ICC CFO 2007 Conference

“WHO IS YOUR ADVOCATE WHEN YOU ISSUE DEBT?”

PMA Securities, Inc.
September 19, 2007
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- Overview of a Negotiated Sale 3
Types of Sales

Tab 1
How does a municipal bond issuer get its bonds into the portfolio of municipal bond buyers?
Negotiated Sale

Client → The District → Pre-Selected Underwriter → Retail Buyers (Sales to Individuals) → Trust Companies → Banks → Bond Funds → Insurance Companies → Clients
Negotiated Sale Description

- Issuer has some control of bond distribution.
- The underwriter is more apt to do pre-sales for an issue it will buy, which may reduce market risk for the underwriter thereby lowering interest cost.
- Provides more flexibility for the District
  - Bond terms (e.g. maturity dates, call provisions, etc) can be changed shortly before or during the pricing period
  - Issuer does not have to schedule a specific time to enter the bond market
    - Volatile bond market
    - Market sensitive refunding
- Advantageous for bond issues with a complicated structure, and low or no ratings.
- Difficult for District to know if it received the best rate.
Standard Competitive Sale

Winning bidder determined by lowest cost.

The District

Bidding Underwriter Number One

Bidding Underwriter Number Two

Bidding Underwriter Number Three

Bidding Underwriter Number Four

Bidding Underwriter Number Five

Financial Advisor

Retail Buyers (Sales to Individuals)

Insurance Companies

Bond Funds

Banks

Trust Companies
Competitive Sale Description

- Sealed bid for the bonds submitted to the issuer at a specific time on a specific date.
- Bonds are awarded to the underwriter who offers to buy the bonds at the lowest interest cost.
- May receive better yields for the bonds provided the market is stable on the day of sale and many underwriters submit bids.
- Eliminates potential concern about the fairness of underwriter selection.
- More common for highly rated bond issue with generic structure and terms.
- Issuer does not control the fee of the winning bidder.
- Issuer does not exercise control over bond distribution.
- May be more costly due to the lack of presale feedback and flexibility.
Competitive or Negotiated?

**How they are the same**
- Both involve the same end-purchasers of the debt
- Both involve fees paid to investment banking companies
- Both transactions can be analyzed on a net interest cost basis
- Essentially the same paperwork and Board process

**How they are different**
- Control
  - Timing
  - Expenses
  - Distribution
- Flexibility to adjust to presale information
- Negotiated transaction may or may not involve a financial adviser
Overview of a Competitive Sale

Tab 2
Approach to a Competitive Sale

- The Financial Advisor works with the District to determine the best method of structuring, pricing and delivering the bonds to attract as many potential bidders as possible.

- During a competitive sale, the Financial Advisor should strive to provide the District with a broad group of underwriters from which bids may be solicited.

Open Bidding Process

- PMA works with the online bidding platform “MuniAuction.”
- Bidders are notified of the ranking of their bid (i.e. “Leader,” “Cover,” “3rd,” etc.) and have the opportunity to change and resubmit their bid as many times as they would like during the allotted time period.
- This process typically results in a lower interest cost than the issuer would have otherwise received.
## MuniAuction – Sample Bid Summary

**Observation**

<table>
<thead>
<tr>
<th>Auction Date</th>
<th>Type</th>
<th>Start</th>
<th>End</th>
<th>Last Update</th>
<th>Status</th>
<th>Current Bid Time</th>
<th>Status</th>
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</thead>
<tbody>
<tr>
<td>Tue., Aug 28, 2007</td>
<td>AON</td>
<td>10:45:00 am</td>
<td>11:01:02 am</td>
<td>11:01:16 am EDT</td>
<td>Over</td>
<td>11:01:02 am</td>
<td>Over</td>
</tr>
</tbody>
</table>

**Auction Closed At 11:01:02 am**

<table>
<thead>
<tr>
<th>Bidder</th>
<th>Firm</th>
<th>TIC</th>
<th>Time</th>
<th>Gross Interest</th>
<th>+ Discount/ (Premium)</th>
<th>Total Interest</th>
<th>Bid No.</th>
<th>Cumulative Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st VINI-JS‡</td>
<td>Vining Sparks</td>
<td>4.3782%</td>
<td>10:59:02 am</td>
<td>$7,918,183.75</td>
<td>(148,350.00)</td>
<td>$7,769,833.75</td>
<td>2</td>
<td>0.0126%</td>
</tr>
<tr>
<td>2nd HARR-CN‡</td>
<td>Harris N.A.</td>
<td>4.3866%</td>
<td>11:00:57 am</td>
<td>$7,918,183.75</td>
<td>(138,132.00)</td>
<td>$7,780,511.75</td>
<td>10</td>
<td>0.1624%</td>
</tr>
<tr>
<td>3rd PIPE-JC‡</td>
<td>Piper Jaffray</td>
<td>4.4537%</td>
<td>11:00:55 am</td>
<td>$8,051,878.85</td>
<td>(147,832.50)</td>
<td>$7,904,046.35</td>
<td>4</td>
<td>0.0074%</td>
</tr>
<tr>
<td>4th JPMO-AM‡</td>
<td>JP Morgan</td>
<td>4.4565%</td>
<td>11:00:31 am</td>
<td>$8,051,878.85</td>
<td>(144,386.04)</td>
<td>$7,907,492.81</td>
<td>3</td>
<td>0.0277%</td>
</tr>
<tr>
<td>5th GRIF-RB‡</td>
<td>Griffin</td>
<td>4.4784%</td>
<td>10:58:57 am</td>
<td>$8,074,736.49</td>
<td>(133,275.30)</td>
<td>$7,941,461.19</td>
<td>2</td>
<td>0.0039%</td>
</tr>
<tr>
<td>6th BOEN-CB‡</td>
<td>Boenning</td>
<td>4.4912%</td>
<td>10:59:58 am</td>
<td>$8,117,001.03</td>
<td>(146,912.20)</td>
<td>$7,970,088.83</td>
<td>10</td>
<td>0.0272%</td>
</tr>
<tr>
<td>7th PNCC-SC‡</td>
<td>PNC Capital</td>
<td>4.5131%</td>
<td>11:00:04 am</td>
<td>$8,138,133.30</td>
<td>(135,006.90)</td>
<td>$8,003,126.40</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>8th SUNT-DS‡</td>
<td>SunTrust</td>
<td>4.7664%</td>
<td>10:57:55 am</td>
<td>$8,578,032.40</td>
<td>(128,570.00)</td>
<td>$8,449,462.40</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

*Preliminary, subject to change
‡ Bidder specified Insurance, see individual bidder page for details.
## MuniAuction – Sample Bid Summary

### Observation

<table>
<thead>
<tr>
<th>Auction Date</th>
<th>Type</th>
<th>Start</th>
<th>End</th>
<th>Last Update</th>
<th>Status</th>
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<td>11:03:09 am EDT</td>
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Auction Closed At 11:03:00 am

### Bid Details

<table>
<thead>
<tr>
<th>Bidder</th>
<th>Firm</th>
<th>TIC</th>
<th>Time</th>
<th>Gross Interest</th>
<th>+ Discount/ (Premium)</th>
<th>Total Interest</th>
<th>Bid No.</th>
<th>Cumulative Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>MERR-AM†</td>
<td>4.6491%</td>
<td>11:01:00 am</td>
<td>$53,889,787.36</td>
<td>(1,928,390.60)</td>
<td>$51,961,396.76</td>
<td>5</td>
<td>0.0171%</td>
</tr>
<tr>
<td>2nd</td>
<td>PIPB-DD†</td>
<td>4.6494%</td>
<td>11:00:34 am</td>
<td>$53,978,896.49</td>
<td>(2,011,643.25)</td>
<td>$51,967,253.24</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>3rd</td>
<td>CITI-ST†</td>
<td>4.6536%</td>
<td>11:00:06 am</td>
<td>$54,066,702.64</td>
<td>(2,029,595.05)</td>
<td>$52,037,107.59</td>
<td>2</td>
<td>0.0011%</td>
</tr>
<tr>
<td>4th</td>
<td>RAYM-PH†</td>
<td>4.6593%</td>
<td>11:00:00 am</td>
<td>$54,180,746.56</td>
<td>(2,069,198.90)</td>
<td>$52,111,547.66</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>5th</td>
<td>JPMO-AM†</td>
<td>4.6653%</td>
<td>10:58:38 am</td>
<td>$54,090,394.24</td>
<td>(1,956,699.20)</td>
<td>$52,133,695.04</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>6th</td>
<td>BANC-JE†</td>
<td>4.6662%</td>
<td>11:02:35 am</td>
<td>$53,978,245.00</td>
<td>(1,863,070.30)</td>
<td>$52,115,174.70</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>7th</td>
<td>FIRS-CK†</td>
<td>4.6677%</td>
<td>10:59:43 am</td>
<td>$54,294,790.49</td>
<td>(2,087,930.68)</td>
<td>$52,206,859.81</td>
<td>2</td>
<td>0.0014%</td>
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<tr>
<td>8th</td>
<td>ABNA-JS†</td>
<td>4.6678%</td>
<td>10:59:27 am</td>
<td>$53,990,090.80</td>
<td>(1,859,414.00)</td>
<td>$52,130,676.80</td>
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<tr>
<td>9th</td>
<td>WILL-PG†</td>
<td>4.6726%</td>
<td>11:00:02 am</td>
<td>$54,045,534.54</td>
<td>(1,864,699.70)</td>
<td>$52,180,834.84</td>
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<td>-</td>
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<tr>
<td>10th</td>
<td>MORG-CD†</td>
<td>4.6856%</td>
<td>11:00:36 am</td>
<td>$54,459,859.97</td>
<td>(2,074,742.46)</td>
<td>$52,385,117.51</td>
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<td>-</td>
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<tr>
<td>11th</td>
<td>WACH-FF†</td>
<td>4.7180%</td>
<td>11:00:44 am</td>
<td>$54,820,798.00</td>
<td>(2,098,762.38)</td>
<td>$52,722,035.62</td>
<td>1</td>
<td>-</td>
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</tbody>
</table>

† Bidder specified Insurance, see individual bidder page for details.
MuniAuction – Sample Bid Form

<table>
<thead>
<tr>
<th>Due</th>
<th>Principal Amount</th>
<th>Serial/ Sinker/ Term</th>
<th>Coupon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1, 2018</td>
<td>$910,000</td>
<td>Serial</td>
<td>4.250%</td>
</tr>
<tr>
<td>Jan 1, 2019</td>
<td>$6,200,000</td>
<td>Serial</td>
<td>4.250%</td>
</tr>
<tr>
<td>Jan 1, 2020</td>
<td>$6,525,000</td>
<td>Serial</td>
<td>4.500%</td>
</tr>
<tr>
<td>Jan 1, 2021</td>
<td>$6,870,000</td>
<td>Serial</td>
<td>5.000%</td>
</tr>
<tr>
<td>Jan 1, 2022</td>
<td>$7,230,000</td>
<td>Serial</td>
<td>5.000%</td>
</tr>
<tr>
<td>Jan 1, 2023</td>
<td>$7,610,000</td>
<td>Serial</td>
<td>5.000%</td>
</tr>
<tr>
<td>Jan 1, 2024</td>
<td>$8,010,000</td>
<td>Serial</td>
<td>5.000%</td>
</tr>
<tr>
<td>Jan 1, 2025</td>
<td>$8,430,000</td>
<td>Serial</td>
<td>5.000%</td>
</tr>
<tr>
<td>Jan 1, 2026</td>
<td>$8,875,000</td>
<td>Serial</td>
<td>5.000%</td>
</tr>
<tr>
<td>Jan 1, 2027</td>
<td>$9,340,000</td>
<td>Serial</td>
<td>5.000%</td>
</tr>
</tbody>
</table>

**Purchase Price:** $71,928,390.60  
**Insurance:** FSA for All maturities.

| MuniAuction Interest Cost Calculations (for informational purposes only) |
|-----------------------------|---------------------|
| Gross Interest              | $53,889,787.36       |
| Plus Discount/Less Premium  | (1,928,390.60)       |
| Total Interest Cost         | $51,961,396.76       |
| True Interest Rate          | 4.6491%              |
Overview of a Negotiated Sale

Tab 3
Negotiated Sale with Financial Advisor

The District

Financial Advisor

Syndicate Underwriter Number One

Retail

Trust Accounts

Insurance Companies

Intermediate Bond Funds

Investment Advisors

Syndicate Underwriter Number Two

Long-Term Bond Funds

Insurance Companies

Trust Accounts

Syndicate Underwriter Number Three

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Integrity  Commitment  Performance
Negotiated Sale Description

- The Financial Advisor is the District’s advocate

- On a $10 million, 20 year level debt service financing, a one basis point (0.01%) difference translates to $7,600.

- Engaging a financial advisor on a negotiated sale helps to ensure that you receive fair yields for your bonds and pay a fair fee to your underwriter.
What the Costs Might Be Like?

- **Negotiated Sale**
  - Underwriters Expense
    - Management Fee
    - Underwriter Fee/Floor Sales Fee
      - BOTH FEES ARE CONTAINED IN ONE FEE PRICE
      - Typically in Illinois - $3.00 to $20.00 per $1,000 of bonds
        - $25,000,000 * $3.00 per bond = $75,000
        - $25,000,000 * $10.00 per bond = $250,000
        - $25,000,000 * $20.00 per bond = $500,000
  
- **Competitive Sale**
  - Underwriters Expense / Floor Sales Fee
    - Typically across the US - $3.00 - $4.00 per bond
  - FA Fee
    - Typically in Illinois - $1.00 to $1.50 per bond
      - $25,000,000 * $4.00 per bond = $100,000 (between both)
      - $25,000,000 * $4.50 per bond = $112,500 (between both)
MORAL OF THE STORY

- In all circumstances, ask your financial professional for a complete list of expenses prior to saying “yes”.

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