Puget Sound Finance Officers Association
August Meeting

Methods of Bond Sale

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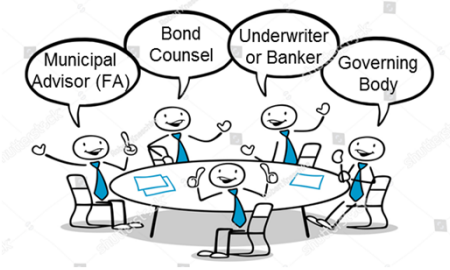
First…Scope of Today's Presentation

- We'll discuss common methods of selling bonds:
  - Bank Loan, also known as:
    - Private Placement
    - Direct Loan
    - Funded Loan
    - Direct Purchase
  - Pooled Financing
    - State's LOCAL Program
  - Public Sale:
    - Negotiated Sale
    - Competitive Sale
- Who is involved in each sale method?
- When to use a particular method?
  - Bank loans versus public sale
  - Public sale: negotiated versus competitive sales

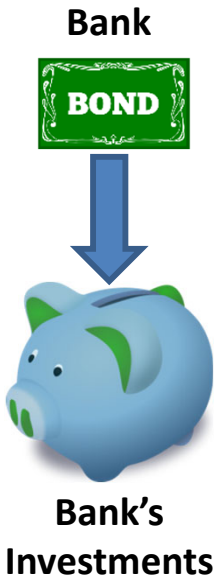
Members of a Financing Team

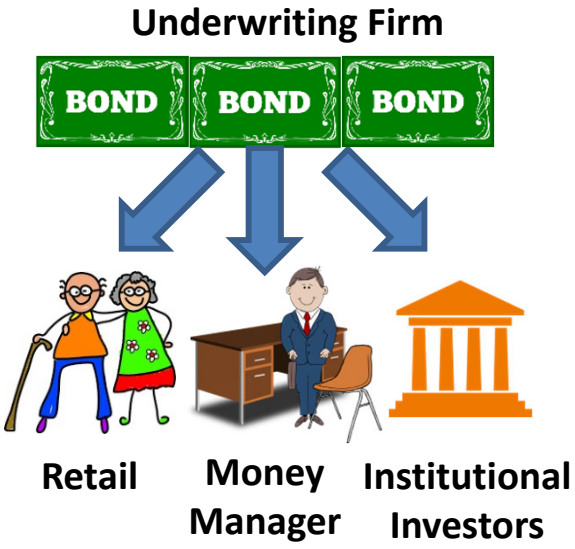
- The coordinated efforts of a specialized group of professionals all working together is required to successfully issue debt
- You, the “Issuer”
- Bond Counsel
- Banker Representing Underwriting Firm or Bank
  - Underwriter or bank counsel
- Financial Advisor (Municipal Advisor)
- Disclosure Counsel
- Rating Agency and Bond Insurer as applicable
- Your financing team is there to serve you
  - *Be sure you understand and are comfortable with the process*
  - *Ask a lot of questions!*



Members of a Financing Team: Bank and Underwriting Firm

- Financial institution that sells your bonds to investors (underwriting firm) or purchases your bond to hold as an investment (bank)





- The best method for selling your bonds and financing your project will depend on a number of factors which we'll discuss in this presentation

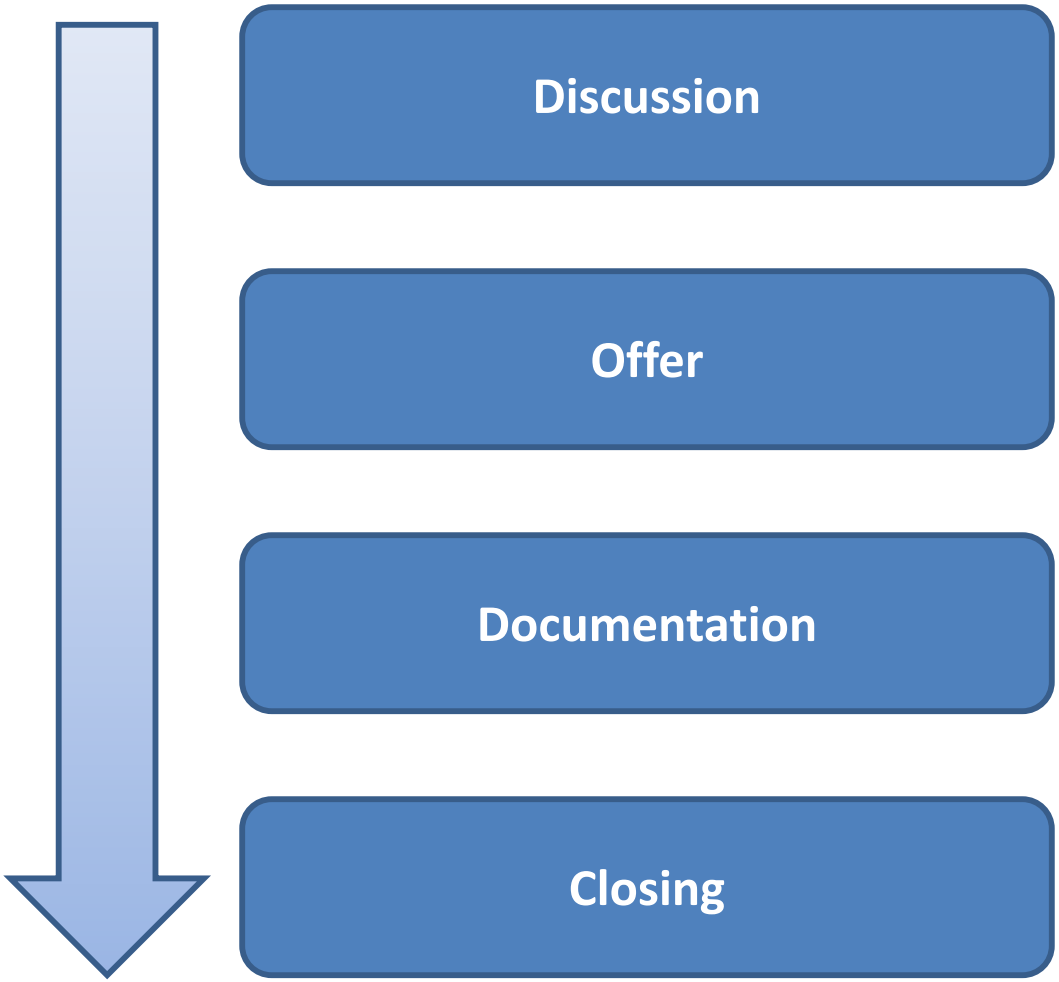
Robbi Stedman

BANK LOAN SALE METHOD

Bank Loans

- Bank lends funds directly to Issuer.
- Finance Team for a bank loan:
  - Issuer
  - Banker
  - Bond Counsel
  - May also include:
    - Placement Agent
    - Financial Advisor
    - Bond Registrar and Paying Agent
    - Bank Legal Counsel
    - Escrow Agent
- Typical bank loan process takes 4-5 weeks to close

Bank Loans: Key Steps



Bank Loans: Discussion

- Who to contact?
  - Banks in the community
  - Your depository
  - Known municipal lender
- Direct Contact
  - Phone/email/in person
  - Gauge interest from known banks.
- Indirect Contact
  - Hire a Placement Agent
  - Request for Proposal process
  - FA

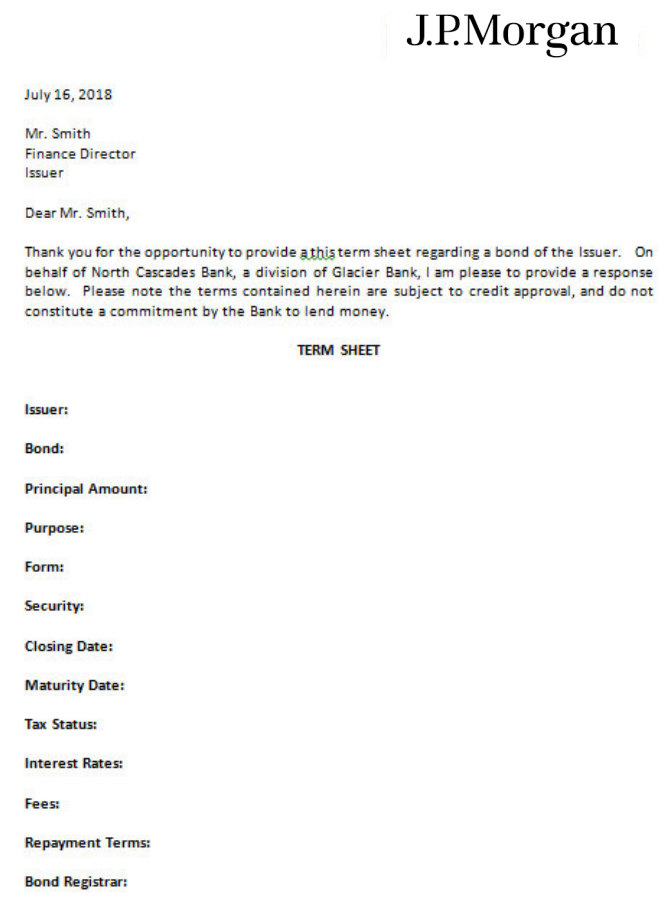
Bank Loans: Discussion (cont.)

- What banks will want to know about the financing:
  - Project overview
  - Project funding sources (cash, grants, etc…)
  - Loan amount
  - Loan type
  - Desired loan term
  - Any unique requests
  - Financing timeline (when do you need the money?)

- With this information, banks will be able to determine if they are interested in providing a loan, and if so, under what terms.

Bank Loans: Offer

- Bank Proposal
  - May be called a “Term Sheet” or “Bond Purchase Offer”
  - Contains key terms of loan:
    - Loan Amount
    - Loan Term
    - Interest Rate
    - Fees
    - Debt service
    - Prepay features
  - May be subject to credit approval.
  - May be negotiable.



J.P.Morgan

July 16, 2018

Mr. Smith
Finance Director
Issuer

Dear Mr. Smith,

Thank you for the opportunity to provide a this term sheet regarding a bond of the Issuer. On behalf of North Cascades Bank, a division of Glacier Bank, I am please to provide a response below. Please note the terms contained herein are subject to credit approval, and do not constitute a commitment by the Bank to lend money.

TERM SHEET

Issuer:

Bond:

Principal Amount:

Purpose:

Form:

Security:

Closing Date:

Maturity Date:

Tax Status:

Interest Rates:

Fees:

Repayment Terms:

Bond Registrar:

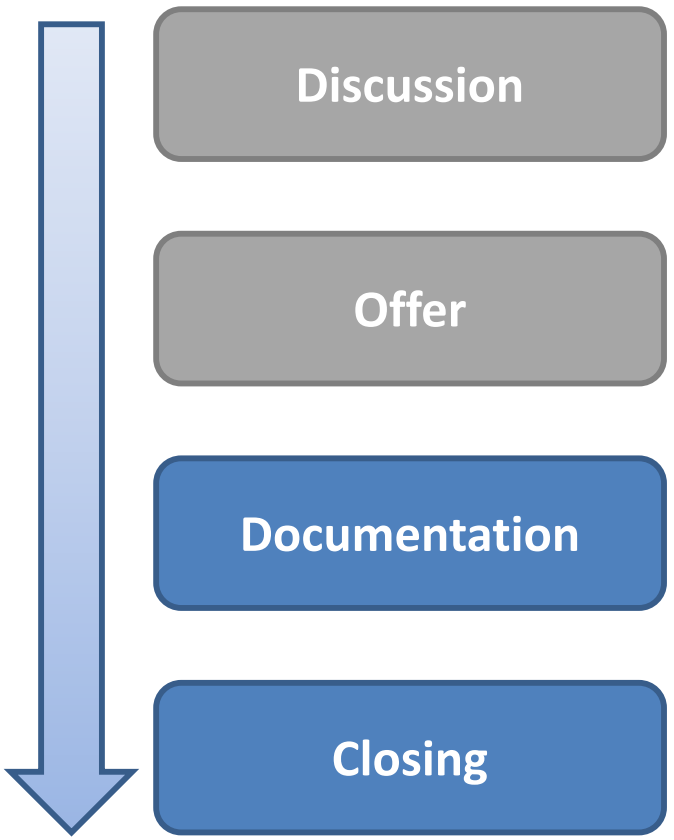
Bank Loans: Credit Approval

- Timing and duration of credit approval processes vary by bank.
- Streamlined process relative to public sale
  - No official statement
  - No credit rating
- Process typically takes 1-2 weeks.
- Basic documentation needed:
  - Financial statements (3-5 years)
  - Tax base/User base information
  - Debt profile
    - Amount of outstanding debt
    - Description of outstanding debt (Maturity, repayment terms)

Bank Loans: Process Review

- Where we're at in process:
  - Project and funding needs discussed with bank.
  - Bank has approved credit provided an offer
  - Issuer is ready to accept offer and proceed to closing
  - Approximately 2-weeks into process

- Next Steps
  - Bond counsel prepares bond documentation.
  - Adoption of bond ordinance/resolution by governing body of issuer.
  - Preparation for closing.



Bank Loans: Documentation

- Bond ordinance/resolution adopted by the governing body.
  - Affirms the legal authority and capacity of the issuer to issue debt
  - Authorizes the issuance of the loan
  - Describes the terms of the loan
  - Accepts the bank's offer
  - Authorizes the appropriate officials to take the necessary actions to complete the issuance.
- Bond Purchase Agreement of bank signed by issuer.
- Closing memorandum circulated outlining the steps to close bank loan.
- Signed documents exchanged with counterparties.
- Allow 2-3 weeks for documentation

Bank Loans: Closing

- Loan proceeds disbursed in exchange for bond.
- Bond counsel provides legal opinion and transcript of the issuance.
- Post-issuance, Issuer pays principal and interest when due to bank.

Brianna May

POOLED FINANCING

Using the State Treasurer's LOCAL Program

- The State conducts a competitive sale on behalf of State agencies (ex: Washington State Patrol, Dept of Natural Resources, etc.) three times a year.
- Through the LOCAL Program, local governments financing equipment or real estate are able to be included in the pool.
  - This allows local agencies to benefit from State's technical expertise
  - The cost of issuance is limited to the incremental cost of participation
  - By pooling with the State's Aa1 rated COP issuances, participants are able to take advantage of the State's very low tax-exempt interest rates
- Proceeds from the sale are disbursed among agencies once equipment is received or real estate expenses are made.
- Applications are processed on a rolling basis

https://tre.wa.gov/financing-and-debt/get-financing/local-government-financing

Justin Monwai

NEGOTIATED SALE METHOD

Negotiated Sale

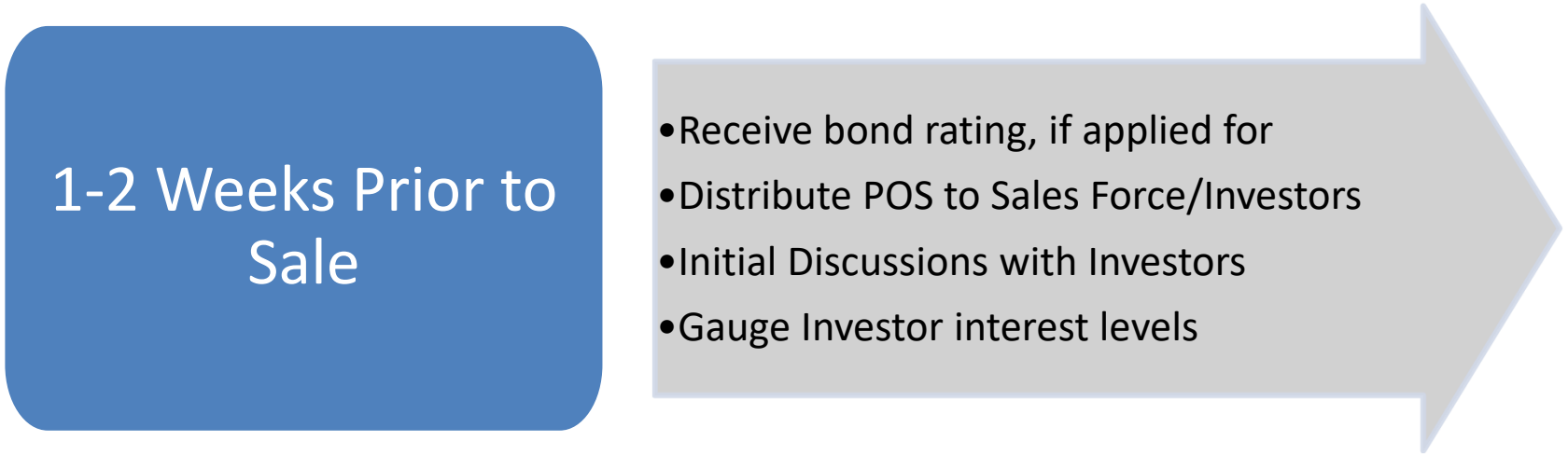
- "Underwriter" is selected prior to the bond sale date:
  - Underwriting firm includes the Banker, Underwriter and Sales Force
  - Unlike a competitive sale process where a Financial Advisor ("FA") is always involved, in negotiated sales FAs are not required but are often utilized.
  - Underwriter is chosen based on expertise, financial resources, compatibility, and experience.
  - The Underwriter, with the FA and Issuer, participates in the development of a plan of finance.
  - Underwriter markets the bonds and develops an interest rate to be negotiated with the Issuer and FA.
  - Underwriter commits to purchasing the bonds from the Issuer at the negotiated rate and commits to providing funds to Issuer.

Negotiated Sale

- Role of Underwriter prior to Bond Sale
  - Determine Financing Plan with FA and Issuer
    - Timing of Transaction, financial modeling, etc.
  - Legal Documentation
    - Review applicable ordinances/resolutions/documentation.
    - Review Bond documents (Preliminary Official Statement or “POS,” related offering document, etc. in conjunction with Underwriter’s counsel).
  - Rating Process
    - Participate in rating presentation (or help draft the rating presentation when no FA is involved).
  - Finalize Documents & Conduct Due Diligence
    - Conduct due diligence call
    - Finalize POS

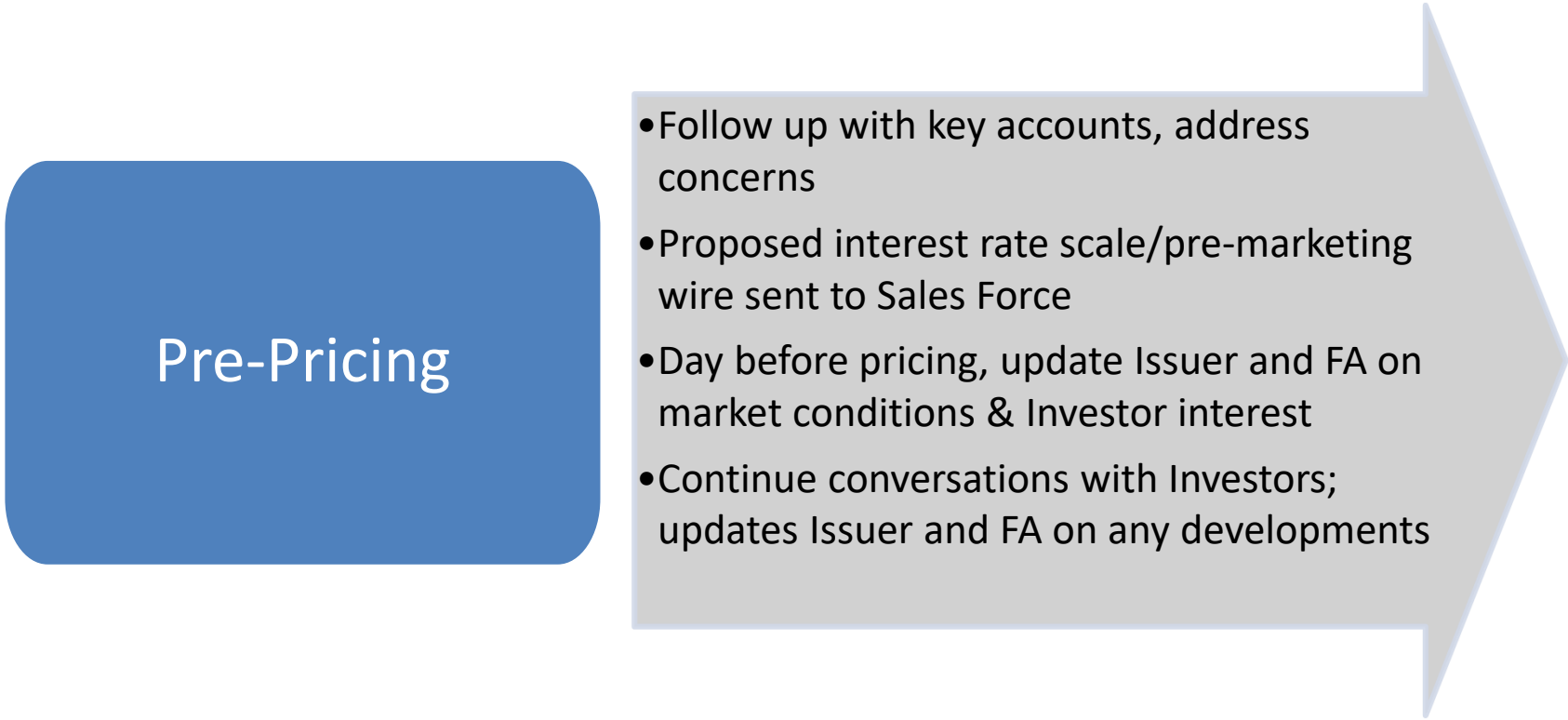
Negotiated Sale

- Overall Timing of Pricing Events



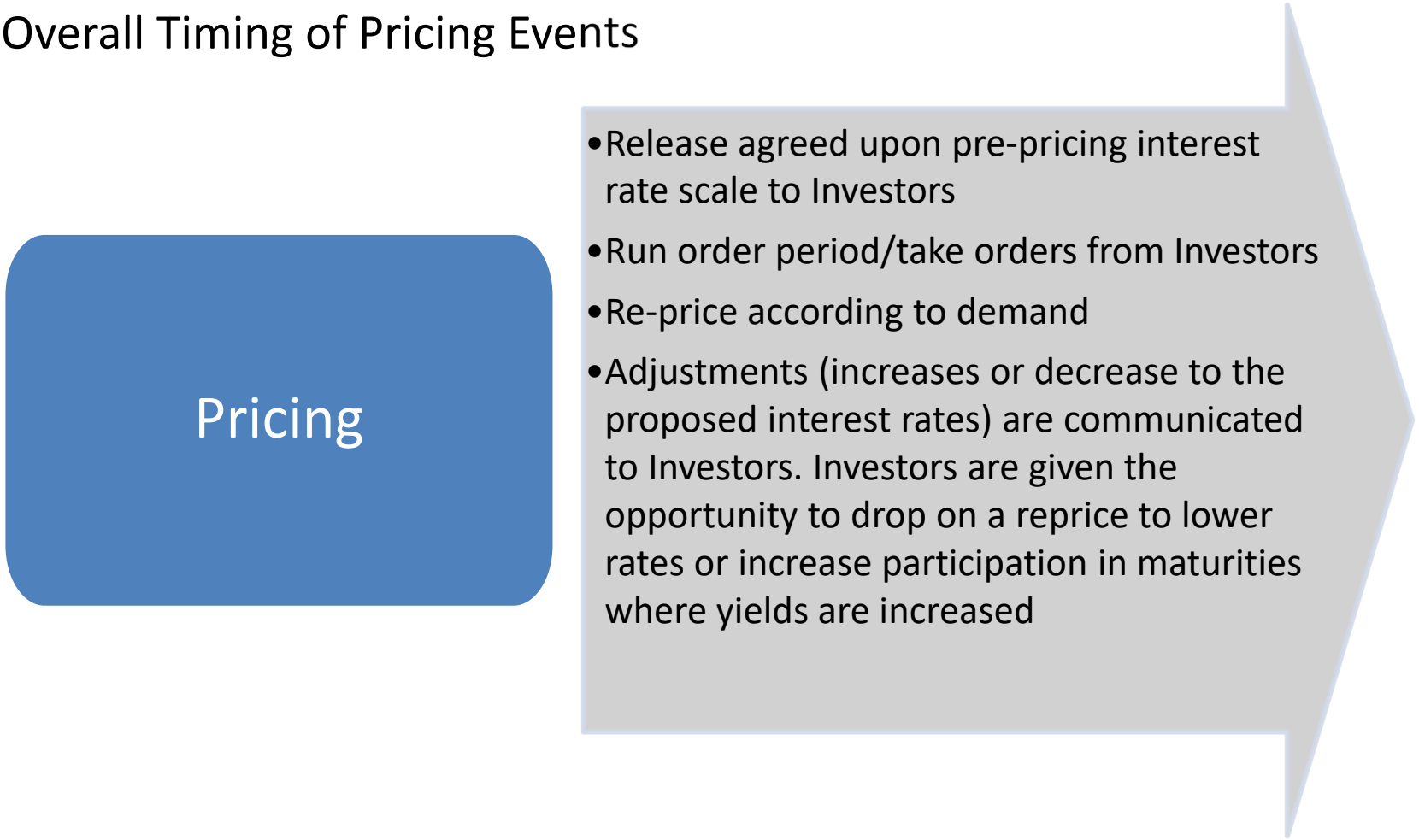
Negotiated Sale

- Overall Timing of Pricing Events



Negotiated Sale

- Overall Timing of Pricing Events



Negotiated Sale

- Overall Timing of Pricing Events

Bond Purchase Agreement

- Underwriter submits Final Pricing proposal to FA and Issuer
- Issuer consults with FA and then 'negotiates' agreed upon price/spread
- Responses – Agree (commit to sell, Verbal Award) or Decline (cancel or postpone sale)
- Once the verbal award is received the Underwriter begins the allotment process and allocates the bonds to Investors
- Agreement documented in Bond Purchase Agreement

Negotiated Sale

- Illustrative Timeline

Activity	Month 1				Month 2				Month 3				Month 4			
	WK1	WK2	WK3	WK4	WK5	WK6	WK7	WK8	WK9	WK10	WK11	WK12	WK13	WK14	WK15	WK16
Organizational Meeting	●															
First Draft of Bond Documents	●	●	●	●												
Discuss Bond Documents and 1st Draft of POS		●	●	●												
Submit Rating Presentation to Rating Agencies				●	●											
Submit Application for Issuer Approval					●	●	●									
Receive Issuer Approval					●	●	●									
Receive Second Draft of Bond Documents and POS							●	●	●							
Rating Agencies' Site Visit or Conference Calls								●	●							
Issuer Meeting to Approve Preliminary Resolution								●	●							
Receive Rating from Rating Agencies									●	●	●					
Conduct Due Diligence Call										●	●					
Print and Distribute Preliminary Official Statement											●	●				
Distribute Investor Sales Presentation (if necessary)												●	●			
Investor Call												●	●			
Pre-Pricing Conference Call													●	●		
Price Bonds and Sign Bond Purchase Agreement														●		
Finalize Documents and Print Official Statement															●	
Fund and Close																●

● Pre-Marketing ● Marketing ● Price, Fund and Close

Scott Bauer

COMPETITIVE SALE METHOD

Competitive Sale

- Many of the steps of competitive sale are the same as a negotiated sale, but we'll contrast the differences below:

	Negotiated	Competitive
Financial Advisor selection and involvement	• Typically early in the process to take advantage of expertise – Not required for a financing	• Financial Advisor needed for the competitive sale process
Underwriter selection and involvement	• Typically early in the process to take advantage of expertise	• Not selected until the sale date. Sole purpose is to purchase the bonds.
Financing plan, bond structuring, rating process, financing team coordination, document reviews	• Performed by the Underwriter, Financial Advisor, or both	• Financial Advisor

Competitive Sale

	Negotiated	Competitive
Bond Market Information	• Underwriter provides interest rate scales and other bond market information	• Financial Advisor, based on market intelligence
Investor Marketing	• Target investors • Set priority for retail investors/local sales	• No direct targeting of investors • Financial Advisor reaches out to potential bidders
Pre-sale (pricing) Information	• Underwriter provides: – Interest rate scales through the process – Market context, investor feedback – Continues conversations with investors – Update to Issuer, Financial Advisor	• Financial Advisor

Competitive Sale

	Negotiated	Competitive
Pricing	• Pre-pricing scale release • Orders taken	• Bids received at a set date and time • Firm providing lowest True Interest Cost (TIC) is the winning firm – TIC combines fees and interest rates
Assessing Investor Participation	• Interest rates adjusted (if necessary) based on demand • Issue resized as necessary • Investor participation can be shared with the Issuer	• No adjustment to interest rates • Issue resized, within certain parameters • Investor participation not known
Award	• Underwriter submits final pricing • Final pricing/spreads negotiated with Issuer/Financial Advisor	• After resizing issue, award is made to winning bidder

Scott Bauer

HOW TO CHOOSE METHOD OF SALE

Bank Loan or Public Sale

- First decision is whether to issue a bond through a bank loan or public sale
  - Should know the size, security, and repayment length (tenor) of the issue
- Bank Loan
  - Works well for interim, variable rate financing
    - Many banks will not fix a rate for longer than 10 years
  - Banks often work better for less robust credits
  - Lower issuance costs, less ongoing disclosure
- Public Sale
  - Have lower interest rates but higher up-front costs
  - Work better for larger amounts of money and longer periods of time
    - Able to fix interest rates over full period, prepayable (typically after 10 years) at issuer's option
  - Allow for interest-only payments and various repayment structures
- If the decision is close to a toss-up, consider the "hassle factor"

Public Sale: Competitive vs. Negotiated

- Competitive sale works well for:
  - Stable markets
  - Strong bond ratings ("A" category or higher)
  - Straight-forward financing structures
  - General Obligation and essential-service Revenue Bonds
  - Well known and frequent issuer
  - Provide transparent results
- Negotiated sales also work under the same circumstances as the above, but especially should be considered under the following conditions:
  - Unstable markets
  - Lower rated credits or where bond insurance is not available
  - Structures that are not fixed rate current interest bonds, such as variable rate bonds or capital appreciation bonds (deferred interest)
  - Where selecting a particular underwriting firm or targeting particular investors is important

Summary

- There are a number of ways an issuer can sell its bonds
  - Bank Loan
  - State Treasurer's LOCAL Program
  - Negotiated Sale
  - Competitive Sale
- The decision of method of sale can depend on:
  - Size
  - Length of Repayment
  - Security
  - Credit quality
  - Bond Structure
- Decision made by the Issuer in consultation with the Financial Advisor

METHOD OF SALE SUMMARY

Bond Sale Process: Method of Sale Summary

Competitive

- Issuer works with Bond counsel and Financial Advisor to structure the bond issue.
- Bonds are advertised for sale at a designated date and time (Notice of Sale). Bid Specifications provide guidelines on par/coupon structure.
- Any Broker/Dealer can submit a bid to purchase the bonds (electronic). Firms can bid alone or form a syndicate.
- Underwriting desk submits bids; Bonds are awarded to the bidder with the lowest TIC "true interest cost."
- Structure of bond issue can be adjusted slightly within parameters of the bid specification.

Negotiated

- **Issuer selects underwriter in advance of sale.** In some cases, designate a Senior Manager and a Syndicate of a few firms.
- Team works together to structure par/coupon of the bond issue. Involves investment banker and underwriting desk.
- Targeted sale date is chosen in advance, but flexible. Issuer, FA and Underwriter agree on an interest rate(s) to offer the bonds to investors.
- Underwriter takes orders at that level, and interest rate (price) may be renegotiated depending on demand.
- **Structure of bond issue can be readjusted** based on final negotiated price to achieve desired debt service goals.

Private Placement

- Issuer works with Bond Counsel, Financial Advisor, and Placement Agent to structure the Bond issue
- **Bonds are sold to one investor** (such as a bank, institutional investor, or government loan program like PWTF, USDA or LOCAL).
- Interest Rate and terms and conditions are negotiated with the one investor.
- **Can result in a more streamlined issuance process.** Often, it is not necessary to publish an Official Statement or obtain a rating.
- **Process can include circulating a term sheet to several investors to obtain competitive pricing.**
- Process can take about 4 weeks whereas a public sale can be 2-3 months.

Bond Sale Process: Method of Sale Summary

Competitive

- Typically used for well-known, higher rated credits with broad buyer base.
- Less flexibility for the issuer - lock in issue size, maturity structure and offering terms in bid specifications.
- Underwriter has limited ability to pre-market the bonds, will take on more risk in selling the bonds to investors. No window to "tell the story" to investors.
- Objective bid process – awarded to lowest bidder. In certain markets, bidding is aggressive.
- Issuer has no control over distribution of the bonds or underwriter compensation.
- Risk of limited bids in volatile markets.

Negotiated

- **Typically used for more complex transactions – credit or financial structuring.**
- **Opportunity for underwriter to pre-market the bond issue.** Can balance investor demand and issuer's debt objectives.
- **More flexibility** in choosing the date of sale, structure of the bond issue.
- **Issuer has more control** over distribution of bonds and underwriter compensation.
- Encourages innovative and cost saving ideas from investment bankers.
- Selection process can incorporate objective criteria.

Private Placement

- **Typically used for unique transactions: small par amount, non-rated or weak credit, complex credit structure.**
- For small transactions, simplified issuance process can be more cost effective.
- For unique credits, more time to explain the credit strengths to the investor.
- Loan Programs like CERB or USDA may offer below market interest rates.
- Continuing Disclosure obligations may or may not apply.