

**CMTA** 2023  
ANNUAL  
CONFERENCE

**FOR ALL** **FLAVORS OF** **FINANCE**  
TREASURY DEBT INVESTMENTS

MARRIOTT SAN MATEO • SAN FRANCISCO AIRPORT • APRIL 26-28, 2023

# Municipal Debt Issuance: Building Fundamentals and Exploring Market Trends

April 26, 2023 | 8:00AM – 12:00PM

# Speakers



## ISSUER

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Metropolitan Transportation Commission



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# Program Agenda

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- ❑ 8:00 AM – Introduction to Municipal Debt Issuance
- ❑ 9:00 AM – Planning a Municipal Bond Sale
- ❑ 10:00 AM – Break
- ❑ 10:15 AM – Issuing Municipal Debt
- ❑ 11:30 AM – Post-Issuance
- ❑ 12:00 PM – Closing

## SESSION ONE: 8:00 AM

### Introduction to Municipal Debt Issuance

- Municipal Bond Market
- Types of Municipal Bonds
- Bond Issuance Team

# Introduction to Municipal Bonds

## ■ WHAT IS A MUNICIPAL BOND?

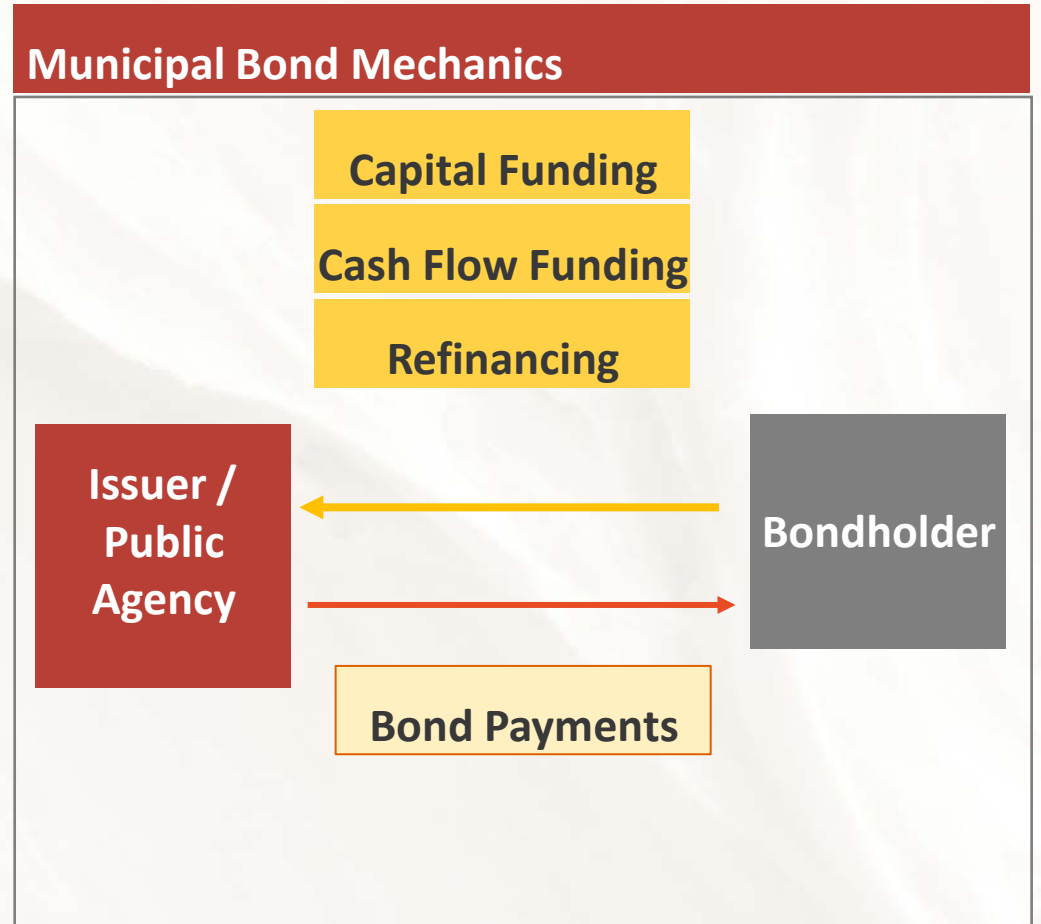
- Form of **loan** from a lender to a public agency
- Loan = type of borrowing in the form of a bond, note, or certificate

## ■ WHY DO PUBLIC AGENCIES ISSUE BONDS?

- Accelerate delivery of a capital project vs. cash funding
- Spread cost of capital project over useful life of the asset
- Achieve savings when cost of borrowing is lower than construction inflation or rate of earnings

## ■ HOW ARE BOND PROCEEDS UTILIZED?

- Infrastructure - e.g., water, sewer, streets/roads, bridges, utilities
- Capital Improvement - e.g., administrations centers, libraries, fire/police stations, parking garages, parks
- Cash Flow – interim financing
- Refinancing – reduce interest costs, consolidate or restructure debt



# Public Agencies Benefit from Tax Exemption

- Most municipal bonds issued for infrastructure or capital improvements qualify to be issued on a tax-exempt basis
- Bondholders do not pay Federal income tax on interest earnings
  - As a result, bondholders typically will purchase tax-exempt bonds at lower yields than taxable bonds
  - Allows a municipal issuer to raise capital at comparatively lower interest rates as compared to taxable/corporate bonds
- Issuers must meet IRS requirements to qualify bonds as tax-exempt
  - For governmental purposes – not for private use
  - Reasonable expectation that proceeds will be expended in 3 years from borrowing
  - Certain invested proceeds may not earn arbitrage (earnings rate > borrowing rate)
  - Certification required to be made by issuer at time of issuance – i.e., tax certificate

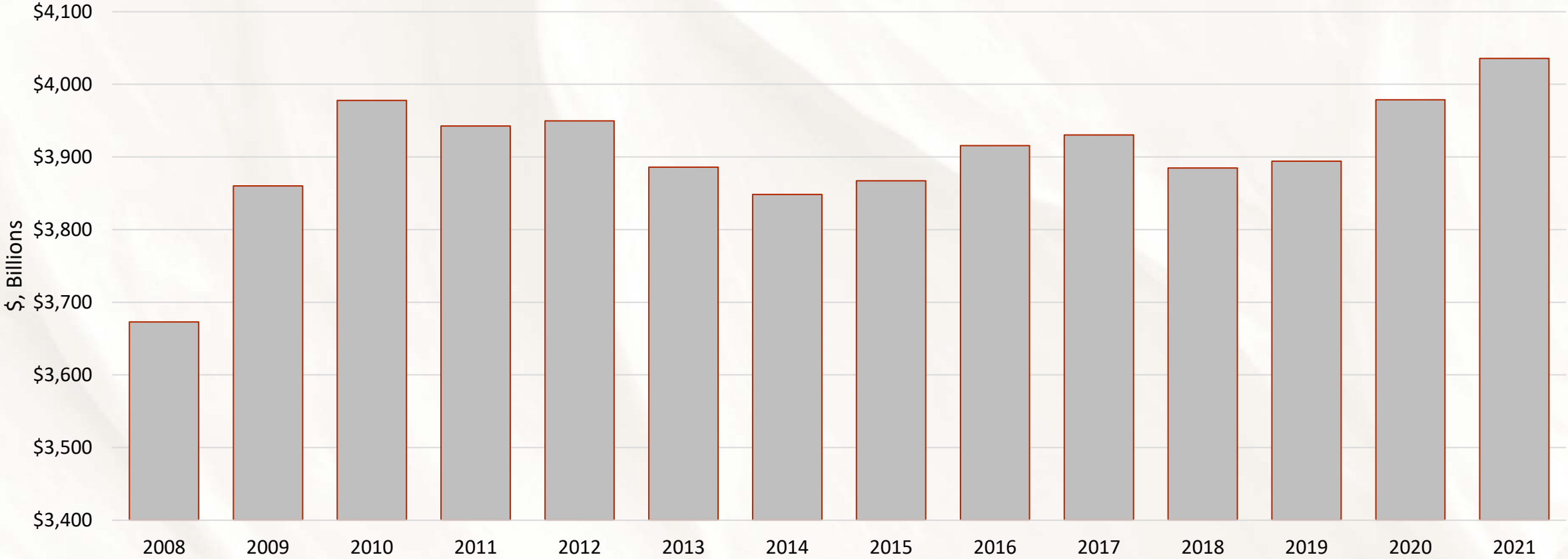
**However, there are reasons that a public agency may issue taxable debt!**

- Use of proceeds and financing flexibility
- Advance refunding of outstanding obligations



# Size of the Municipal Bond Market

**\$4 Trillion of Municipal Bonds Outstanding**

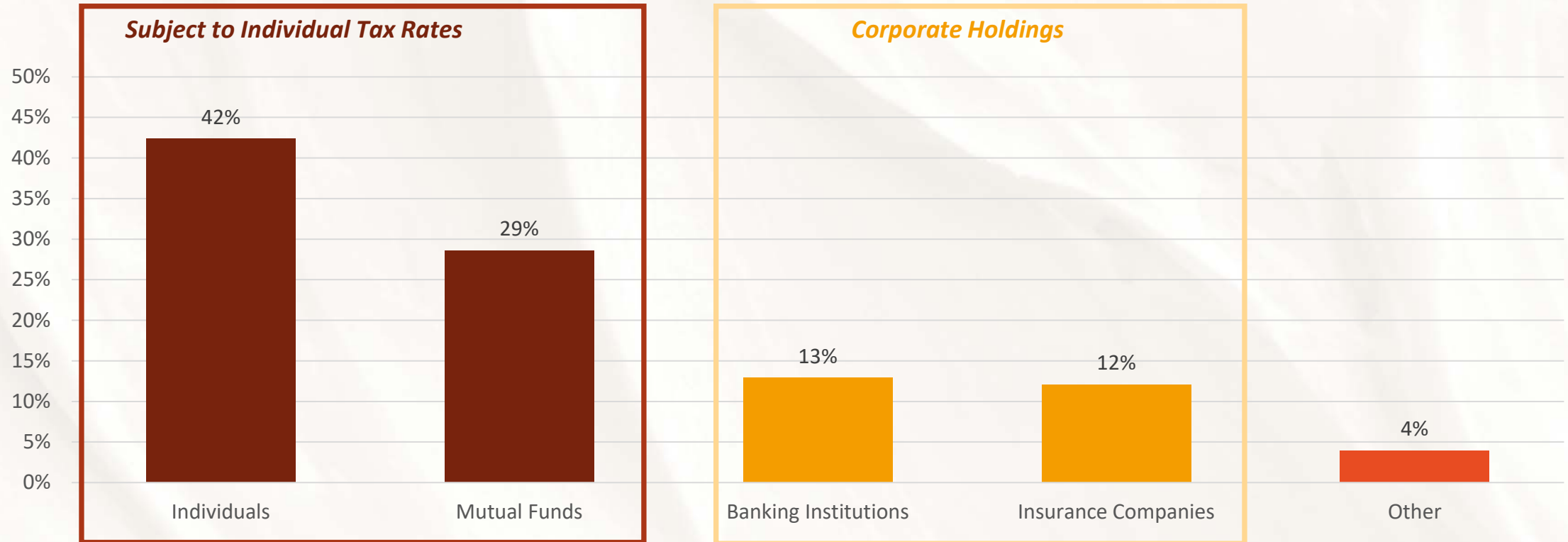


Source: The Federal Reserve



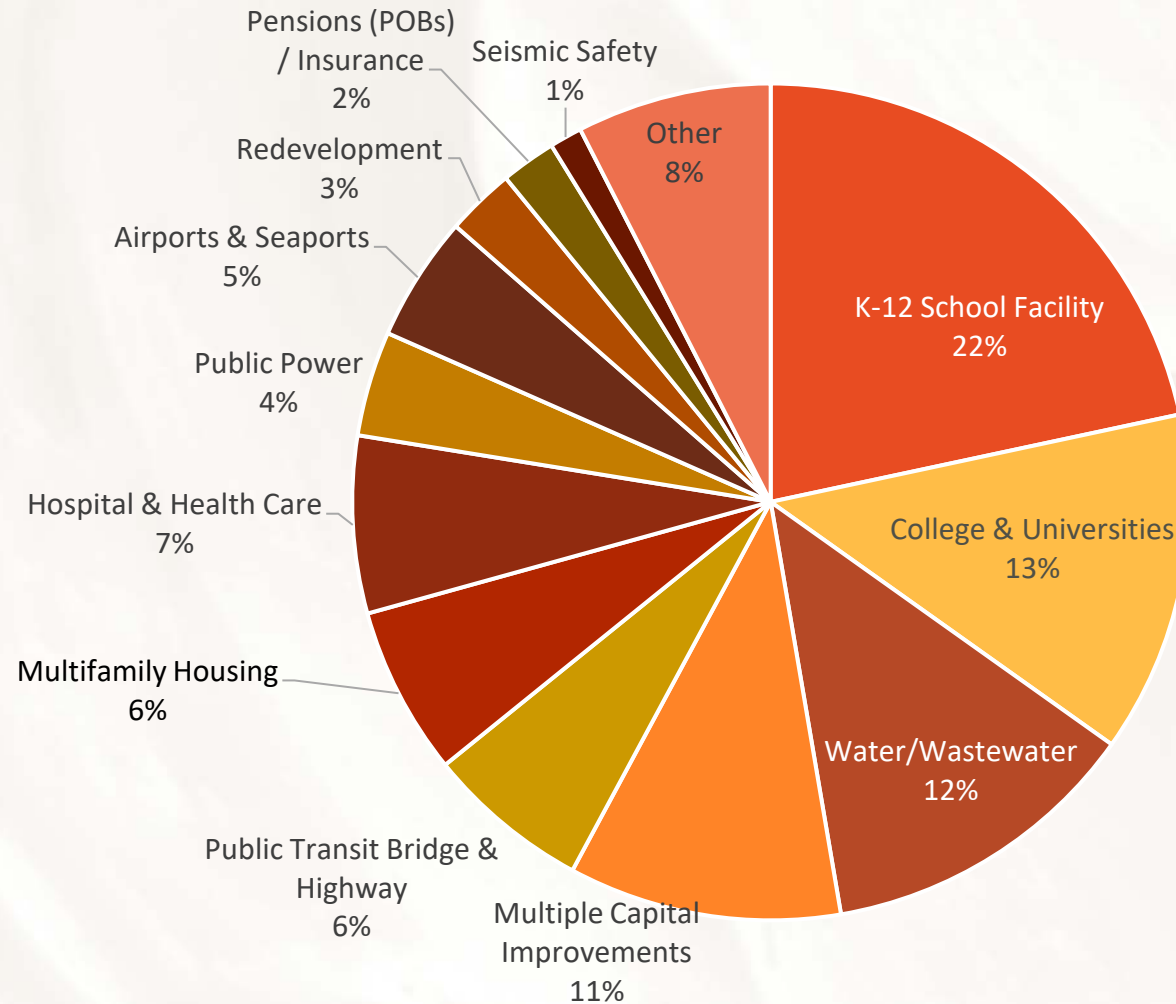
# Who Holds Municipal Bonds

## Proportion of Municipal Market Held by Investor Class



Source: The Federal Reserve, JPMorgan.

# Historical California Debt Issuance by Purpose



Source: CDIAC data from 2012-2022



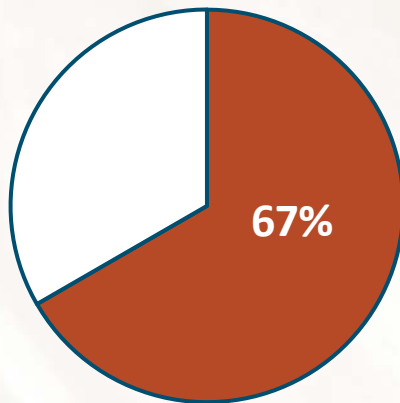
# Types of Bonds and Repayment Sources

Repayment Source	Financing Type	Voter-Approved?
<b>Dedicated Taxes</b>	<ul style="list-style-type: none"> <li>▪ General Obligation Bonds (GO Bonds)</li> <li>▪ Limited Tax Bonds (Sales Tax Revenue Bonds)</li> <li>▪ Special Tax or Assessment Bonds</li> </ul>	Yes
<b>General Fund</b>	<ul style="list-style-type: none"> <li>▪ Lease Revenue Bonds/Certificates of Participation (COPs)</li> <li>▪ Pension Obligation Bonds</li> <li>▪ Tax and Revenue Anticipation Notes (TRANS)</li> </ul>	No
<b>Enterprise or Special Fund Revenues</b>	<ul style="list-style-type: none"> <li>▪ Enterprise Revenue Bonds               <ul style="list-style-type: none"> <li>▪ Water/Sewer/Electric</li> <li>▪ Transportation/Toll</li> <li>▪ Airport</li> <li>▪ Other (i.e., parking, solid waste, convention)</li> </ul> </li> </ul>	No

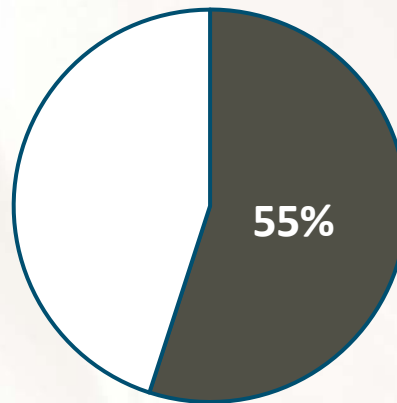
# Voter Approval is Required for Bonds Repaid with Dedicated/Special Taxes

- Cities & Special Districts: 2/3 approval
- School Districts: 2/3 approval or 55% approval (if certain statutory requirements are satisfied)
- State: 50% approval + 1 vote (simple majority)

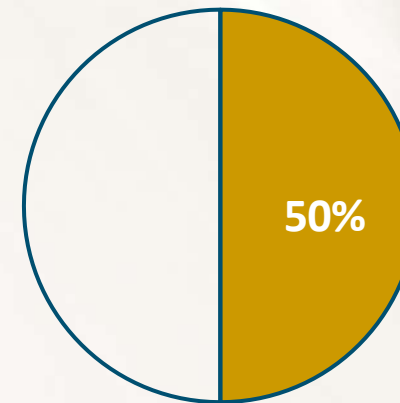
CITIES AND SPECIAL DISTRICTS



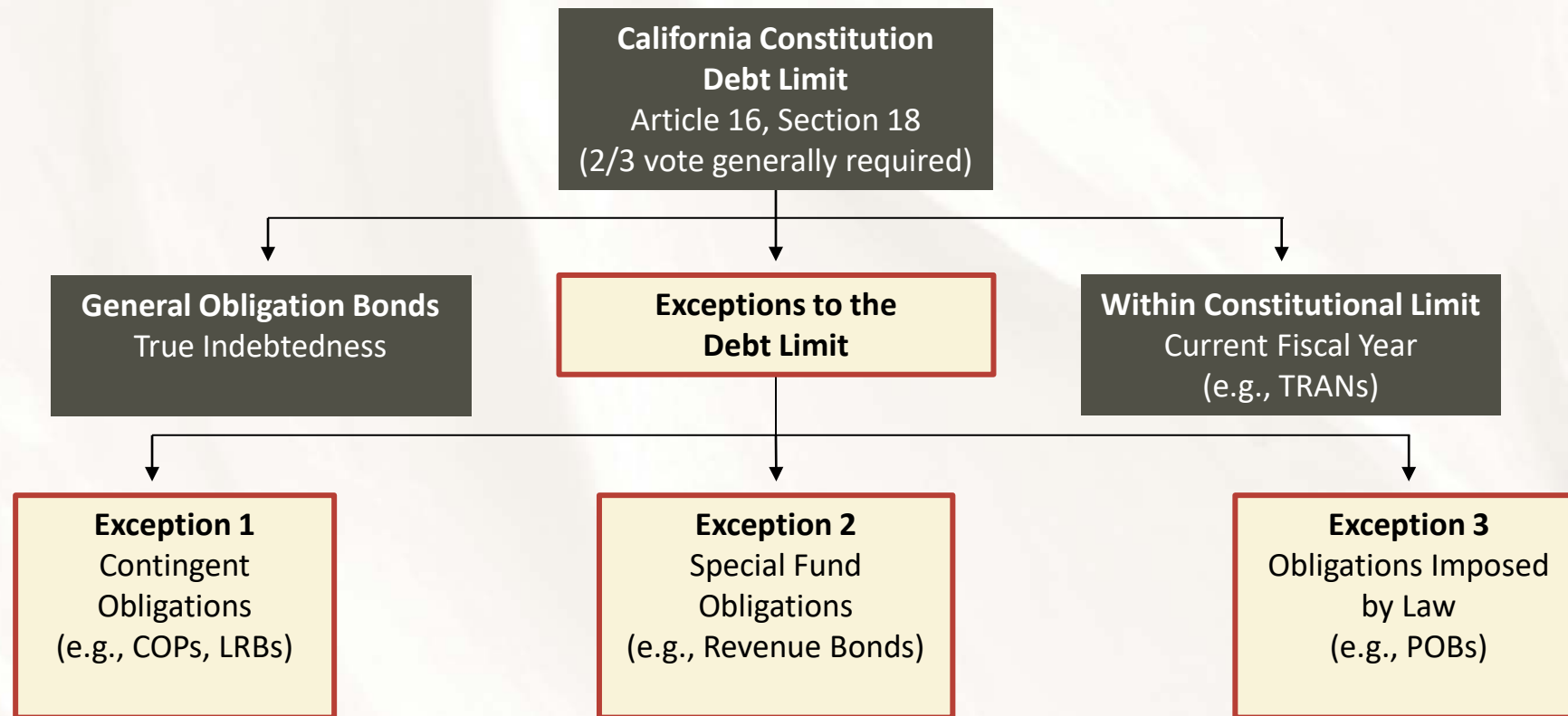
SCHOOL DISTRICT BONDS



STATE BONDS



# Exceptions to the Voter Approval Requirement

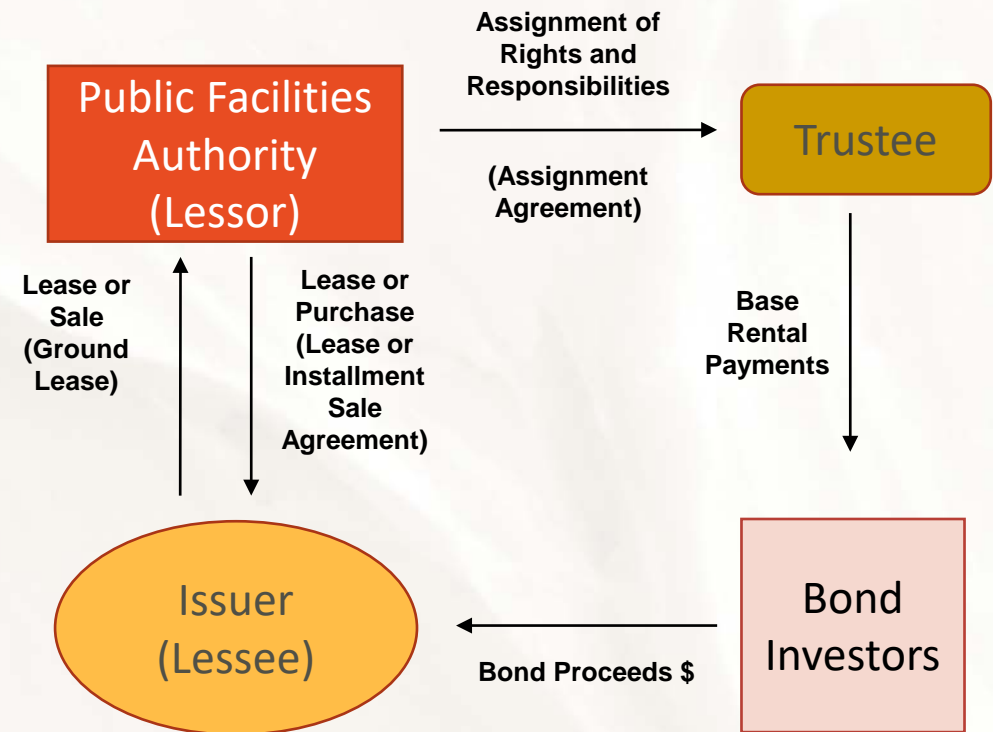


# Within Constitutional Limit: Tax and Revenue Anticipation Notes

- Constitution limits “any indebtedness... exceeding in any year the income and revenue provided for such year”
  - TRANs are indebtedness that is fully repaid out of current year revenues
  - Typically issued early in the fiscal year to fund payroll expenditures prior to receipt of property tax revenues
- Some factors when considering issuing TRANs
  - Real cashflow needs
  - Reinvestment opportunities (can keep any investment profit—arbitrage—if planned deficit occurs)
  - Costs of issuance are current expenses, not amortized over many years

# Exception 1: Lease Financing (Contingent Obligations)

- Lease Revenue Bonds (LRBs) / Certificates of Participation (COPs)
  - Most common form of debt used by public agencies to finance capital projects
  - Payable from “legally available funds” – i.e. General Fund revenues
- Lease rules in California commonly referred to as “Offner-Dean,” after the two key California Supreme Court cases
  - Payment is for “beneficial use and occupancy” of leased facilities in that year
  - Payment abated with loss of use and occupancy
  - No acceleration of future rent in the case of a non-payment
  - Rent cannot exceed “fair rental value” of leased assets



# Exception 2: Special Fund Exception

- Debt limitation interpreted to mean debt that is paid out of general taxes
  - Does not apply to debt that is paid for out of special revenues and used to finance an asset which is part of a project or system generating such revenues
  - Enterprise fund revenue debt, paid out of service fees and other user charges
- Concept expanded to all special funds
  - Special taxes, fees, assessments or “conduit” finance with private parties
- If special fund revenues are insufficient, there can be no obligation of local agency to pay debt service
  - Lack of a pledge of taxes a key fact distinguishing special fund obligations under California law
  - General Fund revenues usually cannot be transformed into special funds for purpose of securing debt

## Types of Limited Obligation Bonds:

- Sales tax bonds
- Special tax bonds (including Mello-Roos) - typically 2/3 voter requirement
- Assessment bonds
  - Paid by properties that receive special benefit
  - Not a tax, 50% vote
- Conduit financing

# Exception 2: Revenue Bonds

- Public agencies sell bonds secured by the following enterprises:
  - Water, wastewater, solid waste
  - Transportation, Toll, airports
  - Others include golf, parking, convention centers
- Revenue bond market requires debt service coverage
  - Cash cushion from “net revenues”
  - Gross revenues minus operating and maintenance cash expenses (depreciation excluded)
  - Coverage requirements typically range from 1.10x to 1.50x
- Revenue bond features
  - Rate covenants to maintain minimum coverage requirement
  - Additional bonds test

## Example Coverage Calculation

(A)	Revenue	\$10,000,000
(B)	Operation and Maintenance	7,000,000
A-B	Net Revenue	\$3,000,000
(C)	Debt Service	1,500,000
(A-B)/C	Debt Service Coverage (Net)	2.0x

# Exception 3:

## Obligation Imposed by Law

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- Limited case law
  - Key case involved a tax refund in 1921
  - Transactions are “validated” in superior court
  - Debt is a non-contingent obligation of General Fund
- Pension Obligation Bonds most common use of this vehicle
  - Taxable bonds used to extinguish all or a portion of an agency’s unfunded pension liability
  - Proceeds are deposited with retirement association, resulting in potential investment gains or losses - Risk arbitrage
- Judgment Obligation Bonds issued occasionally

# Bond Issuance Key Players

Issuer



Municipal Advisor



Bond & Disclosure Counsel



Underwriter



Trustee/Paying Agent



Rating Agencies

MOODY'S

S&P Global

FitchRatings

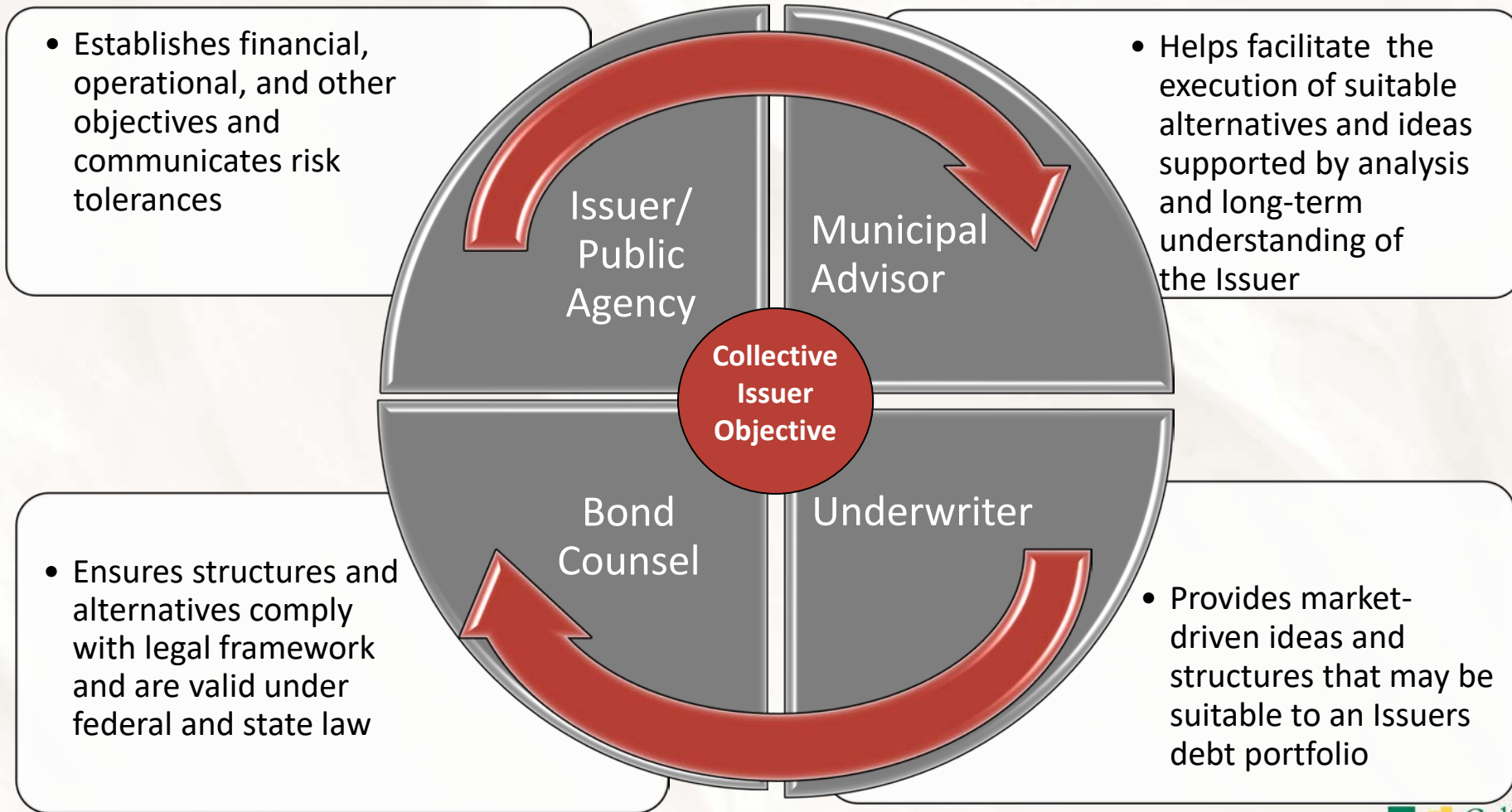
KBRA

KROLL BOND RATING AGENCY

\*For a private placement, disclosure counsel, underwriter, trustee, and rating agencies are not typically needed



# Issuer Financing Team Member Roles

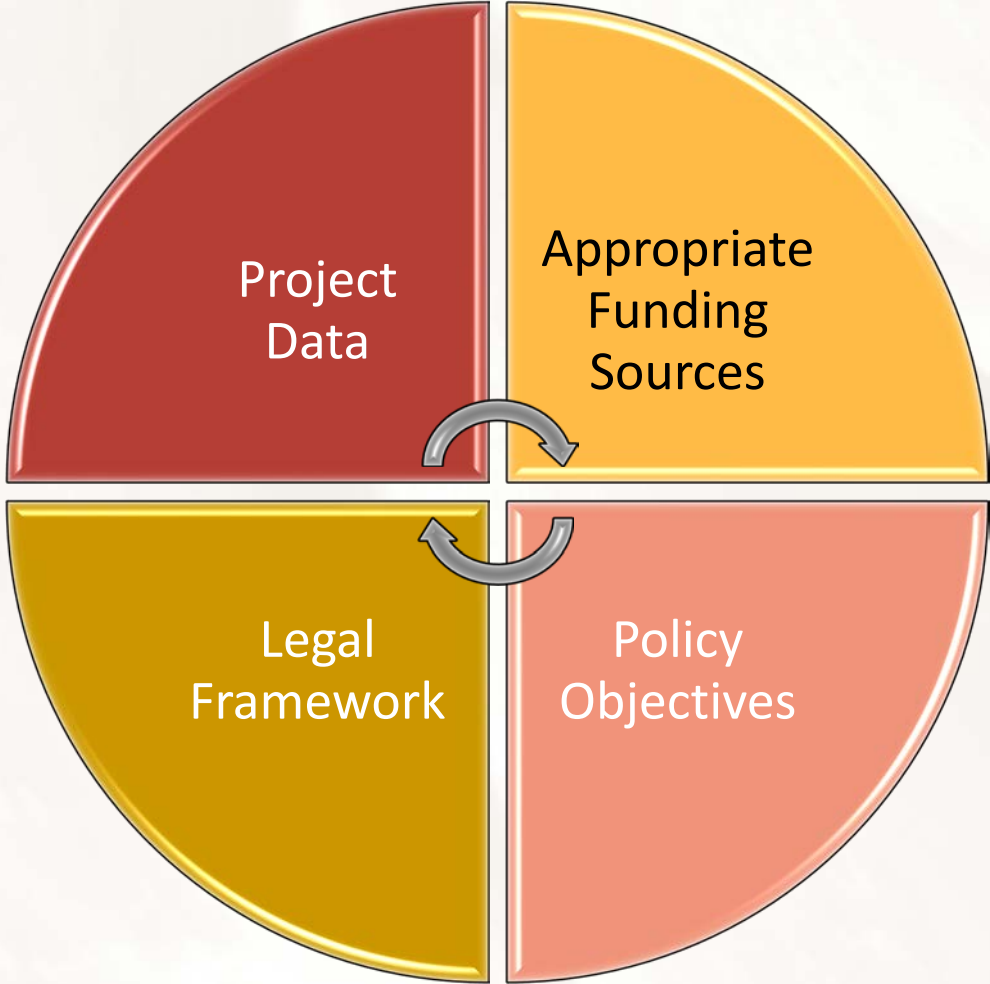


## SESSION TWO: 9:00 AM

### Planning a Municipal Bond Sale

- Financing Plan Development
- Factors Impacting Bonding Capacity
- Legal Requirements

# Components of a Financing Plan



# Plan of Finance Development

## Identify Project Needs and Funding Resources

- Assess project readiness and environmental approvals
- Prioritize project(s) from CIP – i.e., high, medium, and low
- Determine project cost expectations
- Identify available cash, revenues, or outside funding sources



## Develop Financial/Cash Flow Model

- Estimate amount and timing of annual capital expenditures
- Establish PAYGO and cash balance targets
- Identify amount and timing of “unfunded” or bonding need
- Group potential bond financings to satisfy IRS expenditure test requirements



## Project Repayment Sources for Annual Debt Service

- Prepare pro forma debt service numbers and evaluate debt affordability
- Evaluate legally available and/or pledged revenues for debt repayment
- Coverage requirements

# Project Funding Mix

Available Revenues/ Cash Balances	Federal/State Grants or Loans	Borrow Bonds, Loans, Notes
<ul style="list-style-type: none"><li>■ “Pay-As-You-Go”</li><li>■ Small and recurring capital projects</li><li>■ Projects built slowly over time</li><li>■ Opportunity cost of funds</li><li>■ Easiest source of money</li></ul>	<ul style="list-style-type: none"><li>■ “Free” money with strings attached</li><li>■ May require oversight or thorough review</li><li>■ Application process can be drawn-out and competitive</li><li>■ Timing of funds can be uncertain</li></ul>	<ul style="list-style-type: none"><li>■ Large capital expenditures</li><li>■ Acquisition projects</li><li>■ Future revenues from project available for debt service</li><li>■ Interest and financing costs</li><li>■ Staff resources required for financing process</li></ul>

**Optimal financing plans tend to involve a mix of pay-go/grant funding and borrowing**

# Bonding Capacity

## Interest Costs

- Credit ratings and credit spreads
- Interest rates on the sale date

## Legal & Policy Requirements

- Available bond authorization
- Debt service coverage requirements
- Additional Bonds Test (ABT)
- Debt Policy limitations

## Issuance Components

- Debt Service Reserve Fund
- Capitalized Interest
- Cost of Issuance Fund (legal advisors, municipal advisors, rating fees, insurance, underwriters' fees)

## Bond Structure

- Amortization Structure
- Bond/Debt Type
- Bond/Debt Term

# Bonding Restrictions Imposed By Legal Covenants

- Many indentures impose limits on additional “parity” debt
- For revenue bond issuers with multiple lien structures typically...
  - More restrictions on senior or “parity” debt
  - Less restrictions on subordinate lien obligations

## Limitations on Additional Bonds

- GO Bonds:
  - Authorized amount under ballot measure and ordinance
  - Tax rate limitations
- Lease Revenue Bonds:
  - Par amount consistent with asset value
  - Debt service Annual Fair Rental Value
- Revenue Bonds
  - Additional Bonds Test

# Bonding Restrictions Imposed By Policy and Practice

## Debt Policy

- How will the agency determine whether to issue debt?
  - Integration of capital planning and debt financing activities
  - Funding options, including debt, evaluated on case-by-case basis
- Striking the balance
  - Current resources (pay-as-you-go) vs. future resources (debt)
  - Current users vs. future users (generational equity)
  - Investment vs. deferral
- Limits on indebtedness
  - Affordability constraints

## Affordability and Fiscal Discipline

- Appropriation debt is probably the most important for defining limits
  - Definition of “capacity” varies widely by agencies
  - 6% of the General Fund expenditures rule of thumb
  - Custom-designed target is best
- Voter approved debt (usually GO bonds)
  - Measured by rating agencies as % of AV
- Total debt
  - Some agencies combine voter-approved and appropriation debt
  - Overlapping debt of other agencies is virtually impossible to control, but it may be a factor in ratings

# Bond Features and Structure Components

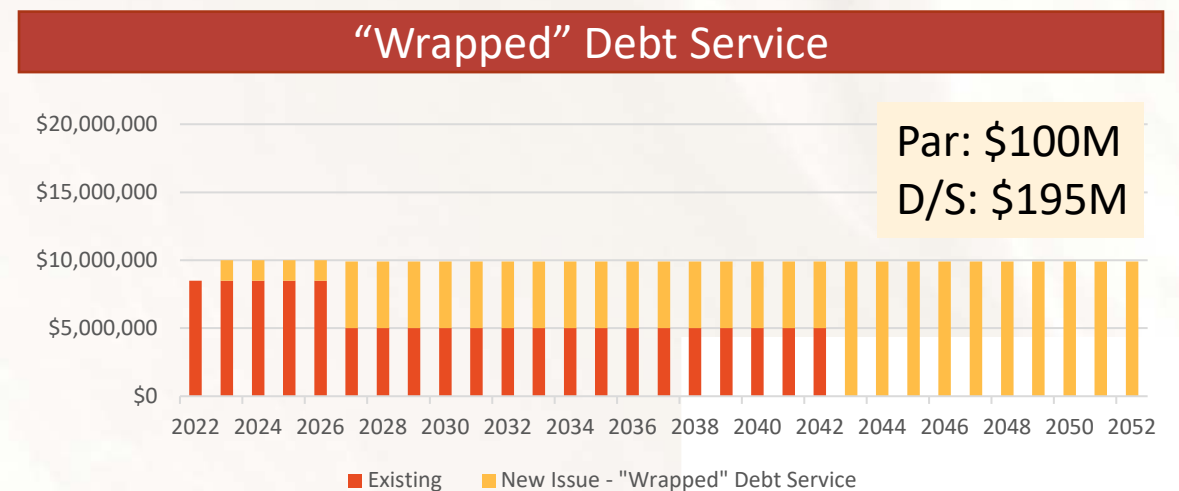
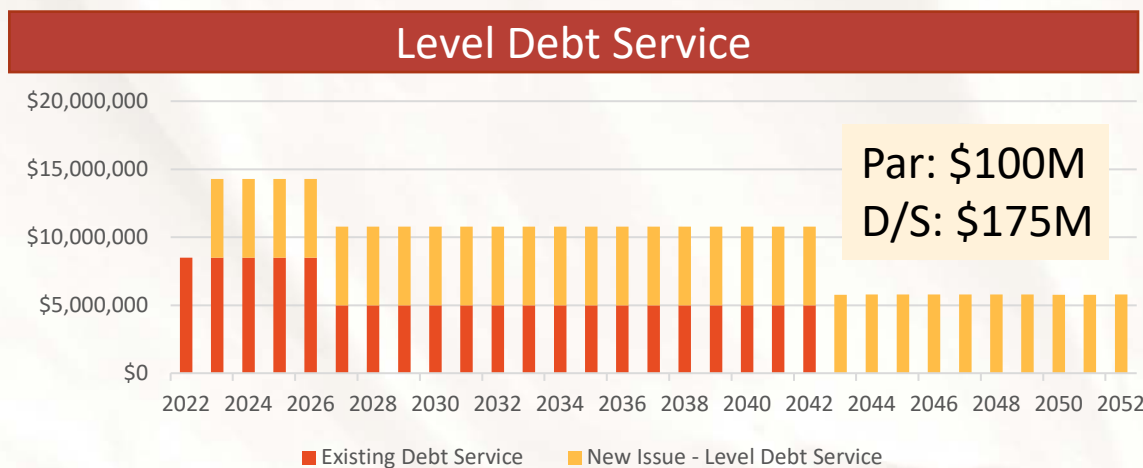
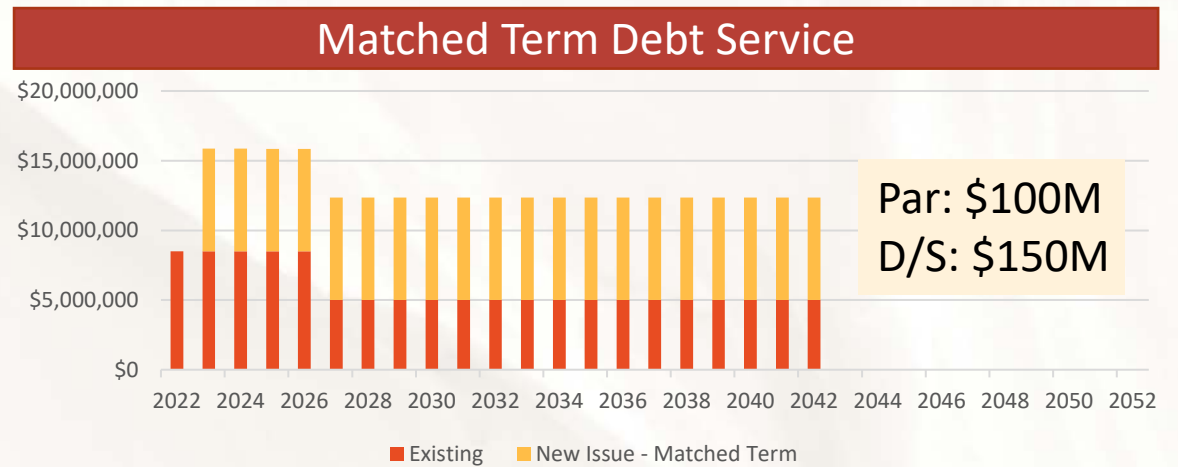
	GO Bonds	Lease Revenue Bonds/COP	Revenue Bonds
<b>Security Source</b>	Ad Valorem Tax	General Fund	Dedicated, Pledged Revenues
<b>Asset Pledge</b>	No	Yes	No
<b>Debt Service Coverage Requirement</b>	No (Agency levies taxes to cover debt service)	No (Agency budgets and appropriates debt service)	Yes (Revenue “cushion” above debt service – i.e. 1.50x)
<b>Additional Structure Features</b>		<ul style="list-style-type: none"> <li>▪ Abatement</li> <li>▪ Rental Interruption</li> <li>▪ Property &amp; Casualty Insurance</li> <li>▪ Remedy of “re-let”*</li> <li>▪ Debt Service Reserve Fund*</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rate Covenant</li> <li>▪ Additional Bonds Test</li> <li>▪ Debt Service Reserve Fund</li> </ul>

\*Market driven feature; not legally required. Not typically necessary for highly rated credits.



# Debt Service Structures – New Money

- Debt structuring decisions are driven by a number of variables
  - Existing debt service shape and structure
  - Asset being financed
  - Anticipated revenue profile
  - Future debt issuance plans



# Refunding Strategies and Considerations

## Refunding Strategies

- Current Refunding = Refunding bonds issued within 90 days of refunded bonds' call date
- Advance Refunding = Refunding bonds issued more than 90 days prior to refunded bonds' call date
- Tax Cuts and Jobs Act – Effective 2018 – eliminated tax-exempt *advance* refunding
  - Interest on current refunding bonds would continue to be tax-exempt
  - Interest on advance refunding bonds must be taxable

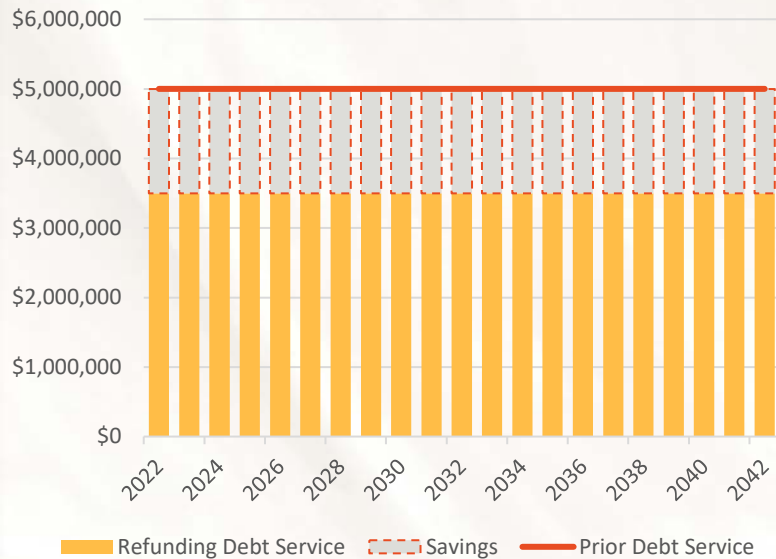
## Refunding Considerations

- Amount of Net Present Value (NPV) savings
  - In total dollars (i.e. \$500,000 NPV savings)
  - As % of par (i.e. 7% of refunded par)
- Amount of annual savings
- Costs/effort compared to potential savings
- Amount of negative arbitrage in refunding escrow
- What if you wait?
  - Assuming current market rates
  - Assuming market rate increases

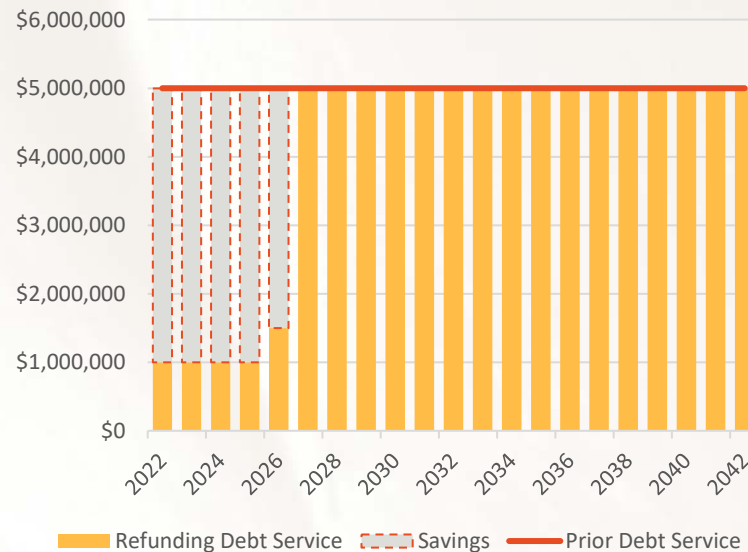
# Debt Service Structures – Refunding

- Most common refundings are to refinance debt for interest rate savings
- Debt is also refunded for restructuring and/or to eliminate restrictive covenants
- When refunding, one decision will be how to “shape” the savings profile relative to the debt being refinanced

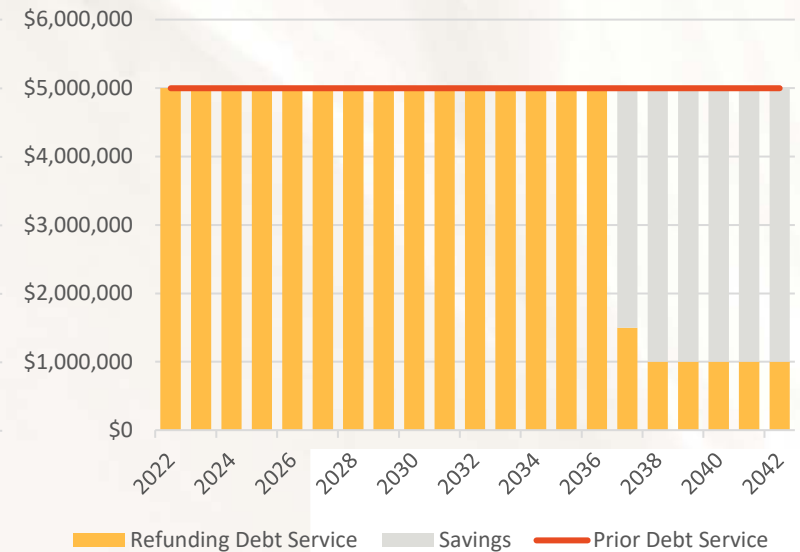
### Uniform/Level Savings



### Accelerated Savings



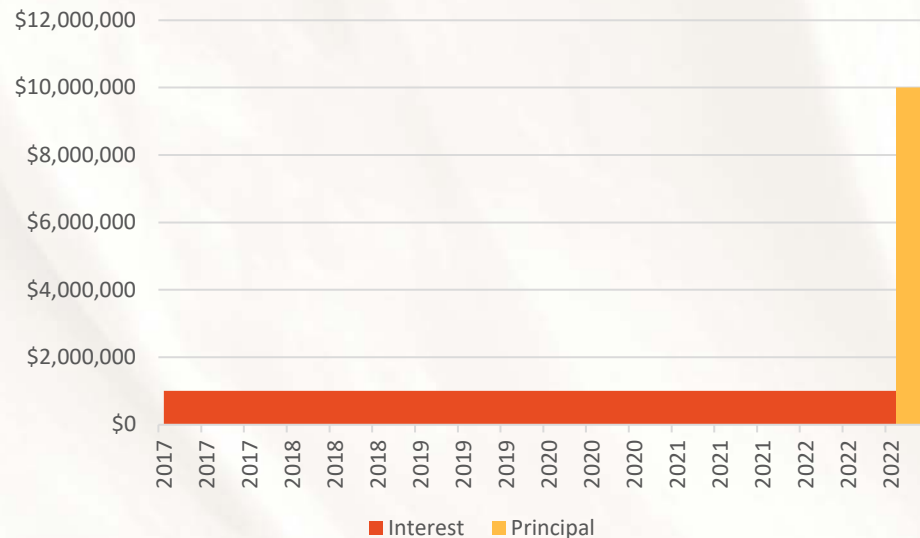
### Deferred / Backloaded Savings



# Fixed vs. Variable Rate Debt

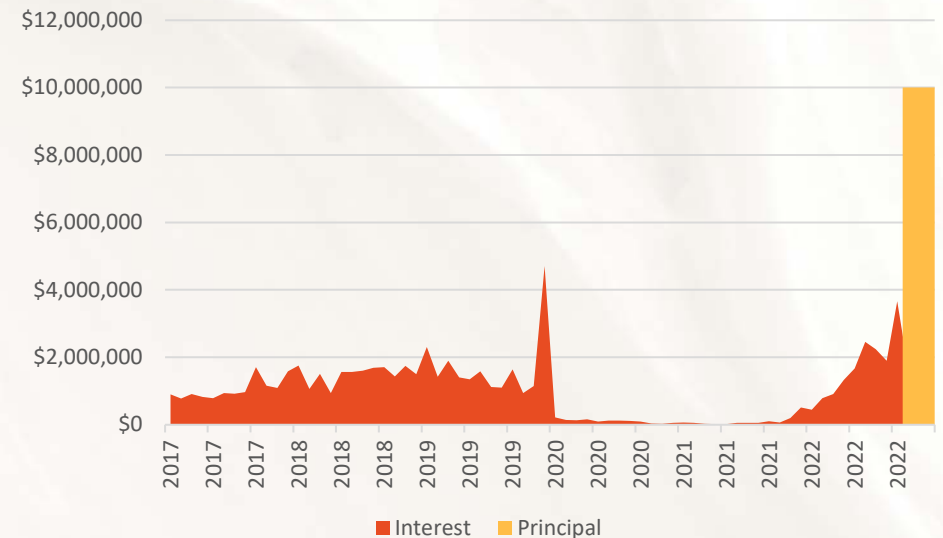
## Fixed Rate Debt

- The rates (coupons) are set on the day of the pricing and do not change
- The issuer will pay scheduled interest (usually twice a year) for as long as the bonds are outstanding



## Variable Rate Debt

- The rates are reset to different coupons at predetermined points throughout the year
- The issuer's interest payments will vary for the life of the bonds based on market conditions or changes in an index (typically SIFMA)



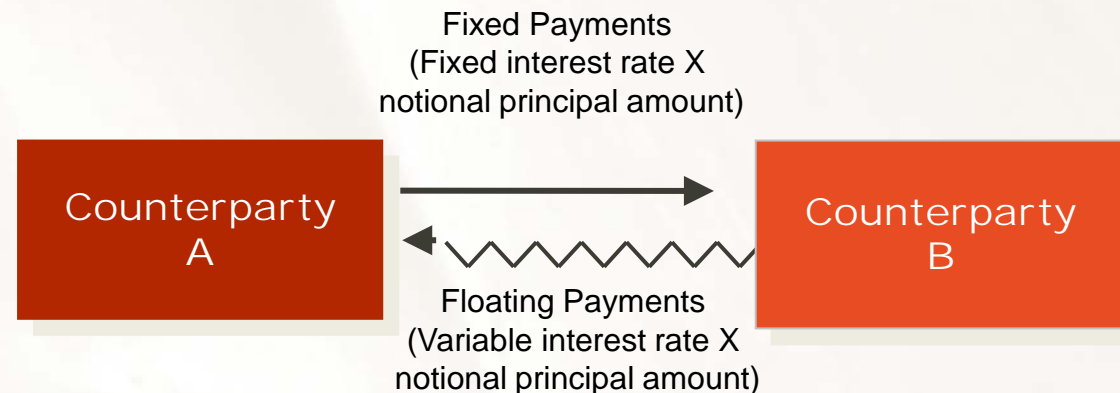
# Considerations for Fixed vs. Variable Rate Debt

- What is the optimal mix between fixed and variable rate debt?
- When should issuers consider variable rate debt vs. fixed rate?
- What are some of the benefits and considerations for fixed and variable rate debt?

Benefits of Fixed Rate Debt	Benefits of Variable Rate Debt
<ul style="list-style-type: none"> <li>• Allows for budget certainty and administration</li> <li>• No ongoing credit support needed</li> <li>• Legal documents are simpler</li> </ul>	<ul style="list-style-type: none"> <li>• Creates a natural hedge between short-term assets and liabilities</li> <li>• Often, more flexible prepayment provisions</li> <li>• Used to diversify debt portfolio</li> </ul>
Disadvantages of Fixed Rate Debt	Disadvantages of Variable Rate Debt
<ul style="list-style-type: none"> <li>• Historically, higher interest rates than variable rate debt</li> <li>• Less flexible call feature than variable rate bonds</li> </ul>	<ul style="list-style-type: none"> <li>• Interest rate risk and (often) bank credit risk</li> <li>• Budget uncertainty</li> <li>• Unpredictable pricing of support costs; typically new LOC/SBPA or mandatory tender required every 1-5 years</li> <li>• Additional administrative involvement</li> </ul>

# Synthetic Interest Rate Debt and Interest Rate Swaps

- An interest rate swap is an agreement between two parties (“counterparties”) to exchange interest rate payments for a specified period of time
- Usually the swap rate for one counterparty is fixed, whereas the swap rate for the other party is variable (“floating”)
- Typically, allows issuers to create lower cost synthetic variable-rate or fixed-rate debt and take advantage of different prices paid for different financial instruments in different markets
- Synthetic variable-rate debt can allow issuers to preserve valuable credit / liquidity facilities

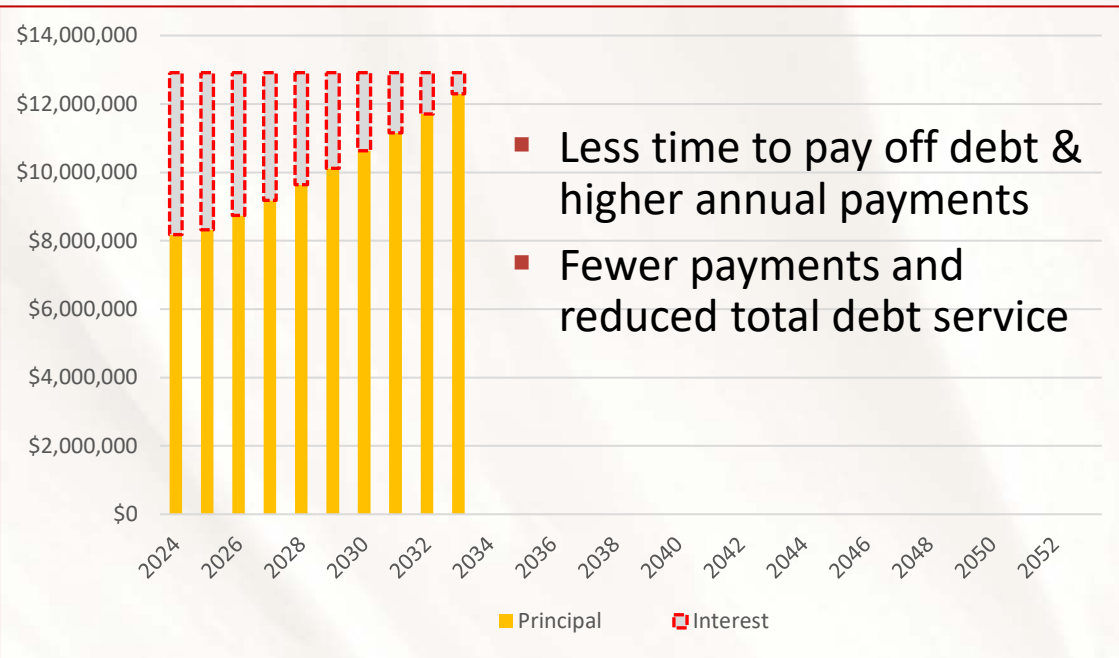


# Term of Debt

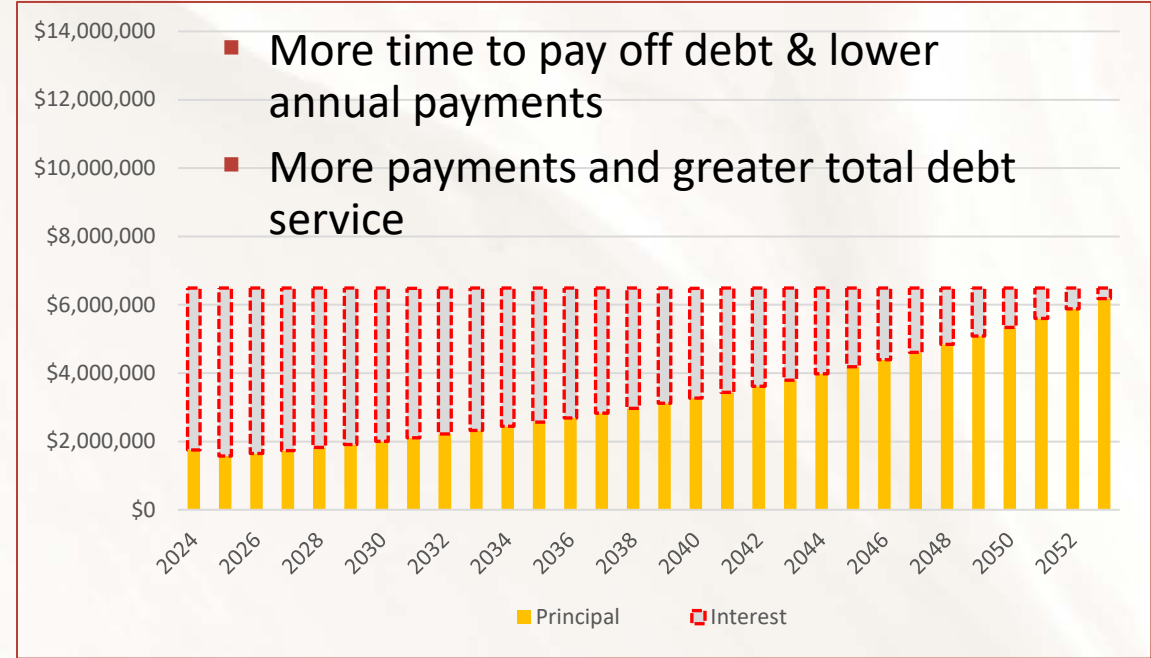
## ■ Considerations:

- Debt term – aligned with useful life of financed project
- Affordability – available resources/revenues to repay debt
- Intergenerational equity – current and future users pay for a long-lived asset

**\$100 Million Par | 10-Year Debt Term**

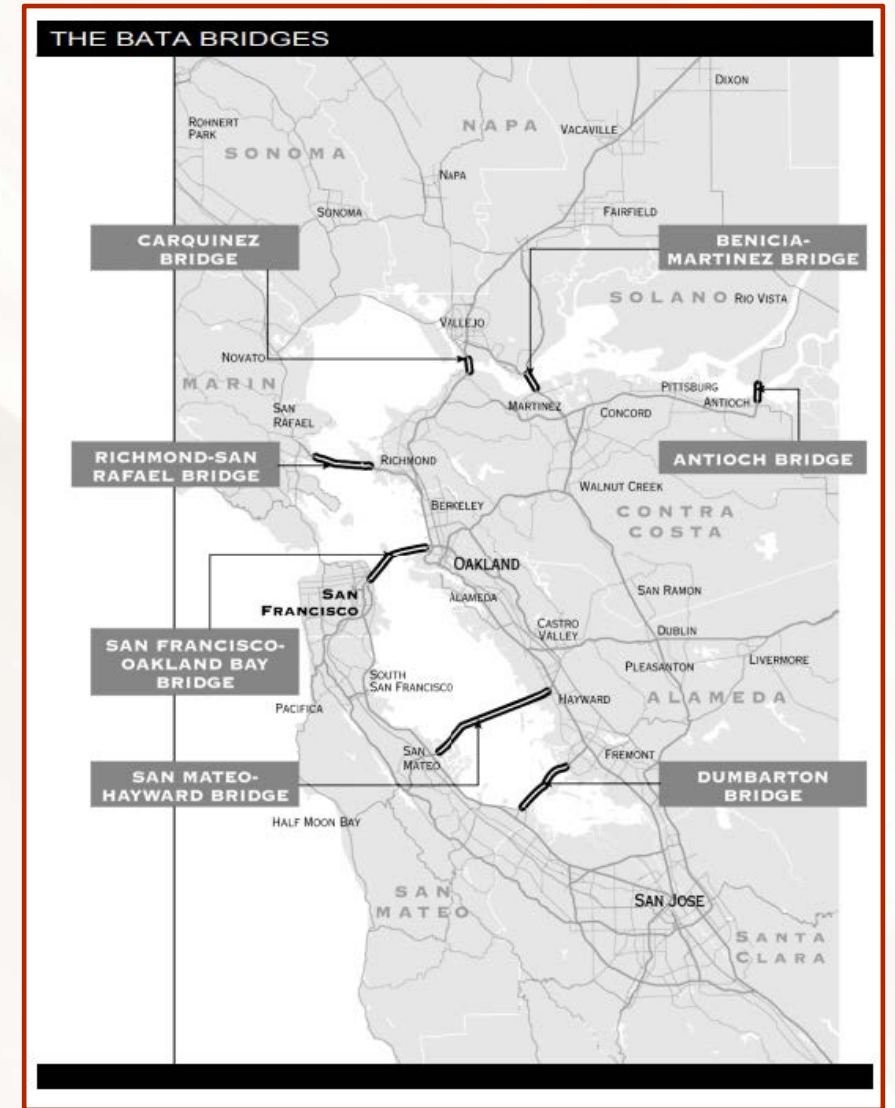


**\$100 Million Par | 30-Year Debt Term**



# In Practice: Bay Area Toll Authority

- The Authority administers toll revenue collections and finances improvements for seven state-owned bridges in the San Francisco Bay Area
- California law provides the Authority with broad toll setting authority to meet obligations and covenants under toll bridge revenue bonds
- In addition, three voter approved regional measures to pay for:
  - Regional Measure 3 – highway and transit improvements
  - Regional Measure 2 – highway, transit, bicycle and pedestrian projects on and near the bridges
  - Regional Measure 1 – major bridge and roadway improvements around the Bay Area



# MTC Debt Policy

- Purpose: Establish guidelines for the issuance and financial management of debt
- Includes:
  - Factors that favor pay-as-you-go or long-term debt financing
  - Requirements for debt resolutions
  - Requirements for capital financing plan
  - Debt refunding criteria
  - Discussions of variable rate debt, credit enhancement, derivatives and debt capacity

## METROPOLITAN TRANSPORTATION COMMISSION DEBT POLICY

### Introduction

The purpose of the Debt Policy is to establish guidelines for the issuance and financial management of debts for which the Metropolitan Transportation Commission (MTC) is administratively responsible, including those of the Bay Area Toll Authority (BATA) and the Bay Area Infrastructure Financing Authority (BAIFA). This Debt Policy is intended to guide decisions related to any debt issued by MTC or its affiliated entities. The MTC recognizes that cost-effective access to the capital markets is highly dependent on sound management of the MTC's debt program.

### Objectives

The purpose of the Debt Policy is to assist the MTC in meeting the following objectives:

- issue debt in accordance with established guidelines
- complete an approved capital financing plan
- timely repayment of debt
- maintain the highest of ratings that are consistent with the financing plan
- ensure compliance with applicable State and Federal laws
- assure access to credit markets
- preserve financial flexibility

The MTC's Debt Policy shall be reviewed and updated at least annually and presented to the Board for approval. The Debt Policy requires that the MTC's Board specifically authorize each debt financing by resolution approved by the Board.

### I. Long Term Debt Financing

A. The MTC will use the following criteria to evaluate pay-as you-go versus long-term debt financing in funding capital projects.

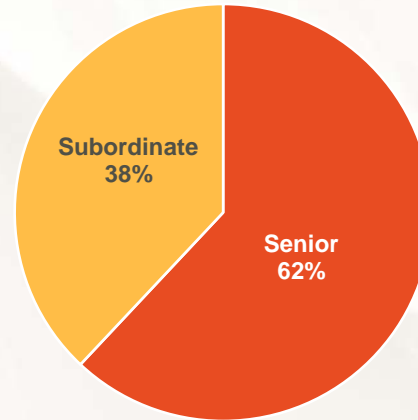
1) Factors that favor pay-as-you-go:

- a) Current revenues and adequate fund balances are available

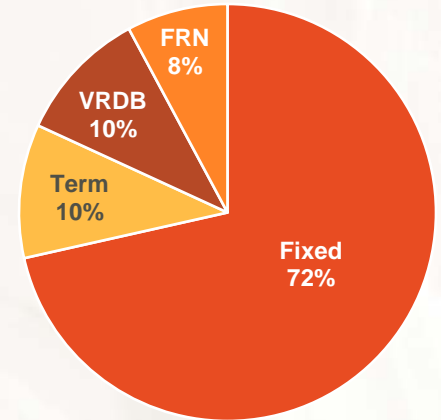
# BATA Debt Mix

- **Bond Security:** Statutory lien on Bridge Toll Revenues, which include all tolls and other income allocated to the Authority and derived from the Bridge System
- The Authority has \$9.6 billion of bonded debt currently outstanding across senior and subordinate liens
- \$1.4 billion of the Authority's variable rate bonds are hedged by fixed interest rate swaps
- Over 50% of the Authority's debt is taxable as a result of Build America Bond issuance and recent advance refundings

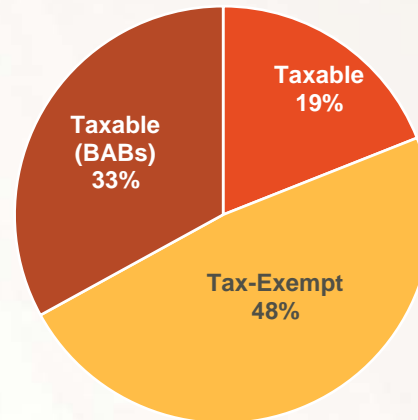
Outstanding Debt by Lien



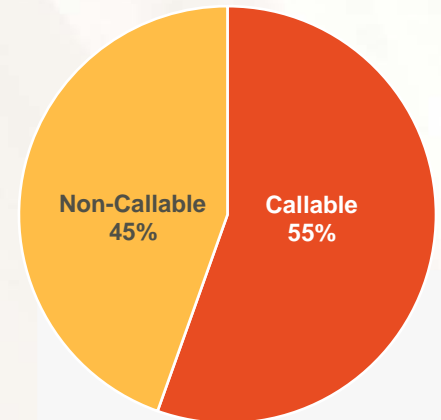
Outstanding Debt by Coupon



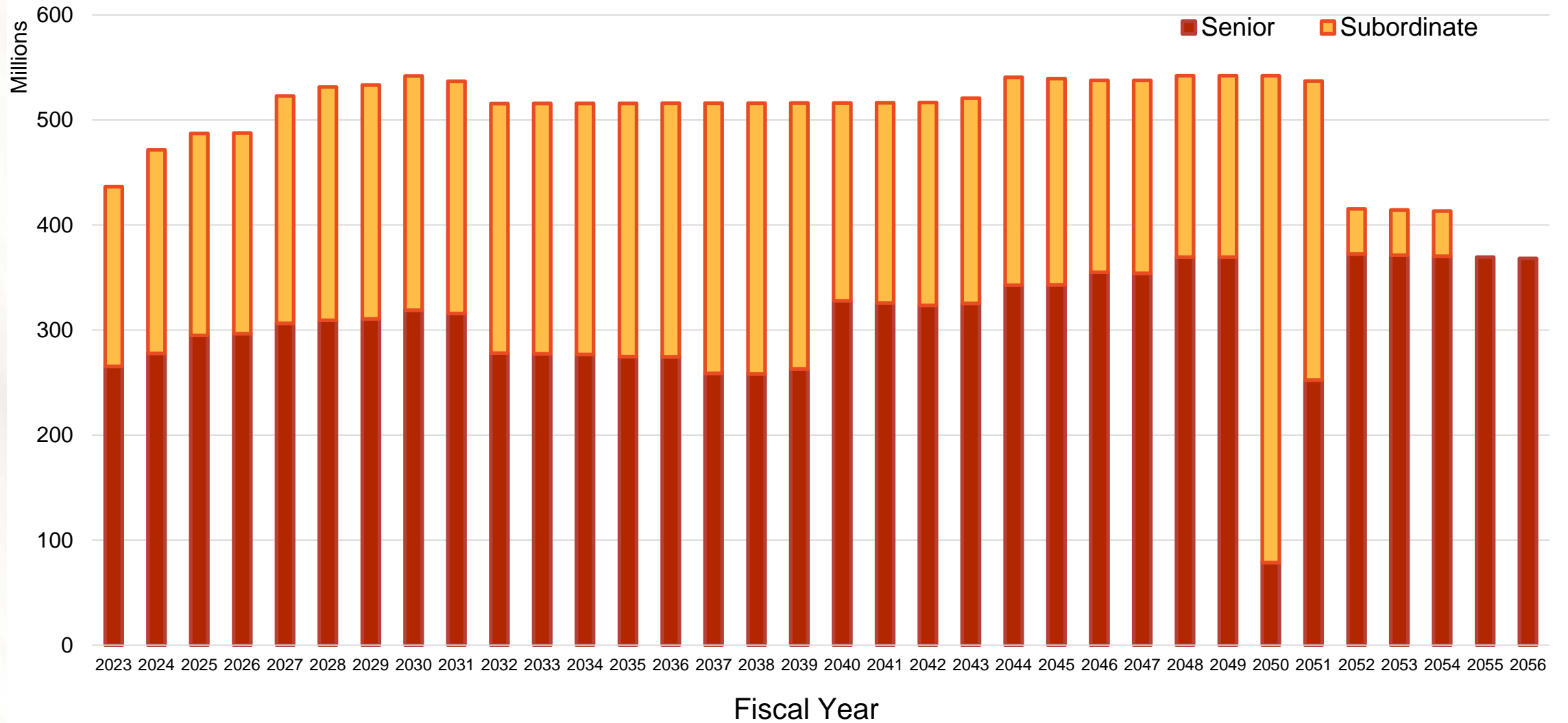
Outstanding Debt by Tax Status



Outstanding Debt by Call



# BATA Debt Service



## SESSION THREE: 10:15 AM

### Issuing Municipal Debt

- Documentation
- Credit Ratings
- Pricing Mechanics
- Current Market Themes

# Bond Issuance Timeline

## Pre-Transaction

- Develop financing plan
- Assemble financing team
- Determine method of sale
- Evaluate available assets (for lease financings)

## Months 1-3

- Refine security structure
- Finalize plan of finance
- Method of sale
- Develop legal documents
- Prepare disclosure document
- Evaluate bond structures

## Months 3-4

- Finalize documents
- Rating Agency meetings
- Board/Council approvals
- Finalize bond structure

## Months 4-5

- Receive ratings
- Post POS
- Begin pre-sale marketing
- Price bonds
- Close bonds
- Receive bond proceeds

### **NOTE: Private Placement**

Certain issuance steps are not required in a private placement transaction – such as obtaining ratings and marketing to investors – resulting in a shorter timeline.

# Different Methods for Issuing Bonds

	PUBLIC OFFERINGS		PRIVATE PLACEMENTS
	COMPETITIVE SALE	NEGOTIATED SALE	
Mechanics	<ul style="list-style-type: none"> <li>Structure issue</li> <li>Set time for bids</li> <li>Award to underwriter with lowest true interest cost</li> </ul>	<ul style="list-style-type: none"> <li>Select underwriter(s)</li> <li>Structure issue</li> <li>Set interest rates best on comparable sales and level of investor interest</li> </ul>	<ul style="list-style-type: none"> <li>Select bank based on rate and borrowing terms</li> <li>May require placement agent</li> <li>Structure issue</li> </ul>
When Most Appropriate	<ul style="list-style-type: none"> <li>Well known issuer</li> <li>Conventional bond structure</li> <li>High credit quality</li> <li>Strong investor demand</li> </ul>	<ul style="list-style-type: none"> <li>Unknown issuer</li> <li>Very large (or small) issue</li> <li>Complicated credit</li> <li>Weak market, limited demand</li> </ul>	<ul style="list-style-type: none"> <li>Smaller borrowings (&lt;\$20M)</li> <li>Shorter term (~10-15 years)</li> <li>“Story” borrowings</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>Supports public goal of transparency</li> <li>Bid can be “through” market</li> <li>No underwriter procurement</li> </ul>	<ul style="list-style-type: none"> <li>Underwriter can “pre-market” to investors</li> <li>Structure and timing flexibility</li> <li>Lower execution risk</li> </ul>	<ul style="list-style-type: none"> <li>No rating, no OS, no underwriter</li> <li>Swift execution</li> <li>Flexible prepayment options</li> </ul>
Considerations	<ul style="list-style-type: none"> <li>Less structuring and timing flexibility</li> <li>Less investor marketing</li> </ul>	<ul style="list-style-type: none"> <li>Less structuring and timing flexibility</li> <li>Less investor marketing</li> </ul>	<ul style="list-style-type: none"> <li>Shorter amortization</li> <li>Could have more restrictive covenants</li> </ul>

# Bond Issuance Documents

	DOCUMENT	COMPETITIVE SALE	NEGOTIATED SALE	DIRECT PURCHASE
<b>Authorizing Documents</b>	Ordinance or Resolution	✓	✓	✓
<b>Legal Documents</b>	Bond Indenture/Trust Agreement	✓	✓	✓
	Lease/Equipment Lease/Installment Sale Agreements	✓	✓	✓
<b>Disclosure Document</b>	Preliminary Official Statement (POS) / Final Official Statement (OS)	✓	✓	
<b>Sale Documents</b>	Notice of Sale	✓		
	Bond Purchase Contract		✓	
	Continuing Disclosure Agreement	✓	✓	✓

# Authorizing Ordinance or Resolution

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- Establishes legal authority for a public agency's issuance and sale of bonds
  - Sets not-to-exceed issuance parameters (par amount, interest rate, term)
  - Grants authority to agency staff to execute financing within the established terms
- SB 450 – Requires the governing body of a public body to obtain and disclose specified information regarding an upcoming bond issuance in a meeting open to the public, including good faith estimates of:
  - True interest cost
  - All third-party fees
  - Net bond proceeds received by the issuer
  - Total debt service
- SB 1029 – Before an agency can issue bonds, issuers must have an adopted debt management policy that addresses key areas under the legislation

# Legal Documents Contain Promises (Covenants) Made to Bond Holders (Lenders)

- Promise to repay principal and interest
- Promise to take actions necessary to ensure repayment; for example:
  - Levy a property tax for local government general obligation bonds
  - Budget and appropriate lease payments for lease revenue bonds or COPs
  - Set rates to pay operating costs and debt service, usually with a margin of safety for revenue bonds
- Promise to maintain tax-exemption (if tax-exempt)
  - Promise to use proceeds on non-private activities
  - Expectations regarding expenditure within three years
  - Rebate of arbitrage
- Other promises to protect investors may include
  - Maintenance of system
  - Limitations on additional debt
  - Maintain insurance on assets
  - Annual audits
  - Continuing disclosure

# Importance of the Official Statement


- While municipal securities are generally exempt from federal and state securities laws, anti-fraud rules apply
  - Anti-fraud rules intended to ensure investors have the information they need to evaluate investments
  - Prohibit the making of any untrue statement of material fact or omitting to state a material fact necessary to make the statements not misleading
  - Anti-fraud rules apply to any communications a municipal issuer releases to the public that is reasonably expected to reach investors and the markets
- The Official Statement is the Issuer's document
  - While outside advisors and counsel assist in the preparation, the Issuer bears ultimate responsibility
  - Although Councils/Boards may reasonably rely on Issuer staff and consultants, it is ultimately responsible for the execution of these duties
- A properly prepared Official Statement functions as the Issuer's primary defense against claims that its securities were sold based on incomplete or misleading information in violation of the antifraud rules

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other change without any notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

**PRELIMINARY OFFICIAL STATEMENT DATED MARCH 30, 2023**

**NEW ISSUE—BOOK-ENTRY ONLY** **RATINGS:** See "RATINGS"

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2023 Fixed Rate Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the 2023 Fixed Rate Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that, for tax years beginning after December 31, 2022, interest on the 2023 Fixed Rate Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Bond Counsel expresses no opinion regarding any other federal or state tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2023 Fixed Rate Bonds. See "TAX MATTERS."*

<p><b>\$450,000,000*</b></p> <p><b>BAY AREA TOLL AUTHORITY</b> SAN FRANCISCO BAY AREA TOLL BRIDGE REVENUE BONDS 2023 SERIES F-1 (FIXED RATE BONDS)</p>	 <p><b>\$50,000,000*</b></p> <p><b>BAY AREA TOLL AUTHORITY</b> SAN FRANCISCO BAY AREA SUBORDINATE TOLL BRIDGE REVENUE BONDS 2023 SERIES S-11 (FIXED RATE BONDS)</p>
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**Dated:** Date of Delivery **Due:** As shown in SUMMARY OF OFFERING

**This cover page contains general information only. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.**

The Bay Area Toll Authority (the "Authority") will issue (a) its San Francisco Bay Area Toll Bridge Revenue Bonds, 2023 Series F-1 (Fixed Rate Bonds) (the "2023 Senior Fixed Rate Bonds") pursuant to the Master Indenture, dated as of May 1, 2001, as supplemented and amended, including as supplemented by a Thirty-Fifth Supplemental Indenture, dated as of May 1, 2023 (collectively, the "Senior Indenture"), between the Authority and U.S. Bank Trust Company, National Association, as successor trustee, and (b) its San Francisco Bay Area Subordinate Toll Bridge Revenue Bonds, 2023 Series S-11 (Fixed Rate Bonds) (the "2023 Subordinate Fixed Rate Bonds") and, together with the 2023 Senior Fixed Rate Bonds, the "2023 Fixed Rate Bonds") pursuant to the Subordinate Indenture, dated as of June 1, 2010, as supplemented, including as supplemented by a Tenth Supplemental Indenture, dated as of May 1, 2023 (collectively, the "Subordinate Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee.

The 2023 Fixed Rate Bonds will be dated their date of delivery. The aggregate principal amounts, interest rates, prices and maturity dates and other information relating to each series of the 2023 Fixed Rate Bonds are summarized in the SUMMARY OF OFFERING following this cover page. Investors may purchase 2023 Fixed Rate Bonds in book-entry form only. The Depository Trust Company ("DTC") will act as securities depository for the 2023 Fixed Rate Bonds.

The Authority, with the assistance of BofA Securities, Inc. and J.P. Morgan Securities LLC, as dealer managers (the "Dealer Managers"), has released an "Invitation to Tender made by Bay Area Toll Authority" dated March 30, 2023 (the "Tender Offer") inviting owners of certain maturities of the Authority's outstanding San Francisco Bay Area Toll Bridge Revenue Bonds and San Francisco Bay Area Subordinate Toll Bridge Revenue Bonds as described herein (collectively, the "Targeted Bonds") to tender such bonds for purchase by the Authority. Such purchase of tendered bonds will be funded by a portion of the proceeds of the 2023 Fixed Rate Bonds as described herein. Such tender is expected to close concurrently with the issuance of the 2023 Fixed Rate Bonds. See "SUMMARY OF FINANCING PLAN - Tender and Purchase."

The Authority administers the toll revenues from the seven state-owned toll bridges in the San Francisco Bay Area. Proceeds from the sale of the 2023 Senior Fixed Rate Bonds, together with other available funds if necessary, will be used by the Authority to (i) purchase some or all of the Targeted Bonds tendered, (ii) make a deposit to the Reserve Fund established pursuant to the Senior Indenture, if necessary, and (iii) pay the costs of issuing the 2023 Senior Fixed Rate Bonds. Proceeds from the sale of the 2023 Subordinate Fixed Rate Bonds, together with other available funds if necessary, will be used by the Authority to (i) purchase some or all of the Targeted Bonds that are Subordinate Bonds (as defined herein) tendered, (ii) make a deposit to a reserve account for the benefit of the 2023 Subordinate Fixed Rate Bonds established pursuant to the Subordinate Indenture, and (iii) pay the costs of issuing the 2023 Subordinate Fixed Rate Bonds.

The 2023 Fixed Rate Bonds are subject to optional redemption and mandatory sinking fund redemption by the Authority prior to maturity as described in this Official Statement.

The Authority is not obligated to pay any 2023 Senior Fixed Rate Bonds except from Revenue as defined and provided in the Senior Indenture. The Authority is not obligated to pay any 2023 Subordinate Fixed Rate Bonds except from Revenue as defined and provided in the Subordinate Indenture. The 2023 Fixed Rate Bonds are special obligations of the Authority and do not constitute an obligation of the State of California (the "State"), the Metropolitan Transportation Commission or of any other political subdivision of the State other than the Authority, or a pledge of the full faith and credit of the State or of any other political subdivision of the State or of any other entity, including the Authority.

Purchasers of the 2023 Senior Fixed Rate Bonds will be deemed to have consented to certain amendments to the Senior Indenture. See "PROPOSED AMENDMENTS TO SENIOR INDENTURE" and APPENDIX I — "FORM OF PROPOSED AMENDMENTS TO SENIOR INDENTURE" herein.

The 2023 Fixed Rate Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and other conditions. Certain legal matters will be passed upon by the Authority by its general counsel, and by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the Authority, and for the Underwriters by their counsel, Nixon Peabody LLP. The Authority expects that the 2023 Fixed Rate Bonds will be available for delivery through DTC on or about May \_\_, 2023.

<b>BofA Securities</b>			
<b>Citigroup</b>	<b>Barclays</b>	<b>Goldman Sachs &amp; Co. LLC</b>	<b>J.P. Morgan</b>
		<b>Morgan Stanley</b>	

April \_\_, 2023

\* Preliminary, subject to change. The principal amount of the 2023 Fixed Rate Bonds will be based upon the results of the Tender Offer, as described herein.

# Other Bond Issuance Documents

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- Notice of Sale

- The document that issuers use to solicit bids from prospective underwriters for a competitive sale of bonds
- The notice of sale, the underwriter's bid, and the issuer's acceptance of the bid together constitute a bond purchase contract
- Generally, these three items taken together contain items similar to those in a negotiated bond purchase contract

- Bond Purchase Contract or Agreement

- In a negotiated sale, the bond purchase contract is an agreement between an issuer and an underwriter or a group of underwriters — a syndicate or a selling group — who have agreed to purchase the issue

- Continuing Disclosure Agreement

- An agreement (sometimes a certificate) of an issuer or an obligated person containing undertakings to provide annual reports and event notices pursuant to SEC Rule 15c2-12
- The underwriter cannot comply with SEC regulations without this document



# Credit Ratings

- Credit rating reflects likelihood that the Issuer will repay the Bond
  - Rating reflects the security of the bond and the ability of the issuer to make debt service payments
  - Higher rated Bonds are considered safer and will have lower required interest rates
  - “AAA” rated agencies can issue Bonds at lower rates than “A” rated agencies
- Municipalities may issue non-rated bonds
  - Investors will require higher interest rates
  - However, private placement transaction may be non-rated even for highly rated issuers

	Long-Term Ratings		
	Moody's	S&P	Fitch
Investment Grade	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
Speculative Grade	Ba	BB	BB
	B	B	B
	Caa	CCC	CCC
	Ca	CC	CC
	C	C	C
	D	D	D

# ESG and Credit Assessment

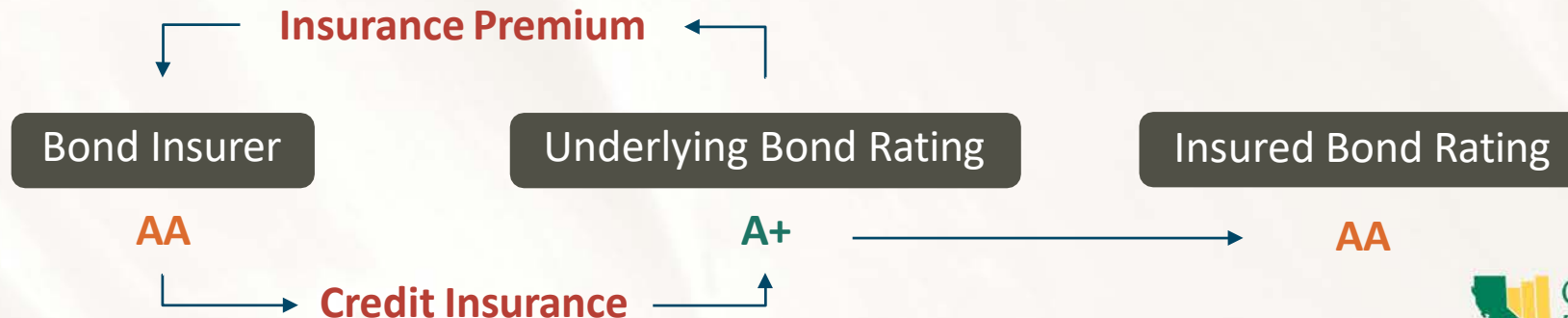
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- Environmental, social, and governance considerations
- The rating agencies have acknowledged that many ESG factors can affect debt issuers' cash flows and likelihood of default, and have introduced broader ESG frameworks
- These ESG “measurement methodologies” are not “transactional” nor intended to serve as the equivalent of a “second party opinion” for ESG designated bonds
- ESG indicators are largely embedded in sector-based rating criteria as more of an evaluation of issuers' inherent/underlying ESG characteristics
- Augment the traditional, more quantitative analysis of financial metrics like: fund balance, reserves, liquidity, etc.

# Credit Enhancements

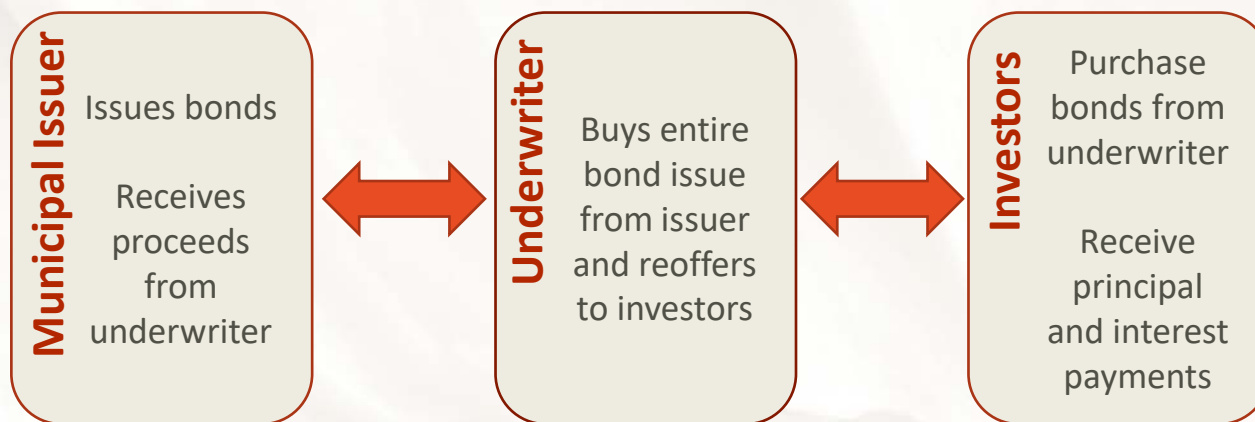
- Bond insurance companies can “credit wrap” an issuer’s bonds
- Guarantees the bondholder/investor additional protection in the event the issuer cannot make the payment
- Issuer pays a one-time premium to bond insurer for “insured rating”
  - Rating agencies assign rating to bond insurance companies based on financial reserves, credit exposure
- Issuer bond’s rating takes on bond insurance company’s rating
  - Premium paid can be offset by lower interest cost on bonds, enhancing savings
  - Insured rating could change over time if financial position of the bond insurer improves or becomes weaker

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# Underwriting and Pricing Process

- The underwriter acts as an intermediary between the issuer and investors
  - Involved in bond pricing and determining market-appropriate interest rates
  - Solicits investor interest
- Buys bonds wholesale from the issuer and sells them on the market to investors
  - If Bonds are not all sold, underwriter holds the balance for resale
  - Makes an offer to the issuer to purchase bonds and resell to investors



## **NOTE: Private Placement**

- A placement agent may serve in the role of placing the bonds directly with the purchaser
- Bonds are placed directly with a single bank investor or lending institution

# Pre-Pricing Process – Municipal Advisor Role

## Competitive Sale – Broad Market Outreach

- Identify upcoming economic releases and review municipal issuance supply calendar in selecting actual pricing date
- Develop an understanding of market conditions (e.g. rates increasing or decreasing, spreads to MMD tightening or narrowing, etc.)
- Structure offering based on underwriter and market feedback
- Notify the market of the upcoming transaction through Bloomberg, TM3, and publication in the Bond Buyer
- Reach out to underwriting desks (potential bidders) to confirm participation in the sale

## Negotiated Sale – Dialogue with Underwriter(s)

- Assess market conditions (rates and spreads to MMD)
- Identify and review appropriate market comparables
- Engage senior managing underwriter and tie-out on pricing comparables and proposed spreads
- Pre-pricing discussions with issuer, underwriter(s) and municipal advisor
  - Bond structure
  - Coupons / Spreads / Yields
- Recommend bond structure and the pricing to go out with
- Plans for release of the wire, timing of the order period

# What Determines Interest Rates on Bonds?

- Benchmark interest rates
  - Inflation and other economic activity
  - Relationship between tax-exempt (MMD) and taxable (US Treasury) rates
- Supply
  - Abundance or scarcity of tax-exempt bonds available on the market
  - Bond coupon payments and redemptions (reinvestment capital)
- Demand
  - Money flows between stocks and bonds
  - Liquidity (short-term) or yield (long-term)
  - The need to shelter income from taxes
- Credit Spread
  - Ratings
  - Security type (e.g. GO, Revenue, COPs, etc.)
  - Buyer sentiment
  - Size of issue

Benchmark Yield (MMD)



Borrower Credit Spread

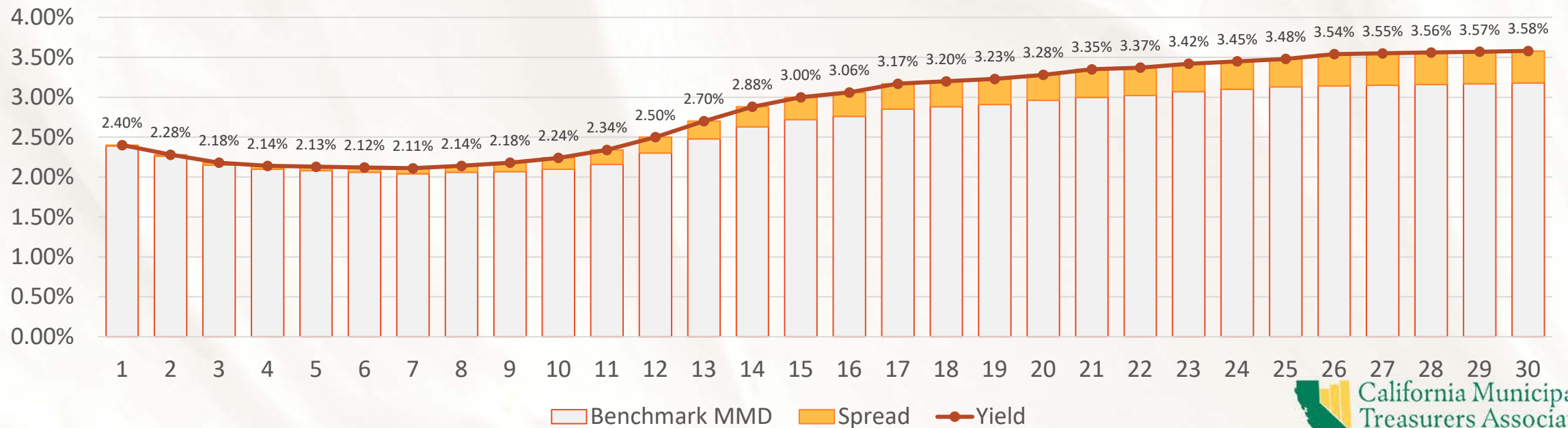


**Bond Yield**

# Pricing Yields in Practice

- Municipal Market Data's (MMD) "AAA GO" curve is the benchmark for **tax-exempt** pricings
- Pricing yields are most often evaluated and discussed in terms of spread to MMD

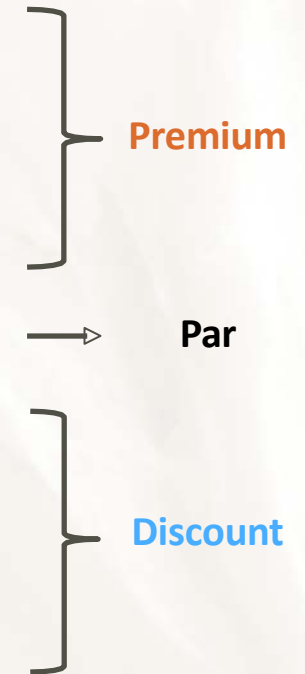
Illustrative Issuer Borrowing Cost by Maturity (10-year par call)



# Bond Pricing Terminology

- **Yield:** Return to investor after taking into account coupon payments, initial purchase price, and return of principal
  - As price increases, yield (return) decreases
- **Premium Bonds**
  - Coupon higher than current market rate; purchase price > 100
  - Price is less sensitive to interest rate movements but have higher risk of being called in future
- **Par Bonds**
  - Coupon rate matches current market rate; purchase price = 100
  - It is common for taxable bonds to be priced at par
- **Discount Bonds**
  - Coupon lower than the current market rate; Purchase price < 100
  - Discount bonds less likely to be called

Maturity Date	Coupon	Market Yield	Price
12/1/2021	5.00%	4.00%	104.452
12/1/2022	5.00%	4.25%	103.316
12/1/2023	5.00%	4.50%	102.195
12/1/2024	5.00%	4.75%	101.090
12/1/2025	5.00%	5.00%	100.000
12/1/2026	5.00%	5.25%	98.925
12/1/2027	5.00%	5.50%	97.865
12/1/2028	5.00%	5.75%	96.819
12/1/2029	5.00%	6.00%	95.788



# Competitive and Negotiated Sale Considerations

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Mixing the use of competitive and negotiated sales may provide an optimal approach to an issuer's financings

All else being equal, empirical data suggest competitive sales produce lower total interest cost

Negotiated sales motivate firms to bring innovative ideas to the table

Negotiated sales provide maximum flexibility to optimize the structure and execution of refundings

Rewarding firms that support an issuer's competitive sales by including them in future negotiated sale syndicates may result in better pricing

# Environmental, Social, Governance (ESG) Bonds

- A public agency may decide to designate an upcoming borrowing as “Green Bonds” or “Social Bonds”
- Designated Green Bonds may benefit from positive public relations and investor diversification
  - Currently, there is little to no pricing benefit between Green Bonds and non-Green Bonds, although the market is quickly developing
- There are several options to designating Green Bonds:
  - Self-designation: labeled by the issuer based on use of proceeds alignment with the International Capital Market Association (ICMA) Green Bond Principles
  - Second Party Opinion (SPO): outside firm provides opinion on whether framework is in line with Green Bond Principles
  - Climate Bond Initiative (CBI): obtain Climate Certified Bonds status, which is the “gold standard” in the certification of Green Bonds
- Considerations include potential added costs, added time during the financing process, and post-sale reporting obligations



# What Makes a Bond “Green” or “Social”

## Standardization

- While there **ARE** internationally established standards for Green Bonds and Social Bonds, there **IS NOT** a universal adherence to established market standards
- No statutory or other legal requirements
- Relatively broad criteria for what constitutes a green bond or social bond

## Guiding Framework

- The International Capital Markets Association (ICMA) is the authority that has established **Green Bond Principles** and **Social Bond Principals** – each label must align with four established pillars:
  1. Use of Proceeds
  2. Process for Project Evaluation and Selection
  3. Management of Proceeds
  4. Reporting

## Verification

- **Approved Verifiers**: The ICMA recommends an independent external review as a best practice for Green Bonds and Social Bonds
- **Self Label**: In the U.S. municipal market, issuers can still label Green and Social Bonds themselves



# 2023 Key ESG Themes



## Market to remain on 'High Alert' for Greenwashing Risk

- Increasing concerns over the basis on which 'ESG-related' financial products and services are presented have led to increased regulatory scrutiny and action, precursors to regulation, actual regulation and negative media coverage

## The 'Decarbonisation Imperative' to remain key ESG thematic

- Decarbonisation likely to remain as key ESG thematic in debt capital market
- Corporates, Asset Managers and Banks alike continue to commit to net-zero alliances – companies increasingly aligning to science-based targets. Passing of Inflation Reduction Act in U.S. is most notable climate bill in decades

## Increasing Regulatory Intervention

- The SEC is expected to issue new rules on climate-related disclosures (by corporations) & finalize proposed amendments to their rules to promote disclosure of consistent, comparable and reliable information with respect to ESG factors (by funds)

## Social Label Bonds to continue to decline in volume

- 2022 saw a continued decline in 'Social'-labelled debt issuances, falling by more than 50% (to \$110bn from \$223bn) by Q3 2022, likely associated with the easing of the COVID-19 pandemic. FIG issuers may drive an increase in Social/Sustainability-themed volumes as FIG issuers 'exhaust' available green assets for allocation to green bonds and remain challenged in pursuing SLB format

## 'Reorganisation/Reset' of investor approaches to continue

- Investors re-organising ESG investment approaches as a result of increased 'greenwashing' risk and regulatory scrutiny
- Trend toward (at least temporary) 'declassification' of ESG funds until fund manager is confident that relevant fund strategy meets legal requirements and regulator expectations

## SESSION FOUR: 11:30 AM

### Post-Issuance

- Debt Management Practices
- Investment of Bond Proceeds
- Reporting Obligations

# Debt Management Best Practices

## **Debt Management Responsibility**

- Designated team or individual responsible for ongoing responsibilities related to debt
- Manages disclosure, tax, and covenant compliance

## **Debt Policy**

- Creates tools to reconcile capital needs with available resources
- Establishes some basic parameters and principals
  - When, why, and how debt can be issued
  - Amount, type, issuance process, management of the debt portfolio
- Help protect agency interests and ensure prudent decision making

## **Debt Advisory Team/Oversight**

- Comprised of senior staff in key roles (management, finance, legal)
- Reviews and make recommendations to governing body on financing issues
- Explains the what, why and how of the process to non-finance staff, elected officials and the public
- Increases transparency

# Ongoing Debt Administration

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- Budgeting and paying debt service
- Other covenant compliance
- Rating surveillance
- Investor relations
- Monitor refunding opportunities

# Post Bond Issuance Compliance

- **Tax Law Compliance Issues**

- Rebate calculations
- Private use restrictions
- Expenditure of bond proceeds by certain dates
- Record keeping

- **Continuing Disclosure & Ongoing Investor Reporting**

- Maintaining compliance with annual continuing disclosure requirements (Rule 15c2-12) continues to be an important focus for the SEC and a challenge for many bond issuers

- **SB 1029 & State of California Reporting**

- Adoption of debt policy
- Annual Reporting



# Tax-Exempt Bonds and IRS Compliance

## ■ Tax-Exempt Issuers are Not Allowed to Earn “Arbitrage”

- IRS defines “arbitrage” as the investment earnings on bond proceeds that exceed the calculated yield on the Municipal Bond (cost of borrowing)
- Issuers allowed to invest bond proceeds until expended on intended projects
- Issuer must “rebate” 100% of excess earnings on Bonds back to the IRS

## ■ Other Tax Compliance

- Spend Down Requirements
  - Enter into a binding commitment to spend 5% of the proceeds within 6 months;
  - Spend 85% of the proceeds within 3 years; and
  - Proceed with diligence to complete the project
- Private Use Restrictions
  - 10% and 5% limitations
- Recordkeeping
  - Life of bond issue plus three years

# Continuing Disclosure Requirements

- **Continuing Disclosure Certificate requires the issuer to:**

- 1. **Post financial information** and operating data to MSRB's EMMA system annually

- Generally due 9 months after end of public agency's fiscal year

- 2. **Provide notices** of significant events

- Principal and interest payment delinquencies
    - Unscheduled draws on Debt Service Reserve Fund
    - Unscheduled use of Credit enhancement
    - Substitution of credit/liquidity providers
    - Rating changes
    - Accounting standards and fiscal year date changes
    - Adverse tax opinions by IRS
    - Bond calls and tender offers
    - Defeasances
    - Bankruptcy, insolvency, receivership

- Continuing Disclosure Certificate is legally binding
- SEC has heightened scrutiny of Continuing Disclosure compliance
- Failure to comply could lead to SEC action against issuer and/or underwriter

Continuing Disclosure Agreements entered into after February 27, 2019 require two new additional listed events:

- **NEW Event #15 – (“if material”)**
  - Incurrence of new “financial obligation”
  - Agreement to covenants, amendments, etc. in existing “financial obligation”
- **NEW Event # 16 – (“reflecting financial difficulties”)**
  - Default, termination event, acceleration, etc.

# Additional Disclosures

## ■ Additional Financial Information

- Effect of COVID-19 pandemic
- Quarterly/monthly financial information and interim/additional financial/operating data
- Budget
- Investment/debt/financial policy
- Material provided to rating agency or credit/liquidity provider
- Consultant reports
- Other financial/operating data
- Bank loan and alternative financing disclosures (if material would be covered by event #15)

## ■ Other Information

- Timing of and accounting standard used for annual financial disclosure, pre-sale documents (including POS), investor and rating agency presentations, links to investor websites

## ■ Additional Event Notices

- Amendment to continuing disclosure undertaking and change in obligated person
- Certain communications from the IRS (other than those included under SEC Rule 15c2-12)
- Bid for auction rate or other securities and derivative or other similar transaction.
- Capital or other financing plan
- Litigation/enforcement action
- Change of tender agent, remarketing agent, or other on-going party
- Other event-based disclosures

# Continuing Disclosure Best Practices

- Know your CDA Obligations!
  - Be aware of the events that must be disclosed
  - Work with bond counsel and Municipal Advisor to determine the appropriate information and detail to be included in a CDA
  - Prior to execution, ensure a full understanding of your CDA obligations
  - List the required reporting events as stated in your CDA; each bond issue may have different requirements
  - Ensure accuracy and timeliness of reported information
  - Identify the person who is designated to be responsible for making the filings
- Rating Changes
  - Most common disclosure failure is change in ratings
  - Set up ticklers for rating changes
- Retain a Dissemination Agent or Handle In-House?

# Overview of SB 1029

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- SB 1029 amended Section 8855 of the California Government Code.
  - Section 8855 of the Government Code establishes the California Debt and Investment Advisory Commission (“CDIAC”)
  - Provides information, education, and technical assistance on debt issuance and investments to local public agencies and other public finance professionals
- SB 1029 requires CDIAC to track and report on all state and local outstanding debt until fully repaid or redeemed by obtaining:
  - 1) Certification pertaining to an issuer’s adopted debt policy (an extension of the Proposed Debt Issuance reporting process)
  - 2) Annual report including specified information about issued and outstanding debt (an extension of the Final Sale reporting process)

# SB 1029 Annual Reporting Requirement

- A state or local public agency is required to submit an annual report for any issue of debt on or after January 21, 2017, covering a reporting period of July 1 to June 30 to be submitted within 7 months after the end of the reporting period
- Specified information about debt issued and outstanding during the reporting period shall include:
  - A. Debt authorized during the reporting period, including the following:
    - Debt authorized at the beginning of the reporting period
    - Debt authorized and issued during the reporting period
    - Debt authorized but not issued at the end of the reporting period
    - Debt authority that has lapsed during the reporting period
  - B. Debt outstanding during the reporting period, including the following:
    - Principal balance at the beginning of the reporting period
    - Principal paid during the reporting period
    - Principal outstanding at the end of the reporting period
  - C. The use of proceeds of issued debt during the reporting period, including the following:
    - Debt proceeds available at the beginning of the reporting period
    - Proceeds spent during the reporting period and the purposes for which it was spent
    - Debt proceeds remaining at the end of the reporting period

# Resources

# GFOA Best Practices & Advisories: Debt

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- Debt Management Policy: <https://www.gfoa.org/materials/debt-management-policy>
- Selecting Consultants: <https://www.gfoa.org/buyers-guide-bonds>
- Post-Issuance Compliance: <https://www.gfoa.org/developing-and-implementing-procedures-for-post-issuance>
- Variable Rate Debt: <https://www.gfoa.org/materials/using-variable-rate-debt-instruments>
- ESG Disclosure: <https://www.gfoa.org/materials/esg-disclosure>
- Pension Obligation Bonds: <https://www.gfoa.org/materials/pension-obligation-bonds>

# CDIAC resources

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- Main website: <https://www.treasurer.ca.gov/cdiac/>
- CDIAC Education Portal: <https://edportal.treasurer.ca.gov/>
- California Debt Financing Guide (PDF):  
<https://www.treasurer.ca.gov/cdiac/debtpubs/financing-guide.pdf>
- Green Bonds & Climate Resources:  
<https://www.treasurer.ca.gov/cdiac/dashboard/climate.asp>

# Disclosures

# KNN Public Finance: MSRB Rule G-42 Disclosures

## **MSRB Rule G-42**

### **Disclosure of Conflicts of Interest and Legal or Disciplinary Events**

Pursuant to Municipal Securities Rulemaking Board (“MSRB”) Rule G-42, on Duties of Non-Solicitor Municipal Advisors, Municipal Advisors are required to make certain written disclosures to clients which include, amongst other things, Conflicts of Interest and any Legal or Disciplinary events of KNN Public Finance, LLC (“KNN Public Finance”) and its associated persons.

### **Conflicts of Interest**

Other Municipal Advisor Relationships. KNN serves a wide variety of other clients that may from time to time have interests that could have a direct or indirect impact on the interests of another KNN client. For example, KNN serves as municipal advisor to other municipal advisory clients and, in such cases, owes a regulatory duty to such other clients just as it will to your entity, if hired. These other clients may, from time to time and depending on the specific circumstances, have competing interests. In acting in the interests of its various clients, KNN could potentially face a conflict of interest arising from these competing client interests. KNN fulfills its regulatory duty and mitigates such conflicts through dealing honestly and with the utmost good faith with its clients.

Compensation. KNN Public Finance represents that in connection with the issuance of municipal securities, KNN Public Finance may receive compensation from an Issuer or Obligated Person for services rendered, which compensation is contingent upon the successful closing of a transaction and/or is based on the size of a transaction. Consistent with the requirements of MSRB Rule G-42, KNN Public Finance hereby discloses that such contingent and/or transactional compensation may present a potential conflict of interest regarding KNN Public Finance’s ability to provide unbiased advice to enter into such transaction. This conflict of interest will not impair KNN Public Finance’s ability to render unbiased and competent advice or to fulfill its fiduciary duty to the Issuer.

If KNN Public Finance becomes aware of any additional potential or actual conflict of interest after this disclosure, KNN Public Finance will disclose the detailed information in writing to the Issuer in a timely manner.

### **Legal or Disciplinary Events**

KNN Public Finance, LLC, has never been subject to any legal, disciplinary or regulatory actions nor was it ever subject to any legal, disciplinary or regulatory actions previously, when it was a division of Zions First National Bank or Zions Public Finance, Inc.

A regulatory action disclosure has been made on Form MA-I for one of KNN Public Finance municipal advisory personnel relating to a 1998 U.S. Securities and Exchange Commission (“SEC”) order that was filed while the municipal advisor was employed with a prior firm, (not KNN Public Finance). The details of which are available in Item 9; C(1), C(2), C(4), C(5) and the corresponding regulatory action DRP section on Form MA and Item 6C; (1), (2), (4), (5) and the corresponding regulatory action DRP section on Form MA-I. Issuers may electronically access KNN Public Finance’s most recent Form MA and each most recent Form MA-I filed with the Commission at the following website: [www.sec.gov/edgar/searchedgar/companysearch.html](http://www.sec.gov/edgar/searchedgar/companysearch.html).

The SEC permits certain items of information required on Form MA and Form MA-I to be provided by reference to such required information already filed on a regulatory system (e.g., FINRA CRD). The above noted regulatory action has been referenced on both Form MA and MA-I due to the information already filed on FINRA’s CRD system and is publicly accessible through BrokerCheck at <http://brokercheck.finra.org>. For purposes of accessing such BrokerCheck information, the Municipal Advisor’s CRD number is 4457537.

There has been no change to any legal or disciplinary event that has been disclosed on KNN Public Finance’s original SEC registration Form MA filed on February 8, 2016 or Form MA-I’s filed on January 22, 2016.



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