CDIAC Bond Pricing Case Study

The City of Sandpointe, California, is taking advantage of favorable interest rates and is pursuing a refunding of bonds secured by the net revenues of its water enterprise. The 2016 Water Refunding Revenue Bonds (the "2016 Bonds") will be on parity with another series of currently outstanding water revenue bonds issued by the City in 2013. The City has strong current and projected debt service coverage on the 2016 Bonds and a lot of unreserved cash in the water fund. The City and its financing team present the 2016 Bonds credit to Standard & Poor's and the 2016 Bonds are assigned an underlying rating of "AA" with a stable outlook. In preparation for the pre-pricing of the 2016 Bonds, the City reviews a spreadsheet illustrating how other water revenue bonds priced in the municipal market over the past two months. The spreadsheet is attached as Appendix 1. It includes the coupons and yields for a number of water revenue bonds, along with the spread between the yields and the Municipal Market Index ("MMD"), a common benchmark used when pricing municipal bonds. The spreadsheet also includes the par size of each issue, its underlying and insured ratings and the bonds' optional redemption provisions.

A) You are the City. Review Appendix 1 and discuss which of the included bond financings are most comparable to yours. Based on your review, please determine what you think your 2016 Bonds' pre-pricing scale should look like and why. Please use Appendix 1A to write your scale.

B) The underwriter has proposed the following pre-pricing scale (refer to Appendix 2) for your 2016 Bonds, which results in spreads to MMD as provided in Appendix 2. Discuss the appropriateness of this scale and whether you agree to authorize the underwriter to go out to the market with it (keep in mind your discussion from Part A).

C) At the close of the order period, which you and your financial advisor have been monitoring electronically, the orders for the 2016 Bonds are as provided in Appendix 3. Based on this information, what adjustments, if any, should the underwriter make to the pre-pricing scale?

D) The underwriter proposes the following final pricing scale for the 2016 Bonds (refer to Appendix 4). Keeping in mind your response to Part C, do you agree with this scale? Would you ask the underwriter to make any further adjustments or would you be ready to accept the scale as proposed? Note the proposed changes in yields. What do you think is the implication to the refunding savings?