



ICCCFO FALL CONFERENCE

Underwriting Spread and Costs of Issuance Analysis

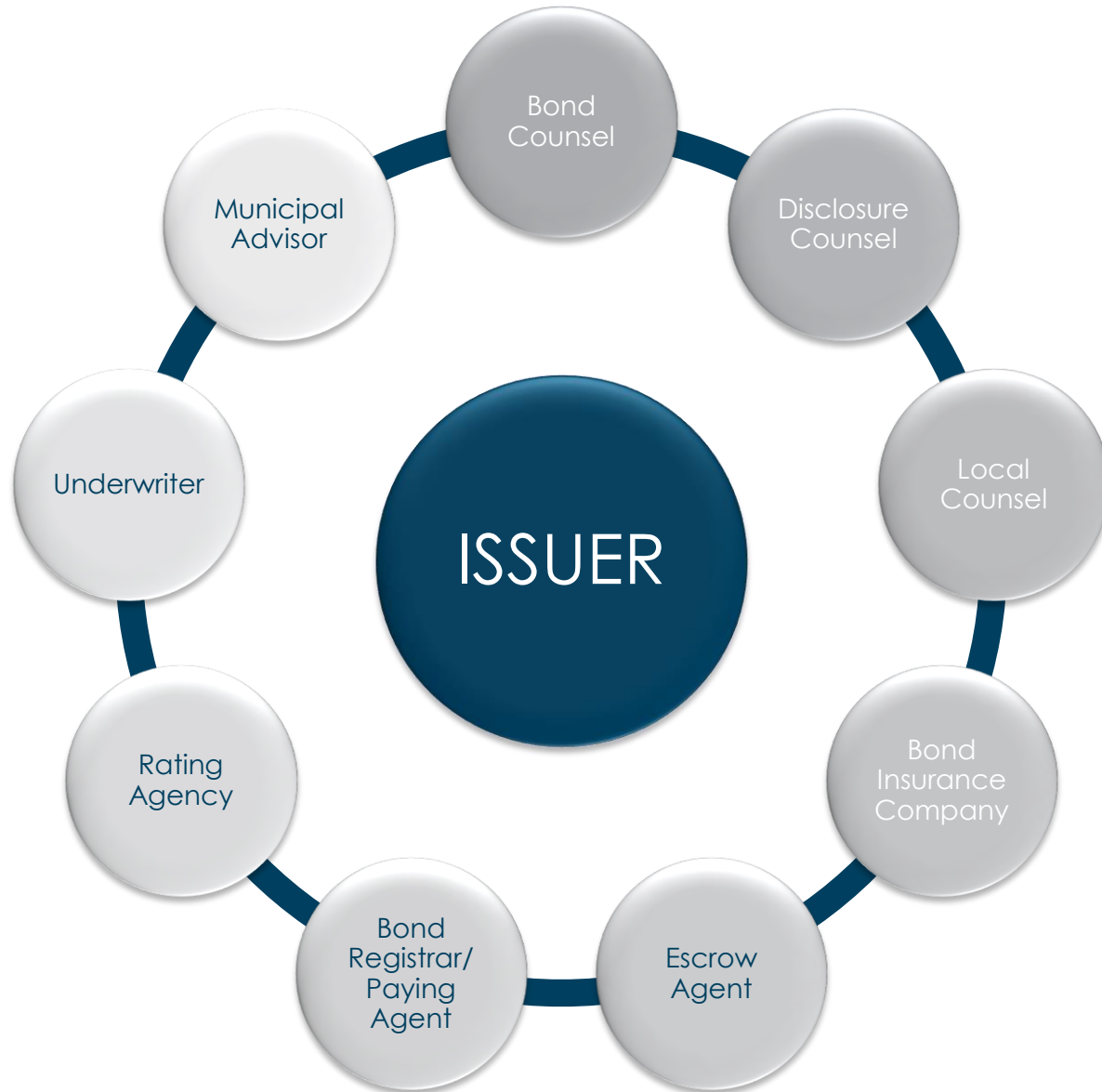
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- Community colleges need professionals with diverse skills in order to be able to raise money in the capital markets
- Distinct roles are played by community college officials and staff; underwriters, municipal advisors, lawyers (especially bond counsel), rating agencies, and others



A non-solicitor municipal advisor provides advice to a municipal entity regarding the issuance of securities or the use of municipal financial products.

A financial advisor is a municipal advisor providing advice with respect to the structure, timing and terms of an issuance of municipal securities.

MSRB Rule G-42 states that non-solicitor municipal advisors owe a fiduciary duty to municipal entity clients which consists of a duty of loyalty and a duty of care.

Duty of Care

- Possess the knowledge and expertise to provide informed advice
- Make a reasonable inquiry into the facts relevant to the client's decision to proceed or not proceed with a course of action
- Make a reasonable inquiry as to the facts that form the basis of any advice provided to the client
- Have a reasonable basis for any advice provided to the client

Duty of Loyalty

- Deal honestly and with the utmost good faith with the client
- Act in the client's best interests without regard to the interests of the municipal advisor
- Cannot act as municipal advisor to a client if the municipal advisor has conflicts of interest that cannot be managed or mitigated

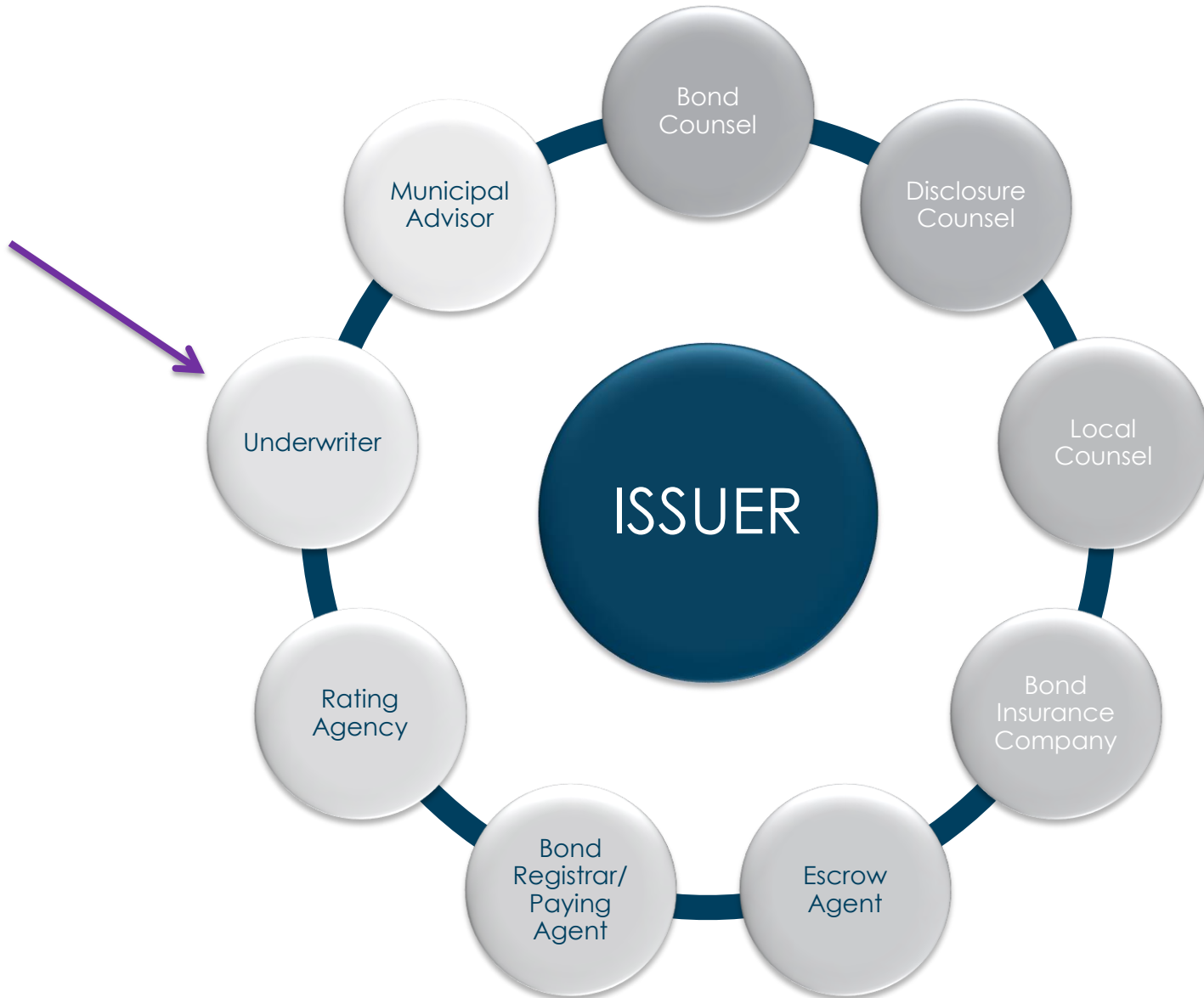
Primary duty of an underwriter is to purchase securities from an issuer for resale to investors in an arm's length transaction

No Fiduciary Duty

- Underwriters do not owe a fiduciary duty to municipal entities or obligors

Duty of Fair-Dealing

- The underwriter provides services to the issuer and the investor who have different interests in the outcome of the financing
- Accordingly, underwriters must deal fairly with all persons pursuant to MSRB Rule G-17



BOND SALE

DIRECT PLACEMENT

PUBLIC OFFERING

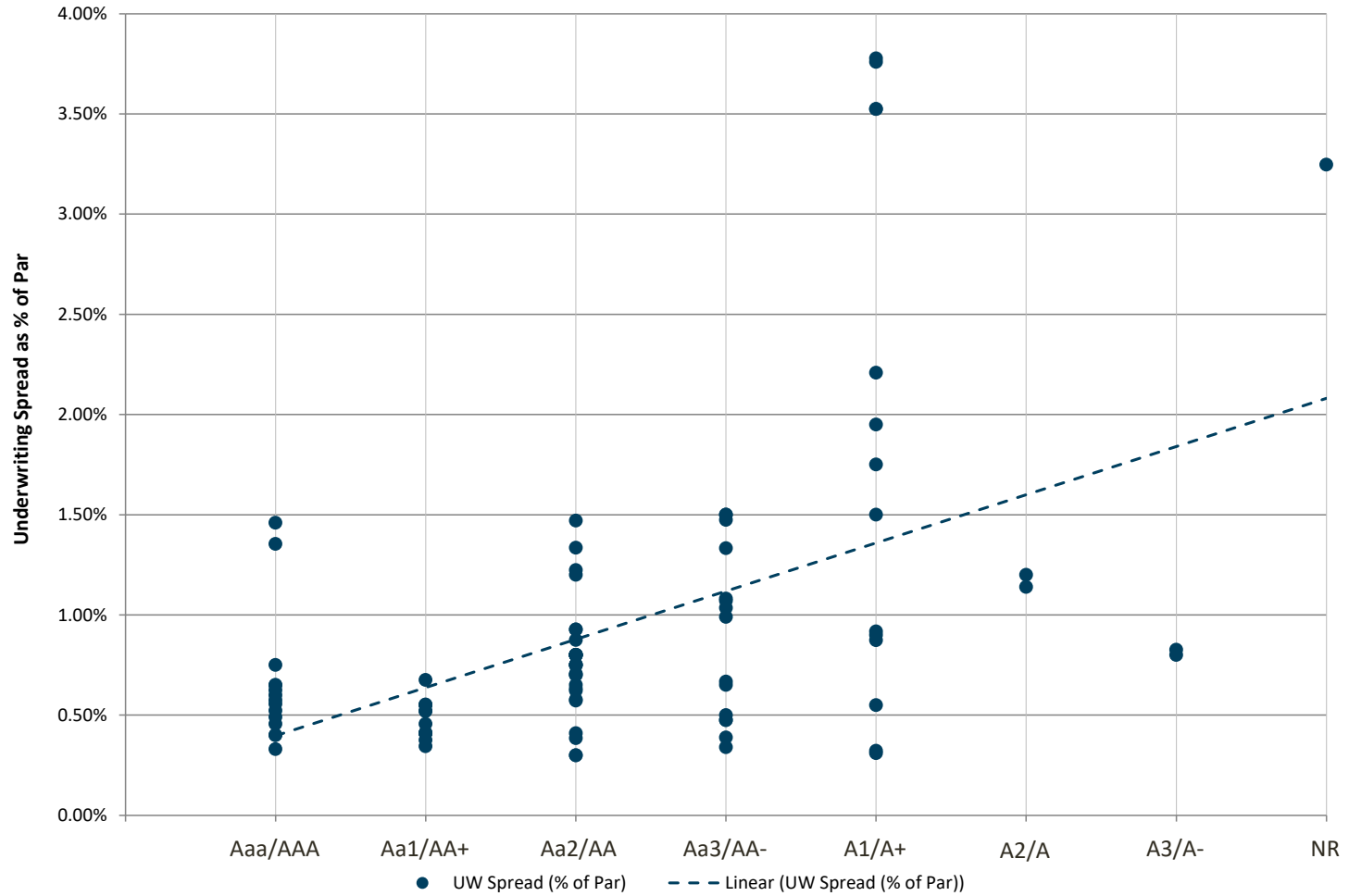
COMPETITIVE SALE

- The District engages a municipal advisor to manage the bond issuance process
- Underwriter selected via a competitive sale in which multiple bids may be received to purchase the bonds
- The bidder with the lowest true interest cost is selected and sells the bonds to investors

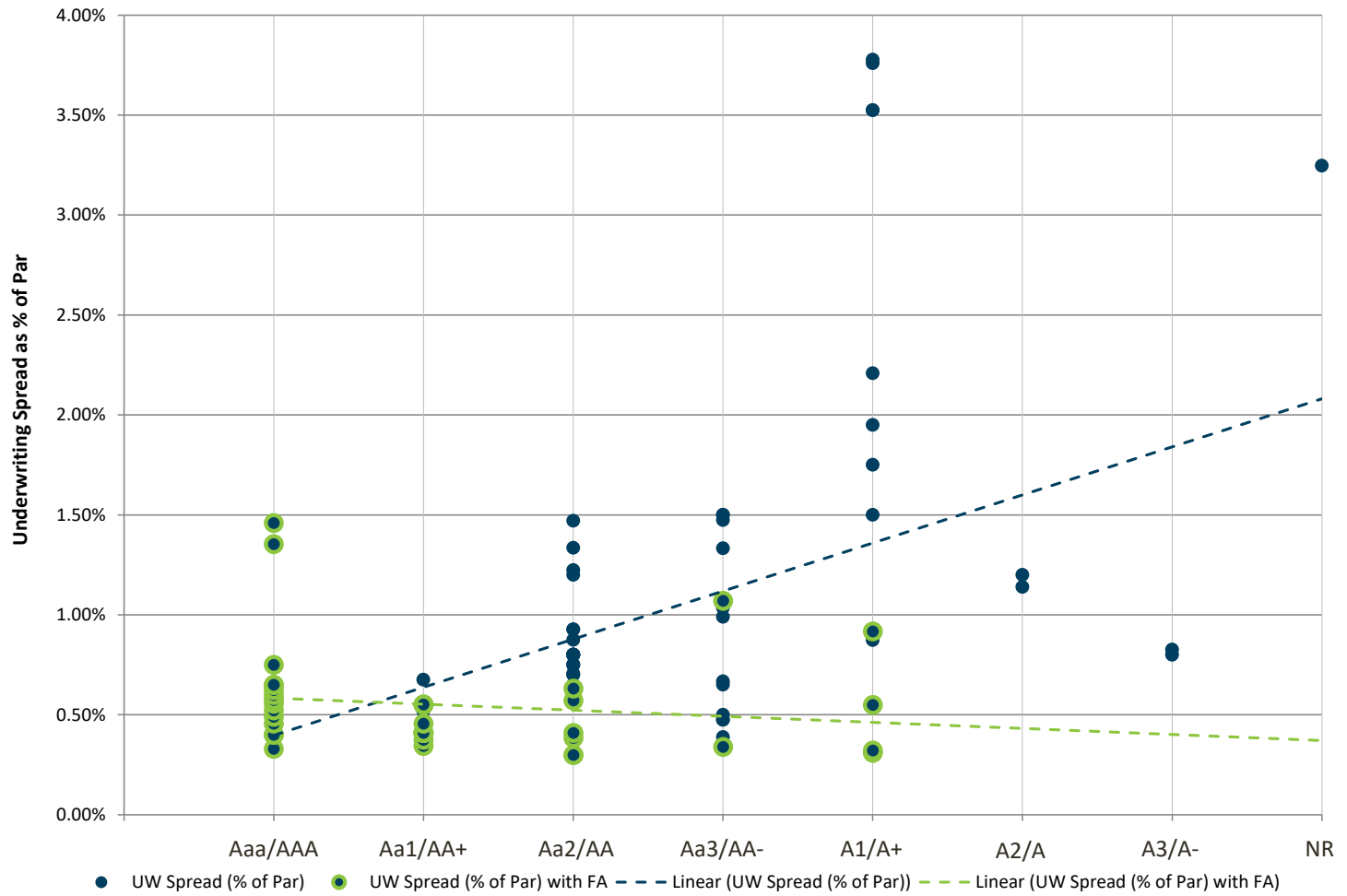
NEGOTIATED SALE

- The District preselects a broker-dealer as underwriter
- This firm sells the bonds to investors during a pricing period

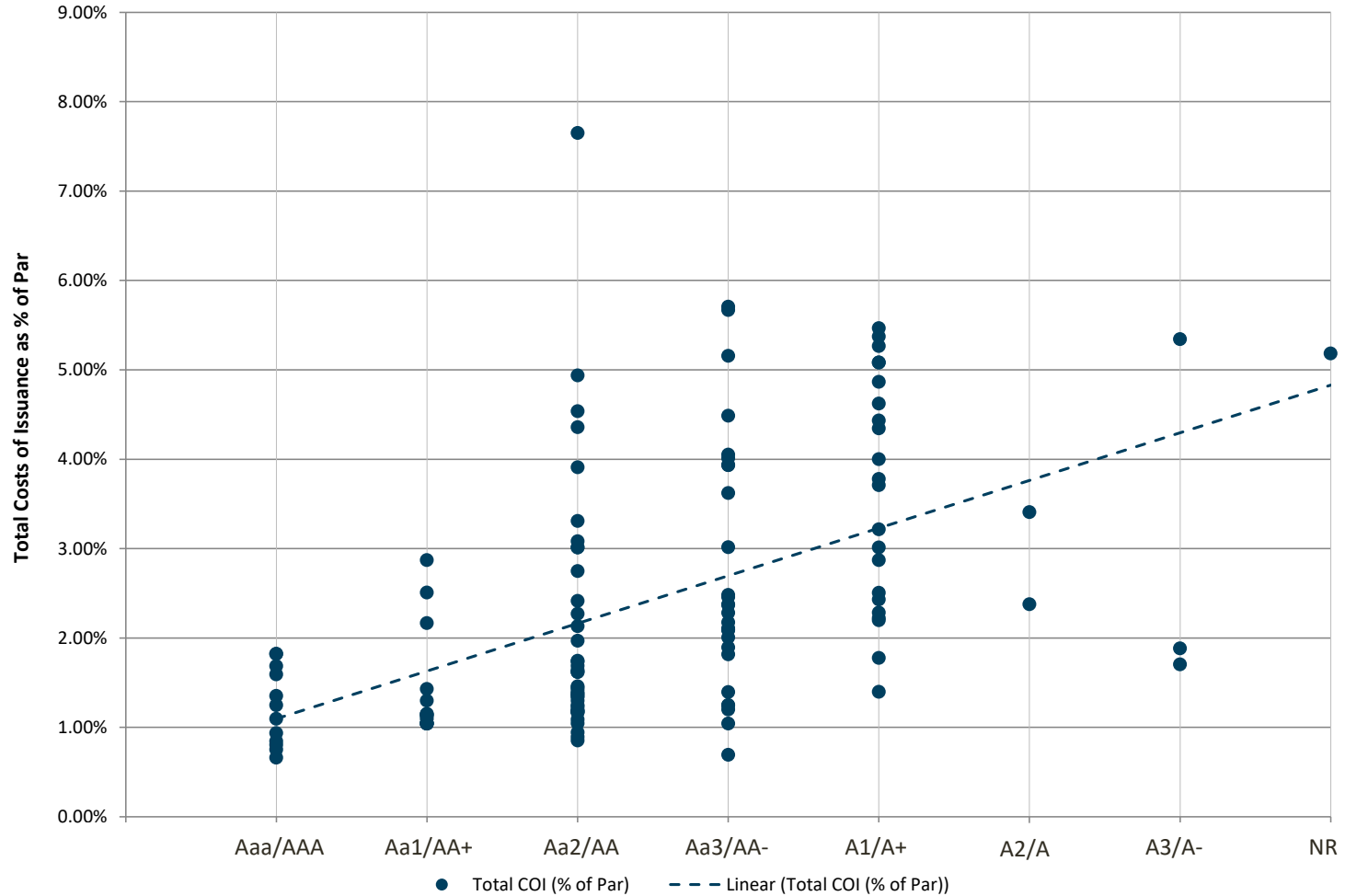
- PMA's public finance team was interested in determining whether there was a discernable difference in the fees paid by issuers for negotiated sales with a financial advisor (FA) involved versus without
- Using publicly available information on Bloomberg and www.emma.msrb.org, we recorded the underwriting spread and total costs of issuance data for Illinois community college bonds issued on a negotiated basis from 2009 through June 2019



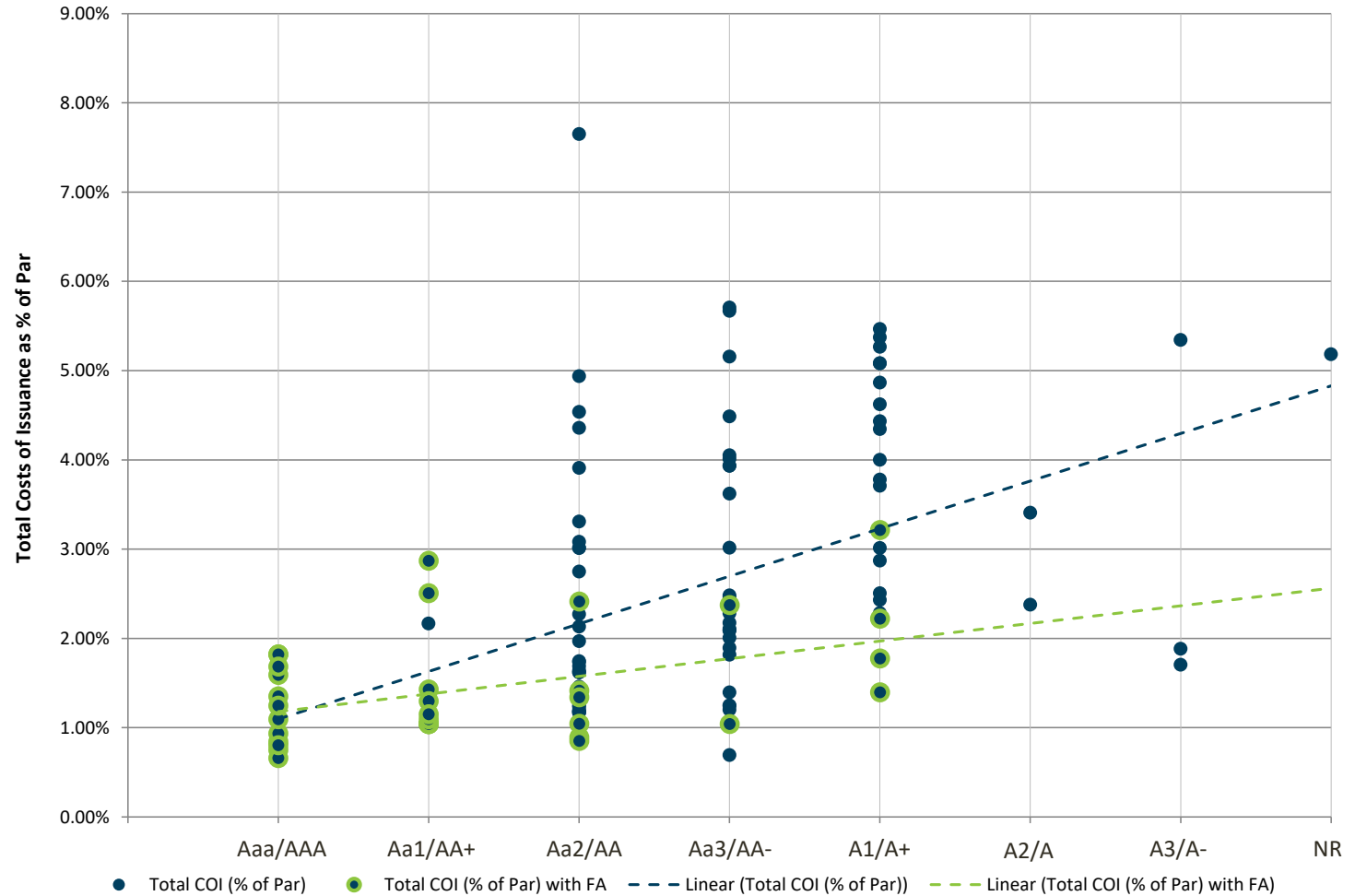
- The issues highlighted in green involved an FA



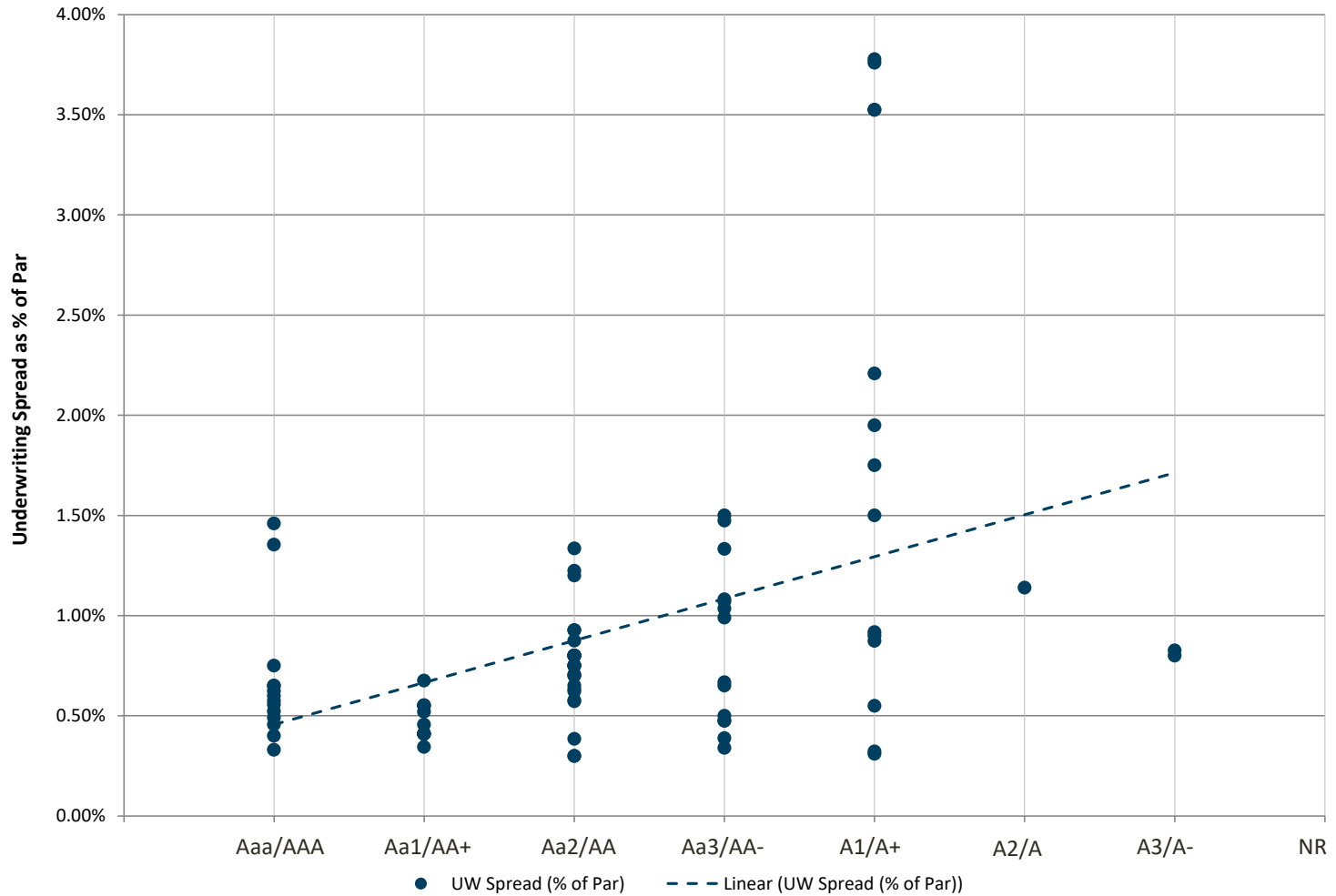
- Total costs of issuance includes underwriting spread

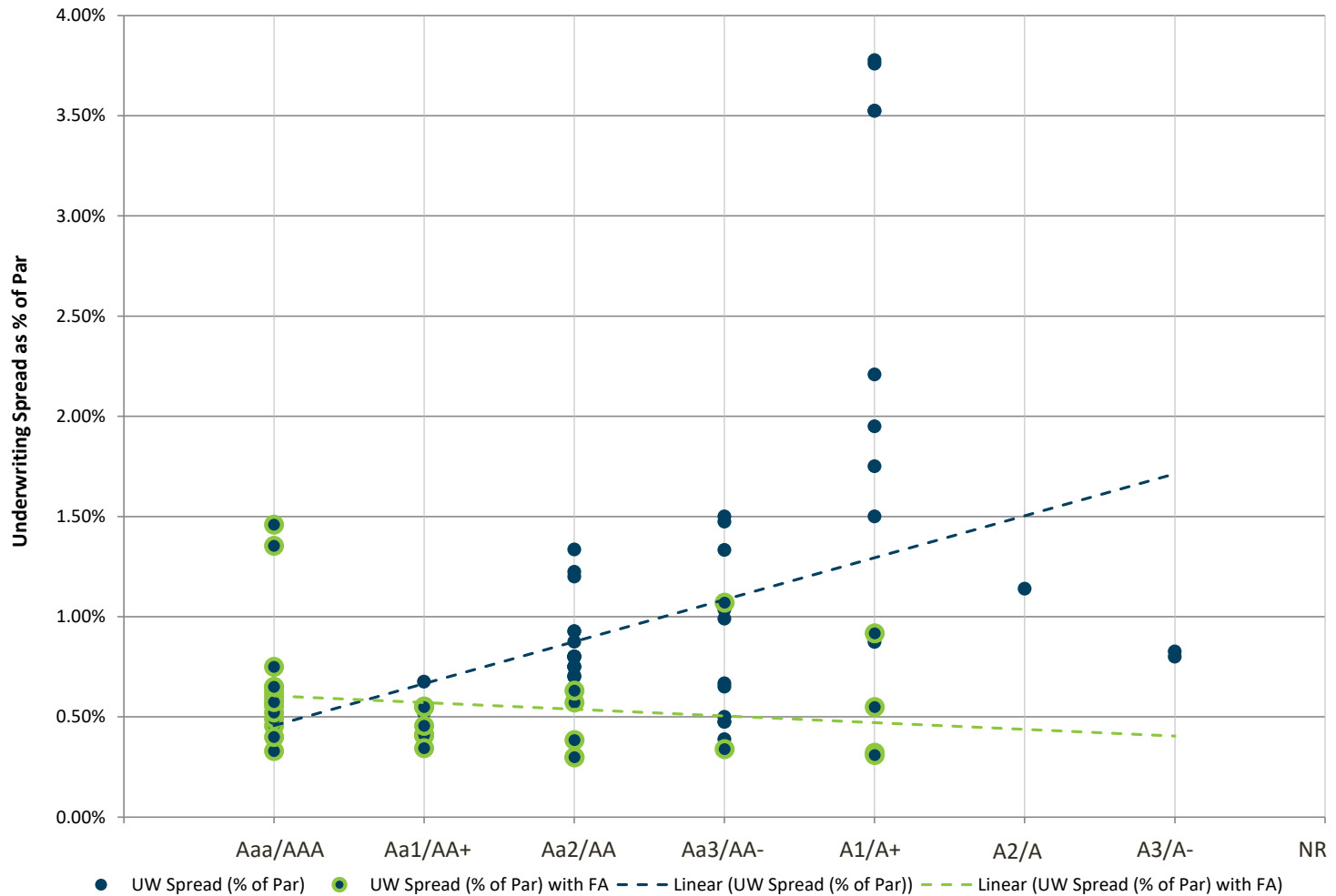


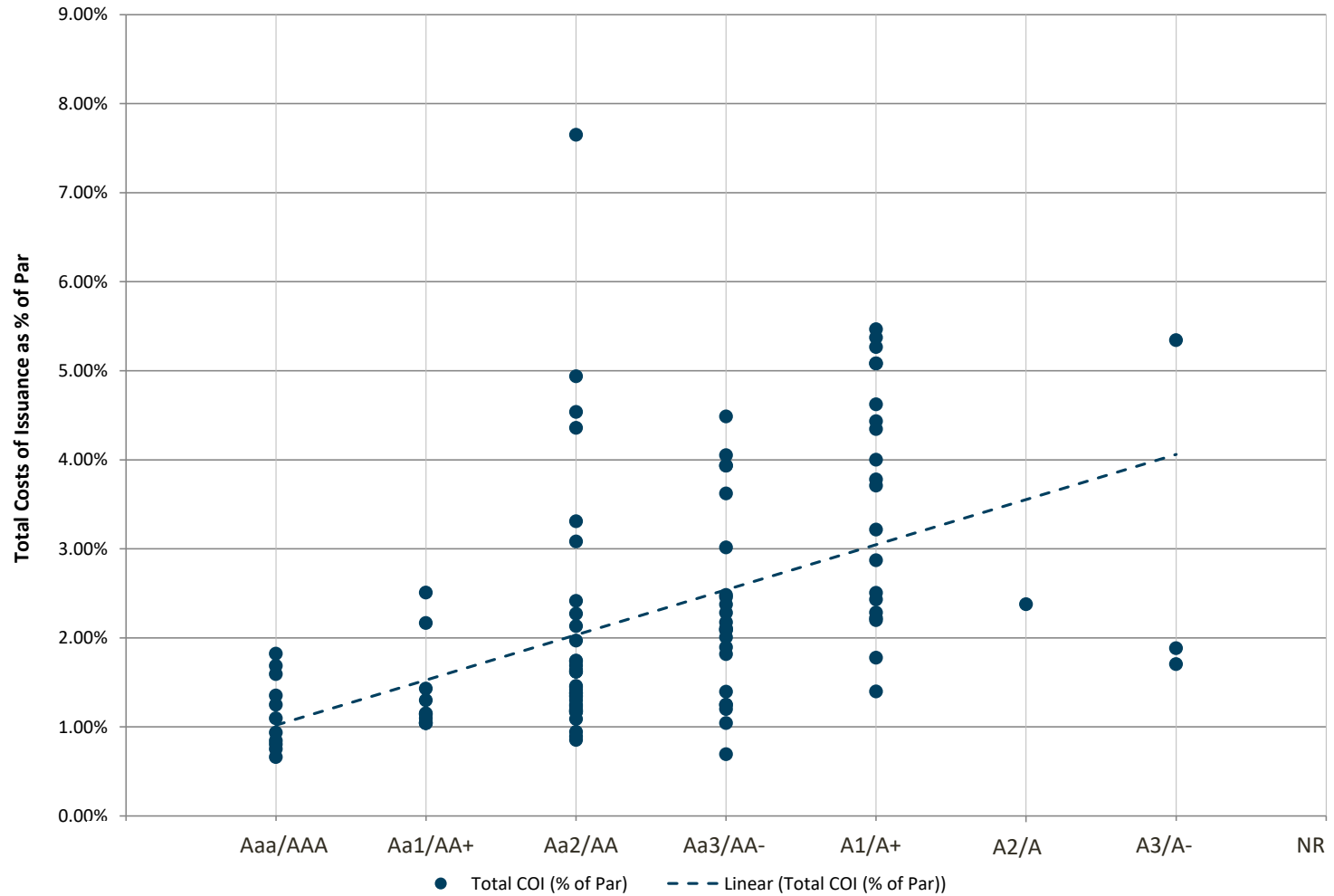
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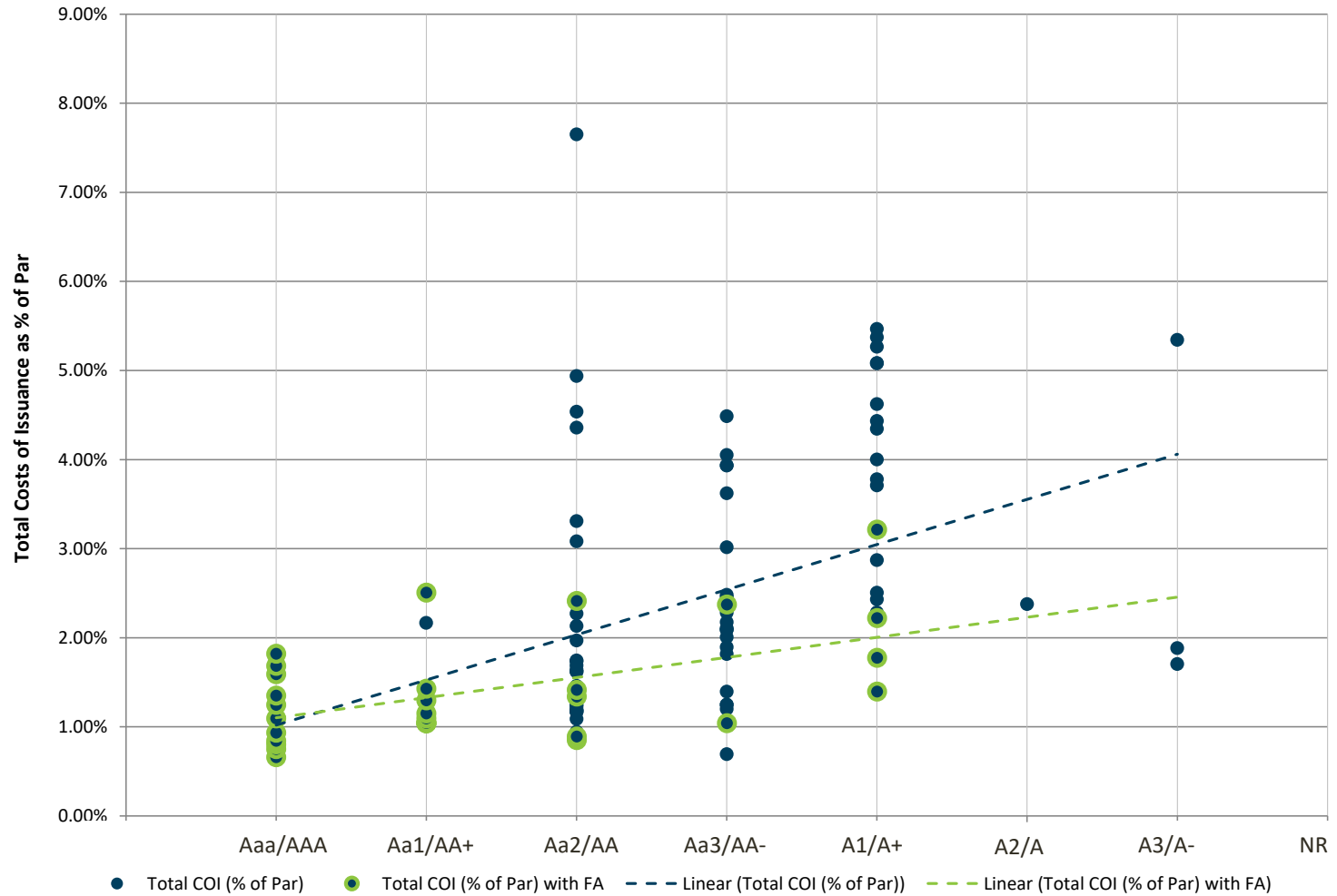


- PMA recognizes that the size of a bond issue can be a factor
 - Some amount of minimum fees are typically charged regardless of par amount, which may skew the data for particularly small issues
- We proceeded with analyzing transactions **over \$2 million in par**









- The Government Finance Officers Association (GFOA) recommends that, unless the issuer has sufficient in-house expertise and access to market information, **it should hire an outside municipal advisor prior to undertaking a negotiated debt financing in order to assist the government with evaluating proposals from underwriters, selecting the underwriter(s) for the transaction, and executing the bond sale**

<https://www.gfoa.org/selecting-and-managing-underwriters-negotiated-bond-sales>



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