

2018 CIFA SRF Workshop

Basics of SRF Financing

Monday, November 5, 2018, 3:30 – 4:45 pm
Concurrent Sessions, Track 1

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Introduction to Panel Participants

- Scott Campbell – Executive Director, Ohio Water Development Authority
- Ryan Callender – Partner, Squire Patton Boggs (US) LLP
- Jessica Cameron – Managing Director, Public Financial Management, Inc.
- Tim Williams – Managing Director, RBC Capital Markets

SRF Issuer's Perspective

Leveraging Background

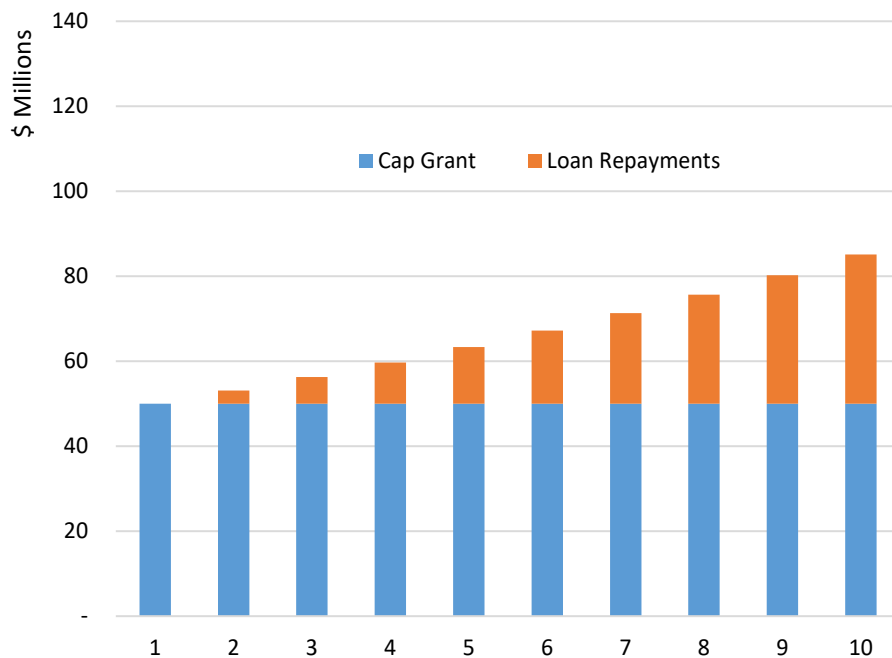
What Is Leveraging and Why

- Leveraging is the strategy of using borrowed money to finance assets
- SRF's use borrowed to money increase the growth of the program

When an SRF Chooses to Issue Bonds

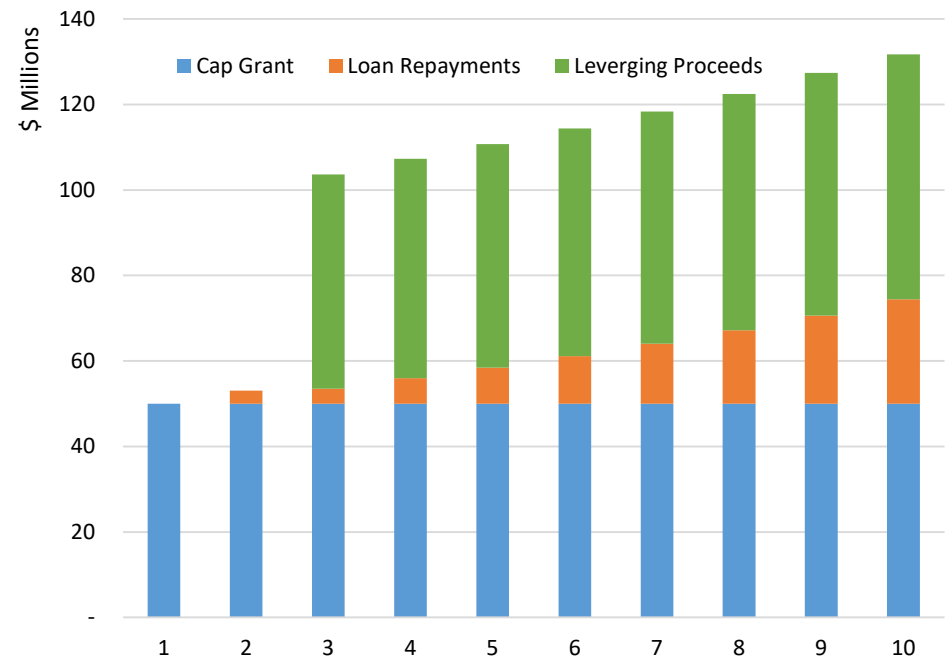
- Funding for specific projects
- Funding for anticipated program year volume

10 Year Loan Projection: Non-Leveraged



Total Loans: \$661,866,702

10 Year Loan Projection: Leveraged



Total Loans: \$1,038,971,223

Financing Process Overview

Bond Issuance Process Overview

- Hire outside parties
- Procurement Process
- Financial Advisor
- Bond Counsel
- Underwriters
 - Negotiated sale
 - Team
 - Senior Manager
 - Co-Managers
- Documents and approval process
- Sale and Closing

Financing Process Overview

OWDA's Evaluation of a Successful Financing

- Achieved funding goals
- Interest rate targets
- Future flexibility

Bond Counsel's
Perspective

Role of Bond Counsel

Bond Counsel Process Overview

- History – Defaults, Courts and Complexity
- Structuring Transaction, Daily Interactions
- Opinion on validity and enforceability, and tax-exempt status, if applicable
 - Existence
 - Authority (Dillon’s Rule/Home Rule)
 - Authorization (Procedure followed)
 - Debt limitations
 - Approved
 - Form of Bond

Transcript of Proceedings

- Basic Documents
 - General Certificate
 - Bond Legislation and Certificate of Award
 - Trust Agreement and Supplementals
 - Signature/No Litigation Certificate
 - Concluding Certificate
 - Tax Documentation (Form 8038-G)
 - Receipt for Payment
 - Official Statement
 - Bond Purchase Agreement
- Purpose of Transcript

Role of Bond Counsel

Federal Securities Law Issues

- Anti-Fraud Provisions (10b-5)
- Rule 15c2-12, Primary Offering Disclosure and Official Statements
- Rule 15c2-12, Continuing Disclosure and Annual Information Statements

Federal Tax Law Issues

- Reimbursement of Prior Expenditures
- TIPRA
- Qualified Tax-Exempt Obligation (QTEO)
- Private Payment/Private Security/Private Loan
- Arbitrage
- Rebate
- Penalties

Financial Advisor's
Perspective

Financial Advisor Overview

Role of Financial Advisor

- Fiduciary for the Issuer
- Provide advice and expertise that may not reside in house
- Sounding board
- Serve as adjunct staff

Ongoing Services

- Capacity Analysis
 - Ability to Lend
 - Sustainability/Perpetuity
 - Inform Decisions
- Recommend potential optimization opportunities
- Loan support
 - Loan rates
 - Review
 - Repayment requests
- EPA assistance
 - Extended term
 - Requests for programmatic changes
- Ongoing program support

Transaction Related

- Structuring recommendations
- Cash Flows and Sizing
- Rating agency interactions
 - Loan portfolios
 - Default tolerance analysis
 - Investment information
- Pricing advisor
 - Market timing
 - Information on comparable transactions and trades
 - Call features
 - Couponing

Investment Banking and
Underwriter's Perspective

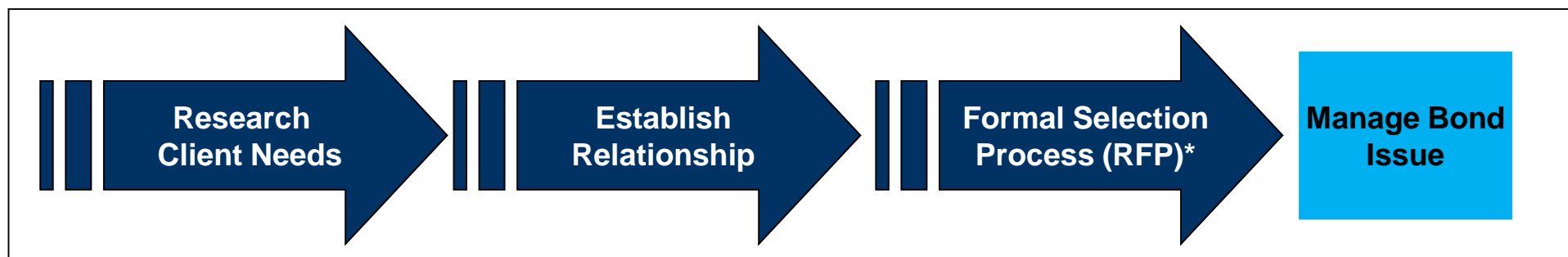
The Role of the Investment Banker vs. The Underwriter

What investment bankers do

- Create new bond issues
 - Structure new issue / assist in running bond cash flows
 - Manage the financing process
 - Market and build investor outreach plan for bond issue
- Service existing clients
 - Identify new money opportunities
 - Identify refunding opportunities
- Attract new clients
 - Research prospective clients
 - Establish and maintain relationships
 - Identify opportunities
 - Participate in formal RFP selection process

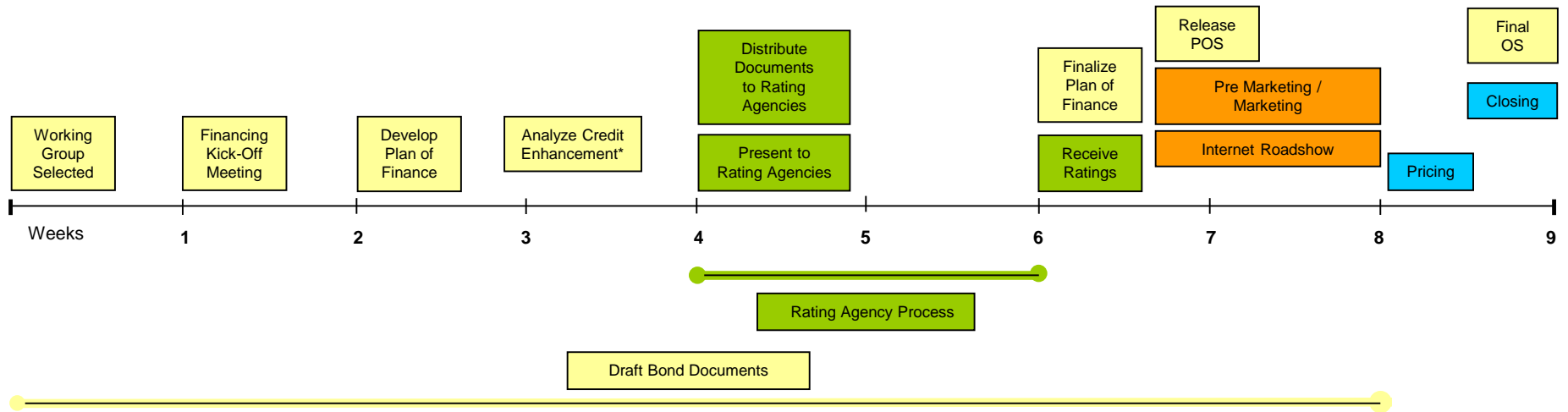
What underwriters do

- Price the security
 - Determine spreads to calculate various yields
 - Spreads reflect type of security, terms and features and credit quality
 - Collect price views from syndicate
- Build book of orders
 - Answer investor questions
 - Market transaction to institutional investors
- Determine final pricing levels
 - Using book subscription, set repricing levels
 - Balance interests between Investors and Issuer
 - Issuers want the lowest yields and Investors want to maximize yields that they receive
 - Receive the “Award” from Issuer to finalize pricing levels and allot bonds to investors



**Selection of underwriter normally administered through RFP process, although an issue may be given a project mandate after presenting a relevant opportunity or through consistent client coverage*

Sample Transaction Execution - Negotiated Sale



Key Financing Documents (Ongoing)	Rating Process (~ 2 weeks)	Pre Marketing / Marketing (~ 10 days)	Pricing / Closing (~ 1-2 weeks)
<ul style="list-style-type: none"> ▪ Bond Security Document (Indenture / Resolution) ▪ Preliminary Official Statement ▪ Bond Counsel Opinion ▪ Bond Purchase Agreement ▪ Due Diligence Process 	<ul style="list-style-type: none"> ▪ Submit documents for rating ▪ Rating agencies ask for 2 weeks to review documentation ▪ Presentation to rating agencies (if necessary) 	<ul style="list-style-type: none"> ▪ Distribute Preliminary Official Statement to investors ▪ Distribute internet roadshow presentation for investors ▪ Hold investor meetings/calls (if necessary) 	<ul style="list-style-type: none"> ▪ Market update call 3-4 days prior ▪ 1 to 2 days for pricing (retail / institutional) ▪ Approximately one to two weeks from pricing to closing ▪ Distribute Final Official Statement

* If applicable

Post-Pricing Logistics

- The Desk works on the Orders and Allotments (the Underwriting Team decides how much par of a particular maturity investors will receive)
 - Most issuers have rules regarding the percentage of par and the number of investors allotted per maturity
 - Issuers want to ensure their bonds end up with investors who want to hold the bonds, not turn and flip large amounts of the bonds into the secondary market
 - Also, issuers typically want to make sure that all the investors who are supporting their offerings receive allocations
- The Bond Purchase Agreement (BPA) is signed by the Issuer and Underwriter finalizing the par, yield, price, etc. of the deal (either the same day of, or the next day after, pricing)
- Once the BPA has been finalized and executed, the underwriting desk will begin to write tickets to these investors and the bonds will begin to trade
- Pre-Closing / Closing – execution of the remaining documents and the actual transfer/wiring of bond proceeds from the Bank to the Issuer's Trustee