



The Who, What, When, Where of the Bond Issuance Process

School of Government Finance
October 22, 2024

Outline

Overview of bonds and the process of issuing bonds

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Meet the Presenters



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- Established FL Office in 2003



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Estrada Hinojosa TRB Capital Markets

Firm Overview:

- Founded in 1992
- Headquartered in Dallas, TX
- Serving Florida issuers since 1993
- Established Florida Office in 2003
- 9 offices nationwide – 56 employees
- 100% dedicated to Municipal Finance
- TRB Capital Markets (D.B.A. Estrada Hinojosa)

Services:

- Municipal Bond Underwriting
- Municipal Advising
- Competitive Bond Underwriting
- Secondary Market Trading

Headquarters and Office Locations



What is a Municipal Bond?

- **Municipal bonds** (“munis”) are debt securities issued by state and local government entities
- **Purpose:** fund day-to-day obligations and finance capital public projects
- **Types of projects:** Infrastructure, school buildings, hospitals, town halls, improvement projects, etc.



Source: SEC

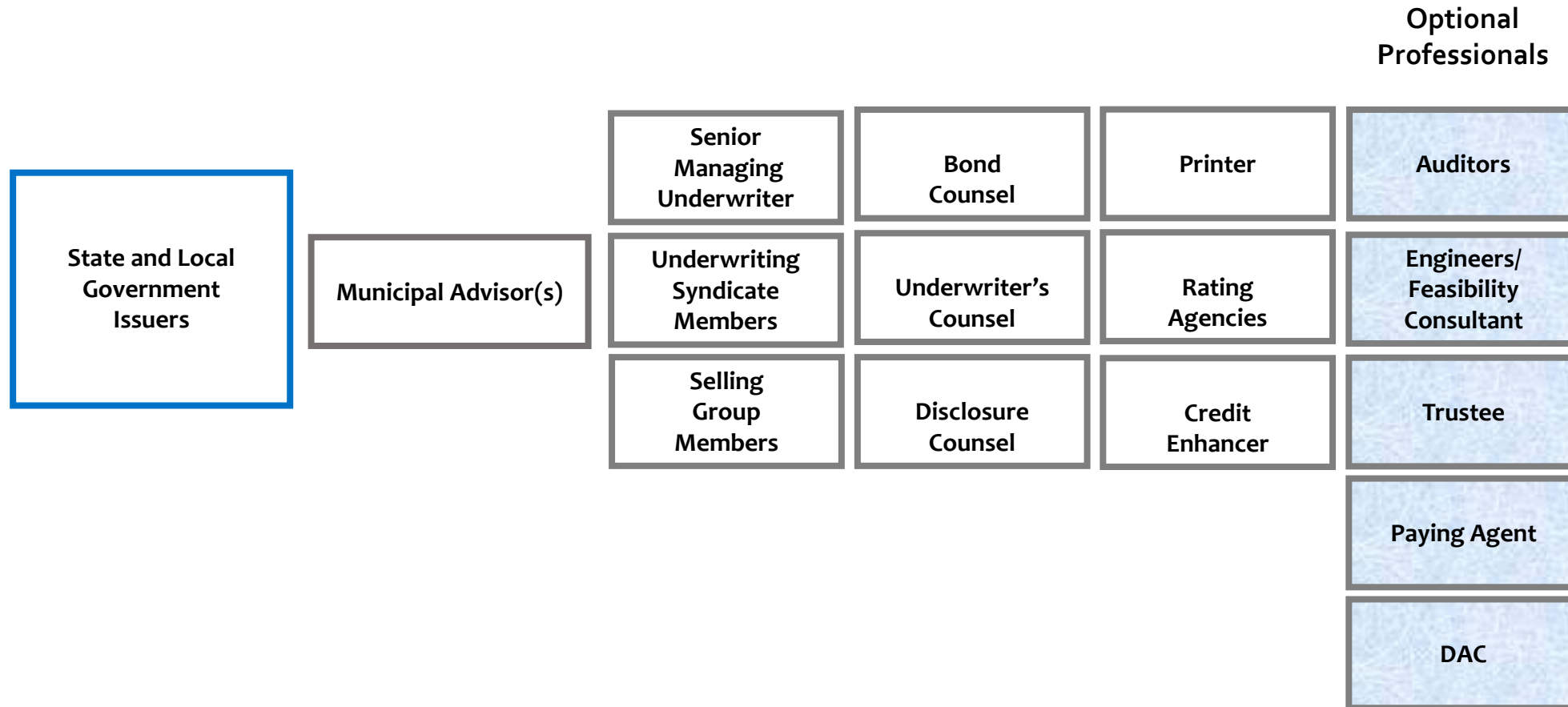


Who is involved?

Key Players, Roles & Responsibilities

Key Players

Negotiated Public Bond Offering



Source: MSRB

State and Local Government Issuers



- **State Governments**
- **Local Governments**
 - Counties
 - Cities/Towns
 - School Districts
 - Townships
- **Special Districts**
 - Utility Districts
 - Transportation Districts
 - CDDs
 - Fire Districts
- **Public Authorities and Agencies**
 - Public Housing Authorities
 - Port Authorities
 - Water/Sewer Authorities
 - Health Facilities Authorities
 - Higher Education Institutions
- **Joint Power Authorities**

State and Local Government Issuer



- Defines financing requirements
- Determines method of sale
- Determines resources for payment of new debt issue
- Selects and manages the financing team
- Prepares offering documents
- Determine priority of orders for Senior Manager UW
- Determines liability for UW syndicate members
- Determines compensation of financing team
- Negotiates final purchase price with UW syndicate
- Executes the bond purchase agreement
- Adopts necessary resolutions/documents
- Pays principal and interest on the bonds
- Complies with tax and other covenants
- Submits continuing disclosures

Source: MSRB

Municipal Advisor



- Fiduciary responsibility to the issuer
- Coordinates financing
- Develops RFPs
- Assists in developing plan of finance
- Assists with rating agency presentations
- Advises on method of sale
- Assists with selecting UWs
- Reviews financing documents
- Prepares preliminary cash flows/analyses
- Analyzes alternative project fund investments
- Prepares post sale reports
- Evaluates market conditions and performance of UW syndicate

Source: MSRB

The Underwriting Syndicate

Senior Manager

- Leads the UW syndicate
- “Runs the order book”
- Executes priority of orders
- Accepts orders
- Allocates the bonds
- Transmits applicable commissions and expenses
- Shares in the profits and liabilities for the bonds

Co-Managers

- Market the bonds
- Submit orders to the senior manager
- Share in the profits and liabilities of the syndicate

Selling Group Members

- Dealers that assist in selling and marketing bonds
- Typically have contractual relationship w/ sr. mgr.
- Do not share in any liabilities for the unsold bonds



Designation Policy

The UW syndicate commits to post capital to underwrite unsold bonds

Widest distribution of bonds

- Fair distribution to all incentivizes syndicate members
- A well-balanced underwriting team
- Sales expertise (institutional and retail investors)

Group Net

- Recommended practice; aligns risk/reward for underwriter

Net Designated

- Old practice; investor decides which underwriter receives the sales credit instead of issuer

The screenshot shows the top of a webpage from 'THE BOND BUYER'. The page title is 'Commentary Muni industry best served by wider acceptance of group net syndication rule'. The author is 'Chris Hamel' and it was published on 'April 20 2018, 11:52am EDT'. The article text discusses the 10th anniversary of EMMA (Electronic Municipal Market Access) and argues for modernizing industry practices. It mentions that EMMA provides three-quarters of the annual U.S. infrastructure spend and is a \$3.7 trillion market. The article also touches on the compensation of bond underwriters and the 'net designated' syndication rule.

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Commentary Muni industry best served by wider acceptance of group net syndication rule

By Chris Hamel

Published April 20 2018, 11:52am EDT

More in Sell side

f in t e ...

Print Reprint

This year the municipal industry marks the tenth anniversary of the launch of its milestone breakthrough for market transparency — the creation of EMMA or the Electronic Municipal Market Access. It is a reminder of the imperative of modernizing an industry that provides three-quarters of the annual U.S. infrastructure spend and is a \$3.7 trillion market.

While commendable in its creation, the transparency provided by EMMA for municipal bond investors existed for other debt markets years before. Other long-held municipal industry practices are overdue for review and change as well.

Toward the top of the list of areas requiring a fresh approach is the way negotiated bond underwriters are paid. Not how much, but by whom. This arcane issue is stuck in decades-old practice long ago abandoned by other markets such as the corporate and securitization bond sectors.

Some background at this point is useful. Once the municipal debt issuer determines the amount of compensation to be paid to the underwriters, there is also a discussion of syndicate rules or the method by which these dollars will be divided among the underwriters.

In the municipal market, the syndicate rule of choice is "net designated." This approach, selected by many state and local governments, is intended to reward underwriters that deliver actual orders from investors to purchase bonds.

Legal Counsel – Bond and Disclosure Counsel



- Affirms authorization of the bond offering
- Assists with review of all financing documents
- Drafts bond authorization documents
- Provides legal opinion regarding bond issue and tax status
- Drafts Preliminary and Final Official Statements
- Provides guidance related to arbitrage regulations and tax law
- Drafts Trust Indenture - details responsibility of issuer and bondholders
- Prepares closing documents

Source: MSRB

Underwriter's Counsel

- Drafts bond purchase agreement, blue sky memorandum, agreement among underwriters
- Advises underwriters regarding their legal positions with respect to the issue
- Advises underwriters on state and federal securities laws
- Assists underwriters with the due diligence review



Source: MSRB

Printers



Companies like **ImageMaster**, **BondLink** and **FPR Printing** print and/or create the electronic version of the preliminary and final official statements for distribution to the marketplace.

Source: MSRB and EMMA

Rating Agencies

Assess **creditworthiness** of the bonds to assign ratings that provide risk guidance to investors

Fees vary depending on:

- Complexity
- Par amount
- Source of payment of the bonds

S&P Global
Ratings

MOODY'S

FitchRatings

KBRA **KROLL BOND
RATING AGENCY**

Rating Agencies

S&P	Moody's	Fitch	Kroll*	Investment Grade/Ability to Meet Obligations
Investment Grade				
AAA	Aaa	AAA	AAA	Highest quality, minimum credit risk
AA+	Aa1	AA+		
AA	Aa2	AA	AA	High quality, low credit risk
AA-	Aa3	AA-		
A+	A1	A+		
A	A2	A	A	Upper medium
A-	A3	A-		
BBB+	Baa1	BBB+		
BBB	Baa2	BBB	BBB	Medium quality, medium credit risk
BBB-	Baa3	BBB-		
Non-Investment Grade				
BB+	Ba1	BB+	BB	
BB	Ba2	BB		Low quality, high credit risk
BB-	Ba3	BB-	B	
CCC+	Caa1	CCC+	CCC	
CCC	Caa2	CCC		Poor standing, high credit risk
CCC-	Caa3	CCC-	CC	
CC	Ca	CC		Highly vulnerable
C	-	C	C	Extremely speculative
D	C	D	D	In default

**estimated comparison with Kroll using their Long-term credit rating scale. KBRA may append - or + modifiers to ratings in categories AA through CCC to indicate, respectively, upper and lower risk levels within the broader category.*

External Credit Enhancers

Letter of Credit (“LOC”)

Municipalities can secure a LOC from a financial institution, which promises to make payments if the issuer defaults.

Bond Insurance/Surety

Protects a bondholder against unexpected principal and interest delinquencies or defaults.



Paying Agent, Trustee, Registrar

Oftentimes these terms are used interchangeably, however, there are key differences:

Paying Agent

- Responsible for distributing interest payments and principal repayments to bondholders

Trustee

- Fiduciary entity representing the interests of bondholders, ensuring adherence to the bond agreement

Registrar

- Responsible for maintaining the official records of bond ownership and may also facilitate transfer of bond ownership

Source: MSRB

DAC (“Digital Assurance Certification”)

- Disclosure Dissemination Agent
- Provides post-issuance securities and tax compliance services
- Depending on the scope of services, DAC will charge a one-time set-up fee for each new issue and an annual filing fee

DAC Bond[®]

Optional Additional Professionals

Additional professionals that may be included depending on the financing

Feasibility Consultant

- Prepares a report or study detailing the economic practicality of and the need for a proposed program, service or project

Auditor

- Audits or investigates an entity's financial position

Trustee

- Fiduciary entity representing the interests of bondholders

DAC

- Disclosure Dissemination Agent

Source: MSRB



Municipal
Bonds



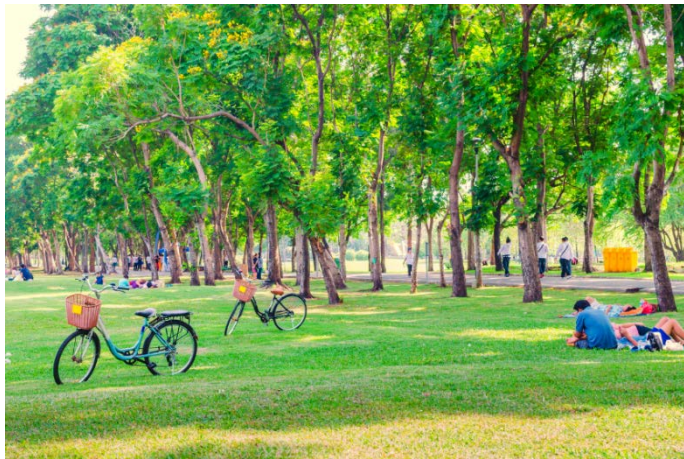
What are Municipal Bonds?

Overview, bond issuance process, underwriting

What is a Municipal Bond?

- **Municipal bonds (“munis”)** are debt securities issued by states, cities, counties and other governmental entities to finance public projects such as schools, highways or water and wastewater systems. The two most common types of municipal bonds are:

General Obligation (“GO”) Bonds: backed by the “full faith and credit” of the issuer, which has the power to tax residents to pay bondholders.



Revenue Bonds: secured by revenues from a specific project or source, such as highway tolls or water and wastewater fees.



Source: SEC

Benefits of Municipal Bonds

- **Cost-effective** - lower borrowing costs and tax advantages
- **Lower interest rates** - low-risk investments
- **Tax exemptions** - Interest income often exempt from federal income tax and, in some cases, from state and local taxes as well
- **Tax advantage** - attractive to investors



Source: SEC

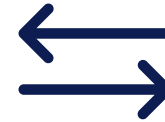
Key Features of Municipal Bonds



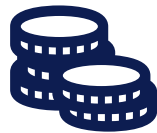
Taxable



Tax-Exempt



Refunding Bonds



New Money
Bonds



Maturity Length



Call
Provisions

Methods of Bond Sales

PUBLIC OFFERING

COMPETITIVE BOND SALE

- Issuer works with Financial Advisor, Bond Counsel and other Team members to structure bond issue and offering documents
- Issuer publishes “Notice of Sale” that includes financing structure and avails offering documents
- Closed bidding method
- Lowest/Winning bidding Underwriting Syndicate purchases bonds at offering price
- Winning syndicate/firm then sells bonds to the ultimate investors

NEGOTIATED BOND SALE

- Issuer selects underwriting syndicate to sell bonds
- Financial advisor coordinates and oversees transaction as fiduciary to issuer
- Underwriters have opportunity to market and pre-sell bonds in advance of award
- Timing, structure, and marketing of the bonds are more flexible than in a competitive sale and can be adjusted to meet investor demand

PRIVATE PLACEMENT

NEGOTIATED SALE

- Bonds are placed with private investor such as a commercial bank or “educated investor”
- Lower COI than Negotiated or Competitive since neither an OS nor Underwriting Syndicate are necessary. The investor performs own credit analysis, so also no rating agency
- Final maturities usually shorter than public offering structures that result in higher annual D/S

The Bond Issuance Process

Negotiated Bond Sale

Once a state or local government decides to finance a capital project by issuing bonds, it would hire a financing team to:



Underwriting Syndicate Process

Negotiated Bond Sale

Due diligence and documentation

- Review legal and financial documentation to ensure accuracy and compliance
- Assist with structure, rating, and/or credit enhancement process
- Preparation of the preliminary and final official statement or offering documents

Investor relations, sales, and marketing

- Communicate with potential investors
- Help build investor confidence and promote the bonds
- Marketing and distribution efforts - selling the bonds to investors
- Identify potential investors, promote the bonds, and generate interest

Pricing, allocation, unsold bonds

- Senior and Co-Managers collaborate to determine pricing and allocation
- Provide input on market conditions, investor demand, and pricing strategies
- Underwrite unsold bonds

Secondary market & competitive bond underwriting

- After bonds are issued, members may continue to provide support in the secondary market
- Assists with trading activities, liquidity support, and market-making
- Competitively bid on municipal bond offerings



When do we issue bonds?

Determining the timing and need for bonds

When do we issue bonds?

When an issuer has determined its capital project needs and when it needs funding it has multiple **planning** and **timing** considerations to keep in mind:

Economic Cycles	Budget Cycles	Refunding Timelines	Property Taxes	Special Revenues	Spend-Down Requirement
Market rates and macro economic indicators can influence timing of bond issuances	Finalized budgets can provide a roadmap for future bond issues and needs	Current refundings can be closed on within a 90-day window of call date	Timing of collections and payment of debt service	Timing of collections and payment of debt service	2-year construction spending exception* IRC Section 148(f)(4)(C)

Source: [Lesson Title \(irs.gov\)](#)



Where does the money come from?

Sources of Bond Debt Repayment

Sources of Bond Debt Repayment





Questions?



Thank You!

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