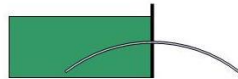


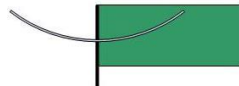
**CDIAC**

**CALIFORNIA  
DEBT AND  
INVESTMENT  
ADVISORY  
COMMISSION**

# UNDERSTANDING METHODS OF SALE: FOCUS ON PRIVATE PLACEMENTS



**BRANDIS TALLMAN LLC**



# Introductions

2

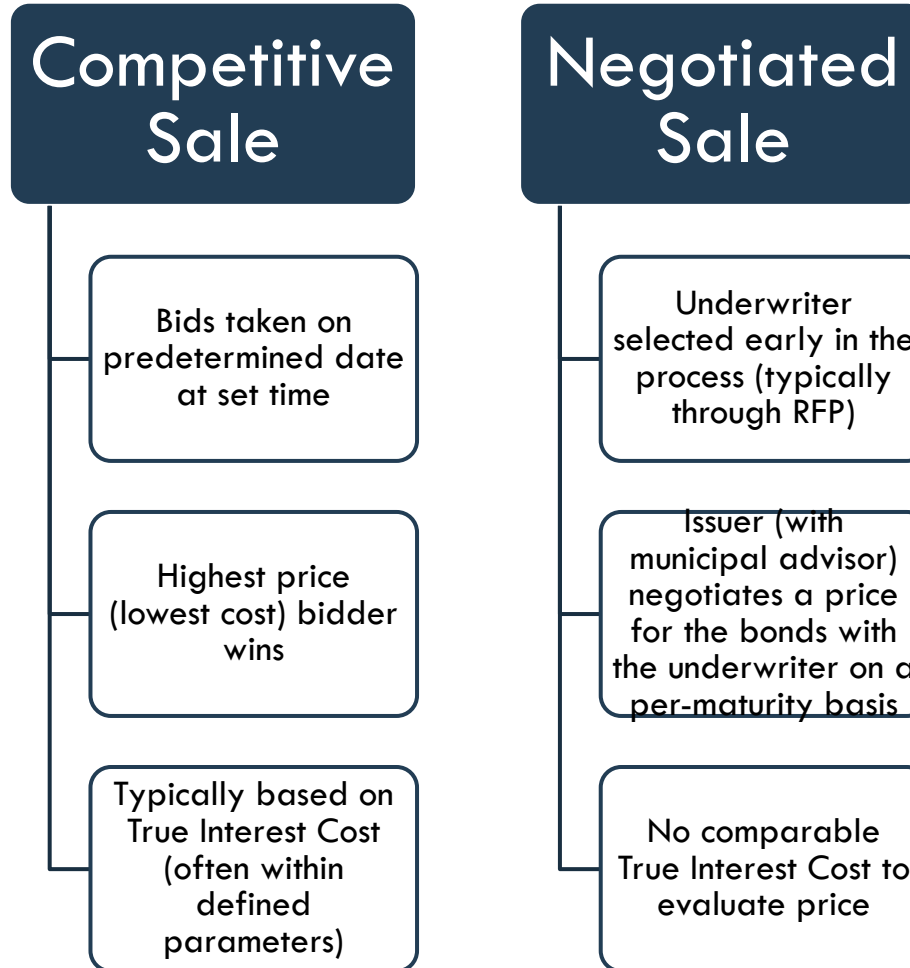
- Jeff Land
  - ▣ Vice President, Brandis Tallman, LLC
- Rudy Salo
  - ▣ Partner, Nixon Peabody
- Anna Sarabian
  - ▣ Principal, Fieldman, Rolapp & Associates, Inc.
- Dmitry Semenov
  - ▣ Senior Managing Director, Opus Bank

# Methods of Sale

3

- Public Sale
  - ▣ Competitive
  - ▣ Negotiated
- Private Placement


# Public Sale Overview



# Competitive Sale

5

- Issuer accepts bids on a predetermined date at a pre-specified time
  - ▣ Typically through an electronic platform
  - ▣ Bidder offering the highest price wins the bonds




- **Transparency** (avoids “politics”)
- **Competition** (multiple bidders: typically, 3-10)
- Best price on bid day wins
- Higher quality credits/frequent issuers receive more attention

- Sale on a set date
- More difficult to respond to changing market conditions
- Difficult for “story” bonds
- No retail order period

# Negotiated Sale

6

- Issuer negotiates the price for each maturity with the underwriter



<ul style="list-style-type: none"><li>- <b>Greater flexibility</b> on timing of market entry (more nimble in changing market conditions)</li><li>- <b>Investor differentiation</b> (greater opportunity to engage investors)</li><li>- Ability to select underwriter(s)</li></ul>	<ul style="list-style-type: none"><li>- No comparable true interest cost to evaluate price</li><li>- May (and often does) come with politics – bond pricing likely harmed</li><li>- In-fighting among underwriters</li></ul>
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# Which Public Sale to Choose?

7

## General Factors Comparing Competitive and Negotiated Sales

	COMPETITIVE SALE	NEGOTIATED SALE
<b>Issuer Characteristics</b>		
<b>Market Familiarity</b>	Well-known, established issuer	New or infrequent issuer
<b>Credit Strength</b>	"A" rating or higher	Less than an "A" rating
<b>Policy Goals</b>	Broad market participation desired	Policy to include specific firms in distribution
<b>Transaction Characteristics</b>		
<b>Form of Debt</b>	Commodity-like characteristics	Unconventional / derivative products
<b>Issue Size and Complexity</b>	Conventional	Comparatively large, small, or complex
<b>Market Condition</b>	Stable interest rates	Volatile market
<b>Market Dynamics</b>		
<b>Rate Environment</b>	Financing success not rate dependent	Financing is highly rate-sensitive
<b>Supply and Demand</b>	High demand; Good liquidity	Saturated market; excess supply

# Private Placement Overview

8

- Became a viable alternative in the aftermath of the Great Recession
- Financing provided by a bank through an RFP or negotiated sale process
- Specialized public finance divisions of banks
- Strong coverage by a dozen banks



# Comparing Public Sale and Private Placement Process

	Public Sale	Private Placement
Credit Rating	Required	Not Required
Offering Statement	Required	Not Required
Due Diligence	Issuer, Counsel, Rating Agency	Bank
Time to Close	3+ Months (~45 over private placement)	2+ Months
Issuer Involvement Level	High	Low to Moderate
Structure	Rigid and Standardized	More Flexible
Pricing	Lower Rate Higher Costs of Issuance (~2x of private placement)	Higher Rate Lower Costs of Issuance
Debt Service Reserve	More Often	Less Often
Relationship Pricing	Not available	Banks may offer lower rate with depository relationship

# Which method is appropriate?

10

	Public Sale	Private Placement
Credit Quality	Investment Grade, Limited “Story”	Investment Grade and “Storied” Credits
Size	Flexible	Up to \$30M
Term	Up to 40 years; typically 30	Up to 20 years
Rate Environment	Stable	Changing, Volatile
Interest Rate Lock	At pricing	Up to 60 days
Time Commitment at Issuance	Higher	Lower
Prepayment Flexibility	Limited without cost	Various Options
Draw Down Structure	Not available	Available
Continuing Disclosure	Strict	More Flexible Options

# Private Placement Process

11

- Request for Proposals
  - ▣ Full vs Limited
- Pricing and Rate Lock
- Due Diligence
- Credit Approval
- Documentation

# Meet the Parties

12

- Municipal Advisor
- Placement Agent
- Bond Counsel
- Lender's Counsel
- Lender

# Role of Municipal Advisor

13

- ❑ Fiduciary duty to Issuer
- ❑ Does not purchase or underwrite debt
- ❑ Needs to be licensed
- ❑ Prepares, advises and assists in the formulation/execution of the financing plan
- ❑ Advises on structure
- ❑ Analyzes and makes recommendations about alternative financing techniques
- ❑ Ensures Issuer receives most favorable terms and best price

# Role of Placement Agent

14

- Present market intelligence and incorporate into structuring and sizing of transaction
- Canvass investors by distributing Lender RFP/term sheet and complete credit package
- Summarize Lender bids received to discuss and evaluate with Municipal Advisor, negotiate with chosen Lender to obtain best terms for issuer
- Perform numerical analyses
- Assist with execution of all documents to ensure a timely and orderly funding and closing
- Provide pre-closing and closing assistance

# Role of Bond and Lender Counsel

15

- Bond Counsel: structures the deal, ensures compliance with state law, issues legal opinion
- Bond Counsel typically serves as Tax Counsel on tax-exempt deals and ensures that interest will be tax-exempt
- Lender's Counsel: ensures Lender's conditions to issuing the loan are met, typically pursuant to the executed term sheet
- Lender's Counsel helps with deal structuring, documentation, and issues relating to protecting bank's interest

# Role of Lender

16

- Assist with structure
- Due diligence and internal credit memo
- Pricing and prepayment options
- Closing
- Relationship management:
  - ▣ Processing of draws
  - ▣ Loan statements
  - ▣ Credit monitoring
- Additional banking services
  - ▣ Deposits (operating accounts / interest-bearing deposits)
  - ▣ Equipment Leasing



# Examples of Private Placement

17

Issuer	Region	Amount	Type	Use	Term
City	Orange County	\$900k	Lease	Parking lot acquisition	10 years
City	Inland Empire	\$4.6m	CFD	Refinance debt	13 years
County	Central Valley	\$4.6m	Lease	Prison HVAC	10 years
School District	Greater Sacramento	\$10m	GO	Safety improvements	5 years
Sanitation District	Greater LA	\$11.7m	Revenue	Acquire pipeline	15 years
Healthcare District	Wine Country	\$12.4m	Parcel Tax / Lease	Debt refi, improvements	15 years
Successor Agency	Orange County	\$15.2m	Tax Increment / Sales Tax	Refi mall parking debt	10 years

# Continuing Disclosure

18

- If issuer only has private placement debt, they don't have to worry about Rule 15c2-12
- The amendments to Rule 15c2-12 add 2 new events to the list of 14 events requiring notice w/in 10 Business Days on EMMA
- **Event #15** - the incurrence by the issuer of: A material financial obligation, or An agreement to any of the following, **any of which affect security holders, if material:**
  - ▣ Covenants, Events of default (regardless of whether they have arisen to the level of events of default under the applicable financing documents), Remedies, Priority rights, or Other similar terms of a financial obligation.
- **Event #16** - the occurrence of any of the following related to a financial obligation which reflects financial difficulties, regardless of when the financial obligation was incurred: Default, Event of acceleration, Termination event, Modification of terms, or Other similar events.

# Pitfalls to Avoid

19

- ❑ Rogue operators / Lack of transparency: understand who you are dealing with and how they get paid
- ❑ Too much time for RFP response / not enough time to close
- ❑ Check COP collateral early
- ❑ Lender expertise
- ❑ Issuer preparedness

# Questions?

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