



CDIAC Fundamentals of Debt Financing

Selection and Duties of the Financing Team

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Finance Officer's Role in Debt Issuance

Manage external parties in bond sale

- Select and assign duties to outside finance team participants
- Select the method of sale
- Negotiate business points of the transaction
- Ensure consistent, accurate and complete disclosure to marketplace
- Control the project and timeline
- Post-sale evaluation of financing team members

Financing Team

Internal

External



Finance Director serves as a liaison between the external and internal teams

FINANCIAL ADVISOR

Key Roles of the Financial Advisor

- **Provide information to enable Issuer to make informed financial and investment decisions**
- **Provide information and insights about new market developments and opportunities**
- **Assist in a broad array of capital planning and debt issuance tasks**
- **Assist in developing a Plan of Finance**
- **Facilitate Transaction Management Process**
 - Pricing and structuring bonds
- **Act as extension of staff**



Transaction Management Process



- Assist with entire process from designing plan of finance to post-closing administration
- Develop Plan of Finance: method of financing and basic deal structure
- Establish deal parameters: financing team members, compensation, policy objectives, structure and timeline
- Role will vary according to the expertise of the internal staff, type of bonds and method of sale

What to Look For in a Financial Advisor

- **Comprehensive and long-term perspective**
 - Capabilities should not be limited to issuing bonds
- **Independent and objective**
 - Does not sell or underwrite bonds*
- **Technical ability and resources**
- **Knowledge of the municipal bond market**
- **Understanding of the Issuer and your needs**
- **Experience with similar issuers and projects**

TYPES OF MUNICIPAL SECURITIES

Types of Municipal Securities

1. Backed by Property Tax or Special Lien

- Requires voter approval
 - **General Obligation Bonds** – unlimited ability to raise taxes
 - **Assessment District Bonds** – special assessment bonds
 - **CFDs** (Community Facilities District) – special tax bonds

2. Direct Obligation of Issuer (General Fund Credit)

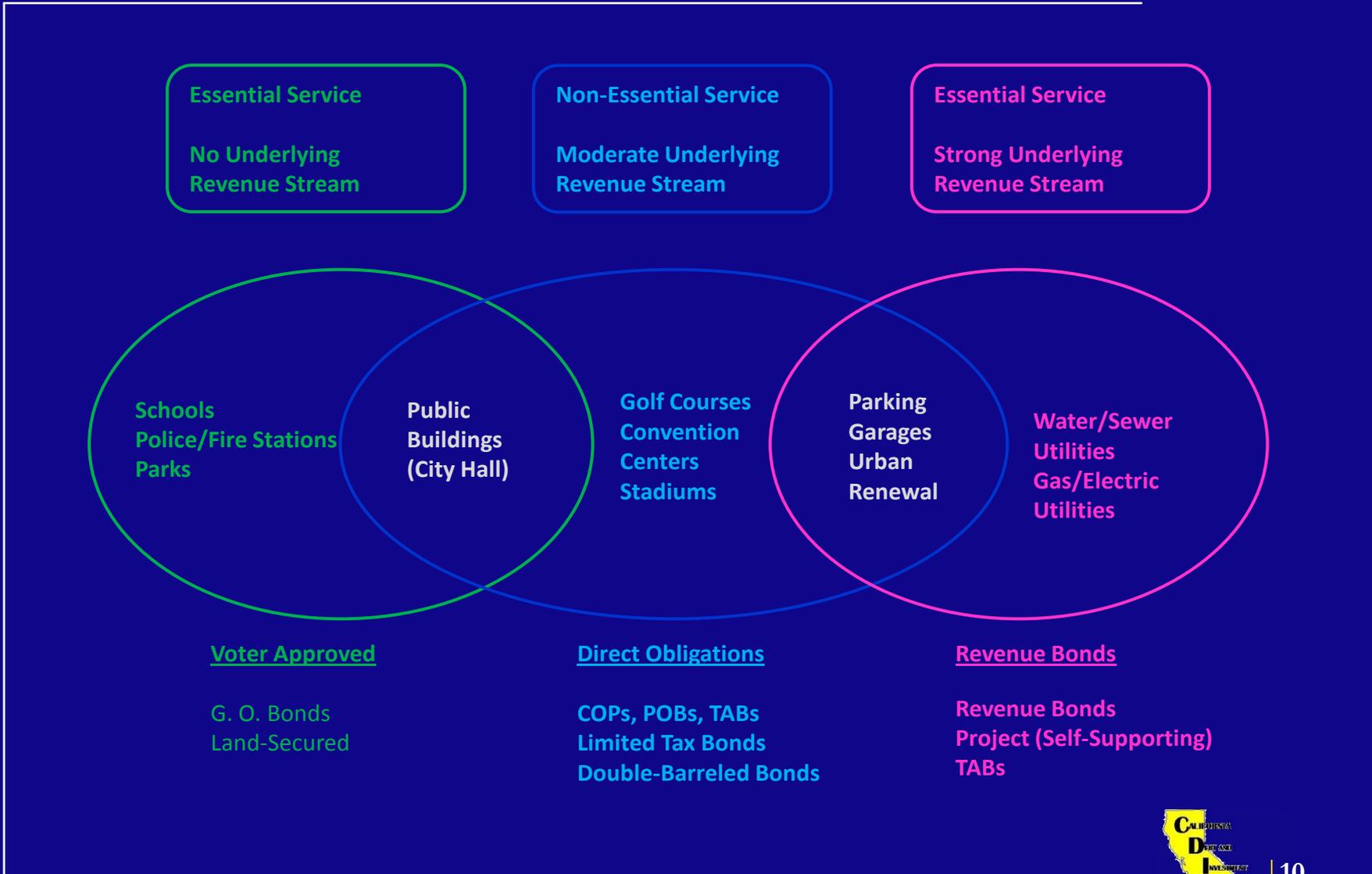
- Requires an General Fund (asset) Pledge - No voter approval
 - **COPs / Lease Revenue Bonds / Tax-exempt Lease**
 - **POBs** (Pension Obligation Bonds)
 - **Notes/ TRANs** (Tax and Revenue Anticipation Notes)

3. Backed by Revenue of Project/Enterprise

- Backed by project/enterprise-specific revenues
 - **Revenue Bonds** - water & sewer, parking bonds, sales tax, etc.
 - **Tax Allocation Bonds**



Types of Municipal Securities



BOND COUNSEL



Responsibilities of Bond Counsel

- **Review the constitutional and statutory basis for issuing the Bonds**
- **Examine any factors affecting the tax analysis**
 - Purpose of the financing and use of the Bond proceeds
 - Investment of the Bond proceeds
 - Sources for repayment of the Bond proceeds
- **Issue validity, tax, and supplemental opinions**



Responsibilities of Bond Counsel (cont.)

- Prepare all notices, resolutions, ordinances, certifications, contracts, and other financing documents
- Prepare closing certificates and memorandum
- Prepare closing transcript of proceedings to document the transaction
- Coordinate execution of closing documents and opinions



Basic Bond Documents

- **Trust Indenture**

- Provides the terms of the bonds and creates the legal structure for the security of the bonds.

- **Loan Agreement (Installment Sale or Facilities Lease Agreement)**

- Document to which the bond proceeds are lent or otherwise provided for the project.

- **Authorizing Resolutions or Ordinance**

- Authorizes the issuance and sale of the bonds, execution of the agreements, other actions necessary to complete the financing.



Basic Bond Documents (cont.)

- **Bond Purchase Agreement**
 - Provides for the sale of the bonds to the underwriter.
- **Official Statement**
 - Provides disclosure to investors and potential investors regarding the terms bonds, security, risk factors, and financial and operating information of the issuer.
- **Additional Documents**
 - Continuing Disclosure Agreement
 - Reimbursement Agreement/Financial Guaranty Agreement
 - Tax Certificate



Selecting Bond Counsel

- **RFP or RFQ: Competitive process - based on merit**
- **Does the firm specialize in a type of municipal bonds?**
- **Is the firm listed in the “Red Book?”**
- **Experience may outweigh fees**

Key Criteria for Selecting Bond Counsel:

- Experience and expertise
- Availability of key personnel
- Conflicts of interest
- Ability to work efficiently and cost effectively
- Recommendations and references



Post-Closing Responsibilities

- Provide legal advice re implications of legal documents and tax-exempt status of the bonds
- Compliance with rate covenants
- Clarify use of bond proceeds
- Provide arbitrage rebate analysis
- Assist with continuing disclosure reports
- Assist with refunding and prepayment options
- Provide advice re post issuance record keeping



TRUSTEE



Paying Agent /Fiscal Agent / Trustee

- **Paying Agent – Pay principal and interest to bondholders**
- **Fiscal Agent – Perform administrative duties on Issuer’s behalf**
 - Maintenance of reserve, project, and debt service funds
 - Custodian of investments (bond proceeds)
 - Monitor and collect compliance documentation
 - Covenants required under the financing documents.
- **Trustee – Ensure compliance with covenants and provisions of the Indenture**
 - Serves in fiduciary capacity on behalf of bondholders
 - Remedies in the event of default



Trust Indenture / Role of the Trustee

- **Trust Indenture contract signed by issuer & trustee**
- **Indenture serves as the governing document - not the Official Statement (OS)**

3 separate sets of contractual rights and obligations created:

1. Relationship between trustee and issuer with a focus on maintaining security interest supporting the bonds being issued/sold.
2. Debt obligations issued by City/District/Issuer run directly to the bond holders and not to the trustee.
3. The existence of a “trust” creates and defines a specific contractual relationship between the trustee and the bondholders.
 - Trustee is to administer the contract in accordance with terms of the indenture.
 - Subject to restrictions, authority and powers granted only through the indenture



Administrative Duties of Trustee

- **Maintains the “security” provisions supporting the bonds issued**
- **UCC statements, credit facilities, surety bond, reserve funds**
- **Administer all funds established under the indenture.**
 - Project fund, Reserve Fund, Sinking Funds, Redemption Fund, etc.
- **Construction fund accounting:**
 - Manage cash flows and payment of requisitions
- **Custodian (safekeeping agent) of bond proceeds /investments**
- **Debt Service billing and collection of revenues or payments**
- **Payment of principal and interest to bondholders**
- **Compliance manager:**
 - Does Surety Bond still meet the Reserve Requirement ?
 - Is Guaranteed Investment Contract (GIC) a permitted investment?
 - How will bondholders be paid in case of disaster (collect insurance proceeds) ?



Events of Default: Big “D” vs. Little “d”

- Once an “Event of Default” is declared, trustee must to pursue remedial provisions available under the Indenture
- A “default” will turn into an “Event of Default”, when/if:
 1. Grace period allowed under Indenture has expired, such as:
 - Failing to timely deposit of principal or interest payments
 - Failure to discharge a prior lien or senior obligations
 - A breach of any covenant after a stated period as noticed by the trustee
 2. No grace period to cure the event exists, such as;
 - An immediate Default is applicable upon any default in payment of principal of the bonds when due, or via a missed sinking fund installment
 - The filing of Bankruptcy by the Obligor



Identify the Right Trustee or Agent

- **Commitment Level of the bank or trust company**
 - Systems and resources utilized by the front and back office
 - Ability to attract talented trust professionals
 - Conflicts of interest?
- **What to expect for annual fee**
 - Perform your job and take care of debt holders
 - Make my life easier and assist me through this process
 - Sharing of knowledge related to covenant requirements
 - Ensure correct timing and delivery of statements - electronic or hard copy
 - Share your specific timing requirements and needs to help you succeed in timely payment or delivery



METHOD OF SALE

Method of Sale

Competitive Sale:

- Sale in which multiple underwriters submit sealed bids to purchase securities at a date and time certain; the underwriter which submits the lowest purchase price is awarded the bonds for sale to investors

Negotiated Sale:

- Sale in which an underwriter is chosen generally through a competitive RFP process, well before the sale date, to sell the bonds to investors; the purchase price for the bonds is negotiated between the issuer and the underwriter, generally with the assistance of the financial advisor

Private Placement:

- Loan placed directly with one or a few investors, typically a bank. Typically used for small financings to limit issuance costs/ implementation timeline as well as higher risk financings (i.e., non-rated), not appropriate for public sale



Competitive vs. Negotiated Sale

	<i>Competitive Sale</i>	<i>Negotiated Sale</i>
Issuer		
Type of Organization	Broad-based, general- purpose government	Special-purpose, independent authority
Frequency of Issuance	Regular borrower in public market	New or infrequent issuer of debt
Market Awareness	Active secondary market with wide investor base	Little or no institutional base, but growing dealer interest
Credit Quality		
Rating	"A" or better	Below single "A"
Pledged Revenues	General obligation	Project supported revenues
Security Structure	Conventional resolution and cashflow; rate covenant and coverage	Unusual or weak covenants; subordinated debt
Trend	Stable	Improving or under stress
Market Conditions		
Interest Rates	Stable, predictable market	Volatile or declining market
Demand	Strong investor demand, good liquidity, light forward calendar	Oversold market, heavy supply
Debt Structure		
Tax Status	Tax-exempt, no concerns	Taxable
Debt Instrument	Traditional serial and term, full-coupon bonds	Aggressive use of innovative bond structuring, derivative products, swaps or variable-rate debt instruments
Marketing		
Use of Underwriters	Broad market participation banker and direct business to local or regional firms	Ability to select "best qualified"
Investors	Process blind to ultimate investors	Sale can be managed to achieve wide distribution or targeted allotments
Pre-marketing	Limited need for pre-marketing – commodity, market pricing	Specific pre-sale activity to generate demand
Flexibility in Timing	Limited flexibility	Greatest flexibility in timing
Fine Tuning Structure	Limited options given to bidders	Unlimited ability to fine tune
Cost		
Gross Spread	Historically, spreads have been lower for competitive sales	Recent data shows negotiated deals to have equal or higher spreads than competitive sales
Interest Rate	Highest market price for commodity offered on day of sale	Best match of product with specific investor demand
Preparation		
Resolution/Structure	Issuer determines own preference for managing	Professional banking support and more direct marketing input in balancing security for investor vs. flexibility for issuer
Disclosure	Issuer relies on own program disclosure	Underwriters' counsel assists in the preparation of official statement

UNDERWRITER



The Role of the Underwriter

Intermediary between Issuers and Capital Markets

Financing Plan

- Preliminary Review
- Establish Timetable
- Perform credit assessment and due diligence
- Develop financial model
- Advise issuer on financing options
- Analyze alternatives

Structuring

- Recommend optimal bond structure
- Review legal documentation and Official Statement
- Prepare credit presentations
- Analyze insurance bids

Marketing & Pricing

- Syndicate leadership
- Identify and inform potential investors
- Set interest rates and prices
- Purchase securities from Issuer for resale to investors
- Distribute securities to investors
- Organize Closing

Post-Closing

- Post-pricing analyses
- Monitor credit
- Maintain secondary market liquidity in bonds
- Assist issuer with questions and follow up



Bond Marketing

- **Timely Pre-Marketing Efforts**
 - Prime market with early communications
 - Preliminary official statement
 - Site tours for prospective investors
 - Investor calls and presentations
- **Appropriate Investor Suitability**
 - Identify investors suitable risk profile
- **Outreach to Retail Investors**
 - High net-worth individuals
 - Target those most familiar with credits
- **Engage Institutional Buyers**
 - Size and type of financing will determine nature and extent of institutional interest



Underwriter Compensation

- **Management Fee**
 - Compensates the underwriters for their efforts in creating and implementing the financing structure. The amount is related to the complexity of the issue
- **Underwriting Fee**
 - Also known as the “risk” component, compensates the underwriter for the risk incurred by buying the entire issuance before it has received orders from investors for the bonds
- **Takedown**
 - The takedown is usually the largest part of the spread. It represents the discount at which the underwriter will buy or “takedown” the bonds from the underwriting account. The amount of takedown is related to how difficult the bond issue is the sell to investors
- **Expenses**
 - The issuer must also reimburse the underwriter for expenses incurred during the financing process. These expenses typically include, travel, underwriter’s counsel fees, bond association fees, DTC, and CUSIP



Selecting the Underwriter

- **Competitive Sale**

- Firm or syndicate with the best bid

- **Negotiated Sale**

- Request for Proposal (RFP)
 - Experience with particular credit or product
 - Past experience with issue/issuer (finance team continuity)
 - Strong sales network
 - Unique, innovative ideas that save the issuer money or allow for additional borrowing



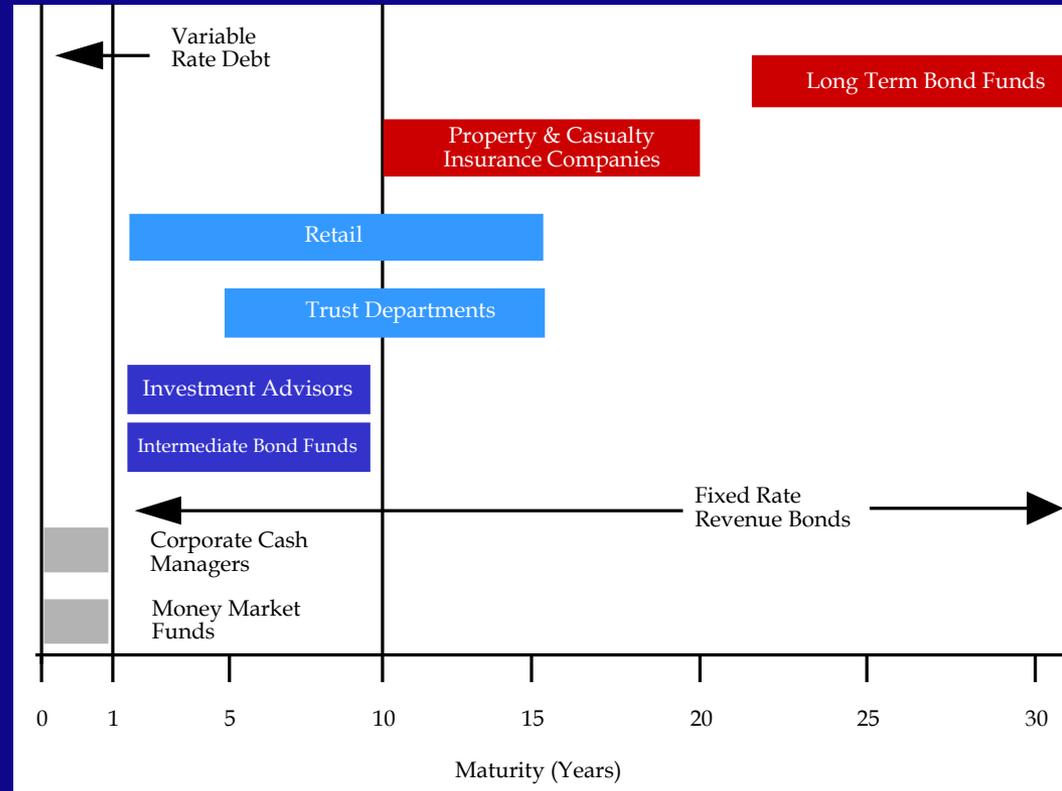
BOND SALE PROCESS

WHO BUYS YOUR BONDS?



Who Buys Municipal Bonds

- **Retail investors**
 - High net-worth individuals
 - Retirees /high tax bracket
- **Institutional Investors**
 - Bond funds
 - Investment advisors
 - Commercial banks
 - Bank trust departments
 - Insurance companies
 - Hedge funds
- **Primary benefits**
 - Diversification
 - Stability
 - Tax-free income



Order Summary

bonddesk * **syndicate**

Logged on: Muni Issuer | Terms

A BondDesk Trading Company

[View Your Bond Issues](#)

Order Summary

SELECT A REPORT:

[Refresh Screen](#)

Entire Syndicate

MATURITY	PAR (\$000's)	RETAIL (\$000's)	PRIORITY (\$000's)	MEMBER (\$000's)	OTHER (\$000's)	TOTAL ORDERS (\$000's)	OVER-SUBSCRIBED by	BALANCE (\$000's)
10/1/2007	600	300	600	0	0	900	1.50 x	-300
10/1/2008	650	50	1055	0	0	1105	1.70 x	-455
10/1/2009	700	50	1400	580	0	2030	2.90 x	-1330
10/1/2010	750	25	800	0	0	825	1.10 x	-75
10/1/2011	800	80	800	800	0	1680	2.10 x	-880
10/1/2012	850	70	1700	950	0	2720	3.20 x	-1870
10/1/2013	900	125	1800	415	0	2340	2.60 x	-1440
10/1/2014	950	100	1800	0	0	1900	2.00 x	-950
10/1/2015	1000	100	0	25	0	125	0 x	875
10/1/2016	1100	100	1100	230	0	1430	1.30 x	-330
10/1/2017	1150	25	500	740	0	1265	1.10 x	-115
10/1/2018	1200	120	0	0	0	120	0 x	1080
10/1/2019	1250	75	800	250	0	1125	0 x	125
10/1/2020	1300	150	1300	500	0	1950	1.50 x	-650
10/1/2021	1350	240	1350	300	0	1890	1.40 x	-540
10/1/2022	1400	150	1400	550	0	2100	1.50 x	-700
10/1/2023	1450	170	1450	700	0	2320	1.60 x	-870
10/1/2024	1500	250	1500	500	0	2250	1.50 x	-750
10/1/2025	1550	175	825	550	0	1550	1.00 x	0
10/1/2026	1600	230	0	250	0	480	0 x	1120
Totals	22050	2585	20180	7340	0	30105	1.37 x	3200



Order Summary - Detail

bonddesk * syndicate

Logged on: Municipal Issuer | Terms

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A BondDesk Trading Company

[View Orders](#) [HELP](#)

\$10,000,000
California School District
Unlimited Tax General Obligation Bonds
San Mateo County, CA

ORDER TIME	SYND PARTICIPANT	ACCOUNT	PRIORITY	ZIP/CONDITIONS	ORDER QTY	REPRICE STATUS
10/1/2007 Par: 1,000m Cpn: 4% Yield: 3.35 Price: 100.615 CUSIP:123456789						
09/25/06 6:45PM EST	Fixed Income Underwriting Firm		CA Retail	AON	25	N/A
09/25/06 6:56PM EST	Fixed Income Underwriting Firm	Norcal Inv. Advisor	Net Design.		1,000	N/A
09/25/06 6:54PM EST	Dealer ABC		CA Retail	min 25m	50	N/A
					1,075	
10/1/2008 Par: 1,000m Cpn: 4% Yield: 3.4 Price: 101.134 CUSIP:123456						
09/25/06 6:56PM EST	Fixed Income Underwriting Firm	Norcal Inv. Advisor	Net Design.		500	N/A
09/25/06 6:54PM EST	Dealer ABC		CA Retail	min 25m	50	N/A
					550	
10/1/2009 Par: 1,000m Cpn: 4% Yield: 3.45 Price: 101.54 CUSIP:123456						
09/25/06 6:56PM EST	Fixed Income Underwriting Firm	Norcal Inv. Advisor	Net Design.		500	N/A
09/25/06 6:54PM EST	Dealer ABC		CA Retail	2nd '10, min 25m	50	N/A
					550	
10/1/2010 Par: 1,000m Cpn: 4% Yield: 3.5 Price: 101.838 CUSIP:123456						
09/25/06 6:45PM EST	Fixed Income Underwriting Firm		CA Retail	AON	25	N/A
09/25/06 6:56PM EST	Fixed Income Underwriting Firm	Norcal Inv. Advisor	Net Design.		500	N/A
					525	
10/1/2014 Par: 1,000m Cpn: 4% Yield: 3.7 Price: 102.053 CUSIP:123456						
09/25/06 6:55PM EST	Fixed Income Underwriting Firm	West Coast Mutual Fund	Net Design.		1,000	N/A
					1,000	
10/1/2015 Par: 1,000m Cpn: 5% Yield: 3.8 Price: 109.05 CUSIP:123456						
09/25/06 6:55PM EST	Fixed Income Underwriting Firm	West Coast Mutual Fund	Net Design.		1,000	N/A



Order Summary - Detail



View Orders

bonddesk  **syndicate**

A BondDesk Trading Company

Logged on: Issuer | Terms

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\$10,000,000
California School District
Unlimited Tax General Obligation Bonds, Series 2009
County County, CA

The Order Period for this Underwriting closes at: 02/18 1:00PM EST

ORDER TIME	SYND PARTICIPANT	ACCOUNT	PRIORITY	ZIP/CONDITIONS	ORDER QTY	REPRICE STATUS
10/1/2009 Par: 100m Cpn: 3% Yield: 1 Price: 101.159 CUSIP:123456789						
02/17/09 1:40PM EST	BondDesk Syndicate		Member		100	N/A
02/17/09 1:40PM EST	BondDesk Syndicate		Member		100	N/A
					200	
10/1/2010 Par: 200m Cpn: 3% Yield: 1.65 Price: 102.1 CUSIP:123456789						
02/17/09 1:40PM EST	BondDesk Syndicate		Member		200	N/A
02/17/09 1:43PM EST	Fixed Income Underwriting Firm		Member		100	N/A
					300	
10/1/2011 Par: 300m Cpn: 3% Yield: 2.1 Price: 102.25 CUSIP:123456789						
02/17/09 1:40PM EST	BondDesk Syndicate		Member		300	N/A
02/17/09 1:43PM EST	Fixed Income Underwriting Firm		Member		100	N/A
					400	
10/1/2012 Par: 400m Cpn: 4% Yield: 2.35 Price: 105.637 CUSIP:123456789						
02/17/09 1:40PM EST	BondDesk Syndicate		Member		400	N/A
02/17/09 1:43PM EST	Fixed Income Underwriting Firm		Member		100	N/A
					500	
10/1/2013 Par: 500m Cpn: 4% Yield: 2.5 Price: 106.456 CUSIP:123456789						
02/17/09 1:40PM EST	BondDesk Syndicate		Member		500	N/A
					500	

KEEPING YOU AHEAD OF THE CURVE



BONDDESKGROUP



QUESTIONS ?

