MUNI BONDS 101

May 1, 2014 Presentation to the
Government Finance Officers Association of Missouri

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This Presentation will be Available May 3rd at
http://www.munibondadvisor.com/resources.htm

Introducing the Speakers

Shannon Creighton – Gilmore & Bell, P.C.

Ms. Creighton is a shareholder in the St. Louis office of Gilmore & Bell, P.C. Ms. Creighton has practiced law as a municipal bond attorney since entering the law practice in 2000. Ms. Creighton is licensed to practice law in Missouri and Illinois. She received her B.A. degree from Loyola University of Chicago in 1994 and her J.D. from Washington University School of Law in 2000. While in law school, she received several academic distinctions, including the Washington University School of Law Honors' Scholar Award. Ms. Creighton has extensive experience in tax-exempt bond and lease financings for state and local governments. She also devotes a significant portion of her practice working exclusively with governmental entities on economic development projects, property redevelopment and public incentive programs.

Joy Howard – WM Financial Strategies

After several years of experience in public finance as a bond underwriter, Joy Howard formed WM Financial Strategies more than 20 years ago in order to satisfy a need by local governments to obtain independent financial advice. Today, Ms. Howard is a Certified Independent Public Financial Advisor with the National Association of Independent Public Finance Advisors. Ms. Howard's experience encompasses virtually every form of municipal borrowing. In addition, she is actively involved in capital planning and analysis, tax increment planning and analysis, tax and revenue studies, reserve fund policies, and secondary market disclosure. Ms. Howard is a frequent guest speaker on public finance and has appeared on Bloomberg television.

Reagan Holliday – Edward Jones

Reagan joined the firm in 2012. Prior to joining Edward Jones, she practiced public finance law at Gilmore & Bell, P.C., St. Louis, Missouri, whereby she served as bond counsel for a large variety of issuers including school districts, community colleges, universities, cities and counties. Reagan was the Assistant City Attorney for the City of Cape Girardeau, Missouri for more than six years prior to joining Gilmore & Bell. Reagan earned a bachelor's degree in business administration with an emphasis in finance from Drake University, summa cum laude, in 1995 and a J.D. from Wake Forest University School of Law in 1998. She is actively involved with Women in Public Finance, a national organization, and is a member of the Missouri Municipal Attorneys Association.

Today's Agenda

1. Roles of Financing Team
2. Commonly Used Financing Tools
3. Methods of Bond Sales
4. Rating Process
5. Bond Investors and Pricing
6. Post-Issuance Compliance

The Role of Bond Counsel

A lawyer or law firm that delivers a legal opinion on the validity of the bonds being issued and the tax treatment of the interest on the bonds

Engaged by the Issuer

Prepares or reviews financing documents

Ensures that all required procedural and legal steps have been completed to assure proper authorization and issuance of the bonds – State, Securities and Federal Tax Laws

The Role of the Financial Advisor

Services and Advice Relating to Issue Structure

Goals of Reducing Issuers' Work and Reducing Cost

Fiduciary Duty

The Role of the Underwriter

Works with borrower and financial advisor to structure the bond issue to meet borrower's specific needs and gain market acceptance of the credit.

Sets prices, yields and call features for the bonds

Markets the bonds

Commonly Used Financing Tools

General Obligation Bonds

Revenue Bonds

Lease Financings

General Obligation Bonds

Security – General obligation bonds are backed by the *full faith and credit, and unlimited taxing power* of the Issuer.

Constitutional Debt Limit - Article VI, Section 26 of the Missouri Constitution

- ***Counties – 10% of Assessed Valuation***
  - 10% general purpose
- ***Cities – 20% of Assessed Valuation***
  - 10% general purpose
  - 10% street & sewer improvements OR 10% municipally owned water, electric and light plants
- ***Towns, Villages and Other Special Districts – 5% of Assessed Valuation***
  - 5% general purpose

Voter Approval Required - Super-Majority Approval

- 4/7th at general municipal, primary and general elections:
  - April each year
  - August & November in even-numbered years
- 2/3rd for all other elections

Maximum Maturity

- 20 Years

Revenue Bonds

Security – Revenue bonds are payable from and secured by the *pledge* of a specific source of funds *from the facility or project that is financed* (e.g., water, sewer, electric or other utilities)

Voter Approval Required

- Simple Majority Approval

Maximum Maturity

- 35 Years

Additional Bond Covenants

- Rate Covenant
- Usually require a Debt Service Reserve Fund and a Depreciation and Replacement Fund
- Parity Bonds

Lease Purchase Financings

Security – Lease financings are payable from any legally available funds.
No "pledge" of revenues. *Rental payments are subject to annual appropriation each year.*

Additional Security / Collateral

- Financed property (like a mortgage)

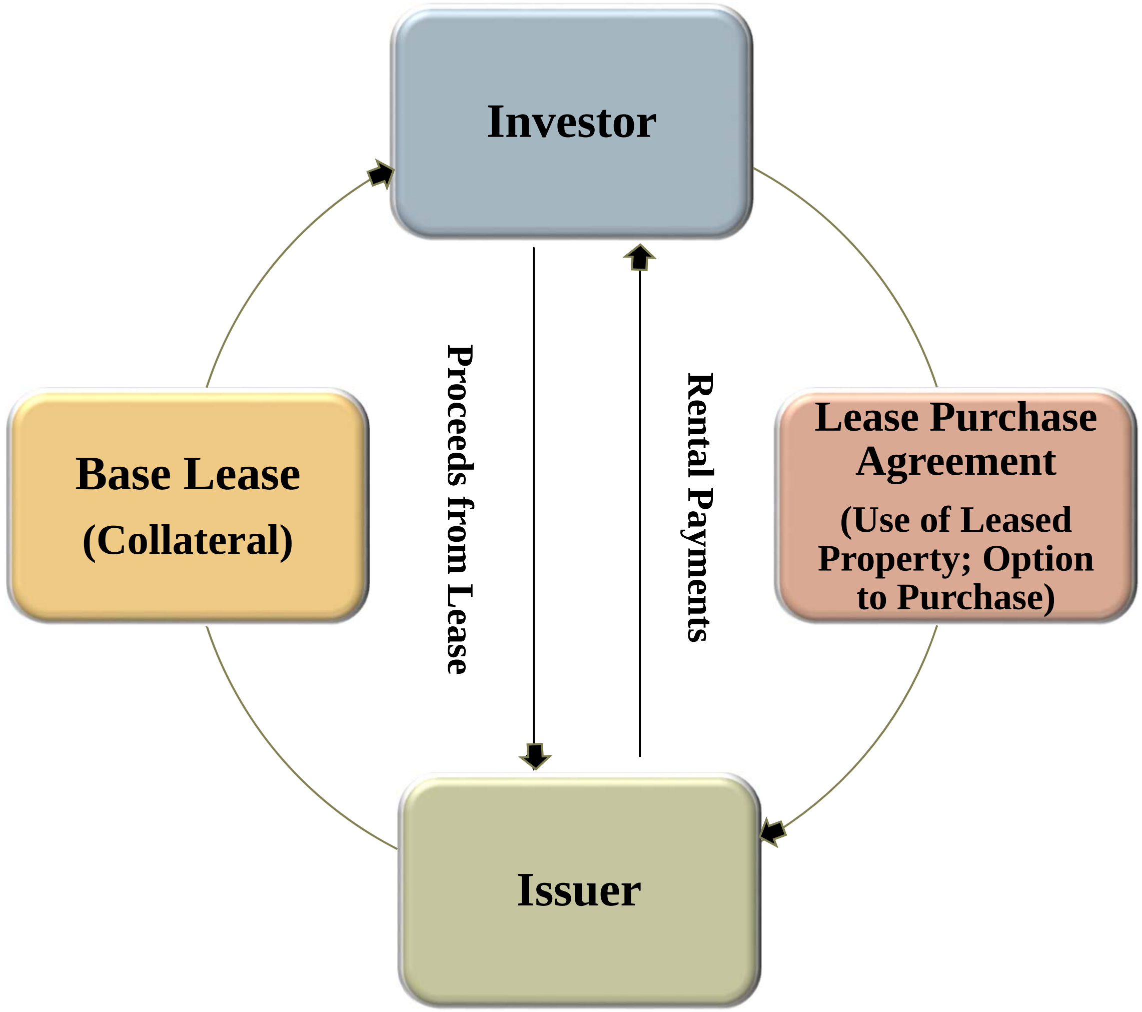
No Voter Approval Required

- Not considered "indebtedness" under the Constitution
- No obligation to make payments beyond current year

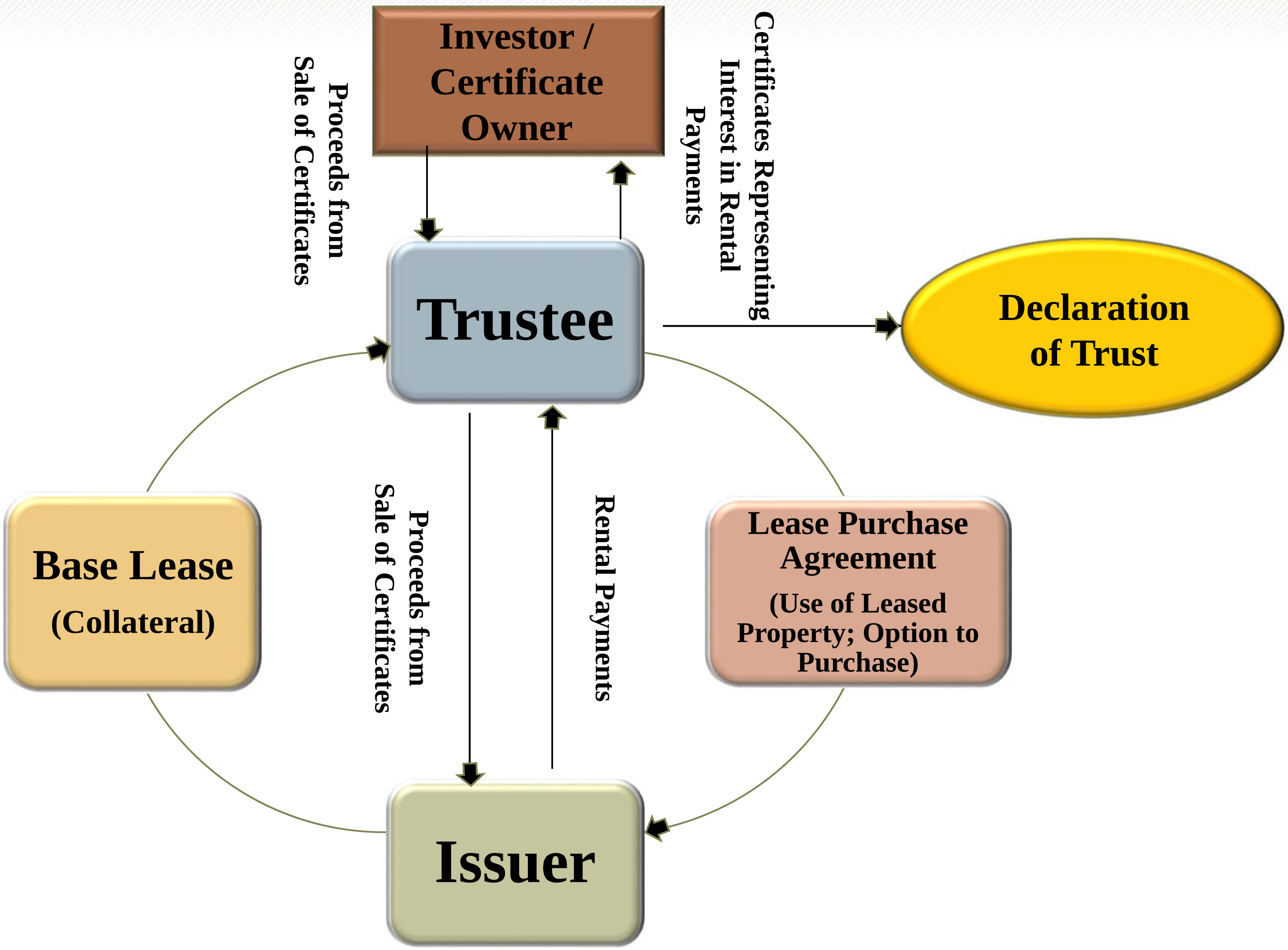
Maximum Maturity

- No statutory limit

Lease Purchase Financings – Direct Lease Structure



Lease Purchase Financings - Certificates of Participation Structure



Comparison of Financing Methods

	G.O. Bonds	Revenue Bonds	Lease-Purchase (Direct)	Lease-Purchase (COPs)
Voter Approval	Super Majority	Simple Majority	None(*)	None(*)
Debt Limit Applies	Yes	No	No	No
Interest Rates	Lowest	Higher than G.O. Bonds	Generally Higher than G.O. or Revenue Bond	Highest
Maximum Maturity	20 years	35 years	No statutory limit	No statutory limit
Closing Costs	Lowest	Usually Higher than G.O. Bonds	Equipment-only: Lower Real Property: Higher	Highest

*** Election may be required for revenue source for repayment, such as a sales tax, which requires a simple majority for approval (so long as not "pledged" to repayment).**

Case Study

In 1994, the City of Blackacre submitted the following question to the voters:

> *Shall the City of Blackacre issue general obligation bonds in the amount of Twenty Two Million Dollars ($22,000,000) for the purpose of constructing a new City Hall? Approval of this question will not result in a tax increase.*

Any problems here?

- No bonds were ever issued. Now, the City wants to issue the bonds in 2014.
- "Constructing a new City Hall" - What if land is needed?
- "Approval of this question will not result in a tax increase."

Methods of Bond Sales

Two Basic Approaches:

Private Placement

- Small Number of Purchasers
- Also Called Direct Purchase or Bank Loan
- 35 or Fewer Buyers

Public Sale

- Sold to Individuals and Other Investors

Methods of Bond Sales (continued)

Private Placement - Features

- Local Banks
- Fewer Parties = Lower Fees
- Higher Rates
- Unfavorable Covenants?

Methods of Bond Sales (continued)

Private Placement – Structure and Parties

- Terms Provided by Buyer
- May or May Not Have Bond Counsel
- Documents Provided by Buyer
- May or May Not Have Financial Advisor
- Can't Escape Rating Agencies

Methods of Bond Sales (continued)

Negotiated Bond Sale – Features

- Bonds Structured and Terms Established
- Underwriter Sets Yields, Rates and Prices
- Underwriter Sells Bonds to Investors
- Negotiated Because Both Issuer and Underwriter Must Agree to the Sale Terms
- Financial Advisor May Assist

Methods of Bond Sales (continued)

Competitive Bond Sale – Features

- Bonds Structured and Terms Established
- Bonds are Advertised for Sale
- Underwriters and Banks Bid for Bonds
- Underwriter or Bank Offering Lowest Cost is Winning Bidder
- Financial Advisor – Almost Always

Methods of Bond Sales (continued)

Factors That Affect Bond Costs

- Costs of Issuance
- Underwriting Fees
- Interest Rates

What is the Best Method of Sale for Your Transaction?

Private Placements

- Small Issues
- Short-term Issues

What is the Best Method of Sale for your Transaction? (continued)

Competitive Sales

- Good Public Policy
- Quantifiable Objective Results

What is the Best Method of Sale for your Transaction? (continued)

Negotiated Sales

- Weak Credit
- Complex Issues
- Unusual Financing Terms

Case Study

City of Highland, Illinois
Electric Revenue Bonds
(for FTTP System)

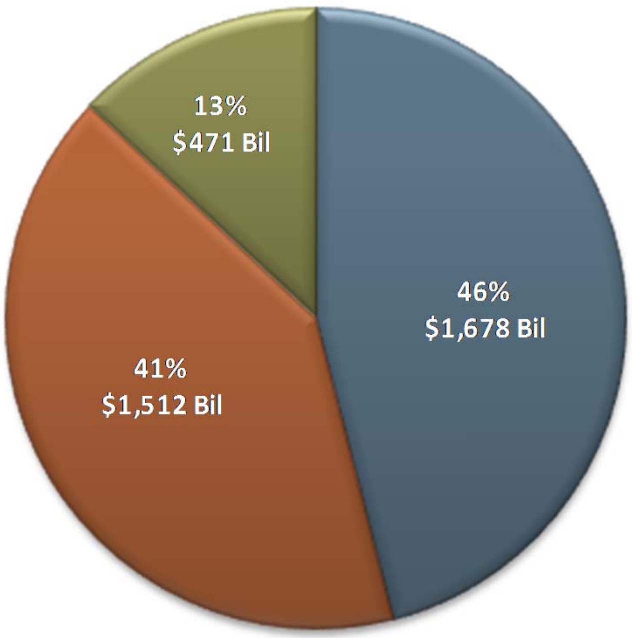
- Negotiated Sale
- $4,225,000 Issue
- 4 Proposals Received
- Edward Jones' Best Proposal Had Highest Fee of 1.758% (Worst Proposal was .800%)
- Edward Jones' Winning TIC was 3.86% - Worst was 4.24% (38 basis points)
- Difference Between Best and Worst Proposal $256,000

Rating Agencies

- Rating agencies: Fitch Ratings, Moody's Investor Service Inc., Standard & Poor's
- A rating helps alleviate investor's concerns about underlying credit quality of the bonds and provides cost efficiency in the pricing.
- The Agencies run an in-depth financial analysis and evaluation of the borrower and the prospective bond issue.
- Upon completion of its review, the agency will provide the borrower with a rating which is an alphabetic and/or numeric symbol used to give a relative indication of a borrower's credit quality. The borrower may chose between a published or non-published rating.
- Agencies periodically review their ratings and analyze the issuer's current financial and operational information.

Fitch	Moody's	S&P
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-

Holders of Municipal Debt



Individual Investors	**46%**
Traditional Institutions	**41%**
Mutual Funds (17%)	
P&C Insurance Companies (18%)	
Life Insurance Companies (3%)	
Closed-end Funds (3%)	
Other Investors	**13%**
Commercial Banks (8%)	
Brokers & Dealers (1%)	
Non-Financial Corporate (1%)	
Miscellaneous (3%)	

Only 8% of new issues are purchased by retail investors.

Source: The Bond Buyer, December 2012

Underwriting Process

Methods of Pricing

Institutional

- Structured for the broadest market base
- Characteristics of the pricing: use of Premium and/or Discount bonds, lower commissions, typical 10-year call feature
- Investors make large portfolio purchases. Typical investors are: mutual funds, insurance companies, trust companies, banks
- Short marketing period

Methods of Pricing (continued)

Retail

- Structured for individual investors
- Characteristics of the pricing: use of Par bonds, lower interest rates on longer maturities, higher retail sales commissions, 5-year call feature
- Retail investors purchase bonds in $5,000 increments (average $15,000 - $20,000
- Longer marketing period
- Bonds sold locally and in-state so resident taxpayers and voters get access to bonds
- Establishes a robust secondary market which increases liquidity

Methods of Pricing (continued)

Hybrid

- Structured for both the institutional and retail market
- Characteristics of the pricing: two pricing levels, two commission structures, two call features
- Typically the retail bonds are a carve-out of longer maturities

The Bonds are Issued - - Now What?
Post-Issuance Compliance

- **Securities Law Requirements**
- **Continuing Disclosure Agreement**
- **Filing of Annual Report on EMMA**
- **Providing Notice of Certain Material Events**

The Bonds are Issued - - Now What?
Post-Issuance Compliance (continued)

Federal Tax Law Requirements

Adopt Written Post-Issuance Compliance Procedures

Complete Arbitrage Rebate Calculations for Investment of Bond Proceeds

Complete Final Written Allocation of Expenditure of Bond Proceeds

Complete Annual Compliance Checklist to Account for Use of Bond-Financed Assets

Case Study

Situation

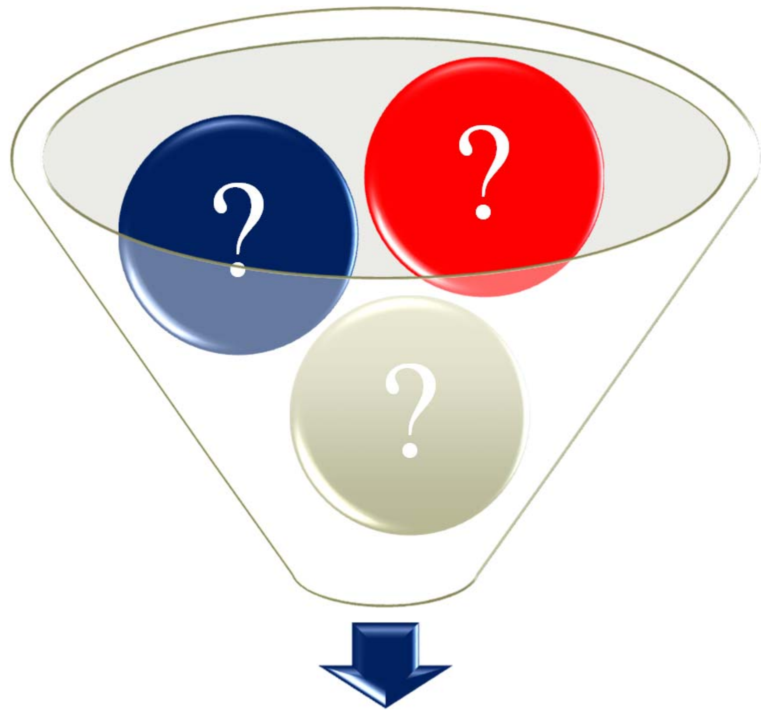
During the underwriting process it is discovered that the bond issuer's annual reports for the last three years do not appear on the EMMA website maintained by the MSRB. E-mail evidence demonstrated that the bond issuer had been providing the annual reports to the dissemination agent in a timely manner, but the dissemination agent had failed to upload the information to EMMA.

Problem

Before bonds can be publicly offered, all instances of non-compliance by a bond issuer in the past five years must be disclosed in the bond offering document (the "Official Statement"). Additionally, an underwriter must have reasonable basis to believe that bond issuer will comply with continuing disclosure requirements.

Lesson

Even if there is a dissemination agent retained to assist with continuing disclosure, the issuer is the party ultimately responsible for complying and should confirm that the filings have been timely made.



Questions?

Disclosure

Edward Jones is providing the information contained in this document for discussion purposes only in anticipation of serving as underwriter to the borrower. The primary role of Edward Jones, as an underwriter, is to purchase securities, for resale to investors, in an arm's-length commercial transaction between the borrower and Edward Jones and that Edward Jones has financial and other interests that differ from those of the borrower. Edward Jones is not acting as a municipal advisor, financial advisor or fiduciary to the borrower or any other person or entity. The information provided is not intended to be and should not be construed as "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934. The borrower should consult with its own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent it deems appropriate. If the borrower would like a municipal advisor in this transaction that has legal fiduciary duties to the borrower, then the borrower is free to engage a municipal advisor to serve in that capacity.