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# Roles and Responsibilities of the Issuer in the Debt Issuance Process

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Commission*

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# Overview

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- Capital Improvement Plan
- Types of Bonds
- Financing Team
- Method of Sale
- Structuring the Deal
- Rating Agencies
- Credit Enhancements

# Capital Improvement Plan

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- A CIP identifies projects to be funded, funding sources, and project expenditures into the future
- Is a key management tool
  - Establishes priorities
  - Matches
  - Positive factor from credit rating agencies
- CIP's shouldn't always rely solely on debt financing. Seek other revenues.
- Funding Source: Equity, Effectiveness, Efficiency
  - Fair to all who pay?
  - Is the revenue stream sufficient?
  - Are the costs less than using another source?

# General Obligation Bonds

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- General obligation bonds
  - Most common
  - Benefits community as a whole
  - Lower interest rates, stronger security pledge (tax levy)
  - Usually property or sales tax pledge
  - No reserve necessary
  - Flexible financing instrument
  - Voter approved

# Revenue Bonds

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- Have a definable user or revenue base
  - Pledge of a specific revenue stream
- Less secure than GO bonds
  - May be set by taxes, but limited
- Voter approval not necessary
- Issued for specific project and/or specific users
- Paid from the revenue of the project
- Debt service reserve usually required

# Financing Team

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- Financial advisor?
  - Assists w/ evaluation of all funding sources
  - Assists w/ RFP's
  - Assists bond counsel w/ document preparation
  - Assists w/ calendar & timing of issue
  - Cost – usually based on \$ amount per bond.
    - Ex: \$1 per \$1,000 of bonds sold
    - Bigger issue, bigger fee
    - Fixed amount more objective

# Financing Team

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- Role of the underwriter
  - Competitive v. negotiated sale plays a big part as to how much help the underwriter can be in structuring the deal
  - Competitive = less involvement (this is where an FA is very important)
  - Must be experienced with type of transaction being considered
  - Must have access to investors

# Financing Team

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- Role of bond counsel
  - Make sure legal authority is there
  - Tax opinions – tax exempt or taxable
  - Preparation of the documents
    - Indenture
    - Bond purchase contract
    - Trust agreement



# Trustee

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- Custodian of your funds
- Trust Indenture
  - Understand what it is
  - Know what your permitted investments are
  - Market is tough right now; investing reserves is more difficult
  - Get quotes from banks

# Investing Reserves/Proceeds

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- Setting up a reserve fund will cut into your proceeds
- Buying a surety will eliminate your reserve fund, but will cost you
- Arbitrage (earnings that exceed the municipal bond yield)

# Official Statement

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- Tell your story
- Especially now, everyone is skeptical

# Method of Sale

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- Competitive or negotiated
  - Governed by your debt policy?
  - Both can work
- Competitive depends on volatility of market, and an underwriter's ability to gauge the market
  - Rates can be defended in public

# Method of Sale

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- Negotiated
  - Issuer selects underwriter early in the process
  - Underwriter participates in structuring of the issue, preparation of documents

# Structuring the Issue

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- Five, 10, 20 or 30 year issues
- The longer the term, the greater the flexibility
- Fixed-rate issues – most common
- Variable-rate issues – more risk

# Structuring the Issue

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- Serial and Term bonds
  - Serial allows portion of bonds to mature every year
  - Lower interest rates on early redemptions
  - Term bond combines serial bonds into one; more attractive to institutional investors

# Rating Agencies

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- Know what your rating is
- Standard & Poor's (or Moody's or Fitch Investor's Service) don't always know your facts
- Submit a rating request prior to issuance
- Rating will be assigned
- Schedule a meeting (whether in person or conference call)



# Credit Enhancements

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- Bond insurance
  - Is it worth it?
  - Guarantees principal and interest payment
  - Usually 30 to 75 basis points
- Insurance companies have been downgraded
- What does this mean?

# Questions and Answers

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