



2016 ILCMA Winter Conference

What Do Managers Need to Know About Municipal Bonds

Presented by

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Presented on

February 4, 2016
1:30 pm – 2:45 pm

Moderator: Dave Cook



Fact Pattern

With the growth of Smithfield and the building of a large cold storage facility the City of Monmouth was faced with a strain being placed on the capacity of its water production. Additionally based around the Smithfield facility the City had designated a industrial park related to trucking and food production. To facilitate growth Monmouth needed to drill a new well, increase the size of the water treatment plant and replace and increase the water pumping capacity. Total cost was set at 3.8 million with a contingency \$200,000 to do the work. The city bonded for 4.2 million to cover the cost.

Issuing Debt



- A. Accessing the Public Market
- B. on a Tax-Exempt Basis
- C. Thru a broker-dealer, assisted
by a municipal advisor

Regulated by

SEC

IRS

MSRB

FINRA



Three Fundamental Questions for any Borrowing

- A. Politically feasible
- B. Financially feasible
- C. Legal validity
 security
 tax-exempt (or tax advantaged)

History of Bond Counsel



- Objective opinions as to validity
- Unqualified – highest court of relevant jurisdiction would agree



Government Finance Officers Association (GFOA) Debt Management Best Practices

Selecting and Managing Municipal Advisors (February 2014)

- a. Municipal Advisors (MA's) have a fiduciary duty to issuers
- b. MA's must now be SEC & MSRB certified
- c. GFOA recommends that issuers hire a MA prior to the undertaking of a debt financing unless the issuer has sufficient in-house expertise and access to current bond market information
- d. MA chosen "on the basis of merit"
- e. If a negotiated sale is contemplated, the MA should be retained prior to the underwriter

Government Finance Officers Association (GFOA) Debt Management Best Practices (Cont.)



Selecting and Managing the Method of Sale of Bonds (February 2014)

- a. Research has not led to universally accepted findings (between competitive and negotiated sales)
- b. Roles and responsibilities of MA's and Underwriters not well understood
 - 1.) MA has a fiduciary duty to issuers
 - 2.) Underwriter has a common purpose (sell bonds) but competing objectives (pricing & terms)

Government Finance Officers Association (GFOA) Debt Management Best Practices (Cont.)



Sale analysis conducted by the MA

- 1.) Factors Favoring a Competitive Sale
 - a) Rating at least an "A"
 - b) Bonds are GO's or secured by a known strong revenue stream
 - c) Structure easily understandable
 - d) Issuer well known

- 2) Factors Favoring a Negotiated Sale
 - a) Rating under an "A"
 - b) Insurance or credit enhancement not available or cost effective
 - c) Structure needs explanation
 - d) Issuer has preference to target underwriting participation to include DBE's or local firms

Government Finance Officers Association (GFOA) Debt Management Best Practices (Cont.)

Selecting and Managing Underwriters for Negotiated Sales (February 2014)

- a. Underwriter Primary Role- To buy bonds and sell them to investors
- b. Underwriter and MA are adversarial roles and cannot be provided by the same party-MSRB Rule G-23
- c. Issuers Goal-select the underwriter to provide lowest possible borrowing costs
 - 1) Demonstrated experience
 - 2) Strongest marketing/distribution capabilities
- d. Issuers should use an RFP process-promotes fairness, objectivity and transparency

Government Finance Officers Association (GFOA) Debt Management Best Practices (Cont.)



Understanding Your Continuing Disclosure Responsibilities (September 2015)

- a. At the time of issuance, the issuer commits to provide certain timely annual financial information and material events notices to the public
- b. SEC Rule 15c2-12-filings must be made electronically at the Electronic Municipal Market Access (EMMA) portal
- c. Issuers should develop and adopt a thorough continuing disclosure policy and follow best practices
- d. Issuers (in the POS) affirm compliance-MCDC



Financing Team

1. Bond Counsel
2. Issuer (Manager, Finance Director, Mayor/President)
3. Municipal Advisor
4. Underwriter (in Negotiated Sales)



Rating/Credit Enhancement

1. Moody's, Standard & Poor's, Fitch – Score cards make ratings more predictable
2. Bond Insurers – AA grade...no more AAA



SB 318

How is the Bond being funded

- How is the Bond being funded
 - G.O. Bond
 - We are home rule
 - Tax Levy
- Enterprise Bond
 - Water rate
 - worked commercial rates
 - Sewer rates
 - Storm Water Utility

Selling it to your Council

- Strategic Offsite
 - Include options for funding
- Link to Capital Improvement Plan
- Bring Bond Council in to present to Council
 - Spear Financial
- Bring bonding company in to Council
 - Baird
 - Edward Jones
- Sell to Community
 - Road Show
 - Newspaper
 - Radio Spots