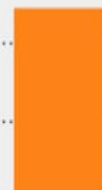
Percentage of securities held
by individual investors

50%

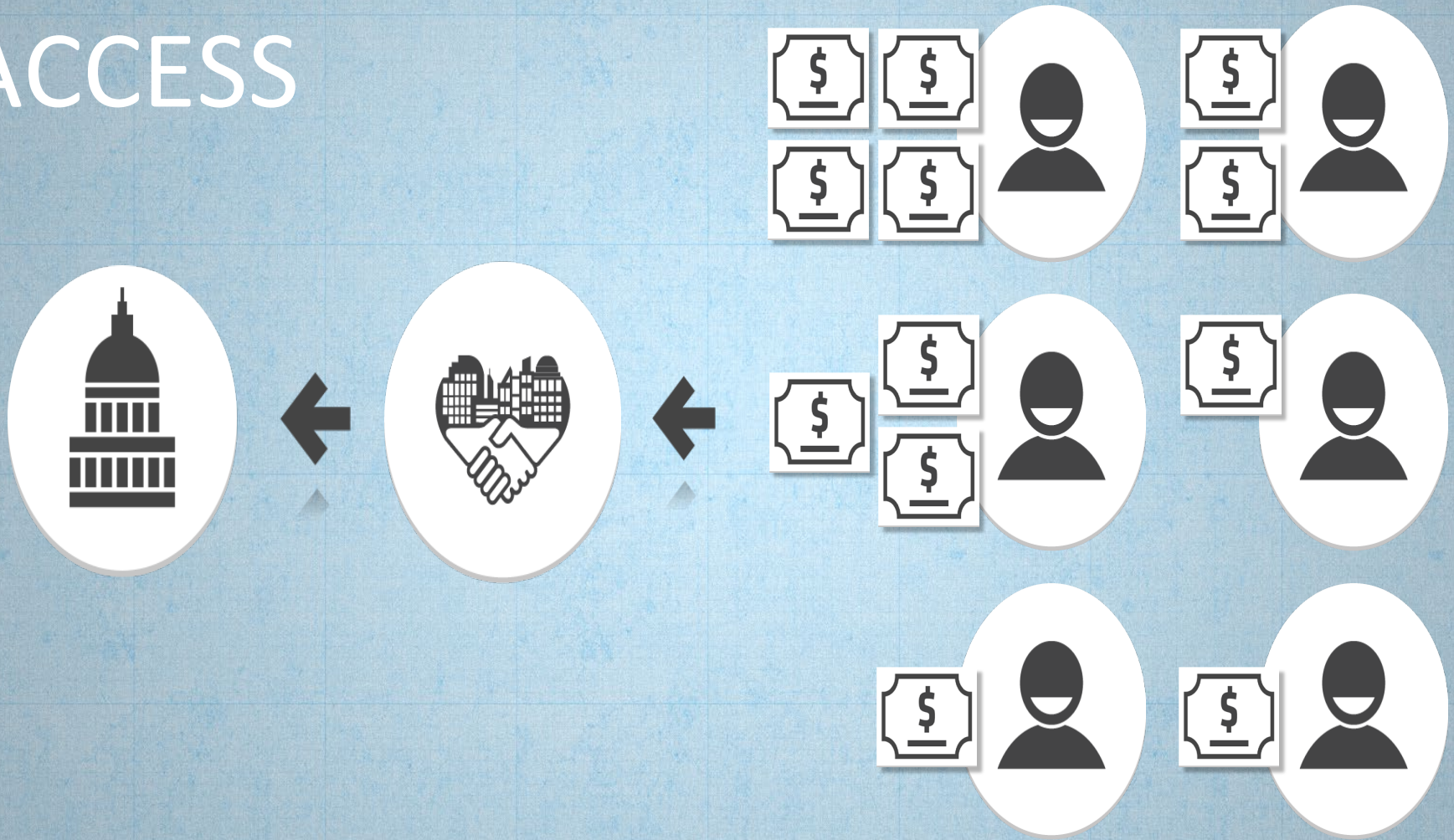
40

30

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SOLUTION: DEMOCRATIZE ACCESS



SOLUTION DEMOCRATIZE ACCESS

1 FIND by Place, Type, Yield

2 REVIEW

3 INVEST!

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BIG U HARBOR BERM
New York, NY
8%
\$26.3M 02 May '15

ELECTRIFY CALTRAIN
San Francisco, CA
10%
\$35.8M 10 Feb '15

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
San Francisco, CA
9%
\$91.2M 30 Aug '14

STREETCAR STARTER LINE
Kansas City, MO
6%
\$8.2M 20 Dec '14

THREE POINTS BEAUTIFICATION
Louisville, KY
\$1,011 (2M) 13 days left

BE A PLAYER - SOUTHTOWN ZONE
Kansas City, MO
\$340 (2M) 287 days left

BE A PLAYER - UNIVERSITY ZONE
Kansas City, MO
\$465 (2M) 287 days left

BE A PLAYER - SOUTH PLAZA ZONE
Kansas City, MO
\$330 (2M) 287 days left

KANSAS CITY
\$1,011 (2M) 13 days left

KANSAS CITY
\$340 (2M) 287 days left

KANSAS CITY
\$465 (2M) 287 days left

KANSAS CITY
\$330 (2M) 287 days left

BE A PLAYER - UNION HILL
\$1,011 (2M) 13 days left

BE A PLAYER - HOSPITAL
\$340 (2M) 287 days left

BE A PLAYER - JAZZ
\$465 (2M) 287 days left

BE A PLAYER - WESTSIDE
\$330 (2M) 287 days left

neighborly LEARN DISCOVER START A CAMPAIGN JOIN | LOGIN

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

State of California
San Francisco Unified School District
General Obligation
Sale Date: Saturday August 30, 2014
Bond Maturities: 2016 to 2025
Anticipated Yields: 1.24% to 2.26%
Issue Size \$91,285,000
See all Maturities

Support the growth of this community. Invest as little as \$500. **INVEST**

New Facilities to Foster Higher Learning

Pursuant to Measure J, proceeds of the District's bonds may be used for the specific projects named in the Bond Projects List approved by the voters, summarized as follows: to provide safe, modern classrooms and educational support facilities by replacing deteriorated portable classrooms with permanent classrooms; repairing deteriorated roofs; providing disabled students access; upgrading science labs, libraries, technology and restrooms; enhancing safety, fire detection and security systems; improving energy efficiency; replacing outdated electrical, plumbing and heating systems (the "Measure J Project").

NEIGHBORS BEHIND THIS
14 neighbors

ACTIVITY
SALE DATE
19 August 2014
12:30 pm EDT
DATED DATE
04 August 2014
ANNOUNCEMENT
30 July 2014

neighborly LEARN DISCOVER START A CAMPAIGN JOIN | LOGIN

YOU ARE INVESTING IN

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

Total: \$1,005.00
I'll cover the transaction fees

Please select a payment method

☐ CREDIT / DEBIT CARD
Fees \$29.30

☒ BANK ACCOUNT
Fees \$3.00

Checkout using a Bank Account

neighborly 1234 DATE

MEMO *Your Community* \$

ROUTING NUMBER ACCOUNT NUMBER

*Account Holder Name *Account Type
Checking Savings

*Routing Number *Account Number *Bank Name

Billing Information

*Name *Street Address

*City *State *Zip code
Select an option

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September 28, 2015 1:09 pm

Kenya launches bond sale via mobile phone

John Aglionby in Nairobi

[Print](#) [Clip](#)[Comments](#)

Kenya on Monday launched the world's first Treasury bond to be offered exclusively via mobile phone and slashed the minimum investment level in government debt, in a bid to stimulate public participation in the capital markets, raise money cheaply and boost the national savings rate.

The Ks5bn (\$48m) five-year retail M-Akiba infrastructure bond is based on Kenya's innovative M-Pesa mobile money system, which allows mobile phone subscribers to send and save money and pay bills with a few clicks on their phone.

~~CROWDFUNDING~~ COMMUNITY FINANCE

NEXT GENERATION COMMUNITY PROJECTS

PLAYGROUNDS LIBRARIES BIKE LANES PARKLETS
COMMUNITY GARDENS COMMUNITY SOLAR WIRELESS MESH NETWORKS
SKATE PARKS DISC GOLF PARKS MUNICIPAL DRIVERLESS FLEETS
OPEN SPACES DISTRIBUTED WATER RETENTION RESILIENCE RETROFITS

WHAT ELSE?

THANK YOU

“Anyone should be able to invest in anywhere”

“I want to save for retirement financially and socially”

“I want to invest directly in projects I care about”

“I want to invest in my community to help it become greener, healthier, more efficient...”