

Debt Issuance Sale Options - Which is Best for your Jurisdiction?

September 20, 2019

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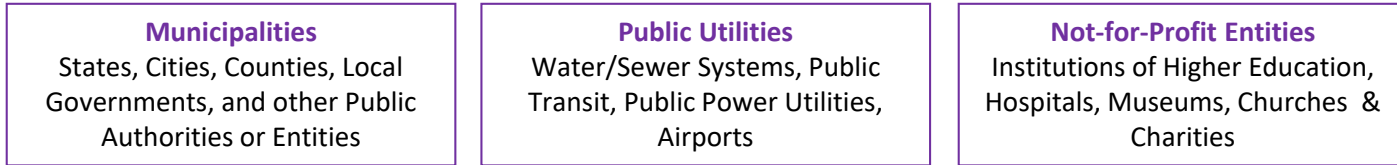
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I. Bond Basics

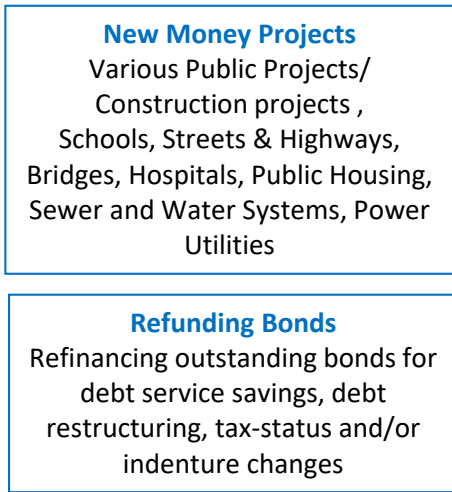
Types of Municipal Bonds, Issuers and Investors

- Municipal Bonds are issued by several different types of Issuers, offer various structures and have a broad and diverse Investor base.

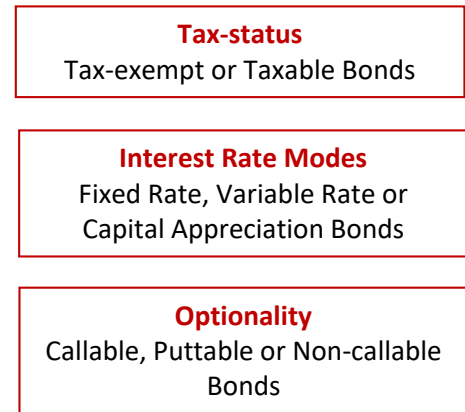
Bond Issuers



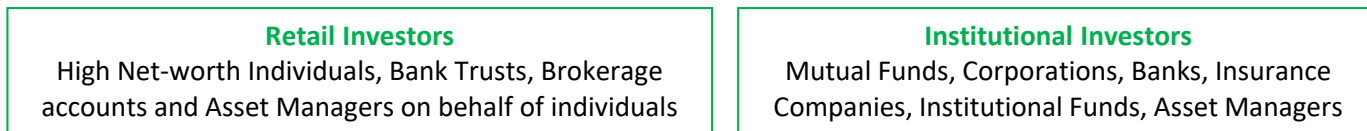
Uses of Bond Financing



Bond Features

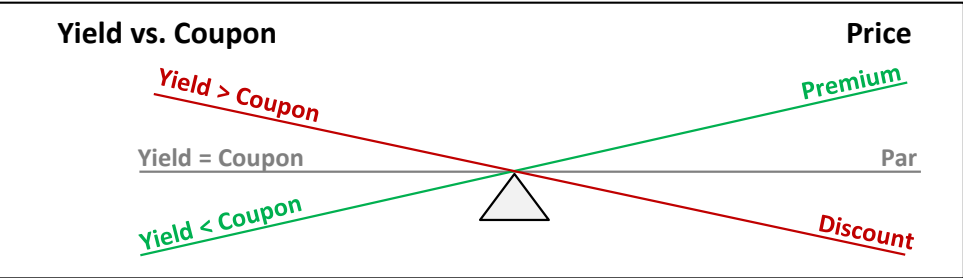


Bond Investors



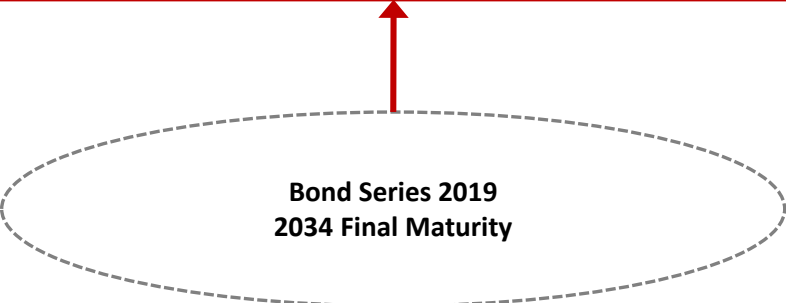
Bond Pricing – The Big Picture

- Bonds are valued differently at different times (i.e. as market conditions change and/or as time passes, investors value the same set of future cash-flows differently).
- The **price** an investor is willing to pay for a particular bond (i.e. a particular set of promised future cash-flows) depends on a variety of factors, and **market yields** represent investors' demand relative to bond supply at any given point in time.
- Bond **Issuers** are also subject to constantly changing market conditions: **market yields determine an issuer's borrowing cost** at any particular point in time.
- We are currently in a **historically low interest rate environment, making it an advantageous time for Issuers to issue bonds**, as compared to where rates have been over the past 30 years.



Yields Rise

- All other things being equal, **prices on outstanding bonds will tend to fall**
- Newly issued bonds become more lucrative from an investor's perspective and more costly from an Issuer's perspective



Yields Fall

- All other things being equal, **prices on outstanding bonds will tend to rise**
- Newly issued bonds become less lucrative from an investor's perspective and less costly from an Issuer's perspective

Sources: KeyBanc Capital Markets and TM3

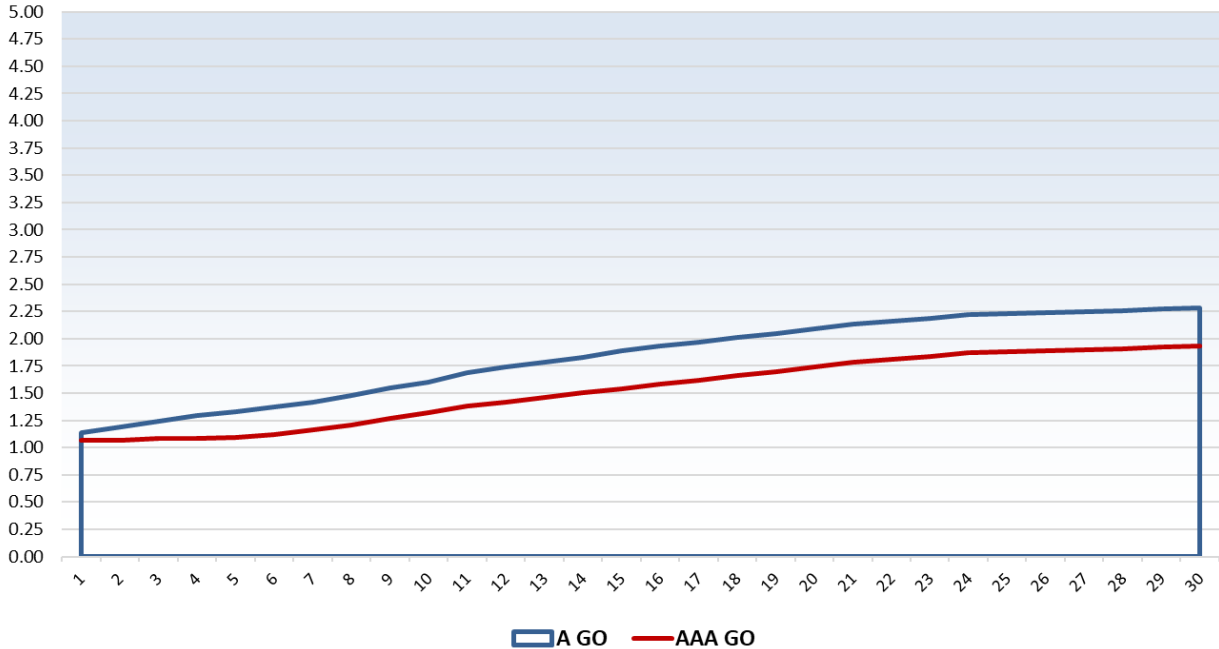
Bond Pricing – Interest Rates & Yield Curve

- Yield Curve demonstrates three important concepts:
- MMD - Benchmark
- Credit Spread
- The longer you borrow, typically, the higher the rate

AAA GO MMD vs. A GO MMD

As of 9/9/2019
 SOURCE: Thompson Reuters

Years	AAA GO	A GO
1	1.07	1.14
2	1.07	1.19
3	1.08	1.24
4	1.08	1.29
5	1.09	1.33
6	1.12	1.37
7	1.16	1.42
8	1.21	1.48
9	1.27	1.55
10	1.32	1.6
11	1.38	1.69
12	1.42	1.74
13	1.46	1.78
14	1.5	1.83
15	1.54	1.89
16	1.58	1.93
17	1.62	1.97
18	1.66	2.01
19	1.7	2.05
20	1.74	2.09
21	1.78	2.13
22	1.81	2.16
23	1.84	2.19
24	1.87	2.22
25	1.88	2.23
26	1.89	2.24
27	1.9	2.25
28	1.91	2.26
29	1.92	2.27
30	1.93	2.28



Sources: KeyBanc Capital Markets and TM3

II. Methods of Sale

There are several ways in which to sell municipal bonds.

I. **Competitive Sale**

- In a competitive sale, the issuer solicits bids from underwriting firms to purchase its bonds.
- Issuer determines the size and other essential characteristics of the issue prior to soliciting bids.
- A Notice of Sale containing bid parameters and terms of the issue is distributed to underwriters.
- Each bid takes into account both the interest rate paid to investors and the amount of compensation paid to the underwriting firm for selling the bonds.
- Bonds are awarded to the firm or syndicate offering the lowest interest rate (highest price) bid.
- Final terms and underwriter who will purchase the bonds are outlined in the Certificate of Award.

II. **Negotiated Sale**

- Underwriting firm is selected well in advance of the proposed sale date.
- Underwriter proposes an amount of compensation known as underwriter's discount.
- The underwriting firm takes the lead in marketing the bonds to investors.
- Transaction may be sole managed or co-managed by a group or "syndicate" of underwriting firms.
- Managing (or senior) underwriter proposes interest rates at which various maturities will be offered to investors.
- Upon approval by the issuer, underwriter will approach investors to determine whether bonds can be sold at the proposed rates.
- Adjustments are made to the interest rate scale until final terms are reached reflecting the supply and demand for the bonds.
- Once terms for the sale have been reached a bond purchase agreement is signed by the issuer and underwriter (purchaser) agreeing to the final terms.

III. Private Placement or Direct Bank Purchase

- Method of sale in which the issuer sells bonds directly to a limited number of sophisticated investors or financial institutions without a public offering.
- Must be sold to 35 or fewer investors
- For governmental issues, bonds are typically sold to a bank or investment company
- Financial institution may hold the securities in its investment portfolio until maturity.
- Bonds may also have provisions to sell or transfer the bond to another sophisticated investor.
- Common for financings with shorter terms (weighted average maturity of approximately 10 years or less)
- Typically no offering document, rating, CUSIP or DTC
- Require sophisticated investor letters (aka “Big Boy Letters”)
- Typically exempt from continuing disclosure under Rule 15c2-12

Scenario I

City ABC is planning to issue \$20 million in Limited Tax General Obligation, Various Purpose Improvement Bonds. The City currently maintains a Aa2/AA bond rating. This is the second bond issue for the City this year.

Which method of sale might the issuer select for this transaction?

- A. Competitive Sale
- B. Negotiated Sale
- C. Bank Direct Purchase
- D. Private Placement

ABC Local School District is planning to issue \$2.0 million in Limited Tax General Obligation, Energy Improvement Bonds for a term of 15 years. The School District does not have a bond rating and has not issued bonds in 20 years.

Which method of sale might the issuer select for this transaction?

- A. Competitive Sale
- B. Negotiated Sale
- C. Bank Direct Purchase
- D. Private Placement

City XYZ is planning to issue \$15 million in Special Obligation (Nontax Revenue) Bonds for a redevelopment project. The City currently maintains a A3/A- bond rating. The City is not a frequent issuer of bonds.

Which method of sale might the issuer select for this transaction?

- A. Competitive Sale
- B. Negotiated Sale
- C. Bank Direct Purchase
- D. Private Placement

City ABC is planning to issue \$20 million in Tax Increment Financing Bonds. The bonds will be used to pay the costs of a multistory parking garage and all public improvements. The bonds will be repaid over 30 years and will not be rated.

Which method of sale might the issuer select for this transaction?

- A. Competitive Sale
- B. Negotiated Sale
- C. Bank Direct Purchase
- D. Private Placement

City XYZ is planning to issue \$50 million in Water System Revenue Improvement Bonds. The City currently maintains a Aa3/AA- bond rating. System revenues have continually declined over the past 3 years and a rate increase is needed. The City annually issues bonds for various capital improvement projects.

Which method of sale might the issuer select for this transaction?

- A. Competitive Sale
- B. Negotiated Sale
- C. Bank Direct Purchase
- D. Private Placement

Competitive Sale

Advantages

- Provides some assurances that bonds have been sold at the lowest interest rate given the current market conditions.
- Competitive sales promote the appearance of an open, fair process.

Disadvantages

- Issuer may have less flexibility in adjusting the structural features to respond to investor interest in certain maturities, call provisions or other characteristics.
- Underwriters may build a “risk premium” into their bids to compensate for interest rate volatility and uncertainty in being able to sell the bonds at a particular interest rate.
- Complex financings or weak or unknown credits may have difficulty attracting bids.

Negotiated Sale

Advantages

- Greater incentive for underwriter to engage in pre-sale marketing of the bonds to assess demand for certain structures and maturities.
- A negotiated sale provides the greatest amount of flexibility regarding structure and timing of the sale.

Disadvantages

- Negotiated sales require issuers to make a greater effort to remain informed of developments in the municipal market to ensure that bonds are priced at favorable rates and the underwriting spreads are reasonable.
- Utilizing a municipal advisor can mitigate this risk.

Methods of Sale - Comparison

Feature / Characteristic	Negotiated sale	Competitive sale
Issuer	New or not well known in the marketplace	Issuer known in the marketplace
Issuance frequency	First-time or infrequent issuer	Frequent issuer
Credit rating	Lower credit rating(s)	Highly rated issuer
Security structure	Revenue backed or unusual structure	GO backed or common structure
Interest rate	Best deal offered by the underwriter	Best bid received
Who distributes marketing materials	Underwriter distributes	Municipal Advisor distributes
Marketing materials distributed	Preliminary Official Statement (POS)	POS and Notice of Sale
Market conditions	Unstable market conditions	Stable market conditions
Interest rate/cost achieved	Based on market conditions as well as the underwriter's marketing efforts, investor relationships and willingness to underwrite bonds	Based on market conditions, number of bidders and investors' awareness of the issue being offered for sale

Direct Bank Purchase

Advantages

- Can typically be sold without disclosure (POS/OS), ratings and continuing disclosure requirements.
- Financing can be customized to particular needs of the issuer

Disadvantages

- Bank purchases can be limited to 10-15 years for most market participants

III. Financing Team

The Financing Team Members

Once it has been determined that a project will require bond financing, the Borrower or “Issuer” can begin to compile their Financing Team Members. This can also be referred to as the Working Group.

- **Bond Counsel** prepare legal documents that are required of any entity that issues bonds.
 - In order for the bonds to be considered tax-exempt, a tax opinion and legal opinion are required from Bond Counsel.
 - Bond Counsel can also assist with other compliance and tax filing requirements.
- **Municipal Advisor** (the “MA”) to assists with the bond issue including structuring, bond offering documents, public hearings or referendums, if required, and post issuance compliance.
 - The U.S. Securities and Exchange Commission (SEC) established a MA definition and new MA rules that became effective July 1, 2014.
 - MA’s are a firm or its associated persons who provide “advice,” with or without compensation to a State or local government on municipal financial products or the issuance of municipal securities. “Advice” is considered as a recommendation that is particularized to the specific needs or objectives of the municipal entity.
 - MA’s have an explicit fiduciary duty to their government clients. They are mandated to take professional exams (Series 50) and adhere to Rule G-42 of the Municipal Securities Rulemaking Board (MSRB). MA’s are required to register with the SEC and the MSRB.

The Financing Team Members

- **Underwriter** for the financing.
 - Underwriters have institutional knowledge of the municipal market due to daily participation.
 - Underwriters find investors to purchase the Issuer’s bonds.
 - Underwriters assume risk in the transaction to support the sale.
 - At issuance they ‘underwrite’ or hold any unsold balances of bonds to keep rates at a market clearing level.
 - They hold an inventory in the ‘secondary market’ where previously issued bonds can be bought and sold.
 - Underwriters are paid at closing out of bond proceeds and the fee is called an Underwriter’s Discount.
 - Underwriters do not have an explicit fiduciary duty. Underwriter’s can not offer advice to an Issuer without a specific exemption such as responding to a Request for Proposal, they obtain a written engagement letter or unless the Issuer is working with a Municipal Advisor.

- **Paying Agent** will be selected to make the required debt service or lease rental payments on the bonds.
 - Trustees work with Bond Counsel to ensure that the Issuer correctly follows the legal covenants in the bond documents on behalf of bond holders.
 - Trustees can also assist in investing the bond proceeds for a construction project.

IV. Resumes

Biography

David Tiggett

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Director

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David Tiggett is a Director with KeyBanc Capital Markets. Mr. Tiggett joined Key in 2017. Prior to joining Key, Mr. Tiggett worked for William Blair & Co. and Fifth Third Securities, where he helped lead the firm's expansion in the Midwest region. Mr. Tiggett has over 12 years of experience underwriting transactions for Ohio municipalities, school districts, higher educational institutions and agencies of the State of Ohio, totaling over \$10 Billion. Having previously served as Deputy Director of the Office of Debt management for the Ohio Treasurer's Office, Mr. Tiggett brings a valuable perspective of both issuer and municipal banker.

Mr. Tiggett is a Board President of the Central Ohio Diabetes Association Advisory Board, Board Member of Life Care Alliance, President of the Russ Hellickson Central Ohio Youth Wrestling League, the Director of the Upper Arlington Mat Cubs Wrestling Program, a past Finance Committee Member for the Wexner Heritage Village, a past Member of the Citizen's Advisory Committee for the Franklin County Children's Services and a past Volunteer for the Big Brothers and Big Sisters of Columbus, Ohio.

Mr. Tiggett holds a Bachelor of Science degree from The Ohio State University. He also has his Series 7, 50, 53 and 63 licenses.

Biography

Brian Cooper

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Director

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Brian Cooper, a veteran to the public finance and economic development arena, specializes in general obligation and revenue-based projects. He consults on financial matters encompassing capital planning, credit strategy and debt issuance, as well as financial operations including budgeting, forecasting and management review. Cooper serves the Ohio public finance market and has worked with cities, counties, townships, school districts, authorities and state level issuers. Cooper graduated from The Ohio State University and is a registered municipal advisor. He has been a presenter at the CDFIA national conference and serves as their course advisor for both intro and advanced bond finance courses. Cooper has presented at the annual conferences for the Ohio Economic Development Association and the Ohio GFOA, and is a guest lecturer at The Ohio State University. Cooper joined Baker Tilly in 2019 when Umbaugh combined with Baker Tilly Municipal Advisors.

Biography

Matthew Miller

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Partner

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Matthew J. Miller is a partner in Ice Miller's Municipal Finance Group. Matt has served as bond counsel, disclosure counsel and underwriter's counsel on over 100 financings, including various short-term and long-term general obligation financings, revenue financings, working cash financings, refunding transactions and special obligation financings issued by states, large municipalities and transit systems, counties, villages, school districts and other special districts. Matt has specific experience in public transportation and airport-related financings.

Matt also has extensive experience advising government entities on economic development projects and public-private partnerships with residential and commercial development utilizing tax increment financing districts and other economic incentive programs.

Matt has also advised clients in a number of areas including federal and state grant administration, federal reporting requirements, legislative drafting and review, procurement and contracting issues and FOIA responses and challenges.

Matt is licensed to practice law in the states of Ohio and Illinois.