

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

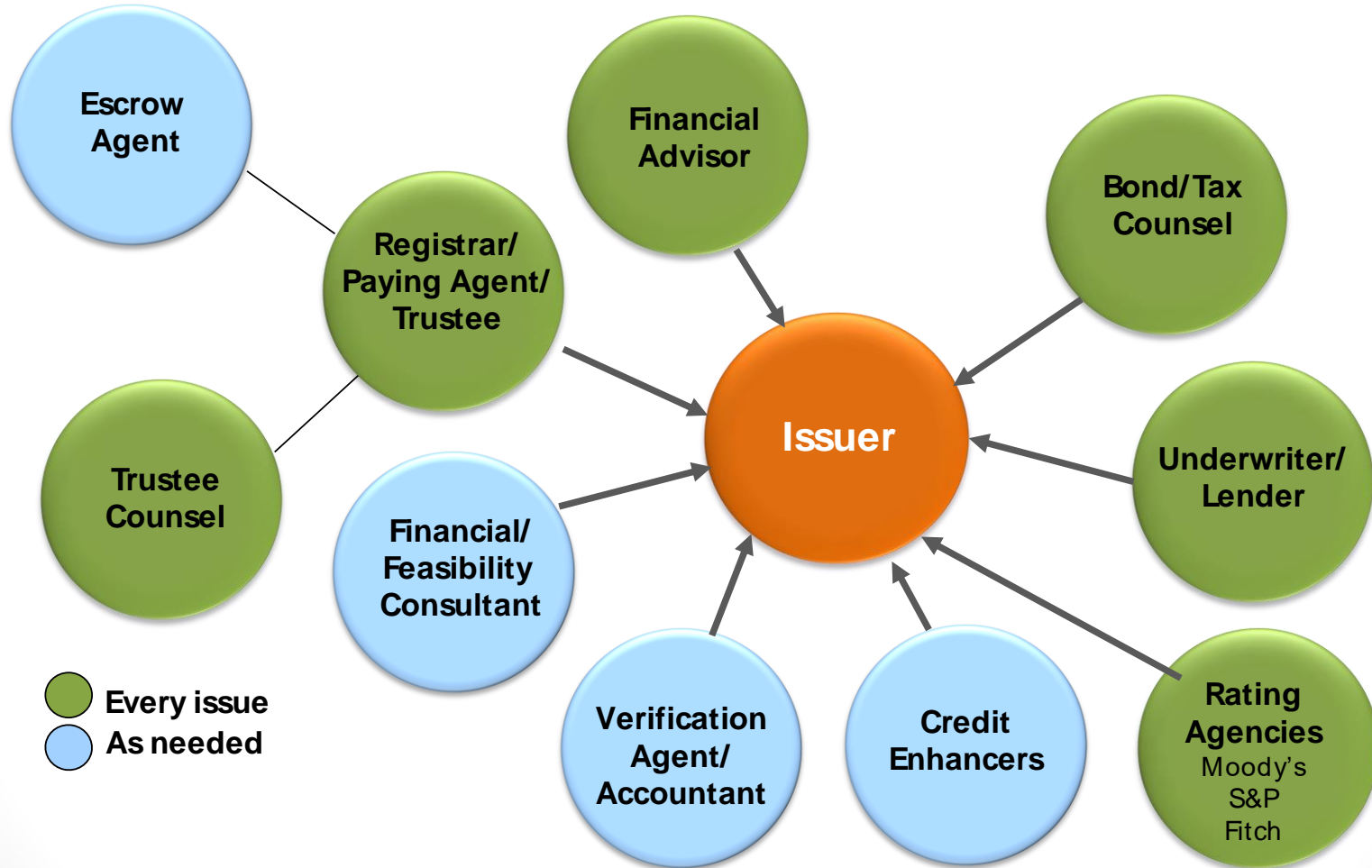
Presenters

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

Bethany Pugh, Managing Director, 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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