Navigating High Inflation – Part II
Today’s Discussion Topics

- Bond Market Update
- Method of Sale Trends
Bond Market Update
The Municipal Market Data (MMD) Index is a daily index of AAA-rated municipal bond rates. Issuers’ bond yields are priced relative to the MMD. The relative difference is called the “spread” to the MMD. The spread varies due to the following:

- Credit rating
- Bank qualification
- Length of maturity
- Coupon or interest rates
Variables that Impact the Municipal Bond Market

- FED Reserve Policy Fed Funds Rate
- Global Political Events - Ukraine
- Inflation Expectations
- Health of National, State and Local Economies
- State of Illinois Political Challenges
- Bank Qualification
- Municipal Bond Supply and Demand
- Europe
- Chicago's Fiscal Challenges
- Municipal Bankruptcies (e.g. Detroit, Puerto Rico)
- Credit Ratings of State and Local Governments
- Level of Federal and State Income Taxes
The Municipal Market Data (MMD) is a AAA municipal bond market index produced by TM3. As of October 4, 2022.

Between January 3, 2022 and April 11, 2022, rates in the MMD increased as follows:
- 5-year: 1.53%
- 10-year: 1.31%
- 20-year: 1.26%

Since April 11, 2022, rates in the MMD have increased as follows:
- 5-year: 0.92%
- 10-year: 0.84%
- 20-year: 1.01%

*The Municipal Market Data “MMD” is a AAA municipal bond market index produced by TM3. As of October 4, 2022.
Dispersion of Historical Interest Rates by Range*

As of October 4, 2022, since January 1, 1990, the 10-year MMD has been lower 39% of the time.

On April 11, 2022, the 10-year MMD had been lower 25% of the time.

In February 2022 the 10-year MMD had been lower 6% of the time.

*The Municipal Market Data “MMD” is a AAA municipal bond market index produced by TM3. As of October 4, 2022.
Municipal Bond Fund Flows Through September 2022

Source: Investment Company Institute
Method of Sale Trends
Sale Type

**PUBLIC OFFERING**
- The Issuer and financial advisor prepare an official statement.
- Underwriter that will resell the bonds to investors is selected via a competitive or negotiated sale.
- Issuer obtains a bond rating.
- Requires disclosure counsel to review the official statement.
- Will likely have a lower interest rate, but will have higher costs of issuance.

**DIRECT PLACEMENT**
- No official statement, rating, underwriter or disclosure counsel is required.
- A term sheet is sent out to banks and other local units of government that will provide a proposal to purchase the bonds directly.
- The interest rate is typically higher than a public offering but may result in a lower overall financing cost since some costs of issuance are avoided.
- This process has typically proven to be effective for relatively smaller bond issues paid off with a shorter amortization.
Types of Public Offerings

**NEGOTIATED SALE**
- The Issuer preselects a broker-dealer as underwriter
- This firm sells the bonds to investors

**COMPETITIVE SALE**
- The Issuer engages a municipal advisor to manage the bond issuance process
- Underwriter selected via a competitive sale in which multiple bids are received to purchase the bonds
- The winning bidder sells the bonds to investors
- The bidder with the lowest true interest cost is selected
Choosing the Method of Sale

**A competitive sale is appropriate when:**

- Issuer has a strong underlying credit rating at least in the “A” category
- General obligation bonds or full faith obligations (e.g., alternate revenue bonds or debt certificates)
- Structure does not include special features that would require extensive explanation to the market
- Issuer is frequently in the market and/or issue size is conducive to attracting investors

**A negotiated sale is appropriate when:**

- Issuer has a credit rating lower than “A”
- Bond insurance is unavailable
- Debt structure is complicated
- Issuer wants input in how bonds are allocated among underwriting firms and/or the types of investors to be reached
- Other factors exist that the issuer, in consultation with its municipal advisor, believes favor the use of a negotiated sale process

Source: Selecting and Managing the Method of Sale of Bonds (February 2014), Government Finance Officers Association (Best Practice).
Illinois Community College Bond Issues
Method of Sale 2020, 2021 and 2022 YTD
Illinois Community College Bond Issues
Negotiated Sales With and Without a Financial Advisor

Number of Issues

- Negotiated with FA
- Negotiated without FA

2020: 3
2021: 2
2022 (Jan-Jun): 1
Illinois Community College Transactions with PMA as Financial Advisor

Method of Sale in 2020, 2021 and 2022 YTD

- **2020:**
  - Competitive: 29%
  - Negotiated: 18%
  - Placement: 53%

- **2021:**
  - Competitive: 44%
  - Negotiated: 56%
  - Placement: 50%

- **2022 (Jan-Sep):**
  - Competitive: 10%
  - Negotiated: 44%
  - Placement: 40%
Homewood Flossmoor 233  
General Obligation Limited Tax School Bonds, Series 2022A  
Indication Summary - June 9, 2022

<table>
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<tr>
<th>Option</th>
<th>Type of Sale</th>
<th>Total Est. Proceeds</th>
<th>Indicative Rate % (TIC)</th>
<th>Total Est. Debt Service</th>
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<tr>
<td>Option A</td>
<td>Public Offering</td>
<td>$20,000,000</td>
<td>3.88%</td>
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<td>Option B</td>
<td>Placement with Bank 1</td>
<td>$19,790,000</td>
<td>2.80%</td>
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<td>Option C</td>
<td>Placement with Bank 2</td>
<td>$20,000,000</td>
<td>3.42%</td>
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Bank Placements

- Bank Placements have been successful for numerous community colleges over the last several years
- They continue to be particularly attractive for shorter transactions
- Evolving market conditions and inflationary pressures will influence the placement market and the municipal bond market as a whole
- Illinois community colleges should continue to be nimble and flexible with the method of sale for its municipal securities
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