



**AfDB Municipal CFO Academy
US Municipal Bonds Session
19 September, 2022**

Instructor—Valerie D White



Agenda

- **Welcome/Introduction**
- **Review Agenda and Expectations**
- **Bonds**
- **Types of Municipal Bonds—when used and why**
- **Risk Level of Municipal Bonds**
- **Introduction to Bond Analytics**
- **Bond Analytics—Pricing Your Deal**
- **Building a Bond Issue –Exercise**
- **Debrief Bond Issue Exercise**
- **Review/Conclusion**



Instructor Bio

Valerie D White, Senior Executive Director; LISC NY is responsible for leading the expansion strategy to promote LISC's statewide efforts to create an economic and community development ecosystem that addresses deep rooted systemic inequities. Through the usage of capital investment, policy and legislative advocacy, and programmatic initiative design and delivery, she elevates LISC's role as a key voice among legislative, government, private sector, philanthropic, and nonprofit/community partner stakeholders across New York. Valerie also oversees the LISC NYC and LISC WNY local offices.

Valerie has more than 30 years of experience across private, public, and non-profit sectors. Before joining LISC NYC in April 2020, Valerie was Executive Vice President at Empire State Development (ESD), as well as Executive Director of the New York State Division of Minority and Women's Business Development. Previously, she was Vice President at the Brooklyn Navy Yard Development Corporation and managing director at Standard & Poor's Global Ratings (S&P). In addition to her extensive professional experience, Valerie also serves as an advisory board member for the Fordham Urban Law Center and a director of the Fordham Law Alumni Association.

Valerie holds both a Bachelor's degree in Communications and a J.D. from Fordham University, as well as a Master's degree in Management and a Certificate in Organization Development from The New School.

Bonds

- Debt/Equity
- Bonds in US
 - Treasury
 - GSE
 - Investment Grade
 - High Yield
 - Foreign
 - MBS
 - Municipal





Munis in History

U.S. Municipal Bonds

- 1st Recorded US Bond in NYC 1812
- US Cities Issues to Support Urban Improvements in 1840s
 - Population Growth
 - Urbanism
 - Rapid Urban Development

Municipal Bonds

- Europe
- Asia
- Africa

US Municipal Bond Market Today

US Muni Market

► YTD 2022:

- Issuance (as of August) \$279.5 billion, -11.9% Y/Y
- Trading (as of August) \$13.6 billion ADV, +54.1% Y/Y
- Outstanding (as of 2Q22) \$4.0 trillion, +0.2% Y/Y

Source: SIFMA.org

US Fixed Income Market

► Outstanding Bonds 4Q 2021

- US Treasuries 41%
- Mortgage relate 22%
- Corporate Debt 21%
- Munis 8%
- Agency 3%
- Asset-backed 3%
- Money Market 2%

Source: SIFMA.org

Types of Municipal Bonds— General Obligation

- **General Obligation**
 - Full Faith and Credit
 - Moral Obligation
 - Double Barreled



Types of Municipal Bonds--Tax Backed

➤ Taxed Backed

➤ Dedicated Tax

➤ Limited Tax

➤ Special Assessment

Types of Municipal Bonds— Revenue

► Revenue Bonds

► Industrial

► Airport/Transportation

► Water/Public Power

► Housing

► Hospital/Health Care



Understanding Risk Factors

► Factors Determine Municipal Bond Risk Level

- *Local Economy*
- *Growth Index/Per Capita Income*
- *Population*
- *Politics*
- *Legislature/Regulatory*
- *Tax Base*
- *Government Management*

► Exercise:

- *What factors in your municipality would be positive risk factors?*
- *What are negative risk factors?*
- *Which are beyond control?*
- *Which can be mitigated by some action?*

Example—New York City Bond Issues and Debt Oversight

- ▶ **NYC Comptroller**—issuer of GO bonds for capital projects for city services. Projects must have useful life of 5 years or long (3 years for technology). Also refinance.
 - ▶ Shares oversight with Mayor & Debt of Finance for issuing agencies
 - ▶ NYC Transitional Finance Authority
 - ▶ NYC Municipal Water Authority
 - ▶ Determines and Approves Structures for local agency issuance
 - ▶ NYC Health and Hospitals
 - ▶ Battery Park City Authority
 - ▶ NYC Housing Development Corporation
 - ▶ Trust for Cultural Resources

Bond Issuance—Why, When, and How?

- Assessing Municipal Need
- Bond Proceed Usage
- Bond Market Conditions
- Potential Investor Assessment
- Bond Structure
- Debt Structure
- Yield Projection



Understanding Bond Pricing

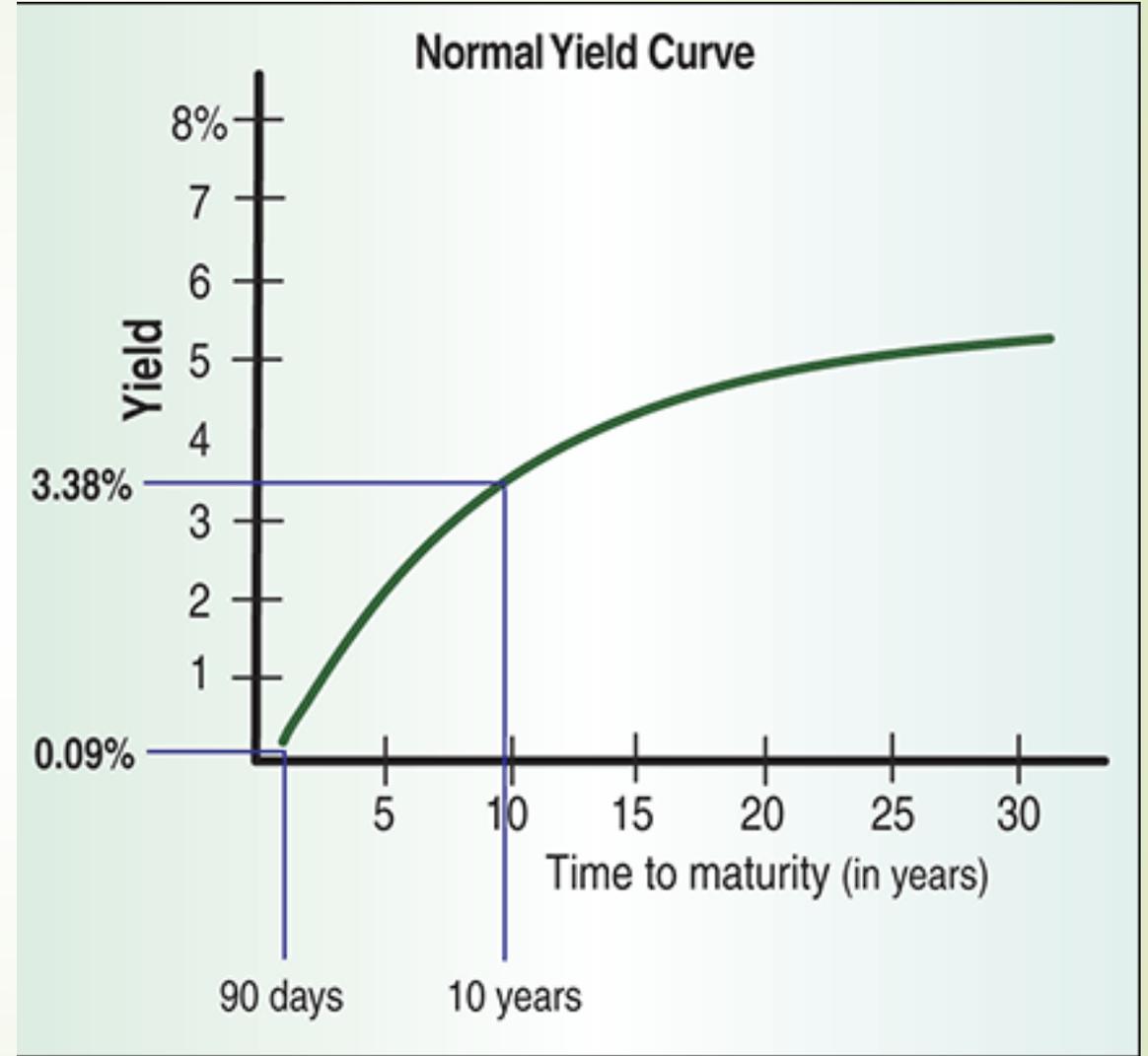
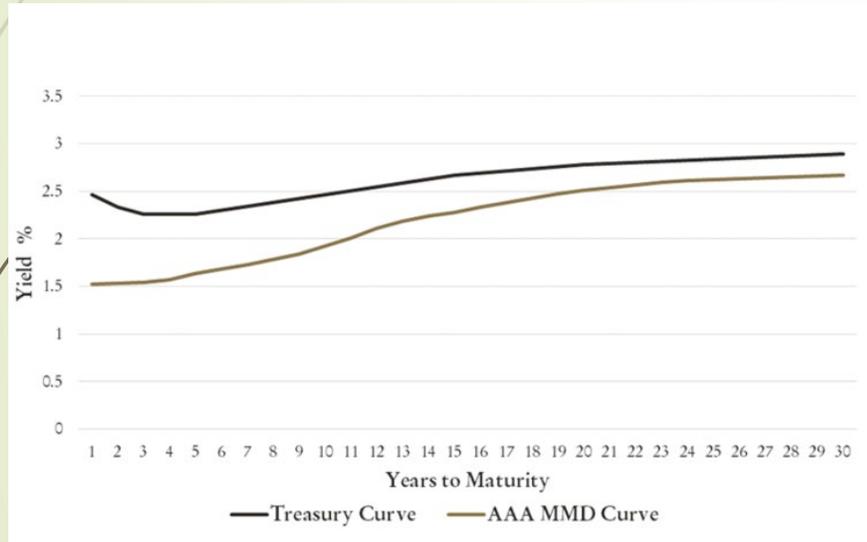
General Factors Affecting Bond Price

- Interest Rates
- Inflation
- Credit Ratings

Market Pricing

- Primary Market
 - Competitive Sale to Market
 - Negotiated Pre-Sale Conditional Orders
- Secondary Market (Bonds re-sale or trade)
 - Broker/Dealer or MS Dealer **MUST** offer fair price in US

Yield Curve Comparisons





Credit Risk Factors

- ▶ Generally determined by a Rating Agency as part of the bond analysis. On September 15, 2022, Moody's Investor Services released its 'Announcement of Periodic Review: Moody's announces completion of periodic review of a group of Sub-sovereign entities in Europe and Africa". Key rating considerations include (but not limited):
 - ▶ Economic Fundamentals
 - ▶ Institutional Framework
 - ▶ Financial Performance and Debt Profile
 - ▶ Governance and Management
 - ▶ Other Ratings Consideration

Source: Moody's Investors Service September 15, 2022

- ▶ Ability to service debt
- ▶ Reliability & Sufficiency of future revenue
- ▶ Ability to absorb shocks that may impact revenue collection

Economic Fundamentals:

- ▶ Intergovernmental Relations (Sovereign/Sub-Sovereign)
- ▶ Ability to adhere to multi-year fiscal agenda
- ▶ Level of Financial Flexibility

Institutional Framework

- ▶ Accumulated decisions of policy makers
- ▶ Ability implement policy that generates balances
- ▶ Ability to maintain positive financial performance and debt profile

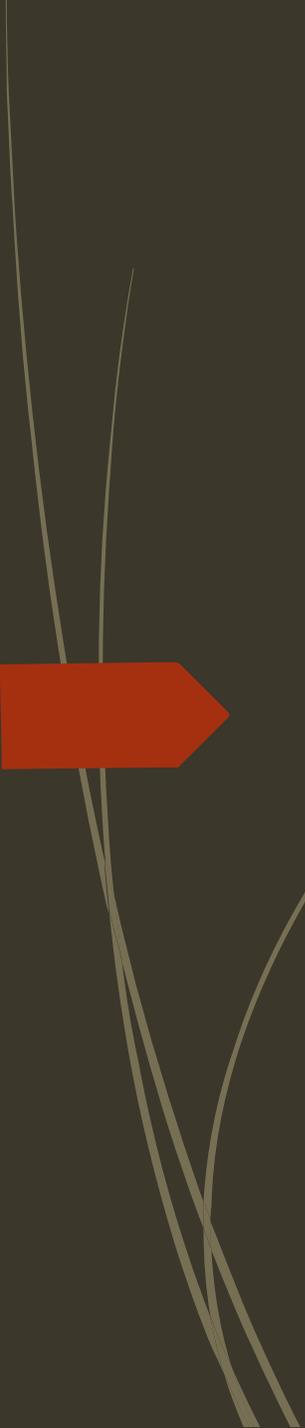
Financial Performance Debt Profile

- ▶ Quality of decision-making and execution
- ▶ Financial management practices
- ▶ Transparency of financial disclosure

Governance and Management

- ▶ Systemic risk of operating environment
- ▶ Contingent Liabilities
- ▶ Extraordinary support form higher levels of government
- ▶ History of Default

Other Risks Considerations



Key Players in a Bond Issue

Issuer (Conduit
Issuer)

Trustee (Fiduciary
Role)

Municipal
Advisor

Legal Team

Underwriter

Guarantor/Bond
Enhancer

Rating Agency



Municipal Bond Documents

Offering Statement or Prospectus

Bond Resolution

Loan Agreement

Underwriting Agreement

Guaranty or Credit Enhancement Facility (when applicable)

Building a Bond Issue --Exercise

- **Case Study--Municipal Scenarios**
- **Issue a Bond—Factors to Consider**
 - ✓ Bond Proceed Usage (why issuing?)
 - ✓ Bond Market (market condition)
 - ✓ Investors (identify potential market interest)
 - ✓ Bond Structure
 - ✓ Debt Structure
 - ✓ Yield Analysis
 - ✓ Risk Factors
 - i. Local Economy
 - ii. Growth Index
 - iii. Population
 - iv. Politics
 - v. Legislative Management



Conclusion/Review

Key Takeaways



Additional Interests



Meeting in November



References— Suggested Reading

Fundamentals of Municipal Bonds: *The Bond Market Association (5th Edition)*

ESG Integration in Sub-Sovereign Debt: The US Municipal Bond Market; *PRI*

Primer on Municipal Bonds: What You Need to Know: *Invesco*

Six Things to Know When Issuing Municipal Bonds: *MSRB Education Center*

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