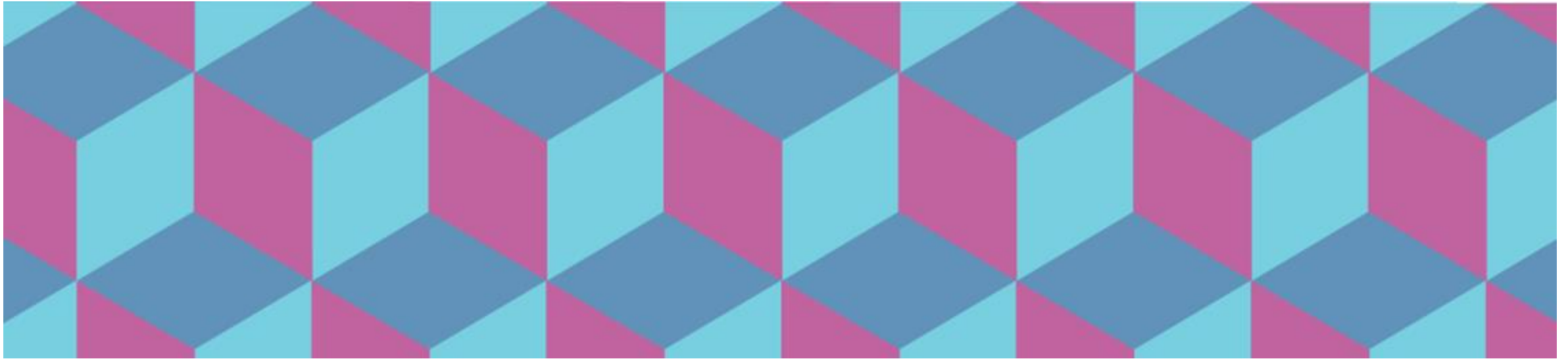


MUNICIPAL DEBT ISSUANCE FUNDAMENTALS



SESSION 1: THE PATH TO ISSUANCE

SEPTEMBER 9, 2020

Jay Goldstone, Former Chief Operating Officer and Chief Financial Officer, City of San Diego

Steve Heaney, Former Co-Head Municipal Securities Group, Stifel

Jacqui Jennings, Partner, Schiff Hardin, LLP

Produced By: The California Debt And Investment Advisory Commission (CDIAC)

Housekeeping

Slides

Available in Handouts section of the menu

Questions

Ask throughout the webinar, answers provided after each section and at end

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CDIAC RESOURCES

Top resources are comprehensive guides:

California Debt Financing Guide

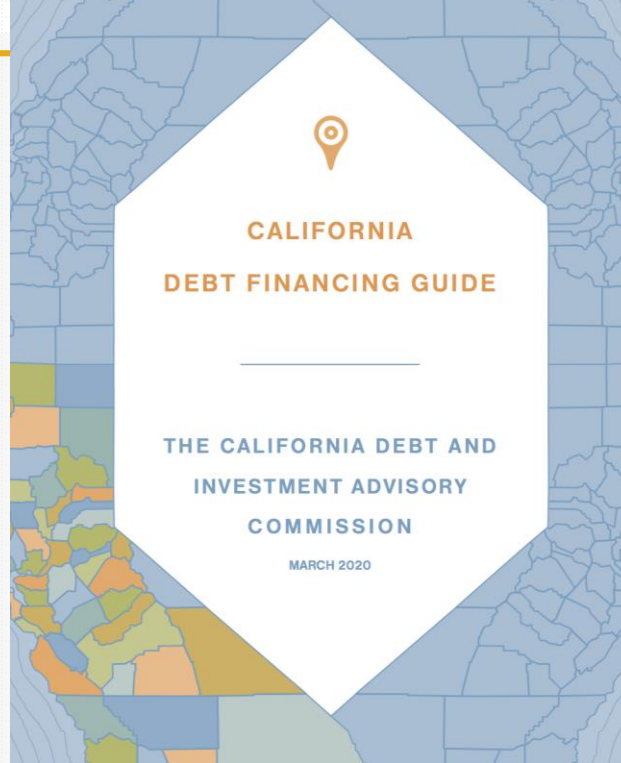
California Public Fund Investment Primer

Also see:

[Local Agency Investment Guidelines \(LAIG\)](#) |

[Publications](#) | [Education Programs](#) | [Data](#)

[on Debt in California](#)



<https://www.treasurer.ca.gov/cdiac/debtpubs/financing-guide.pdf>

<https://www.treasurer.ca.gov/cdiac/invest/primer.pdf>



Webinar Overview

See corresponding handout
in the Handouts section in
your Control Panel.

Municipal Debt Issuance Process

*Generalization of the municipal debt
issuance process. This is not
comprehensive or illustrative of how
every bond will be issued.*

1. Planning

- Debt Management Policy
- Decision to Issue Debt
- Internal Financing Team

2. Pre-Issuance

- Selection of Financing Team
- Debt Structure
- Legal Documents & Initial Disclosure
- Underwriter Due Diligence
- Credit Rating
- Marketing Strategy
- Pre-Sale Pricing Meeting, *negotiated sale*

3. Issuance

- Sale & Pricing
- Closing Documents
- Report of Final Sale

4. Ongoing Administration

- Cyclical Tasks
- Continuous Tasks

5. End of the Issue

- Refund or Repayment
- Record Retention

Speakers



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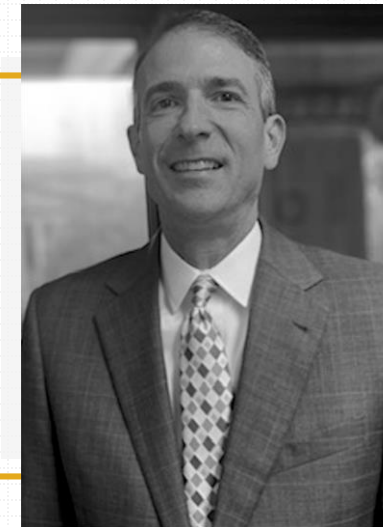
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1

PLANNING

Debt Management Policy

Decision to Issue Debt

Capital Improvement Plan | Plan of Finance | Debt Capacity | Debt Affordability Ratios

Internal Financing Team

Polling Question #1

Does your organization have a Debt Policy?

- Yes; I Have Read It
- Yes; I Have Not Read It
- No
- Don't Know
- NA

Debt Management Policy

aka 'Debt Policy'

[CDIAC Debt Guide, Section i.5.1.1](#)

[GFOA Best Practice on Debt Policy](#)

Definition

Written guidelines, allowances, and restrictions that guide the debt issuance practices of state or local governments, including the issuance process, management of a debt portfolio, and adherence to various laws and regulations.

Purpose

Improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning.

Importance of a Debt Policy

Enhances internal management practices

External recognition and transparency:

Credit rating agencies | Investors and public know entity's parameters

IRS asking for evidence of policy and procedures:

Investment of Bond Proceeds | Use of Proceeds

SEC encouraging use of disclosure policies and procedures

Compliance with Government Code 8855(i), established under SB 1029, issuers must certify on the Report of Proposed Debt Issuance that they have adopted local debt policies concerning the use of debt and that the proposed debt issuance is consistent with those policies. [Guidance Online](#)

Components of a Debt Policy

1 Authority to issue debt

2 Responsibility for issuing debt

3 When debt may/should be issued to finance capital projects

4 Entity's debt limit/debt capacity

5 Types of debt allowed to be issued

General Obligation | Revenue | Taxable (including tax-credit, subsidy) | Fixed or Variable Rate | Direct Purchase (bank loan or private placement) | Refundings | Other Products (Pension bonds, OPEB, Swaps and Derivatives)

Components of a Debt Policy, Continued

6 Structuring debt

Maximum Term | Amortization – rapidity of debt repayment | Inclusion of optional redemption provisions (call options)

7 Method of sale

8 Hiring, scope of services, and fee structures for outside professionals

9 Bond ratings and enhancements

10 Pricing evaluation

11 Investment of bond proceeds

12 Compliance with federal tax & securities laws

Implementing a Debt Policy

Development

Team Development
With a leader!

Internal/Staff sign off

Approval from Governing Body

Disseminating to Team
Internal and External

Compliance

Establish compliance procedures.

Are we doing what we said we would do?

Developing checklists to ensure compliance.

Periodic Review

Commit to periodically reviewing and amending debt policy in response to changing market and regulatory requirements (at least every 3 years).

Other Debt Policy Observations

- If starting from scratch, borrow from peer governments
- Develop section by section
- Have separate policies where needed
e.g. Disclosure and investment of proceeds
- Stay alert for changing state and federal laws and regulations
- Debt policy provides cover in certain situations:
 - Outside Professionals
“Have I got an idea for you!” “Sorry, we can’t!”
 - Elected Officials “Let’s do a swap!” “Sorry, we can’t!”
 - The Media

Decision to Issue Debt

[CDIAC Debt Guide,](#)
Sections i.1 – i.3

Confirm debt is the right path for your project:

What is the project?

Consider expected lifetime of asset vs. operating costs

Financing Strategies

- Cash Flow projections
- Consider all funding alternatives, including cash funding or “PayGo”.
- Reliability and stability of funding sources
- Affordability of strategies
- What is permissible by state and local laws?
- What is allowable per your debt management policy?

What is the Right Amount of Debt?

Legal Limits

Debt Capacity

Most states impose legal limits on how much debt can be issued.

Typically based on market value or property within jurisdiction.

Most often applicable only to general obligation debt.

Financial Limits

Based on Revenue Sources

Revenue bond capacity will depend on ability and willingness to raise rates and to maintain market accepted debt service coverage factors.

Internal Policy Limits

Debt Affordability

Internal debt policies may provide additional limitations on how much debt can be issued.

[CDIAC Debt Guide, 1.2](#)

Debt Affordability

Determining
“affordability” is an
art, not a science.

Debt Affordability Ratios

Ratios to assess affordability of general obligation (GO) debt. Help determine how to treat self-supporting debt.

- **Debt as % of market valuation**
GO/Lease
- **Debt per capita**
GO/Lease
- **Debt service as % of revenue or expenditures**
Revenue/GO
 - MADS as % of projected revenues/expenditures
 - Debt Coverage Ratio
Net operating Income/Debt Service
- **Rating agency published medians**

Internal Financing Team

[CDIAC Debt Guide, Section i.4](#)

Understanding Your Responsibilities

Debt issuance is **not** a casual assignment.

This is your government's transaction.

You are the government's representative, but not the only one with responsibilities.

Not to freak you out, but...

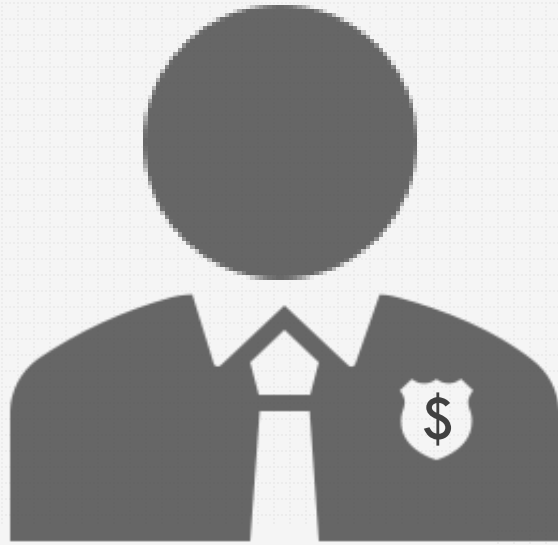
When the bonds are closed and documents executed, your government may have to live with the obligations and commitments for the next **20 to 30 years**.

If anything goes wrong (i.e. default) the regulators/enforcers will come knocking on your door.

There is potential for personal liability and reputational damage.

...so, please, take this undertaking seriously.

FINANCE OFFICER



Responsibility to taxpayers and ratepayers to ensure costs of debt repayment are most favorable in short and long-term.

Should be aware of role in administration of debt program, as well as Federal securities law and in your government.

Tips for a Finance Officer

Be an active participant:

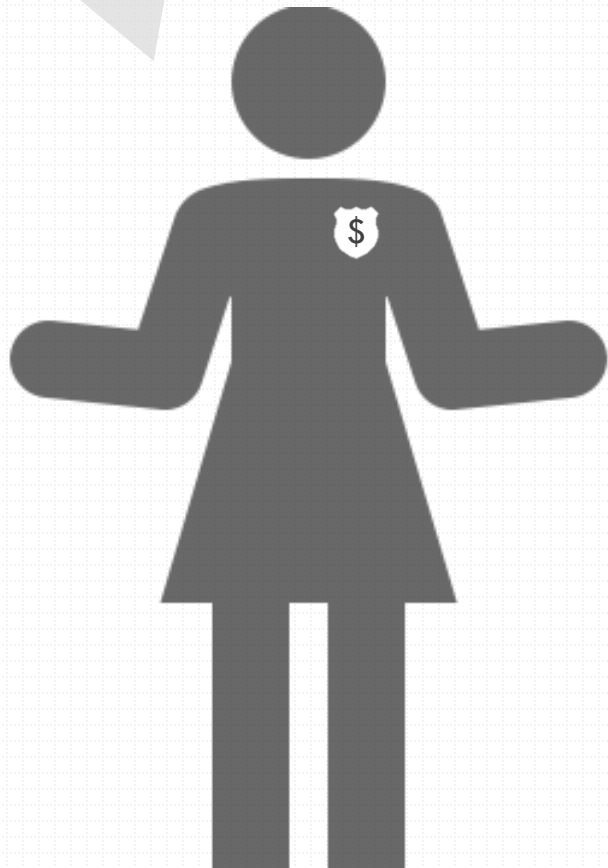
- Attend every meeting
- Read all the documents
- Don't be afraid to ask questions
- Be prepared to present the deal to your governing board
- If you don't understand the transaction, do not present it to the governing body

Have documented policies and procedures related to elected officials responsibilities and do's/don'ts.

Be aware of your roles and responsibilities PRIOR to starting the debt issuance process, not after.

Make sure your internal team understands their responsibilities.

**What is my role
as the Finance
Officer?**



1. Project Manager

Coordinate internal team members (finance staff, local attorneys, project managers, etc.)

Work with “partner” departments/agencies/bureaus by providing direction, leadership, oversight and guidance

Select and assign duties to outside finance team participants, and manage performance

Manage the financing project and timeline

Structure financing within parameters of state and local law and legislatively adopted policy

2. Government Representative

Select the method of sale in consultation with municipal advisor and/or underwriter and must be consistent with your debt policy

Negotiate business points and structure of the transaction

Ensure consistent, accurate and complete disclosure to the marketplace

Ensure continuing disclosure, monitoring and compliance

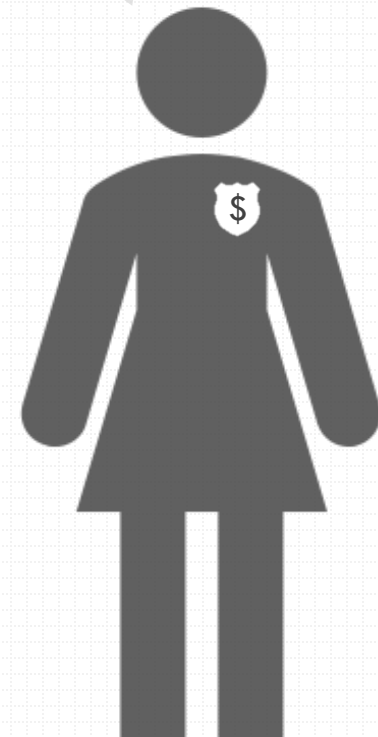
Oversee disbursement of project funds

Oversee debt service payment process

Ensure tax and other compliance

Your job doesn't end when the bonds are issued

Sounds like the Finance Officer has a big role in this process!



Planning Q&A

2

PRE-ISSUANCE

Selection of Financing Team

Common Participants: Municipal Advisor, Bond Counsel, Disclosure Counsel, Underwriter, Underwriter Counsel, Rating Agency, Trustee

Debt Structure

Authorizations (as required), Debt Size, Debt Service, Length of Repayment, Source of Repayment, Interest Type

Legal Documents & Initial Disclosure

Preliminary Official Statement, Continuing Disclosure Undertaking, Trust Agreement/Bond Resolution, Report of Proposed Debt Issuance

Underwriter Due Diligence

Credit Rating

Credit Enhancement

Marketing Strategy

Create 'Issuer's Story' for Documents, Investor Relations, Bond Features or Labels (ex. Green Bond)

Pre-Sale Pricing Meeting, *negotiated sale*

Selection of the Financing Team

[CDIAC Debt Guide, Section i.4](#)
[GFOA Best Practices, Use of Advisors](#)

The External Team

**Municipal
Advisor**

Bond Counsel
Possibly Also Disclosure Counsel
and/or Special Tax Counsel

**Underwriter and
Underwriter Counsel**
If Negotiated Sale

Placement Agent
If Direct Placement

**Paying
Agent/Trustee**

Verification Agent
If Refunding

Bidding Agent
If Open Market
Escrow Refunding

**Feasibility
Consultant**
Revenue Bonds

What do I need to consider when ...



Selecting Municipal Advisors

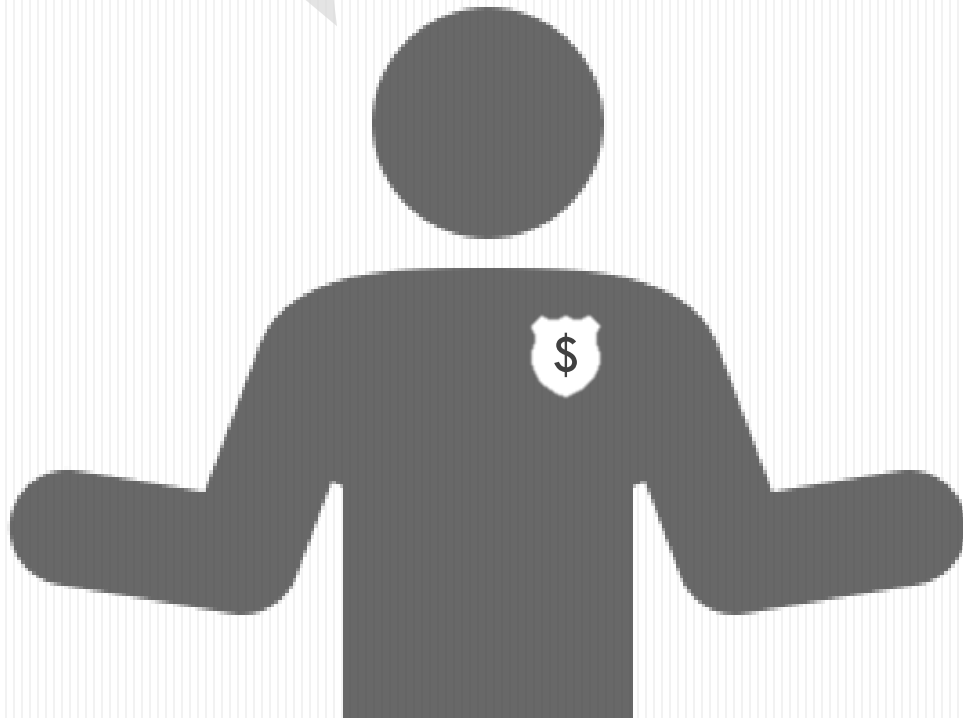
Selecting Bond and Disclosure Counsel

Selecting and Managing the Method of Sale of State and Local Government Bonds

Selecting Underwriters for Negotiated Bond Sales

Selecting Trustee

Who Should
I Hire First?



Start with a Municipal Advisor (MA)

“Unless the issuer has sufficient in-house expertise and access to market information, it should hire a MA prior to undertaking a debt financing.” [GFOA Best Practice](#)

Issuers should hire a MA and Bond Counsel before hiring Underwriter and other outside professionals.

A MA Should Assist With:

- Assessing the objectives of the financing
- Identifying strategies and priorities
- Selecting a method of sale that best fits the financing
- Evaluating other members of the external financing team
- Selecting underwriting team
- Providing expert advice regarding the bond sale

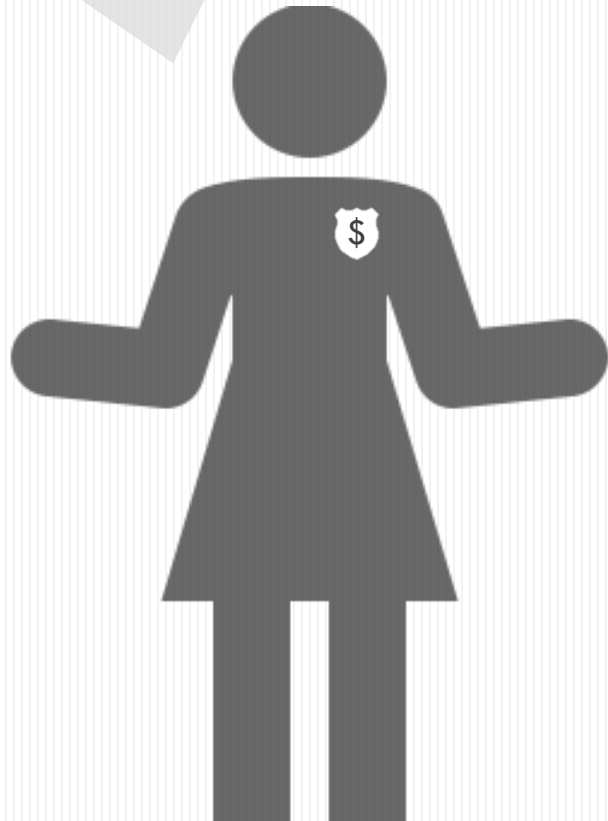
Polling Question #2

Who is in charge of the issuance process?

- Municipal/Financial Advisor
- Bond Counsel
- Issuer's Counsel
- Any Attorney
- Issuer

Bingo! The buck stops here.

What do all these people on 'my' team do?



MA

FIDUCIARY RELATIONSHIP.
Advise on structure, timing and terms, and method of sale.

Disclosure Counsel

Assist with the Preliminary Official Statement (POS), which is the issuer's sale document

Underwriter

If negotiated sale.
Once hired, advises on structure, timing and teams, and ultimately buys/sells the bonds.

Bond Counsel

Advise on State law, Federal law, and underlying legal documents (Indenture, Resolutions, etc.)

Special Tax Counsel

Render the opinion supporting the tax exempt nature of debt.

Underwriter's Counsel

If negotiated sale.
Assists with due diligence and BPA.

Placement Agent

If a direct placement.

Locates the investor/lender and works with the issuer on structure, timing, and terms.

Paying Agent/Trustee

Delivers money from investors to issuer and the semi-annual repayments from issuer to the investors. Trustee administers the Trust Agreement for the benefit of the investors.

Verification Agent

If refunding.

Responsible for independently confirming investments purchased for the escrow account will be sufficient to fund the debt service payments on refunded bonds. Up to and including the date when the refunded bonds are redeemed.

Bidding Agent

If open market escrow refunding.

Solicits bids for securities used in the escrow.

Feasibility Consultant

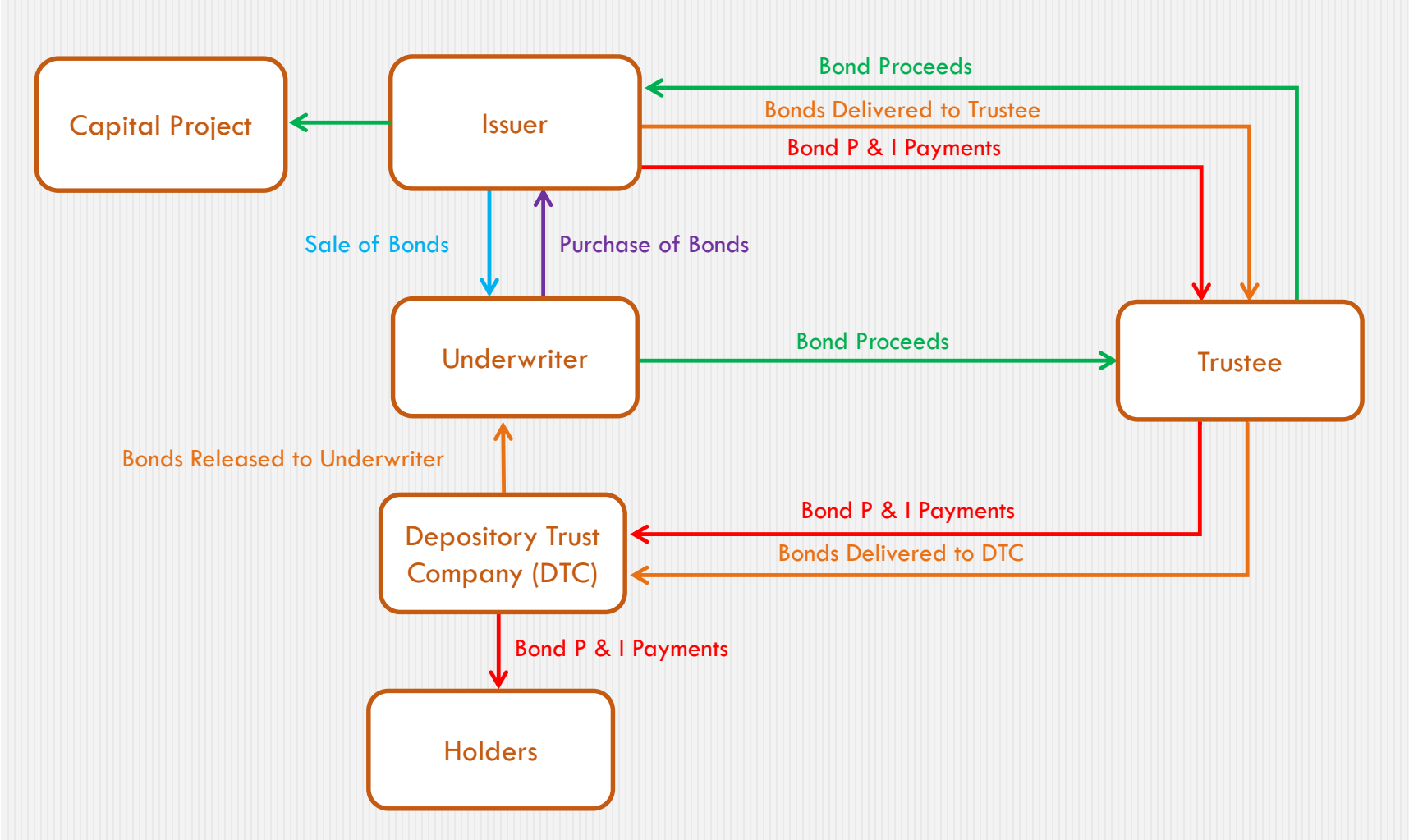
For revenue bonds.

Provides a report that evaluates viability of a project or program to generate sufficient flow of funds to meet debt payments.

That's a lot of people on my team!



Summary of a Bond Transaction



Legal Documents and Initial Disclosure

[CDIAC Debt Guide](#),
Sections 8.1.1 and 7.1
[GFOA Best Practice Primary Market Disclosure](#)

Legal Documents

To be discussed in detail in following slides.

- Indenture of Trust / Trust Agreement / Bond Resolution / Bond Ordinance
- Loan Agreement / Lease Agreement / Project or Facilities Lease / Installment Sale Agreement
- Preliminary and Final Official Statements
- Bond Purchase Agreement / Bond Purchase Contract
- Continuing Disclosure Undertaking
- Tax Certificate and Non-Arbitrage Certificate
- Closing Certificates, Documents, & Opinions

CDIAC Reports

Report of Proposed Debt Issuance

Submit to CDIAC at least 30 days prior to sale, [Details Online](#)

Report of Final Sale

Submit to CDIAC no later than 21 days after the sale, [Details Online](#)

Annual Debt Transparency Report

For issuances with a Report of Final Sale submitted on or after 1/21/2017, submit this annually to CDIAC by January 30th to report outstanding debt from prior fiscal year, [Details Online](#)

Indenture of Trust / Trust Agreement / Bond Resolution / Bond Ordinance

Parties

Issuer

Trustee

For Resolutions and Ordinances, the Issuer

Purpose

The contract between the Issuer and the Trustee specifying the scope and responsibilities of the parties, and the security and characteristics of the bonds.

Key Provisions

- **Definitions**
- **Permitted Investments**
- **Pledge of Collateral/Security**
- **Reserve Fund**
- **Flow of Funds**
- **Additional Debt**
- Interest Rates
- Principal and Interest Payment Dates
- **Maturity Dates**
- **Redemption / Prepayment Provisions**
- **Defeasance Provisions**
- **Representations, Warranties and Covenants of the Issuer**
 - **Maintenance of Rates, Fees & Charges**
 - **Continuing Disclosure**
- Rights and Responsibilities of the Trustee
- Amendment Procedures
- **Events of Default and Remedies**
- **Insurance Provisions**

Blue text = Indicates provisions that require critical review

Loan Agreement / Lease Agreement / Project or Facilities Lease / Installment Sale Agreement

Parties

Issuer

Borrower

Purpose

Evidences the loan of bond proceeds by the Issuer to finance the project and for user (borrower) of the project to make payments sufficient in time and amount to repay the bonds.

For Installment Sale Agreements and Leases, the title to the project will transfer at the end of the term and maturity of the bonds.

Key Provisions

- Pledge of Revenues
- Lease Payments
- Additional Payments
- Representations & Warranties
- Covenants
- Prepayment Provisions
- Abatement

Preliminary and Final Official Statements

[CDIAC Debt Guide, Section 6.3](#)

Parties

Issuer

Borrower

Purpose

Discloses to investors why the bonds are being issued, including, terms of the bonds, descriptions of project(s) being financed or bonds being refunded, security and sources for repayment, risk factors, issuer financial and operating information, description of obligated parties, outstanding material litigation, and compliance with prior continuing disclosure undertakings.

Discloses all information a “reasonable investor” would consider to be important in making an investment decision to purchase the bonds.

POS → OS

The Preliminary Official Statement (POS) is complete except for pricing information and is used by the Underwriter to presell the bonds.

The Final Official Statement, (OS) reflecting pricing information, is dated the date the bonds are sold to the Underwriter.

Key Provisions

- Project Description
- Securities and Sources of Payment
- Risk Factors
- Absence of Material Litigation
- Financial and Operating Information
- Continuing Disclosure

Bond Purchase Agreement / Bond Purchase Contract

[CDIAC Debt Guide, Sections 5.3.3 and 5.3.4](#)

Parties

Issuer | Underwriter | Borrower | Obligated Party

Key Provisions

Pricing Information:

Representation & Warranties | Underwriter's Outs | Expenses | Closing Conditions | Closing Documents | Form of Opinion of Issuer's Counsel | Redemption Provisions | Form of Issue Price Certificate

Purpose

Provides for the sale of the bonds by the Issuer to the Underwriter.

Specifies:

- (i) the terms of the bonds;
- (ii) conditions precedent to the obligation of the Underwriter to purchase of the bonds;
- (iii) the delivery date of the bonds;
- (iv) the conditions permitting the Underwriter to withdraw from the agreement (the "Underwriter's Outs");
- (v) representations and warranties of the Issuer and Borrower, including a representation that the Preliminary Official Statement was deemed final by the Issuer as of its date and compliance with past continuing disclosure undertakings;
- (vi) the documents to be delivered at closing;
- (vii) the Underwriter's fees;
- (viii) the expenses to be paid by various parties;
- (ix) certain SEC requirements to be followed by all parties; and
- (x) the method for determining the issue price of the bonds.

Executed after the bonds have been priced by the Underwriter.

Continuing Disclosure Undertaking

[CDIAC Debt Guide](#),
Section 8.4

Parties

Issuer

Borrower/Obligated Party

Dissemination Agent

Trustee

Purpose

Contains the undertakings of the Issuer (and each Obligated Party) to provide annual updates of specified information (Annual Reports) by a specified date certain and notices of the occurrence of significant events, generally within 10 business days following occurrence, pursuant to Rule 15c2-12.

Remains in effect during the lifetime of the bonds.

Key Provisions

- Content of the Annual Report
- Filing Date for the Annual Report
- List of Significant Events
- Filing Date for Filing Notices of the Occurrence of Significant Events
- Amendment Procedures

Tax Certificate / Tax and Non-Arbitrage Certificate

[CDIAC Debt Guide,](#)
Section 8.3

Parties

Issuer
Borrower

Purpose

Sets forth the certifications and covenants of the Issuer (and the Borrower) necessary to maintain the tax-exempt status of the bonds.

Includes rules for investment of the bond proceeds, compliance with arbitrage and rebate requirements.

Key Provisions

- Sources and Uses of Proceeds
- Investment of Proceeds
- Representations and Warranties
- Tax Compliance Program
- Others – depending upon the purpose of the financing

Closing Certificates, Documents, & Opinions

Parties

All

Key Provisions

- Issuer Certificates
- Receipts
- Requisitions
- Documents for Deposit of Funds
- Opinions

Up to the Sale Date

[CDIAC Debt Guide,](#)
Chapter 5

Methods of Sale

Negotiated Sale

Draft Legal Documents → Target Date of Sale → Underwriter Pre-Markets to Investors → On Date of Sale Underwriter Submits Offer to Issuer, If Issuer Accepts Bond Purchase Agreement is Executed and Debt is Awarded to Underwriter

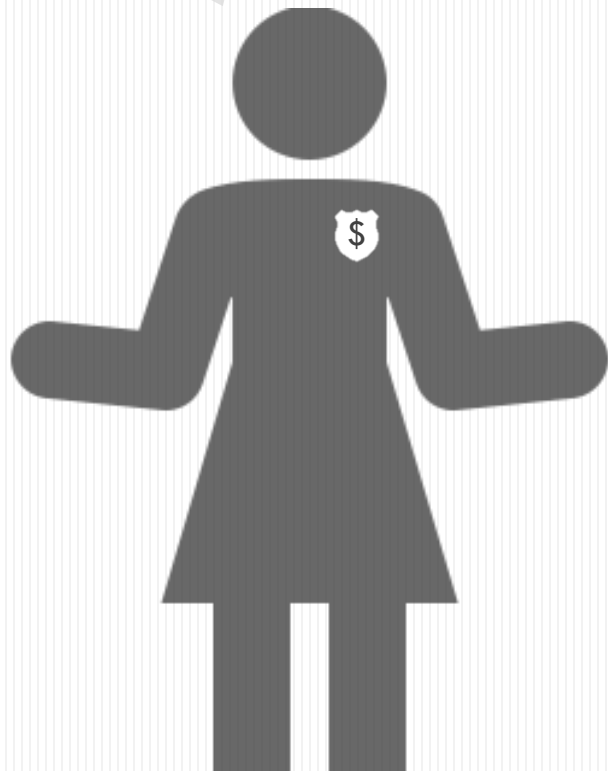
Competitive Bid

Draft Legal Documents → Establish Bid Parameters → Set Bid Date → Publish Notice of Sale and Bid Form → Accept Bids from Underwriters → Award Debt to 'Best' Bid

Private Sale/Placement

Term Sheet(s) Are Solicited From Investors/Lenders → Issuer Selects 'Best' Offer → Legal Documents Drafted → Debt Sold/Placed with Investor/Lender

Who Suits Up For Each Sale Method?



External Team Involvement By Method of Sale

Competitive Bid

Bond Counsel | Municipal Advisor | | Disclosure Counsel* |
Underwriter | Trustee/Paying Agent

Negotiated Sale

Bond Counsel | Municipal Advisor | Issuer's Counsel |
Disclosure Counsel* | Underwriter | Underwriter's Counsel |
Trustee/Paying Agent

Private Sale/Placement

Bond Counsel | Lender's Counsel | Issuer's Counsel |
Municipal Advisor | Placement Agent | Trustee/Paying
Agent*

**Could be optional under certain circumstances or role may be preformed by other team member.*

Details, Details, Details

Do I need a credit rating to sell my debt?

No but it can lower the costs of borrowing. Most debt sold publicly has at least one credit rating to help investors determine suitability of the debt.

If you and your team determine it will help lower your debt costs (interest rates) then how do you secure one?

Where does all the information come from for the POS/OS? MA? Underwriter?

This is the issuer's document.

Does the debt sell itself? Or, is there a need for a marketing strategy?

Except for a private sale/placement, investors need to be engaged in a strategic manner to participate in the issuance, with the issuer's input.

T-minus one
and counting!



Hint

Day Before The Bond Sale

Review the Market

Credit Market Overview, Treasury Market vs. Muni Market
Expected competing issues with yours
Comparable issues sold within the past few weeks
Expected/proposed rates and yields for your issue

Structure Review

Bond insurance or not?
Early redemption features (“call” features)
Serials vs. Terms

Big Picture

Who is in charge tomorrow?
What parameters for success have been set and have they been communicated?
Do you know where the person who is authorized to award the bonds and execute the BPA is going to be tomorrow?

Preliminary Issuer Steps

Meet with your municipal advisor.
Review recent comparable sales.
Review the pricing book and scales provided by the underwriter.
Come prepared.

Other Pre-Issuance Activity

Conference call/in-person meeting with the trading desk.
Caucus with municipal advisor.
Negotiate pricing scale and give 'final' approval to proceed.
Setup tracking of sale on your computer.

Ready for
liftoff!



Pre-Issuance Q&A

3

ISSUANCE

Sale & Pricing

Public Sale (Competitive, Negotiated) or
Private Placement

Closing Documents

Official Statement

Bond Purchase Agreement

Tax Certificate/Tax and Non-Arbitrage
Certificate

Loan Agreement/Lease Agreement/Project or
Facilities Lease/Installment Sale Agreement

Closing Certificates, Documents & Opinions

Report of Final Sale

Sale Date

[CDIAC Debt Guide,](#)
Chapter 5

Methods of Sale

Competitive Sale

Receive and open bids at the appointed time →
Evaluate bids and determine best, 'legal', bid → Inform
the winning bidder (verbal award)

Negotiated Sale

Authorize underwriter to release the scale (early
morning activity) → Monitor order flow during the
“order period” (2-3 hours) → Evaluate order “book”
and determine if changes are needed → Provide verbal
award to underwriter (only if satisfied with sale)

Private Sale/Placement

Not applicable

Issuer Activity During Sale

Track the Sales Volume

Each series/term will have different levels of demand based upon initial price.

Mid-to-late Morning Meeting With Trading Desk and Underwriters

Reset Pricing for Various Series

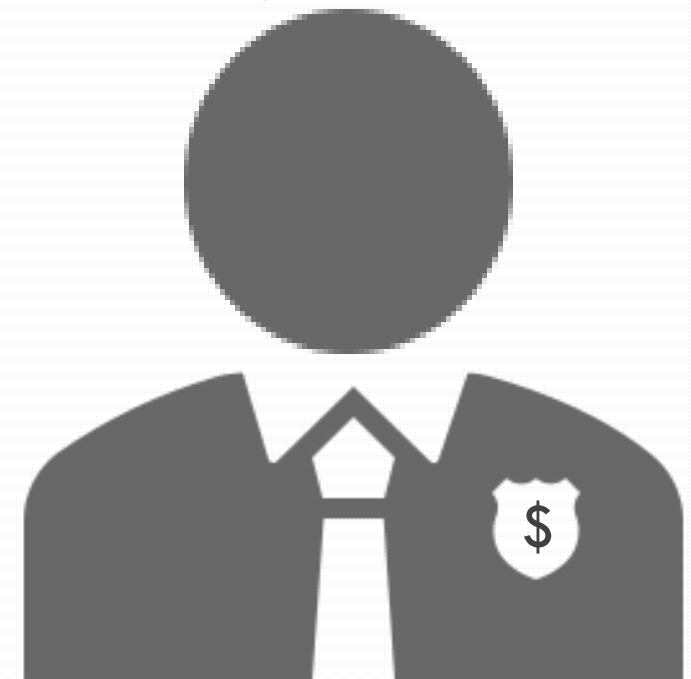
As appropriate.

Trading Desk Goes Back Out to Market

Final Meeting with Trading Desk/Underwriters

Reach Final Agreement and Execute Bond Purchase Agreement

Mission accomplished!



Questions and Answers



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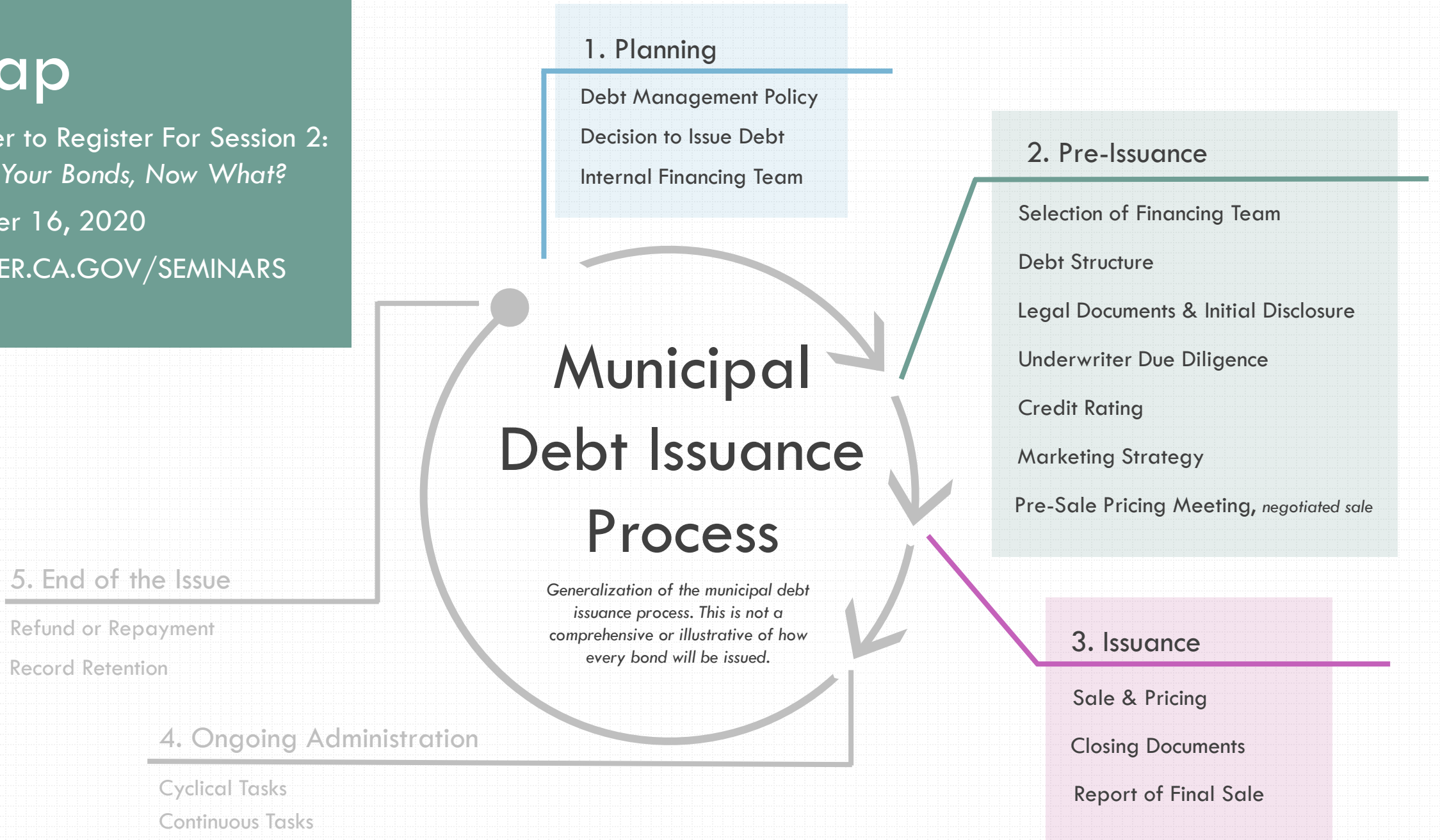
JAY GOLDSTONE
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Recap

Remember to Register For Session 2:
You Sold Your Bonds, Now What?

September 16, 2020

TREASURER.CA.GOV/SEMINARS



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Municipal Debt Issuance Fundamentals Series
You Sold Your Bonds, Now What? | September 16th | Free

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