



**PFM**

**California Debt and Investment Advisory Commission  
Fundamentals of Debt Financing**

## **Role of the Financial Advisor**

**Presented by Sarah Hollenbeck  
Public Financial Management, Inc.**

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# Key Roles of the Financial Advisor



- Serve one interest – that of the Issuer
- Provide information to enable Issuer to make informed decisions
- Ongoing relationship with Issuer, not limited to bond transactions
  - Assist with entire process from designing plan of finance to post-closing administration, as well as projects not involving bonds

# What to Look for in a Financial Advisor



- **Independent and objective**
  - Does not sell or underwrite bonds
- **Understanding of the Issuer and its needs**
- **Experience with similar issuers and projects**
- **Knowledge of the municipal bond market**
- **Technical ability and resources**
- **Long-term commitment to clients**

# What Does a Financial Advisor Do?



- **Develop debt and other financial policies**
- **Prepare Plan of Finance**
- **Implement Plan of Finance**
- **Provide ongoing post-closing support**
- **Maintain debt profile and monitor refunding opportunities**

# Development of Financial Policies



- **Financial advisor can assist in drafting key financial policies**
  - Debt policy
  - Community Facilities District Goals and Policies
  - Reserve policies
  - Swap policy
- **Strong financial policies are critical factor in rating agencies' credit analysis**

# Designing the Plan of Finance



- **Considerations in creating the Plan of Finance**

- Issuer's financial policies and goals
- Project cost and available funding sources
- Issuer's risk tolerance, resources available for debt administration, etc.

- **Evaluation of alternatives**

- Short vs. long term financing
- Fixed vs. variable rate
- Pay-as-you-go

- **Plan of Finance may be developed well in advance of bonds being issued**

- An Underwriter may or may not be involved

# Executing the Plan of Finance



- **Recommend a method of sale for bonds**
  - Competitive vs. Negotiated Sale
- **Assist in selection of financing participants**
- **Manage bond financing process**
- **Coordinate rating process**
- **Review legal and disclosure documents**
- **Advise Issuer on bond pricing**
- **Facilitate closing**

## Determining the Method of Sale



- **Financial Advisor will recommend a competitive or negotiated sale, based on various factors:**
  - Type of financing
  - Structure of bonds
  - Issuer's presence in the market
  - Credit quality
  - Size of issue
  - Market conditions
  - Issuer preference

# Role in Competitive vs. Negotiated Sale



- **FA primary responsibilities in a Competitive Sale**

- Structure bonds
- Prepare notice inviting bids
- Receive and confirm bids
- Manage closing process

- **FA primary responsibilities in a Negotiated Sale**

- Participate in bond structuring
- Evaluate use of credit enhancement
- Advise Issuer on pricing of bonds and underwriter's spread
- Assist in closing process

# Role in Competitive Pricing



- **Role of Financial Advisor in Competitive pricing**
  - Advise Issuer on selection of sale date
  - Premarketing calls to potential bidders in week prior to sale
  - Handle prequalification of bonds for insurance, if applicable
  - Receive bids submitted through electronic platform
  - Confirm winning bidder
  - Resize and/or restructure bonds based on winning bid

# Role in Negotiated Bond Pricing



- **Role of Financial Advisor in Negotiated pricing**
  - Prior to pricing date, engage in dialogue with Underwriter about structure, pricing levels, market dynamics
  - Advise Issuer as to competing supply, economic data, and pricing levels of comparable issues
  - On pre-pricing call with Underwriters, provide independent view of appropriate pricing levels and set expectations for pricing performance
  - Monitor order flow during pricing period
  - Make recommendations to Issuer as to final bond structure and interest rate levels

## Role in the Credit Process



- **Financial Advisor prepares credit presentation materials, but the Issuer presents**
- **Financial Advisor keeps Issuer abreast of changes in rating criteria, “hot” issues**
- **Financial Advisor assists with the continuity of information or “story”**
  - Presenting the credit does not begin or end with the rating meeting
- **Financial Advisor serves as analysts’ point of contact for questions and information requests**

## Role in Closing and Post-Closing



- Review closing documentation and facilitate closing procedures
- Prepare post-sale analysis
- Evaluate performance of financing participants
- Advise on reinvestment of bond funds
- Assist Issuer with ongoing debt administration
  - Continuing disclosure questions
  - Renewal of credit facilities
- Monitor debt for refunding or restructuring opportunities

# Summary



- **A Financial Advisor...**
  - Has the Issuer's interests at heart
  - Has more ongoing Issuer contact than other financing team members
  - Is there for the Issuer when no transaction is in process
  - Does more than just execute financings



## Questions?



**Feel free to contact me:**

**Sarah Hollenbeck**

**Senior Managing Consultant**

**Public Financial Management, Inc.**

**50 California Street, Suite 2300**

**San Francisco, CA 94111**

**Phone: (415) 982-5544**

**[hollenbecks@pfm.com](mailto:hollenbecks@pfm.com)**

