

DEBT ISSUANCE METHODOLOGIES AND DISCLOSURE PRACTICES

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Presented by:

Matthew A. Stuczynski
Senior Managing Director-Public Finance

Phone: 216/515-0484

Phone: 216/496-9394

matthew.stuczynski@huntington.com

Capital Improvement Funding Alternatives

- Capital Improvement Program
 - Priority
 - Essentiality
 - Timing
- Seek other sources of funding (grants, OWDA or SIB loan)
- Pay with cash or Pay-as-go
- Fund internally with Advance
- Debt - Issuer will determine that projected revenues are sufficient to pay debt service
 - Seek to repay debt from revenue-producing enterprises
- Pay-as-you-go vs. debt (useful life test)
 - Short useful life use cash, advance, or BANs
 - Long useful life use debt (Bonds or BANs followed by Bonds)

Debt - Legal and Regulatory Requirements

- Council authorization and designated purpose
- Tax-exempt purpose
- Selection of financing team members
- Method of sale (public offering-negotiated or competitive, private placement, bank purchase)
 - Method of sale drives decision making on required disclosure
- Debt service priority over all other expenditures
- Security pledge
- Useful life
 - Legal maximum amortization
 - Amortization cannot exceed useful life

Debt Limitations/Debt Affordability

- Statutory debt limits
 - Direct debt test
 - Indirect debt test
- % of revenue allocation
 - Millage dedicated to Bond Retirement Fund
 - Income tax set aside
- Debt limits – issuer debt policy
 - Reserve debt capacity

Selection of Debt Type/Structure

- Authorization of legislative body
- Security pledge
 - General obligation, non-tax revenue, revenue, certificates of participation (COPs), tax increment financing (TIF), special assessment
- Amortization – fair allocation to current and future beneficiaries
- Sculpting debt repayment (level debt or other)
- Early redemption (call) provision or optional redemption
- Options to pay costs of issuance
- Fixed vs. variable rate debt
- Short-term borrowing for short useful life assets (BANs)
- Lease vs. debt
- Credit enhancement
 - Bond insurance, letter of credit, federal guaranty

Rule 15c2-12 (continued)

- Individual investors deemed more likely to depend on an official statement
- Aptly named “WPPSS” default in 1983 increased outcry for increased disclosure
- Congress asked the SEC to investigate the WPPSS default, and in 1988 the SEC released its results and proposed new measures to improve the quality, timing and dissemination of municipal securities disclosure – Rule 15c2-12
- Rule 15c2-12 took effect on January 1, 1990, and regulated broker-dealers because the SEC cannot directly regulate municipal governments under the “Tower Amendment”
- Among other provisions, required underwriters to obtain and review an official statement for non -exempt issues
- Rule 15c2-12 improved “primary” offering disclosure, but did not address “secondary” market disclosure
- In November 1994, Rule 15c2-12 was amended to bar broker-dealers from buying municipal securities after July 3, 1995 (January 1, 1996 for small issues), unless the issuer has agreed in writing to provide on -going or “continuing” disclosure
- Issuers thereafter were required to provide “annual financial information” and notice of the happening of certain events (OMAC in Ohio)
- In 2008 the MSRB established an Electronic Municipal Market Access (EMMA) system and through later amendments to Rule 15c2-12, EMMA became the sole NRMSIR
- OMAC and MSRB have agreed that all filings by Ohio subdivisions on EMMA will be made available to OMAC on the date of filing, thus filing with EMMA satisfies any requirement to file with OMAC
- In 2010, the SEC amended Rule 15c2-12, with a compliance date of December 1, 2010:
 - o Required material events notices to be provided within 10 business days of the occurrence of the event
 - o Required disclosure of certain events without regard to materiality
 - o Added events to the list of those that must be disclosed

Summary of Rule 15c2-12 for Primary Offerings

- Rule 15c2-12 obligates underwriters participating in primary (new) offerings of municipal securities of \$1,000,000 or more to obtain, review, and distribute to investors copies of the **issuer's** official statement. The official statement preparation and dissemination requirements of the Rule are as follows:
 - (1) Prior to bidding on or purchasing an issue, the underwriter is required to "obtain and review" an official statement that is deemed final by the issuer as of its date, except for the omission of certain information that is not known until the time of the sale. The information which may be omitted includes the offering price, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings, other provisions required to be specified in a competitive bid, other terms of the securities depending on such matters, and the name of the underwriter.
 - (2) In a negotiated underwriting, the underwriter must distribute preliminary official statements, if one has been prepared by the issuer, not later than the next business day, to potential customers upon request.
 - (3) The underwriter must contract with the issuer or its agents to receive a sufficient number of copies of a final official statement to enable compliance with the delivery requirements of the Rule and the rules of the Municipal Securities Rulemaking Board (see MSRB Rule G-32). The issuer must provide copies of the final official statement not later than seven business days after entering into a contract for the sale of securities.
 - (4) The underwriter must provide a copy of the final official statement, upon request, to any potential customer for designated time periods following an underwriting of a new issue.
- The rule does not apply to certain private placements or short-term issues if the securities are in denominations of \$100,000 or more and if such securities:
 - (1) Are sold to no more than thirty-five persons which the underwriter believes: (a) have knowledge and experience in financial and business matters and are capable of evaluating the merits and risks of the prospective investment; and (b) is not purchasing for more than one account or with the view to distribute the securities; or
 - (2) Have a maturity of nine months or less.

Official Statement

- A legal statement which serves as the prospectus for a municipal bond. It is a disclosure of the finances surrounding the issue of the municipal bond, and is prepared by the local or state government and its legal counsel. The official statement indicates how investors in the bonds will be repaid.
- A document (prospectus) circulated for an issuer prior to a bond sale with salient facts regarding the proposed financing. There are two OSs, the first known as the preliminary, or "red herring" - so named not because it smells but because some of the type on its cover is printed in red - and it is supposed to be available to the investor before the sale. The final OS must be sent to the purchaser before delivery of the bonds.
- The official statement also discloses pertinent information on the issuer's financial condition.

Sample Sections of Preliminary Official Statement and Responsibility

Completion of Preliminary Official Statement			
Page	Section	Responsibility	Department
1-9	Cover through Bond Insurance	HNB	
9-11	The City	City/HNB	
11	City Government	City	
12	Elected Officials	City	Personnel
12	Appointed	City	Clerk of Council
13	Employees	City	Personnel
14	City Facilities	City	Insurance contact
14	Economic and demographic info	BC	
15	Largest employers	City	income tax dept
15	Income statistics	BC	
16	Housing and building permits	City	building dept
16	Utilities	City	
17	Local economy & economic development	City	Econ Development
17-20	Financial Matters	City	Finance dept
20	Financial Outlook	City/HNB	Finance dept
21	Assessed Value	County	
22	Largest Taxpayers	County	
23	CAT tax received in 2010	City	Finance dept
25	Tax Table A/Overlapping Tax Rates	County	
26-27	Tax Table B/City Tax Rates	County	
27-28	Tax Incentives and Exemptions	City	Econ Development
29	Collections	County	
30	Homestead and rollback revenue in 2010	County/City	Finance dept
31	Delinquencies	HNB	
31-32	Income Tax	City	income tax dept
32	Local govt fund	City	Finance dept
36	Outstanding debt	BC	
38	Bond retirement fund	City	Finance dept
38	Future financings	City/HNB	Finance dept
38	Long-term financial obligations	City/HNB	Finance dept
39	Litigation	City	Law dept
40	insurance	City/HNB	Insurance Broker
Appendix A	Comparative summary of general fund	City/HNB	Finance dept
Appendix B-1	All Funds Summary 2010	City/HNB	Finance dept
Appendix B-2	All Funds Summary 2009	City/HNB	Finance dept

Method of Sale – Disclosure Requirements

- Public Offering
 - ❖ Negotiated sale – Requires POS and rating/credit enhancement
 - ❖ Competitive sale – Requires POS and rating/credit enhancement
- Limited Offering
 - ❖ Negotiated sale – POS or Limited Offering Memorandum
- Private Placement
 - ❖ Negotiated sale to sophisticated institutional buyer –requires data and info similar to POS; not as comprehensive
- Bank Purchase
 - ❖ Form of private placement - Negotiated sale to sophisticated institutional buyer –requires data and info similar to POS; not as comprehensive

Method of Sale – Selection Criteria

■ Public Offering

- ❖ Negotiated sale – Short and long amort, stronger credit quality
- ❖ Competitive sale – Short and long amort, stronger credit quality, frequent issuer

■ Limited Offering

- ❖ Negotiated sale – Short and long amort, weak credit quality, limited resources to prepare POS or gather info, complicate structure or security pledge; “story bond”.

■ Private Placement

- ❖ Negotiated sale – Short and long amort, weak credit quality, limited resources to prepare POS or gather info, complicate structure or security pledge; “story bond”.

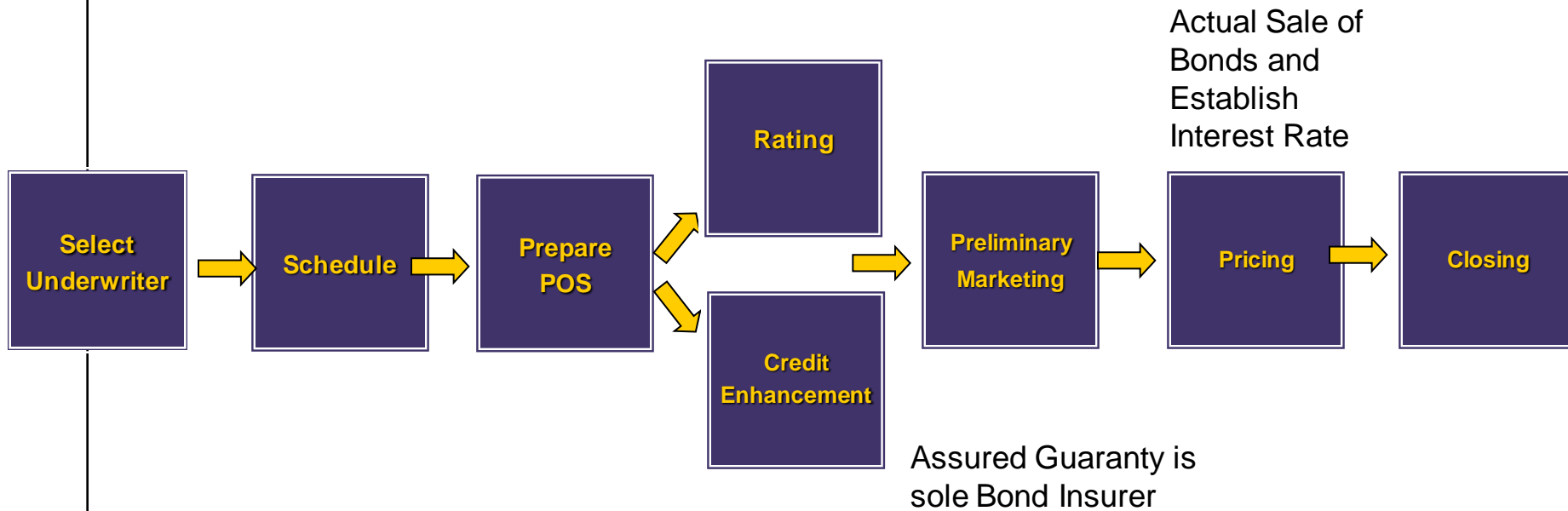
■ Bank Purchase

- ❖ Form of private placement – 1-15 year amort, flexible terms, weak and strong credit quality

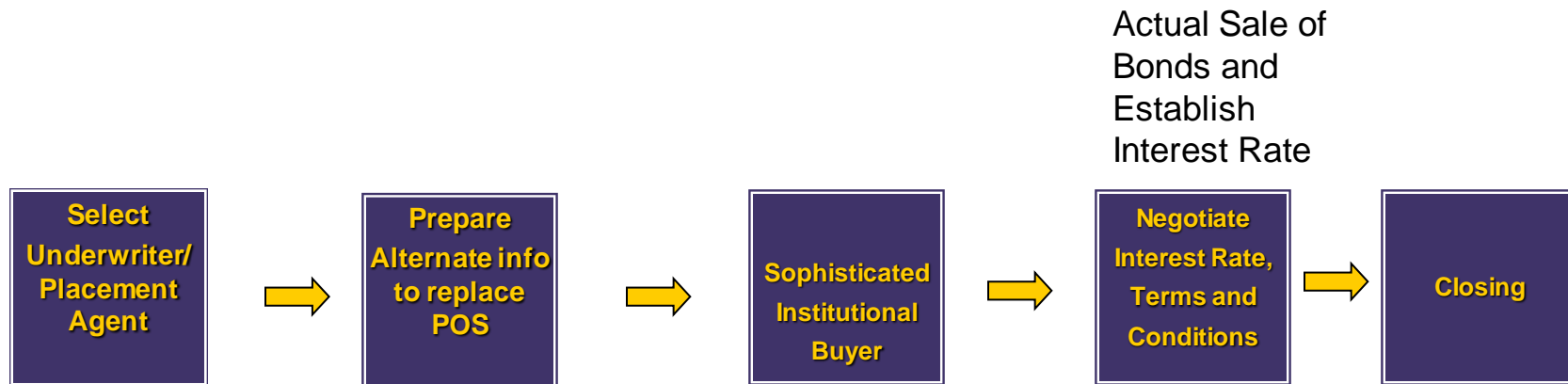
Sample Deal Profile

- City
 - BANs (Bank purchase)
 - Bonds (Negotiated Sale)
- Village
 - BANs (Bank purchase)
- Energy conservation project
 - Lease
 - Bank purchase
 - Negotiated Sale in Capital Markets
- Not-for-profit (letter of credit)
 - Issue Variable Rate backed by LOC
 - Convert LOC to bank purchase

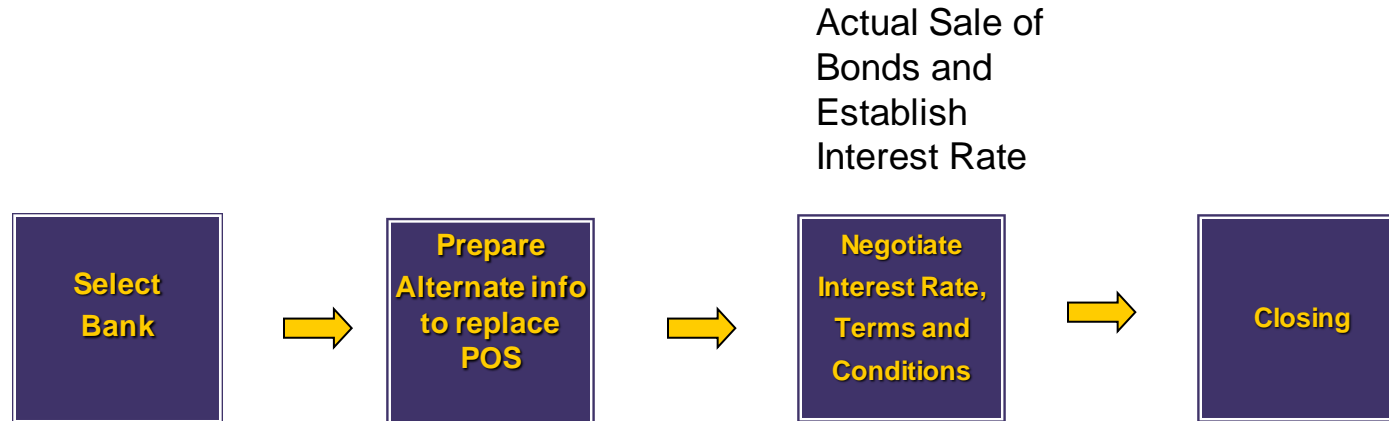
Summary of Deal Flow- Negotiated Sale



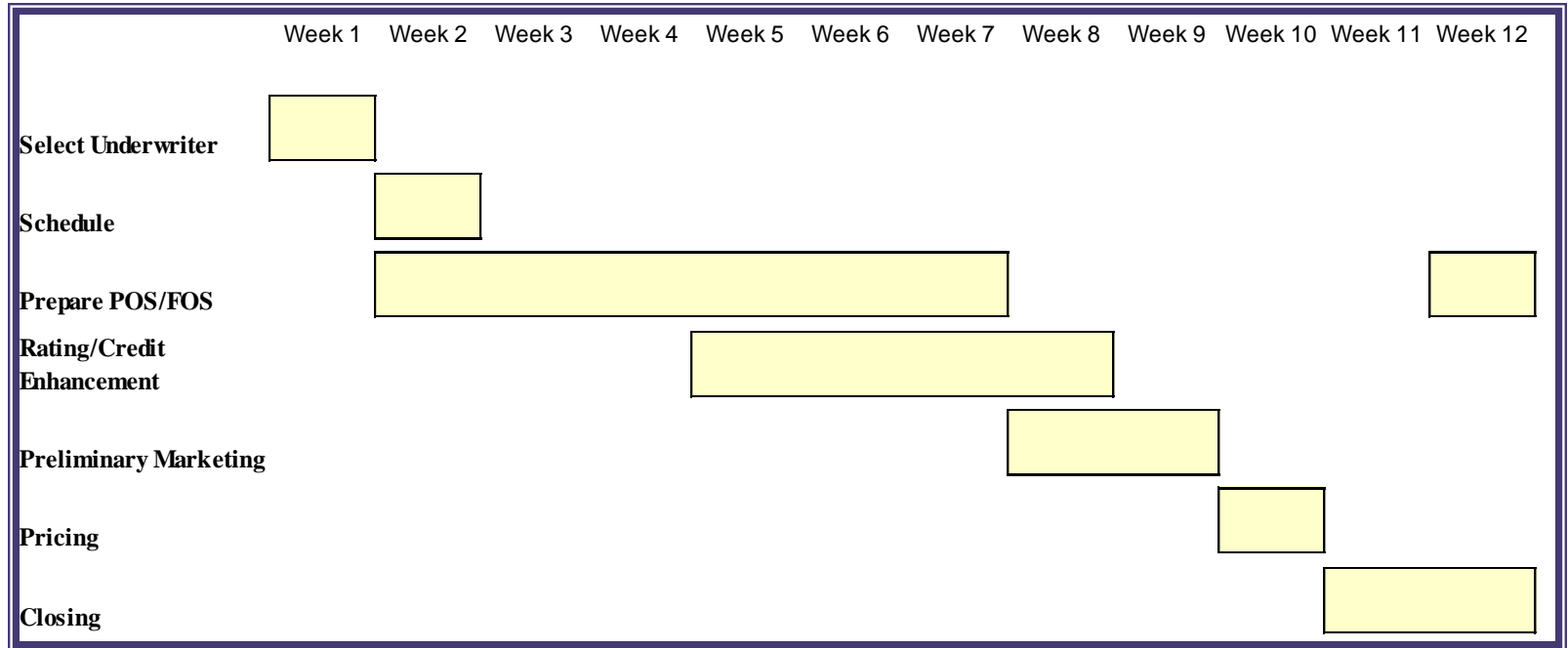
Summary of Deal Flow- Limited Offering/Private Placement



Summary of Deal Flow- Bank Purchase



Sample Schedule of Bond Deal



What is the Role of the Underwriting Firm?

The primary function of the underwriter in a bond transaction is to purchase securities from a government issuer and resell them to investors.

Underwriting Firm's Role in Debt Financing



Underwriting Firm's Role in Debt Financing



Comparison of Pricing Bond Sales

Pricing Comparison to Other Similar Issues in the Market

Pricing Date: April 14, 2011				Pricing Date: April 19, 2011				Pricing Date: April 27, 2011			
City of Westerville, Ohio				City of Avon, Ohio				City of Hilliard, Ohio			
Par Amount: \$9,990,000				Par Amount: \$8,380,000				Par Amount: \$8,020,000			
Various Purpose Bonds Series 2011				Recreational Facilities Improvement Bonds Various Purpose Refunding Bonds, Series				Various Purpose Bonds Series 2011			
Aaa Rated, Bank Qualified				Aa1 Rated, Bank Qualified				Aa1 Rated, Bank Qualified			
Underwriter: PNC Capital Markets				Underwriter: The Huntington Investment Company				Underwriter: George K. Baum & Company			
	4/14/11 Composite AAA MMD (%)	Westerville Yields (%)	Spread to AAA MMD		4/19/11 Composite AAA MMD (%)	Avon Yields (%)	Spread to AAA MMD		4/27/11 Composite AAA MMD (%)	Hilliard Yields (%)	Spread to AAA MMD
2011	-	-	-	2011	-	-	-	2011	-	0.60	-
2012	0.32	0.65	0.33	2012	0.32	0.75	0.43	2012	0.32	0.70	0.38
2013	0.71	1.05	0.34	2013	0.63	1.05	0.42	2013	0.60	1.05	0.45
2014	1.00	1.35	0.35	2014	0.95	1.39	0.44	2014	0.93	1.40	0.47
2015	1.43	1.75	0.32	2015	1.35	1.70	0.35	2015	1.28	1.80	0.52
2016	1.77	2.10	0.33	2016	1.70	2.10	0.40	2016	1.58	2.05	0.47
2017	2.13	2.50	0.37	2017	2.05	2.51	0.46	2017	1.91	2.40	0.49
2018	2.48	2.85	0.37	2018	2.39	2.83	0.44	2018	2.22	2.70	0.48
2019	2.81	3.15	0.34	2019	2.71	3.14	0.43	2019	2.52	2.95	0.43
2020	3.05	3.35	0.30	2020	2.94	3.35	0.41	2020	2.74	3.10	0.36
2021	3.23	3.45	0.22	2021	3.11	3.47	0.36	2021	2.92	3.30	0.38
2022	3.38	3.55	0.17	2022	3.27	3.58	0.31	2022	3.08	3.45	0.37
2023				2023	3.43	3.74	0.31	2023	3.25	3.60	0.35
2024	3.66	3.85	0.19	2024				2024	3.31	3.70	0.39
2025				2025				2025	3.56	3.80	0.24
2026	3.91	4.05	0.14	2026	3.83	4.05	0.22	2026	3.57	3.90	0.33
2027				2027				2027			
2028	4.09	4.25	0.16	2028	4.03	4.25	0.22	2028			
2029				2029				2029			
2030				2030	4.21	4.45	0.24	2030	4.08	4.35	0.27
2031	4.36	4.50	0.14	2031	4.30	4.50	0.20	2031			

■ **KEY RESPONSIBILITIES OF THE**
■ **FINANCIAL ADVISOR**

■ (All Methods of Sale)

- Assists in evaluating capital funding alternatives and developing a financing plan.
- Assists with obtaining required authorizations, including referenda
- Provides advice on method of sale (where appropriate)
- Develops RFP for financing team
- Evaluates proposal submissions
- **Recommends timing of bond sale**
- **Identifies tasks, responsibilities, and dates for completing activities leading up to bond sale**
- **Designs debt structure**
- **Provides advice on approach to ratings and assists with rating presentation**
- **Evaluates use of and obtains bids for credit enhancement (if appropriate)**
- **Assists in producing and reviewing documents, including preliminary and final official statements**
- Conducts pre-marketing of issue (competitive sale)
- Evaluates bids, including accuracy of TIC calculation, and recommends award (competitive sale)
- Reviews pricing and allocation of bonds (negotiated sale)
- **Assists with closing arrangements**
- Provides advice on investment of bond proceeds (if appropriate)
- Provides advice related to compliance with arbitrage regulations

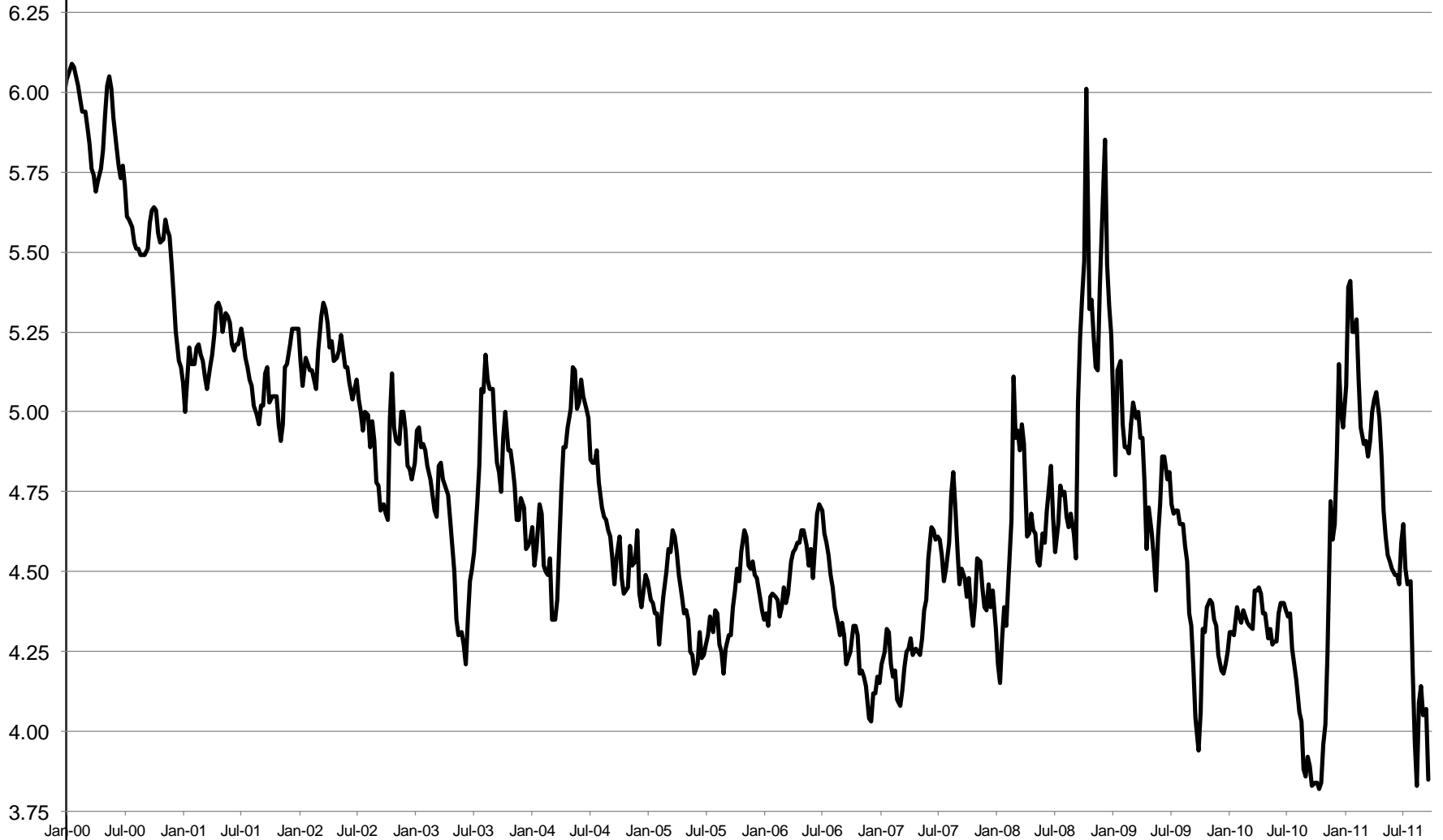
■ **KEY RESPONSIBILITIES OF THE**
■ **SENIOR MANAGING UNDERWRITER**

■ (Negotiated Sale)

- **Recommends timing of bond sale**
- **Identifies tasks, responsibilities, and dates for completing activities leading up to bond sale**
- **Designs debt structure**
- **Provides advice on approach to ratings and assists with rating presentation**
- **Evaluates use of and obtains bids for credit enhancement (if appropriate)**
- **Assists in producing and reviewing documents, including preliminary and final official statements**
- Conducts pre-marketing of issue
- Prepares preliminary pricing analysis prior to planned sale date
- Distributes preliminary and final official statements
- Coordinates syndicate activities in pricing and allocating bonds
- Purchases bonds from issuer for sale to final investors
- **Assists with closing arrangements**
- Completes sales report including designations and allotments

Bond Buyer 20 Year General Obligation Index*

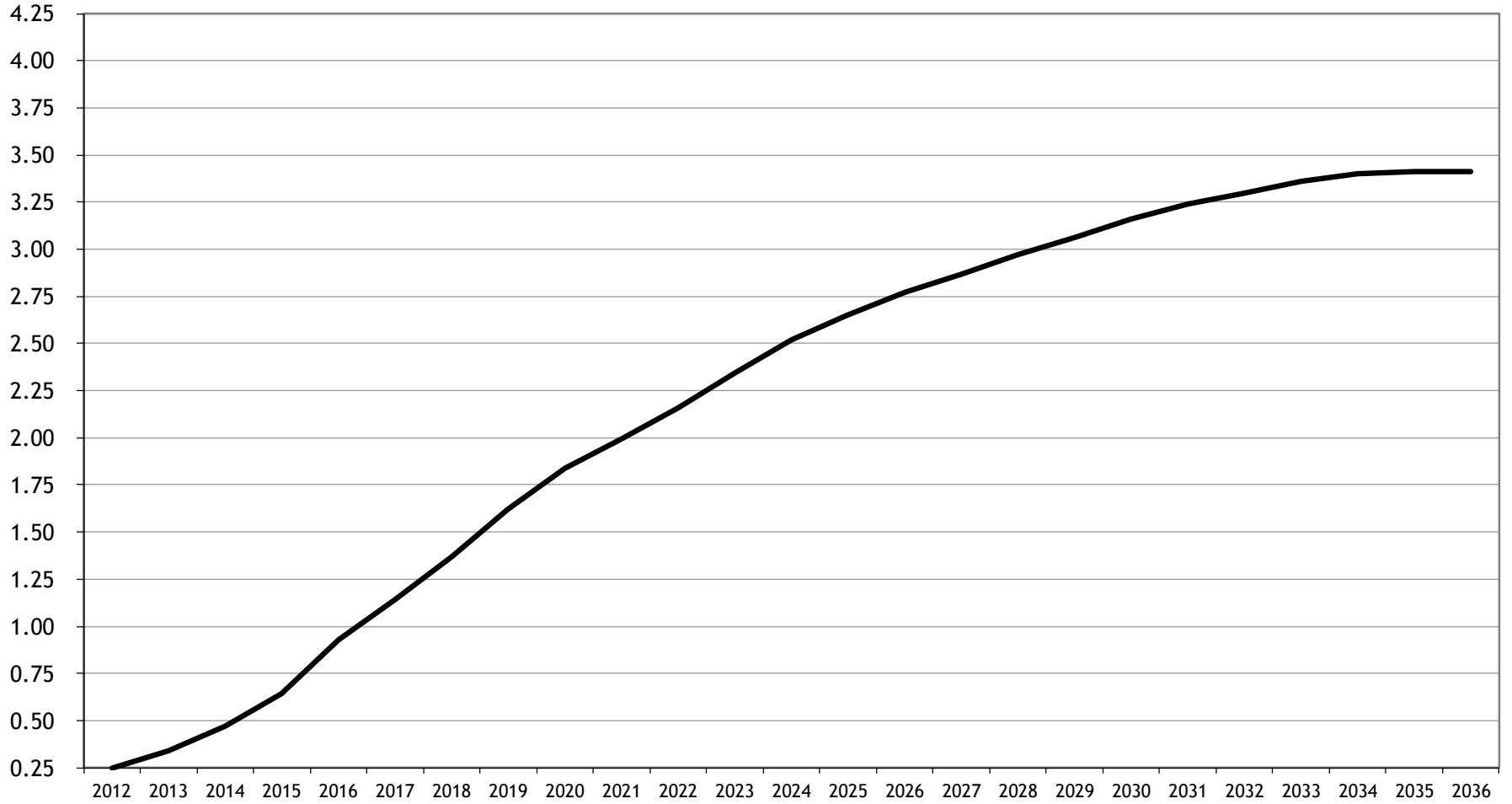
January 1, 2000 – September 30, 2011



■*The index represents the yield for a basket of 20 general obligation municipal bonds maturing in 20 years and has an average rating equivalent to Moody's Aa2 and S&P's AA.

Municipal Market Data (MMD)

Current "Aaa" Yield Curve



Bond Buyer one year index 2001-Present

