ICCCFO FALL CONFERENCE

Underwriting Spread and Costs of Issuance Analysis

TAMMIE BECKWITH SCHALLMO
SENIOR VICE PRESIDENT/MANAGING DIRECTOR

STEVE ADAMS
DIRECTOR, PUBLIC FINANCE

PMA SECURITIES, LLC

October 17, 2019
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.
PARTICIPANTS ON A BOND TRANSACTION

- Issuer
- Bond Counsel
- Disclosure Counsel
- Local Counsel
- Bond Insurance Company
- Escrow Agent
- Bond Registrar/Paying Agent
- Rating Agency
- Underwriter
- Municipal Advisor
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
Underwriters do not owe a fiduciary duty to municipal entities or obligors

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
PARTICIPANTS ON A BOND TRANSACTION

ISSUER

- Bond Counsel
- Disclosure Counsel
- Local Counsel
- Bond Insurance Company
- Escrow Agent
- Bond Registrar/Paying Agent
- Rating Agency
- Underwriter
- Municipal Advisor
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.

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
- The issues highlighted in green involved an FA
• 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
### Underwriting Spread as % of Par

<table>
<thead>
<tr>
<th>UW Spread (% of Par)</th>
<th>UW Spread (% of Par) with FA</th>
<th>Linear (UW Spread (% of Par))</th>
<th>Linear (UW Spread (% of Par) with FA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa/AAA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aa1/AA+</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aa2/AA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aa3/AA–</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1/A+</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A2/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A3/A–</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NR</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NEGOTIATED IL COMMUNITY COLLEGE ISSUES > $2 MILLION
TOTAL COSTS OF ISSUANCE AS A % OF PAR

Aaa/AAA
Aa1/AA+
Aa2/AA
Aa3/AA-
A1/A+
A2/A
A3/A-
NR

Total COI (% of Par)
Linear (Total COI (% of Par))
NEGOTIATED IL COMMUNITY COLLEGE ISSUES > $2 MILLION
TOTAL COSTS OF ISSUANCE AS A % OF PAR

Total Costs of Issuance as % of Par

Total COI for Negotiated CC Issues with Par >$2mm

Total COI (% of Par)

Total COI (% of Par) with FA

Linear (Total COI (% of Par))

Linear (Total COI (% of Par) with FA)

Aaa/AAA
Aa1/AA+
Aa2/AA
Aa3/AA-
A1/A+
A2/A
A3/A-
NR

Total COI (% of Par)

Total COI (% of Par) with FA

Linear (Total COI (% of Par))

Linear (Total COI (% of Par) with FA)
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.

This presentation has been prepared by PMA Securities, LLC for informational and educational purposes to units of local government without regard to any particular entity’s investment objectives, financial situation or means. The content of this presentation is not to be construed as a recommendation, solicitation or offer to engage in an issuance, or to buy or sell any security, financial product or instrument, or to participate in any particular trading strategy in any jurisdiction in which such an offer or solicitation, or trading strategy would be illegal. Nor does it constitute any legal, tax, accounting or investment advice of services regarding the suitability or profitability of any security or investment. PMA and its employees do not offer tax or legal advice and any entity should consult with its own tax and/or legal advisors before making any tax or legal related investment decisions.

Although the information contained in this presentation has been obtained from third-party sources believed to be reliable, PMA cannot guarantee the accuracy or completeness of such information. It is understood that PMA is not responsible for any errors or omissions in the content in this document and the information is being provided to you on an “as is” basis without warranties or representations of any kind. The analysis or information presented in this presentation is based upon current market conditions which are subject to change. There is no guarantee that the projected yield will be realized and the actual yield will depend on the available investment product and market conditions at the time of investment.

This presentation is solely intended to suggest/discuss potentially applicable financing applications or investment strategies. Any terms discussed herein are preliminary until confirmed in a definitive written agreement. Although market value, market analytics and other information contained in this presentation have been obtained from third-party sources believed to be reliable, PMA cannot guarantee the accuracy or completeness of such information. No representation is made that any results indicated herein will be achieved. Changes to any prices, levels, or assumptions contained herein may have a material impact on results. Any estimates or assumptions contained herein represent our best judgment as of the date indicated and are subject to change without notice. Examples are merely representative and are not meant to be all-inclusive. All investments mentioned herein may have varying levels of risk, and may not be suitable for every investor. Investment in securities involves risks, including the possible loss of the amount invested. In addition, past performance is no indication of future results and the price or value of investments may fluctuate. Asset allocation does not assure or guarantee better performance and cannot eliminate the risk of investment losses.

Securities, public finance services and institutional and municipal advisory brokerage services are offered through PMA Securities, LLC. PMA Securities, LLC is a broker-dealer and municipal advisor registered with the SEC and MSRB, and is a member of FINRA and SIPC. Prudent Man Advisors, LLC, an SEC registered investment adviser, provides investment advisory services to local government investment pools and separate accounts. All other products and services are provided by PMA Financial Network, LLC. PMA Financial Network, LLC, PMA Securities, LLC, and Prudent Man Advisors, LLC (collectively “PMA”) are under common ownership.