

# Bond/Warrant Issuance 101 and Public Finance Market Updates



**PRESENTED BY:**



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# 1. The Frazer Lanier Company

The Frazer Lanier Company is an investment banking firm. With over 250 years of combined experience and an outstanding record, the company clearly demonstrates that there is strength in numbers.

Our firm is dedicated primarily to municipal finance. Since 1976, our company has served as an investment banker to cities, counties, states, local boards and agencies throughout the State. During calendar year 2019 and 2020, our firm ranked #1 in Alabama underwritings according to Thompson Reuters.

Our main office is located at 300 Water Street, Montgomery, Alabama. We also have bankers strategically located in Birmingham, Florence, Tuscaloosa and Mobile.

Jason Grubbs (Birmingham)

Johnny Dill (Florence)

Lee Garrison (Tuscaloosa)

Lance Hyche (Birmingham)

David Langham (Mobile)

John Mazyck (Montgomery)

Tamika Reed (Montgomery)

Brian Spear (Montgomery)

Andy Waid (Montgomery)

Bob Young (Montgomery)



# 1. The Frazer Lanier Company (Continued)



**Robert H. Young, Jr.** graduated from the public schools of Selma, Alabama, and from Auburn University with a Bachelor of Science degree in 1971. After serving in the United States Army, he entered the investment banking field in 1972 and joined The Frazer Lanier Company in 1976. Mr. Young has served as a member of the Auburn University Business School Advisory Committee, and as a Committeeman and Vice-Chairman on the District V Business Conduct Committee of the National Association of Securities Dealers.

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# 1. The Frazer Lanier Company (Continued)



**Johnny Dill** is a graduate of the University of Alabama School of Business. He was a member of the All SEC Academic Team and played basketball on the 1974 and 1975 SEC championship teams. In 1975, he was selected to serve as a Co-Captain. Following graduation, Mr. Dill has been involved solely in municipal financing. Mr. Dill has been directly responsible for developing financings for a number of cities and their utility systems. Additionally, he has structured and managed various financings for airport authorities, boards of education and institutions of higher learning. Mr. Dill has also participated in several major projects with the State of Alabama. Throughout his career, Mr. Dill has been involved in numerous business and civic organizations including: President of the A Club Alumni Association, Member of the Colbert County Sports Hall of Fame, Omicron Delta Kappa (National Leadership Honor Society), Executive Vice President District 1 University of Alabama National Alumni Association, the Board of Trustees Riverhill School, the National Association of Security Dealers, the Board of Trustees Montreat Home and Selections Committee Member of the University of Alabama Business Hall of Fame.

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# 1. The Frazer Lanier Company (Continued)



**L. Lee Garrison** graduated from the University of Alabama in 1997 with a Bachelor of Science degree in Finance. Lee was elected to four consecutive terms on the Tuscaloosa City Council from 1997 to 2013 and served as Finance Committee Chair from 2001-2013. During those 12 years, the City of Tuscaloosa had an impeccable financial record, resulting in bond rating upgrades. In 2013, Lee opted to run and was elected citywide as Chair of the Tuscaloosa City Board of Education. Pledging to serve only one term and help turn the school system around, Lee led the Board in adopting a \$200MM+ multiyear strategic plan that addressed curriculum, human resources, technology and facilities. Lee has been directly involved in many bond issues during his 20 years of elected public service. Lee currently serves on the Board of Directors of the Business Council of Alabama.

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## 2. Bonds vs Warrants

- Warrants are similar to a bond but legally different as per Alabama Constitution
- Bonds must be voted on, but warrants do not

### 3. Steps Taken by a Municipality to Issue Debt

- Review outstanding debt, if any, repayment schedule
- Determine structure of new debt
  - Level debt (equal annual payment)
  - Wrap (levelized total payments after new issue)
  - Final maturity equals economic life of projects financed
- Review operating results of municipality
- Prepare Preliminary Official Statement (POS)



### **3. Steps Taken by a Municipality to Issue Debt (continued)**

- Submit POS and five (5) years audits to rating agencies and insurers
- Conduct ratings and insurers meetings or calls
- Receive ratings/insurance commitment
- Sell bonds/warrants
- Close issue
- Process takes approximately 60 days

## 4. Preparation of Official Statement

- Official Statement is the offering document used to rate and sell Issue
- Contains
  - Amount borrowed
  - Security for repayment
  - Early repayment options
  - Financial operating history (5 years)
  - Present year's budget
  - Economic/demographic information on district
  - Reviewed by municipality officials

## 5. Rating Process (Standard & Poor's, Moody's or Fitch)

- Rating is similar to a credit score
- The higher the rating, the lower the interest rate
- Banker guides municipality through rating process
  - Outline
  - Example (City of Foley)
- Properly organized rating process is straightforward
  - Present to rating agency analysts
  - Analysts presents municipality credit to committee and they vote on the rating
- Rating Agencies review municipalities “Best Practices” (S&P Report)





## **OUTLINE FOR S&P RATING CALL**

**On Friday, January 29<sup>th</sup>, we have a call at 9:00 am with Josh Travis and Karolina Norris. I expect the call will last between 1 ½ to 2 hours.**

**The outline indicates speakers for each topic, but all of you should feel free to make comments for further amplification.**

- I. Introduction**
  - A. Participants**
  - B. Purpose of issue**
  - C. Security (change from 2015)**
  - D. Timing**
  - E. Indenture structure**

- II. Economics and Demographics**
  - A. Location (tourism 6.9 million)**
  - B. Government (duties)**
    - 1. Mayor**
    - 2. Council**
    - 3. Administrator**
  - C. Population growth**
  - D. Major employers in city/surrounding area**
    - 1. Effects of COVID**
  - E. OWA**
    - 1. Developments to date**
    - 2. Partnering with City**
      - a. Hotel development**
      - b. Sports activities**
      - c. Effects of COVID - Protocols**
      - d. Employment**
  - F. Tourism – not as low as predicted**
  - G. Housing starts remain strong – breaking records**
  - H. Hospital expansion**

### **III. City**

#### **A. City Administrator is full time**

#### **B. Responsibilities of Administrator as COO of City**

- 1. Department heads report to him**
- 2. Day-to-day activities**

**THOMPSON**

### **IV. Financial Information**

#### **A. Results 2016-2020**

#### **B. Cash goal**

- 1. Present status**
- 2. Receivables from FEMA/State**

#### **C. Major sources of revenue**

- 1. All show increases except lodging in 2020**
  - a. 2021 off with a bang**
- 2. Positive effects of Sally**
- 3. Future tax increases limited to Impact fees**



## **Financial Information (continued)**

**D. Revenues growing with expenditures growing modestly**

**E. 2021 Budget**

- 1. Year-to-date results**
- 2. Assumption for growth**
- 3. Cash funded capital**
- 4. Projected ending fund balance**

**F. Financial Forecast**

**G. Future debt**

**THOMPSON/STEIGERWALD/BELL**

**V. Summary**

- A. Strong economy**
- B. Limited negative effects of Sally/COVID**
- C. Cash position**

**YOUNG**

## 6. Bond/Warrant Insurance

- Bond insurer “co-signs” municipalities obligation
- Municipality receives insurer AA rating
- Benefit of insurance is lower interest rate
- There is a one-time cost
- Savings using insurance must be greater than one-time fee

## 7. Sale of Bonds/Warrants

- Official Statement distributed to potential investors one week in advance of sale
- Banker addresses questions from potential investors
- Day prior to sale, banker gains approval from municipality on proposed interest rate
- Bonds/Warrants sold to investors
- Bond/Warrant Purchase Agreement signed by municipality



## **8. Closing of Bond/Warrant Issuance**

- Bond counsel drafts bond/warrant resolution
- Bond/Warrant resolution presented to municipality for approval
- Closing takes place and money wired

## 9. Continuing Disclosure

1. Audit
2. Non-payment related defaults
3. Unscheduled draws on debt service
4. Reserves reflecting financial difficulties
5. Unscheduled draws on credit enhancements reflecting financial difficulties
6. Substitution of credit or liquidity providers, or their failure to perform
7. Adverse tax opinions or events affecting the tax-exempt status of the security
8. Modifications to rights of security holders
9. Bond calls and tender offers

## **9. Continuing Disclosure (Continued)**

10. Defeasances
11. Release, substitution or sale of property securing repayment of the security
12. Ratings changes
13. Bankruptcy, insolvency or receivership
14. Merger, acquisition or sale of all issuer assets
15. Appointment of successor trustee
16. Financial Obligation – Incurrence or Agreement (as of February 27, 2019)
17. Financial Obligation – Event Reflecting Financial Difficulties (as of February 27, 2019)
18. Material event – closure of dominate employer or significant decline of employment



## 10. Audits

- Audits should be completed within 180 days from the end of the Fiscal Year and typically no later than 270 days
- Final audits should be posted on EMMA. For a nominal fee, companies like Digital Assurance Certification (DAC) assist issuers with EMMA audit posting and provide continuing disclosure monitoring
- Failure to provide timely audits may result in a continuing disclosure event and may also result in loss of rating from the rating agencies



## 11. Public Finance Market Updates

- Reinstatement of tax-exempt advance refundings (refinancing) is a possibility
- Increase the Bank Qualified limit from \$10MM to \$30MM is a possibility
- Direct Pay Taxable Bond Program (similar to Build America Bonds) is a possibility
- Interest Rates are still hovering around all time lows (refinancing/new money)

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