

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



A PROGRAM BROUGHT TO YOU BY:

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TREASURER OF OHIO

FINANCE 205

Private Placement vs. Public Offering

Overview

- What is a Bond and Why Issue?
 - Debt instrument issued by a governmental issuer
 - New capital expenditure
 - Refinance outstanding bonds
- Why Tax-Exempt?
 - Tax-Exempt Municipal Bonds enjoy special advantageous status in the investment community because the interest paid on most municipal debt is not subject to federal income taxation to bond investors and that generally translates to lower interest rates

Overview

- Participants in a Transaction
 - Issuer – central actor that borrows the money
 - Purchaser* - Provides the funds and determines/influences the structure
 - Bond Counsel

*Bank – private placement

Underwriter – negotiated sale

Authority to Issue Debt

- Public Purpose
- Debt Limits
- Maturity Limitations

Methods of Sale

- Private Placement/Direct Placement
 - Governmental Entity (Issuer)
 - Local Bank (Purchaser)
 - Placement Agent
- Public Offering
 - Governmental Entity (Issuer)
 - Underwriter
 - Access to market
 - Investors

Public Bond Offerings

- Definition

- Public Bond Offering – Issuer sells the bonds to an underwriter who resells the bonds to retail investors and institutional investors on established securities markets

Public Bond Offerings

- Characteristics
 - Substantial flexibility of final maturity
 - Usually lower interest rates than a direct bank placement/ private placement
 - Higher costs of issuance
 - Long-term obligations
 - Bond insurance (and state credit enhancement for schools) can provide additional credit support to bring down interest rates
 - Public offerings require Issuers to supply offering disclosure and continuing disclosure
 - Rating agencies provide ratings that affect the desirability of the bonds to investors

Placements - Direct

- Definition
 - Issuer borrows money directly from a banking institution or other financial institution

Placements - Private

- Definition

- Private placements are a primary offering in which a placement agent sells a new issue of municipal securities on behalf of the Issuer directly to a single investor on an agency basis
- Not purchasing the securities from the issuer and reselling them to investors
- Investors purchasing privately placed securities often are required to agree to restrictions as to resale and are sometimes requested or required to provide a private placement letter to that effect

Placements

- Characteristics
 - May not require a bond rating
 - Low costs of issuance - may have higher interest rates
 - Banks consider governmental entities as low risk ways to invest capital
 - Generally, no disclosure document is needed
 - No official statement or offering memorandum is needed because bonds, loan agreements, or leases are held by banks or sold privately to institutional investors.
 - Bank financings must still satisfy federal tax laws to ensure interest on bonds, loans, and leases remains tax-exempt
 - Still need legal authority for the transaction
 - Same constitutional and statutory debt limit restrictions apply.
 - Not utilizing intermediary to negotiate terms etc.

Placements

- Characteristics
 - Placements can be fast, less complicated and minimize origination expenses due to the following:
 - Committed rate
 - Normally requires no official statement, trustee, or paying agent
 - Placements not competing with bonds offered in the public marketplace -booked in the bank's portfolio
 - Intent to hold until maturity
 - Evaluate by determining all-in cost to the issuer

Public Bond Offering

Underwriter - Investment Bankers

- Perform due diligence on disclosure
- Provide financing plan assistance
- Provide rating agency & bond insurer preparation assistance
- Provide investment advice and advance refunding services

Sales Force - Market the Bonds

Issuer (Official Statement)

- Approve bond legislation
- Assist with preparation of disclosure data
- Develop financing plan
- Make rating & insurance presentations (if applicable)
- Make bond payments

Bond Counsel (Legal Opinion)

- Prepare bond resolution
- Provide Official Statement/disclosure preparation assistance
- Prepare various deal related legal documents
- Provide legal opinion to investors

Rating Agencies / Bond Insurers (Rating / Insurance Policy)

- Review credit worthiness of the Issuer
- Rating agencies issue bond rating
- Insurance companies insure issue (if economically beneficial)

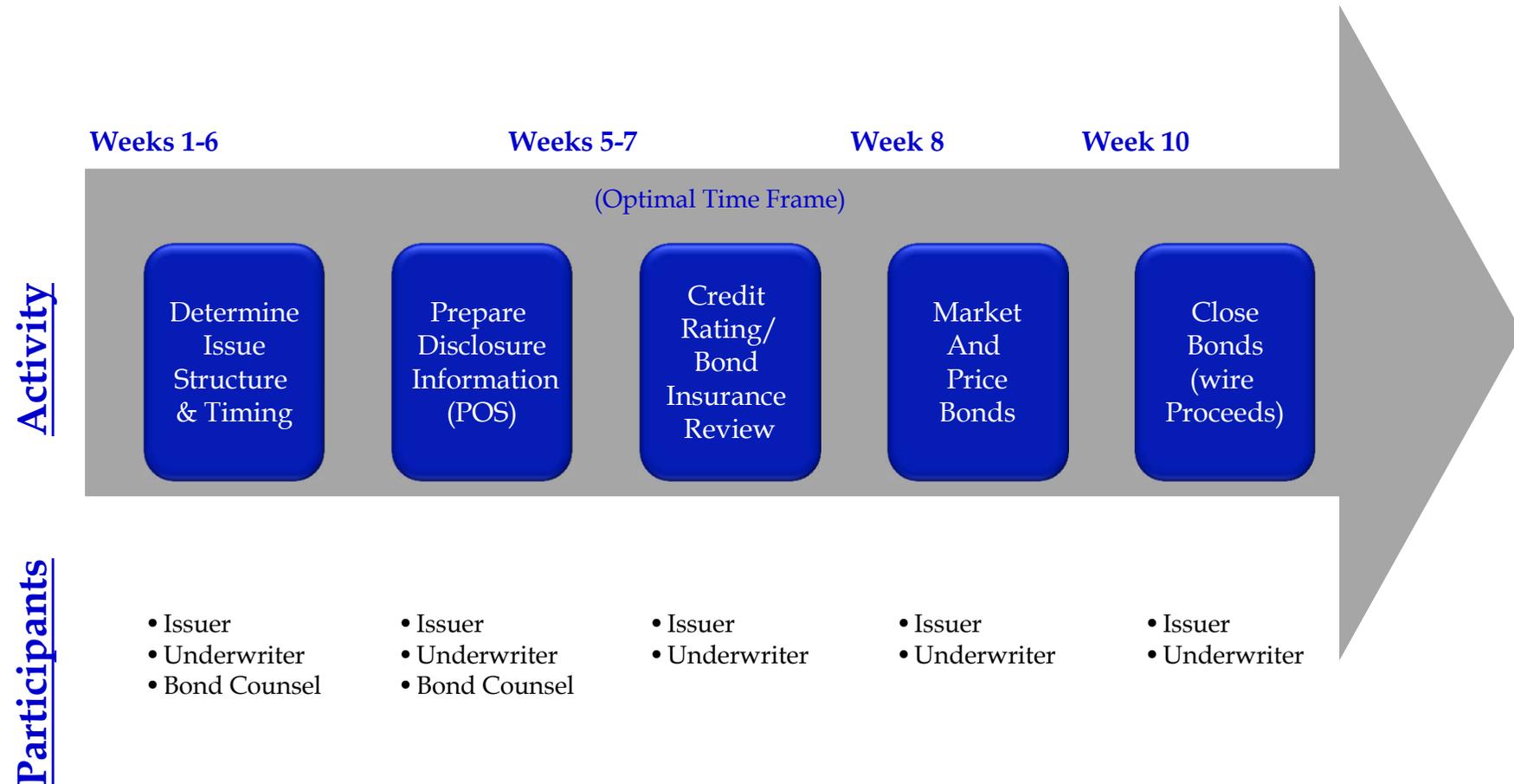
Investors

- Purchase bonds
- Receive interest and principal payments from paying agent

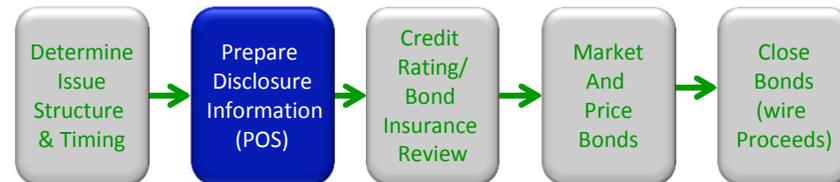
Paying Agent / Registrar (P&I Payments)

- Authenticate bonds
- Receive interest and principal payments from Issuer
- Make interest and principal payments to investors

Activities and Time Frame



Prepare Disclosure

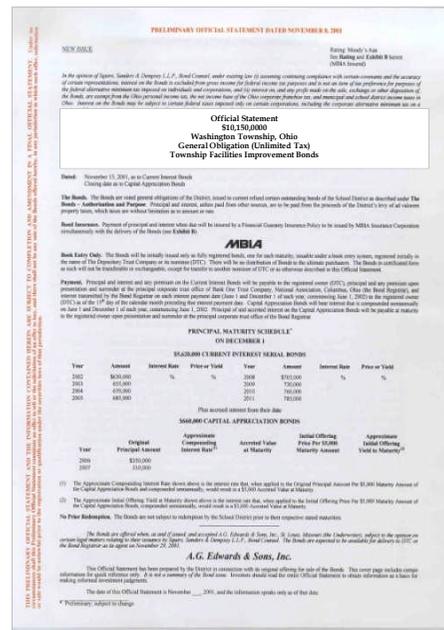


Issuer

- Issuer overview
- Projections
- Facilities data
- Financial outlook
- Financial Statements

Underwriter

- Structuring information
- Continuing disclosure agreement
- Interface with County Auditor



Bond Counsel

- Demographic info from Census & other sources
- Description of tax base and other sources of revenue
- Debt limitation tables
- Debt tables
- Financial appendices
- Bond counsel opinion
- Interface with County Auditor
- Actual production of document

County Auditor

- Assessed Valuation data
- Building Permits info
- Tax tables
- Largest taxpayer list

Credit Rating



Bond Rating Services

	 Moody's Investors Service	 STANDARD & POOR'S	 FitchRatings
Best Quality	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2 Aa3	AA AA-	AA AA-
Upper Medium Grade	A1	A+	A+
	A2	A	A
	A3	A-	A-
Medium Grade	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-

(Lower Interest Rates) ↑

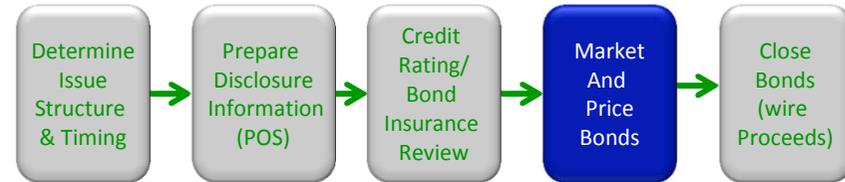
Marketing the Bonds

- Active Pre-marketing

- Investment Broker Prospecting
- Branch manager memorandum
- Sales force conference call

- Wide Distribution

- Institutions
- Banks
- Individual Investors



Public Offering – Sample Pricing

SAMPLE ISSUER

SAMPE UTGO Public Library Renovation and Construction Bonds, Series 2008

Dated: November 6, 2008

\$3,499,998

Sources & Uses

Dated 11/06/2008 | Delivered 11/06/2008

Sources Of Funds

Par Amount of Bonds	\$3,499,998.40
Reoffering Premium	104,816.50
Total Sources	\$3,604,814.90

Uses Of Funds

Underwriter	30,000.00
Bond Counsel	25,000.00
Bond Registrar	4,300.00
Rating Agency Fee	10,000.00
OMAC	3,647.12
POS/Official Statement	3,500.00
Miscellaneous	1,250.00
Deposit to Project Construction Fund	3,475,000.00
Rounding Amount	2,117.78

Typical costs of Issuance. Amount dependent upon the size of the bond issue.

Public Offering – Sample Debt Schedule: Pricing Report

SAMPLE ISSUER

SAMPLE UTGO Public Library Renovation and Construction Bonds, Series 2008

Dated: November 6, 2008

\$3,499,998

Pricing Summary

Maturity	Type of Bond	Coupon	Yield	Issuance Value	Par	Maturity Value	Price	Dollar Price
12/01/2009	Serial Coupon	3.000%	3.000%	10,000.00	100.000%	10,000.00	100.000%	10,000.00
12/01/2010	Serial Coupon	4.000%	3.600%	15,000.00	100.000%	15,000.00	100.788%	15,118.20
12/01/2011	Serial Coupon	4.000%	4.000%	20,000.00	100.000%	20,000.00	100.000%	20,000.00
12/01/2012	Serial Coupon	4.250%	4.400%	25,000.00	100.000%	25,000.00	99.443%	24,860.75
12/01/2013	Serial P-CAB	-	5.000%	13,690.00	34.225%	40,000.00	77.852%	31,140.80
12/01/2014	Serial P-CAB	-	5.100%	12,465.00	27.700%	45,000.00	73.663%	33,148.35
12/01/2015	Serial P-CAB	-	5.300%	10,089.00	22.420%	45,000.00	69.087%	31,089.15
12/01/2016	Serial P-CAB	-	5.500%	10,887.60	18.146%	60,000.00	64.543%	38,725.80
12/01/2017	Serial P-CAB	-	5.700%	9,545.90	14.686%	65,000.00	60.065%	39,042.25
12/01/2018	Serial P-CAB	-	5.900%	8,320.90	11.887%	70,000.00	55.682%	38,977.40
12/01/2022	Term 1 Coupon	5.400%	5.500%	415,000.00	100.000%	415,000.00	99.024%	410,949.60
12/01/2026	Term 2 Coupon	5.600%	5.700%	620,000.00	100.000%	620,000.00	98.876%	613,031.20
12/01/2036	Term 3 Coupon	6.000%	6.100%	2,330,000.00	100.000%	2,330,000.00	98.658%	2,298,731.40
Total	-	-	-	\$3,499,998.40	-	\$3,760,000.00	-	\$3,604,814.90

Serial Bonds

CABs

Term Bonds

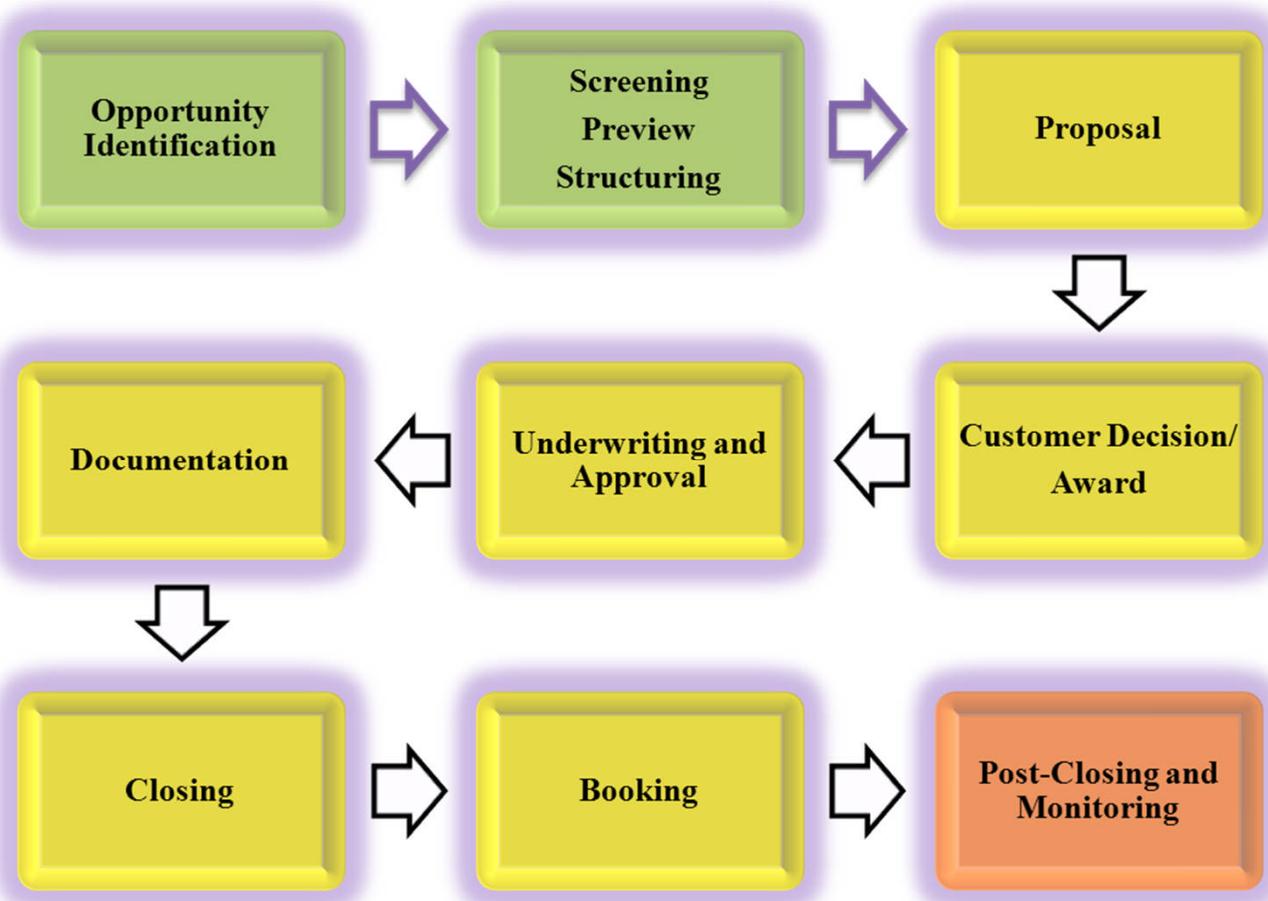
Bid Information

Par Amount of Bonds	\$3,499,998.40
Reoffering Premium or (Discount)	104,816.50
Gross Production	\$3,604,814.90
Bid (102.995%)	3,604,814.90
Total Purchase Price	\$3,604,814.90
Bond Year Dollars	\$73,476.45
Average Life	20.146 Years
Average Coupon	5.9151112%
Net Interest Cost (NIC)	5.9726927%
True Interest Cost (TIC)	5.959895%
Premium CAB "Stated Yield"	22.3094440%

Private Placements

- Considerations when evaluating placements
 - Compare economic terms
 - Can be fixed rate or variable
 - Can be new money, refunding, or a variable rate conversion
 - How do costs and interest rates compare?
 - Compare legal covenants
 - Make primary covenants non-negotiable
 - Specific terms (prepayment options, no debt service reserve)
 - Conform to existing covenants in parity issues
 - Seek several proposals
 - Bank preferences and appetites vary
 - Request alternative quotes for callable, non-callable
 - Arrive at an informed choice on performance and identify any potential risk

Private Placements



Private Placements

- Placement Case Studies
 - Placements provide additional financial tool
 - Locking a committed rate months in advance of permitted closing date
 - Call features
 - Bank Qualified
 - Expediting financing – quick funding needed
 - Local bank opportunity

Private Placements – Rate Lock

- A refunding is a refinancing where the Issuer refinances outstanding bonds by issuing new bonds at lower interest rates to defease, or retire, outstanding bonds with higher interest rates. Reduce the Issuer's interest costs on repayment of the Prior Bonds
- Issuer developed and executed a comprehensive Plan of Finance to refund its Facility Improvement Bonds
 - Over \$20,000,000
- Decision to capitalize on yield benefit of Bank-Qualified Bonds
- Separate Refunding into three annual bond issues of \$10,000,000 or less
- Refunding all of the callable Bonds through three separate refundings
- 2012 partial refunding – public offering
 - Result: over \$1,000,000 in gross debt service savings
- 2013 partial refunding - public offering
 - Result over \$1,550,000 in gross debt service savings

Private Placements – Rate Lock

- 2014 partial refunding – private placement
 - Rising interest rate environment -significant risk that savings would erode

Problem: Rising interest rates jeopardize savings

Solution: Private Placement

- Issuer was able to lock in an interest rate from a single lender in September of 2013 until the closing date in January 2014
- January 2014 – earliest possible closing date for the Bonds to be Bank Qualified
 - This strategy locked in the savings of the 2014 Refunding Bonds in September, resulting in the completed refunding of the callable Bonds.
 - From the date of signing the term sheet to the date of closing interest rates continued to increase

Private Placements – Rate Lock

- Result: Issuer locked in an interest rate from a single institution for the financing
- Far right column shows the annual gross debt service savings at the locked-in rate
- Total Gross Debt Service Savings of over \$2,825,000 (128,000 for 22 years)
- Net Present Value Savings of 9.3% - \$2,190,000

Private Placements – Rate Lock

Ohio Public Issuer
 Refunding Bonds
 Bank Qualified; Series 2014

Debt Service Comparison

Date	Total P+I	Existing D/S	Net New D/S	Old Net D/S	Gross Savings
12/01/2014	259,503.02	823,620.00	1,083,123.02	1,107,917.50	24,794.48
12/01/2015	1,079,925.00	-	1,079,925.00	1,104,297.50	24,372.50
12/01/2016	1,079,100.00	-	1,079,100.00	1,103,957.50	24,857.50
12/01/2017	1,082,150.00	-	1,082,150.00	1,106,657.50	24,507.50
12/01/2018	1,081,887.50	-	1,081,887.50	1,106,257.50	24,370.00
12/01/2019	1,078,387.50	-	1,078,387.50	1,103,537.50	25,150.00
12/01/2020	1,080,725.00	-	1,080,725.00	1,105,337.50	24,612.50
12/01/2021	1,080,637.50	-	1,080,637.50	1,105,537.50	24,900.00
12/01/2022	447,162.50	-	447,162.50	471,375.00	24,212.50
Total	\$8,269,478.02	\$823,620.00	\$9,093,098.02	\$9,314,875.00	\$221,776.98

Private Placements – Time Sensitive

- The District was experiencing serious problems to HVAC systems:
 - Same-building temperature fluctuation of up to 15 degrees;
 - Cooling and Heating equipment, due to problems, were at times operating simultaneously as opposing forces; and
 - The Elementary School chiller was in critical condition, operating at 30% capacity.
- Problem #1: District needed over a million dollars in immediate funding due to the time sensitive nature of the problems faced
- Problem #2: Outstanding Straight A fund grant proposal

Private Placements – Time Sensitive

- Solution: Private Placement with unique call features
- Negotiated private placement with single lender
- Funding in place in a few weeks
- Call features that allowed the District to pay off obligation without penalty if Straight A fund proposal was accepted
 - The lease will be subject to redemption, at the option of the lessee, on or after December 1, 2020, in whole or in part on any date, in whole multiples of \$1,000, at the redemption price of 100% of the principal amount being redeemed, plus interest accrued to the redemption date. Additionally, the lease is subject to redemption, at the option of the lessee, in whole or in part on any date until June 30, 2014, in whole multiples of \$1,000, at the redemption price of 100% of the principal amount being redeemed, plus interest accrued to the redemption date, only in the event that the District is awarded a grant through the Straight A Fund.
- Public offering would have prolonged funding
- Market acceptance of call feature?

Private Placements – Time Sensitive

- Executing a private placement allowed the District to pass the appropriate legislation and fund the improvements within 3 weeks. This allowed the Energy Service Company (ESCO) to begin work at the earliest possible time.
- Financing was structured to allow the postponement of the first debt service payment to June 1 instead of December 1 providing the District with additional flexibility.

Ohio Public School District Equipment Lease	
Debt Service Schedule	
Date	Total P+I
12/01/2014	93,948.19
12/01/2015	93,922.20
12/01/2016	93,904.60
12/01/2017	93,894.60
12/01/2018	93,888.00
12/01/2019	93,880.60
12/01/2020	93,968.20
12/01/2021	93,942.40
12/01/2022	93,903.20
12/01/2023	93,946.40
12/01/2024	93,963.60
12/01/2025	93,950.60
12/01/2026	93,903.20
12/01/2027	93,917.20
12/01/2028	93,884.20
Total	\$1,408,817.19

Private Placements – Time Sensitive

Term Sheet

Date: October 29, 2013

Transaction Structure: Lease-Purchase Agreement (the "Lease")

Lessee:

Lessor:

Placement Agent: Ross Sinclair & Associates, Eric Prall, Director

Financed Amount: \$1,019,000.00

Use of Proceeds: To finance energy improvement equipment (the "Equipment")

Structure/Security: The Lease shall be payable from the general revenues of the Lessee, subject to annual appropriation. Pursuant to the Lease documentation, the Lessee shall hold title to the Equipment and grant Lessor a continuing, first prior security interest in any and all right, title and interest of Lessee in the Equipment and in all additions, attachments, accessions, and substitutions thereto.

Commencement Date: On or about November 14, 2013

If escrow funding is required, the Financed Amount will be deposited with the Escrow Agent on the Commencement Date for the benefit of the Lessee. As Equipment is delivered to and accepted by the Lessee, disbursements will be made by the Escrow Agent at the direction of the Lessee.

Tax Status: Tax-Exempt (Bank Qualified)

Financing Terms: Fifteen (15) Years

Financing Rate: 4.20%

Transaction Fees: \$1,000.00

Prepayment Option: The lease will be subject to redemption, at the option of the lessee, on or after December 1, 2020, in whole or in part on any date, in whole multiples of \$1,000, at the redemption price of 100% of the principal amount being redeemed, plus interest accrued to the redemption date. Additionally, the lease is subject to redemption, at the option of the lessee, in whole or in part on any date until June 30, 2014, in whole multiples of \$1,000, at the redemption price of 100% of the principal amount being redeemed, plus interest accrued to the redemption date, only in the event that the District is awarded a grant through the Straight A Fund.

Insurance: Lessee, at its own expense, will provide insurance naming Lessor as loss payee and additional insured.

School District, Ohio
October 24, 2013
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Proposal for Lease-Purchase Financing

Warranties: Lessor makes no warranties expressed or implied. Lessee's sole warranty rights are any provided by the Equipment vendors and/or manufacturers.

Net Lease: Lessor is not a manufacturer or dealer of equipment. All maintenance, license fees, taxes, insurance, and any other costs related to ownership and operation of the Equipment shall be the responsibility of Lessee.

Documentation: Lessor contemplates using standardized documentation and intends to use in-house legal counsel. If this transaction necessitates that the Lessor use outside legal counsel or incur any other extraordinary expenses, such costs shall be borne by Lessee.

Credit Approval: The terms set forth herein reflect a proposed, preliminary structure and are subject to final credit approval by Lessor and the negotiation of mutually acceptable documentation. They do not represent all of the terms and conditions that may ultimately be included in a financing among Lessee and Lessor.

Proposal Expiration: This proposal shall expire at Lessor's option if (a) Lessor has not received the Lessee's written acceptance by November 15, 2013.

Huntington Contact:

ACCEPTED BY: School District, Ohio

By _____

Name _____

Title _____

Date _____

Recap

- Public Offering / Negotiated Sale
 - Higher cost of issuance (more professionals)
 - Usually lower overall interest rates
 - Allows for longer maturities (20-38 yrs.)
 - Offering Document
 - Credit Rating
 - Continuing disclosure
- Private Placement
 - Usually no rating or Offering Document required
 - Lower cost of issuance
 - Usually higher interest rate
 - Shorter maximum maturities (5-15 years)
 - No continuing disclosure
 - Usually a faster close

Questions

*If you have any questions or need additional information,
please contact us:*

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