

# Underwriting: Behind the Scenes

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APRIL 19–21, 2023

# Presentation Overview



Overview of a Bond Transaction



Bond Structuring and Sizing



Marketing a Negotiated Bond Issue



Post Pricing

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# I. Overview of a Bond Transaction

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# Financing Participants

- Bond Counsel
- Borrower's Counsel
- Credit Enhancer
- Credit Provider's Counsel
- Disclosure Counsel
- Issuer
- Issuer's Counsel
- Municipal Advisor
- Obligated Person
- Paying Agent/Registrar
- Rating Agency
- Trustee
- Trustee's Counsel
- Underwriter
- Underwriter's Counsel

# The Underwriter

The financing participants typically only see the investment bankers supporting the transaction:

Managing Director  
Executive Director/Director/SVP  
Vice President  
Associate  
Analyst

Who Supports the Investment Bankers

Compliance  
In-House Legal  
Underwriters  
Sales Desk  
Credit and Risk  
Quant Analysts  
Transaction Approval Committee  
Other Lines of Business

# Key Documents from Underwriter's Perspective

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Authorizing resolutions/ordinances

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Trust Indentures/Agreements

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Notices to bondholders/insurance companies/trustee

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Feasibility studies/Engineering reports

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Preliminary Official Statement/Official Statement

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Due Diligence Questionnaire

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Continuing Disclosure Undertaking Agreement (CDUA)

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Accountant Certificates/Letters (inclusion/agreed-upon procedures)

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Preliminary Blue Sky/Final Blue Sky Memorandum

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Bond Purchase Agreement/Contract of Purchase

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Agreement Among Underwriters (New Electronic SIFMA Master Form)

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Selling Group Agreement

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# II. Bond Structuring and Sizing

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# Preliminary Steps to a Transaction



Identify purpose of the borrowing



Identify projects, Issuer/Obligated Person's debt capacity, savings



Assemble team



Develop a financing plan and schedule

- Type of sale
- Structure
- Timing and scope of due diligence
- Draft relevant transaction documents
- Other deals coming to market
- Rating meetings
- Investor meetings
- Bond marketing, pricing, closing



# Evaluation of Capital Needs and Cash Flow Capacity

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Prior to structuring a bond issue, it is important to analyze the capital and borrowing needs of the Issuer/Obligated Person AND the ability to repay the debt borrowed.

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Measures to repay General Obligation Bonds

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Overall taxing base/per capita income levels/local and regional economy

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Cash and levels of liquidity: fund balances

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Amount of debt previously borrowed

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Ability and willingness to raise taxes

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Measures to repay Revenue Bonds

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Source of funding (dedicated taxes, user fees, tolls, excise taxes, etc.)

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Levels of "coverage or cushion" above debt service

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Economic base associated with revenues pledged for debt

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Legal covenants (additional bonds test, non-impairment clauses, non-bankruptcy opinion)

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# Public Offerings

## Competitive (Public) Sale

- Bonds are advertised for sale (notice of sale)
- Any broker-dealer or bank may bid at the designated date and time
- Bonds are awarded to the bidder offering the lowest True Interest Cost (“TIC”) or Net Interest Cost (“NIC”)
- Selling syndicate

## Negotiated Sale

- Terms of the bonds and of the sale are negotiated with the Issuer/Obligated Person
- Issuer/Obligated Person and underwriter agree upon a yield level at which the underwriter will offer bonds to potential investors
- Underwriter markets bonds and gets investor interest
- Initial interest scale may be adjusted depending on investor demand
- Underwriter may commit to underwrite unsold balances

# Private Placements

- Bonds (or loan obligations) are placed to one or a few investors (they are **not** sold in a placement setting)
- Placement Agent finds investors or direct lenders (regulatory responsibility similar to Underwriter)
  - Investors/lenders typically certify that they are the end purchaser and do not have intent to reoffer or resell
- Due diligence obligations shifted in part to investors/lenders
- Issuer/Obligated Person disclosure responsibilities are negotiated as part of the placement agreement
- Sales are limited to a more sophisticated investor base, which is typically documented through an Investor/Lender Letter

# III. Marketing a Negotiated Bond Issue

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# The Negotiated Bond Issue



## Create Investor Target Plan

- Investor Site Visits
- Investor Call
- “Road Show”
- Banking/Sales/Trading Coordination

## Define/Develop Syndicate

- Liabilities/Participation
- Priority of Orders
- Allocation Policies

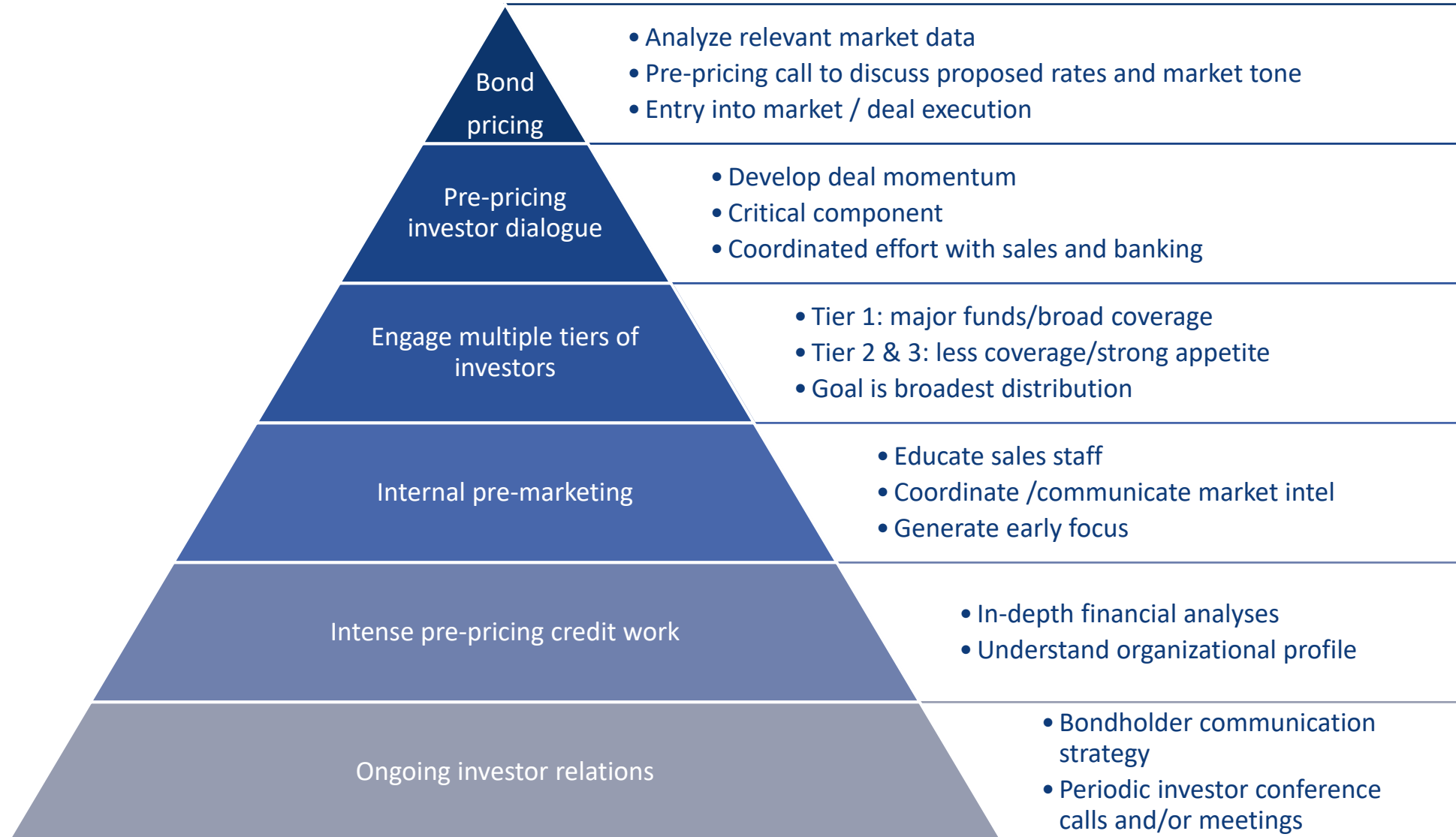
## Pre-Pricing Evaluation

- Investor Questions
- Scale
- Market Demand
- Structure

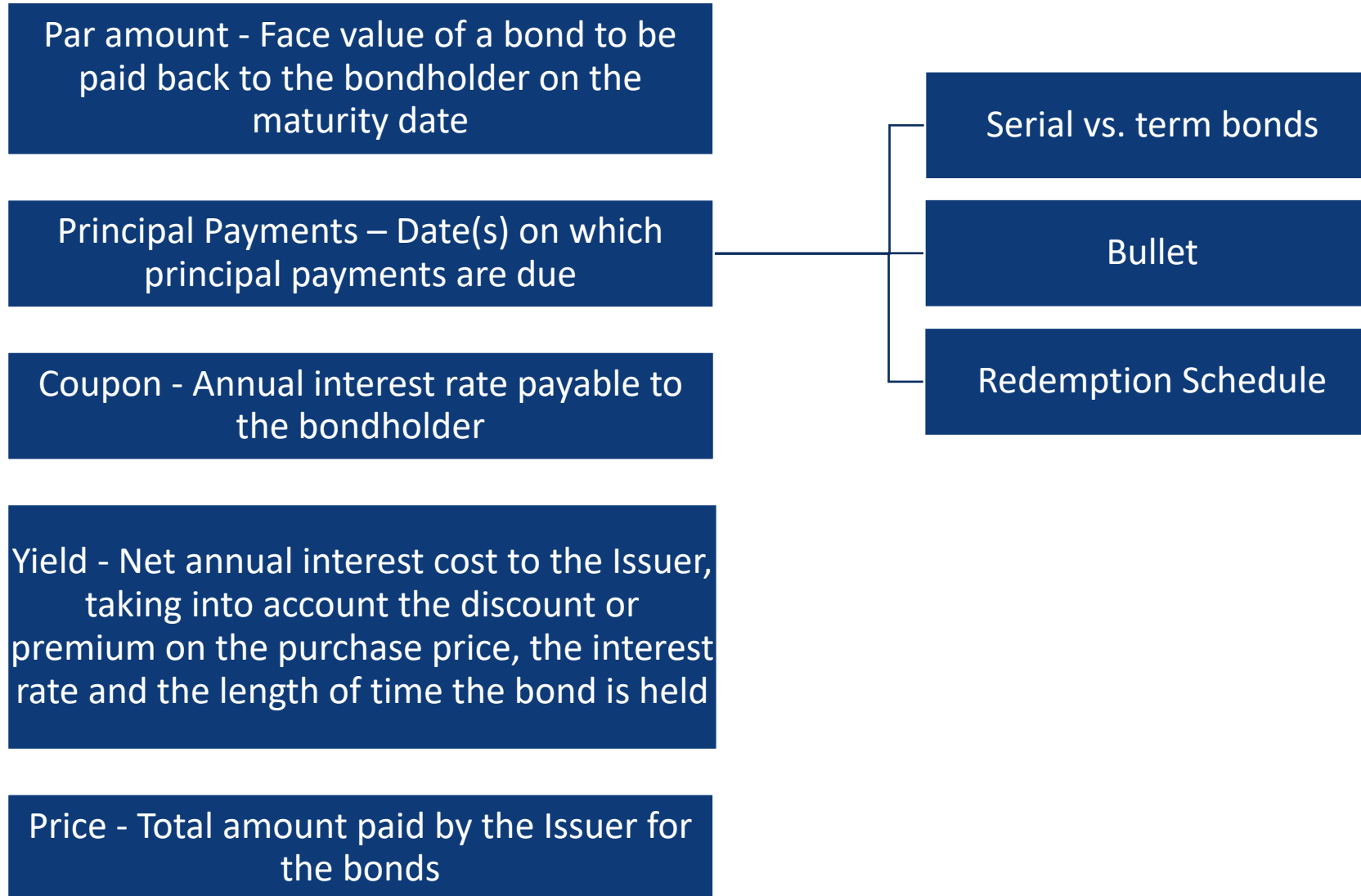
## Distribution Channels

- Retail
- Institutional
- Restricted Investor Types: QIBs and Accredited Investors

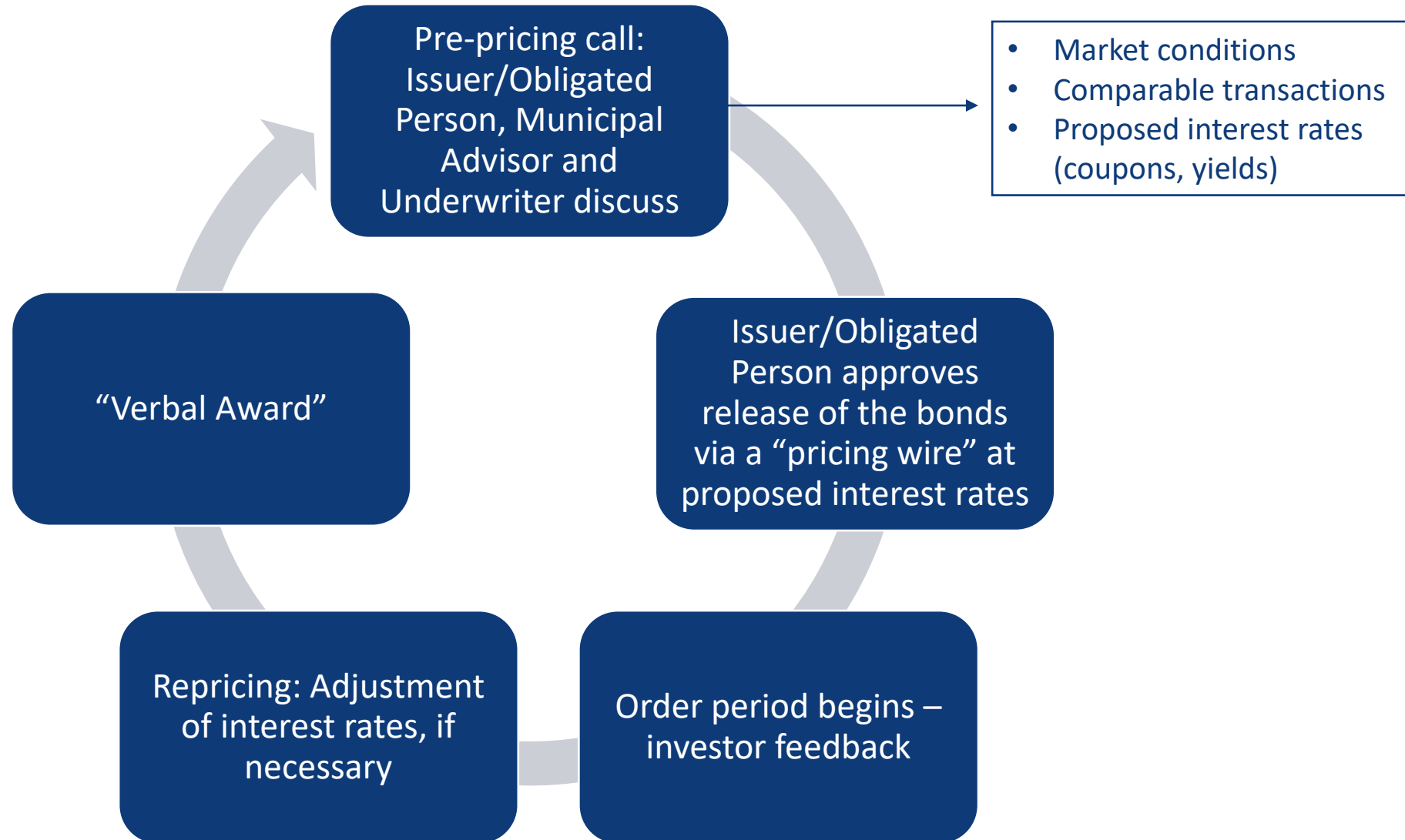
# Bond Marketing & Pricing – Another Perspective



# Elements of a Pricing



# Bond Pricing Process





# IV. Post-Pricing

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# Post-Pricing Process/Logistics

Bond counsel and underwriter check that sales fit within legal parameters

- (i.e. were at least 10% of the Bonds sold to the Public at the Initial Offering Price?)

Confirmation of insurer premium and verification (if refunding)

Monitor for disclosure issues during the underwriting period

Bond Counsel/Underwriter's Counsel revise Bond Purchase Agreement

Issuer/Obligated Person and underwriter finalize Bond Purchase Agreement ("Written Award")

Underwriter's operations team begins to work on logistics

- Write tickets with investors
- Order CUSIP Numbers
- MSRB Filings

# Pre-Closing and Closing

## Pre-Closing Activities

- Finalize documents with final “numbers”
- Print/Mail final OS within required timeframe
- Closing memo highlighting flow of funds

## Closing Activities

- Relevant parties execute documents and certificates
- Relevant attorneys deliver opinions

## Call DTC

# Questions

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