CPIM

Center For Public Investment Management

A PROGRAM BROUGHT TO YOU BY:

Josh Mandel

Treasurer of Ohio

# FIN 162: Who's Who – Roles in a Bond Issue

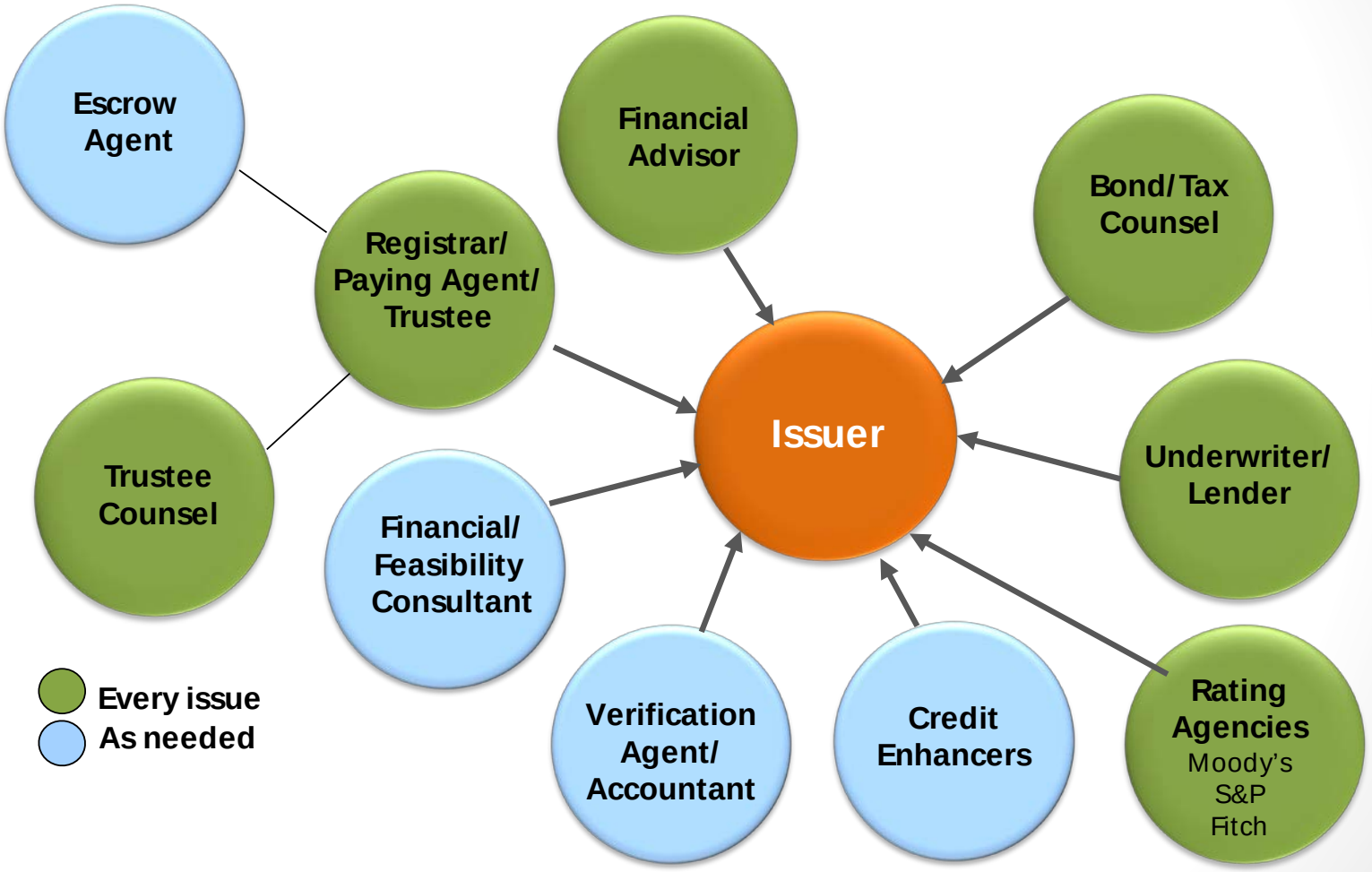
# Presenters

Jonathan Azoff, Director of Debt Management & Senior Counsel

Lisa Eisenberg, Deputy Director of Debt Management, *Ohio Treasurer Josh Mandel*

Brian Regueiro, Senior Managing Consultant, PFM Financial Advisors LLC

# Participants to the Transaction Team



# Issuer and Their Counsels

- Issuer – Body with the authority to issue bonds
  - City/County/State and their Agencies
  - In certain structures, can serve as the conduit between the borrower and investors
- Bond Counsel – Every bond issue must be reviewed by a lawyer or law firm
  - The legal opinion is authorization of the debt and covers two main issues:
    - Ensures the bonds are legal, valid, and binding obligations of the issuer
    - Verifies the tax status of the debt (if interest is exempt from federal, state, or local taxes
- Other Counsel – May include special tax counsel, disclosure counsel and issuer's counsel
  - Special counsel may be necessary for specific issues that are more complex and diverse than standard offerings. Also may be used to ensure consistency for regular issuers.

# Choosing Legal Counsel

- Experience
  - Prior transactions for issuer
  - Transactions with comparable issuers
  - Particular expertise for more complex transactions
- Listed in The Bond Buyers Municipal Marketplace Directory (the “Red Book”)
- Conflicts

# Municipal Advisors

- Advises the issuer throughout the bond issue process
  - Debt structuring
  - Assist in evaluation and preparation of documents relating to the marketing and issuance of bonds
  - Ratings process
  - Price negotiation
- Owes a fiduciary duty to issuer

# Choosing Municipal Advisors

- Selection
  - Request for Qualification (RFQ)
  - Quantity
  - Independent Registered Municipal Advisor (IRMA)
- Considerations
  - Experience
  - Resources and Quantitative Capabilities
  - References

# Underwriters

- Securities dealer who helps issuers bring bonds to market by purchasing the bonds and reselling them to investors.
  - Due Diligence on disclosure
  - Assist in development of financing plan
  - Provide pricing guidance
  - Markets bonds
- Underwriter assumes a financial risk and expects to make a profit on the transaction
- Does not owe a fiduciary duty to issuer

# Choosing Underwriters

- Different Approaches
  - Regularly work with one or more underwriters
  - Pool of qualified underwriters via RFQ
    - Multiple pools based on credit or role (senior manager pool and co-manager pool)
  - RFP on a deal-by-deal basis
- Syndicate size

# Choosing Underwriters cont.

- Considerations
  - Experience
    - Staffing plan
  - Resources
    - Size of salesforce and distribution capabilities
    - Underwriting capacity (and demonstrated willingness to underwrite unsold balances)
  - Other factors depending on issuer priorities
    - Retail distribution
    - Footprint
    - Ownership status

# Trustee/Escrow/Verification Agents

- Trustee
  - Financial institution with trust powers given fiduciary powers by a bond issuer to enforce the terms of a bond indenture
  - Ensures bond interest payments are made and protects the interests of the bondholders in the event of default
- Roles Specific to Refunding Bonds
  - Escrow Agent – Serves as custodian of the funds and holds securities to pay debt service on refunded bonds
  - Verification Agent – Verifies cash flow sufficiency to the call date of the escrowed securities

# Rating Agencies/Credit Enhancement

- Rating Agencies (Moody's, S & P, Fitch, and Kroll) rate bond issuers to categorize credit worthiness and proximity to default
  - Ratings play a critical role in the minds of market participants and are perceived as a guide of an Issuer's credit worthiness
  - Credit ratings play a significant role in broadening the investor base for an issuer
- Credit Enhancement – Supports an Issuer's credit in exchange for a fee or a premium, in the form of enhancement such as bond insurance or a letter of credit
  - Ohio Market Access Program

| Moody's | Aaa | Aa1 | Aa2 | Aa3 | A1 | A2 | A3 | Baa1 | Baa2 | Baa3 |
|---|---|---|---|---|---|---|---|---|---|---|
| S&P/Fitch | AAA | AA+ | AA | AA- | A+ | A | A- | BBB+ | BBB | BBB- |

# Rating Agencies Approach

- Agency Selection Considerations
  - Optimal Marketing
    - Number of ratings
    - Market acceptance of rating agency
  - Agency's credit methodology
    - General Obligation Bonds
    - Special Tax Revenue
    - Utility Revenue
- Presentation
  - Formal Meeting & Presentation or Call
  - Participants
  - Prepared Materials
- Pricing
  - Fee schedule
  - Frequent Issuer Discounts

# Questions?

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