

# Selling Illinois School Bonds Now and in the Future

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# INTRODUCTIONS

Mohsin, Dada: Moderator

- *Chief Financial Officer, Consolidated Community School District 181*



Robert Lewis: Speaker

- *Sr. Vice President and Managing Director, PMA Securities, Inc.*



James Snyder: Speaker

- *Partner, Ice Miller, LLP*



John Repsholdt: Speaker

- *Chairman, Muniex*



Tom Crabtree: Speaker

- *Director, Stifel Nicolaus & Co., Incorporated*



# PRESENTATION GOALS

- Define the various methods of sale
- Define the variables that influence which method of sale is most appropriate for a given transaction
- Provide a comparable pricing analysis and explain how it is useful in determining the success of a negotiated sale
- Discuss how selling and pricing of bonds may change in future

# ROLES

- Financial Advisor (Subset of Municipal Advisor)
  - Assists district with long range debt planning
  - Advises district on borrowing options and proposed tax impact
  - Helps determine most advantageous approach to selling bonds
  - Drafts credit rating presentation and guides bond rating process
  - Often drafts the official statement
- Underwriter
  - The firm that purchases the bonds from the district and distributes them to individual bond holders (the lenders)
  - Structures the bonds and provides market expertise to minimize borrowing costs
  - Helps to model the long-term financing plan for the district in relationship to projected levy growth and future debt requirements
  - Provides market feedback regarding current investor expectations and preferences relative to yield

# ROLES *(cont'd.)*

- **Bond Counsel**
  - Prepares all the necessary legal documents and opinions required to ensure the district adheres to legal parameters
  - Writes election ballot language and ensure the district adheres to all legal requirements
  - Is selected by and works for the district
  - Provides market feedback regarding current investor expectations and preferences relative to yield
- **Underwriter's Counsel and/or Disclosure Counsel**
  - Prepares all the necessary legal documents required for the marketing of the bonds to the public
  - Prepares the legal documentation required to finalize the bond sale between the district and the Underwriter

# SALE TYPES

- **Public Offering**
  - The municipal advisor works with the District to prepare an official statement to send to potential underwriters
  - Underwriter selected via a competitive or negotiated sale that will resell the bonds to investors
  - District obtains a bond rating
  - Requires disclosure counsel to review the official statement
  - Will likely have a lower interest rate, but will have higher costs of issuance
- **Direct Placement**
  - No official statement, rating, underwriter or disclosure counsel is required
  - A term sheet is typically sent out to banks and other local units of government that will provide a proposal to purchase the bonds directly
  - The interest rate is typically higher than a public offering but may result in a lower overall financing cost since some costs of issuance are avoided
  - This process has typically proven to be effective for relatively smaller bond issues paid off with a shorter amortization
  - Bank/unit of government can purchase directly

# SALE TYPES *(cont'd.)*

## Bond Sale

### Direct Placement

### Public Offering

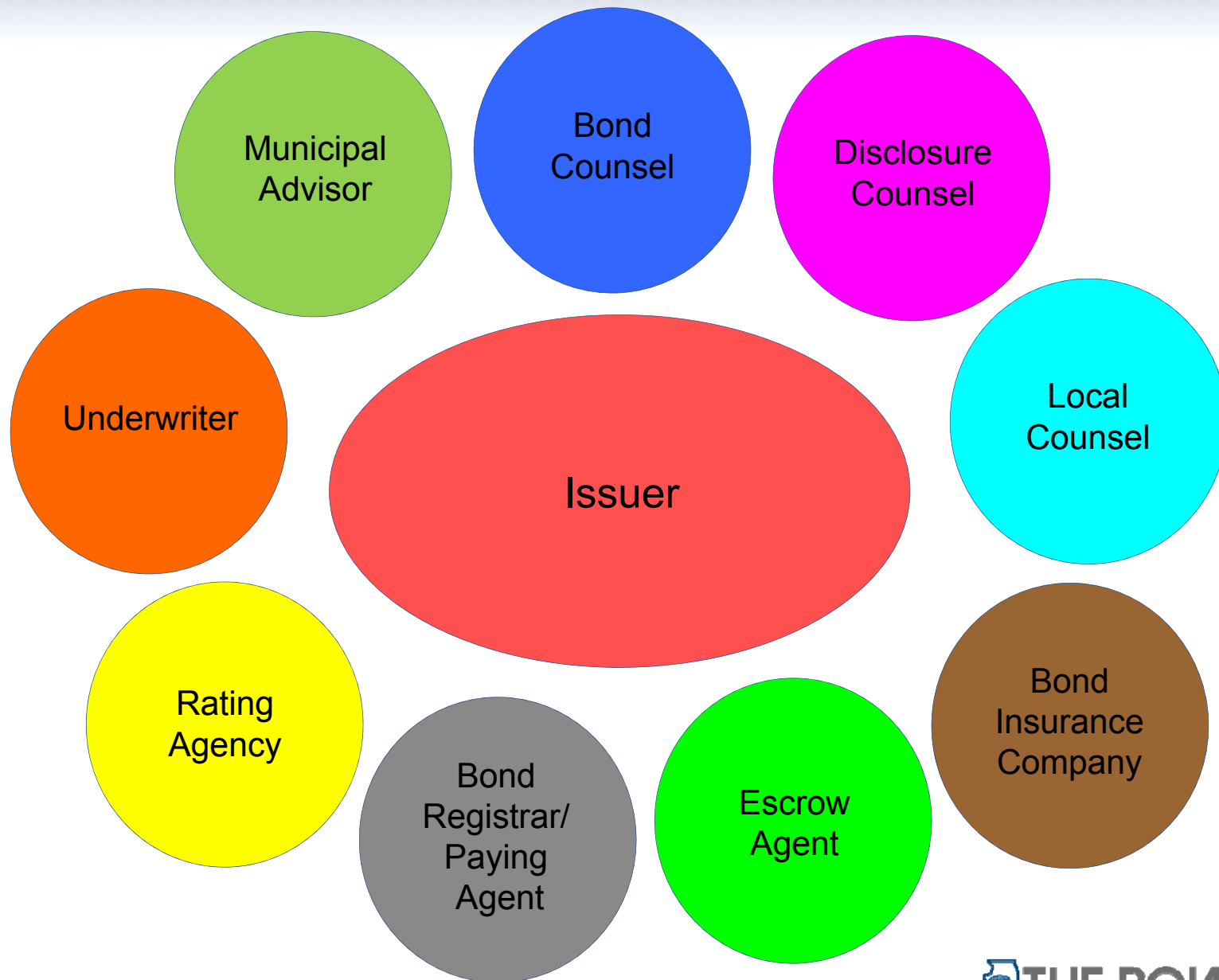
#### Competitive Sale

- The District engages a municipal advisor to manage the bond issuance process
- Underwriter selected via a competitive sale in which multiple bids are received to purchase the bonds
- The bidder with the lowest true interest cost is selected and sells the bonds to investors

#### Negotiated Sale

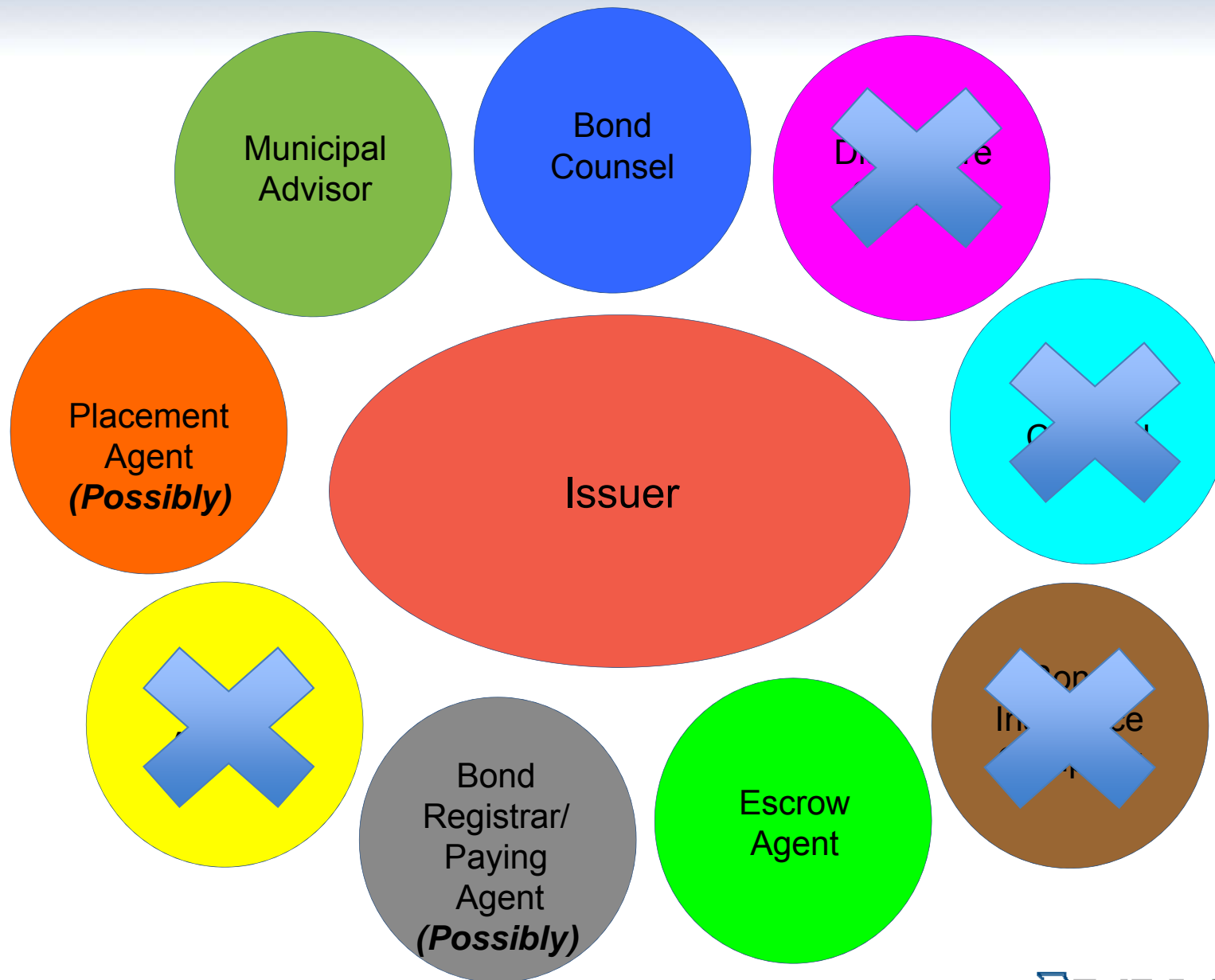
- The District preselects a broker-dealer as underwriter
- This firm sells the bonds to investors during a pricing period

# PARTICIPANTS DURING A COMPETITIVE OR NEGOTIATED SALE





# PARTICIPANTS DURING A DIRECT PLACEMENT



# CHOOSING THE METHOD OF SALE

- **A competitive sale is appropriate when:**
  - Issuer has a strong underlying credit rating at least in the “A” category
  - General obligation bonds or full faith obligations (e.g. alternate revenue bonds or debt certificates)
  - Structure does not include special features that would require extensive explanation to the market
  - Issuer is frequently in the market and/or issue size is conducive to attracting investors
  
- **A negotiated sale is appropriate when:**
  - Issuer has a credit rating lower than “A”
  - Bond insurance is unavailable
  - Debt structure is complicated
  - Issuer wants input in how bonds are allocated among underwriting firms and/or the types of investors to be reached
  - There is extreme market volatility

Source: Selecting and Managing the Method of Sale of Bonds (February 2014), Government Finance Officers Association (Best Practice).  
Please see the following link: <http://www.gfoa.org/selecting-and-managing-method-sale-bonds>

# SAMPLE COMPETITIVE SALE

**Auction Date** Thu., Jan 25, 2018   
**Type** AON   
**Start** 10:45:00 am   
**End** 11:03:10 am   
**Time Now** 11:04:15 am EST   
**Status** Over  
 Connected to server

\$4,965,000\*

Community Consolidated School District Number 102 (Aptakisic-Tripp), Lake  
 County, Illinois  
 General Obligation School Bonds (Alternate Revenue Source), Series 2018

Refresh

	Bidder	Firm	TIC	Time	Gross Interest	+ Discount/ (Premium)	Total Interest	Bid No.	Cumulative Improvement
1st	FIFT-GK	<a href="#">Fifth Third</a>	2.479534%	11:01:10 am	\$1,566,415.14	(489,177.20)	\$1,077,237.94	4	0.063911%
2nd	RAYM-EB	<a href="#">Raymond James</a>	2.503391%	11:02:00 am	\$1,659,525.83	(562,364.00)	\$1,097,161.83	6	0.100848%
3rd	BERN-GD	<a href="#">Bernardi</a>	2.504156%	11:00:05 am	\$1,628,897.64	(536,101.40)	\$1,092,796.24	3	0.026740%
4th	MESI-MO	<a href="#">Mesirow</a>	2.511716%	11:01:20 am	\$1,666,060.01	(566,880.60)	\$1,099,179.41	7	0.070730%
5th	HUTC-KS	<a href="#">Hutchinson</a>	2.514003%	11:01:43 am	\$1,471,814.03	(388,733.30)	\$1,083,080.73	7	0.178294%
6th	RWBA-DK	<a href="#">Robert Baird</a>	2.529658%	10:58:28 am	\$1,471,814.03	(382,701.95)	\$1,089,112.08	2	0.077635%
7th	STER-MR	<a href="#">Stifel</a>	2.620331%	10:53:59 am	\$1,241,533.75	(139,874.10)	\$1,101,659.65	5	0.059872%
8th	DADA-JS	<a href="#">DA Davidson</a>	2.641686%	10:56:36 am	\$1,314,730.42	(196,900.15)	\$1,117,830.27	2	0.003449%
<b>Total Bids:</b>								<b>36</b>	

\*Preliminary, subject to change

Source: MuniAuction

# CHOOSING COMPARABLE SALES FOR A NEGOTIATED SALE

- The goal is to find transactions that priced recently, with characteristics that are similar to your district's issue
  - Tax status (tax-exempt, bank qualified)
  - Similar credit rating
  - Location (State of IL, Cook County, etc.)
  - Length of bond issue
  - Bond holder security (General Obligation Bond, Revenue Bond, etc.)
  - Call provisions
  - Coupon structure after the call



# BEYOND THE YIELD TO YIELD COMPARISON

- Differences in block size (maturity amounts)
- Differences in underwriter fee affect the total cost of funds
- Examine how bond yields change after the initial underwriting (examine EMMA trade data)
- Market dynamics
  - Events in national or international economy
  - Significant bond issues pricing same day or week that “lead” the municipal market
  - Heavy secondary market activity

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# LEGAL FRAMEWORK

- Regulation of Municipal Advisory (Dodd-Frank)
  - Municipal Advisor definition
  - Registering of Municipal Advisor
- Regulation of Underwriter
  - Financial Industry Regulation Authority role is to license and regulate broker-dealer
  - Securities and Exchange Commission role is to protect investors
  - Dodd-Frank Rules

# Municipal Bond Exchange

- Why is there not a municipal bond exchange similar to the stock market?
- Can technology be utilized to make bond sale process more efficient?
- Municipal bond exchange works with existing bond financing legal framework.
  - Disclosure
  - Continuing Disclosure
  - Issue Price Determination
  - Regulation of Underwriters and Municipal Advisors
  - DTC Issues

# THE FUTURE

For Municipal Bond Initial Public Offerings  
May, 2018

Presented by:  
John V. Repsholdt, Chairman  
The National Municipal Bond  
Exchange, Inc.

# AN EXCHANGE IS IN NEAR THE FUTURE

- One to two years away
- A Patent for this business method is pending
- Detailed summaries have already been submitted to and discussed with the SEC and the MSRB
- Initial marketing to issuers has begun

# WHY AN EXCHANGE?

- Market Efficiency
  - The economic tenants to market function
    - Transparency
    - Access
    - Fairness
  - Market De-fragmentation
  - Market Liquidity and Velocity
- Good Business
  - Lower interest rates and costs for issuers
  - Greater access and liquidity for investors
  - Makes money for the exchange and its members

# COMMON FUNCTIONS

- Municipal bond dealers as exchange members
- Order throughput
- Order aggregation and stacking
- DTC clearing

# SPECIAL FUNCTIONS

- Free access to price and bond information
- Group queries
- Order pooling reduces opportunity costs
- New issue options

# Q&As

Q: What if the new issue listing on the exchange fails?

A: Very unlikely because of the following:

1. The issuer must use a member firm in a municipal advisor capacity to gain access to the exchange.
2. The member firm will recommend the type of offering (over the counter, direct placement or initial public offering) before listing.
3. All members may bid on any portion of the listing – including the listing member.
4. The process of listing is **not an offering** it is a bid request same as in the competitive or negotiated (over the counter) processes.
5. There is never any cost or obligation on the part of the issuer.



## Q&As *(cont.)*

Q: What is the economic impact?

A: On the order of \$25B annually

Q: Why has this not happened before?

A: Only recently has the opportunity become apparent and as a direct result of EMMA.

Q: Will issuers be required to use the exchange?

A: No.

## Q&As (cont.)

Q: Why will dealer firms want to adopt such a change?

A:

1. Issuers seeking lower interest rates, lower issuance costs, greater availability of their bonds to local constituents and access to their outstanding bonds for purchase in the secondary market – will demand it.
2. Investors seeking market liquidity, execution, access, information and a way to invest in their own communities – will demand it.

Q: What will be required of issuers?

A: A simple free application to the exchange and ongoing fulfillment of existing annual disclosure requirements.

## Q&As *(cont.)*

Q: What will be required of dealer firms?

A: A simple application to the exchange and adherence to exchange rules. The rules will be much less restrictive than existing regulations that are necessary to govern behavior in the current opaque over the counter market place.

# CLOSING COMMENTS

- All of the technology, data and intelligence has already been assembled for the future to become a reality.
- Transparency, accessibility and fairness are not only the tenants of economic efficiency they are also OUR free market principals. This is common sense to most Americans.
- Issuers must demonstrate that they “care” before the future will be adopted by dealer firms.

# *Questions and Answers*

*We thank you for your time!*

# Presenters:

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