



# *Roles and Responsibilities of Debt Issuers and Finance Team Members*

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**Session Two: Debt Basics  
October 26, 2016**

# Speaker Introductions

- Jay Panzica, CFO, Roseville
- Monty Hanks, Finance Director, Roseville
- Terry Maas, Managing Director, FirstSouthwest
- Dennis McGuire, Managing Director, Piper Jaffray
- Dave Fama, Attorney at law, Jones Hall
- James Wawrzyniak, Attorney at law, Jones Hall



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# Issues

- Today's presentation will be primarily focused on:
  - The decision to issue debt
  - Roles of each financing team member
  - Steps in the financing process
  - What happens following issuance

# Roseville and its Debt Portfolio



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# Roseville at a Glance

- The City
  - Located 16 miles north of Sacramento and 102 miles northeast of San Francisco
  - Population of approximately 134,000
  - Top employers include Hewlett-Packard, Kaiser Permanente, and Union Pacific Railroad
  - Home to the 2nd largest shopping mall in Northern California: The Westfield Galleria
- City Government
  - Council/Manager government
  - Electric, water, wastewater and solid waste utilities
  - 1,100 employees across 24 departments
  - 2016-17 budget estimated at \$483 million



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# Roseville's Debt Portfolio

- \$934 million outstanding
  - \$403 million for the enterprise funds
  - \$23 million for the General Fund
  - \$31 million for the successor agency
  - \$328 million for special districts (CFDs)
  - \$149 million for Natural Gas Prepayment
- Variety of debt types
  - Fixed rate bonds
  - Variable rate bonds
    - SIFMA notes
  - COPs/Lease Revenue Bonds
  - Bank loans (Direct Purchase)
  - Interest rate swaps

# Roseville's Debt Ratings

	<u>S&amp;P</u>
• General Fund	AA+
• Electric Utility	A+
• Water Utility	AA-
• Wastewater Utility	A+
• RDA Successor	A+

# Role of the Financial Advisor



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# Role of the Financial Advisor

## Prior to a Bond Transaction:

- Develop financing options or a plan of finance
- Monitor & evaluate market conditions for opportunities
- Evaluate proposals submitted by underwriters, developers, other interested parties
- Assist in the development of debt & finance policies
- Assist in staff training & development
- Recommend method of sale – competitive vs. negotiated public issue (or private placement)
- Assist in the selection of other finance team members

# Role of the Financial Advisor

## During a Bond Transaction:

- Manage the financing schedule & process
- Review all necessary documents, including legal covenants & disclosure
- Structure debt service / review underwriter numbers
- Help prepare & deliver rating & insurance presentations
- Evaluate (or assist) insurance & surety proposals
- Negotiate pricing in a negotiated sale of bonds
- Assist with closing



# Role of the Financial Advisor

## After a Bond Transaction:

- Assist as needed with administrative questions
- Assist as needed on post-closing disclosure compliance (i.e., continue staff training & development)



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# Role of the Financial Advisor

## Changing Role of the Financial Advisor – The “MA rule”:

<ul style="list-style-type: none"> <li>• Now registered with SEC &amp; MSRB</li> </ul>	<ul style="list-style-type: none"> <li>• Formalized the FA role as a “Fiduciary” (contrasted with the underwriter who is responsible for “fair dealing”) – clients’ interest comes before FA’s financial or other interests</li> <li>• MSRB rules still evolving</li> </ul>
<ul style="list-style-type: none"> <li>• Facilitate communications between issuers and underwriters</li> </ul>	<ul style="list-style-type: none"> <li>• The RFP exemption – issue or program specific</li> <li>• The IRMA exemption – issuer puts on retainer &amp; acknowledges reliance on FA advice</li> </ul>
<ul style="list-style-type: none"> <li>• Practical changes</li> </ul>	<ul style="list-style-type: none"> <li>• Many smaller or less frequent issuers who did not previously use financial advisors have begun to establish role for financial advisor in their financing programs</li> <li>• SEC did not intend to create MA rule to make the FA a gatekeeper, a good FA should help foster environment for good ideas to reach issuer</li> </ul>

# Role of the Underwriter – Negotiated Sale



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# Role of an Underwriter

- *Idea Generation*
  - ✓ Prior to receiving an exemption/being hired
  - ✓ With exemption
- *Bond Structuring*
  - ✓ Present structuring options
  - ✓ Conforming numbers to legal documents
- *Bond Underwriting*
  - ✓ Marketing the bonds to potential investors
  - ✓ Selling the bonds/ setting the interest rates and finalizing structure
  - ✓ Underwriting (purchasing) the bonds

# Idea Generation

- *Without Exemption*
  - ✓ Market update
  - ✓ Applicable case studies of recent transactions
  - ✓ Basic refunding numbers
- *Exemption – 2014 “MA Rule” requires an exemption before providing “advice”*
  - ✓ RFP Exemption, Underwriter Exemption and Independent Municipal Advisor (“IRMA”) Exemption
  - ✓ Underwriter can provide more detailed and deal specific ideas and analysis

# Structuring the Financing

- *Market/ Investor Update for type of financing*
  - ✓ Credit
  - ✓ Interest Rates
  - ✓ Redemption features, reserve funds, bond insurance and other structuring items
- *Develop structuring options based on goals of issuer and what is acceptable to the market*
- *Review outstanding legal documents, if any, to conform parameters of financing*
- *Due diligence of credit*
- *Work with other consultants on revenue projections that serve as security*
- *Review legal documents for proper covenants and structural items – confirm numbers and documents conform*
- *Assist/ lead preparation of rating presentation (with Financial Advisor) and work with bond insurer*
- *Review offering document (Preliminary Official Statement)*



# Marketing/ Underwriting Bonds

- *Marketing the Bond Issue*
  - ✓ Preliminary Official Statement to investors one to two weeks prior to pricing
  - ✓ Site tour, net roadshow, discussions with salespeople and investors
  - ✓ Requests for changes to structure or legal covenants from investors
  - ✓ Goal is to have credit analysts/ investors to approve/ understand the credit as well as differentiate from other transactions coming to market
- *Pre-pricing*
  - ✓ Interest rate discussions begin between investors and underwriting desk
  - ✓ Pre-pricing conference call held day prior to pricing
    - Proposed pre-pricing interest rate scale and structure presented to Issuer and Financial Advisor
    - Proposal based on recent transactions, changes in the market and initial investor demand
    - Market comparables reviewed (See following page)
- *Pricing*
  - ✓ Order Period (usually 60 to 90 mins) – investors submit orders based on proposed rates and structure
  - ✓ Review orders per maturity to determine where adjustments can be made (see following page)
  - ✓ Issuer and underwriter agree on final pricing and structure – final numbers circulated to group
  - ✓ Bond Purchase Agreement signed between Issuer and Underwriter
- *Post Pricing*

# Market Comparables

Issuer:  
 Sale Date:  
 Description:  
 Par:  
 Optional Call:  
 Insurance:  
 Credit:  
 Rating:

Issuer #1 Sample Preliminary Scale						
09/15/2016						
Tax Allocation Refunding Bonds, Series 2016						
\$50,000,000						
Anytime on/after 9/1/2026						
N/A						
Surety Reserve						
AA- (S&P)						
<b>PRELIMINARY</b>						
Maturity	MMD	Coupon	Yield to Call	YTC Spread to MMD	Yield to Maturity	YTM Spread to MMD
2016						
2017	0.60	2.00	1.10	0.50		
2018	0.70	3.00	0.80	0.10		
2019	0.77	4.00	0.87	0.10		
2020	0.86	4.00	0.96	0.10		
2021	0.95	4.00	1.05	0.10		
2022	1.08	4.00	1.20	0.12		
2023	1.19	4.00	1.34	0.15		
2024	1.28	5.00	1.48	0.20		
2025	1.36	5.00	1.61	0.25		
2026	1.45	5.00	1.73	0.28		
2027	1.53	5.00	1.83	0.30	2.06	0.53
2028	1.61	5.00	1.96	0.35	2.36	0.75
2029	1.68	5.00	2.03	0.35	2.57	0.89
2030	1.73	5.00	2.08	0.35	2.74	1.01
2031	1.78	4.00	2.38	0.60	2.82	1.04
2032	1.84	4.00	2.44	0.60	2.92	1.08
2033	1.89	4.00	2.49	0.60	3.00	1.11
2034	1.94	4.00	2.54	0.60	3.07	1.13
2035	1.99	4.00	2.59	0.60	3.14	1.15
2036	2.03	4.00	2.63	0.60	3.19	1.16
2037						
2038						
2039						
2040	2.09	4.00	2.69	0.60	3.31	1.22
2041						
2042						
2043						
2044						
2045						
2046						

Issuer #2 Final Scale						
06/21/2016						
Tax Allocation Refunding Bonds, Series 2016						
\$25,000,000						
Anytime on/after 10/1/2026						
<b>AGM (2027-2036)</b>						
Surety Reserve						
AA/A+ (S&P/Underlying)						
<b>FINAL</b>						
Maturity	MMD	Coupon	Yield to Call	YTC Spread to MMD	Yield to Maturity	YTM Spread to MMD
2016						
2017	0.60	2.00	0.70	0.10		
2018	0.70	3.00	0.85	0.15		
2019	0.80	3.00	0.97	0.17		
2020	0.90	4.00	1.10	0.20		
2021	1.01	4.00	1.22	0.21		
2022	1.12	4.00	1.35	0.23		
2023	1.23	4.00	1.53	0.30		
2024	1.32	4.00	1.68	0.36		
2025	1.42	4.00	1.83	0.41		
2026	1.52	4.00	1.97	0.45		
2027	1.61	5.00	2.07	0.46	2.27	0.66
2028	1.65	5.00	2.11	0.46	2.48	0.83
2029	1.70	5.00	2.16	0.46	2.66	0.96
2030	1.75	5.00	2.21	0.46	2.82	1.07
2031	1.81	5.00	2.27	0.46	2.97	1.16
2032	1.86	5.00	2.33	0.47	3.10	1.23
2033	1.91	5.00	2.38	0.47	3.20	1.29
2034	1.96	5.00	2.43	0.47	3.30	1.34
2035	2.00	4.00	2.64	0.64	3.16	1.15
2036	2.04	3.00	3.09	1.05		
2037						
2038						
2039						
2040						
2041						
2042						
2043						
2044						
2045						
2046						

Issuer #3 Final Scale						
06/16/2016						
2016 Tax Allocation Refunding Bonds						
\$10,000,000						
Anytime on/after 10/1/2026						
<b>BAM</b>						
Surety Reserve						
AA/A+ (S&P/Underlying)						
<b>FINAL</b>						
Maturity	MMD	Coupon	Yield to Call	YTC Spread to MMD	Yield to Maturity	YTM Spread to MMD
2016						
2017	0.59	2.00	0.88	0.29		
2018	0.67	2.00	1.00	0.33		
2019	0.77	2.00	1.10	0.33		
2020	0.87	3.00	1.25	0.38		
2021	0.96	3.00	1.40	0.44		
2022	1.06	2.00	1.55	0.49		
2023	1.17	2.00	1.70	0.53		
2024	1.25	2.50	1.85	0.60		
2025	1.35	2.50	2.00	0.65		
2026	1.45	2.00	2.20	0.75		
2027	1.54	2.13	2.38	0.84		
2028	1.58	2.25	2.50	0.92		
2029	1.63	2.50	2.63	1.00		
2030	1.68	2.50	2.75	1.07		
2031	1.74	2.63	2.85	1.11		
2032						
2033						
2034						
2035						
2036						
2037						
2038						
2039						
2040	2.04	3.00	3.09	1.05		
2041						
2042						
2043						
2044						
2045						
2046						



# Order Monitor

Maturity	Amount	Total Priority (\$000's)	Total Member (\$000's)	Total (\$000's)	Balance (\$000's)	Oversubscription
09/01/2015	2,270	-	-	-	2,270	
09/01/2016	2,505	-	2,500	2,500	5	1.00
09/01/2017	2,735	-	3,000	3,000	(265)	1.10
09/01/2018	2,970	-	-	-	2,970	-
09/01/2019	3,220	-	4,000	4,000	(780)	1.24
09/01/2020	3,515	-	5,000	5,000	(1,485)	1.42
09/01/2021	3,835	-	10,000	10,000	(6,165)	2.61
09/01/2022	4,165	-	12,000	12,000	(7,835)	2.88
09/01/2023	4,515	-	2,500	2,500	2,015	0.55
09/01/2024	4,890	-	10,000	10,000	(5,110)	2.04
09/01/2025	5,285	-	22,405	22,405	(17,120)	4.24
09/01/2026	5,700	-	27,800	27,800	(22,100)	4.88
09/01/2027	6,135	-	18,270	18,270	(12,135)	2.98
09/01/2028	6,600	-	24,800	24,800	(18,200)	3.76
09/01/2029	7,090	-	41,450	41,450	(34,360)	5.85
09/01/2030	7,610	-	50,660	50,660	(43,050)	6.66
09/01/2031	8,160	-	69,320	69,320	(61,160)	8.50
<b>TOTAL:</b>	<b>81,200</b>	<b>-</b>	<b>303,705</b>	<b>303,705</b>	<b>-</b>	



# Roles of Bond Counsel and Disclosure Counsel



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# Role and Services of Bond Counsel

- Historical roots related to need for an Approving Legal Opinion
- Municipal bonds are not marketable without accompanying opinion of a nationally recognized bond counsel that addresses, based on review of the “transcript”:
  - Validity of Bonds under State law
  - Source of payment and security for the Bonds
  - Whether and to what extent interest on the Bonds is exempt from federal and state income tax
- Objective/unqualified Bond Counsel opinion required
- Bond counsel opinion does not constitute a guarantee

# Role and Services of Bond Counsel

- Render approving legal opinion
- Preparation and review of documents necessary or appropriate to the authorization, issuance, sale and delivery of the Bonds, coordination of the authorization and execution of these documents
- Reviewing legal issues relating to the structure of the bond issue
- As applicable: assisting the Issuer in seeking from other governmental authorities any approvals, permissions and exemptions necessary or appropriate in connection with the sale of the Bonds
- As applicable: preparing election proceedings or pursuing validation proceedings

# Role and Services of Bond Counsel

- Reviewing or preparing those sections of the official statement that relate to the bonds, financing documents, bond counsel opinion and tax exemption
- Assisting the Issuer in presenting information to bond rating organizations and credit enhancement providers relating to legal issues affecting the issuance of the Bonds
- Reviewing or preparing the Notice of Sale or Bond Purchase Contract for the Bonds and reviewing or drafting the continuing disclosure undertaking of the Issuer
- Post issuance advice
  - Representation in the event of IRS audits or SEC investigations
  - Bond covenant compliance



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# Role and Services of Disclosure Counsel

- Assist the Issuer in preparing the Official Statement and complying with Federal Securities Laws:
  - SEC Rule 10b(5)
  - SEC Rule 15c2-12
- Due Diligence Review
- Draft and adopt disclosure policies and procedures
- Reviewing or drafting the continuing disclosure undertaking of the Issuer
- Negative assurance letter delivered to the Issuer and the Underwriter

# Role and Services of Disclosure Counsel

- Recent Increase in SEC activity in Municipal Market Related to Continuing Disclosure Compliance
  - Enforcement Actions
  - MCDC Initiative
    - Settlements with Underwriters
    - Settlements with Issuers
- Compliance with continuing disclosure undertakings likely to remain focus of SEC and other regulators
- Disclosure policies and procedures recommended

# Post Issuance



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# Post Issuance Responsibilities

- Debt Policy
  - Provides guidance to staff
  - Help preserve credit strength and fund future capital needs
  - Requested during Due Diligence calls
- Continuing Disclosure / Reporting Requirements
  - Creation of a debt calendar
- Dissemination of documents to EMMA
  - Hired a 3<sup>rd</sup> party to review and post
- Arbitrage compliance

# Conclusion/Questions?



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