

Municipal Debt Issuance

Key Terms

Bond Counsel (BC)

An attorney or law firm retained by the issuer to assist the issuer in connection with a municipal debt issuance and to give a legal opinion that the proposed debt is a legally valid obligation of the issuer and, to the extent applicable, that the interest on the proposed debt is exempt from federal or state income tax.

Bond Purchase Agreement (BPA)

In a negotiated sale, the bond purchase contract is an agreement between an issuer and an underwriter or a group of underwriters who have agreed to purchase the issue. See [Debt Financing Guide, Section 5.3.3, Documentation for a Negotiated Public Offering](#).

In a competitive sale, the notice of sale, the underwriter's bid, and the issuer's acceptance of the bid together constitute a bond purchase contract. Generally, these three items taken together contain items similar to those in a negotiated bond purchase contract. See [Debt Financing Guide, Section 5.2.3, Documentation for a Competitive Sale](#).

Continuing Disclosure Agreement/Continuing Disclosure Certificate/Continuing Disclosure Undertaking (CDA/CDC/CDU)

An agreement (sometimes a certificate) of an issuer or an obligated person containing undertakings to provide annual reports and event notices under SEC Rule 15c2-12. See [Debt Financing Guide, Section 8.5, Continuing Disclosure](#).

Covenants

Contractual obligations in financing agreements whereby the party making the promises agrees to perform or refrain from performing certain actions or to comply with certain requirements. See [Debt Financing Guide, Section 2.4.5, Covenants](#).

Coverage

The extent to which revenues in addition to the amount necessary to pay operating expenses and debt service are required to be collected by a rate covenant or by the conditions to the issuance of additional parity bonds.

For example, the bond resolution under which water revenue bonds are issued may require the issuer to maintain fees and charges for the sale of water at levels sufficient to enable it to collect in each year the amount necessary to pay all of its water system operating expenses, debt service on the bonds, plus an amount equal to 25% of debt service on the bonds. The additional 25% is referred to as coverage. See [Debt Financing Guide, Section 3.3.6, Enterprise Fund Debt Obligations](#).

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Credit Rating

An evaluation by a rating agency of the ability of the issuer of debt to make timely payments of principal and interest. See [Debt Financing Guide](#), Section 5.6, *Credit Ratings and Nationally Recognized Statistical Rating Organization (NRSRO)*.

Disclosure Counsel (DC)

An attorney or law firm retained by the issuer to provide advice on the issuer's securities law disclosure obligations and to assist in the preparation of the official statement or other offering document.

Dissemination Agent

An agent appointed under a continuing disclosure agreement for the purpose of filing annual reports and event notices with the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA) system and state information depositories. See also **EMMA** in this glossary and [Debt Financing Guide](#), Section 8.5, *Continuing Disclosure*.

Due Diligence

The inquiry made to reveal or confirm facts about the issuer, the issue, and the security for the issue that would be material to a prudent investor in making a decision to purchase the issue.

Due diligence inquiries are made by underwriters and lawyers to determine, for example, whether the issue follows the purpose and scope outlined by the enabling legislation, statutes, and resolutions of the issuer and whether all material facts have been accurately disclosed in the Official Statement. Courts have generally concluded that participants who demonstrate that they have conducted reasonable investigations resulting in a reasonable belief in the accuracy and sufficiency of the disclosure document have satisfied their responsibilities under the disclosure laws relating to municipal bonds. See [Debt Financing Guide](#), Section 6.3, *The Official Statement*.

Electronic Municipal Market Access (EMMA)

The Electronic Municipal Market Access (EMMA) system is a centralized online source for free access to municipal disclosures, market transparency data and educational materials about the municipal securities market operated by the Municipal Securities Rulemaking Board (MSRB). Among other things, EMMA serves as the official source for official statements and other primary market disclosure documents for new issues of municipal securities as well as the official source for continuing disclosures for outstanding issues of municipal securities for which the issuer or obligated person has entered into a continuing disclosure agreement as contemplated under SEC Rule 15c2-12.

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Fiduciary

A party having the duty of acting in a capacity of special trust for the benefit and in the best interests of another.

Municipal Advisor/Financial Advisor (MA/FA)

A person or entity (with certain exceptions) that (a) provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning the financial products or issues, or (b) solicits a municipal entity, for compensation, on behalf of an unaffiliated municipal securities dealer, Municipal Advisor, or investment adviser to engage that party in connection with municipal financial products, the issuance of municipal securities, or investment advisory services.

Municipal Securities Rulemaking Board (MSRB)

An independent, self-regulatory organization established by Congress in 1975 having general rulemaking authority over municipal securities market participants (generally brokers and dealers).

The MSRB is required by federal law to propose and adopt rules in the areas of professional qualification standards, rules of fair practice, record keeping, the scope and frequency of compliance examinations, the form and content of municipal bond quotations, and sales to related portfolios during the underwriting period.

Members of the board include: securities firm representatives, bank dealer representatives, municipal advisors and public members. All market participants subject to MSRB jurisdiction are required to register with the SEC. Its jurisdiction does not extend to issuers of municipal securities. In recognition of the existing regulatory structure in place for banks and securities firms, the MSRB does not have inspection or enforcement authority.

Net Interest Cost (NIC)

A measure of the interest cost of an issue derived by adding together all interest payments for the term of the issue and dividing that sum by the sum for all bonds of the amount of each bond multiplied by the number of years it is outstanding. If the bonds are to be issued at a discount, the amount of the discount is added to the interest total as if it had been paid by the issuer. If the bonds are to be issued at a premium, that amount is subtracted from the interest total.

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Net Interest Cost (continued)

The formula is as follows:

$$\text{NIC} = \frac{\text{Total Interest Payments} + \text{Discount (or - Premium)}}{\text{Bond Year Dollars}}$$

The denominator, bond year dollars, measures the amount of bonds outstanding over the time they are outstanding. Bond years equal the number of bonds outstanding (in \$1,000 denominations) multiplied by the number of years they are outstanding. One bond year is one \$1,000 bond outstanding for one year. Bond year dollars are the number of bond years multiplied by \$1,000 for each bond. NIC is distinguished from the True Interest Cost (TIC) measure in that the NIC does not take into account the time value of money. The NIC is sometimes used to compare bids at a competitive sale.

Notice of Sale (NOS)

The document that issuers use to solicit bids from prospective underwriters for a competitive sale of bonds.

The notice of sale, the winning bid, and the issuer's acceptance of the winning bid together constitute an agreement for the purchase and sale of the issue in a competitive sale. See [Debt Financing Guide, Section 5.2.3, Documentation for a Competitive Sale](#).

Optional Call/Redemption

The payment of principal of a bond before maturity. Redemption before maturity may be optional, mandatory, or extraordinary (sometimes also called special).

Redemption of a bond by the issuer before maturity is sometimes referred to as calling the bond. See [Debt Financing Guide, Section 2.3.1, Redemption or Prepayment](#).

Preliminary Official Statement/Official Statement (POS/OS)

A Preliminary Official Statement is the version of an Official Statement or Offering Circular used by the issuer or underwriters to inform the marketplace of the terms of the bonds being issued before receipt of bids at a competitive sale or before the determination of interest rates and purchase price in a negotiated sale.

An Official Statement is a document containing information about the bonds being offered, the issuer, and the sources of repayment of the bonds. See [Debt Financing Guide, Section 6.3, The Official Statement](#).

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Rule 15c2-12

A rule promulgated by the SEC under the Securities Exchange Act of 1934 concerning disclosure and continuing disclosure requirements for municipal securities. See [Debt Financing Guide, Section 8.5, Continuing Disclosure](#).

Serial Bonds

Bonds of an issue, which are payable as to principal in amounts due at successive regular intervals, generally annual or semiannual, and usually in the earlier years of the term of the issue. Compare to [Term Bonds](#) in this glossary.

Significant Events/Material Events

An event that is required to be reported through the Electronic Municipal Market Access (EMMA) website maintained by the Municipal Securities Rulemaking Board (MSRB) under an undertaking to provide continuing disclosure under SEC Rule 15c2-12. See [Debt Financing Guide, Section 8.5.2, Event Notices](#).

Term Bonds

A maturity that is subject to redemption over a specified period from sinking fund payments. Compare to [Serial Bonds](#) in this glossary. See also [Optional Call/Redemption](#) in this glossary.

True Interest Cost (TIC)

A measure of the interest cost of an issue that accounts for the time value of money. The TIC is sometimes also called the internal rate of return or the net effective interest rate.

The TIC for an issue is the annual discount rate which, when used to discount all debt service payments on the issue to the date of initial delivery of the issue, using a compounding interval equal to the interest payment periods for the issue, results in the aggregate present value of the debt service payments being equal to the original purchase price (including accrued interest) of the issue. For the purpose of calculating the TIC, sinking fund payments for any term bonds are considered principal payments. Because there is no algebraic formula for the direct computation of the TIC, it must be determined either by successive approximation on a computer or calculator or by using present value tables. The TIC is often used to compare bids at a competitive sale.

Underwriter's Counsel (UC)

An attorney or law firm retained to represent the interests of an underwriter in connection with the purchase of a new issue of municipal securities.

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Underwriter's Counsel (Continued)

The duties of underwriter's counsel may include review of the issuer's bond resolution and documentation on behalf of the underwriter, review of the accuracy and adequacy of disclosure in the official statement, preparation of the agreement among underwriters, purchase contract and/or the official statement, assisting the underwriter in meeting the underwriter's due diligence obligation, and delivery of a SEC Rule 10b-5 opinion. See [Debt Financing Guide, Section 5.3, Negotiated Public Offerings](#).

Underwriter's Discount/Gross Spread

The difference between the purchase price paid to the issuer for a new issue and the sum of the prices at which the bonds are initially offered to the investing public by the underwriter.

To the extent that the initial offering prices are subsequently lowered by the underwriter, the full amount of the spread may not be realized by the underwriter. The spread is usually expressed in points or fractions thereof. The spread generally consists of:

Management Fee

A fee paid to the managing underwriter for handling the affairs of the syndicate, including, in the case of a negotiated sale, structuring the issue and negotiating with the issuer.

Expenses

Any advertising and printing costs to the underwriter, underwriter's counsel's fees and expenses, travel expenses, MSRB fees, CDIAAC fees, and other similar expenses.

Takedown

Normally the largest component of the spread, similar to a commission, the takedown represents the income derived by the selling broker or dealer from the sale of the bonds. If bonds are sold by a member of a syndicate, the seller is entitled to the full takedown (also called the total takedown). If bonds are sold by a dealer, which is not a member of the syndicate, the seller receives only that portion of the takedown known as the concession or dealer's allowance, with the balance (often termed the additional takedown) retained by the syndicate.

Risk

This is the amount of compensation for risks incurred by the underwriter in underwriting the bond issue, relating to the difficulty of marketing the issue, bond market conditions, and the amount of bonds remaining to be resold after the execution of the bond purchase agreement. There is rarely a risk component in the underwriting spread.