

Short-Term Borrowing and Note Market Update

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Presentation Objective

Due to SEC regulatory action, the municipal note market has changed drastically. That, along with higher interest rates, has created a new decision process when issuing short-term debt. This session will detail those changes and highlight what you need to know when deciding how to issue short-term debt.

- Short-Term Financing Options
- Basic Note Structure
- SEC Regulation Overview
- Note Market Outlook

Why Use a Municipal Advisor



The *Government Finance Officers Association's* best practices recommend that governments hire a municipal advisor (MA) for their transactions, unless they have sufficient in-house expertise to understand all facets of the bond transaction because:

- The MA has a federal fiduciary duty to put the best interest of the Issuer before the MA's own, unlike the bond underwriter who has a duty first to investors, then to the issuer.
- Most finance directors do not have the daily experience with public finance markets to adequately assess whether the debt issue's structure and interest rate pricing is the best available in the market while a good MA can provide that expertise with the best interests of the Issuer in mind.

Services the Municipal Advisor typically provides:

1. Assistance with the selection of other professionals required to execute the debt issuance
2. Temporary staffing assistance to the finance office during the preparation of the Official Statement
3. Objective advice regarding financing plan options and structuring ideas
4. Rating campaign strategy assistance and preparation for rating presentations
5. Unbiased market assessments and bond pricing analyses
6. Development of an investment strategy for bond proceeds and the selection of investment advisors
7. On-going market surveillance and notice of refinancing opportunities

GFOA's Recommended Debt Issuance Practices

The Policy should provide guidance regarding the issuance process, which may differ for each type of debt. These practices include:

- **Selection and use of professional service providers**, including an independent municipal advisor, to assist with determining the method of sale and the selection of other financing team members,
- **Criteria for determining the sale method** (competitive, negotiated, private placement) and investment of proceeds,
- **Use of comparative bond pricing services** or market indices as a benchmark in negotiated transactions, as well as to evaluate final bond pricing results,
- **Criteria for issuance of refunding bonds**, and
- **Use of credit ratings & credit enhancement**, minimum bond ratings, determination of the number of ratings, and selection of rating services.

Short-Term Financing Options

Competitive Sale

- Auction a pre-defined bond to the lowest bidder in the market
- Pros: Competition lowers interest rate
- Cons: Requires simplified structure

Negotiated Sale

- Work directly with an investment bank to sell bonds to investors
- Pros: Most flexible structuring
- Cons: Interest rates determined by bank

Direct Placement

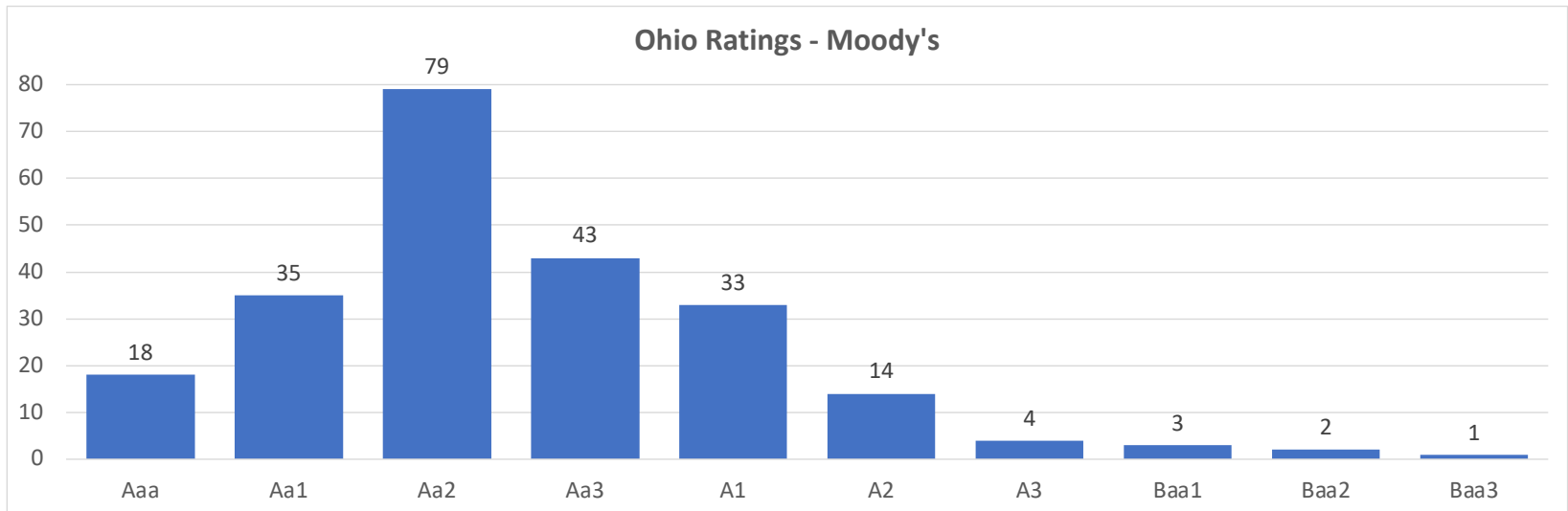
- Sell directly to one investor
- Pros: Quickly issue debt – Lower cost of issuance
- Cons: Higher interest rate costs – Maturity length restrictions

Competitive Sale

GFOA recommended sales method when:

- High rating (A or better)
- Issuer is known in marketplace
- Nothing unusual about structure
- Market conditions are relatively stable
- Receives best deal entire market can provide
- Due to competition generally results in lower interest rates

	MOODY'S	S&P Global	FitchRatings
Better (Lower) Interest Rates ↑	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
	Ba1		
	Ba		



Competitive Sale

City of Wooster

Final Bid Results - 2023 Notes



Pricing Date:	Tuesday, May 23, 2023
Dated:	Thursday, June 8, 2023
Due:	Friday, June 7, 2024
Settle:	Thursday, June 8, 2023
Par:	\$4,750,000
Bank Qualified:	No
Rating:	SP-1+
Underlying Rating:	AA

Bidder	Coupon	Premium	NIC	
KeyBanc Capital Markets	4.500%	\$30,732.50	3.851%	Winner
BNYMellon Capital Markets	4.750%	\$40,496.12	3.895%	
Piper Sandler	6.000%	\$98,562.50	3.919%	
Oppenheimer	5.000%	\$47,405.00	3.999%	
Fidelity Capital Markets	4.250%	\$5,937.50	4.125%	
Jefferies LLC	5.000%	\$33,630.00	4.290%	

- The difference in first to second bid would cost \$2,078 of added borrowing cost. This represents an increase of 1.1% in total interest paid.
- The difference in first to last bid would cost \$20,786 of added borrowing cost. This represents an increase of 11.3% in total interest paid.

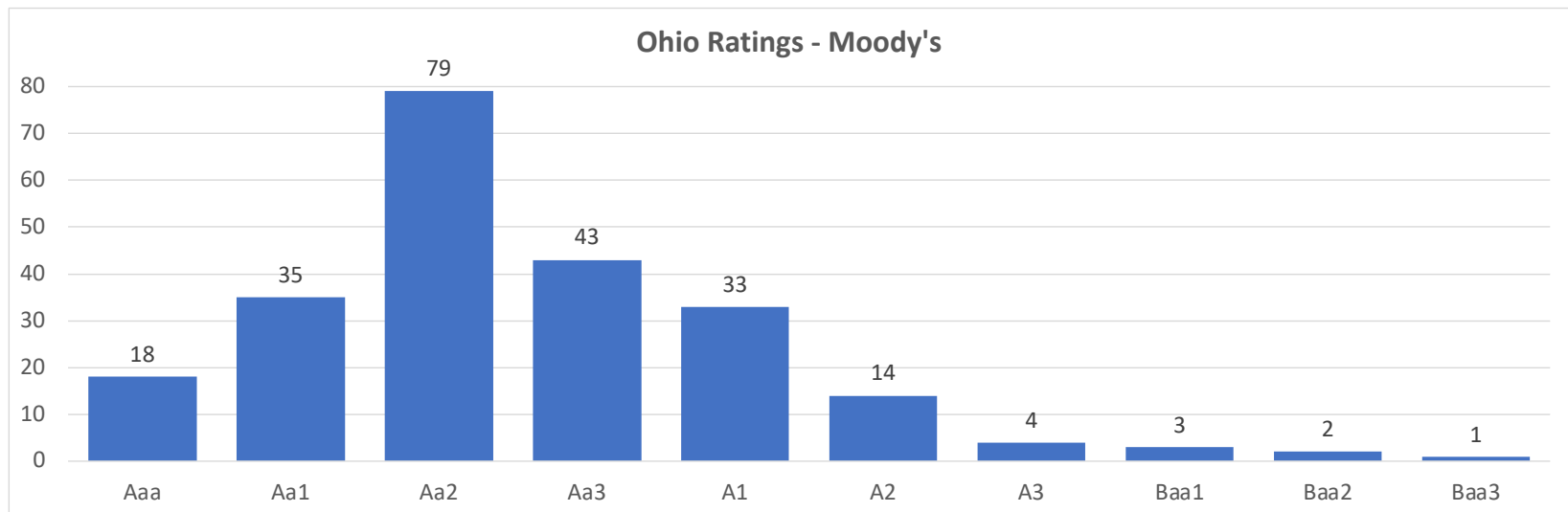
Negotiated Sale

GFOA recommended sales method when:

- Low credit rating (Baa/BBB or worse)
- Issuer is not known in marketplace
- Unusual structure (PCABs)
- Unstable market conditions
- Results in best pricing selected underwriter can provide, particularly if an RFP process is used to solicit underwriters

	MOODY'S	S&P Global	FitchRatings
	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
	Ba1		
	Ba		

Better
(Lower) Interest Rates ↑



Negotiated Sale

Pricing Date:	6/6/2023	CUSIP No.:	2906416N4
Dated Date:	6/27/2023	Bond Counsel:	Squire Patton Boggs
Maturity Date:	6/27/2024	Bank Qualified:	Yes
Settlement Date:	6/27/2024	OS:	No
Days Outstanding:	360	NPA:	Yes
2022 Note Maturity:	6/28/2023		

Par Amount:	\$ 5,830,000.00	Coupon:	4.500%
Interest Payment:	\$ 262,350.00	Yield:	3.850%
Total Payment:	\$ 6,092,350.00	Price:	100.6259
Excess Premium:	\$ 4,300.00	Truncate:	100.625
	Back to Issuer	Average Life:	1.0000
		NIC:	4.4262%
		Yield:	3.8509%

2023 Investors:	2023 Orders:	2023 Allotments:
Johnson Investment Council	\$3,000,000.00	\$1,500,000.00
Tolleson Wealth Management	\$500,000.00	\$500,000.00
Allspring Global Investments	\$5,830,000.00	\$3,080,000.00
Cypress Wealth Advisers	\$750,000.00	\$750,000.00
TOTAL:	\$10,080,000.00	\$5,830,000.00

Direct Placement

- Term sheet used to receive bank loan rates
- Often utilized for lower par value projects
- Interest rates are typically higher than public sales
- Cost of issuance as generally lower than full public sales
- Generally limited to 20 years or less
- No official statement or rating required
- Can allow for a shorter issuance timeline

Direct Placement

South Euclid-Lyndhurst CSD
Final Bid Results - 2023 TAN and/or ELP



Pricing Date: Wednesday, June 21, 2023
 Dated: Tuesday, July 11, 2023
 Par: \$9,625,000
 Bank Qualified: Yes
 Rating: None
 Underlying Rating: None

Bidder	Security	Par	Maturity	TIC (Fee Adjusted)	Annual Debt Service	
Capital One Public Funding	Equipment Lease-Purchase	\$9,625,000	20 Years	4.600%	\$759,127	Winner
Flagstar Public Funding	Equipment Lease-Purchase	\$9,625,000	15 Years	4.731%	\$923,493	
First National Bank	Equipment Lease-Purchase	\$9,625,000	10 Years	4.990%	\$1,265,609	
Capital One Public Funding	Tax Anticipation Note	\$4,000,000	10 Years	4.370%	\$509,304	
Flagstar Public Funding	Tax Anticipation Note	\$4,000,000	10 Years	4.500%	\$512,754	
Key Bank	Tax Anticipation Note	\$4,000,000	10 Years	6.150%	\$559,676	

- The difference in first to second bid would cost \$164,366 annually. This represents an increase of 22% in annual debt service.
- The difference in first to second bid would cost \$506,482 annually. This represents an increase of 67% in annual debt service.
- In an effort to minimize borrowing costs the District also took bids on Tax Anticipation Notes to offer bidders the most options possible. The winning bid utilized 100% Equipment Lease-Purchase which preserves the Districts ability to issue a future Tax Anticipation Note.

Basic Note Structure

For the aggregate principal amount of \$4,750,000.00, we will pay you \$4,790,496.12, plus accrued interest from the date of issue to the date of delivery. The Bonds are to bear interest at the following rate:

Maturity Date	Amount \$	Coupon %	Yield %	Dollar Price
06/07/2024	4,750M	4.7500	3.8000	100.912

Bid: 100.852550
Premium: \$40,496.12
Net Interest Cost: \$184,502.14
NIC: 3.895075
Time Last Bid Received On: 05/23/2023 10:42:07 EDST

- Coupon
 - Increase = higher premium, price, and debt service
 - Decrease = lower premium, price, and debt service
- Yield
 - Increase = lower premium and price
 - Decrease = higher premium and price
- Price
 - Increase = lower yield or higher coupon
 - Decrease = higher coupon or lower yield

SEC Regulation Overview

SEC charges four underwriters in first of its kind disclosure case

By [Connor Hussey](#) September 13, 2022, 12:28 p.m. EDT 4 Min Read

The charges represent a first of its kind for the Commission in addressing limited offering exemptions, or underwriters who fail to meet the legal requirements that would exempt them from obtaining disclosures for investors in certain municipal securities offerings.

SEC charges seventh firm for violating limited offering exemption

By [Connor Hussey](#) July 20, 2023, 1:17 p.m. EDT 2 Min Read

SEC Rule 15c2-12 includes an exemption for underwriters engaged in limited offerings, where they do not have to provide continuing disclosures for the sale of securities that remain in denominations of at least \$100,000 and sold to no more than 35 persons who are capable of evaluating the merits and risks of the prospective investment.

SEC Regulation Overview

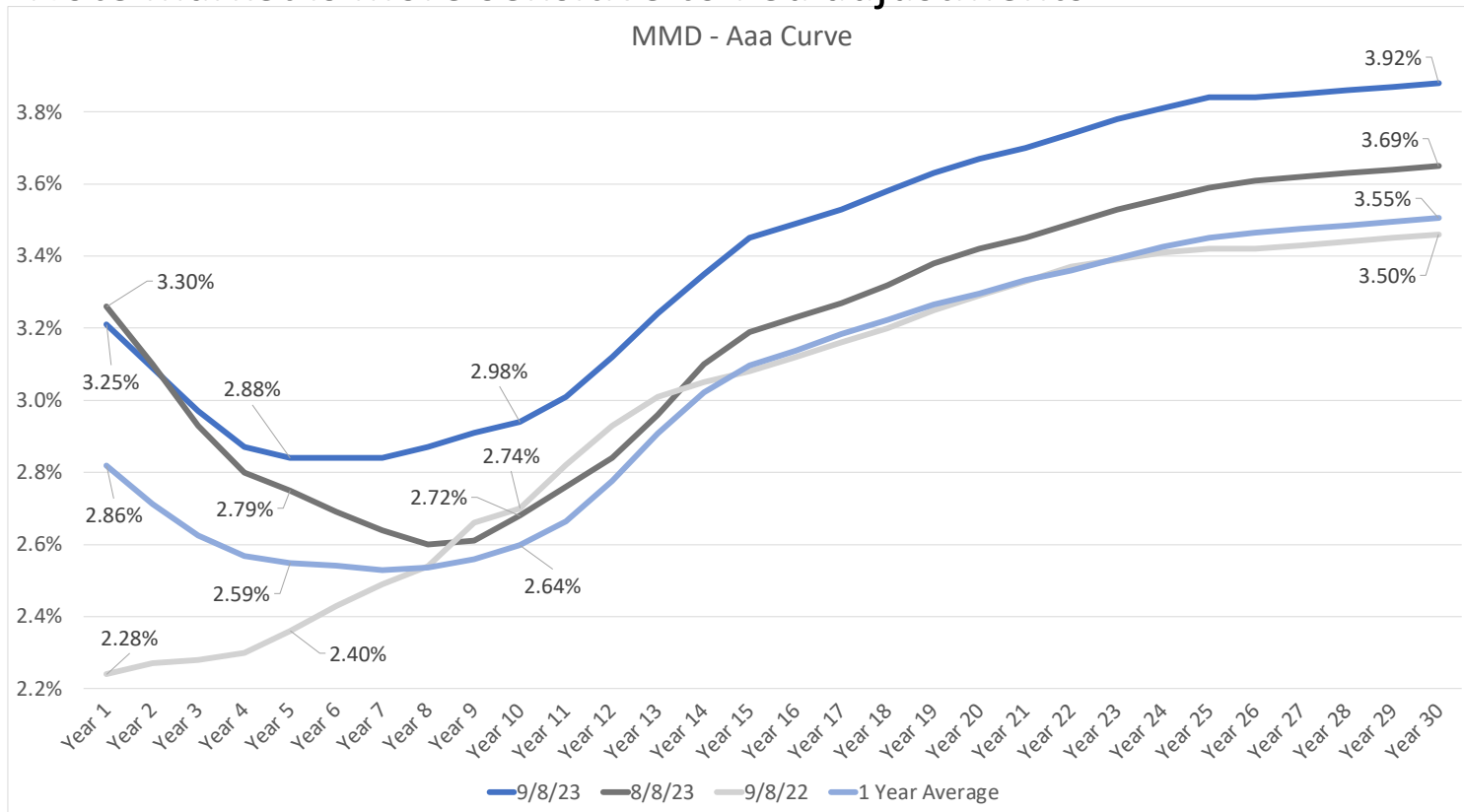
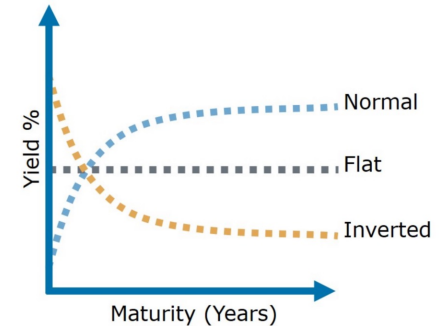
What this new SEC focus means for the short-term market

- Option 1: Sell 9-month BAN
 - No Official Statement/Disclosure documentation
- Option 2: Sell 12-month BAN
 - Official Statement/Disclosure documentation
 - or
 - Underwriting firm receives sign off from investors
- Option 3: Sell Direct Placement
 - No Official Statement/Disclosure documentation

Note Market Outlook

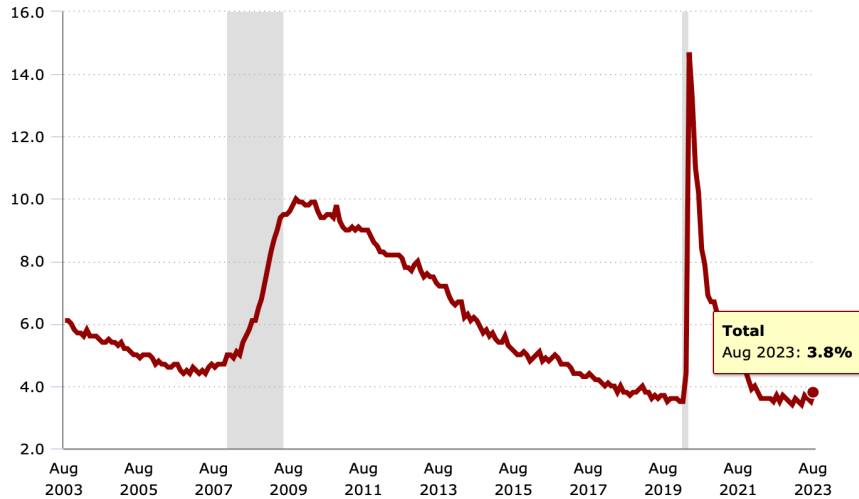
Federal Reserve Outlook:

- Fed will continue raising rates until inflation slows
- FOMC Schedule: Nov 1, Dec 13, Jan 31
- CPI Inflation: Oct 12, Nov 14, Dec 12
- The average time from last rate hike to first rate cut is 5.8 months
- Note market is more sensitive to Fed adjustments

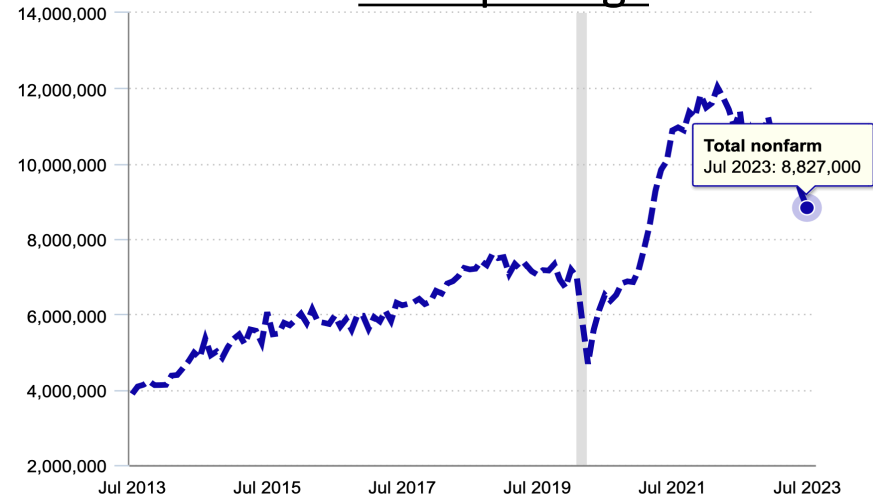


Note Market Outlook – Fed Goals

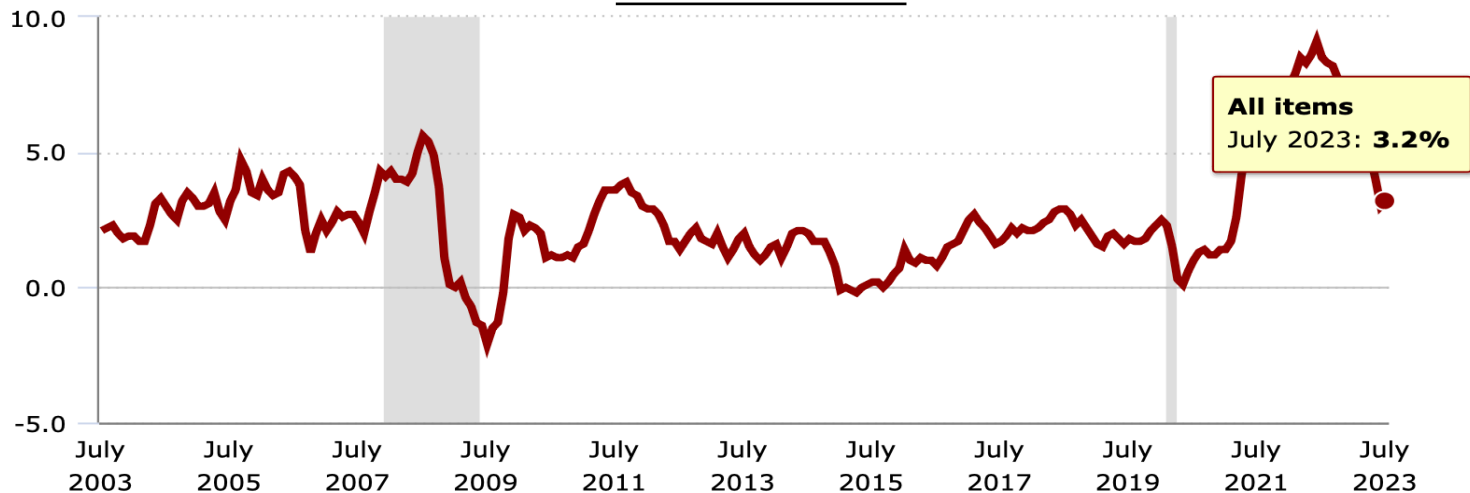
Unemployment Rate



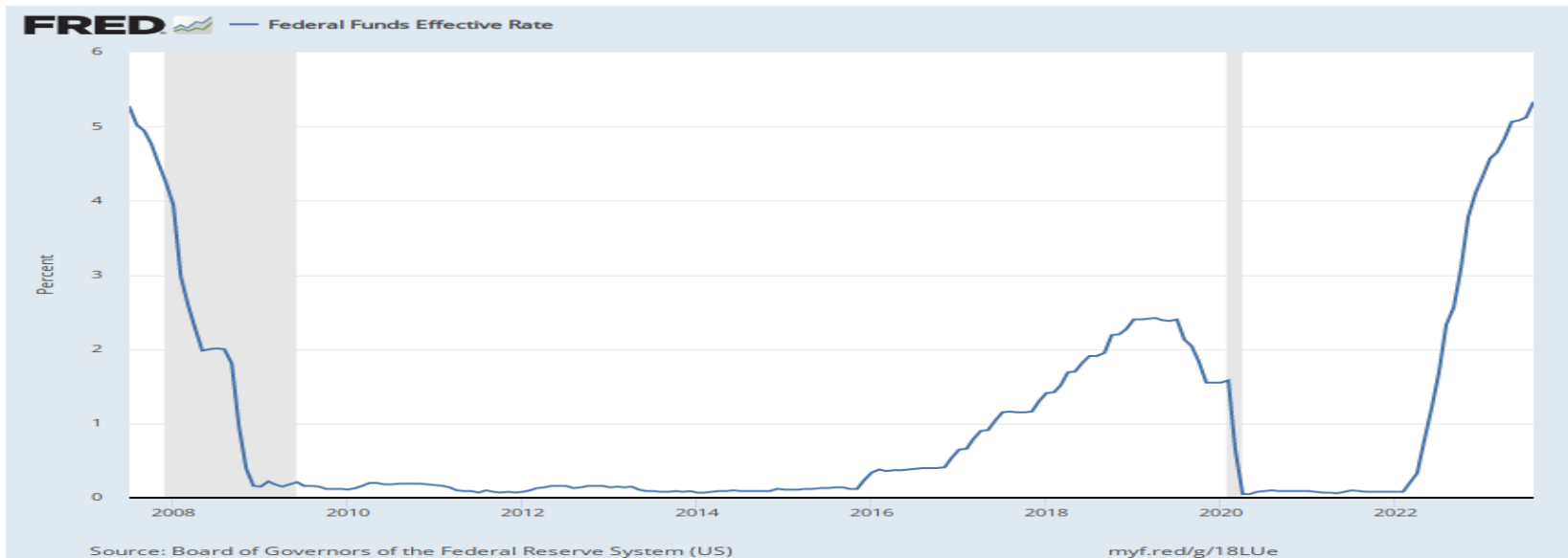
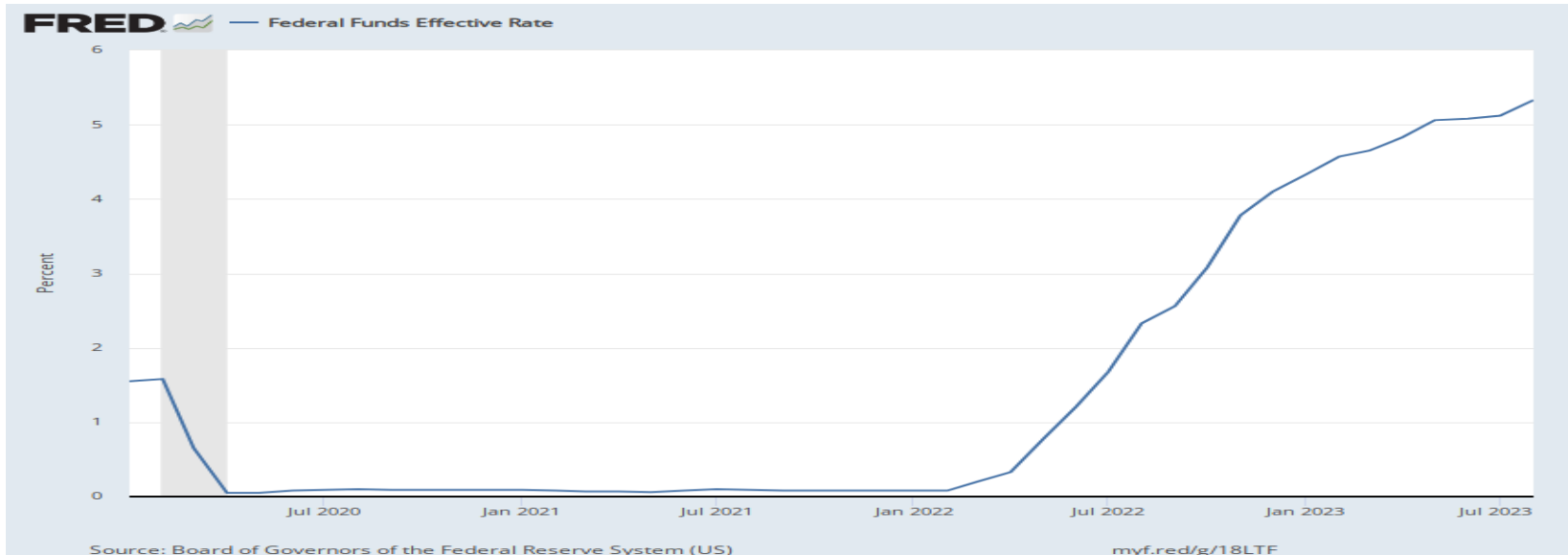
Job Openings



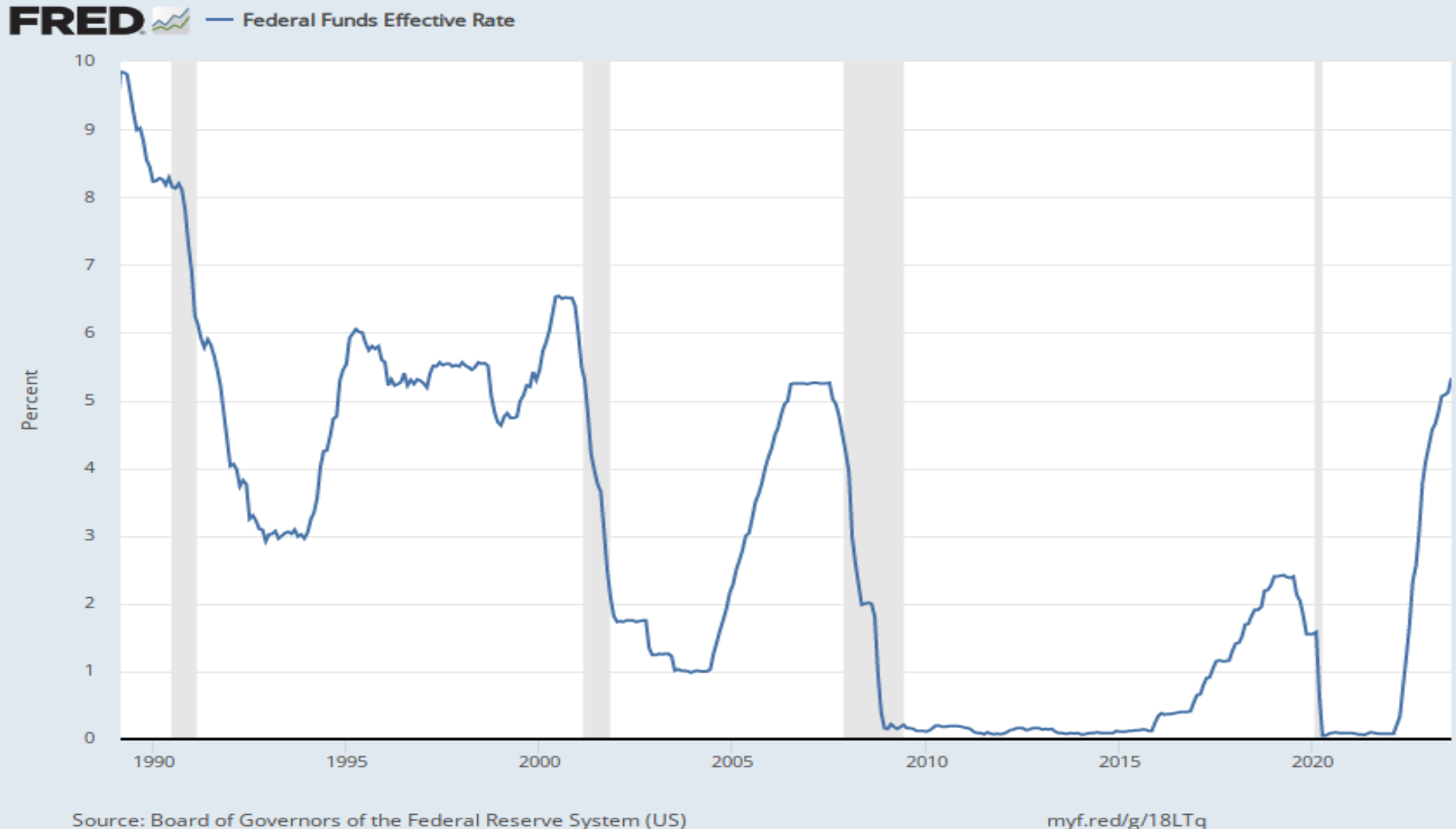
CPI - Inflation



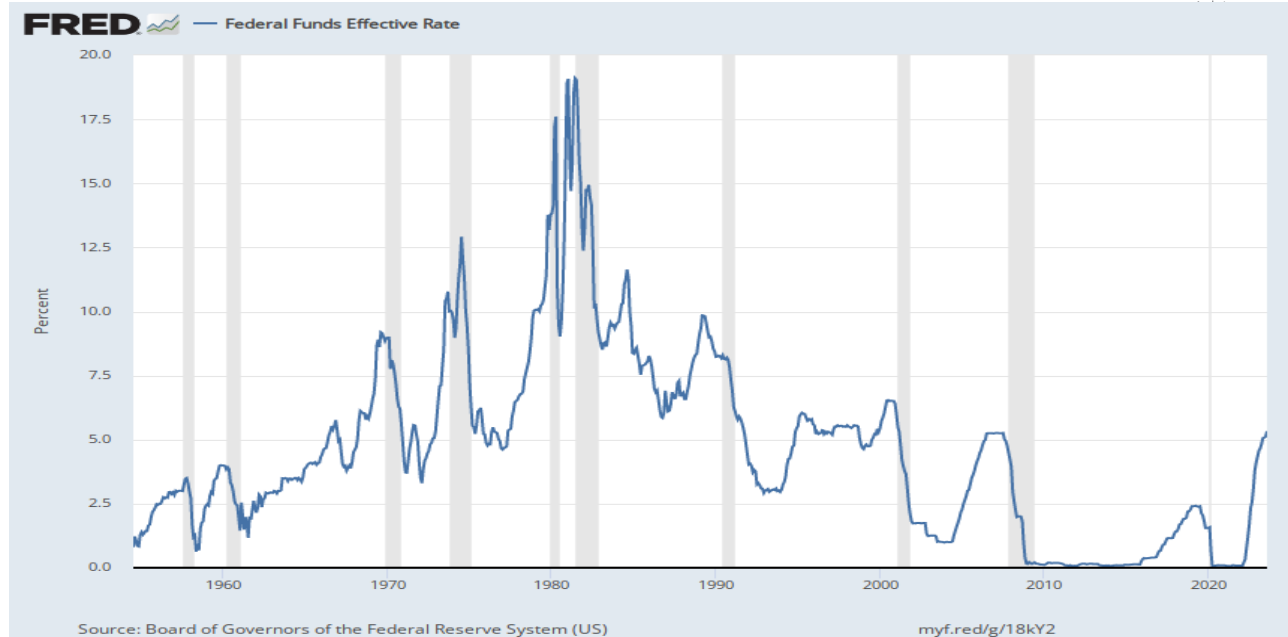
Note Market Outlook



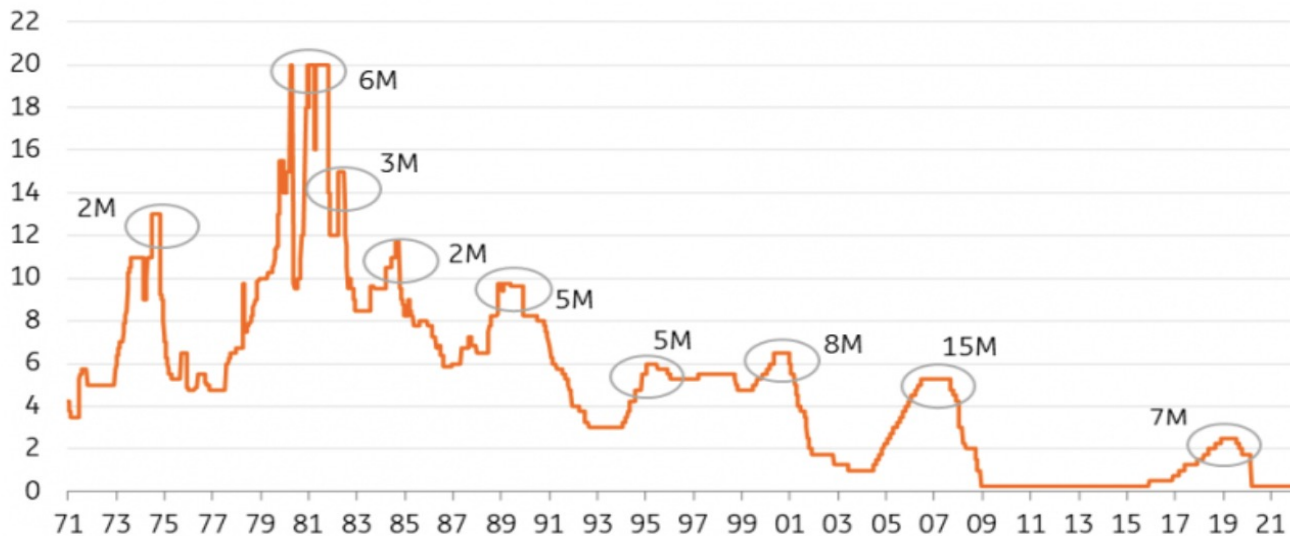
Note Market Outlook



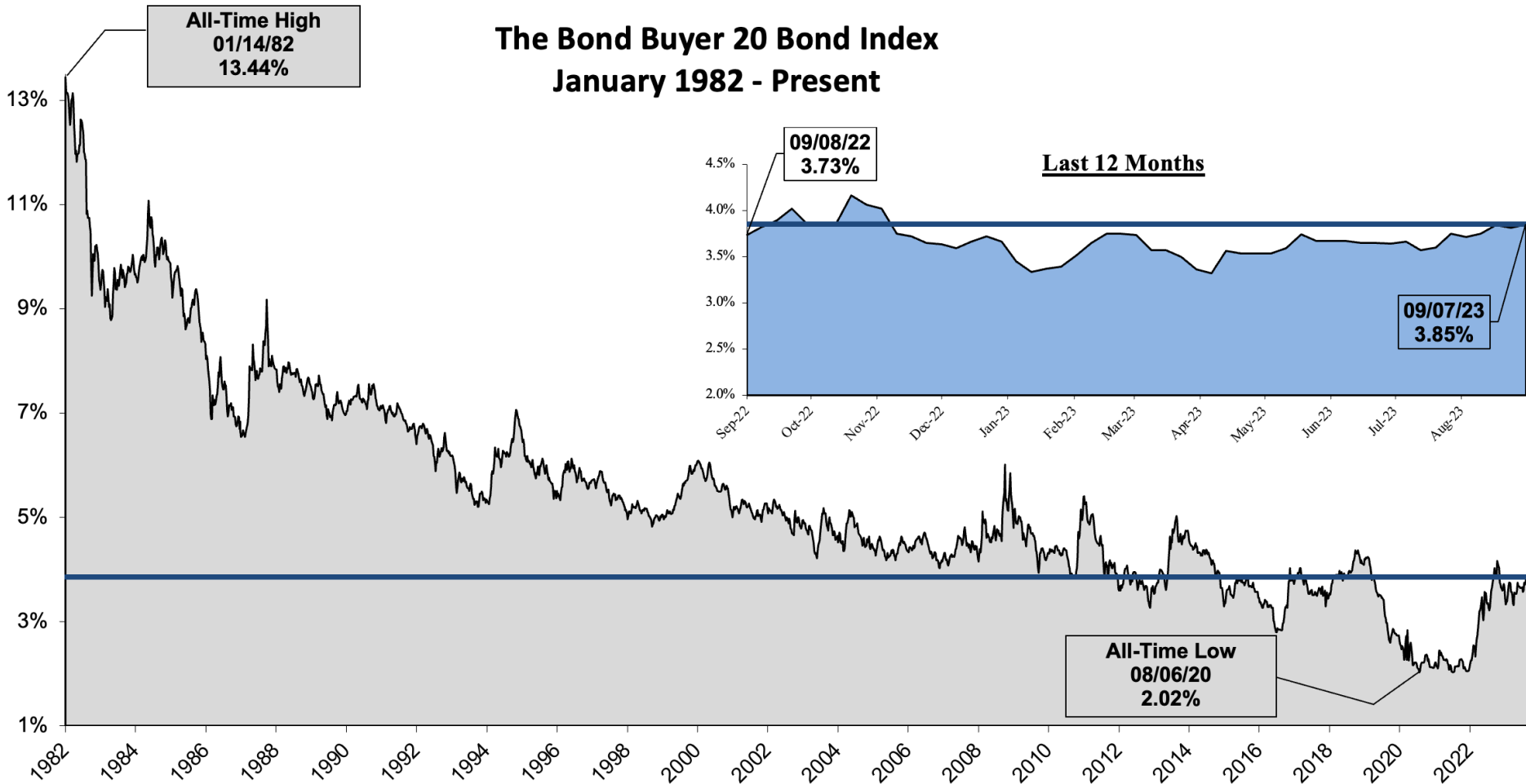
Note Market



Duration between last Fed rate hike and first rate cut (months)



Note Market Outlook



Additional Information Links

GFOA Debt Management Policy Best Practices <http://www.gfoa.org/debt-management-policy>

GFOA Debt Issuance Checklist: Considerations When Issuing Bonds

<http://www.gfoa.org/sites/default/files/u2/GFOADebtIssuanceChecklistConsiderationsWhenIssuingBonds.pdf>

GFOA Government Finance Review Articles:

- **Ensuring a Successful Bond Sale** [http://www.gfoa.org/sites/default/files/GFR FEB 10 16.pdf](http://www.gfoa.org/sites/default/files/GFR_FEB_10_16.pdf)
- **Back to Basics: What Every Government Should Check Each Time It Issues Debt**
[http://www.gfoa.org/sites/default/files/GFR FEB 10 30.pdf](http://www.gfoa.org/sites/default/files/GFR_FEB_10_30.pdf)
- **Best Practices Optimize Debt Management**
[http://www.gfoa.org/sites/default/files/GFR FEB 13 8.pdf](http://www.gfoa.org/sites/default/files/GFR_FEB_13_8.pdf)

National Bond Lawyers/GFOA Post Issuance Compliance Checklist

<http://www.gfoa.org/sites/default/files/u2/PostIssuanceCompliance.pdf>

Municipal Securities Rulemaking Board www.msrb.org

MSRB's Electronic Municipal Market Access system (EMMA) <http://emma.msrb.org>