



# The roles and responsibilities of debt participants

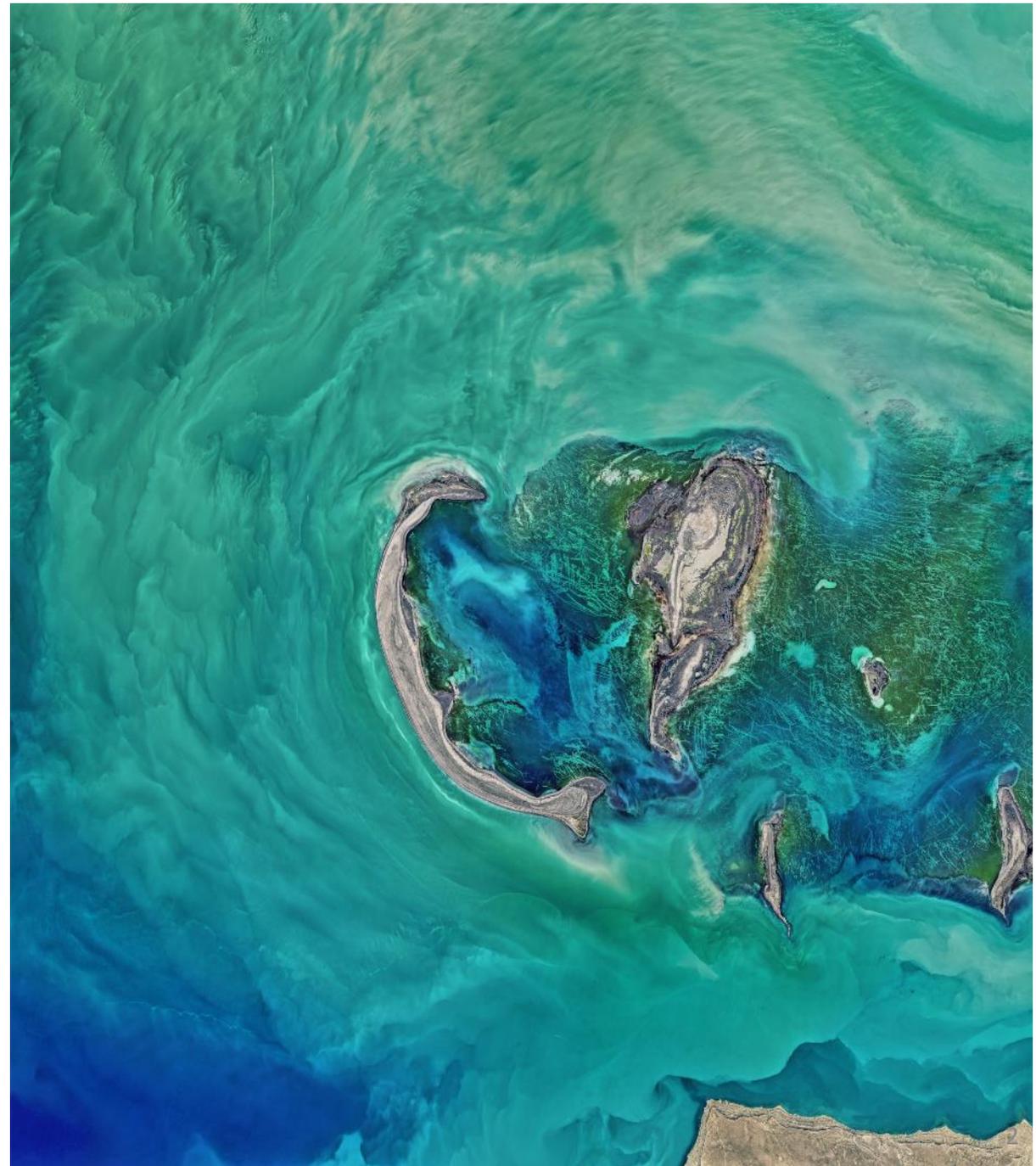
September 23, 2021  
2:50–4:00 p.m.



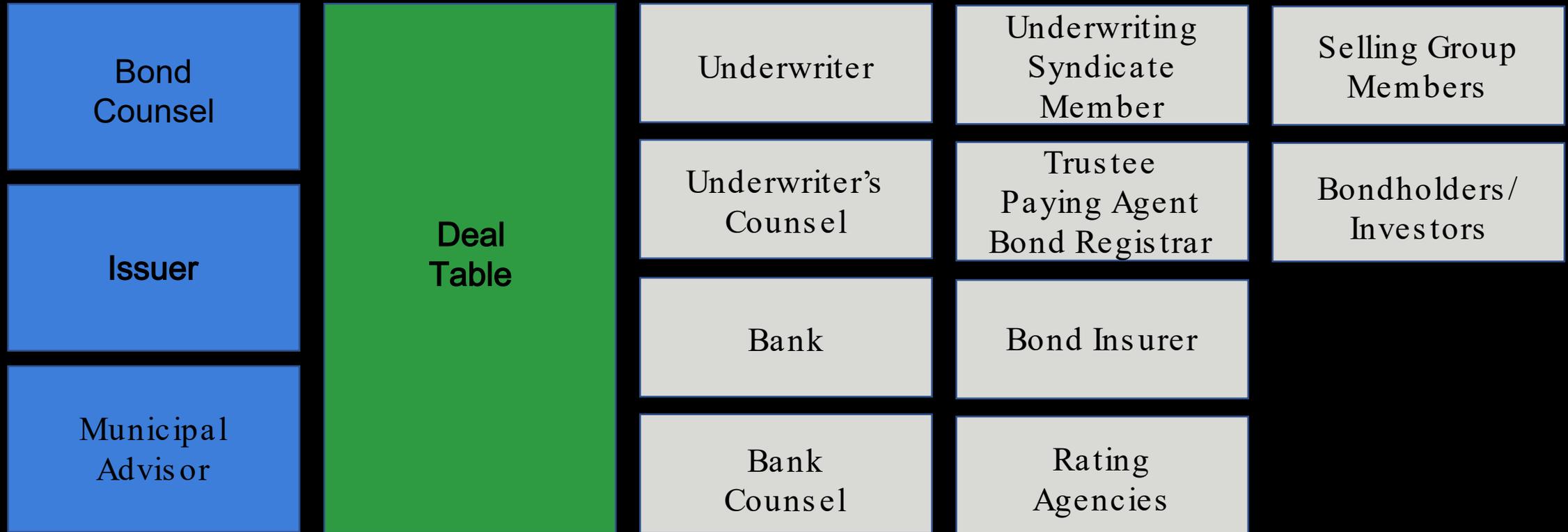
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## Introduction and topics covered

- Issuing debt
  - Legal
  - Regulatory
  - Financial
  - Fiscal



# Deal team\*



\*Adapted from MSRB Professionals Involved in a Negotiated Municipal Bond Transaction

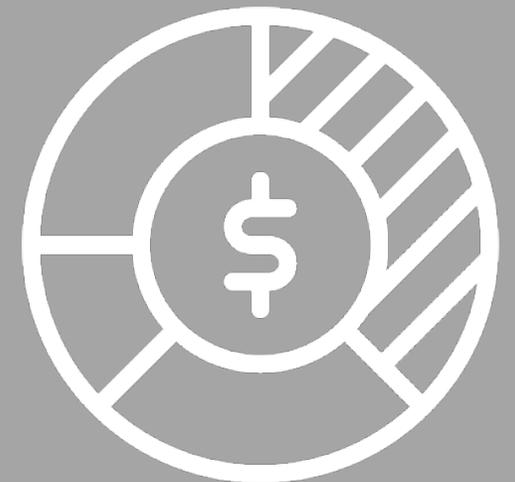
## Role of the issuer

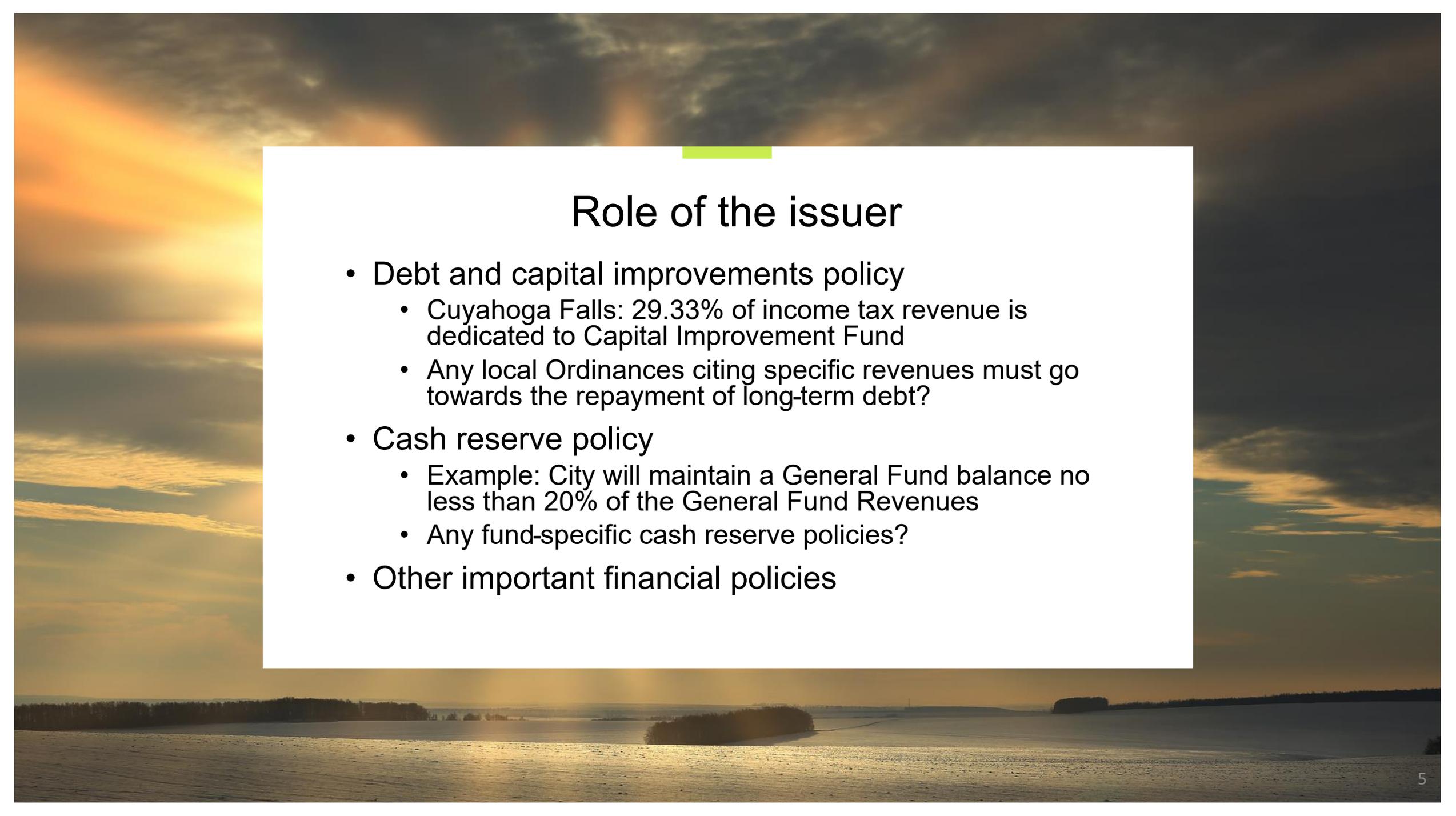
### Budgeting and capital planning

- Determine capital and maintenance needs
- Make revenue projections
- Study financial policies
- Evaluate and prioritize capital projects given resources available
- Consider overall benefit to the community

### Borrowing

- Determine whether the projects can be financed
- Clarify source of repayment



A sunset scene over a large body of water, likely a lake or bay. The sky is filled with soft, golden light from the setting sun, with scattered clouds catching the light. The water in the foreground is calm, reflecting the warm colors of the sky. In the distance, there are dark silhouettes of land and trees. A white rectangular text box is centered on the image, containing the title and a bulleted list. A small green horizontal bar is positioned above the title.

## Role of the issuer

- Debt and capital improvements policy
  - Cuyahoga Falls: 29.33% of income tax revenue is dedicated to Capital Improvement Fund
  - Any local Ordinances citing specific revenues must go towards the repayment of long-term debt?
- Cash reserve policy
  - Example: City will maintain a General Fund balance no less than 20% of the General Fund Revenues
  - Any fund-specific cash reserve policies?
- Other important financial policies

## Role of the issuer

- Determines available resources for payment of debt service of new issue
- Determines type of issuance: private placement; public offering
- Selects and manages the financing team
- Prepares offering documents in conjunction with the financing team
- Determines the compensation of financing team
- Negotiates with the underwriter the final purchase price of the bonds
- Adopts bond legislation and other financing documents
- Complies with tax and continuing disclosure requirements included in the bond financing documents



## Issuer – Engaging with rating agencies

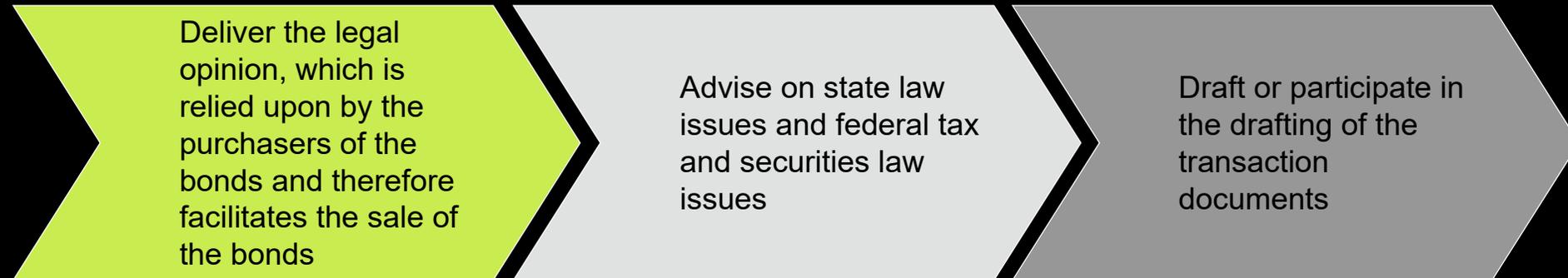
- Interaction with rating agencies can occur:
  - When requesting a new rate on issuance
  - During a rating surveillance/update call with agencies
- Preparation for meetings is key



- Information requirements
  - Historical financial statements and current year's budget
  - Proposed future budget
  - Capital improvement plan
  - Summary of outstanding obligations including debt service schedules
  - Description of proposed borrowing
  - Economic and demographic information
  - Description of the municipality's management structure
  - Authorizing legislation

# Role of bond counsel

## Primary roles of bond counsel



## Role of bond counsel

### Bond counsel's opinion addresses the following subjects:

- Bonds are valid and binding obligations of the issuer
- Source of payment and/or security for the bonds
- Whether and to what extent interest on the bonds is exempt from federal income taxes and from other taxes, if any, imposed by the state of issue
- The opinion of bond counsel does not constitute or imply a recommendation concerning the marketability or financial value of the bonds nor is it a guarantee of results indicated by opinion
- Usually contains a statement that assumes compliance with tax covenants
- Qualified vs. unqualified opinions



## Role of bond counsel

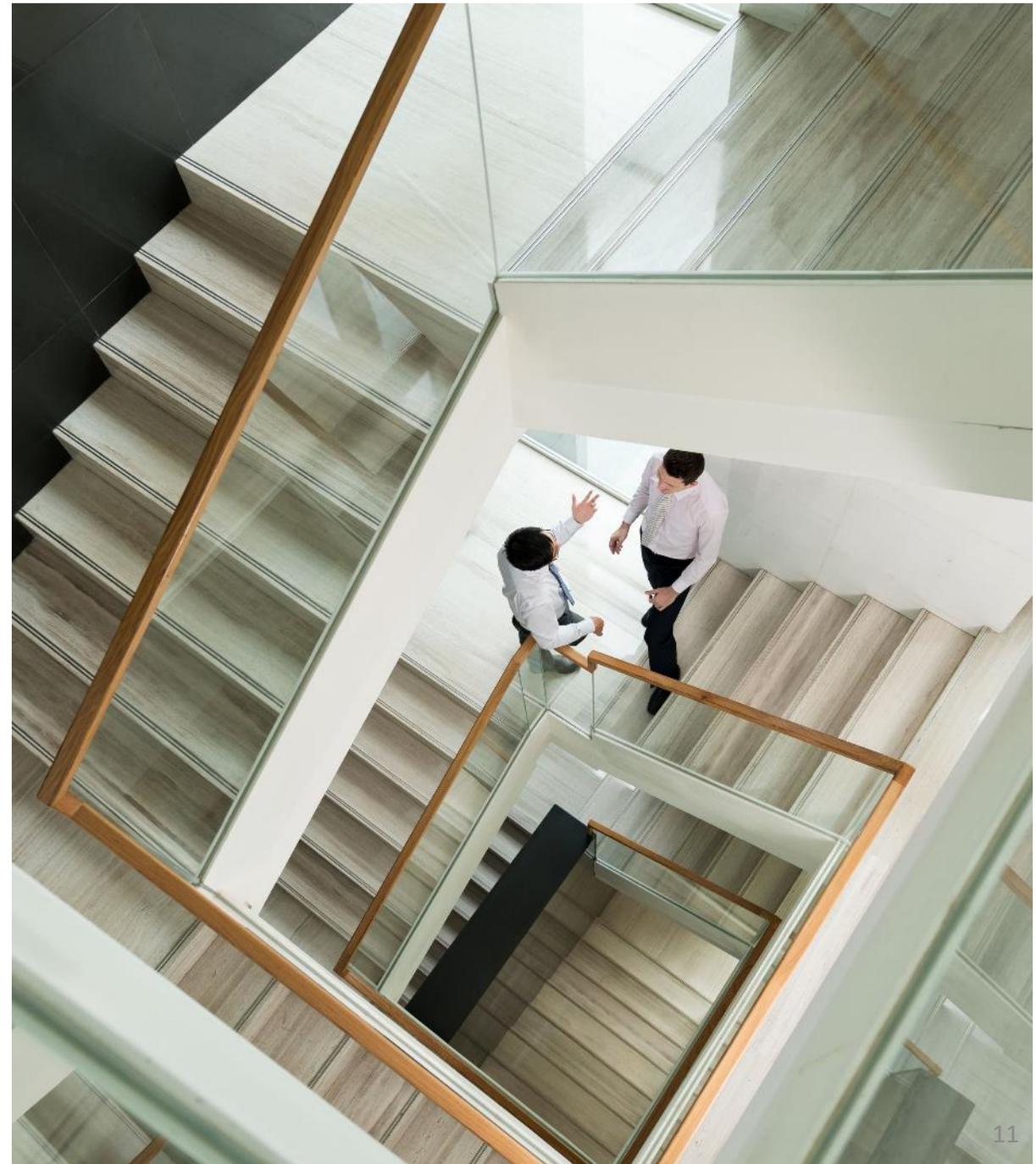
- Advises on applicable debt limits and structural aspects of the financing related thereto
- Prepares resolutions, ordinances and other authorizing documents related to issuance
- Assists Issuer with preparation of offering documents (preliminary official statement, official statement)
  - Bond terms
  - Issuer information (geographic, demographic, financial, etc.)
  - Appropriate financial statements and other financial information related to issuer
- Participates in meetings with rating agencies

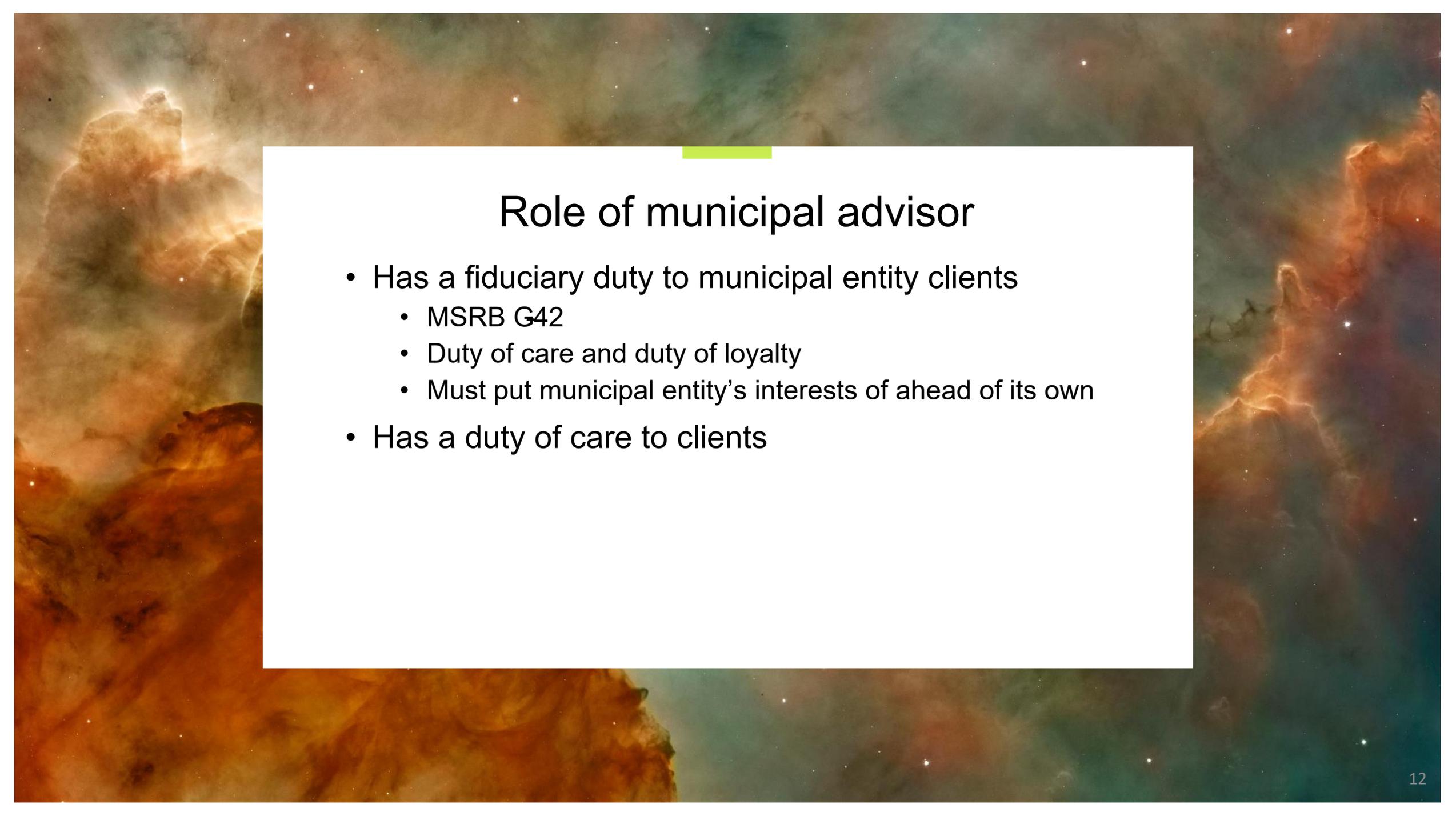


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## Role of bond counsel

- Prepares trust indenture, bond purchase agreement, revenue agreements, tax documents and other documents as applicable
- Prepares evidence of the security (note, bond or certificates)
- Advises on post-issuance compliance tax matters
- Advises on post-issuance continuing disclosure requirements and assists with continuing disclosure filings





## Role of municipal advisor

- Has a fiduciary duty to municipal entity clients
  - MSRB G42
  - Duty of care and duty of loyalty
  - Must put municipal entity's interests ahead of its own
- Has a duty of care to clients

## Role of municipal advisor

### May assist with:



Developing request for proposals



Selection of underwriters



Developing the plan of finance



Analyzing financing alternatives

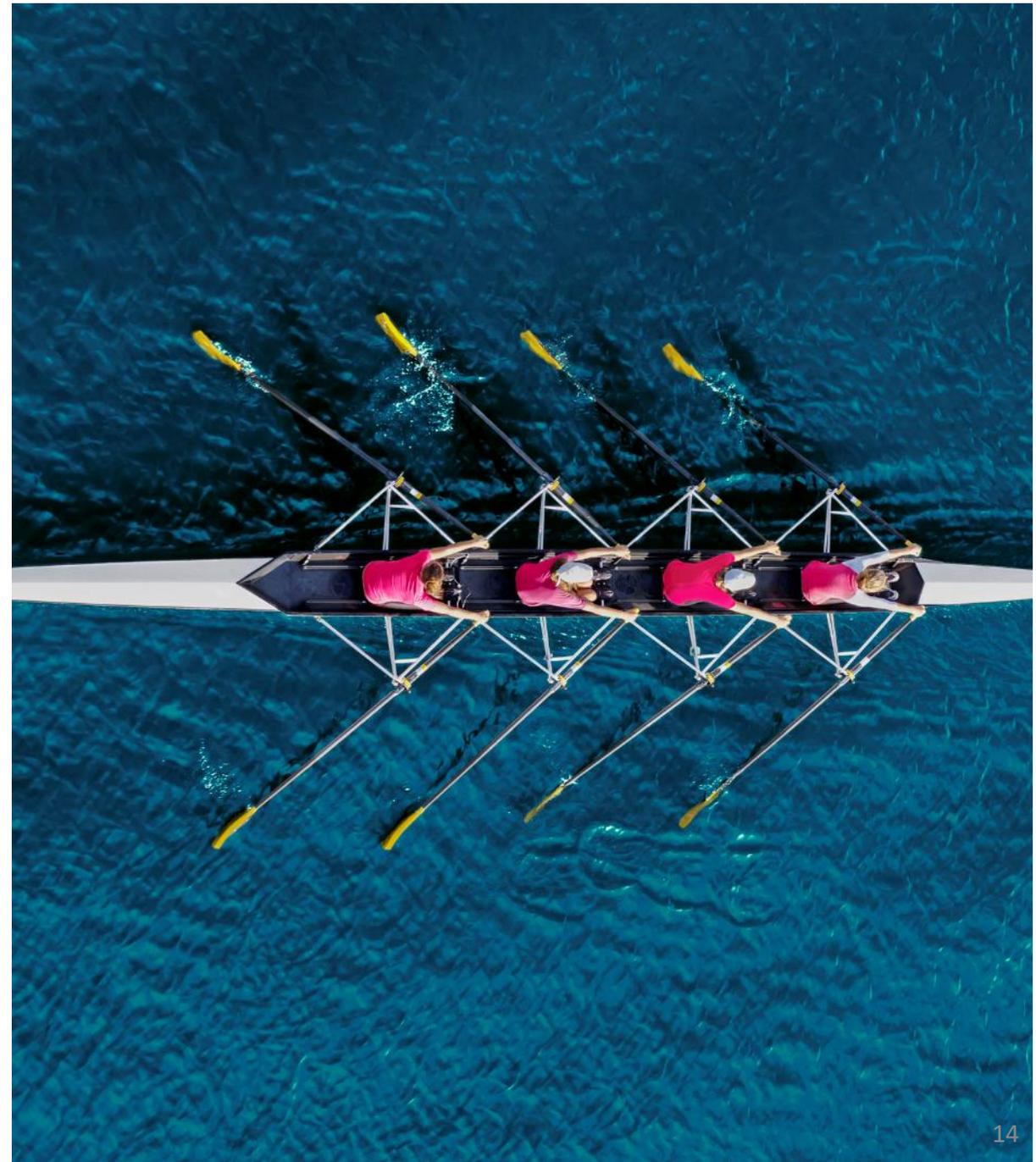


Advising on the method of sale

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## Role of municipal advisor

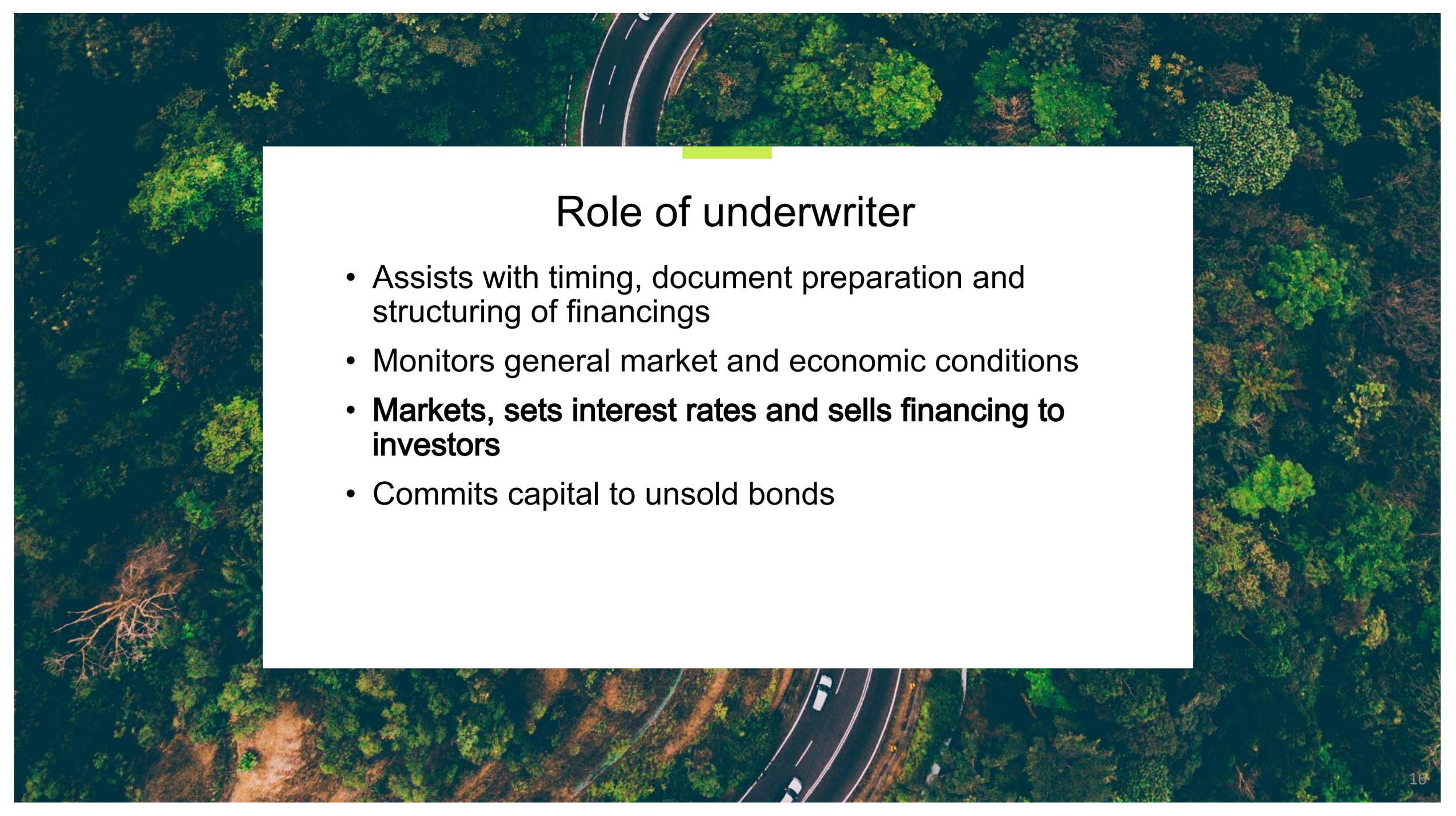
- Often the MA will be involved early in the process
- Assist with debt planning and capital planning
  - Look out 3–5 years and build debt profiles to determine future cash flows
  - Consider specialized debt structures to suit project or issuers need
- Advise on financial policies that can improve operations and financial management
- Implementation of economic development activities including tax increment finance, new community authorities and tax abatements
- Can help structure incentive offers or respond to proposals from developers



## Role of municipal advisor

- Making recommendations related to a plan of finance
- Recommend distribution process or selection of underwriting team and market participants
- Underwriting vs. private placement (non-public offering)
- Develop rating strategy with issuer and prepare for rating meeting
- Advise on pricing levels and deal execution
- Facilitate investment of bond proceeds and funding



An aerial photograph of a winding asphalt road through a dense, green forest. The road curves from the top center towards the bottom right. A few cars are visible on the road. The forest is thick with various shades of green trees. A white rectangular box is overlaid on the center of the image, containing text.

## Role of underwriter

- Assists with timing, document preparation and structuring of financings
- Monitors general market and economic conditions
- **Markets, sets interest rates and sells financing to investors**
- Commits capital to unsold bonds

# Bondholders/purchasers

Retailer investors	Institutional investors
<ul style="list-style-type: none"> <li>• Includes both “mom and pop” retail as well as “professional retail”</li> <li>• Professional retail includes in-state and national money managers, trust departments, investment advisors and separately managed accounts</li> <li>• Benefit from tax exemption at the federal level, as well as at the state level if purchased and issued in the same state</li> <li>• Provides predictable stream of cash– especially important for investors approaching or at retirement age</li> <li>• Typically prefer discount or par bonds</li> <li>• Typically bought and held to maturity</li> <li>• Individual investors can choose between investing in bonds directly or in muni bond ETFs– investing directly protects your principal better, however, requires more sophisticated investment practices</li> </ul>	<ul style="list-style-type: none"> <li>• Main groups include arbitrage accounts, bank trusts, insurance companies and bonds funds</li> <li>• Arbitrage firms profit from small differences in bond prices and typically will work the bonds off their books fairly quickly</li> <li>• Other firms typically invest in muni bonds with the goal of holding them over an extended period of time</li> <li>• Benefit from federal tax exemption and a highly predictable stream of cash flows</li> <li>• Prefer premium bonds</li> <li>• Typically very little trade activity beyond several weeks after pricing</li> </ul>

# Bondholders/purchasers

"Professional" retail	Money managers
Northern Trust JP Morgan Asset Management Gannett Goldman Sachs Asset Management Edward D. Jones BNY Mellon GenTrust Standish Mellon Asset Management PNC Advisors	MacKay Shields GE Asset Management Sanford Bernstein CW Henderson First New York Pine River Capital Management Jaffray Investment Management Sterling Capital Management Lightsurge Ops Investment Management

Insurance companies	Bond/mutual funds	Arbitrage accounts
State Farm Travelers AIG WR Berkley Chubb Principal Financial Hartford Investment Management St. Paul Fire & Marine Gen Re Aetna	BlackRock Eaton Vance Thornburg Wells Capital Management WAMCO Vanguard Nuveen Asset Management Wellington Fidelity TIAA-CREF	Deutsche Bank Arbitrage MerrillTOB 16 <sup>th</sup> Amendment RBC Prop 1861 Capital Management Trustco Citibank Arbitrage Raymond James Arbitrage Southwest Securities Mitsubishi

# Role of underwriter

## Marketing: Create demand from potential investors

### 7–10 days prior to pricing

- Prepare sales force/brokers with internal discussion/materials
- Preliminary official statement electronically distributed to investors
- “Feelers” out to potential investors
- Local advertisements (if any)

### 1 day prior to pricing

- Preliminary pricing call with financing team including the municipal bond trader
  - General market conditions; visible supply; comparable sales in the market; upcoming releases of key economic news
- Discuss structure of the financing; any changes needed based on investors’ feedback?
- Discuss initial interest rates and yields with issuer
- Set time and duration of bond order period—usually only 1.5 hours
- Initial interest rates distributed to all retail and institutional sales force
- Online order monitor set up, allowing the issuer to view orders in real time

# Role of underwriter

## Pricing: Based on investor demand, set the interest rates

### Day-of pricing

- Evaluates market conditions at the open of the market
  - Describes the tone of market and investor demand
  - Details market activity
- Starts order with pricing wire sent out to sales force
- Organizes a postpricing call with financing team to discuss sale status
  - Re-pricing considerations depending on investor demand
    - If more bonds are sold than available, the underwriter is more likely to lower rates
    - If not all the bonds are sold, the underwriter will likely commit to purchase/underwrite all unsold bonds albeit at elevated rates
    - When the financing team reaches an agreement on final structure and interest rates, the issuer provides its verbal agreement
    - The bond purchase agreement is prepared by bond counsel and executed between the issuer and the underwriter by day's end
    - Investor orders confirmed
- Provides proceed at closing

## Bank purchase/Private placement

- In addition to a competitive or negotiated transaction, an issuer could choose to privately/directly place its offering to limited number of investors
- Typically, a bid process is conducted amongst local and national banks to purchase the issue
- Private placements can be attractive for shorter-term maturities where banks can offer a fixed rate for the life of the issue (typically 15 years or less, though some banks may provide longer terms) or for smaller-sized issuances
- Private placements typically do not require ratings and public offering documents, which can provide issuance cost savings



## Other participants—Credit enhancement

- Rating agencies
  - Provides an analysis and corresponding rating of the issuer's credit quality
  - May assign a rating to a new issuance or review outstanding rating



- Bond insurers
  - A legal commitment by an insurance company to make principal and interest payments on debt in the event that the issuer fails to make those payments on time.
  - Issuer pays premium, bonds receive credit rating of insurer



## Other participants

### Trustee, paying agent, bond registrar

- Trustee acts in a fiduciary role for the benefit of bondholders in enforcing the terms of the trust indenture
- Paying agent transmits principal and interest payments from an issuer of municipal securities to the bondholders
- Bond registrar maintains records on behalf of the issuer that identify the registered owners of the bonds and related matters

### Escrow agent

- Serves as custodian of funds and holds securities to pay debt service on refunded bonds
- Moneys held in trust for bondholders

### Verification agent

- Verifies cash flow sufficiency to the call date of the escrow securities to pay principal and interest and redemption amount on refunded bonds
- CPA firm

## Questions and discussion



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