
Bond Issuance, Muni Advisor Rule and Continuing Disclosure

Presenters:

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Topics for Discussion

Continuing Disclosure

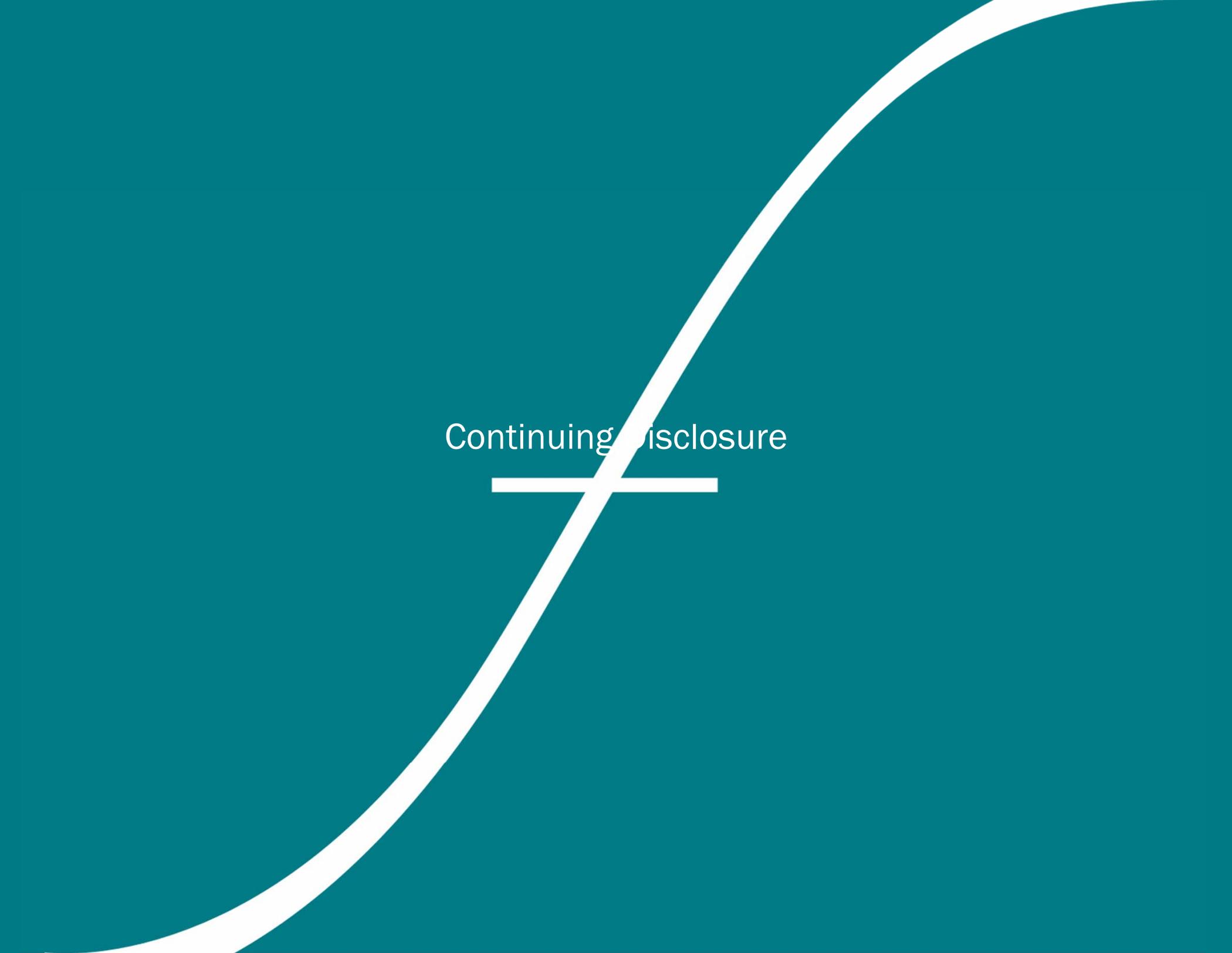
- Background and post-MCDC landscape

Bond Issuance

- Current Interest Rate Environment
- Trends in South Carolina borrowings

Municipal Advisor Rule

- What it is and how it impacts South Carolina issuers



Continuing disclosure

Continuing Disclosure

Background:

- Any governmental entity issuing bonds has an obligation to meet specific continuing disclosure standards in compliance with Securities and Exchange Commission (SEC) Rule 15c2-12.
- This rule, which is under the Securities Exchange Act of 1934, sets forth certain obligations of Issuers to provide material event disclosures and annual financial information on a continuing basis
- When bonds are issued, the issuer enters into a continuing disclosure agreement to meet the SEC's requirements, promising to provide certain annual financial information and material event notices to the public.
- In accordance with changes made in 2009 to Rule 15c2-12, those filings must be made electronically at the Electronic Municipal Market Access (EMMA) portal.

Wasn't this topic already addressed with the SEC's Municipalities Continuing Disclosure Cooperation ("MCDC") initiative?

If so, why are we still talking about this after MCDC?

- The MCDC initiative was a temporary amnesty program which allowed issuers and underwriters to self report previous violations.
- The amnesty period for issuers to self report expired on December 1, 2014.

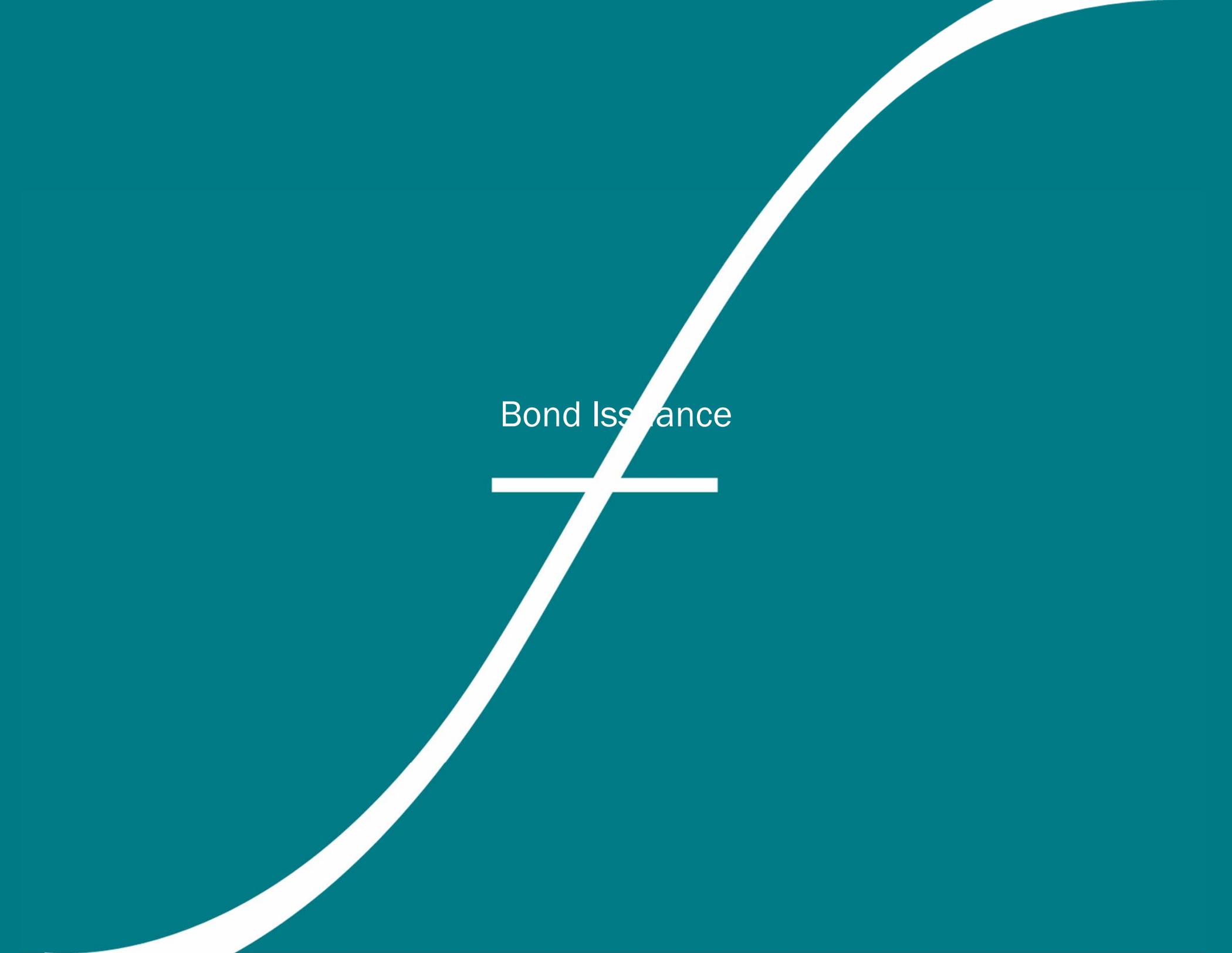
Continuing Disclosure

Is Continuing Disclosure still an important issue?

- It is more important today than ever.
- The SEC's objective in creating the amnesty program was to bring to the attention of issuers the importance of Continuing Disclosure.
- We believe there will be stronger enforcement action in the future for those failing to remain compliant.

Recommendations for Consideration:

- Institute a continuing disclosure policy outlining your procedures:
 - Identify information that is required to be filed
 - Determine dates for filing annual required information.
 - Identify information that you may want to file
 - Identify material events that require immediate filing
 - Identify the person responsible for filing
 - Institute quality control procedures (may involved outside dissemination agent like DAC)

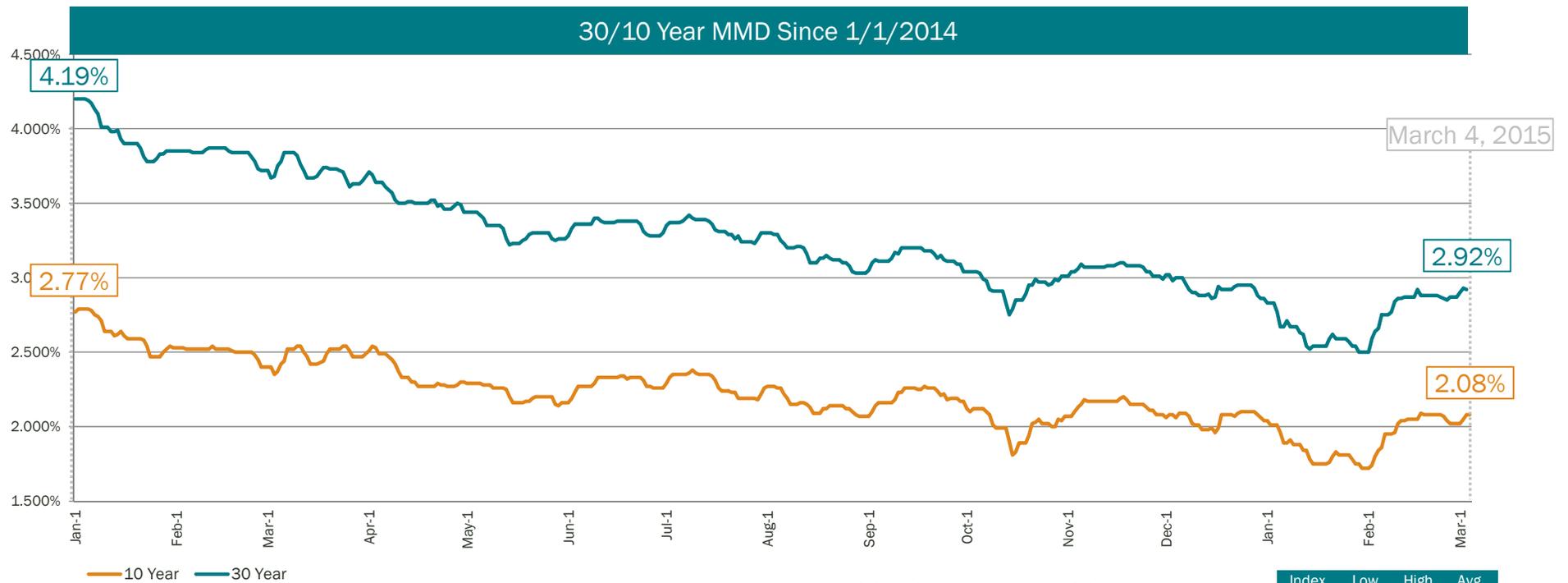
A large, white, stylized number '7' is centered on a teal background. A horizontal white line crosses the middle of the '7'. The text 'Bond Issuance' is positioned above the horizontal line, centered horizontally.

Bond Issuance

Topics to be Discussed in this Section

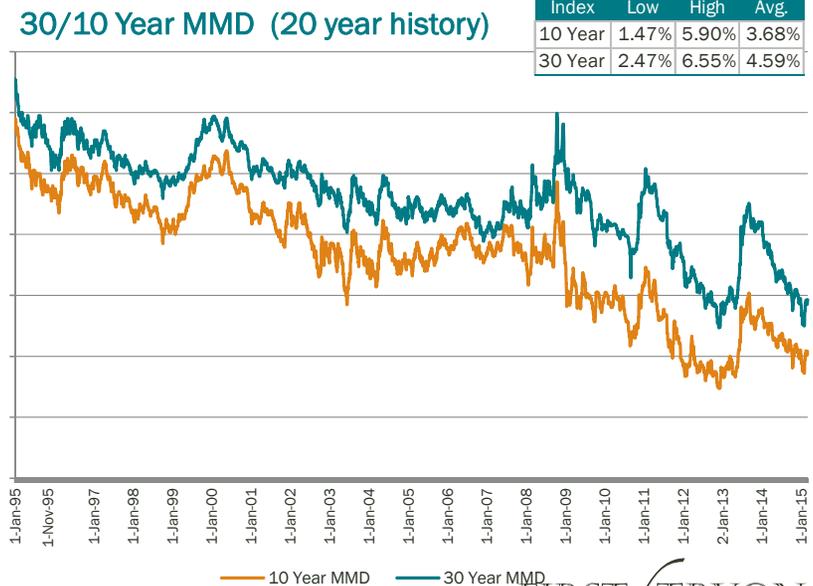
- Current interest rate environment
- Borrowing trends in South Carolina
- Recent financing case studies

Tax-Exempt Interest Rates from January 1, 2014 to Present



- Long-term tax-exempt rates fell 127 basis points from January 1, 2014 to a low of 2.50% on January 31, 2015
- Interest rates increased approximately 37 basis points during the month of February
- The chart to the right shows the 20 year history of the 10 and 30 year MMD indices – as of March 4, the 30 year MMD index is 167 bps lower than the 20 year average

Source: Thompson Reuters, as of March 4, 2015



Borrowing trends in South Carolina

Trends we've noticed in the last 12-18 months

- Increase in number of downtown economic development projects
 - Often the projects require public support in some level and it is typically being cobbled together from multiple sources
 - Parking garages, in particular
- Non-essential general infrastructure projects which had been on the drawing board, but delayed, have started to pick back up.
 - Courthouses
 - Administrative buildings
- Still a bias towards debt which doesn't require a referendum
- Utility system revenue backed debt has picked back up.
- Credit ratings, particularly of smaller communities have been on the upswing.
- More discussion of Capital Projects Sales Tax programs
- Rating agency focus on bank placed transactions

Case Studies / Borrowing trends in South Carolina

Types of financings we've seen the most of lately:

- 8% General Obligation Bonds
 - Smaller population areas are using more of their available capacity
- Installment Purchase Revenue Bonds
 - Senate Bill 143
- Tax Increment Financing Bonds
 - Junior lien from utility system to provide credit enhancement
 - Less willingness from School Districts to support new TIF Districts
- Hospitality / Accommodation Tax Revenue Bonds
- Utility System Revenue Bonds
 - SRF Program
 - More wrapped debt service structures

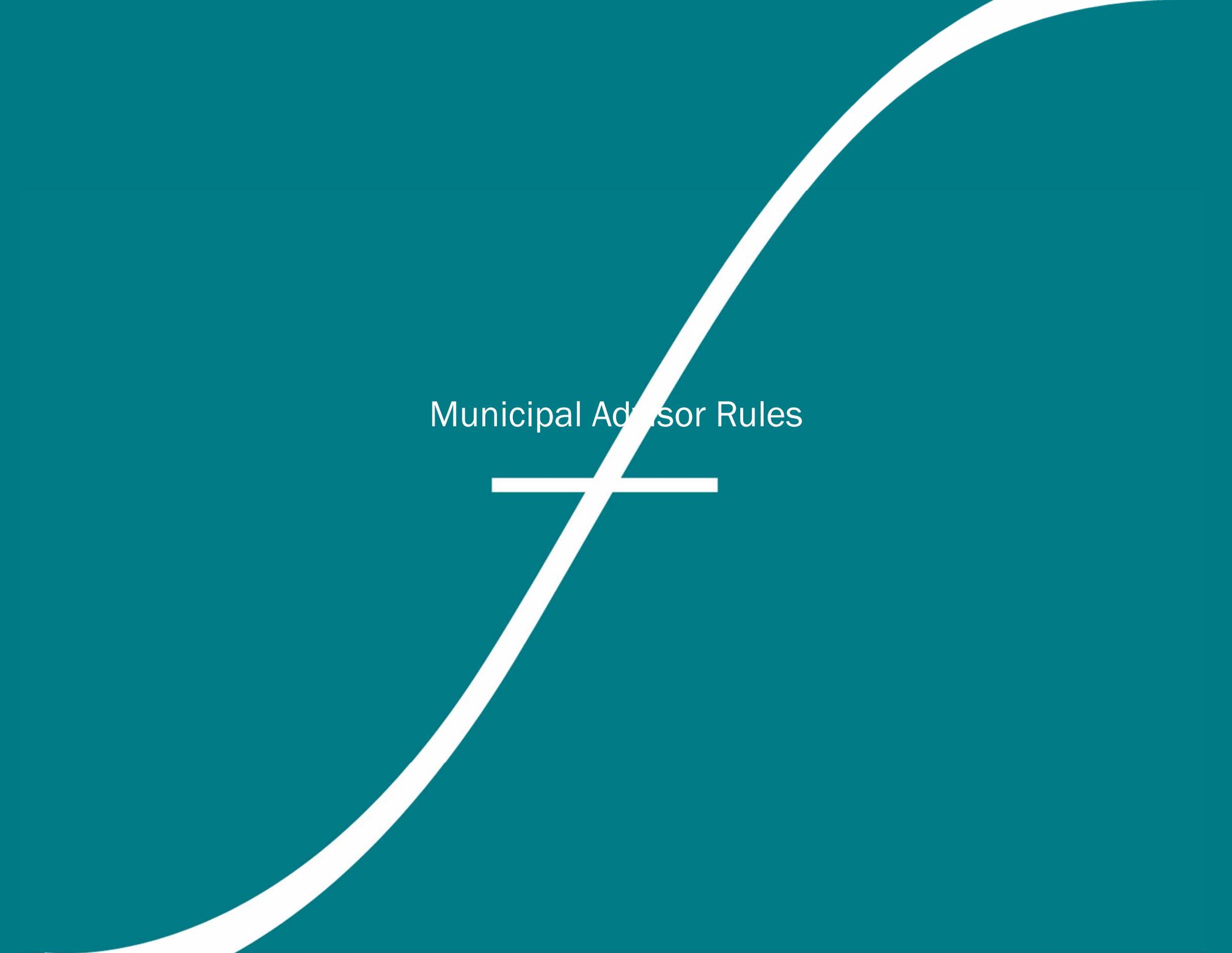
Bank placed transactions

Appetite from banks:

- Continued focus on shorter amortizations
 - 10 years and under attracts the most number of banks
- A number of banks will go 15 years with a fixed rate transaction
- A very few will go 20 years with fixed rate transactions

Bank Qualified benefit remains:

- Approaching the time of year when issuers may start thinking about splitting borrowings across 2 calendar years to take advantage of Bank Qualified status



Municipal Advisor Rules

The Municipal Advisor Rule

Background:

- Regulations in the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, passed after the Great Recession, established that anyone providing financial advice to issuers of bonds would be regulated.
- Responsibility was left to the Securities and Exchange Commission to define what a municipal advisor is and is not.

What or who is a municipal advisor?

- A firm and its associated persons that provides “advice,” with or without compensation, to “municipal entities” and “obligated person” on the issuance of “municipal securities” or “municipal financial products.”

The Municipal Advisor Rule

What is advice?

- A recommendation that is particularized to the specific needs, objectives or circumstances of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including information on structure, timing, terms and other similar matters concerning such products or issues.
- Advice on the “issuance of municipal securities” includes advice during the entire lifespan of the transaction – from the earliest pre-planning stages through maturity or earlier redemption.

What is not advice?

- Factual information
- General information
- Widely available information

The Municipal Advisor Rule

What are the implications of being a Municipal Advisor?

- Required to register with the MSRB
 - Issuers can verify a municipal advisor's registration on the MSRB's website
- Statutory Fiduciary Duty: includes a duty of loyalty and duty of care
 - Requires a municipal advisor to act with utmost good faith and in the best interests of the client
 - Disclose conflicts of interest
 - Document the relationship with the client in writing
 - Make suitable recommendations
- Subject to the MSRB rules:
 - Restrictions on ability to switch from Municipal Advisor to Underwriter:
 - Recordkeeping requirements
 - Employee supervision standards, marketing limitations
 - Subject to annual onsite examination by FINRA
 - Minimum Professional Qualifications
 - Limits on Political Donations
 - Minimum Qualifications

The Municipal Advisor Rule

How will this impact South Carolina issuers?

- Many issuers had grown accustomed to relying on their existing financing team members (primarily bond counsel and underwriter) to provide financial advice.
- As of July 1st 2014, those professionals have been limited in the amount and type of financial advice they may provide, unless they meet one of the exceptions/exemptions.
- The types of conversations issuers can have with underwriters and other professionals may be more limited in nature than what has traditionally occurred.

What is the National GFOA's position?

- The Government Finance Officers Association (GFOA) recommends that issuers hire a municipal advisor prior to the undertaking of a debt financing unless the issuer has sufficient in-house expertise and access to current bond market information.

The Municipal Advisor Rule

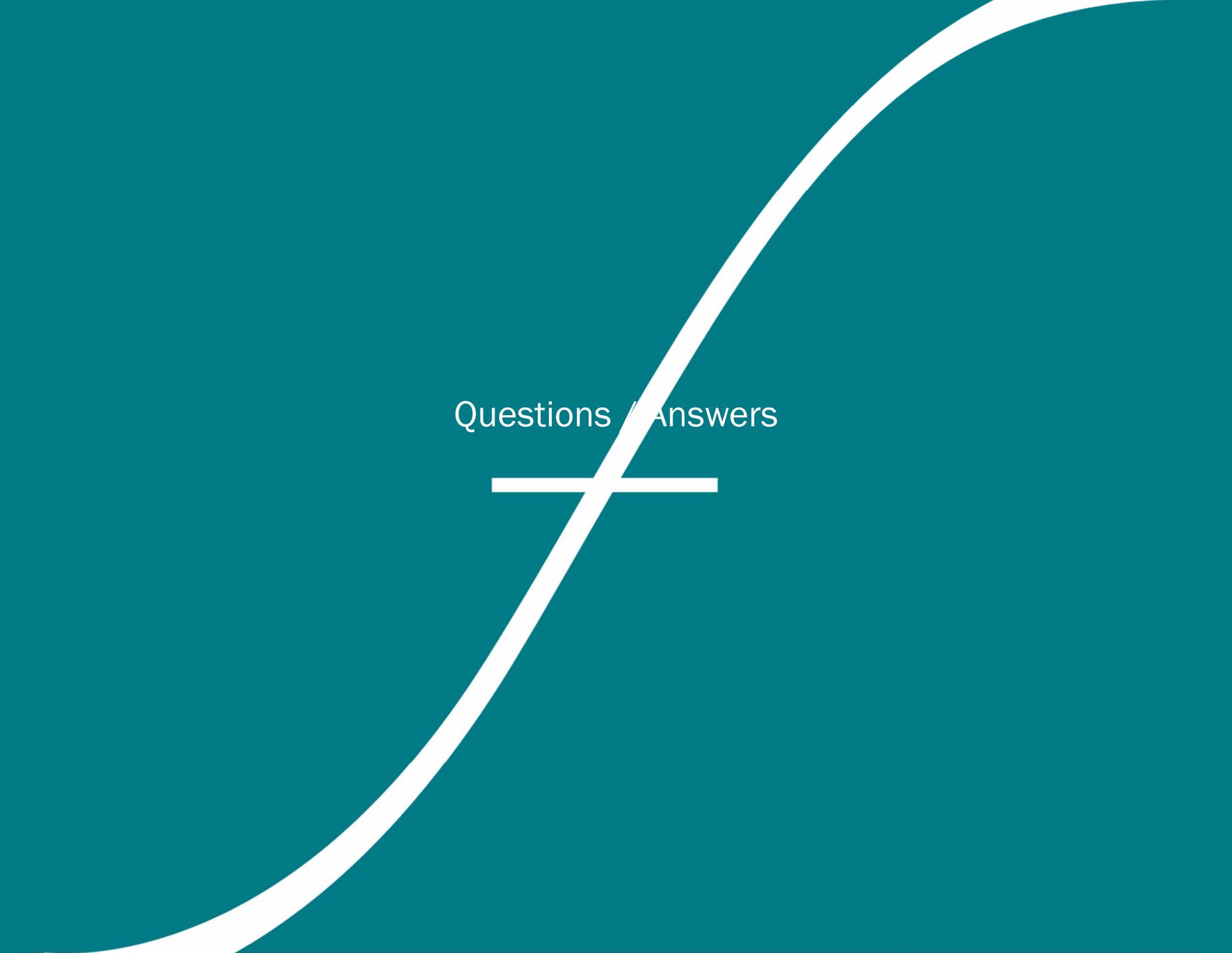
Exceptions to the Requirement to Register as a Municipal Advisors

- State and Local Government employees and officials – “acting in an official capacity”
- Certain professionals:
 - Attorneys (traditional legal advice);
 - Engineers (traditional engineering advice);
 - Accountants (traditional audit work);
 - Registered investment advisors (federally registered);
 - Remarketing agents (standard remarketing)
- Swap dealers
- Banks (limited)

The Municipal Advisor Rule

Exemptions Available:

- Underwriter Exemption: applies when dealer has been engaged to underwrite an issue of securities and applies through the end of the underwriting period
- RFP Exemption: applies to responses to issuer RFPs and RFQs.
- Independent Municipal Advisor Exemption: municipal entities that are represented by independent municipal advisors may receive advice from underwriters and others on the issuance of securities or financial products as long as the independent advisor is providing advice about the solicitation and the municipal entity is relying on its own advisor.
- If there is no exemption, then the underwriter or other professionals may not provide “advice” to the municipal entity.



Questions / Answers

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