

# Novato Unified School District

## Methods of Sale Presentation Negotiated and Competitive Bond Sales

by

Isom Advisors,  
a Division of Urban Futures, Inc.

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# District Bond Election and Issuance History

One bond authorization and five bond sales the last 14 years

**Novato Unified School District**

- ❖ District voters have approved one bond in 2001 for \$107.0 million at 61.4% voter support <sup>(1)</sup>
- ❖ District has no remaining authorization from the Election of 2001 having sold all its bonds in three issuances:
  - In 2002, the District issued the Election of 2001, Series 2002 GO Bonds in the par amount of **\$36.8 million**. Method of Sale was **Negotiated without a Financial Advisor**.
  - In 2005, the District issued the Election of 2001, Series 2005 GO Bonds in the par amount of **\$30.0 million**. Method of Sale was **Competitive with a Financial Advisor**.
  - In 2006, the District issued the Election of 2001, Series 2005 GO Bonds in the par amount of **\$40.2 million**. Method of Sale was **Competitive with a Financial Advisor**.
- ❖ District has also refunded some of its outstanding bonds for property taxpayer savings:
  - In 2011, the District issued the 2011 General Obligation Refunding Bonds in the par amount of **\$24.3 million**. Method of Sale was **Negotiated with a Financial Advisor**.
  - In 2014, the District issued the 2014 General Obligation Refunding Bonds, Series A in the par amount of **\$53.6 million**. Method of Sale was **Negotiated with a Financial Advisor**.
- ❖ 2014-15 tax rate for all outstanding bonds is \$61.70 per \$100,000 of assessed valuation

<sup>(1)</sup> District has used Stone and Youngberg/Stifel, Nicolaus & Company, Incorporated for all five bond sales.

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# Methods of Sale Overview

# Negotiated and Competitive Bonds Sales

There are generally two ways to sell municipal bonds: a negotiated transaction or a competitive transaction.

- ❖ In a **competitive transaction**, a municipal agency such as a school district works with a financial advisor to offer their bonds to all underwriting firms; interested firms would place a bid to purchase all of the districts bonds on a specified date. The firm with the lowest true interest cost (TIC) that meets all of the bid specifications wins the bid and purchases all of the bonds. The underwriter will then sell the bonds to investors.
- ❖ In a **negotiated transaction**, the underwriting firm is selected before the bonds are sold. The underwriting firm will pre-market the bonds to as many potential investors as possible, who will then buy the bonds at negotiated terms with the issuer (and financial advisor when one is involved), including par amounts, coupons, yield, and payment dates.

## **According to the Government Finance Officers Association (“GFOA”):**

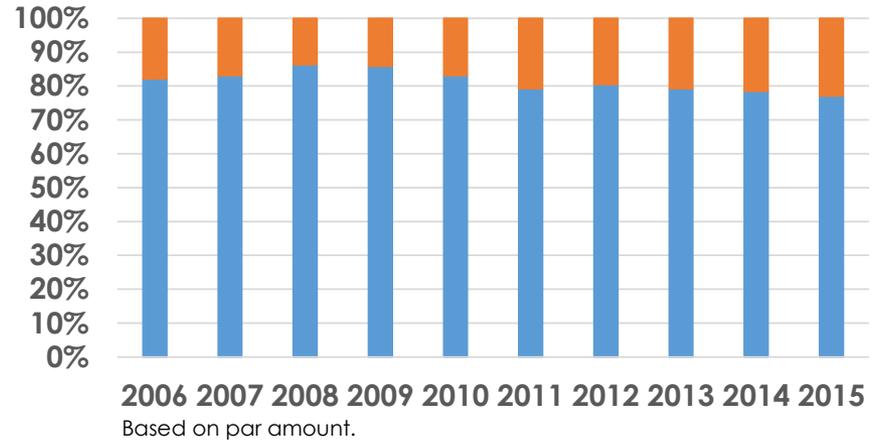
*“State and local government bond issuers should sell their debt using the method of sale that is most likely to achieve the lowest cost of borrowing while taking into account both short-range and long-range implications for taxpayers and ratepayers.”*

# History of Competitive & Negotiated Sales

Recent statistics for types of municipal bond sales

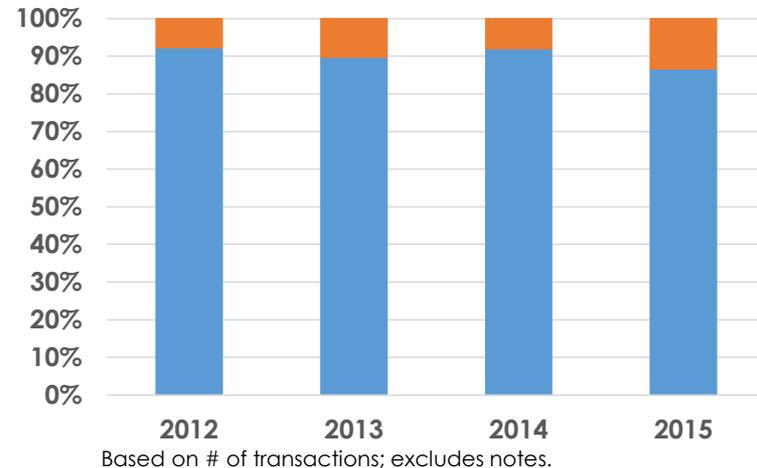
Novato Unified School District

- ❖ The graphic to the right presents a national history of negotiated and competitive bond sales over the past ten years.
- ❖ Historically, nationwide anywhere from 13% to 22% of bond sales have been sold competitively.



- ❖ The chart to the right shows the method of sale for California school districts since 2012.
- ❖ Historically, in California 8% to 12% of school district bond sales have been sold competitively.

***The most common method of sale nationally and statewide has been negotiated sales.***



Sources: The Bond Buyer for national data; CDIAC for California data

# Rationale for Selecting Sale Type

What are the key considerations for each method of sale

**Novato Unified School District**

- ❖ The table below presents the key considerations when selecting a competitive versus a negotiated sale.

Considerations	Negotiated Sales	Competitive Sales
<b>Issuer</b>	<ul style="list-style-type: none"> <li>▪ Smaller or lesser known name</li> </ul>	<ul style="list-style-type: none"> <li>▪ Well known name &amp; location</li> </ul>
<b>Credit/Rating of Issuer</b>	<ul style="list-style-type: none"> <li>▪ Weaker or lower rated credit</li> </ul>	<ul style="list-style-type: none"> <li>▪ Among the top tier credits</li> </ul>
<b>Transaction Size</b>	<ul style="list-style-type: none"> <li>▪ Smaller par amount</li> <li>▪ Little in outstanding debt</li> </ul>	<ul style="list-style-type: none"> <li>▪ Larger par amount</li> <li>▪ Frequent issuer</li> </ul>
<b>Complexity of Transaction and Security</b>	<ul style="list-style-type: none"> <li>▪ Complex transaction</li> <li>▪ Unique or lesser known security</li> </ul>	<ul style="list-style-type: none"> <li>▪ Easy to understand transaction</li> <li>▪ Common security</li> </ul>
<b>Market Conditions</b>	<ul style="list-style-type: none"> <li>▪ Volatile and uncertain</li> <li>▪ High volume / large number of transactions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Stable</li> <li>▪ Lack of new issue competition</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>▪ Timing flexibility</li> <li>▪ Structure flexibility</li> <li>▪ Pricing certainty</li> <li>▪ Pre-marketing</li> <li>▪ Institutional knowledge of UW</li> </ul>	<ul style="list-style-type: none"> <li>▪ Have reasonable expectation that issuer will receive multiple competitive bids</li> <li>▪ “Plain vanilla” transaction and credit</li> </ul>

Sources: GFOA and Isom Advisors

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## Case Study #1

# Three School District G.O. Bond Sales the Week of June 8, 2015

# Case Study – A Comparison of Three Districts

Below are summaries of three issuers and their transactions

## Novato Unified School District

- ❖ On June 9<sup>th</sup>, the **Columbia SD**, rated A+ by Standard & Poor's (S&P), sold \$3.0 million of general obligation bonds; the District purchased a BAM municipal insurance policy (BAM is rated AA).
  - Bonds were sold via a negotiated sale with Isom Advisors to underwriter Morgan Stanley.
- ❖ On June 10<sup>th</sup>, **Black Oak Mine USD**, also rated A+ by Standard & Poor's (S&P), sold \$6.4 million of general obligation refunding bonds, and were also insured by BAM.
  - Bonds were sold via a competitive sale to the underwriter Fidelity.
- ❖ On June 11<sup>th</sup>, the **Walnut Creek SD**, rated AA by S&P, issued \$14.0 million in general obligation bonds to refund prior obligations for taxpayer savings; the bonds were uninsured.
  - Bonds were sold via a competitive sale with Isom Advisors to underwriter UBS Financial Services.

# A Comparison of Results

The benefits of both competitive and negotiated sales

**Novato Unified School District**

Consideration	Columbia SD	Black Oak Mine USD	Walnut Creek SD
<b>Issuer</b>	<ul style="list-style-type: none"> <li>Small, lesser-known District</li> </ul>	<ul style="list-style-type: none"> <li>Small, lesser-known District</li> </ul>	<ul style="list-style-type: none"> <li>Small, lesser-known District</li> </ul>
<b>Transaction Size</b>	<ul style="list-style-type: none"> <li>Smallest par amount</li> <li>Infrequent issuer</li> </ul>	<ul style="list-style-type: none"> <li>Median par amount</li> <li>Infrequent issuer</li> </ul>	<ul style="list-style-type: none"> <li>Largest par amount</li> <li>Sold bonds in 2012</li> </ul>
<b>Credit of Issuer / Transaction</b>	<ul style="list-style-type: none"> <li>A+</li> <li>AA insured</li> <li>Unlimited tax GO Bonds</li> </ul>	<ul style="list-style-type: none"> <li>A+</li> <li>AA insured</li> <li>Unlimited tax GO Bonds</li> </ul>	<ul style="list-style-type: none"> <li>AA</li> <li>Uninsured</li> <li>Unlimited tax GO Bonds</li> </ul>
<b>Complexity of Transaction and Security</b>	<ul style="list-style-type: none"> <li>GO Bonds; generally higher credit status</li> <li>California school district GO bonds generally understood by investors</li> </ul>		
<b>Market Conditions</b>	<ul style="list-style-type: none"> <li>All three transactions sold during the second week of June 2015</li> <li>Volume (new transactions) was trending higher; increased competition for investors' money and attention</li> <li>Interest rates increasing</li> </ul>		
<b>Results</b>	<ul style="list-style-type: none"> <li>Underwriter sold 45% of the transaction and purchased the remainder</li> <li><b>District priced its bonds with a TIC of 3.69%</b></li> <li><b>Final maturity: 2039</b></li> </ul>	<ul style="list-style-type: none"> <li>The District received one bid from Fidelity (bid with a co-manager)</li> <li><b>The TIC was 3.70%</b></li> <li><b>Final maturity: 2032</b></li> </ul>	<ul style="list-style-type: none"> <li>District received nine bids</li> <li><b>The TIC was 2.45%, with the second bid at 2.55%</b></li> <li><b>Final maturity: 2031</b></li> </ul>

Sources: Ipreo; the Bond Buyer

**Walnut Creek ESD got superior pricing with a competitive sale while the negotiated sale of Columbia ESD yielded a much better result than the competitive sale of Black Oak Mine USD**

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## Case Study #2

### 2012 Taft City ESD and Wasco HSD G.O. Bond Sales

# Case Study – Taft City ESD & Wasco HSD

Nearly identical districts issuing under different methods of sale

## Novato Unified School District

- In 2012, two Kern County Districts with identical underlying ratings, insurance, and similar par amounts sold G.O. bonds approximately one month apart; the following reviews the results among comparable years (Wasco HSD bonds ended in 2032, Taft City ESD through 2042):

Competitive Sale						Negotiated Sale							
\$7,000,000						\$9,000,000							
Wasco Union High School District						Taft City Elementary School District							
Election of 2008 General Obligation Bonds, Series B						General Obligation Bonds, Election of 2012, Series A							
S&P Rating: "AA-" AGM; "A+" Underlying						S&P Rating: "AA-" AGM; "A+" Underlying							
Sale Date: 8/7/2012						Sale Date: 9/12/2012							
				Dollars	% of Par					Dollars	% of Par		
UW Discount:				126,517.29	1.807%	UW Discount:				81,000.00	0.900%		
Total Expenses:				321,669.70	4.595%	Total Expenses:				326,153.62	3.624%		
					Spread to						Spread to	Negotiated Sale	
Date	Principal	Coupon	Yield	YTM	MMD	Date	Principal	Coupon	Yield	YTM	MMD	(Savings)/Cost	
8/1/2013						8/1/2013	280,000	3.00%	0.60%			0.40%	
8/1/2014	40,000	3.50%	1.60%		1.31%	8/1/2014	400,000	3.00%	0.79%			0.50%	-0.81%
8/1/2015	40,000	3.50%	1.80%		1.42%	8/1/2015	100,000	3.00%	0.92%			0.54%	-0.88%
8/1/2016	100,000	3.50%	1.70%		1.22%	8/1/2016	100,000	3.00%	1.08%			0.58%	-0.64%
8/1/2017	100,000	3.50%	1.90%		1.23%	8/1/2017	100,000	3.00%	1.40%			0.68%	-0.55%
8/1/2018	125,000	3.50%	2.20%		1.27%	8/1/2018	100,000	3.00%	1.75%			0.78%	-0.49%
8/1/2019	135,000	3.50%	2.40%		1.21%	8/1/2019	100,000	4.00%	2.13%			0.88%	-0.33%
8/1/2020	280,000	3.50%	2.60%		1.17%	8/1/2020	125,000	4.00%	2.40%			0.92%	-0.25%
8/1/2021	340,000	3.75%	2.80%		1.18%	8/1/2021	130,000	4.00%	2.68%			0.97%	-0.21%
8/1/2022	385,000	4.00%	3.00%		1.25%	8/1/2022	150,000	4.00%	2.86%			1.02%	-0.23%
8/1/2023	425,000	4.00%	3.10%	3.167%	c 1.30%	8/1/2023	160,000	4.00%	2.99%	3.066%	c 1.10%		-0.20%
8/1/2024	470,000	4.00%	3.20%	3.309%	c 1.34%	8/1/2024	175,000	4.00%	3.13%	3.250%	c 1.20%		-0.14%
8/1/2025	480,000	4.00%	3.30%	3.432%	c 1.37%	8/1/2025	200,000	4.00%	3.22%	3.369%	c 1.24%		-0.13%
8/1/2026	495,000	4.00%	3.40%	3.540%	c 1.39%	8/1/2026	215,000	4.00%	3.28%	3.450%	c 1.26%		-0.13%
8/1/2027	520,000	4.00%	3.50%	3.636%	c 1.42%	8/1/2027	225,000	4.00%	3.34%	3.521%	c 1.27%		-0.14%
8/1/2028	565,000	4.00%	3.55%	3.687%	c 1.40%	8/1/2028	250,000	3.25%	3.52%			1.21%	-0.19%
8/1/2029	590,000	4.00%	3.60%	3.734%	c 1.37%	8/1/2029	275,000	3.38%	3.58%			1.21%	-0.16%
8/1/2030	610,000	4.00%	3.65%	3.776%	c 1.35%	8/1/2030	300,000	3.40%	3.64%			1.21%	-0.14%
8/1/2031	635,000	4.00%	3.70%	3.815%	c 1.33%	8/1/2031	300,000	3.50%	3.70%			1.21%	-0.12%
8/1/2032	665,000	4.00%	3.80%	3.881%	c 1.33%	8/1/2032	335,000	3.55%	3.76%			1.21%	-0.12%

**Taft City SD outperformed Wasco HSD GO bonds as measured by interest rates and borrowing costs.**

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# Novato USD Method of Sale Considerations and Recommendation

# Rationale for Novato USD's Method of Sale

## Considerations for a negotiated sale

## Novato Unified School District

- ❖ Isom Advisors advises on the issuance of bonds on behalf of districts using either the negotiated or competitive methods of sale; when doing a negotiated sale, we work with a dozen or so of the most active underwriters for K-12 school district financings
- ❖ The following are considerations for a negotiated sale in order to achieve the lowest costs of borrowing for the District and its taxpayers:
  - District is not a frequent issuer in the market or a well-known name
  - The District's existing underwriter (and former financial advisor) has 15 years experience working with the District; they know the credit and have sold it to their pool of investors
  - However, the District has a strong underlying rating, and would be selling easy to understand, "normal" sized G.O. bonds, which would argue for a competitive sale
  - It is too early to predict whether or not there will be any market volatility as the bond sale is likely a year away, so market conditions should not be taken into consideration
- ❖ As Financial Advisor, Isom Advisors role is to assist the District to achieve the lowest borrowing costs regardless of method. If a competitive sale is used, we take some risk that we do not receive multiple or aggressive bids and thus must award to the "lowest" bid; under a negotiated sale, we can negotiate with the underwriter and use both competitive and negotiated comparable sales from other school districts, thus ensuring the District's bonds are priced to the market

\*\* It should be noted that the method of sale decision can be made today or can wait until after a successful bond election up to one month prior to a bond sale