Role of a Financial Advisor and Underwriter

Los Angeles County School and Community College Districts
2016 Fiscal Training Summit

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Financial Advisor Role Summary

- **Act as Fiduciary to District**
  - An F.A. must put the District’s interests above its own
- **Advise on Type of Sale for Bonds**
  - Competitive vs. Negotiated
- **Assist District in Selection and Oversight of Finance Team**
- **Help Secure the Highest Credit Ratings**
Financial Advisor Role Summary

- **Work with Finance Team on Structure, Analysis, and Timing of Bonds**
  - Review Pros and Cons of Alternative Structures and Number of Series
  - Create Financing Schedule

- **Oversee Entire Financing Process including Bond Sale**
  - Assess Market Timing
  - Review Comparable Issues to ensure lowest financing costs
Underwriter Role and Services – Overview of Municipal Advisor Rules and Underwriter Requirements

The Municipal Advisor Rules became effective on July 1, 2014

- The Rules govern the definition, registration and regulation of municipal advisors (financial advisor)
  - Under the Rules, a municipal advisor has a fiduciary duty to its municipal clients

- A “Municipal Advisor” is generally defined in the Rules as a person that provides “advice” to a municipal entity or obligated person (i.e. a conduit borrower) with respect to municipal securities or municipal financial products
  - Advice includes any recommendation that is particularized to the specific needs, objectives or circumstances of a municipal entity or obligated person (i.e. conduit issuer)
    - Includes recommendations regarding the structure, timing, terms or other similar matters concerning such financial products or municipal securities
  - Advice does not include providing information of a factual nature without subjective assumptions; information that is not specific to the client; widely disseminated information; or general educational materials

- Underwriters may provide certain debt service calculations for Issuers, including straightforward refunding analyses, without being deemed a municipal advisor

- The SEC has stated that providing advice and triggering the fiduciary duty of a Municipal Advisor with respect to a particular transaction is incompatible with later serving as an underwriter on the same financing
Underwriter Role and Services – Exemptions for Municipal Advisors

In order to avoid being considered a Municipal Advisor and underwriter must seek one of the following exemptions.

- **Independent Registered Municipal Advisor (IRMA) Exemption** – an underwriter is exempt from being considered a municipal advisor if the Issuer has retained and will rely on an IRMA with respect to the same aspects on which the firm is providing ideas
  - To be considered “independent”, a person serving as the municipal advisor must not have been employed in the prior two years by the underwriting firm relying on the exemption
  - To qualify for this exemption, the firm must receive a written representation from the Issuer that it has retained a municipal advisor and is relying on their advice with respect to the same matters

- **RFP Exemption** – an exemption applies for any materials provided in response to an Issuer’s RFP
  - RFP must be for a specific subject and must be open for a limited time period
  - Includes “mini-RFPs” (RFP’s sent to at least three select firms) the response to which may extend over several months and be provided by the responding firm either verbally or in writing

- **Underwriter Engagement Exemption** – an exemption exists if the Issuer engages an underwriter for a specific financing concept or transaction
  - Engagement may be non-binding and does not commit the Issuer to undertaking the transaction or using the engaged underwriter
  - Being selected to an underwriter pool does not automatically trigger the Underwriter Exemption
Underwriter Role and Services – General Scope of Services on a Bond Sale

- Work with District, Financial Advisor, and Legal team on **development of financing structure** and market timing
  - Consider issuer needs, legal restrictions, reimbursements, rating services, fees and other costs of issuance
- **Review of all documents** necessary to implement Bond issuances; including, but not limited to, authorizing resolutions, bond purchase agreement, and official statement distributed to potential investors
- As requested, attend **rating agency meetings** to support the Issuer's efforts to obtain the highest possible rating on the issue
- Together with the District and the Financial Advisor, **consult on the bond sale structure**; such as maturities, coupon rates, call features and security features, for the purpose of meeting market demands and the objectives of the District
- **Identify and educate potential investors** on the strengths and characteristics of the District to create investor interest with potential retail and/or institutional clients in the bond issue
- **Provide market information** on the timing of the sale of the Bonds in relation to the market conditions and financing needs
- Serve as underwriter of the Bonds, which obligation is conditioned upon the execution of a mutually satisfactory **bond purchase agreement**
- Coordinate with all parties so as to consummate the sale and delivery of the Bonds in a timely manner