PMA™
SECURITIES

Debt Issuance 101
WASBO 2021 Fall Conference

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Presenter

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Michele joined PMA in February 2008 and is currently the director of the Wisconsin office. Ms. Wiberg has over 28 years of experience in providing financial advisory, long range planning and investment management services to Wisconsin local governments.

Michele received her Bachelor of Science degree in Business Administration and Masters of Business Administration from Marquette University. Michele has the Series 7, 24, 50 and 63 securities licenses. Michele is a frequent speaker on topics related to municipal market trends and financial best practices on both a state and national level.

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Erik joined PMA in 2020. Prior to joining the firm, he worked for three Wisconsin school districts (Waukesha, Madison, and Elmbrook) in various roles within their business offices. With this background experience, Erik brings the ability to align public finance strategies with the moving pieces within a school district budget. His expertise in school finance, coupled with his firsthand experience working for Wisconsin school districts, helps PMA deliver collaborative solutions to our school district clients.

Erik received his Bachelor of Business Administration, majoring in Finance, from the University of Wisconsin- Oshkosh. He went on to receive his Masters of Science in Education with an emphasis on School Business Management from the University of Wisconsin-Whitewater. Erik currently holds a Series 50 securities license and a State of Wisconsin 08 license.

Today's Agenda

- Financing Team
- Types of Debt
- Interest Rates
- Credit Ratings
- Method of Sale
- Post-Issuance Compliance

SECTION I:

FINANCING TEAM

Financing Team

The Dodd-Frank Act and the MA Rule

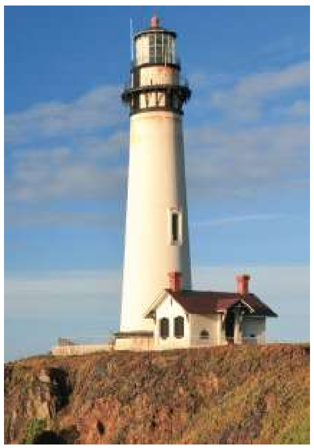
- The **Dodd-Frank** Wall Street Reform and Consumer Protection **Act** of 2010 (“DFA”) resulted in the creation of the **Municipal Advisor Rule** (“MA Rule”)

  - The DFA was a sweeping financial reform as a response to the financial crisis of 2008
    - Section 975 of the Act made changes to the oversight of the municipal securities market

  The MA Rule alone is 778 pages, became effective July 1, 2014
    - Essentially took the term Financial Advisor and made it Municipal Advisor, however these terms are still used interchangeably (Financial Advisor ≈ Municipal Advisor)
    - Required municipal advisors to be registered and subject to new regulations, qualifications and testing (e.g. Series 50 exam)
    - Required a municipal advisor to have a **fiduciary duty** to the issuer, which means it must put the issuer’s interest before its own

The Dodd-Frank Act: Fiduciary Duty

- The DFA established a fiduciary duty for a municipal advisor to act in the best interest of its clients



  - Disclose all material conflicts of interest
  - Review and provide inquiry into reasonable financial alternatives to the financing
  - **Act in the issuer's best interest without regard to financial and other interests of the municipal advisor**
  - **A municipal advisor represents the issuer, and only the issuer, in a debt transaction**

The Dodd-Frank Act: MSRB Rule G-23

MSRB Rule G-23, Activities of Financial Advisors

- Amended in 2011, addressed the concern that serving as a financial advisor and underwriter on the same issue is a conflict of interest

Is the firm acting as Financial Advisor OR Underwriter?

- Required that a clear definition of the firm's role is evidenced in writing (agreement) at the earliest stage in the relationship with the issuer
- If acting as Underwriter, the agreement must clearly state the following:

"The primary role of an underwriter is to purchase securities in an arm's-length commercial transaction between the issuer and the underwriter and that the underwriter has financial and other interests that differ from those of the issuer."

- Unlike a Financial Advisor, the Underwriter does not have a fiduciary duty to the issuer

GFOA Best Practice

Issuers do not have to use a municipal advisor, but the Government Finance Officers Association (GFOA)

"recommends that the issuer 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".

http://www.gfoa.org/selecting-and-managing-municipal-advisors

Financing Roles: Municipal Advisor

- Role of a Municipal (Financial) Advisor: **to advise and assist the issuer in formulating and executing a debt financing plan**, including:

  - Advise on the issuer's debt plans relating to its capital needs;
  - Analyze the financing needs and options of the issuer;
  - Advise the issuer on methods of sale (competitive, negotiated, direct sale, or private placement);
  - Assist the issuer in selecting an underwriter and other financing professionals;
  - Organize the issuance of the bonds;
  - Structure the bond issue(s);
  - Work with rating agencies;
  - Prepare the disclosure document for the bond sale; and
  - Complete sale process, including bond issue closing;
  - Advise and assist issuer with post-issuance compliance requirements.

Financing Roles: Underwriter

- Role of an Underwriter: **to purchase bonds from the issuer with the intent to resell them to investors**

  - Underwriter serves two customers in a debt transaction: the issuer and the investors who purchase the debt
  - No fiduciary duty to issuer, but the DFA reaffirmed that underwriters are subject to a fair dealing requirement
  - During the period it is **engaged as underwriter for a specific transaction**, an underwriter **may provide advice** on the structure, timing, terms, and similar matters concerning the transaction; **may not provide advice** about the method of sale
  - Outside of an engagement for a specific transaction, an underwriter may provide advice when:
    - The issuer has hired an Independent Municipal Advisor
    - When responding to an RFP
  - May provide general information (e.g. market conditions, qualifications of firm) when outside of an engagement for a specific transaction that does not rise to the level of advice

Other Members of the Financing Team

- **Bond Counsel**: provides opinion on the legal structure and tax status; prepares all pertinent resolutions.

- **Disclosure Counsel**: reviews the offering document (Official Statement) and provides an additional level of due diligence.

- **Local Counsel**: may not play a big role, if any, in the bond issuance process; potentially used for contract review.

- **Paying Agent**: serves as liaison between issuer and the Depository Trust Company (DTC); DTC is the clearinghouse and distributes payments to bondholders.

- **Escrow Agent**: invests escrowed funds until the call or prepayment date; may be used in a refunding or defeasance.

- **Rating Agency**: provides investing community with an independent credit review; typically Moody's or Standard & Poor's

- **Bond Insurer:** guarantees the debt service payments on the bonds if the issuer defaults; no bond insurer is rated higher than the "AA" category, therefore, insurance is typically only considered on issues with a "A" rating or lower.

SECTION II:

TYPES OF DEBT

Types of Municipal Debt

- Debt Authority for School Districts
  - General Obligation (G.O.) is debt supported by a direct and irrepealable tax levy
  - Through passage of the referendum, school districts are able to issue G.O. debt payable from a debt service levy that is outside of revenue limits (FUND 39)
  - Without referendum, school districts can still issue G.O. debt; however, payments are levied inside of revenue limits (FUND 38)
    - Requires Board Resolution
    - Notice must be posted within 10 days
    - Following posting, 30 day petition period

Types of Municipal Debt

- Taxability of Debt
  - **TAXABLE**
    - No Federal tax exemption on interest earned; higher interest rates
  - **TAX-EXEMPT**
    - Interest earned is exempt for Federal income tax purposes; no state tax exemption in Wisconsin
    - *Bank-Qualified (BQ) Tax-Exempt*
      - BQ debt allows commercial banks that purchase the debt to realize the tax exemption; Non Bank-Qualified (NBQ) debt does not
      - BQ debt issuance is limited to $10M per calendar year
    - *Non Bank-Qualified Tax-Exempt*
      - No advantage to banks to use tax exemption
      - Fewer banks purchase NBQ debt; reduced investor demand; higher interest rates

Types of Municipal Debt

Common Types of Debt for School Districts

- **General Obligation Promissory Notes**: Debt issue with a final maturity that is no more than ten years to maturity
- **General Obligation Bonds**: Debt issue with a final maturity greater than ten years to maturity, and required to be no more than 20 years to maturity
- **Bond or Note Anticipation Notes (BAN or NAN)**: Debt issue with final maturity that is five years or less; often used as an interim financing strategy prior to the issuance of a longer term debt obligation (Notes or Bonds), "Bridge Loan" concept
- **State Trust Fund Loan**
  - Can be issued to fund **tax-exempt or taxable** purposes
  - Prepayable annually without penalty
  - Interest rates are established by the Board of Commissioners of Public Lands and change occasionally
- **Bank Loan**
  - Often works well for shorter amortizations (10 years or less)
  - May have very flexible prepayment options

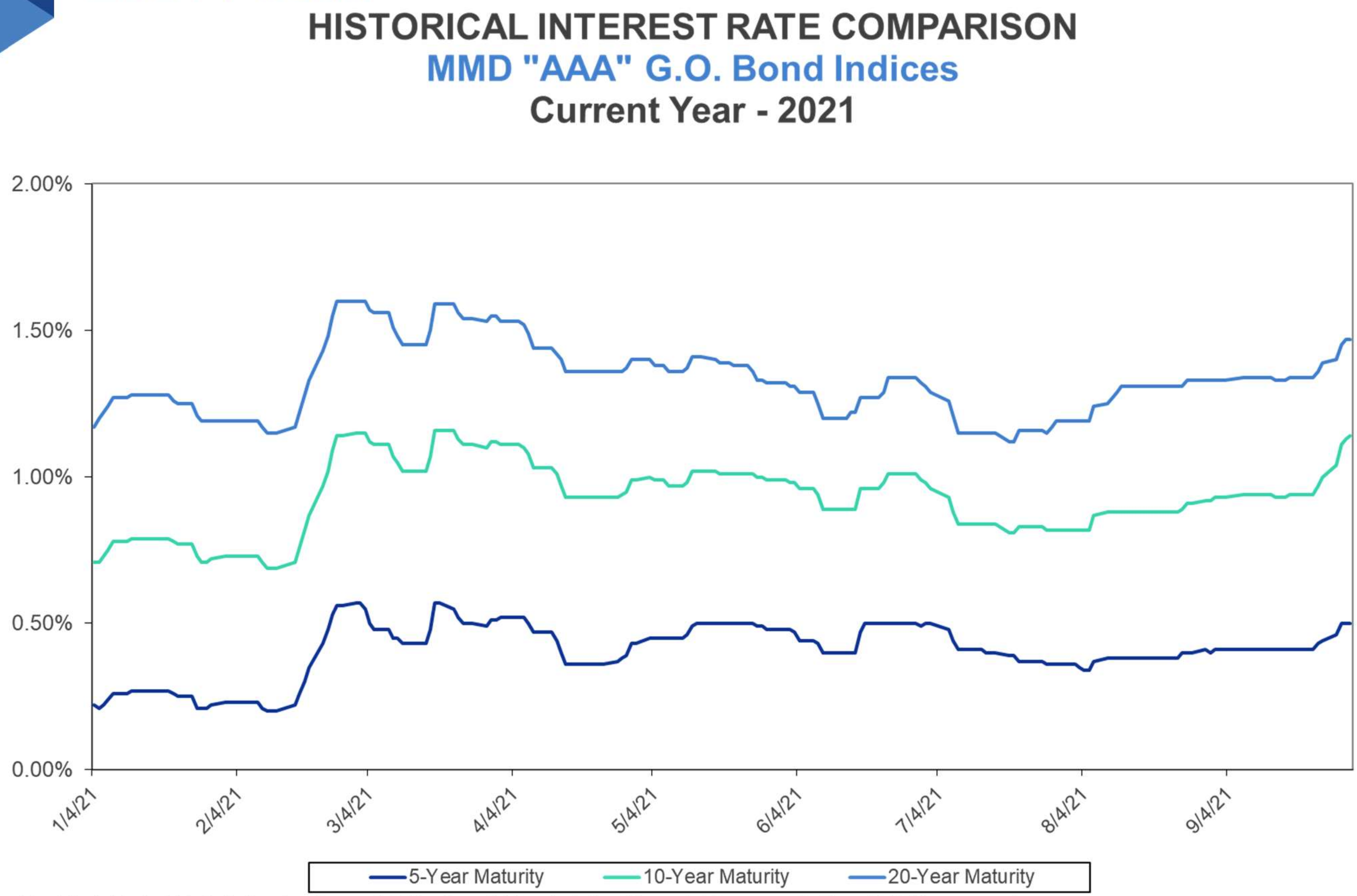
Types of Municipal Debt

- Common Purposes of Debt for School Districts
  - **New Money**
    - Funding for new projects either with or without referendum
  - **Refinancing (Refunding)**
    - Generally pursued to take advantage of lower interest rates to achieve annual savings; sometimes used as a tool to restructure payments
      - Current Refunding: Bonds need to close within 90 days of the call date of the prior issue that is being refinanced
      - Advance Refunding: Bonds that close > 90 days prior to the call date of prior issue; can only be done on a **taxable basis** (since 2017 tax law); the GFOA recommends present value savings of at least 3%

SECTION III:

INTEREST RATES

2021 Focus



Municipal Market Data index for General Obligation AAA rated, 5-, 10-, and 20-year maturities (5.00% coupons).

Tax-Exempt v. Taxable Municipal Interest Rates

Taxable vs. Tax Exempt as of 09/30/2021

	2yr	3yr	5yr	7yr	10yr	20yr	30yr
AAA Tax Exempt Yield	0.17	0.24	0.5	0.83	1.14	1.47	1.67
AAA Taxable Equivalent Yield(t/e divided by 0.630)	0.27	0.38	0.79	1.32	1.81	2.33	2.65
AAA Taxable Muni Yield	0.38	0.63	1.13	1.53	1.9	2.53	2.64
AA Tax Exempt Yield	0.19	0.28	0.55	0.93	1.26	1.62	1.83
AA Taxable Equivalent Yield(t/e divided by 0.630)	0.3	0.44	0.87	1.48	2.0	2.57	2.9
AA Taxable Muni Yield	0.44	0.69	1.2	1.63	2.04	2.67	2.78
A Tax Exempt Yield	0.27	0.36	0.63	1.06	1.39	1.76	1.96
A Taxable Equivalent Yield(t/e divided by 0.630)	0.43	0.57	1.0	1.68	2.21	2.79	3.11
A Taxable Muni Yield	0.61	0.86	1.37	1.81	2.22	2.94	3.05

20-Year Tax-Exempt Municipal Interest Rates

HISTORICAL INTEREST RATE COMPARISON

MMD "AAA" G.O. Bond Index, 20-Year Maturity

20 Year History

Municipal Market Data index for a General Obligation AAA rated, 20-year maturity (5.00% coupon).

Variables that Impact the Municipal Bond Market

FED Reserve Policy
Fed Funds Rate

Global Political Events

Inflation Expectations

Health of National, State and Local Economies

Bank Qualification

Municipal Bond Supply and Demand

Municipal Bankruptcies (e.g. Detroit, Puerto Rico)

Credit Ratings of State and Local Governments

Level of Federal and State Income Taxes

SECTION IV:

CREDIT RATINGS

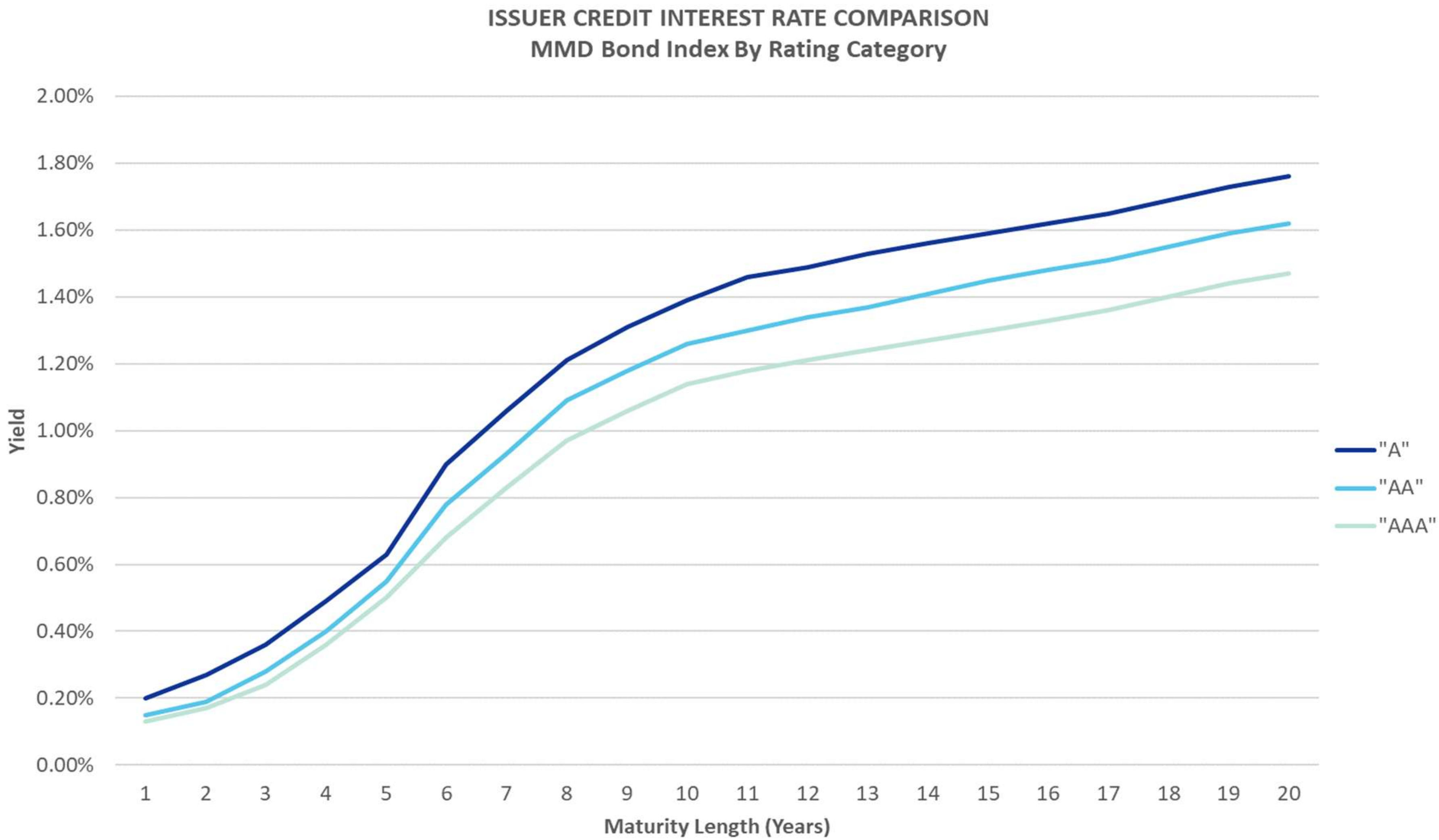
Rating Categories

Majority of Wisconsin school districts fall in these categories

Credit Rating Scales and Definitions

	Moody's	S&P	Fitch	Kroll	
Investment Grade	Aaa	AAA	AAA	AAA	Extremely strong capacity to meet financial obligations.
	Aa1	AA+	AA+	AA+	
	Aa2	AA	AA	AA	Very strong capacity to meet obligations.
	Aa3	AA-	AA-	AA-	
	A1	A+	A+	A+	
	A2	A	A	A	Strong financial capacity but susceptible to adversity.
	A3	A-	A-	A-	
	Baa1	BBB+	BBB+	BBB+	
	Baa2	BBB	BBB	BBB	Adequate financial capacity but adverse conditions will lead to weakness.
	Baa3	BBB-	BBB-	BBB-	
Non-Investment Grade	Ba1	BB+	BB+	BB+	
	Ba2	BB	BB	BB	Non-Investment Grade Speculative
	Ba3	BB-	BB-	BB-	
	B1	B+	B+	B+	
	B2	B	B	B	Highly Speculative
	B3	B-	B-	B-	
	Caa	CCC+		CCC+	
	Ca	CCC	CCC	CCC	Extremely Speculative
	C	CCC-		CCC-	
			DDD	CC	
			DD	C	
		D	D	D	Default

Why is a Credit Rating Important?



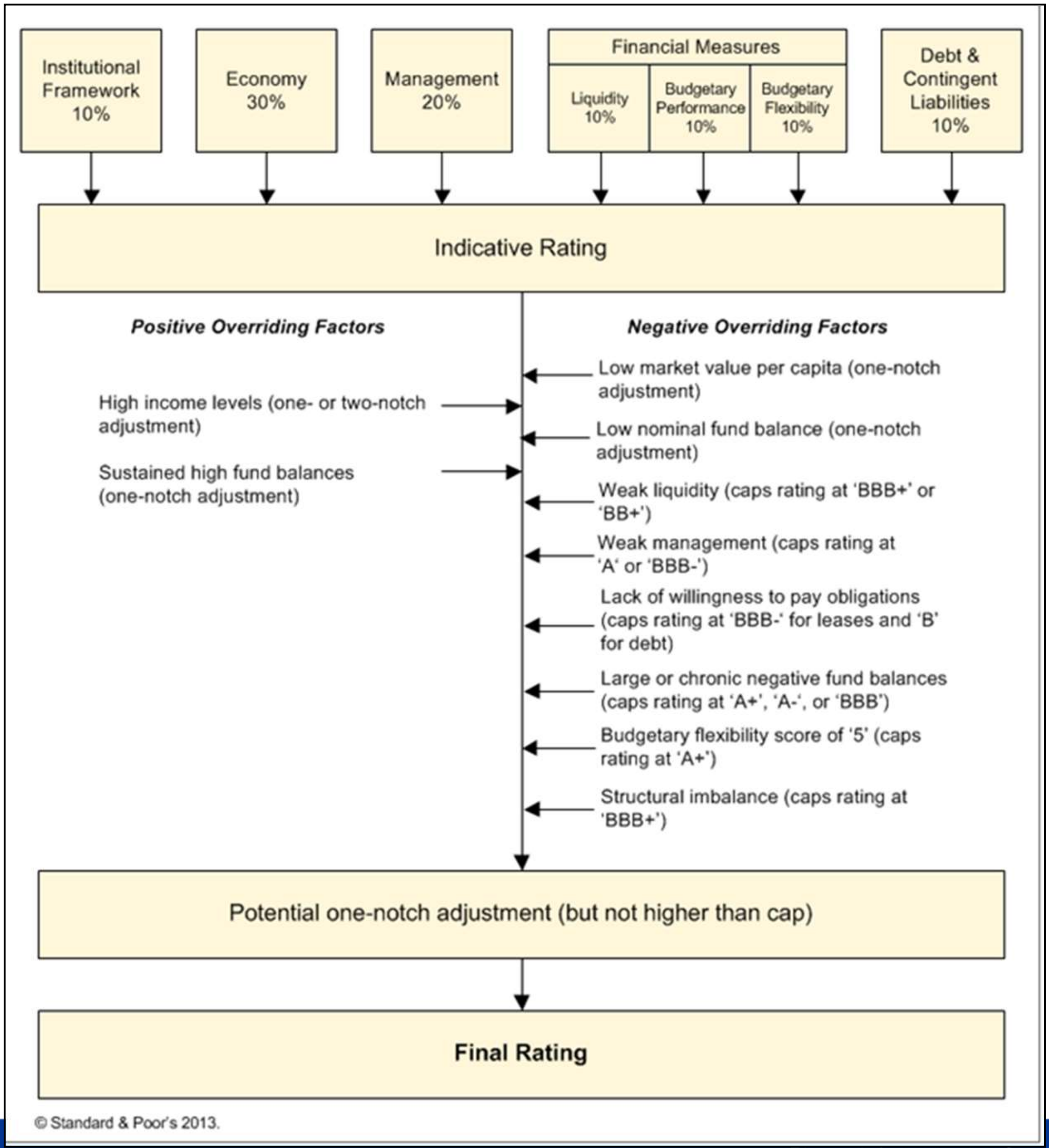
Moody’s K-12 Scorecard Factors

	Factor or Sub-factor Weight		*Aa*	*A*	Baa	Ba	B	Cu
Factor: Economy (30%)								
Resident Income (MHI Adjusted for RPP/ US MHI)*1	10%	3:120%	100-120%	80-100%	65 - 80%	50 - 65%	35 - 50%	20 - 35%
Full **Value** per Capita (Full Valuation of **the** Tax Base / Population)'2	10%	≥ $180,000	$100,000 - $180,000	$60,000- $100,000	$40,000- $60,000	$25,000 - $40,000	$15,000- $25,000	$9,000 - $15,000
Enrollment Trend (Three-Year CACR in Enrollment)43	10%	2-4%	0-2% or >4%	(2) - 0%	(5)-(2)%	(8)-(5)%	(11)-[B)%	(14)-(11)%
Factor: Financial Performance (30%)								
Available Fund Balance Ratio [Available Fund Balance /Operating Revenue)'4	20%	3:25%	17.5 - 25%	10 -17.5%	5-10%	0-5%	(5) - 0%	(10) - (5)%
Net Cash Ratio (**Net** Cash *t* Operating Revenue) 'E	10%	3:25%	17.5-25%	10-17.5%	5-10%	0-5%	(5)-0%	(10) - (5)%

Moody's K-12 Scorecard Factors

Sub-factor	Sub-factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa
Long-term Liabilities Ratio ((Debt + Adjusted Net Pension Liabilities + Adjusted Net Other Post-Employment Benefits) / Operating Revenue}*5	20%	< 125%	125 - 250%	250¬ 400%	400¬ 550%	550¬ 700%	700¬ 850%	850¬ 1,000%
Fixed-Costs Ratio (Adjusted Fixed Costs/ Operating Revenue}*6	10%	<15%	15-20%	20 - 25%	25 - 30%	30 - 35%	35 - 45%	45 - 55%

Standard & Poor's Rating Metrics



Standard & Poor's Financial Management Assessment

- Revenue/Expenditures Assumptions
- Budget Amendments/ Updates
- Long Term Financial Planning
- Capital Improvement Plan
- Debt Management Policy
- Reserve (Fund Balance) Policy

What is a Surveillance Call?

- Provides a rating agency with an opportunity to make credit ratings do not become “stale”
  - Accountability to the investor community
  - Regulations and policy require at least a “Passive” review annually
- Frequency of “Active” surveillance may vary, but it is happening much more often than before
- The issuer is provided a list of questions
  - It’s important to be responsive
  - Typically given a couple weeks to prepare for the call

Surveillance Call Best Practices

- Treat the surveillance call like a rating presentation for a bond sale
  - Take time to prepare detailed responses to each question
- Talk the analyst through your written responses
- Consult with your financial advisor as soon as you receive the email or phone call requesting the surveillance call

SECTION V:

METHOD OF SALE

How are Bonds Sold to Investors?

- Public Offering
  - Negotiated sale
    - The District preselects a broker-dealer as underwriter to manage the bond issuance process
    - This firm also sells the bonds to investors
  - Competitive sale
    - The District engages a municipal advisor (as defined under the Dodd-Frank Act) to manage the bond issuance process
    - Underwriter selected via a competitive sale in which multiple bids are received to purchase the bonds
    - The winning bidder sells the bonds to investors
    - The bidder with the lowest true interest cost is selected
- Direct Placement
  - Less documentation, no rating, no underwriter or fewer legal fees
  - A term sheet is sent out to banks and other local units of government that will provide a proposal to purchase the bonds directly
  - This process has typically proven to be effective for relatively smaller bond issues paid off with a shorter amortization

Methods of Sale, Public Offering

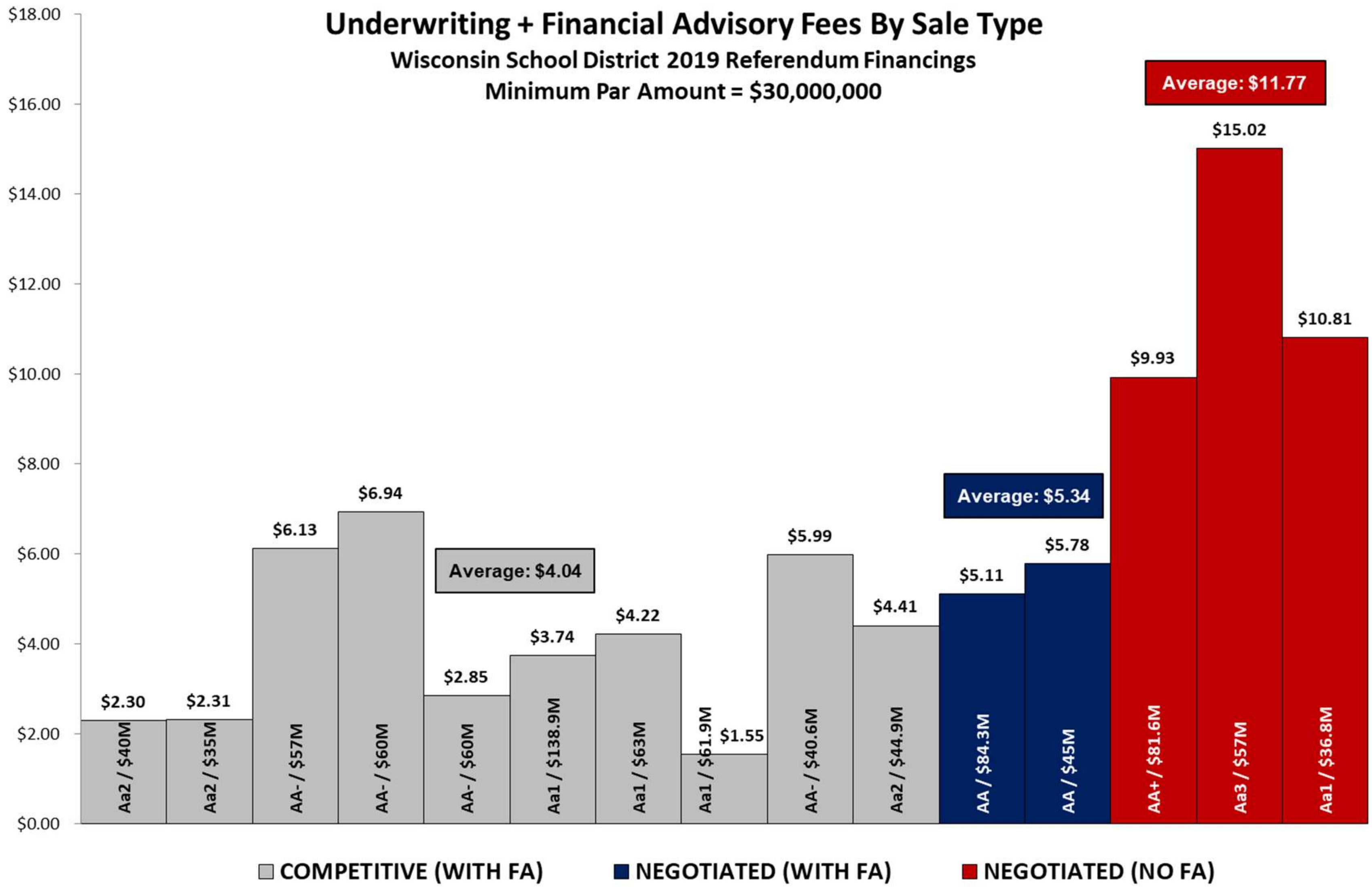
Competitive Sale

Negotiated Sale <u>WITH</u> Financial Advisor

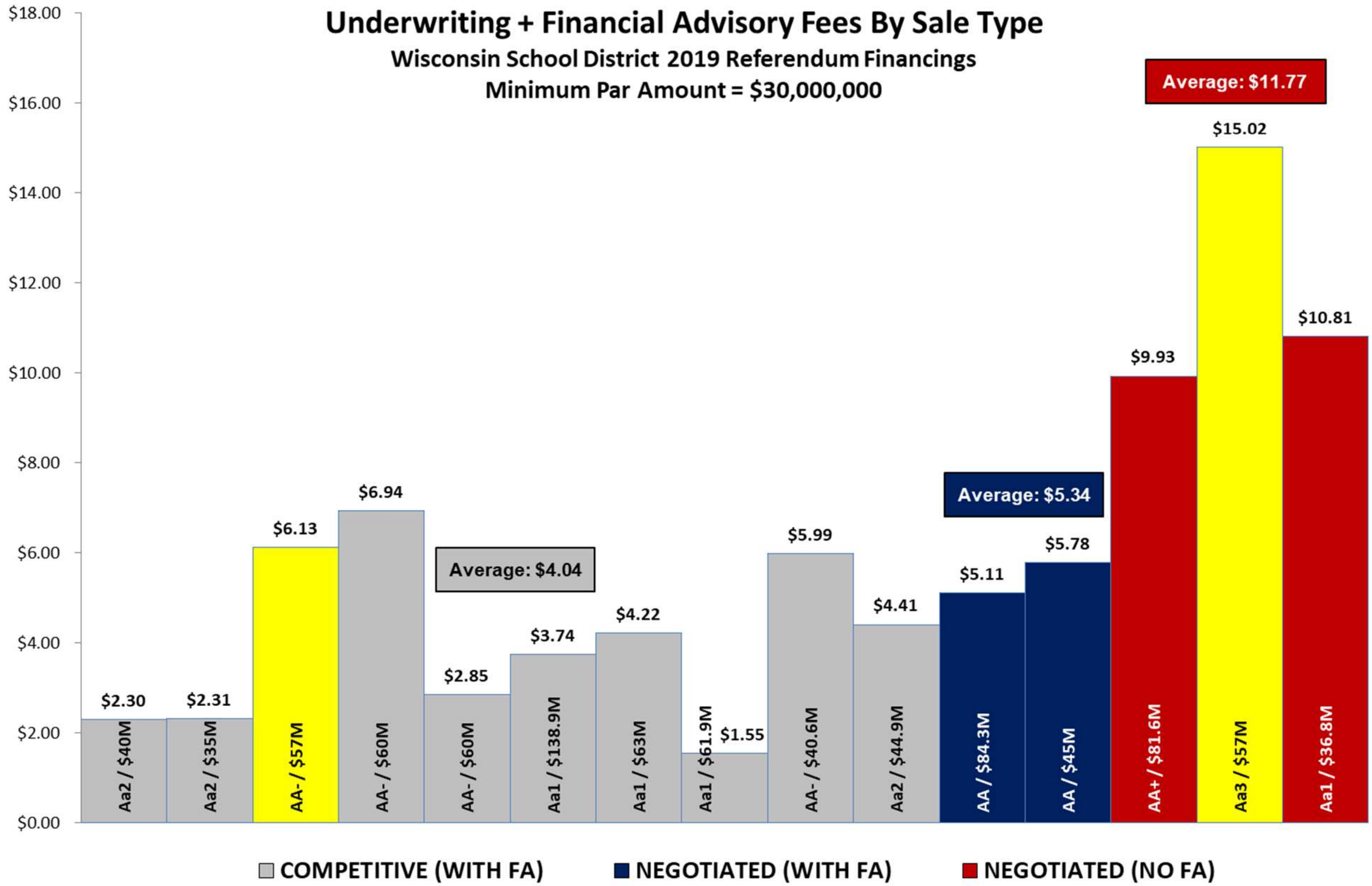
Negotiated Sale <u>NO</u> Financial Advisor

Most Competition……………………….Least Competition

Method of Sale, Comparison of Fees



Method of Sale, Comparison of Fees

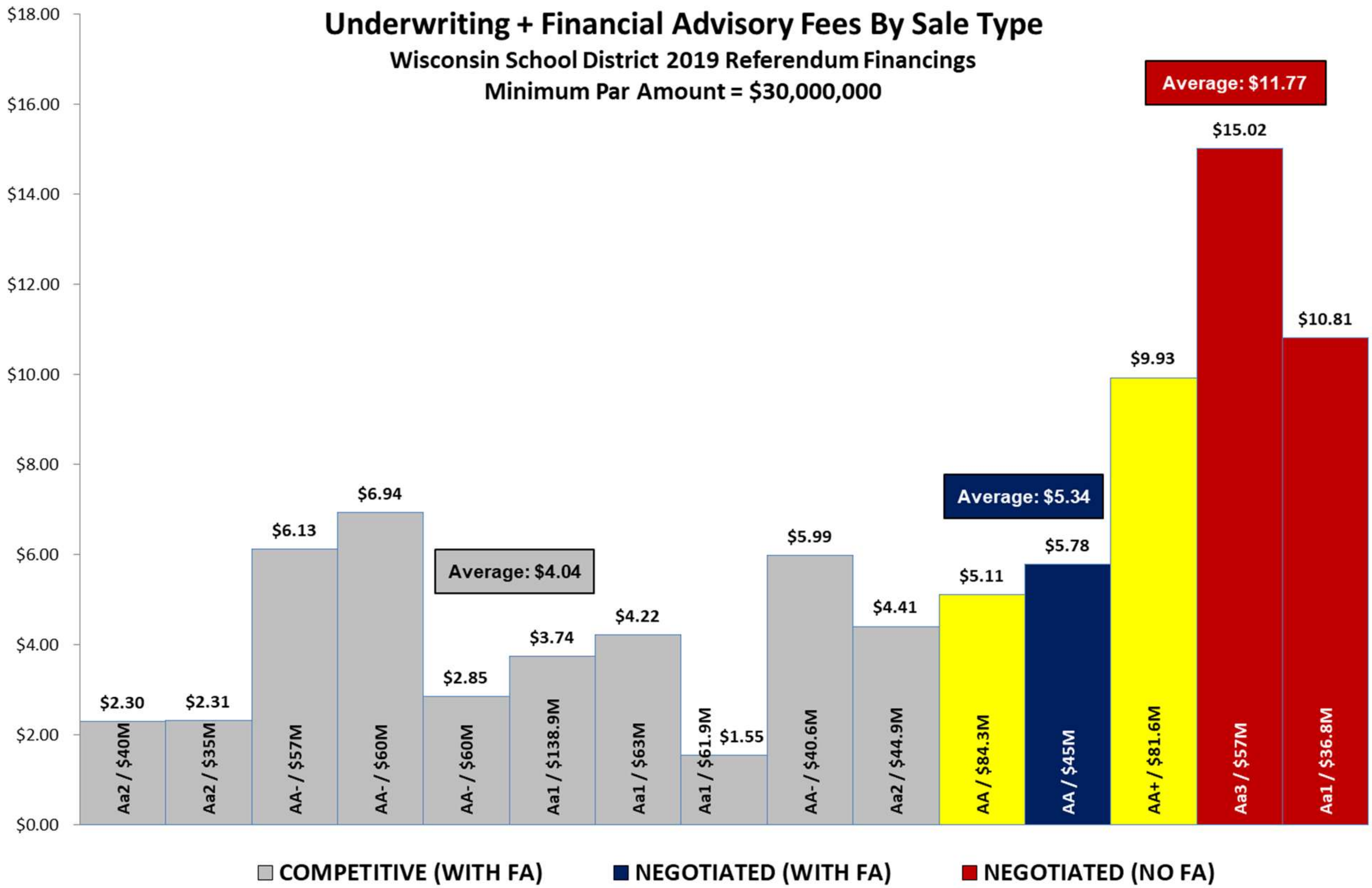


Method of Sale, Comparison of Interest Rates

Deeper Dive - Competitive	
Par Amount =	$57,000,000
Credit Rating =	AA-
Underwriting + FA Fee per Bond =	$6.13 / $1,000
Underwriting + FA Fee in Dollars =	$349,143
Average Life =	13.9 years
Average Spread to AAA MMD on Sale Date =	0.48%

Deeper Dive - Negotiated NO Financial Advisor	
Par Amount =	$57,045,000
Credit Rating =	Aa3
Underwriting Fee per Bond (no FA) =	$15.02 / $1,000
Underwriting Fee in Dollars (no FA) =	$856,570
Average Life =	11.6 years
Average Spread to AAA MMD on Sale Date =	0.55%

Method of Sale, Comparison of Fees



Method of Sale, Comparison of Interest Rates

Deeper Dive - Negotiated WITH Financial Advisor	
Par Amount =	$84,280,000
Credit Rating =	AA
Underwriting + FA Fee per Bond =	$5.11 / $1,000
Underwriting + FA Fee in Dollars =	$431,000
Average Life =	14.4 years
Average Spread to AAA MMD on Sale Date =	0.56%

Deeper Dive - Negotiated NO Financial Advisor	
Par Amount =	$81,575,000
Credit Rating =	AA+
Underwriting Fee per Bond (no FA) =	$9.93 / $1,000
Underwriting Fee in Dollars (no FA) =	$810,000
Average Life =	12.8 years
Average Spread to AAA MMD on Sale Date =	0.53%

Method of Sale, Competitive Bid Example

Oshkosh Area School District
$65,000,000 General Obligation School Building and Facility Improvement Bonds, Series 2021
Sale Date: January 27, 2021

	Bidder	Firm	TIC*	Time	Gross Interest*	+ Discount/ (Premium)*	Total Interest*	Bid No.	Cumulative Improvement
1st	MORG-DK	Morgan	1.658651%	11:00:48 am	$17,797,343.75	(2,788,046.41)	$15,009,297.34	3	0.029401%
2nd	HUTC-LJ	Huntington	1.658923%	11:02:20 am	$17,981,706.25	(2,925,000.00)	$15,056,706.25	5	0.042022%
3rd	JPMO-JM	JP Morgan	1.660852%	11:01:36 am	$17,872,137.50	(2,882,663.17)	$14,989,474.33	3	0.018441%
4th	CITI-ML	Citigroup	1.666688%	11:01:47 am	$17,972,237.50	(2,925,000.00)	$15,047,237.50	4	0.021426%
5th	MERR-AM	Bank of Ameri	1.671077%	11:02:11 am	$17,632,737.50	(2,567,638.23)	$15,065,099.27	1	-
6th	JANN-MD	Janney	1.677983%	11:01:06 am	$18,160,450.00	(2,924,694.84)	$15,235,755.16	2	0.022816%
7th	ROBE-CG	Robert Baird	1.684467%	10:59:05 am	$18,153,556.25	(2,885,345.96)	$15,268,210.29	1	-
8th	PIPE-SC	Piper Sandler	1.701739%	11:00:07 am	$18,295,950.00	(2,854,672.33)	$15,441,277.67	2	0.001081%
9th	WELL-RW	Wells Fargo	1.704258%	11:01:47 am	$18,385,950.00	(2,920,532.75)	$15,465,417.25	7	0.175932%
10th	KEYB-RC	KeyBanc	1.777828%	11:02:21 am	$18,261,000.00	(2,231,072.65)	$16,029,927.35	1	-
11th	HILL-WE	Hilltop	1.789418%	10:59:07 am	$18,711,600.00	(2,552,159.20)	$16,159,440.80	4	0.054089%
12th	MESI-DO	Mesirow	1.808426%	11:00:51 am	$18,737,700.00	(2,415,423.70)	$16,322,276.30	3	0.083565%
							Total Bids:	**36**	

SOURCE: MUNIAUCTION

*Note: After adjusting par amounts, the final statistics are as follows:
TIC: 1.658584%
Gross Interest: $17,467,768.89
Discount/(Premium): ($2,719,877.26)
Total Interest: $14,747,891.63

SECTION VI:

MARKET DISCLOSURE & POST-ISSUANCE COMPLIANCE

Official Statement

- The official statement is a document prepared by, or on behalf of, the Issuer in connection with a primary offering of its bonds
- The official statement discloses all material information on the offering
- The official statement is the main source of anti-fraud liability in a municipal transaction
- The obligation for the accuracy and completeness of the disclosure lies with the Issuer
  - Experts may assist, but cannot completely discharge, the Issuer's obligation
  - Issuer, Underwriter, Financial Advisor, Attorneys (Underwriter's Counsel/Disclosure Counsel/Issuer's Counsel) all have potential anti-fraud liability for material misstatements and omissions in an official statement

Why it's Important

- Reviewed by rating agencies and insurers when evaluating credit
- Used to market the securities to prospective investors
  - Gauge interest prior to sale
  - Provides material disclosure information needed to make an informed investment decision
  - The Official Statement has become more important in light of insurer downgrades and current credit environment

Why it's Important

- The *Issuer's* document
  - *You* are the expert on *your* school district!
- Stringent legal disclosure requirements
  - The Issuer's elected officials and administration are held accountable for the adequacy of the information disclosed

SEC Charges School District and Former CFO with Materially Misleading Investors

On September 16, 2021, the Securities and Exchange Commission (SEC) charged Sweetwater Union High School District, a San Diego County, California, school district serving approximately 47,000 students (the *"District"*), and its former Chief Financial Officer, Karen Michel, with making material misstatements and omissions in connection with the District's April 2018 $28 million bond issue (the *"Bonds"*). By making such material misstatements and omissions to investors, as well as to the Bonds' credit rating agency and other municipal industry professionals involved with the Bond transaction, the SEC alleged that the District violated Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 (the *"Act"*) and that Michel violated Section 17(a)(3) of the Act.[1]

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 1, 2019

SALE DATE AND TIME:
March 7, 2019
10:00 A.M. CST

NEW ISSUE – BOOK-ENTRY ONLY

RATING+: MOODY'S "Aa1"

Subject to compliance by the District with certain covenants, in the opinion of Chapman and Cutler LLP, Chicago, Illinois ("Bond Counsel"), under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals. Interest on the Bonds is not exempt from present State of Illinois income taxes. See "TAX EXEMPTION" herein for a more complete discussion.

$12,720,000*
COMMUNITY UNIT SCHOOL DISTRICT NUMBER 202
DUPAGE COUNTY, ILLINOIS
(LISLE)
GENERAL OBLIGATION LIMITED TAX SCHOOL BONDS, SERIES 2019

Dated: Date of Issuance **Due: December 30, as Shown on the Inside Cover Page**

The General Obligation Limited Tax School Bonds, Series 2019 (the "Bonds"), of Community Unit School District Number 202, DuPage County, Illinois (the "District"), are issuable as fully-registered bonds under the global book-entry system operated by The Depository Trust Company, New York, New York ("DTC"). Individual purchases will be made in book-entry system form only. Beneficial owners of the Bonds will not receive physical delivery of the Bonds. The Bonds are issued in fully-registered form in denominations of $5,000 and integral multiples thereof, and will bear interest payable on June 30 and December 30 of each year, with June 30, 2019, as the first interest payment date. Wells Fargo Bank, National Association, Minneapolis, Minnesota, will act as registrar and paying agent for the Bonds. Details of payment of the Bonds are described herein. Interest is calculated based on a 360-day year consisting of twelve 30-day months.

Proceeds of the Bonds will be used to (i) increase the District's working cash fund and (ii) pay costs associated with the issuance of the Bonds.

The Bonds, in the opinion of Bond Counsel, are valid and legally binding upon the District and are payable from any funds of the District legally available for such purpose, and all taxable property in the District is subject to the levy of taxes to pay the same without limitation as to rate, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion. The amount of said taxes that may be extended to pay the Bonds is limited as provided by law. See "THE BONDS – Limited Bonds" herein.

The Bonds are subject to optional redemption prior to maturity on the dates and at the redemption price described herein under "THE BONDS – Optional Redemption".

The Bonds are offered at public sale, subject to the approval of legality by Bond Counsel. Chapman and Cutler LLP, Chicago, Illinois, is also acting as Disclosure Counsel to the District. Delivery of the Bonds through the facilities of DTC will be on or about March 22, 2019.

PMA
AS FINANCIAL ADVISOR

The date of this Official Statement is March __, 2019.

*Preliminary, subject to change.
+See "BOND RATING" herein.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Competitive Sale Date and Time

Dated Date

Legal Use of Bond Proceeds

Optional Redemption Feature

Official Date of Offering Document (Sale Date of Bonds)

Bond Rating

Total Par Amount, Legal Name of Issuer and Bond Title

Interest Payment Dates

Bond Security and Authority

Delivery Date

Official Statement, Relevant Info and Process

- *Material* information concerning the issuance of debt
  - Prospective investors review the POS in order to make informed decisions regarding credit quality and risk
  - Focus should be on relevant factors regarding creditworthiness of the Issuer
  - All facts that could impact the creditworthiness of the Issuer need to be disclosed
- Financial Advisor should allow sufficient time to review a first and second draft of the POS
- Disclosure Counsel is often engaged to review the adequacy of disclosure in the POS

Post-Issuance Compliance, Continuing Disclosure

Dissemination Agent vs. Going Alone

- Securities and Exchange Commission Rule 15c2-12 (the "Rule") requires dealers who underwrite municipal securities to obtain certain information about the securities and issuers
- In addition, underwriters must make sure that the issuer provides certain information about the securities on an ongoing basis
- This agreement is called the continuing disclosure undertaking (CDU), which is executed at the closing of a bond issue
- Continuing disclosure information is provided to the secondary market through a portal called Electronic Municipal Market Access (EMMA)
- This information can be grouped into three categories:
  - Financial Data or "Annual Financial Report"
  - Operating/Statistical Data or "Annual Financial Information" which is typically 10 to 12 tables of information originally provided to the market in the issuers official statement
  - Reportable Event Filing (10 business days to file a "Reportable Events Notice")

Post-Issuance Compliance, Reportable Events

There are 14 enumerated reportable events under the Rule 15c2-12:

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions
7. Modifications to the rights of security holders, if material
8. Bond calls, if material, and tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event of the District
13. The consummation of a merger, consolidation, or acquisition
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material

Post-Issuance Compliance, Reportable Events

Effective for CDUs entered into on or after February 27, 2019,

<u>There are 2 additional enumerated reportable events under the Rule 15c2-12:</u>

Two additional reportable events:

15. Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties

Practical effect of new reportable events:

- Controversial because it leaves a lot open to interpretation
- Underwriters cannot purchase new issues unless they believe issuer is in compliance; may lead to higher level of scrutiny by, and need for, disclosure counsel
- Could lead to issuers filing many more reportable event notices to be on the safe side

Questions?
Please Contact Our Wisconsin School Team!

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