

Bond Issuance: The Participants Who Help Make It Happen

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Introductions

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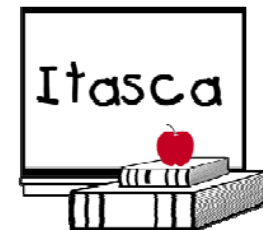
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MODERATOR:

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- *Director of Operations/CSBO, Itasca School District 10*



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Participants in a Bond Issuance

- Issuer
- Legal Team
 - Bond Counsel
 - Disclosure Counsel
 - Issuer's Counsel
 - Underwriter's Counsel
- Sale Participants
 - Underwriter
 - Placement Agent
 - Purchaser
- Financial (Municipal) Advisor
- Paying Agent/Registrar
- Refunding Participants
 - Escrow Agent
 - Bidding Agent
 - Verification Agent
- Additional Participants
 - Rating Agencies
 - Bond Insurers
 - Investors

Not All Participants are Required for Each Bond Issuance

- Different bond issues can require different participants
- Primary variables for determining participants include:
 - Type of Bond Sale
 - Underwriting vs. Private Placement
 - Negotiated vs. Competitive Sale
 - Use of proceeds (new money vs. refunding, etc.)
 - Credit rating of the Issuer

Issuer

- Issuer = School District issuing the bonds
- Issuer's needs drive the process:
 - What are you trying to accomplish?
 - New money for projects?
 - Refunding for savings?
 - Restructuring/Debt management?
- Different issuers have different limitations
 - Neighboring district might be drastically different

Bond Counsel

- Provides a legal opinion regarding the validity of, and tax status of the interest on, the bonds
 - Necessity for bondholders
- Monitors/reviews proceedings
- Considers relevant issues under state, federal tax, & federal securities laws
- Drafts bond documents
 - Including resolutions considered by the board
- Factors into the marketability of the bonds

Disclosure Counsel

- Assists the Issuer in complying with applicable securities laws in connection with issuance
 - Utilization of service has increased with growth in SEC oversight
- Deliver opinion or letter regarding compliance with applicable securities laws
- Tasks
 - Prepare official statement
 - Conduct due diligence
 - Assist with EMMA notices and filings
 - Draft Purchase Agreement
- Not typically involved in private placements

Issuer's Counsel

- Represents the Issuer with respect to various aspects of the bond transaction
- For Illinois school districts, Issuer's Counsel is typically the district's general legal counsel
- Degree of involvement varies from deal to deal and Issuer to Issuer
- Tasks undertaken by Issuer's counsel include, but are not limited to:
 - Reviewing/negotiating documents on behalf of the Issuer; coordinating signature of documents
 - Ensure public meetings comply with state law requirements

Underwriter's Counsel

- Assists the underwriter in discharging its duties under federal securities law and representing its interests in connection with the transaction
 - Chosen by the Underwriter
- Tasks
 - Reviews or prepares Official Statement and Purchase Contract
 - Conducts due diligence review on behalf of the Underwriter
 - Delivers an opinion to the underwriter regarding compliance with applicable federal securities laws

Underwriter

- Broker Dealer
- Buys bonds and sells those bonds to investors
 - Does this in both competitive and negotiated sales
- Provide preliminary and final structure/analysis
- Draft timetable and recommend pricing
- Assist in rating process/presentation
- Procurement of rating/bond insurance
- Draft/Review documents incl. Official Statement, Bond Purchase Agreement, etc.
- Coordinate closing with bond counsel
- Subject to MSRB's fair dealing rules

Placement Agent

- Broker-Dealer assisting in a Private Placement
- Private Placements:
 - Limited offering to banks or other investors
 - Typically smaller/less complex issuances
 - Short duration/average life
- Negotiates terms and rate on the Issuer's behalf
- Confirms Pricing is at market rates
- Extension of Underwriter's services

Financial (Municipal) Advisor

- A Broker Dealer or Independent Financial Advisor
- Has a fiduciary duty to Issuer
- Tasks Include, but are not limited to, assisting the issuer in:
 - Preparing the plan of finance, including structure of the transaction, and related timetable
 - Ratings process and procurement of bond insurance
 - Reviewing deal documents
 - Negotiated Sale – confirms pricing at market rates
 - Competitive Sale – conducts the sale process

Paying Agent/Registrar/Trustee

- Typically a bank with trust powers
- Responsible for invoicing Issuers for debt service payments
- Ensures timely payment of principal and interest to investors
- Handles notices to bondholders of existing bonds when refunded

Escrow Agent

- Frequently the same bank as the paying agent/registrar/trustee
- Holds and manages the escrow account required in advance refundings
 - Monitors/manages payments on refunded bonds
 - Manages reinvestments, if necessary
 - At closing, settles cash trades for securities in escrow account

Verification Agent

- CPA
- Typically required only on advance refundings, unless otherwise provided by bond documents
- Prepares a verification report
- Historically, report would verify two items:
 - Sufficiency of amounts and investments in the escrow
 - Investment yield on escrow is below bond yield (tax-exempt bonds only)
- Recent tax reform outlawed tax-exempt advance refundings
 - Therefore, verifier now only provides sufficiency verification

Escrow Bidding Agent

- Only involved in advance refunding
- Take bids for open market securities
- Historically, helped meet tax law safe harbors
 - With recent tax reform act, now much less prevalent
- Agent takes bids to achieve lowest possible escrow cost

Rating Agencies

- Provide a Bond Rating for a bond issuance
 - Rating used by investors to analyze credit quality
 - Agencies determine rating based on Issuer's:
 - Economy/Tax Base
 - Finances
 - Debt/Pensions
 - Management
 - Agencies require audits, OS, budget, & interview/presentation
- Very important in marketing bonds
 - Helps investors determine the interest rate they will accept

Rating Agencies (cont.)



Moody's	S&P or Fitch	Rating Grade Description (Moody's)	
Aaa	AAA	Investment Grade	Minimal credit risk
Aa1	AA+		Very low credit risk
Aa2	AA		
Aa3	AA-		
A1	A+		Low credit risk
A2	A		
A3	A-		
Baa1	BBB+		Moderate credit risk
Baa2	BBB		
Baa3	BBB-		



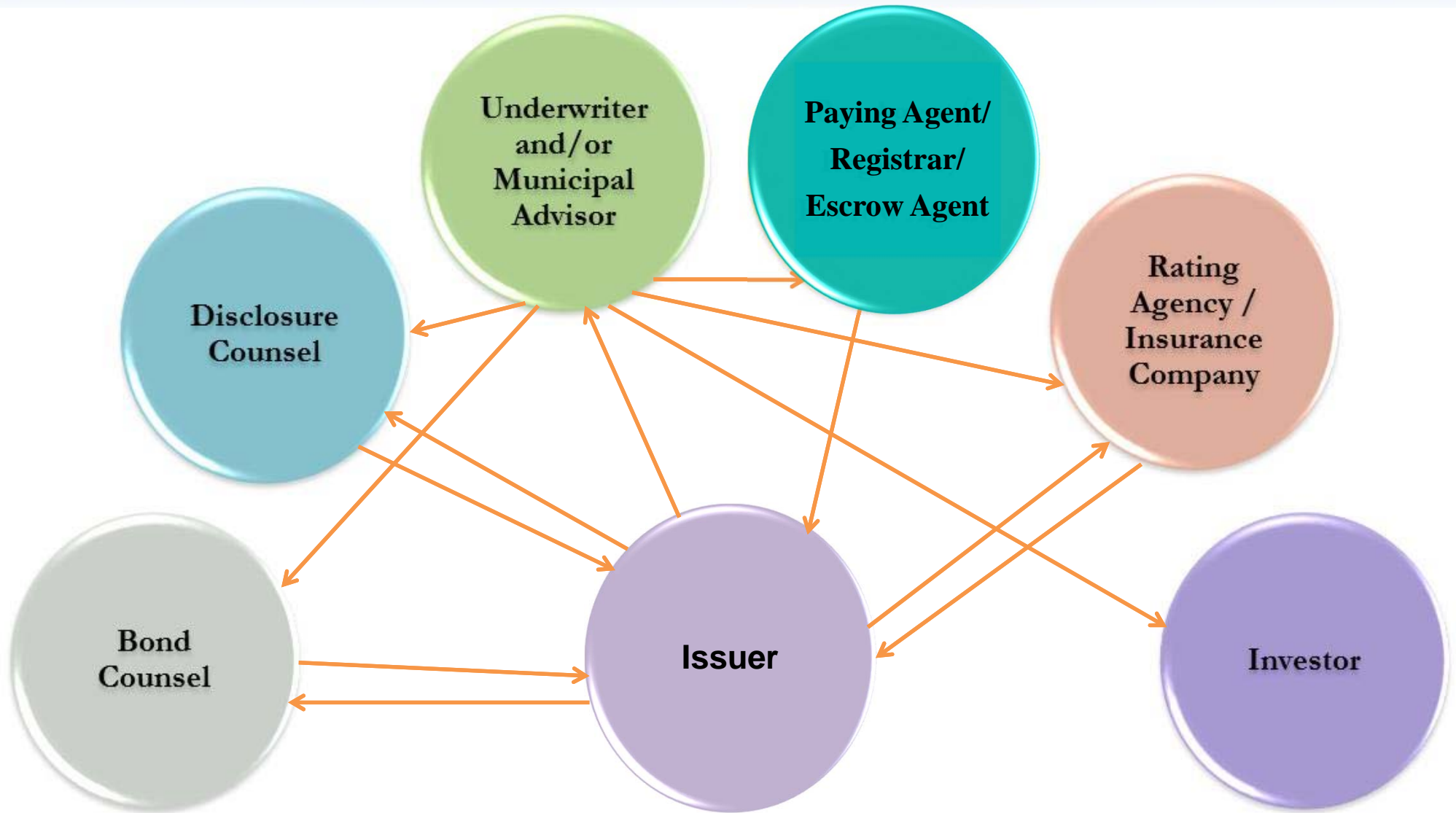
Bond Insurers

- Provide Bond Insurance – a credit enhancement
 - Provide timely payment of P&I in the event it is needed
- Higher “insured” rating can reduce interest rates
- Upfront premium is paid to reduce long term interest cost
- Premium is paid at bond closing
- Calculated as % of total debt service (Principal + Interest)
- Bond Insurance is optional
 - Cost benefit analysis helps decision making

Investors

- Provide the capital needed to achieve your goals
- Repaid via semi-annual principal and interest payments
- Variety of participation:
 - Institutional Investors
 - Local Banks
 - Individuals
- Investor interest drives interest rates
- Investor Interest  Interest Rates 

Example of Participant Interactions



Typical Basis for Fees

Service or Service Provider	Fee Structure:			Typically Paid:	
	Per Bond	Flat Fee	Hourly	At Closing	Post Closing
Bond/Disclosure/UW Counsel		✓		✓	
Local Counsel		○	○	○	○
Underwriter	✓			✓	
Placement Agent	○	○		✓	
Financial/Municipal Advisor	○	○	○	✓	
Paying Agent/Reg./Escrow Agent		✓		✓	✓
Verification Agent		✓		✓	
Escrow Bidding Agent		✓		✓	
Rating Agencies		✓(1)		✓	
Bond Insurance		✓(2)		✓	

○ = optional ✓ = typical

(1) Based on par amount of issue

(2) Fee is a % of Total Debt Service (P+I)

Questions and Answers

We thank you for your time!

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