

California Debt and Investment Advisory Commission:
**Roles and Responsibilities of Debt
Issuers and Finance Team Members**

Day 1 | Debt Basics | Session Four
Tuesday, February 12, 2019



STIFEL



Introduction of Speakers

City of Moreno Valley (Issuer)

- Brooke McKinney, *Treasury Operations Division Manager Financial & Management Services*

Urban Futures, Inc. (Municipal Advisor)

- Michael Busch, *Chief Executive Officer*

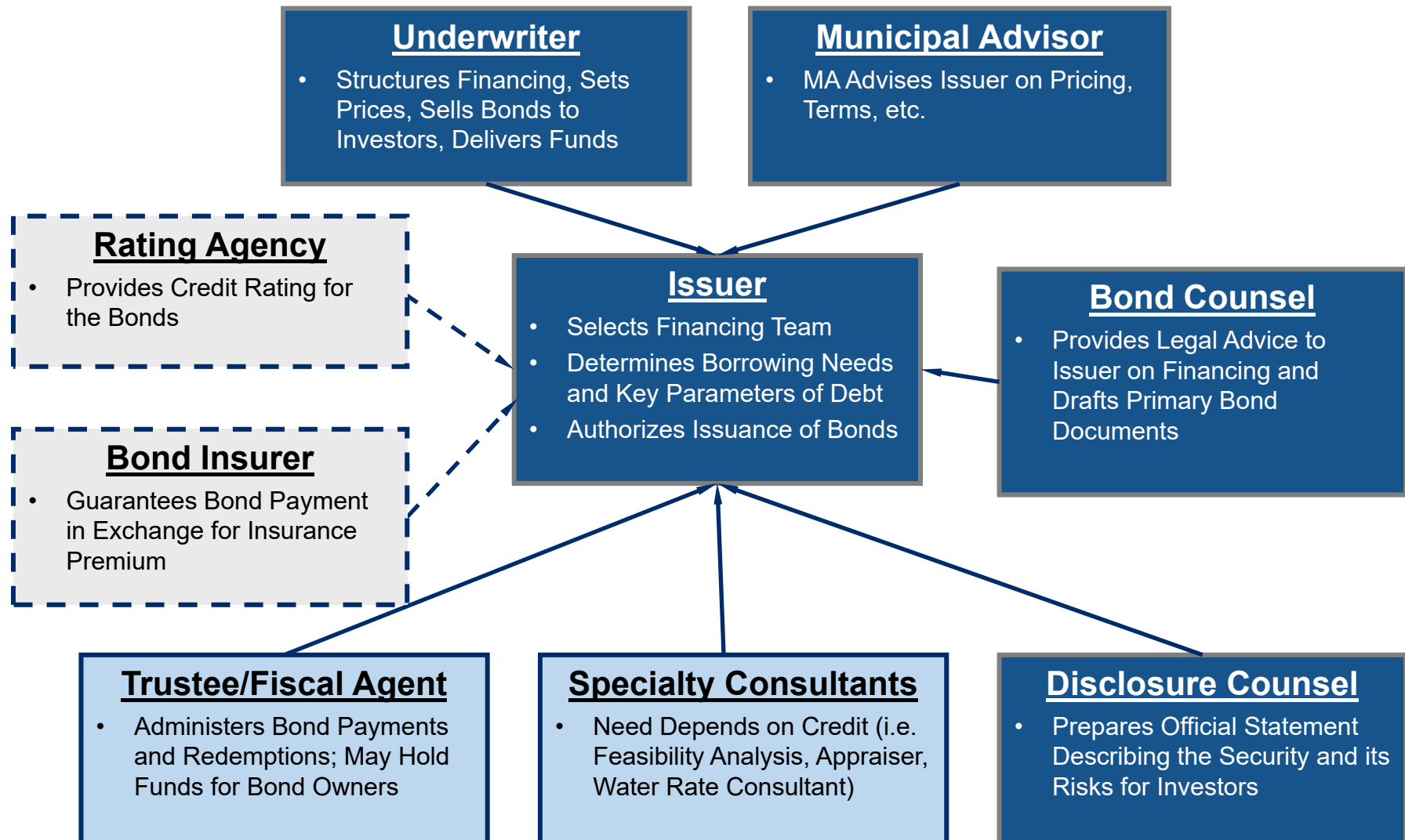
Stifel (Underwriter)

- Tom Jacob, *Director*

Orrick, Herrington & Sutcliffe LLP (Attorney)

- Kevin Hale

Financing Team



Section I:
Role of the Issuer

Roles and Responsibilities of Debt
Issuers and Finance Team Members





Moreno Valley At A Glance

- **Incorporated in 1984**
- **Population of Approximately 210,000**
 - Second Largest City in the County
- **Top Employers: March Air Reserve Base and Amazon**
- **Started Moreno Valley Utilities in 2001**
- **City is Currently Half Built-Out**

MoVal



Debt Profile and Capital Needs

■ **Outstanding Debt**

- \$73M of General Fund-Backed Lease Revenue Bonds, Private Placements, and Bank Loans
- \$19M of Measure A-Supported COPs (Total Road Improvement Program)
- \$12M of Non-Commitment CFD Special Tax Bonds
- \$38M Outstanding of Tax Increment-Supported Successor Agency Debt

■ **S&P Credit Ratings**

- General Fund: A+ (Stable)
- Measure A TRIP: A (Stable)
- Successor Agency: AA- (Stable)

■ **Needs Assessment**

- Expand Electric Utility Infrastructure As City Builds Out



Developing the Team

- **Estimated Financing Needs for Next 5 to 10 Years**
- **Issued a Request for Proposal (RFP) for:**
 - Advisor
 - Bond and Disclosure Counsel
 - Underwriter
 - Trustee
 - Dissemination Agent
- **Reviewed Proposals and Selected Firms**
- **Presented Recommendations to City Council for Approval**
- **Entered into 5-Year Contract or Retainer with Successful Firms**



Preparing to Enter the Market

- **Identify Projects to be Financed (Capital Improvement Plan) and Discuss Needs with Advisor**
- **Meet and Confer with Selected Team to Develop Financing Options**
- **Determine Strategy and Discuss with Mayor**
- **Bring Financing Plan to City Council for Approval**
- **Assist with Preparation of the Bond Offering Document**
- **Conduct Credit Presentation with Rating Agencies**
- **Bring Bond Documents to City Council for Review and Approval**

Section II:
Role of Advisor

Roles and Responsibilities of Debt Issuers and Finance Team Members



Key Roles of the 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, Method of Sale (Negotiated, Competitive, Private Placement), and Evaluating Proposals**
- **Facilitate Transaction Management Process**
- **Act as Extension of Staff**

During Transaction Management Process

- **Assist with Entire Transaction Management Process**
 - Develop Plan of Finance and Basic Deal Structure
 - Establish Parameters: Team Members, Compensation, Policy Objectives, Structure and Timeline (Sample Timeline Provided in Appendix)

- **Specific Role Varies (Staff Expertise, Type of Bonds, Sale Method)**

<u>Financing Plan</u> (Month 1)	<u>Preparing Bond Sale</u> (Month 2)	<u>Pricing/Closing</u> (Month 3)	<u>Post-Closing</u> (Thereafter)
<ul style="list-style-type: none"> ◆ Engage Team <ul style="list-style-type: none"> ◆ Typically, Advisor (Assist with Plan) and Bond Counsel (Provide Legal Advice) are Selected First ◆ Clarify Project List ◆ Analyze Options 	<ul style="list-style-type: none"> ◆ Draft Legal Documents ◆ Draft Investor Disclosure (Official Statement) ◆ Seek Credit Rating ◆ Secure Council/Board Financing Approvals 	<ul style="list-style-type: none"> ◆ Notice of Sale to Underwriters (Competitive), or Market Bonds to Investors (Negotiated) ◆ Set Interest Rates ◆ Deliver Funds 	<ul style="list-style-type: none"> ◆ Make Timely Payments ◆ Provide Ongoing Disclosure ◆ Keep Records ◆ Refinance when Appropriate

What to Look for in an Advisor

- **Comprehensive and Long-Term Perspective**
- **Independent and Objective**
 - Does Not Sell or Underwrite Bonds
- **Technical Ability and Resources**
- **Knowledge of the Municipal Bond Market**
- **Understanding of the Issuer and its Needs**
- **Experience with Similar Issuers and Projects**
- **Holds Series 50 Registration and Registered with SEC and MSRB**

Evolving Role of the Advisor – MA Rule

- **As Opposed to Financial Advisors, Municipal Advisors Must be Registered with SEC and are Subject to Fiduciary and Other Standards of Conduct**

Registered with SEC and MSRB (Municipal Securities Rulemaking Board)

- Formalize Advisor As “Fiduciary”
- MSRB Rules Still Evolving

Communication Between Issuer and Underwriter

- RFP Exemption – Issue or Program Specific
- IRMA Exemption – Issuer Puts on Retainer and Acknowledges Reliance on Advisor’s Advice

Practical Changes

- Most Issuers have Established Role for Advisor in their Financing Programs
 - SEC did not Intend to Create MA Rule to make the FA a Gatekeeper; a Good Advisor should Help Foster Environment for Good Ideas to Reach Issuer
-

Fiduciary Duty

DUTY OF CARE

- ✓ **Exercise Due Care** in Performing Advisory Activities
- ✓ **Possess Knowledge and Expertise** Needed to Provide Informed Advice
- ✓ **Make Reasonable Inquiry** as to the Facts Relevant to the Agency's Determination as to Whether to Proceed with a Course of Action or that Form the Basis for Any Advice Provided to the Agency

DUTY OF LOYALTY

- ✓ **Deal Honestly in the Utmost Good Faith** with the Agency; **Act in the Agency's Best Interests** without Regard to the Financial/Other Interests of Advisor
- ✓ Eliminate or Provide **Full Disclosure** about Each **Conflict of Interest**
- ✓ **Not Engage in Advisory Activities** with the Agency if it **Cannot** Manage or Mitigate Conflicts in a Manner that will Permit it to **Act in the Agency's Best Interests**

Section III:

Role of Underwriter

Roles and Responsibilities of Debt Issuers and Finance Team Members



Method of Sale will Dictate Underwriter's Role

Negotiated Sale (~70%)

- **You Choose the Underwriter**
- Part of the Team from the Beginning
- Underwriter will Provide:
 - Strategies
 - Optimal Timing
 - Tax Rate Impact
 - Cash Flow Scenarios
 - Structuring Options
 - Potential Interest Rates for the Day of Sale from Sales Force
 - Delivery of Bonds to Investors

Competitive Sale (~25%)

- Financial Advisor will Create a Competitive Bid Request and Submit it to Underwriters
- **Underwriter is not Part of the Team** in this Type of Sale
- Financial Advisor will Provide the Following:
 - Strategies
 - Tax Rate Impact
 - Structuring Options

Private Placement (~5%)

- Sale to Limited Pool of Investors Rather than as Part of Public Offering
- Underwriter can Serve as Placement Agency

Role of the Underwriter

- **Idea Generation**

- Prior to Receiving an Exemption/Being Hired

- **Bond Structuring**

- Present Structuring Options
- Conforming Numbers to Legal Documents

- **Bond Underwriting**

- Marketing Bonds to Investors
- Selling Bonds, Setting Interest Rates and Finalizing the Structure
- Underwriting (Purchasing) the Bonds



Abiding by the MA Rule

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- **Without Exemption**
 - Market Update
 - Case Studies of Recent Transactions
 - Basic Cash Flows

- **With Exemption (Required Before Providing “Advice”)**
 - Underwriter Able to Provide Detailed and Specific Ideas and Analysis
 - Exemptions: RFP, Underwriter and Independent Municipal Advisor (IRMA)

Structuring the Financing

- **Develop Structuring Options**
 - Goals of Issuer Balanced with Market (Investor) Expectations
- **Review Legal Documents and Offering Document; Confirm Numbers and Documents Conform**
- **Due-Diligence of Credit**
- *(If Applicable)* **Work with Consultants on Revenue Projections that Serve as Security**
- **Preparation of Rating Presentation (with Assistance from Advisor) and Work with Bond Insurer**

- **Marketing the Bond Issue**

- Preliminary Official Statement to Investors In Advance of the Pricing
- Site Tour or Net Roadshow; Discussions with Salespeople and Investors
- Goal: Investor Credit Approval and Differentiation of Credit

- **Pre-Pricing**

- Proposed Interest Rate Scale Presented to Issuer and Municipal Advisor
- Proposal Based on Recent and Comparable Transactions (Following Page), Market Dynamics and Investor Demand

- **Pricing**

- Order Period of ~1-2 Hours where Interested Investors Submit Orders
- Depending on Demand, Make Rate Adjustments
- Agreement on Pricing Between Issuer (Input from Advisor) and Underwriter
- Bond Purchase Agreement

Market Comparables



Issuer (Issue)	Bondsville, California 2019 Bonds				Bondsville, California 2019 Bonds				MuniLand, California 2019 Bonds			
Par Amt	\$25,000,000				\$24,500,000				\$23,000,000			
Rating	Aa/AA+/AA				Aa/AA+/AA				Aa/AA+/AA			
Optional Call	10-Year Optional Call				10-Year Optional Call				10-Year Optional Call			
Underwriter	STIFEL				STIFEL				SOME OTHER FIRM			
Pricing Date	FINAL Pricing: June 5, 2019				PRELIMINARY Pricing: June 4, 2019				May 31, 2019			
	Coupon	Yield	AAA MMD	Spread	Coupon	Yield	AAA MMD	Spread	Coupon	Yield	AAA MMD	Spread
2019	2.000	1.350	1.350	+0	2.000	1.400	1.350	+5	2.000	1.500	1.350	+15
2020	3.000	1.450	1.400	+5	3.000	1.500	1.400	+10	3.000	1.600	1.400	+20
2021	4.000	1.470	1.420	+5	4.000	1.520	1.420	+10	4.000	1.620	1.420	+20
2022	4.000	1.500	1.450	+5	4.000	1.550	1.450	+10	4.000	1.650	1.450	+20
2023	4.000	1.550	1.500	+5	4.000	1.600	1.500	+10	4.000	1.700	1.500	+20
2024	4.000	1.640	1.540	+10	4.000	1.690	1.540	+15	4.000	1.790	1.540	+25
2025	4.000	1.740	1.620	+12	4.000	1.770	1.620	+15	4.000	1.870	1.620	+25
2026	5.000	1.880	1.750	+13	5.000	1.900	1.750	+15	5.000	2.000	1.750	+25
2027	5.000	1.990	1.860	+13	5.000	2.010	1.860	+15	5.000	2.110	1.860	+25
2028	5.000	2.130	2.000	+13	5.000	2.150	2.000	+15	5.000	2.250	2.000	+25
2029	5.000	2.250	2.090	+16	5.000	2.290	2.090	+20	5.000	2.390	2.090	+30
2030	5.000	2.440	2.260	+18	5.000	2.460	2.260	+20	5.000	2.560	2.260	+30
2031	5.000	2.550	2.370	+18	5.000	2.570	2.370	+20	5.000	2.670	2.370	+30
2032	5.000	2.650	2.470	+18	5.000	2.670	2.470	+20	5.000	2.870	2.470	+40
2033	5.000	2.750	2.570	+18	5.000	2.770	2.570	+20	5.000	3.070	2.570	+50

Order Monitor

Maturity	Bondsville Pricing: Bonds Offered			Bondsville Pricing: Order Information			
	Par Amount	Coupon	Yield	Orders	Allotments	Balance	Subscription
12/1/2019	\$1,230,000	2.00%	1.35%	\$1,480,000	\$1,230,000	\$0	1.2X
12/1/2020	\$1,255,000	3.00%	1.45%	\$650,000	\$650,000	\$605,000	0.5X
12/1/2021	\$1,295,000	4.00%	1.47%	\$800,000	\$800,000	\$495,000	0.6X
12/1/2022	\$1,345,000	4.00%	1.50%	\$2,700,000	\$1,345,000	\$0	2.0X
12/1/2023	\$1,400,000	4.00%	1.55%	\$2,900,000	\$1,400,000	\$0	2.1X
12/1/2024	\$1,455,000	4.00%	1.64%	\$1,335,000	\$1,335,000	\$120,000	0.9X
12/1/2025	\$1,510,000	4.00%	1.74%	\$3,100,000	\$1,510,000	\$0	2.1X
12/1/2026	\$1,575,000	5.00%	1.88%	\$2,250,000	\$1,575,000	\$0	1.4X
12/1/2027	\$1,650,000	5.00%	1.99%	\$1,200,000	\$1,200,000	\$450,000	0.7X
12/1/2028	\$1,735,000	5.00%	2.13%	\$3,000,000	\$1,735,000	\$0	1.7X
12/1/2029	\$1,820,000	5.00%	2.25%	\$2,250,000	\$1,820,000	\$0	1.2X
12/1/2030	\$1,910,000	5.00%	2.44%	\$1,500,000	\$1,500,000	\$410,000	0.8X
12/1/2031	\$2,005,000	5.00%	2.55%	\$2,750,000	\$2,005,000	\$0	1.4X
12/1/2032	\$2,105,000	5.00%	2.65%	\$2,000,000	\$2,000,000	\$105,000	0.9X
12/1/2033	\$2,210,000	5.00%	2.75%	\$1,200,000	\$1,200,000	\$1,010,000	0.5X
Totals	\$24,500,000			\$29,115,000	\$21,305,000	\$3,195,000	

Section IV:

Role of Bond and Disclosure Counsel

Roles and Responsibilities of Debt Issuers and Finance Team Members



Role of Bond Counsel

- **Historical Roots Related to Need for Approving Legal Opinion**
- **Bonds are Not Marketable without Accompanying Opinion of a Nationally Recognized Bond Counsel**
 - 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 and Unqualified Bond Counsel Opinion Required**
- **Bond Counsel Opinion does not Constitute Guarantee**

Services of Bond Counsel

- **Review of Documents to Authorize, Issue, Sell and Deliver Bonds; Preparation of Issuance Documents**
- **Coordinate Authorization and Execution of These Documents**
- **Review Legal Issues Related to the Structure of the Bond Issue**
- *(If Applicable)* **Assist Issuer with Any Approvals, Permissions and Exemptions Necessary in Connection with the Sale of Bonds**
- *(If Applicable)* **Prepare Election Proceedings or Pursue Validation Proceedings**
- **Deliver Approving Opinion and Coordinate Bond Closing**

Services of Bond Counsel (cont.)



- **Review or Prepare Sections of the OS that Summarize Terms of the Bonds, Financing Documents, Bond Counsel Opinion and Tax Exemption**

- **Assist Issuer in Presenting Information to Bond Rating Organizations and Credit Enhancement Providers Relating to Legal Issues Affecting the Issuance of the Bonds**

- **Review or Prepare the Notice of Sale or Bond Purchase Contract and Review or Draft Continuing Disclosure of the Issuer**

- **Post Issuance Advice**
 - Availability in the Event of IRS Audits or SEC investigations
 - Bond Covenant Compliance

Role and Services of Disclosure Counsel



- **Assistance in Preparing Offering Document for Investors**
 - Compliance with SEC Rules 10b(5) and 15c2-12

- **Due-Diligence Review**

- **Draft and Adopt Disclosure Policies and Procedures**

- **Review or Draft Continuing Disclosure Undertaking of the Issuer**
 - Recent Increase in SEC Activity in Municipal Market Related to Continuing Disclosure Compliance
 - Disclosure Policies and Procedures Recommended

- **Negative Assurance Letter Delivered to Issuer and Underwriter**

Section V: **Other Players and Post Issuance Responsibilities**

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



Examples Of Other Players

Arbitrage Consultant	<ul style="list-style-type: none">• CPA Firm who Calculates Arbitrage (if any) that Needs to be Rebated Back to the Federal Government
Credit Enhancers	<ul style="list-style-type: none">• Guaranty, Secondary Source of Payment; Credit Improving Instruments• Bond Insurance, Letters of Credit, etc.
Continuing Disclosure / Dissemination Agent	<ul style="list-style-type: none">• Prepares Disclosure of Material Information Related to Municipal Securities• Files Audited Annual Financial Statements of Issuer and Notices of Material Events per Continuing Disclosure Undertaking requirements
Rating Agency	<ul style="list-style-type: none">• Provides Ratings that Indicate Opinion of the Relative Credit Quality of Securities (Moody's, S&P, Fitch, Kroll, etc.)
Specialty Consultants	<ul style="list-style-type: none">• Rate or Feasibility Consultant for Enterprise Financings• Special Tax Consultant or Assessment Engineer for Land-Secured Financings• Developer and/or Developer's Counsel for Land-Secured Financings• Limited or Comprehensive Financial Advisory/Pricing Services
Trustee	<ul style="list-style-type: none">• Represents Bondholders' Interests• May Hold Bond Funds in Trust on Behalf of Bondholders
Verification Agent	<ul style="list-style-type: none">• CPA Firm that Verifies Refunding Transactions

Post Issuance Responsibilities

- **Annual Debt Transparency Report to CDIAC**

- **Debt Policy**
 - Provides Guidance to Staff
 - Help Preserve Credit Strength and Fund Future Capital Needs
 - Requested During Due Diligence Calls

- **Continuing Disclosure and Reporting Requirements**
 - Creation of a Debt Calendar

- **Dissemination of Documents to EMMA**
 - Hired a 3rd Party to Review and Post

- **Arbitrage Compliance**

Appendix: **Sample Financing Schedule
and Disclosure**

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



Sample Financing Schedule

- **Timing Depends on Project Complexity and Plan Certainty**
 - Simple, Straightforward Financing can be Completed in 3 Months

Date	Action	Party
<u>MONTHS 1-2</u> (Kick-Off; Drafting of Documents)	Engage Team, Project List, Analyze Options	Agency
	Kick-Off Call / Meeting	All
	Distribute 1 st Drafts of Legal Documents	BC
	Distribute 1 st Draft of Prelim Official Statement (POS)	DC
	Conference Call to Review Documents	All
<u>MONTHS 2-3</u> (Finalize Documents, POS; Credit Package)	2 nd Draft of Documents and POS Distributed	BC / DC
	Conference Call to Review Documents	All
	3 rd Draft of POS Distributed	DC
	Send Credit Package to Rating Agency; Insurer	UW
	Rating Agency Credit Rating Call	All
<u>MONTH 3</u> (Credit Rating; Price/Close Bonds; Receive Funds)	Receive Credit Rating	All
	Receive Bond Insurance Bid	All
	Council / Board Approval of Financing	Agency
	Print / Post POS	BC / UW
	Pre-Market Bonds to Investors	UW
	Pre-Pricing Call	All
	Pricing Call	All
	Pre-Closing	All
Closing (Funds Delivered to Agency)	All	

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